A horizontal blue banner featuring a world map with white grid lines, set against a background of light blue and white diagonal stripes.

Watts Water Technologies 2Q 2018 Earnings Conference Call

August 2, 2018

Certain statements in this presentation constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These statements are related to forecasts of sales, margins, earnings, earnings per share, capital expenditures, water market growth, acquisition strategy, the impact of tax legislation and management goals and objectives.

Watts cautions investors that any such forward-looking statements made by Watts are not guarantees of future performance. All forward-looking statements are subject to known and unknown risks, uncertainties, and contingencies, many that are beyond the control of Watts, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Factors that might affect forward-looking statements include overall economic and business conditions, competitive factors, changes in laws affecting Watts, future acquisitions of material assets or businesses by Watts, the demand for Watts' products and services and other factors identified in "Item 1A. Risk Factors" in Watts' most recent Annual Report on Form 10-K and in subsequent reports filed with the SEC.

- Record results – sales, adjusted operating margin, EPS
- Strong Americas performance; APMEA solid top line; Europe softness, taking cost actions
- Americas price increase effective July 1 covering inflation & enacted tariffs
- Continued funding for future growth; increasing FY spend
- Raising full-year sales growth expectations

Strong 2nd Quarter & 1st Half Driven by Americas

2Q 2018 Financial Summary



(M except per share amounts)	2Q18	2Q17	
Sales	\$408	\$379	<ul style="list-style-type: none"> • 8% Increase <ul style="list-style-type: none"> ◆ +5% organic⁽¹⁾, +3% FX ◆ Product rationalization⁽³⁾ ~ (50 bps)
Operating Profit⁽¹⁾ <i>Margin %</i>	\$52 <i>12.8%</i>	\$47 <i>12.5%</i>	<ul style="list-style-type: none"> • 10% Increase <ul style="list-style-type: none"> ◆ Volume, price, productivity ◆ Record margin performance
Net Income⁽¹⁾	\$36	\$29	<ul style="list-style-type: none"> • 25% Increase <ul style="list-style-type: none"> ◆ Driven by operations, tax reform, FX
EPS⁽¹⁾ <i>Tax Rate</i>	\$1.05 <i>27.6%</i>	\$0.83 <i>32.1%</i>	<ul style="list-style-type: none"> • 27% Increase <ul style="list-style-type: none"> ◆ Operations +\$0.08, tax / other / FX +\$0.14 ◆ Record EPS
Free Cash Outflow⁽²⁾	(\$14)	(\$2)	<ul style="list-style-type: none"> • \$12M Decrease <ul style="list-style-type: none"> ◆ Inventory, tax payments ◆ Incremental capital spend

(1) Organic sales growth, Operating Profit, Operating Margin, Net Income and EPS are non-GAAP financial measures, see slides 11 and 12 for reconciliation

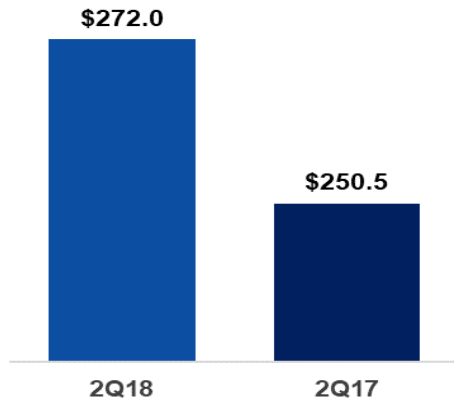
(2) Free Cash Outflow = Cash Flow from Operations Less Capital Expenditures, a non-GAAP measure, see slide 14 for calculation and reconciliation.

(3) Product rationalization represents the exit of low-margin non-core products

Record Sales, Operating Margin and EPS

(M)

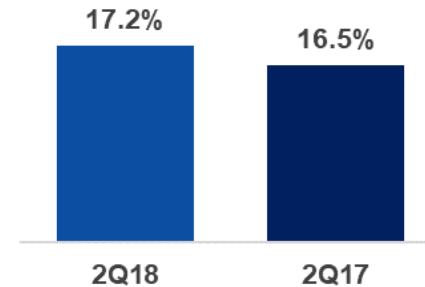
Sales

Reported +9% | Organic⁽¹⁾+8%

- Growth in plumbing, water quality and drains
- Heating & Hot Water up double digits
- Positive pre-buy & price realization

Operating Margin⁽¹⁾

Up 70 bps



- Operating profit⁽¹⁾ \$46.7M
 - ◆ Up \$5.3M or 13%
- Operating margin⁽¹⁾ + 70 bps
 - ▲ Volume, price
 - ▲ Productivity
 - ▼ Inflation – commodities, transportation
 - ▼ Investments

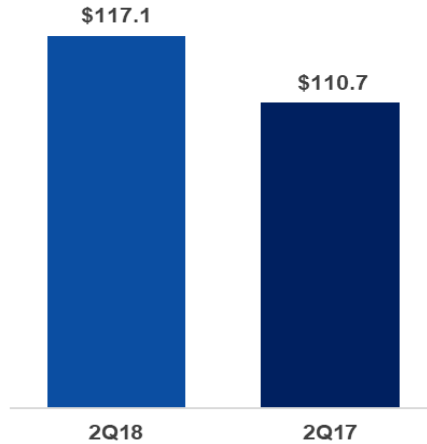
(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

Continued Strong Top-Line Growth & Solid Margin Expansion

(M)

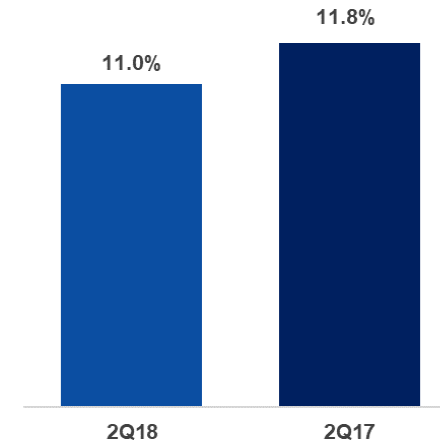
Sales

Reported +6% | Organic⁽¹⁾ (2%)



Operating Margin⁽¹⁾

Down 80 bps



- Solid growth in drains; Nordics up
- Fluid Solutions softness
 - ◆ French wholesale destocking
 - ◆ Germany, Italy down
- FX impact +8%; product rationalization⁽²⁾ (1%)

- Operating profit⁽¹⁾ \$12.9M
 - ◆ Down \$0.1M or 1%, FX +6%
- Operating margin⁽¹⁾ (80) bps
 - ▲ Productivity
 - ▼ Volume, product mix
 - ▼ Inflation – commodities, transportation
 - ▼ Investments

⁽¹⁾ Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

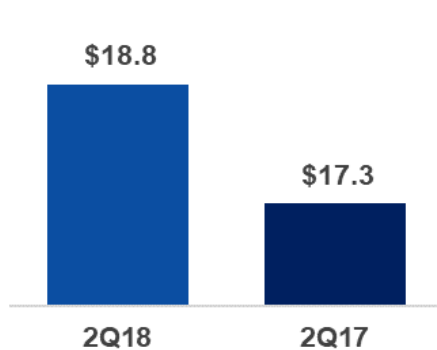
⁽²⁾ Product rationalization represents the exit of low-margin non-core products

Market Softness, Driving Q3 Cost Actions

(M)

Sales

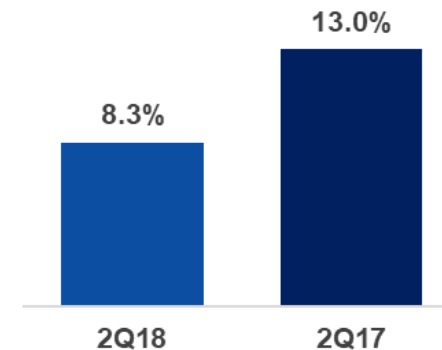
Reported +8% | Organic⁽¹⁾ +5%



- Product rationalization⁽²⁾ impact (6%)
- 11% growth excluding product rationalization⁽²⁾
 - ◆ China valve strength, residential heating continued slow
 - ◆ ME / NZ / AUS solid growth

Operating Margin⁽¹⁾

Down 470 bps



- Operating profit⁽¹⁾ \$1.6M
 - ◆ Down \$0.6M or 27%
- Operating margin⁽¹⁾ (470) bps
 - ▲ Volume, product mix
 - ▼ FX
 - ▼ Inflation
 - ▼ Investments

(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

(2) Product rationalization represents the exit of low-margin non-core products

Solid Top Line Growth; FX Headwind Impacted Margin

Organic Sales Growth

Drivers / Comments

	<u>1H*</u>	<u>2H*</u>	
Americas	6.8%	5-6%	<ul style="list-style-type: none"> Continued broad growth & price Pre-buy impact in 1H Tougher comps in 2H
Europe	0.0%	0-1%	<ul style="list-style-type: none"> Continued Drains momentum Fluid Solutions softness Tougher 4Q comps
APMEA	4.1%	7-9%	<ul style="list-style-type: none"> Middle East, Southeast Asia momentum China valves continued growth
WTS	4.6%	4-5%	<ul style="list-style-type: none"> Steady top line growth Better margin expansion in 2H vs. 1H; including increased investments Expect strong 2H'18 cash flow

* Includes product rationalization of ~\$4M in H1 & ~\$2.5M in H2

Expect Solid 2H Growth; FY Margin Goal ~12.4%

APPENDIX

Consolidated Statements of Operations



(M)
(Unaudited)

	Second Quarter Ended			
	2018	2017	B/(W)	%
Net sales	\$407.9	\$378.5	\$29.4	8%
Cost of goods sold	238.5	221.8	(16.7)	(8%)
Gross profit	169.4	156.7	12.7	8%
	41.5%	41.4%	+0.1 bps	
Selling, general & administrative expenses	117.2	110.2	(7.0)	(6%)
	28.7%	29.1%	+0.4 bps	
Restructuring	-	1.7	1.7	100%
Operating income	52.2	44.8	7.4	17%
	12.8%	11.8%	+1.0 bps	
Other expense	2.5	5.0	2.5	50%
Income before taxes	49.7	39.8	9.9	25%
Provision for income taxes	13.7	12.6	(1.1)	(9%)
Net income	\$36.0	\$27.2	\$8.8	32%
Diluted earnings per share	\$1.05	\$0.79	\$0.26	33%

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	Second Quarter Ended			
	Americas	Europe	APMEA	Total
Reported net sales 2Q'18	\$ 272.0	\$117.1	\$18.8	\$407.9
Reported net sales 2Q'17	\$250.5	\$110.7	\$17.3	\$378.5
Dollar change	\$21.5	\$6.4	\$1.5	\$29.4
Net Sales % increase	9%	6%	8%	8%
(Increase) due to foreign exchange	-1%	-8%	-3%	-3%
Organic sales increase (decrease)	8%	-2%	5%	5%

	Six Months Ended			
	Americas	Europe	APMEA	Total
Reported net sales 2Q'18	\$513.1	\$ 240.1	\$33.2	\$786.4
Reported net sales 2Q'17	\$479.2	\$215.6	\$30.9	\$725.7
Dollar change	\$33.9	\$24.5	\$2.3	\$60.7
Net Sales % increase	7%	11%	7%	8%
(Increase) due to foreign exchange	- %	-11%	-3%	-3%
Organic sales increase	7%	- %	4%	5%

Reconciliation of GAAP “As Reported” to “Adjusted” Non-GAAP Excluding Effect of Adjustments for Special Items



(M)
(Unaudited)

	Second Quarter Ended		Six Months Ended	
	2018	2017	2018	2017
Net sales	\$407.9	\$378.5	\$786.4	\$725.7
Operating income - as reported	\$52.2	\$44.8	\$96.1	\$ 80.5
<i>Operating margin %</i>	12.8%	11.8%	12.2%	11.1%
Adjustments for special items:				
Acquisitions related costs	-	-	-	0.2
Restructuring	-	1.7	-	2.2
Transformation costs	-	0.8	-	2.8
	-	2.5	-	5.2
<i>Operating income - as adjusted</i>	\$52.2	\$47.3	\$96.1	\$85.7
<i>Adjusted operating margin %</i>	12.8%	12.5%	12.2%	11.8%
Net income - as reported	\$36.0	\$27.2	\$64.2	\$48.9
Adjustments for special items - tax affected:				
Acquisitions related costs	-	-	-	0.1
Restructuring	-	1.1	-	1.5
Transformation costs	-	0.5	-	1.8
Other - tax adjustments	-	(0.1)	-	(1.3)
	-	1.5	-	2.1
Net income - as adjusted	\$36.0	\$28.7	64.2	51.0
Earnings per share				
Diluted earnings per share - as reported	\$1.05	\$0.79	\$1.87	\$1.42
Adjustments for special items	-	0.04	-	0.06
Diluted earnings per share - as adjusted	\$1.05	\$0.83	\$1.87	\$1.48

Adjusted Operating Income by Segment



(M)
(Unaudited)

	Second Quarter Ended 2018					Second Quarter Ended 2017				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported GAAP Operating Income (Loss)	\$46.7	\$12.9	\$1.6	\$(9.0)	\$52.2	\$39.6	\$12.7	\$1.8	\$(9.3)	\$44.8
<i>Operating margin %</i>	17.2%	11.0%	8.3%		12.8%	15.8%	11.5%	10.4%		11.8%
Adjustments for special items	—	—	—	—	—	\$1.8	\$0.3	\$0.4	—	\$2.5
Adjusted Operating income (loss)	\$46.7	\$12.9	\$1.6	\$(9.0)	\$52.2	\$41.4	\$13.0	\$2.2	\$(9.3)	\$47.3
<i>Adjusted Operating margin %</i>	17.2%	11.0%	8.3%		12.8%	16.5%	11.8%	13.0%		12.5%

	Six Months Ended 2018					Six Months Ended 2017				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported GAAP Operating Income (Loss)	\$83.1	\$27.8	\$3.0	\$(17.8)	\$96.1	\$70.7	\$25.1	\$2.8	\$(18.1)	\$80.5
<i>Operating margin %</i>	16.2%	11.6%	8.8%		12.2%	14.8%	11.6%	9.1%		11.1%
Adjustments for special items	—	—	—	—	—	\$4.3	\$0.5	\$0.4	—	\$5.2
Adjusted Operating income (loss)	\$83.1	\$27.8	\$3.0	\$(17.8)	\$96.1	\$75.0	\$25.6	\$3.2	\$(18.1)	\$85.7
<i>Adjusted Operating margin %</i>	16.2%	11.6%	8.8%		12.2%	15.7%	11.9%	10.4%		11.8%

Reconciliation of Net Cash Provided by Operations to Free Cash Outflow



(M)
(Unaudited)

	Six Months Ended	
	2018	2017
Net cash provided by operations - as reported	\$1.5	\$9.0
<u>Less:</u> additions to property, plant, and equipment, net	(15.2)	(10.9)
Free cash outflow	(\$13.7)	(\$1.9)

Reconciliation of Long-term Debt *(including current portion)* to Net Debt to Capitalization Ratio



(M)
(Unaudited)

	July 1, 2018	December 31, 2017
Current portion of long-term debt	\$26.2	\$22.5
<u>Plus</u> : Long-term debt, net of current portion	383.0	474.6
<u>Less</u> : Cash and cash equivalents	(142.6)	(280.2)
Net debt	\$266.6	\$216.9
Net debt	\$266.6	\$216.9
<u>Plus</u> : Total stockholders' equity	858.2	829.0
Capitalization	\$1,124.8	1,045.9
Net debt to capitalization ratio	23.7%	20.7%