



Watts Water Technologies 3Q 2018 Earnings Conference Call

November 5, 2018



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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.

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Record 3Q sales, adjusted operating margin, and adjusted EPS

- Sustained earnings momentum while investing for growth
- Raising FY investment spending from \$13M to \$15M

Regional performance

- **Americas** strong sales growth; steady markets
 - *Additional price increases addressing most recent tariffs*
- **Europe** sales positive; markets softening; remaining cautious
 - *Margin impacted by material costs, mix and investments*
 - *Restructuring – executing to expectations*
- **APMEA** sales growth and markets mixed
 - *Sales strength outside China; China weak*

BLÜCHER manufacturing expansion – addressing customer needs through One Watts

Expect solid Q4 finish, increasing second-half sales growth outlook

Continued Record Performance; Increasing H2 Outlook

| (M except per share amounts) | 3Q18 | 3Q17 | |
|--|------------------------|------------------------|---|
| Sales | \$391 | \$365 | 7% Increase <ul style="list-style-type: none"> +8% organic, (1%) FX Product rationalization⁽³⁾ 30 bps |
| Operating Profit⁽¹⁾ <i>Margin %</i> | \$50 12.9% | \$46 12.6% | 10% Increase <ul style="list-style-type: none"> Price, volume, productivity Record margin performance |
| Net Income⁽¹⁾ | \$34 | \$28 | 24% Increase <ul style="list-style-type: none"> Operations, tax reform Reduced non-operating expenses |
| EPS⁽¹⁾ <i>Tax Rate</i> | \$0.99 28.4% | \$0.80 32.9% | 24% Increase <ul style="list-style-type: none"> Operations +\$0.10 Tax / other / FX +\$0.09 |
| YTD Free Cash Flow⁽²⁾ | \$43 | \$57 | 25% Decrease <ul style="list-style-type: none"> Inventory build, tax payments Increased capital spending |

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

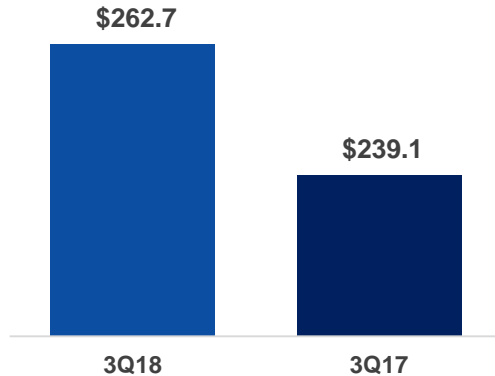
(3) Product rationalization represents the exit of low-margin non-core products

Record Sales, Operating Margin and EPS

(M)

SALES

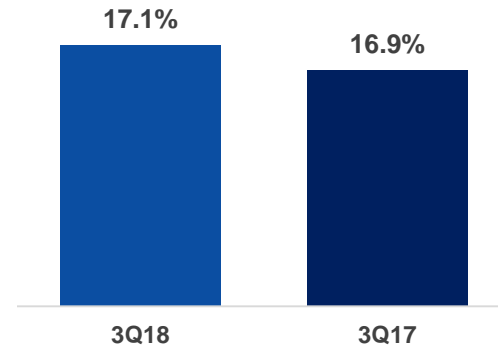
Reported +10% | Organic⁽¹⁾+10%



- Growth in plumbing, drains, water quality, heating & hot water
- Strong growth geographically across US, Canada and LATAM
- Positive price realization

OPERATING MARGIN⁽¹⁾

Up 20 bps



- Operating profit⁽¹⁾ \$45M
 - Up \$4.5M or 11%
- Operating margin⁽¹⁾+ 20 bps
 - ▲ Price, volume
 - ▲ Productivity
 - ▼ Inflation
 - ▼ Investments

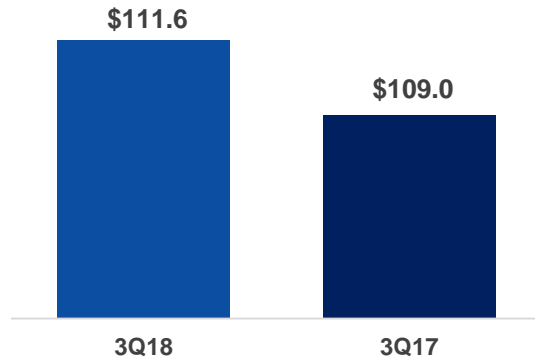
(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

Continued Strong Growth and Margin Improvement

(M)

SALES

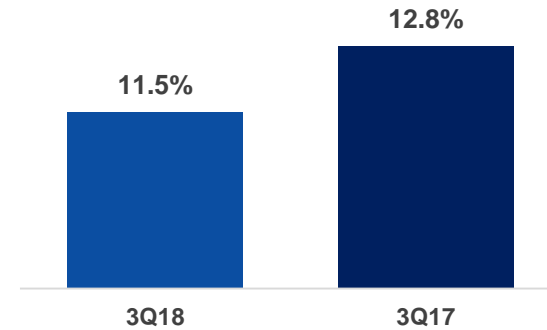
Reported +2% | Organic⁽¹⁾+4%



- Continued solid Drains growth; Fluid Solutions slightly positive
- FX impact (2%); product rationalization⁽²⁾ (1%)
- Growth in Germany, Nordics, Benelux; softness in France & Italy

OPERATING MARGIN⁽¹⁾

Down 130 bps



- Operating profit⁽¹⁾ \$12.8M
 - Down \$1.2M or 9%
- Operating margin⁽¹⁾ (130) bps
 - ▲ Volume, price, productivity, restructuring
 - ▼ Inflation, sales mix
 - ▼ Investments
- Total pre-tax restructuring costs of \$5.4M
 - Q3 pre-tax charge of \$4.4M (US GAAP)
 - \$1M of additional charge over next year

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

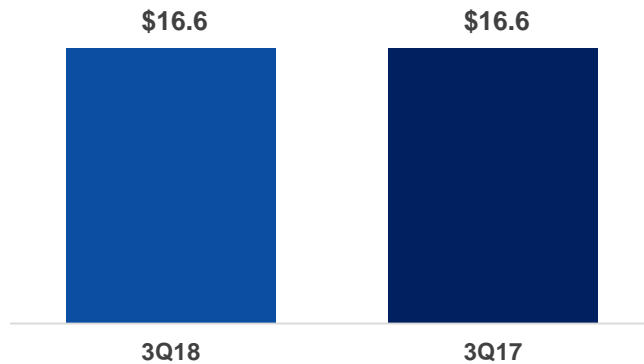
(2) Product rationalization represents the exit of low-margin non-core products

Stronger Top-Line; Material Inflation, Mix, Investments Impacting Margin

(M)

SALES

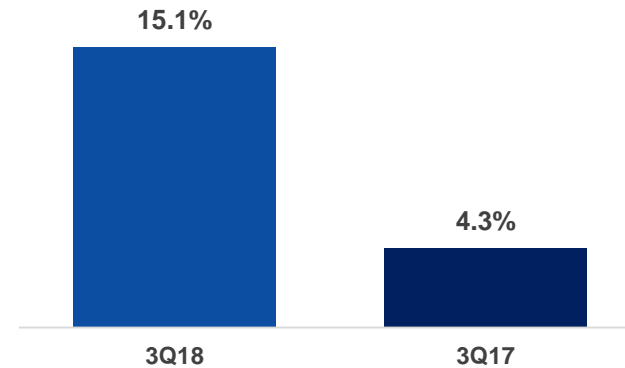
Reported Flat | Organic⁽¹⁾ +3%



- Product rationalization⁽²⁾ impact (1%); final quarterly impact
- 4% growth excluding product rationalization⁽²⁾
 - MEA / Australia / Korea double digit growth
 - China sales down double digits; valve / underfloor heating softness

OPERATING MARGIN⁽¹⁾

Up 1,080 bps points



- Operating profit⁽¹⁾ \$2.5M
 - Up \$1.8M or 257%
- Operating margin⁽¹⁾+ 1,080 bps
 - ▲ Affiliate volume, productivity, FX, country sales mix
 - ▼ 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

Muted Top-line; Margin Driven by Intercompany Volume, Productivity

4Q organic sales growth rate 5% - 6%

- Versus Q3 '18 – Americas, Europe lower growth rate; APMEA up
- Europe product rationalization ~\$1M
- Americas Q3 \$2M pre-buy impact

Operating margin expansion vs 4Q'17; down sequentially vs 3Q'18

- Volume and continued productivity
- Investments \$4M; corporate costs ~\$12M
- Restructure savings of \$1M in Europe

Seasonally, a strong quarter for cash flow; capital spend \$31M - \$34M for full year

ETR ~ 28%

FX impact – headwind

Expecting Solid Q4; Full Year Op Margin ~12.3%

APPENDIX

Consolidated Statements of Operations



(M)
(Unaudited)

| | Third Quarter Ended | | | |
|--|---------------------|--------------|-------------|--------|
| | 2018 | 2017 | B/(W) | % |
| Net sales | \$390.9 | \$364.7 | \$26.2 | 7% |
| Cost of goods sold | 226.4 | 212.0 | (14.4) | (7%) |
| Gross profit | 164.5 | 152.7 | 11.8 | 8% |
| | <i>42.1%</i> | <i>41.9%</i> | <i>+20p</i> | |
| Selling, general & administrative expenses | 114.2 | 107.0 | (7.2) | (7%) |
| | <i>29.2%</i> | <i>29.3%</i> | <i>+10p</i> | |
| Restructuring | 3.4 | 1.4 | (2.0) | (143%) |
| Operating income | 46.9 | 44.3 | 2.6 | 6% |
| | <i>12.0%</i> | <i>12.1%</i> | <i>-10p</i> | |
| Other expense | 2.9 | 4.8 | 1.9 | 40% |
| Income before taxes | 44.0 | 39.5 | 4.5 | 11% |
| Provision for income taxes | 12.5 | 13.0 | 0.5 | 4% |
| Net income | 31.5 | \$26.5 | \$5.0 | 19% |
| Diluted earnings per share | \$0.92 | \$0.77 | \$0.15 | 19% |

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

| | Third Quarter Ended | | | |
|----------------------------------|---------------------|---------|--------|---------|
| | Americas | Europe | APMEA | Total |
| Reported net sales 3Q'18 | \$262.7 | \$111.6 | \$16.6 | \$390.9 |
| Reported net sales 3Q'17 | 239.1 | 109.0 | 16.6 | 364.7 |
| Dollar change | \$23.6 | \$2.6 | \$— | \$26.2 |
| Net Sales % increase | 10% | 2% | —% | 7% |
| Decrease due to foreign exchange | — | 2% | 3% | 1% |
| Organic sales increase | 10% | 4% | 3% | 8% |

| | Nine Months Ended | | | |
|------------------------------------|-------------------|---------|--------|-----------|
| | Americas | Europe | APMEA | Total |
| Reported net sales 3Q'18 | \$775.8 | \$351.7 | \$49.8 | \$1,177.3 |
| Reported net sales 3Q'17 | 718.3 | 324.6 | 47.5 | 1,090.4 |
| Dollar change | \$57.5 | \$27.1 | \$2.3 | \$86.9 |
| Net Sales % increase | 8% | 8% | 5% | 8% |
| (Increase) due to foreign exchange | —% | (7%) | (1%) | (2%) |
| Organic sales increase | 8% | 1% | 4% | 6% |

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



(M)
(Unaudited)

| | Third Quarter Ended | | Nine Months YTD | |
|---|---------------------|---------|------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net Sales | \$390.9 | \$364.7 | \$1,177.3 | \$1,090.4 |
| Operating income - as reported | \$46.9 | \$44.3 | \$143.0 | \$124.8 |
| <i>Operating margin %</i> | 12.0% | 12.1% | 12.1% | 11.4% |
| Adjustments for special items: | | | | |
| Restructuring | 3.4 | 1.4 | 3.4 | 3.6 |
| Transformation | — | 0.1 | — | 2.9 |
| Acquisitions related costs | — | — | — | 0.2 |
| | \$3.4 | \$1.5 | \$3.4 | \$6.7 |
| Operating income - as adjusted | \$50.3 | \$45.8 | \$146.4 | \$131.5 |
| <i>Adjusted operating margin %</i> | 12.9% | 12.6% | 12.4% | 12.1% |
| Net income - as reported | \$31.5 | \$26.5 | \$95.7 | \$75.4 |
| Adjustments for special items - tax affected: | | | | |
| Restructuring | 2.5 | 0.9 | 2.5 | 2.4 |
| Transformation | — | 0.1 | — | 1.9 |
| Acquisitions related costs | — | — | — | 0.1 |
| Other - tax adjustment | — | — | — | (1.3) |
| | \$2.5 | \$1.0 | \$2.5 | \$3.1 |
| Net income - as adjusted | \$34.0 | \$27.5 | \$98.2 | \$78.5 |
| Earnings per share | | | | |
| Diluted earnings per share - as reported | \$0.92 | \$0.77 | \$2.78 | \$2.19 |
| Adjustments for special items | 0.07 | 0.03 | 0.08 | 0.09 |
| Diluted earnings per share - as adjusted | \$0.99 | \$0.80 | \$2.86 | \$2.28 |

Adjusted Operating Income by Segment



(M)
(Unaudited)

| | Third Quarter Ended 2018 | | | | | Third Quarter Ended 2017 | | | | |
|----------------------------------|--------------------------|--------|-------|--------|-------|--------------------------|--------|-------|-------|-------|
| | Americas | Europe | APMEA | Corp. | Total | Americas | Europe | APMEA | Corp. | Total |
| Reported GAAP Operating Income | \$45.0 | 9.4 | 2.5 | (10.0) | 46.9 | \$39.8 | 13.4 | 0.5 | (9.4) | 44.3 |
| <i>% of sales</i> | 17.1% | 8.4% | 15.1% | | 12.0% | 16.6% | 12.3% | 3.0% | | 12.1% |
| Adjustments for special items | \$ — | 3.4 | — | — | 3.4 | \$0.7 | 0.6 | 0.2 | — | 1.5 |
| Adjusted Operating income (loss) | \$45.0 | 12.8 | 2.5 | (10.0) | 50.3 | \$40.5 | 14.0 | 0.7 | (9.4) | 45.8 |
| <i>% of sales</i> | 17.1% | 11.5% | 15.1% | | 12.9% | 16.9% | 12.8% | 4.3% | | 12.6% |

| | Nine Months Ended 2018 | | | | | Nine Months Ended 2017 | | | | |
|----------------------------------|------------------------|--------|-------|--------|-------|------------------------|--------|-------|--------|-------|
| | Americas | Europe | APMEA | Corp. | Total | Americas | Europe | APMEA | Corp. | Total |
| Reported GAAP Operating Income | \$128.1 | 37.2 | 5.5 | (27.8) | 143.0 | \$110.5 | 38.5 | 3.3 | (27.5) | 124.8 |
| <i>% of sales</i> | 16.5% | 10.6% | 11.0% | | 12.1% | 15.4% | 11.9% | 6.9% | | 11.4% |
| Adjustments for special items | \$ — | 3.4 | — | — | 3.4 | \$5.0 | 1.1 | 0.6 | — | 6.7 |
| Adjusted Operating income (loss) | \$128.1 | 40.6 | 5.5 | (27.8) | 146.4 | \$115.5 | 39.6 | 3.9 | (27.5) | 131.5 |
| <i>% of sales</i> | 16.5% | 11.5% | 11.0% | | 12.4% | 16.1% | 12.2% | 8.3% | | 12.1% |

Reconciliation of Net Cash Provided by Operations to Free Cash Flow



(M)
(Unaudited)

| | Nine Months Ended | |
|--|-------------------|--------|
| | 2018 | 2017 |
| Net cash provided by operations - as reported | \$66.6 | \$73.4 |
| <u>Less</u> : additions to property, plant, and equipment | (24.1) | (17.1) |
| <u>Plus</u> : proceeds from the sale of property, plant, and equipment | 0.1 | 0.4 |
| Free cash flow | \$42.6 | \$56.7 |
| Net income - as reported | \$95.7 | \$75.4 |
| Cash conversion rate of free cash flow to net income | 44.5% | 75.2% |

Reconciliation of Long-term Debt

(including current portion) to Net Debt to Capitalization Ratio



(M)
(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| Current portion of long-term debt | \$28.1 | \$22.5 |
| <u>Plus</u> : Long-term debt, net of current portion | 350.7 | 474.6 |
| <u>Less</u> : Cash and cash equivalents | (156.8) | (280.2) |
| Net debt | \$222.0 | \$216.9 |
| | | |
| Net debt | \$222.0 | \$216.9 |
| <u>Plus</u> : Total stockholders' equity | 884.2 | 829.0 |
| Capitalization | \$1,106.2 | 1,045.9 |
| Net debt to capitalization ratio | 20.1% | 20.7% |