

Watts Water Technologies 2Q 2020 Earnings Conference Call

August 4, 2020



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 the COVID-19 pandemic, and management goals and objectives.

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2Q Performance / Markets

- COVID-19 update
- Orders trend improved May – July

Operations

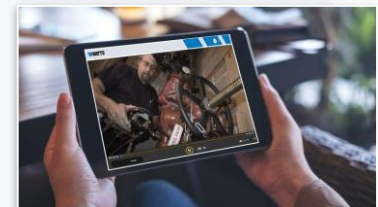
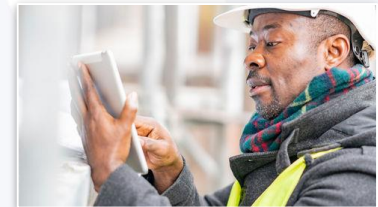
- GAAP charge of \$6.7M in 2Q for restructuring / impairment
 - Expect incremental charges in 2H20
- Cost mitigation actions related to COVID-19 total \$21M

Notable Developments in APMEA Portfolio

- Acquired Australian Valve Group (AVG) in an all cash transaction in July
- Enhancing Korea go-to-market strategy

3Q Outlook

- Expect incremental sales / margin improvement vs 2Q 2020
- COVID-19 continues to drive uncertainty



2Q Performance Better than Anticipated; Continued Focus on Cost and Cash

SIMPLE RETROFIT HVAC CONTROL



Invita Connect

tekmar INVITA® Wi-Fi Thermostat

- Simplifies temperature control upgrades
- Connects to HVAC interface in home mechanical room
- Allows for remote monitoring, control and energy efficiency in existing homes

BALLAST WATER MONITORING SYSTEM



HF Scientific SSR-EX

- Instrument measures oxidants in sea water
- Helps ballast water treatment systems achieve and maintain proper levels of disinfectant
- Connects to ballast water treatment control system

Continued Progress and Momentum



2019 HIGHLIGHTS

- ✓ **Reduced consumption** of natural resources
- ✓ Continue to shift product portfolio to **eco-friendly solutions**
- ✓ Committed to **providing clean water** to disadvantaged communities
- ✓ Newsweek: Among **Top 300 of “America’s Most Responsible Companies”** for sustainability performance

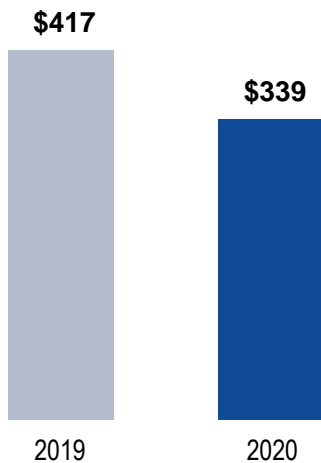
ESG a Priority; Continuous Journey to Improve

2Q 2020 Financial Summary



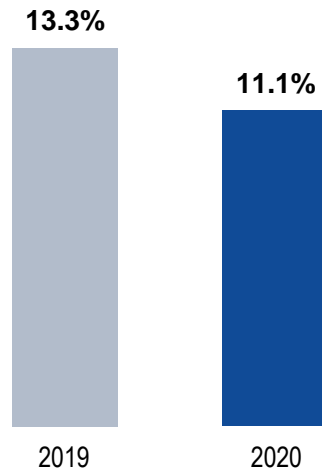
Sales (\$M)

Down 19%
Organic*



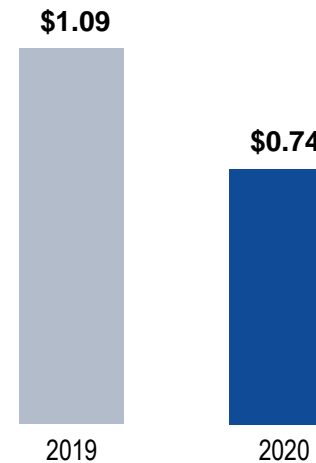
Adj. Operating Margin %*

Down 220
bps

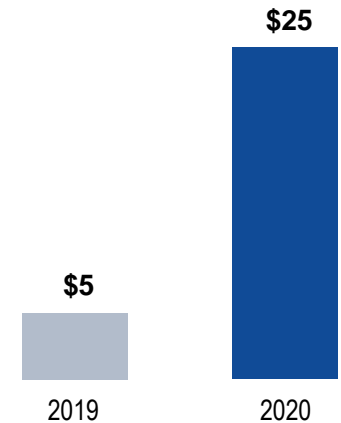


Adj. EPS*

Down
32%



YTD FCF* (\$M)



- 19% reported and organic
 - COVID-19 impact
- Acquisition +\$2M

- Adjusted OP \$38M, -32%
 - ▼ Volume due to COVID-19
 - ▼ Investments, inflation
 - ▲ Price, productivity, cost actions
- 23% adjusted operating profit decrement
- \$2M investments (~56 bps)

- Operations -\$0.37
- Tax +\$0.02
- Adjusted ETR 26.3%, -210 bps

- AR improvement more than offset high turn inventory increase, lower net income and increased capital spending
- Retired \$75M in private placement notes
- Gross / net leverage ratio 1.2x and 0.5x, respectively, as of June 2020

* See Appendix for reconciliation of non-GAAP measures to their corresponding GAAP measures

Volumes Impacted By COVID-19; Maintained Cost / Cash Focus

2Q 2020 Regional Results



	Sales (\$M)	Adj. Operating Margin %* Change (bps)	Sales / Business Highlights	Adj. Operating Profit / Margin Commentary
AMERICAS	\$237 <i>Down 18% Organic*</i>	15.0% <i>Down 270 bps</i>	<ul style="list-style-type: none"> -17% reported <ul style="list-style-type: none"> -18% organic +1% acquisition Broad decline in most product lines COVID-19 impact 	<ul style="list-style-type: none"> Adj. operating profit* \$36M, -30% 30% adj. operating profit decrement Margin drivers <ul style="list-style-type: none"> ▼ Volume, investments, inflation ▲ Cost actions ▲ Price, productivity
EUROPE	\$88 <i>Down 21% Organic*</i>	10.1% <i>Down 230 bps</i>	<ul style="list-style-type: none"> -22% reported <ul style="list-style-type: none"> -21% organic -1% FX Weakness in all product segments and regions COVID-19 impact 	<ul style="list-style-type: none"> Adj. operating profit* \$9M, -36% 22% adj. operating profit decrement Margin drivers <ul style="list-style-type: none"> ▼ Volume, investments, inflation ▲ Gov't subsidies, cost actions ▲ Price, productivity
APMEA	\$13 <i>Down 18% Organic*</i>	13.3% <i>Up 590 bps</i>	<ul style="list-style-type: none"> -21% reported <ul style="list-style-type: none"> -18% organic -3% FX China down mid single digits Outside China down double digits COVID-19 impact 	<ul style="list-style-type: none"> Adj. operating profit* \$1.7M, +42% Margin drivers <ul style="list-style-type: none"> ▲ Productivity, cost actions ▲ Affiliate volume +16% ▼ Trade volume

* See Appendix for reconciliation of non-GAAP measures to their corresponding GAAP measures

Cost Actions Mitigating Profit Decrements

Revenue – expect 8% to 12% organic reduction from prior year

Expect adjusted operating margin of 11% to 13% Markets

- Decrements in total similar to 2Q 2020
- Includes cost reduction actions

Interest expense to decrease sequentially ~\$500k vs 2Q 2020

Adjusted effective tax rate ~28.5%

Sequential Improvement Expected in 3Q

Expanded safety protocols as restrictions ease

2Q trended better than anticipated as quarter progressed

- Markets opening up

Continued cost focus

Investing for the long-term

Strong balance sheet; flexibility to weather storm

Expect 3Q sequential improvement

- COVID-19 remains a concern

Markets Returning Slowly; Controlling What We Can

Appendix

Consolidated Statement of Operations



(M)
(Unaudited)

	Second Quarter			
	2020	2019	B/(W)	%
Net sales	\$338.7	\$416.8	(\$78.1)	(19%)
Cost of goods sold	203.8	242.2	38.4	16%
Gross profit	134.9	174.6	(39.7)	(23%)
	39.8%	41.9%	-2.1 p	
Selling, general & administrative expenses	97.6	119.0	21.4	18%
	28.8%	28.6%	-0.2 p	
Restructuring / impairment	6.3	1.3	(5.0)	(385%)
Operating income	31.0	54.3	(23.3)	(43%)
	9.2%	13.0%	-3.8 p	
Other expense	3.5	3.5	-	-%
Income before taxes	27.5	50.8	(23.3)	(46%)
Provision for income taxes	7.3	14.4	7.1	49%
Net income	\$20.2	\$36.4	(\$16.2)	(45%)
Diluted earnings per share	\$0.59	\$1.06	(\$0.47)	(44%)

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	Second Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2Q'20	\$237.4	\$88.1	\$13.2	\$338.7
Reported net sales 2Q'19	\$287.0	\$113.2	\$16.6	\$416.8
Dollar change	(\$49.6)	(\$25.1)	(\$3.4)	(\$78.1)
Net Sales % decrease	(17%)	(22%)	(21%)	(19%)
Increase due to acquisition	(1%)	-	-	-
Decrease due to foreign exchange	- %	1%	3%	- %
Organic sales decrease	(18%)	(21%)	(18%)	(19%)

	Six Months			
	Americas	Europe	APMEA	Total
Reported net sales 2020	\$499.8	\$198.3	\$23.2	\$721.3
Reported net sales 2019	\$545.9	\$229.5	\$30.1	\$805.5
Dollar change	(\$46.1)	(\$31.2)	(\$6.9)	(\$84.2)
Net Sales % decrease	(8%)	(13%)	(23%)	(11%)
Increase due to acquisition	(1%)	-	-	-
Decrease due to foreign exchange	- %	2%	3%	1%
Organic sales decrease	(9%)	(11%)	(20%)	(10%)

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



(M) (Unaudited)	Second Quarter		Six Months	
	2020	2019	2020	2019
Net sales	\$338.7	\$416.8	\$ 721.3	\$805.5
Operating income - as reported	\$31.0	\$54.3	\$78.8	\$ 101.0
<i>Operating margin %</i>	9.2%	13.0%	10.9%	12.5%
<u>Adjustments for special items:</u>				
Restructuring / footprint optimization	5.7	1.3	6.1	2.7
Impairment charges	1.0	-	1.0	-
Total adjustments for special items	6.7	1.3	7.1	2.7
<i>Operating income - as adjusted</i>	\$37.7	\$55.6	\$85.9	\$103.7
<i>Adjusted operating margin %</i>	11.1%	13.3%	11.9%	12.9%
Net income - as reported	\$20.2	\$36.4	\$52.2	\$67.4
<u>Adjustments for special items - tax affected:</u>				
Restructuring / footprint optimization	4.3	0.9	4.6	1.9
Impairment charges	0.7	-	0.7	-
Total adjustments for special items, tax affected	5.0	0.9	5.3	1.9
Net income - as adjusted	\$25.2	\$37.3	57.5	69.3
<u>Earnings per share:</u>				
Diluted earnings per share - as reported	\$ 0.59	\$1.06	\$1.53	\$1.97
Adjustments for special items	0.15	\$0.03	0.16	\$0.06
Diluted earnings per share - as adjusted	\$0.74	\$1.09	\$1.69	\$2.03

Adjusted Operating Income by Segment



(M)
(Unaudited)

	Second Quarter 2020					Second Quarter 2019				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$ 29.5	\$ 9.2	\$ 0.8	(\$8.5)	\$31.0	\$50.7	\$12.8	\$1.2	(\$10.4)	\$54.3
<i>Operating margin %</i>	12.4%	10.4%	6.4%		9.2%	17.7%	11.3%	7.4%		13.0%
Adjustments for special items	6.0	(0.3)	0.9	0.1	6.7	-	1.3	-	-	1.3
Adjusted operating income (loss)	\$35.5	\$8.9	\$1.7	(\$8.4)	\$37.7	\$50.7	\$14.1	\$1.2	(\$10.4)	\$55.6
<i>Adjusted operating margin %</i>	15.0%	10.1%	13.3%		11.1%	17.7%	12.4%	7.4%		13.3%

	Six Months 2020					Six Months 2019				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$72.9	\$22.9	\$0.7	(\$17.7)	\$78.8	\$93.8	\$26.0	\$2.4	(\$21.2)	\$101.0
<i>Operating margin %</i>	14.6%	11.5%	3.2%		10.9%	17.2%	11.3%	8.4%		12.5%
Adjustments for special items	6.4	(0.3)	0.9	0.1	7.1	-	2.7	-	-	2.7
Adjusted operating income (loss)	\$79.3	\$22.6	\$1.6	(\$17.6)	\$85.9	\$93.8	\$28.7	\$2.4	(\$21.2)	\$103.7
<i>Adjusted operating margin %</i>	15.9%	11.4%	7.1%		11.9%	17.2%	12.5%	8.4%		12.9%

Reconciliation of Net Cash Provided By Operations to Free Cash Flow



(M)
(Unaudited)

	Six Months	
	2020	2019
Net cash provided by operations - as reported	\$47.3	\$19.7
<u>Less:</u> additions to property, plant, and equipment, net	(22.3)	(14.3)
Free cash flow	\$25.0	\$5.4
Net income - as reported	\$52.2	\$67.4
Cash conversion rate of free cash flow to net income	47.9%	8.0%

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



(M)
(Unaudited)

	June 28, 2020	December 31, 2019
Current portion of long-term debt	\$ -	\$105.0
<u>Plus:</u> Long-term debt, net of current portion	262.5	204.2
<u>Less:</u> Cash and cash equivalents	(148.7)	(219.7)
Net debt	\$113.8	\$89.5
<hr/>		
Net debt	\$113.8	\$89.5
<u>Plus:</u> Total stockholders' equity	985.2	978.0
Capitalization	\$1,099.0	1,067.5
Net debt to capitalization ratio	10.4%	8.4%

Calculations of Gross and Net Leverage



(M)
(Unaudited)

	Trailing Twelve Months through June 28, 2020
Net income – as reported	\$116.3
<u>Plus</u> : Interest expense, net	13.3
<u>Plus</u> : Income taxes	46.3
<u>Plus</u> : Depreciation	31.3
<u>Plus</u> : Amortization	15.3
Earnings before interest, taxes depreciation and amortization (EBITDA)	\$222.5
Gross debt at June 28, 2020	\$262.5
<u>Less</u> : Cash & cash equivalents at June 28, 2020	<u>148.7</u>
Net debt	\$113.8
Gross debt to EBITDA ratio (Gross leverage)	1.2x
Net debt to EBITDA ratio (Net leverage)	0.5x