

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 27, 2020

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 001-11499

WATTS WATER TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

04-2916536
(I.R.S. Employer Identification No.)

815 Chestnut Street, North Andover, MA
(Address of Principal Executive Offices)

01845
(Zip Code)

(978) 688-1811
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.10 per share	WTS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 25, 2020
Class A Common Stock, \$0.10 par value	27,433,930
Class B Common Stock, \$0.10 par value	6,209,290

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements
WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in millions, except share information)
(Unaudited)

	September 27, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 188.3	\$ 219.7
Trade accounts receivable, less reserve allowances of \$11.8 million at September 27, 2020 and \$14.3 million at December 31, 2019	208.9	219.8
Raw materials	89.7	83.3
Work in process	16.1	15.5
Finished goods	167.3	171.3
Total Inventories	273.1	270.1
Prepaid expenses and other current assets	29.3	25.3
Total Current Assets	699.6	734.9
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment, at cost	596.6	557.9
Accumulated depreciation	(385.3)	(357.9)
Property, plant and equipment, net	211.3	200.0
OTHER ASSETS:		
Goodwill	588.7	581.1
Intangible assets, net	142.9	151.4
Deferred income taxes	3.8	2.7
Other, net	62.7	53.0
TOTAL ASSETS	\$ 1,709.0	\$ 1,723.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 99.9	\$ 123.3
Accrued expenses and other liabilities	139.1	133.4
Accrued compensation and benefits	56.2	57.6
Current portion of long-term debt	—	105.0
Total Current Liabilities	295.2	419.3
LONG-TERM DEBT, NET OF CURRENT PORTION	247.9	204.2
DEFERRED INCOME TAXES	40.3	38.6
OTHER NONCURRENT LIABILITIES	101.0	83.0
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$0.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	—	—
Class A common stock, \$0.10 par value; 120,000,000 shares authorized; 1 vote per share; issued and outstanding, 27,445,480 shares at September 27, 2020 and 27,586,416 shares at December 31, 2019	2.8	2.8
Class B common stock, \$0.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding, 6,209,290 shares at September 27, 2020 and 6,279,290 shares at December 31, 2019	0.6	0.6
Additional paid-in capital	602.1	591.5
Retained earnings	543.2	513.9
Accumulated other comprehensive loss	(124.1)	(130.8)
Total Stockholders' Equity	1,024.6	978.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,709.0	\$ 1,723.1

See accompanying notes to consolidated financial statements.

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in millions, except per share information)
(Unaudited)

	Third Quarter Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Net sales	\$ 383.9	\$ 394.7	\$ 1,105.2	\$ 1,200.2
Cost of goods sold	225.4	226.1	649.0	692.8
GROSS PROFIT	158.5	168.6	456.2	507.4
Selling, general and administrative expenses	106.6	119.8	319.2	354.9
Restructuring	3.4	—	8.7	2.7
Other long-lived asset impairment charge	—	—	1.0	—
Loss on disposition	0.6	—	0.6	—
OPERATING INCOME	47.9	48.8	126.7	149.8
Other (income) expense:				
Interest income	—	(0.1)	(0.2)	(0.3)
Interest expense	3.0	3.5	10.0	10.8
Other expense (income), net	1.1	(0.8)	1.0	(0.4)
Total other expense	4.1	2.6	10.8	10.1
INCOME BEFORE INCOME TAXES	43.8	46.2	115.9	139.7
Provision for income taxes	10.9	13.9	30.8	40.0
NET INCOME	\$ 32.9	\$ 32.3	\$ 85.1	\$ 99.7
Basic EPS				
NET INCOME PER SHARE	\$ 0.97	\$ 0.95	\$ 2.51	\$ 2.92
Weighted average number of shares	33.8	34.0	33.9	34.1
Diluted EPS				
NET INCOME PER SHARE	\$ 0.97	\$ 0.94	\$ 2.50	\$ 2.91
Weighted average number of shares	33.9	34.2	34.0	34.2
Dividends declared per share	\$ 0.23	\$ 0.23	\$ 0.69	\$ 0.67

See accompanying notes to consolidated financial statements.

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in millions)
(Unaudited)

	<u>Third Quarter Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27, 2020</u>	<u>September 29, 2019</u>	<u>September 27, 2020</u>	<u>September 29, 2019</u>
Net income	\$ 32.9	\$ 32.3	\$ 85.1	\$ 99.7
Other comprehensive income (loss) net of tax:				
Foreign currency translation adjustments	14.3	(15.8)	7.8	(16.9)
Cash flow hedges	0.1	(0.5)	(1.1)	(4.2)
Other comprehensive income (loss)	14.4	(16.3)	6.7	(21.1)
Comprehensive income	<u>\$ 47.3</u>	<u>\$ 16.0</u>	<u>\$ 91.8</u>	<u>\$ 78.6</u>

See accompanying notes to consolidated financial statements.

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in millions)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<i>(For the nine months ended September 27, 2020)</i>								
Balance at December 31, 2019	27,586,416	\$ 2.8	6,279,290	\$ 0.6	\$ 591.5	\$ 513.9	\$ (130.8)	\$ 978.0
Net income	—	—	—	—	—	85.1	—	85.1
Other comprehensive income	—	—	—	—	—	—	6.7	6.7
Comprehensive income	—	—	—	—	—	—	—	91.8
Shares of Class B common stock converted to Class A common stock	70,000	—	(70,000)	—	—	—	—	—
Shares of Class A common stock issued upon the exercise of stock options	661	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	8.8	—	—	8.8
Stock repurchase	(294,677)	—	—	—	—	(24.8)	—	(24.8)
Net change in restricted and performance stock units	83,080	—	—	—	1.8	(7.8)	—	(6.0)
Common stock dividends	—	—	—	—	—	(23.2)	—	(23.2)
Balance at September 27, 2020	27,445,480	\$ 2.8	6,209,290	\$ 0.6	\$ 602.1	\$ 543.2	\$ (124.1)	\$ 1,024.6
<i>(For the third quarter ended September 27, 2020)</i>								
Balance at June 28, 2020	27,461,833	\$ 2.8	6,229,290	\$ 0.6	\$ 598.9	\$ 521.4	\$ (138.5)	\$ 985.2
Net income	—	—	—	—	—	32.9	—	32.9
Other comprehensive income	—	—	—	—	—	—	14.4	14.4
Comprehensive income	—	—	—	—	—	—	—	47.3
Shares of Class B common stock converted to Class A common stock	20,000	—	(20,000)	—	—	—	—	—
Shares of Class A common stock issued upon the exercise of stock options	661	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	3.2	—	—	3.2
Stock repurchase	(41,142)	—	—	—	—	(3.7)	—	(3.7)
Net change in restricted and performance stock units	4,128	—	—	—	—	—	—	—
Common stock dividends	—	—	—	—	—	(7.4)	—	(7.4)
Balance at September 27, 2020	27,445,480	\$ 2.8	6,209,290	\$ 0.6	\$ 602.1	\$ 543.2	\$ (124.1)	\$ 1,024.6

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	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<i>(For the nine months ended September 29, 2019)</i>								
Balance at December 31, 2018	27,646,465	\$ 2.8	6,329,290	\$ 0.6	\$ 568.3	\$ 440.7	\$ (121.1)	\$ 891.3
Net income	—	—	—	—	—	99.7	—	99.7
Other comprehensive loss	—	—	—	—	—	—	(21.1)	(21.1)
Comprehensive income	—	—	—	—	—	—	—	78.6
Shares of Class B common stock converted to Class A common stock	50,000	—	(50,000)	—	—	—	—	—
Shares of Class A common stock issued upon the exercise of stock options	19,155	—	—	—	1.0	—	—	1.0
Stock-based compensation	—	—	—	—	13.3	—	—	13.3
Stock repurchase	(178,340)	—	—	—	—	(14.8)	—	(14.8)
Net change in restricted and performance stock units	79,765	—	—	—	3.3	(7.1)	—	(3.8)
Common stock dividends	—	—	—	—	—	(23.6)	—	(23.6)
Balance at September 29, 2019	<u>27,617,045</u>	<u>\$ 2.8</u>	<u>6,279,290</u>	<u>\$ 0.6</u>	<u>\$ 585.9</u>	<u>\$ 494.9</u>	<u>\$ (142.2)</u>	<u>\$ 942.0</u>

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<i>(For the third quarter ended September 29, 2019)</i>								
Balance at June 30, 2019	27,657,544	\$ 2.8	6,279,290	\$ 0.6	\$ 581.1	\$ 475.6	\$ (125.9)	\$ 934.2
Net income	—	—	—	—	—	32.3	—	32.3
Other comprehensive loss	—	—	—	—	—	—	(16.3)	(16.3)
Comprehensive income	—	—	—	—	—	—	—	16.0
Shares of Class A common stock issued upon the exercise of stock options	3,368	—	—	—	0.2	—	—	0.2
Stock-based compensation	—	—	—	—	4.6	—	—	4.6
Stock repurchase	(47,943)	—	—	—	—	(4.5)	—	(4.5)
Net change in restricted and performance stock units	4,076	—	—	—	—	(0.1)	—	(0.1)
Common stock dividends	—	—	—	—	—	(8.4)	—	(8.4)
Balance at September 29, 2019	<u>27,617,045</u>	<u>\$ 2.8</u>	<u>6,279,290</u>	<u>\$ 0.6</u>	<u>\$ 585.9</u>	<u>\$ 494.9</u>	<u>\$ (142.2)</u>	<u>\$ 942.0</u>

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in millions)
(Unaudited)

	Nine Months Ended	
	September 27, 2020	September 29, 2019
OPERATING ACTIVITIES		
Net income	\$ 85.1	\$ 99.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23.3	22.7
Amortization of intangibles	11.4	11.6
Loss on disposal and impairment of property, plant and equipment and other	3.3	0.7
Stock-based compensation	8.8	13.3
Deferred income tax	(2.3)	2.0
Changes in operating assets and liabilities:		
Accounts receivable	14.5	(36.5)
Inventories	3.1	5.1
Prepaid expenses and other assets	(3.8)	0.2
Accounts payable, accrued expenses and other liabilities	(16.0)	(23.9)
Net cash provided by operating activities	<u>127.4</u>	<u>94.9</u>
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(33.8)	(19.1)
Proceeds from the sale of property, plant and equipment	1.5	0.1
Proceeds from the sale of business	0.9	—
Business acquisitions, net of cash acquired	(7.7)	(42.7)
Net cash used in investing activities	<u>(39.1)</u>	<u>(61.7)</u>
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	407.5	82.0
Payments of long-term debt	(467.5)	(92.5)
Payments for withholding taxes on vested awards	(7.8)	(7.2)
Payments for finance leases	(1.5)	(1.1)
Payments on contractual call option	—	(2.8)
Proceeds from share transactions under employee stock plans	—	1.0
Debt issuance costs	(2.2)	—
Payments to repurchase common stock	(24.8)	(14.8)
Dividends	(23.2)	(23.6)
Net cash used in financing activities	<u>(119.5)</u>	<u>(59.0)</u>
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(4.6)
DECREASE IN CASH AND CASH EQUIVALENTS	<u>(31.4)</u>	<u>(30.4)</u>
Cash and cash equivalents at beginning of year	219.7	204.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 188.3</u>	<u>\$ 173.7</u>
NON CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of businesses:		
Fair value of assets acquired	\$ 12.3	\$ 43.3
Cash paid, net of cash acquired	7.7	42.7
Liabilities assumed	\$ 4.6	\$ 0.6
Issuance of stock under management stock purchase plan	\$ 0.7	\$ 1.6
CASH PAID FOR:		
Interest	\$ 9.6	\$ 12.0
Income taxes	\$ 36.5	\$ 38.9

See accompanying notes to consolidated financial statements.

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the Watts Water Technologies, Inc. (the Company) Consolidated Balance Sheet as of September 27, 2020, the Consolidated Statements of Operations for the third quarters and nine months ended September 27, 2020 and September 29, 2019, the Consolidated Statements of Comprehensive Income for the third quarters and nine months ended September 27, 2020 and September 29, 2019, the Consolidated Statements of Stockholders' Equity for the third quarters and nine months ended September 27, 2020 and September 29, 2019, and the Consolidated Statements of Cash Flows for the nine months ended September 27, 2020 and September 29, 2019.

The consolidated balance sheet at December 31, 2019 has been derived from the audited consolidated financial statements at that date. The accounting policies followed by the Company are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. The financial statements included in this report should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2019. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2020, and may be further impacted by the effects of the Coronavirus Disease 2019 ("COVID-19") global pandemic.

The Company operates on a 52-week fiscal year ending on December 31, with each quarter, except the fourth quarter, ending on a Sunday. Any quarterly data contained in this Quarterly Report on Form 10-Q generally reflect the results of operations for a 13-week period.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require updates to the Company's estimates or judgments or require the Company to revise the carrying value of the Company's assets or liabilities as of the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change as new events occur and additional information is obtained. Actual results could differ from those estimates.

COVID-19

In March 2020, the World Health Organization categorized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The unprecedented and widespread impact of COVID-19 continues to affect the countries and markets in which the Company operates, and new and evolving government actions to address the COVID-19 pandemic continue to occur on a regular basis. For the third quarter and nine months ended September 27, 2020, temporary closures, lockdowns and other restrictions mandated by various governmental authorities intended to combat the COVID-19 pandemic have negatively impacted the Company's revenue at varying levels within each of the Company's business segments. The exact timing and pace of the recovery remain uncertain and is impacted by certain markets which are now experiencing a resurgence of COVID-19 cases. The Company's cost management and capital preservation actions are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations.

Due to the risks and uncertainties resulting from the COVID-19 pandemic, the extent of the impact on the Company's business is highly uncertain and difficult to predict. Developments and information related to the response to the pandemic continue to occur. Many of the Company's products qualify as "essential products" under local, state and national guidelines and orders. As a provider of essential products, the Company has made significant efforts to keep its facilities open, its employees working and its products available to its customers. The Company remains focused on protecting the health and safety of its employees and the communities in which it operates while maintaining the continuity of its business operations. Early in the pandemic, the Company created a COVID-19 Task Force to develop and implement a coordinated response to protect its employees while maintaining production capabilities, and the Company has implemented social distancing guidelines and temperature monitoring, provided personal protective equipment, established a COVID-19 website for employees, which includes the latest Centers for Disease Control and Prevention ("CDC") and other government protocols, and promoted work-from-home policies where practical.

Capital markets and economies worldwide continue to be negatively impacted by the protective measures taken by governments in response to the COVID-19 pandemic, and these measures resulted in a global economic recession. Such economic disruption will likely have a material adverse effect on the Company's business if customers continue to curtail and reduce overall spending, which may not return to pre-pandemic levels. Policymakers around the globe have responded with fiscal policy actions to bolster their local economies. The magnitude and overall effectiveness of these actions remain uncertain. The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, operations, distributors and suppliers, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions and uncertain demand, and the impact of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by its customers. However, the Company does not anticipate any adverse impacts on its ability to pay its debt obligations as they become due. As of the date of issuance of these condensed consolidated financial statements, the extent to which the COVID-19 pandemic may materially impact the Company's financial condition, liquidity, or results of operations is uncertain.

The Company intends to continue to assess the evolving impact of the COVID-19 pandemic and expects to continue to make adjustments to its responses to address the situation as it develops.

2. Accounting Policies

The significant accounting policies used in preparation of these consolidated financial statements for the third quarter ended September 27, 2020 are consistent with those discussed in Note 2 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Recently Adopted Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)-Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." ASU 2018-15 aligns the requirements for capitalizing

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implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance requires an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company adopted this standard in the first quarter of 2020, and it did not have a material impact on the Company's financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." ASU 2016-13 replaces the incurred loss impairment methodology under current Generally Accepted Accounting Principles ("GAAP") with a methodology that reflects expected credit losses and requires the use of a forward-looking expected credit loss model for accounts receivable, loans, and other financial instruments. The financial assets for which this standard is applicable on the Company's balance sheet are accounts receivable and contract assets. The standard requires the Company to pool financial assets based on similar risk and economic characteristics and estimate expected credit losses over the contractual life of the asset. This standard is effective for reporting periods beginning after December 15, 2019. The standard requires a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company adopted this standard in the first quarter of 2020, and it did not have a material impact on the Company's financial statements.

Accounting Standards Updates

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The amendments provide optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company is currently evaluating its contracts and the optional expedients provided by the new standard.

Shipping and Handling

Shipping and handling costs included in selling, general and administrative expenses amounted to \$13.6 million and \$14.5 million for the third quarters of 2020 and 2019, respectively, and were \$40.1 million and \$43.0 million for the first nine months of 2020 and 2019, respectively.

Research and Development

Research and development costs included in selling, general and administrative expenses amounted to \$10.1 million and \$9.8 million for the third quarters of 2020 and 2019, respectively, and were \$31.4 million and \$28.6 million for the first nine months of 2020 and 2019, respectively.

3. Revenue Recognition

The Company is a leading supplier of products that manage and conserve the flow of fluids and energy into, through and out of buildings in the commercial and residential markets of the Americas, Europe, and Asia-Pacific, Middle East, and Africa (“APMEA”). For over 140 years, the Company has designed and produced valve systems that safeguard and regulate water systems, energy efficient heating and hydronic systems, drainage systems and water filtration technology that helps purify and conserve water.

The Company distributes products through four primary distribution channels: wholesale, original equipment manufacturers (OEMs), specialty, and do-it-yourself (DIY). The Company operates in three geographic segments: Americas, Europe, and APMEA. Each of these segments sells similar products, which are comprised of the following principal product lines:

- Residential & commercial flow control products—includes products typically sold into plumbing and hot water applications such as backflow preventers, water pressure regulators, temperature and pressure relief valves, and thermostatic mixing valves.
- HVAC & gas products—includes commercial high-efficiency boilers, water heaters and heating solutions, hydronic and electric heating systems for under-floor radiant applications, custom heat and hot water solutions, hydronic pump groups for boiler manufacturers and alternative energy control packages, and flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications. HVAC is an acronym for heating, ventilation and air conditioning.
- Drainage & water re-use products—includes drainage products and engineered rain water harvesting solutions for commercial, industrial, marine and residential applications.
- Water quality products—includes point-of-use and point-of-entry water filtration, conditioning and scale prevention systems for commercial, marine and residential applications.

The following table disaggregates revenue, which is presented as net sales in the financial statements, for each reportable segment, by distribution channel and principal product line:

Distribution Channel	For the third quarter ended September 27, 2020 (in millions)				For the nine months ended September 27, 2020 (in millions)			
	Americas	Europe	APMEA	Consolidated	Americas	Europe	APMEA	Consolidated
Wholesale	\$ 151.4	\$ 69.3	\$ 14.7	\$ 235.4	\$ 430.8	\$ 199.5	\$ 35.2	\$ 665.5
OEM	19.5	36.6	0.8	56.9	54.7	103.7	1.6	160.0
Specialty	74.2	—	0.2	74.4	213.9	—	2.1	216.0
DIY	16.4	0.8	—	17.2	61.9	1.8	—	63.7
Total	<u>\$ 261.5</u>	<u>\$ 106.7</u>	<u>\$ 15.7</u>	<u>\$ 383.9</u>	<u>\$ 761.3</u>	<u>\$ 305.0</u>	<u>\$ 38.9</u>	<u>\$ 1,105.2</u>

Principal Product Line	For the third quarter ended September 27, 2020 (in millions)				For the nine months ended September 27, 2020 (in millions)			
	Americas	Europe	APMEA	Consolidated	Americas	Europe	APMEA	Consolidated
Residential & Commercial Flow Control	\$ 151.1	\$ 42.2	\$ 12.0	\$ 205.3	\$ 430.5	\$ 113.9	\$ 29.1	\$ 573.5
HVAC and Gas Products	63.9	46.3	2.9	113.1	194.5	129.1	8.5	332.1
Drainage and Water Re-use Products	20.0	17.3	0.5	37.8	57.9	59.3	0.6	117.8
Water Quality Products	26.5	0.9	0.3	27.7	78.4	2.7	0.7	81.8
Total	<u>\$ 261.5</u>	<u>\$ 106.7</u>	<u>\$ 15.7</u>	<u>\$ 383.9</u>	<u>\$ 761.3</u>	<u>\$ 305.0</u>	<u>\$ 38.9</u>	<u>\$ 1,105.2</u>

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Distribution Channel	For the third quarter ended September 29, 2019 (in millions)				For the nine months ended September 29, 2019 (in millions)			
	Americas	Europe	APMEA	Consolidated	Americas	Europe	APMEA	Consolidated
Wholesale	\$ 152.1	\$ 72.2	\$ 15.0	\$ 239.3	\$ 459.8	\$ 226.9	\$ 43.2	\$ 729.9
OEM	20.0	35.1	0.4	55.5	62.7	108.5	1.2	172.4
Specialty	83.6	—	1.1	84.7	247.5	—	2.2	249.7
DIY	14.6	0.6	—	15.2	46.2	2.0	—	48.2
Total	\$ 270.3	\$ 107.9	\$ 16.5	\$ 394.7	\$ 816.2	\$ 337.4	\$ 46.6	\$ 1,200.2

Principal Product Line	For the third quarter ended September 29, 2019 (in millions)				For the nine months ended September 29, 2019 (in millions)			
	Americas	Europe	APMEA	Consolidated	Americas	Europe	APMEA	Consolidated
Residential & Commercial Flow Control	\$ 151.0	\$ 41.1	\$ 10.6	\$ 202.7	\$ 459.7	\$ 130.1	\$ 32.9	\$ 622.7
HVAC and Gas Products	73.4	44.7	4.4	122.5	221.9	139.0	10.0	370.9
Drainage and Water Re-use Products	20.7	21.5	1.3	43.5	60.4	66.4	3.0	129.8
Water Quality Products	25.2	0.6	0.2	26.0	74.2	1.9	0.7	76.8
Total	\$ 270.3	\$ 107.9	\$ 16.5	\$ 394.7	\$ 816.2	\$ 337.4	\$ 46.6	\$ 1,200.2

The Company generally considers customer purchase orders, which in some cases are governed by master sales agreements, to represent the contract with a customer. The Company's contracts with customers are generally for products only and typically do not include other performance obligations such as professional services, extended warranties, or other material rights. In situations where sales are to a distributor, the Company has concluded that its contracts are with the distributor as the Company holds a contract bearing enforceable rights and obligations only with the distributor. As part of its consideration of the contract, the Company evaluates certain factors including the customer's ability to pay (or credit risk). For each contract, the Company considers the promise to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. As the Company's standard payment terms are less than one year, the Company has elected not to assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product based on its relative standalone selling price. The product price as specified on the purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control of the product is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs at shipment from the Company's manufacturing site or distribution center, or delivery to the customer's named location. In certain circumstances, revenue from shipments to retail customers is recognized only when the product is consumed by the customer, as based on the terms of the arrangement, transfer of control is not satisfied until that point in time. In determining whether control has transferred, the Company considers if there is a present right to payment, physical possession and legal title, along with risks and rewards of ownership having transferred to the customer. In certain circumstances, the Company manufactures customized product without alternative use for its customers. However, as these arrangements do not entitle the Company a right to payment of cost plus a profit for work completed, the Company has concluded that revenue recognition at the point in time control transfers is appropriate and not over time recognition.

At times, the Company receives orders for products to be delivered over multiple dates that may extend across reporting periods. The Company invoices for each delivery upon shipment and recognizes revenues for each distinct product delivered, assuming transfer of control has occurred. As scheduled delivery dates are within one year, under the optional exemption provided by the guidance, revenues allocated to future shipments of partially completed contracts are not disclosed.

The Company generally provides an assurance warranty that its products will substantially conform to the published specification. The Company's liability is limited to either a credit equal to the purchase price or replacement of the defective part. Returns under warranty have historically been immaterial. The Company does not consider activities related to such warranty, if any, to be a separate performance obligation. For certain of its products, the Company will separately sell extended warranty and service policies to its customers. The Company considers the sale of the extended warranty a separate performance obligation. These policies typically are for periods ranging from one to three years.

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Payments received are deferred and recognized over the policy period. For all periods presented, the revenue recognized and the revenue deferred under these policies is not material to the consolidated financial statements.

The timing of revenue recognition, billings and cash collections from the Company's contracts with customers can vary based on the payment terms and conditions in the customer contracts. In some cases, customers will partially prepay for their goods; in other cases, after appropriate credit evaluations, payment is due in arrears. In addition, there are constraints which cause variability in the ultimate consideration to be recognized. These constraints typically include early payment discounts, volume rebates, rights of return, cooperative advertising, and market development funds. The Company includes these constraints in the estimated transaction price when there is a basis to reasonably estimate the amount of variable consideration. These estimates are based on historical experience, anticipated future performance and the Company's best judgment at the time. When the timing of the Company's recognition of revenue is different from the timing of payments made by the customer, the Company recognizes either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance). Contracts with payment in arrears are recognized as receivables. The opening and closing balances of the Company's contract assets and contract liabilities are as follows:

	Contract Assets	Contract Liabilities - Current	Contract Liabilities - Noncurrent
	(in millions)		
Balance - January 1, 2020	\$ 0.4	\$ 11.5	\$ 2.9
Change in period	(0.1)	0.2	(0.1)
Balance - March 29, 2020	\$ 0.3	\$ 11.7	\$ 2.8
Change in period	—	—	(0.1)
Balance - June 28, 2020	\$ 0.3	\$ 11.7	\$ 2.7
Change in period	(0.3)	1.1	—
Balance - September 27, 2020	\$ —	\$ 12.8	\$ 2.7
Balance - January 1, 2019	\$ 1.0	\$ 11.3	\$ 2.7
Change in period	(0.7)	0.1	—
Balance - March 31, 2019	\$ 0.3	\$ 11.4	\$ 2.7
Change in period	(0.2)	0.7	0.1
Balance - June 30, 2019	\$ 0.1	\$ 12.1	\$ 2.8
Change in period	—	(0.3)	0.2
Balance - September 29, 2019	\$ 0.1	\$ 11.8	\$ 3.0

The amount of revenue recognized during the third quarter and nine months ended September 27, 2020 that was included in the opening contract liability balance was \$2.2 million and \$7.0 million, respectively. The amount of revenue recognized during the third quarter and nine months ended September 29, 2019 that was included in the opening contract liability balance was \$3.1 million and \$9.2 million, respectively. This revenue consists primarily of revenue recognized for shipments of product which had been prepaid as well as the amortization of extended warranty and service policy revenue. The Company did not recognize any material revenue from obligations satisfied in prior periods. There were no impairment losses related to contract assets for the third quarters and nine months ended September 27, 2020 and September 29, 2019.

The Company incurs costs to obtain and fulfill a contract; however, the Company has elected to recognize all incremental costs to obtain a contract as an expense when incurred if the amortization period is one year or less. The Company has elected to treat shipping and handling activities performed after the customer has obtained control of the related goods as a fulfillment cost and the related cost is accrued for in conjunction with the recording of revenue for the goods.

4. Goodwill & Intangibles

The Company operates in three geographic segments: Americas, Europe, and APMEA. During the third quarter, the Company completed the acquisition of Australian Valve Group Pty Ltd ("AVG") within the APMEA region, resulting in

\$3.9 million of goodwill. The acquisition of AVG was not considered material to the Company’s consolidated financial statements. The changes in the carrying amount of goodwill by geographic segment are as follows:

	September 27, 2020							Net Goodwill
	Gross Balance			Accumulated Impairment Losses			September 27, 2020	
	Balance January 1, 2020	Acquired During the Period	Foreign Currency Translation and Other	Balance September 27, 2020	Balance January 1, 2020	Impairment Loss During the Period		
(in millions)								
Americas	\$ 476.8	—	\$ (0.3)	\$ 476.5	\$ (24.5)	—	\$ (24.5)	\$ 452.0
Europe	241.4	—	4.7	246.1	(129.7)	—	(129.7)	116.4
APMEA	30.0	3.9	(0.7)	33.2	(12.9)	—	(12.9)	20.3
Total	\$ 748.2	3.9	\$ 3.7	\$ 755.8	\$ (167.1)	—	\$ (167.1)	\$ 588.7

	December 31, 2019							Net Goodwill
	Gross Balance			Accumulated Impairment Losses			December 31, 2019	
	Balance January 1, 2019	Acquired During the Period	Foreign Currency Translation and Other	Balance December 31, 2019	Balance January 1, 2019	Impairment Loss During the Period		
(in millions)								
Americas	\$ 438.1	\$ 38.3	\$ 0.4	\$ 476.8	\$ (24.5)	—	\$ (24.5)	\$ 452.3
Europe	243.7	—	(2.3)	241.4	(129.7)	—	(129.7)	111.7
APMEA	30.1	—	(0.1)	30.0	(12.9)	—	(12.9)	17.1
Total	\$ 711.9	\$ 38.3	\$ (2.0)	\$ 748.2	\$ (167.1)	—	\$ (167.1)	\$ 581.1

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually or more frequently if events or circumstances indicate that it is “more likely than not” that they might be impaired, such as from a change in business conditions. The Company performs its annual goodwill and indefinite-lived intangible assets impairment assessment in the fourth quarter of each year. At the most recent annual impairment test which occurred in the fourth quarter of 2019, the Company performed qualitative fair value assessments, including an evaluation of certain key assumptions for all seven of its reporting units. The Company concluded that the fair value of all seven reporting units exceed its carrying value at that time.

As a result of the impact of the COVID-19 global pandemic, the Company reviewed the guidance outlined in ASC 350 to determine if there was an event or change in circumstance to indicate it is more likely than not that an impairment loss has been incurred during the first nine months of 2020. The Company performed an analysis of the stock price when compared to December 31, 2019, reviewed cash flow forecasts, assessed other market risk factors, and performed a market capitalization reconciliation of its reporting units. The Company concluded a triggering event had not occurred as of September 27, 2020 and it was not “more likely than not” that the Company’s reporting units might be impaired.

Additionally, the Company noted the Heating and Hot Water Solutions (“HHWS”) reporting unit had a goodwill balance of \$218.9 million as of September 27, 2020, which holds the greatest amount of goodwill and the least amount of excess of fair value over carrying value. While the Company concluded that a triggering event did not occur during the third quarter and nine months ended September 27, 2020, the impact of a prolonged COVID-19 pandemic could impact the

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results of operations due to changes to assumptions utilized in the determination of the estimated fair values of the HHWS reporting unit that may be significant enough to trigger an impairment determination.

Intangible assets include the following:

	September 27, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
						(in millions)
Patents	\$ 16.1	\$ (16.0)	\$ 0.1	\$ 16.1	\$ (15.9)	\$ 0.2
Customer relationships	234.4	(163.3)	71.1	232.8	(156.3)	76.5
Technology	56.8	(34.9)	21.9	56.9	(31.6)	25.3
Trade names	26.7	(14.0)	12.7	26.0	(13.1)	12.9
Other	4.3	(3.7)	0.6	4.3	(3.6)	0.7
Total amortizable intangibles	338.3	(231.9)	106.4	336.1	(220.5)	115.6
Indefinite-lived intangible assets	36.5	—	36.5	35.8	—	35.8
	<u>\$ 374.8</u>	<u>\$ (231.9)</u>	<u>\$ 142.9</u>	<u>\$ 371.9</u>	<u>\$ (220.5)</u>	<u>\$ 151.4</u>

Aggregate amortization expense for amortized intangible assets for both the third quarters ended September 27, 2020 and September 29, 2019 was \$3.8 million, and for the first nine months of 2020 and 2019 was \$11.4 million and \$11.6 million, respectively. As a result of the AVG acquisition completed in the third quarter of 2020, the Company recorded \$2.6 million and \$0.6 million, respectively, of intangible assets related to customer relationships and trade names.

5. Financial Instruments and Derivative Instruments

Fair Value

The carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. The fair value of the Company's borrowings under the Amended and Restated Credit Agreement (the "New Credit Agreement") entered into on April 24, 2020 approximate their carrying value.

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Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including deferred compensation plan assets and related liabilities, contingent consideration, and derivatives. The fair values of these financial assets and liabilities were determined using the following inputs at September 27, 2020 and December 31, 2019:

	Fair Value Measurement at September 27, 2020 Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets				
Plan asset for deferred compensation(1)	\$ 2.2	\$ 2.2	\$ —	\$ —
Total assets	\$ 2.2	\$ 2.2	\$ —	\$ —
Liabilities				
Interest rate swaps(3)	\$ 1.2	\$ —	\$ 1.2	\$ —
Plan liability for deferred compensation(2)	\$ 2.2	\$ 2.2	\$ —	\$ —
Contingent consideration(4)	\$ 2.9	\$ —	\$ —	\$ 2.9
Total liabilities	\$ 6.3	\$ 2.2	\$ 1.2	\$ 2.9

	Fair Value Measurements at December 31, 2019 Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets				
Plan asset for deferred compensation(1)	\$ 2.5	\$ 2.5	\$ —	\$ —
Interest rate swaps (1)	\$ 1.2	\$ —	\$ 1.2	\$ —
Total assets	\$ 3.7	\$ 2.5	\$ 1.2	\$ —
Liabilities				
Plan liability for deferred compensation(2)	\$ 2.5	\$ 2.5	\$ —	\$ —
Designated foreign currency hedge(3)	\$ 0.2	\$ —	\$ 0.2	\$ —
Total liabilities	\$ 2.7	\$ 2.5	\$ 0.2	\$ —

(1) Included on the Company's consolidated balance sheet in other assets (other, net).

(2) Included on the Company's consolidated balance sheet in accrued compensation and benefits.

(3) Included on the Company's consolidated balance sheet in accrued expenses and other liabilities.

(4) Included on the Company's consolidated balance sheet in other noncurrent liabilities and relates to contingent consideration as part of the acquisition of AVG.

The table below provides a summary of the changes in fair value of all financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period December 31, 2019 to September 27, 2020.

	Balance December 31, 2019	Settlements	Purchases	Total realized and unrealized (gains) losses included in:		Balance September 27, 2020
				Net earnings adjustments	Comprehensive income	
	(in millions)					
Contingent consideration	\$ —	\$ —	\$ 2.8	\$ —	\$ 0.1	\$ 2.9

In connection with the immaterial acquisition of AVG completed during the third quarter ended September 27, 2020, a contingent liability of \$2.8 million was recognized as the estimate of the acquisition date fair value of the contingent

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consideration. This liability was classified as Level 3 under the fair value hierarchy as it was based on the probability of achievement of future performance metrics as of the date of the acquisition, which was not observable in the market. Failure to meet the performance metrics would reduce this liability to zero; while complete achievement would increase the liability to a maximum contingent consideration of \$4.4 million. The liability as of the third quarter ended September 27, 2020 was \$2.9 million.

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase and consist primarily of money market funds, for which the carrying amount is a reasonable estimate of fair value.

The Company uses financial instruments from time to time to enhance its ability to manage risk, including foreign currency and commodity pricing exposures, which exist as part of its ongoing business operations. The use of derivatives exposes the Company to counterparty credit risk for nonperformance and to market risk related to changes in currency exchange rates and commodity prices. The Company manages its exposure to counterparty credit risk through diversification of counterparties. The Company's counterparties in derivative transactions are substantial commercial banks with significant experience using such derivative instruments. The impact of market risk on the fair value and cash flows of the Company's derivative instruments is monitored and the Company restricts the use of derivative financial instruments to hedging activities. The Company does not enter into contracts for trading purposes nor does the Company enter into any contracts for speculative purposes. The use of derivative instruments is approved by senior management under written guidelines.

Interest Rate Swaps

On February 12, 2016, the Company entered into a Credit Agreement (the "Prior Credit Agreement") pursuant to which it received a funding commitment under a Term Loan of \$300 million, and a Revolving Commitment ("Revolver") of \$500 million. For each facility, the Company could choose either an Adjusted LIBOR or Alternative Base Rate ("ABR"). Accordingly, the Company's earnings and cash flows were exposed to interest rate risk from changes in Adjusted LIBOR. In order to manage the Company's exposure to changes in cash flows attributable to fluctuations in LIBOR-indexed interest payments related to the Company's floating rate debt, the Company entered into two interest rate swaps. For each interest rate swap, the Company received the three-month USD-LIBOR subject to a 0% floor, and paid a fixed rate of 1.31375% on a notional amount of \$225.0 million. The swaps were expected to mature on the same date as the Prior Credit Agreement on February 12, 2021, and were designated as cash flow hedges. On April 24, 2020, the Company entered into a New Credit Agreement. The New Credit Agreement amends and restates the Prior Credit Agreement in its entirety while increasing the amount of revolving credit available from \$500 million to \$800 million, and extending the maturity by one additional year to February 2022. As part of the New Credit Agreement, the LIBOR rate is subject to a 1% floor as opposed to a 0% floor in the Prior Credit Agreement. The change in the LIBOR floor in the New Credit Agreement caused the interest rate swaps to no longer be considered highly effective in offsetting changes in the cash flow of the hedged item, as critical terms of the New Credit Agreement no longer match the hedged item. As a result, the cash flow hedges no longer qualify for hedge accounting as of the date of execution of the New Credit Agreement. As of September 27, 2020, the balance of the previously effective portion of the fair value of the interest rate swaps recorded in other comprehensive income was a loss of \$0.7 million, all of which is expected to be reclassified into earnings within interest expense through February 2021. For the third quarter and nine months ended September 27, 2020, \$0.4 million and \$0.7 million of loss, respectively, has been reclassified into interest expense from other comprehensive income. For the third quarter and nine months ended September 27, 2020, a gain of \$0.5 million and \$0.1 million, respectively, has been recognized to interest expense for mark-to-market valuation changes subsequent to the interest rate swaps no longer being effective.

Designated Foreign Currency Hedges

The Company's foreign subsidiaries transact most business, including certain intercompany transactions, in foreign currencies. Such transactions are principally purchases or sales of materials. The Company has exposure to a number of foreign currencies, including the Canadian dollar, the euro, and the Chinese yuan. The Company uses a layering methodology, whereby at the end of each quarter, the Company enters into forward exchange contracts hedging Canadian dollar to U.S. dollar, which hedge approximately 70% to 80% of the forecasted intercompany purchase transactions between one of the Company's Canadian subsidiaries and the Company's U.S. operating subsidiaries for the next twelve months. The Company uses a similar layering methodology when entering into forward exchange contracts hedging U.S. dollar to the Chinese yuan, which hedge up to 60% of the forecasted intercompany sales transactions between one of the Company's Chinese subsidiaries and one of the Company's U.S. operating subsidiaries for the next

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twelve months. As of September 27, 2020, all designated foreign exchange hedge contracts were cash flow hedges under ASC 815, *Derivatives and Hedging* ("ASC 815"). The Company records the effective portion of the designated foreign currency hedge contracts in other comprehensive income until inventory turns and is sold to a third-party. Once the third-party transaction associated with the hedged forecasted transaction occurs, the effective portion of any related gain or loss on the designated foreign currency hedge are reclassified into earnings within cost of goods sold. In the event the notional amount of the derivatives exceeds the forecasted intercompany purchases for a given month, the excess hedge position will be attributed to the following month's forecasted purchases. However, if the following month's forecasted purchases cannot absorb the excess hedge position from the current month, the effective portion of the hedge recorded in other comprehensive income will be reclassified to earnings.

The notional amounts outstanding as of September 27, 2020 for the Canadian dollar to U.S. dollar contracts and the U.S. dollar to the Chinese yuan contracts were \$7.6 million and \$4.3 million, respectively. The fair value of the Company's designated foreign hedge contracts outstanding were deemed not to be material as of September 27, 2020. As of September 27, 2020, the amount expected to be reclassified into cost of goods sold from other comprehensive income in the next twelve months is a gain of \$0.2 million.

6. Restructuring and Other Charges, Net

The Company's Board of Directors approves all major restructuring programs that may involve the discontinuance of significant product lines or the shutdown of significant facilities. From time to time, the Company takes additional restructuring actions, including involuntary terminations that are not part of a major program. The Company accounts for these costs in the period that the liability is incurred. These costs are included in restructuring charges in the Company's consolidated statements of operations.

A summary of the pre-tax cost by restructuring program is as follows:

	Third Quarter Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
	(in millions)			
Restructuring costs:				
Other Actions	\$ 3.4	\$ —	\$ 8.7	\$ 2.7
Total restructuring charges	\$ 3.4	\$ —	\$ 8.7	\$ 2.7

The Company recorded pre-tax restructuring costs in its business segments as follows:

	Third Quarter Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
	(in millions)			
Americas	\$ 0.6	\$ —	\$ 5.2	\$ —
Europe	1.7	—	1.4	2.7
APMEA	1.1	—	2.0	—
Corporate	—	—	0.1	—
Total	\$ 3.4	\$ —	\$ 8.7	\$ 2.7

Other Actions

The Company periodically initiates other actions which are not part of a major program. Total "Other Actions" pre-tax restructuring expense was \$3.4 million and \$8.7 million for the third quarter and nine months ended September 27, 2020, respectively. Total "Other Actions" pre-tax restructuring expense was \$2.7 million through the nine months ended September 29, 2019. Included in "Other Actions" for the nine months ended September 27, 2020 were actions taken in the Americas, Europe, APMEA and Corporate primarily in response to the COVID-19 pandemic. Also included in "Other Actions" in 2019 were European restructuring activities that were initiated in 2018 and extended through 2019, as discussed below.

2020 Other Actions

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In the second quarter of 2020, management initiated certain restructuring actions with respect to the Company's Americas and APMEA segments as well as at Corporate, and in the third quarter of 2020 initiated additional restructuring actions within the Company's Europe and Americas segments. These actions were primarily in response to the economic challenges related to the COVID-19 pandemic. The restructuring actions included costs mainly for severance benefits due to reductions in force, as well as costs relating to asset write-offs, facility exit and other exit costs.

The total pre-tax charge for the 2020 restructuring initiatives were initially estimated to be approximately \$9.5 million. As of September 27, 2020, the Company increased its total expected pre-tax restructuring charges for these programs to be approximately \$11.0 million, primarily resulting from increased severance costs. As of September 27, 2020, approximately \$9.0 million has been incurred for these programs to date. Through September 27, 2020, the Company paid approximately \$4.2 million of severance benefits and other related costs. As of September 27, 2020, the restructuring reserve associated with these actions was approximately \$5.0 million and primarily related to severance benefits. The remaining expected costs relate to asset write off, facility exit and other exit costs and are expected to be completed by the first half of 2021.

The following table summarizes total expected, incurred and remaining pre-tax restructuring costs for the 2020 restructuring actions:

	Severance	Asset write-downs (in millions)	Facility exit and other	Total
Costs incurred—second quarter 2020	\$ 5.3	\$ 0.3	\$ —	\$ 5.6
Costs incurred—third quarter 2020	3.1	0.3	—	3.4
Remaining costs to be incurred	—	0.9	1.1	2.0
Total expected restructuring costs	\$ 8.4	\$ 1.5	\$ 1.1	\$ 11.0

2018 Other Actions

In the third quarter of 2018, management initiated restructuring actions primarily associated with the Company's European headquarters as well as cost savings initiatives at certain European manufacturing facilities. These actions included reductions in force and other related costs. Total pre-tax charges for the program were reduced through the nine months ended September 27, 2020 by approximately \$0.3 million due primarily to decreased severance costs. This resulted in total program restructuring charges of approximately \$8.0 million, which have been fully incurred. Pre-tax restructuring charges of approximately \$2.7 million were incurred through the nine months ended September 29, 2019. The restructuring reserve associated with these actions as of September 27, 2020 was approximately \$0.7 million, and primarily relates to severance benefits.

7. Earnings per Share and Stock Repurchase Program

The following tables set forth the reconciliation of the calculation of earnings per share:

	For the Third Quarter Ended September 27, 2020			For the Third Quarter Ended September 29, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Amounts in millions, except per share information)					
Basic EPS:						
Net income	\$ 32.9	33.8	\$ 0.97	\$ 32.3	34.0	\$ 0.95
Effect of dilutive securities:						
Common stock equivalents		0.1	—		0.2	(0.01)
Diluted EPS:						
Net income	\$ 32.9	33.9	\$ 0.97	\$ 32.3	34.2	\$ 0.94

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	For the Nine Months Ended September 27, 2020			For the Nine Months Ended September 29, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
(Amounts in millions, except per share information)						
Basic EPS:						
Net income	\$ 85.1	33.9	\$ 2.51	\$ 99.7	34.1	\$ 2.92
Effect of dilutive securities:						
Common stock equivalents		0.1	(0.01)		0.1	(0.01)
Diluted EPS:						
Net income	\$ 85.1	34.0	\$ 2.50	\$ 99.7	34.2	\$ 2.91

There were no options to purchase Class A common stock outstanding during the third quarters and nine months ended September 27, 2020 or September 29, 2019 that would have been anti-dilutive.

Since July 2015, the Company's Board of Directors has authorized two stock repurchase programs. The first program approved the repurchase of up to \$100 million and the second program up to \$150 million of the Company's Class A common stock, to be purchased from time to time on the open market or in privately negotiated transactions. For both stock repurchase programs, the Company entered into Rule 10b5-1 plans, which permit shares to be repurchased when the Company might otherwise be precluded from doing so under insider trading laws. The repurchase program may be suspended or discontinued at any time, subject to the terms of the Rule 10b5-1 plans the Company entered into with respect to the repurchase program. The Company temporarily suspended the stock repurchase program for a portion of the second quarter of 2020 as a measure to conserve cash in response to the business impact of the COVID-19 pandemic. The repurchase program was reinstated effective June 29, 2020 pursuant to the terms of a new 10b5-1 plan entered into as of June 12, 2020. The \$100 million stock repurchase program was completely expended by August 2019. As of September 27, 2020, there was \$117.6 million remaining authorized for share repurchases under the \$150 million program.

The following tables summarize the cost and the number of shares of Class A common stock repurchased under the two repurchase programs during the third quarters and nine months ended September 27, 2020 and September 29, 2019:

	For the Third Quarter Ended September 27, 2020		For the Third Quarter Ended September 29, 2019	
	Number of shares repurchased	Cost of shares repurchased	Number of shares repurchased	Cost of shares repurchased
(Amounts in millions, except share amount)				
Stock repurchase programs:				
\$100 million	—	—	15,907	\$ 1.5
\$150 million	41,142	\$ 3.7	32,036	3.0
Total stock repurchased during the period:	41,142	\$ 3.7	47,943	\$ 4.5

	For the Nine Months Ended September 27, 2020		For the Nine Months Ended September 29, 2019	
	Number of shares repurchased	Cost of shares repurchased	Number of shares repurchased	Cost of shares repurchased
(Amounts in millions, except share amount)				
Stock repurchase programs:				
\$100 million	—	—	146,304	\$ 11.8
\$150 million	294,677	\$ 24.8	32,036	3.0
Total stock repurchased during the period:	294,677	\$ 24.8	178,340	\$ 14.8

8. Stock-Based Compensation

The Company issued 85,488 and 94,849 shares of restricted stock and deferred stock awards during the first nine months of 2020 and 2019, respectively. The Company grants shares of deferred stock awards to key employees and restricted stock awards to non-employee members of the Company's Board of Directors under the 2004 Stock Incentive Plan. Stock awards to employees typically vest over a three-year period and awards to non-employee members of the Company's Board of Directors vest immediately.



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The Company also grants performance stock units to key employees under the 2004 Stock Incentive Plan. Performance stock units cliff vest at the end of a performance period set by the Compensation Committee of the Board of Directors at the time of grant, which is currently three years. Upon vesting, the number of shares of the Company's Class A common stock awarded to each performance stock unit recipient will be determined based on the Company's performance relative to certain performance goals set at the time the performance stock units were granted. The performance stock units are amortized to expense over the vesting period, and based on the Company's performance relative to the performance goals, which may be adjusted with changes to the related expense recorded in the period of adjustment. If the performance goals are not met, no awards are earned and previously recognized compensation expense is reversed. The Company granted 73,106 and 82,898 performance stock units during the first nine months of 2020 and 2019, respectively.

Under the Management Stock Purchase Plan ("MSPP"), the Company granted 27,495 and 37,486 of restricted stock units ("RSUs") during the first nine months of 2020 and 2019, respectively. The MSPP allows for the granting of RSUs to key employees. On an annual basis, key employees may elect to receive a portion of their annual incentive compensation in RSUs instead of cash. Participating employees may use up to 50% of their annual incentive bonus to purchase RSUs for a purchase price equal to 80% of the fair market value of the Company's Class A common stock as of the date of grant.

The fair value of each share issued under the Management Stock Purchase Plan is estimated on the date of grant, using the Black-Scholes-Merton Model, based on the following weighted average assumptions:

	2020	2019
Expected life (years)	3.0	3.0
Expected stock price volatility	24.6 %	23.3 %
Expected dividend yield	1.1 %	1.1 %
Risk-free interest rate	0.6 %	2.5 %

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant for the respective expected life of the RSUs. The expected life (estimated period of time outstanding) of RSUs and volatility were calculated using historical data. The expected dividend yield of stock is the Company's best estimate of the expected future dividend yield.

The above assumptions were used to determine the weighted average grant-date fair value of the discount on RSUs granted in 2020 and 2019 of \$22.36 and \$22.16, respectively.

A more detailed description of each of these plans can be found in Note 13 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

9. Segment Information

The Company operates in three geographic segments: Americas, Europe, and APMEA. Each of these segments sells similar products and has separate financial results that are reviewed by the Company's chief operating decision-maker. Each segment earns revenue and income almost exclusively from the sale of its products. The Company sells its products into various end markets around the world, with sales by region based upon location of the entity recording the sale. See Note 3 for further detail on the product lines sold into by region. All intercompany sales transactions have been eliminated. The accounting policies for each segment are the same as those described in Note 2 above and in Note 2 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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The following is a summary of the Company's significant accounts and balances by segment, reconciled to its consolidated totals:

	Third Quarter Ended		Nine Months Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
	(in millions)			
Net Sales				
Americas	\$ 261.5	\$ 270.3	\$ 761.3	\$ 816.2
Europe	106.7	107.9	305.0	337.4
APMEA	15.7	16.5	38.9	46.6
Consolidated net sales	<u>\$ 383.9</u>	<u>\$ 394.7</u>	<u>\$ 1,105.2</u>	<u>\$ 1,200.2</u>
Operating income				
Americas	\$ 47.3	\$ 48.5	\$ 120.2	\$ 142.3
Europe	10.4	12.1	33.3	38.1
APMEA	—	1.4	0.7	3.9
Subtotal reportable segments	57.7	62.0	154.2	184.3
Corporate(*)	(9.8)	(13.2)	(27.5)	(34.5)
Consolidated operating income	47.9	48.8	126.7	149.8
Interest income	—	(0.1)	(0.2)	(0.3)
Interest expense	3.0	3.5	10.0	10.8
Other expense (income), net	1.1	(0.8)	1.0	(0.4)
Income before income taxes	<u>\$ 43.8</u>	<u>\$ 46.2</u>	<u>\$ 115.9</u>	<u>\$ 139.7</u>
Capital Expenditures				
Americas	\$ 6.9	\$ 3.1	\$ 24.5	\$ 10.5
Europe	2.5	1.5	8.5	8.1
APMEA	0.6	0.1	0.8	0.5
Consolidated capital expenditures	<u>\$ 10.0</u>	<u>\$ 4.7</u>	<u>\$ 33.8</u>	<u>\$ 19.1</u>
Depreciation and Amortization				
Americas	\$ 7.5	\$ 7.3	\$ 22.4	\$ 21.6
Europe	3.7	3.6	10.5	10.7
APMEA	0.6	0.7	1.8	2.0
Consolidated depreciation and amortization	<u>\$ 11.8</u>	<u>\$ 11.6</u>	<u>\$ 34.7</u>	<u>\$ 34.3</u>
Identifiable assets (at end of period)				
Americas			\$ 1,105.8	\$ 1,098.1
Europe			494.1	504.6
APMEA			109.1	93.6
Consolidated identifiable assets			<u>\$ 1,709.0</u>	<u>\$ 1,696.3</u>
Property, plant and equipment, net (at end of period)				
Americas			\$ 125.6	\$ 113.5
Europe			80.3	76.4
APMEA			5.4	5.9
Consolidated property, plant and equipment, net			<u>\$ 211.3</u>	<u>\$ 195.8</u>

* Corporate expenses are primarily for administrative compensation expense, compliance costs, professional fees, including corporate-related legal and audit expenses, shareholder services and benefit administration costs.

The above operating segments are presented on a basis consistent with the presentation included in the Company's December 31, 2019 consolidated financial statements included in its Annual Report on Form 10-K.

The U.S. property, plant and equipment of the Company's Americas segment was \$121.8 million and \$109.6 million at September 27, 2020 and September 29, 2019, respectively.

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The following includes U.S. net sales of the Company's Americas segment:

	<u>Third Quarter Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27, 2020</u>	<u>September 29, 2019</u>	<u>September 27, 2020</u>	<u>September 29, 2019</u>
U.S. net sales	\$ 242.5	\$ 252.0	\$ 711.8	\$ 764.9

The following includes intersegment sales for Americas, Europe and APMEA:

	<u>Third Quarter Ended</u>		<u>Nine Months Ended</u>	
	<u>September 27, 2020</u>	<u>September 29, 2019</u>	<u>September 27, 2020</u>	<u>September 29, 2019</u>
Intersegment Sales				
Americas	\$ 1.6	\$ 3.2	\$ 7.1	\$ 9.1
Europe	4.2	3.4	13.7	11.3
APMEA	19.2	17.7	53.7	53.4
Intersegment sales	<u>\$ 25.0</u>	<u>\$ 24.3</u>	<u>\$ 74.5</u>	<u>\$ 73.8</u>

10. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following:

	<u>Foreign Currency Translation</u>	<u>Cash Flow Hedges (1) (in millions)</u>	<u>Accumulated Other Comprehensive Loss</u>
Balance December 31, 2019	\$ (131.3)	\$ 0.5	\$ (130.8)
Change in period	(16.5)	(0.9)	(17.4)
Balance March 29, 2020	\$ (147.8)	\$ (0.4)	\$ (148.2)
Change in period	10.0	(0.3)	9.7
Balance June 28, 2020	\$ (137.8)	\$ (0.7)	\$ (138.5)
Change in period	14.3	0.1	14.4
Balance September 27, 2020	\$ (123.5)	\$ (0.6)	\$ (124.1)
Balance December 31, 2018	\$ (126.3)	\$ 5.2	\$ (121.1)
Change in period	(4.6)	(1.3)	(5.9)
Balance March 31, 2019	\$ (130.9)	\$ 3.9	\$ (127.0)
Change in period	3.5	(2.4)	1.1
Balance June 30, 2019	\$ (127.4)	\$ 1.5	\$ (125.9)
Change in period	(15.8)	(0.5)	(16.3)
Balance September 29, 2019	\$ (143.2)	\$ 1.0	\$ (142.2)

(1) Cash flow hedges include interest rate swaps and designated foreign currency hedges. See Note 5 for further details.

11. Debt

In February 2016, the Company entered into a Credit Agreement (the "Prior Credit Agreement") among the Company, certain subsidiaries of the Company who become borrowers under the Prior Credit Agreement, JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and the other lenders referred to therein. The Prior Credit Agreement provided for a \$500 million, five-year, senior unsecured revolving credit facility (the "Prior Revolving Credit Facility") with a sublimit of up to \$100 million in letters of credit. The Prior Credit Agreement also provided for a \$300 million, five-year, term loan facility (the "Term Loan Facility") available to the Company in a single draw, of which the entire \$300 million had been drawn in February 2016.

On April 24, 2020, the Company entered into an Amended and Restated Credit Agreement (the "New Credit Agreement") among the Company, certain subsidiaries of the Company who become borrowers thereunder, JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and the other lenders referred to therein.



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The New Credit Agreement amends and restates the Prior Credit Agreement in its entirety while increasing the amount of revolving credit available from \$500 million to \$800 million, and extending the maturity by one additional year to February 2022. This senior unsecured revolving credit facility (the "Revolving Credit Facility") also includes sublimits of \$100 million for letters of credit and \$15 million for swing line loans. As of September 27, 2020, the Company had drawn down \$250.0 million on this line of credit and had \$16.2 million in letters of credit outstanding, which resulted in \$533.8 million of unused and available credit under the Revolving Credit Facility. The term loan facility under the Prior Credit Agreement was terminated and paid off effective April 24, 2020, with funds from the Revolving Credit Facility. Borrowings outstanding under the Revolving Credit Facility bear interest at a fluctuating rate per annum equal to an applicable percentage defined as (i) in the case of Eurocurrency rate loans, the adjusted British Bankers Association LIBOR rate (which at all times will not be less than 1.00%) plus an applicable percentage, ranging from 1.50% to 2.10%, determined by reference to the Company's consolidated leverage ratio, or (ii) in the case of alternate base rate loans and swing line loans, interest (which at all times will not be less than 2.00%) at the greatest of (a) the Prime Rate in effect on such day, (b) the FRBNY Rate in effect on such day plus 0.5% and (c) the adjusted LIBOR rate plus 1.0% for a one month interest period in dollars. The interest rate as of September 27, 2020 on the Revolving Credit Facility was 2.5%. The terms of the Prior Credit Agreement are further detailed in Note 11 of the Notes to Consolidated Financial Statements of the Annual Report on Form 10-K for the year ended December 31, 2019. As of September 27, 2020, the Company was in compliance with all covenants related to the New Credit Agreement.

In addition to paying interest under the New Credit Agreement, the Company is also required to pay certain fees in connection with the Revolving Credit Facility, including, but not limited to, an unused facility fee and letter of credit fees. The New Credit Agreement matures on February 12, 2022, subject to extension under certain circumstances and subject to the terms of the New Credit Agreement. The Company may repay loans outstanding under the New Credit Agreement from time to time without premium or penalty, other than customary breakage costs, if any, and subject to the terms of the New Credit Agreement.

The New Credit Agreement imposes various restrictions on the Company and its subsidiaries, including restrictions pertaining to: (i) the incurrence of additional indebtedness, (ii) limitations on liens, (iii) making distributions, dividends and other payments, (iv) mergers, consolidations and acquisitions, (v) dispositions of assets, (vi) certain consolidated leverage ratios and consolidated interest coverage ratios, (vii) transactions with affiliates, (viii) changes to governing documents, and (ix) changes in control.

As a result of entering the New Credit Agreement, interest rate swaps as referred to in Note 5 of Notes to the Consolidated Financial Statements are no longer effective in offsetting changes in the cash flow of the hedged item as the critical terms of the New Credit Agreement do not match to the hedged item. The Company now recognizes the mark-to-market fair value adjustments on a monthly basis in the consolidated statement of operations through the expiration date of the swaps, which is February 12, 2021.

The Company maintains letters of credit that guarantee its performance or payment to third parties in accordance with specified terms and conditions. Amounts outstanding were \$16.2 million as of September 27, 2020. The Company's letters of credit are primarily associated with insurance coverage. The Company's letters of credit generally expire within one year of issuance. These instruments may exist or expire without being drawn down. Therefore, they do not necessarily represent future cash flow obligations.

On June 18, 2010, the Company entered into a note purchase agreement with certain institutional investors (the 2010 Note Purchase Agreement). Pursuant to the 2010 Note Purchase Agreement, the Company issued senior notes of \$75.0 million in principal, due June 18, 2020. On June 18, 2020, the Company borrowed \$40.0 million under the Revolving Credit Facility and used \$35.0 million of the Company's available cash to pay off all amounts outstanding under the 2010 Note Purchase Agreement.

12. Contingencies and Environmental Remediation

The Company is a defendant in numerous legal matters arising from its ordinary course of operations, including those involving product liability, environmental matters, and commercial disputes.

Other than the items described below, significant commitments and contingencies at September 27, 2020 are consistent with those discussed in Note 15 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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As of September 27, 2020, the Company estimates that the aggregate amount of reasonably possible loss in excess of the amount accrued for its legal contingencies is approximately \$6.1 million pre-tax. With respect to the estimate of reasonably possible loss, management has estimated the upper end of the range of reasonably possible loss based on (i) the amount of money damages claimed, where applicable, (ii) the allegations and factual development to date, (iii) available defenses based on the allegations, and/or (iv) other potentially liable parties. This estimate is based upon currently available information and is subject to significant judgment and a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimate will change from time to time, and actual results may vary significantly from the current estimate. In the event of an unfavorable outcome in one or more of the matters, the ultimate liability may be in excess of amounts currently accrued, if any, and may be material to the Company's operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to it, management believes that the ultimate outcome of all matters, as they are resolved over time, is not likely to have a material adverse effect on the financial condition of the Company, though the outcome could be material to the Company's operating results for any particular period depending, in part, upon the operating results for such period.

Chemetco, Inc. Superfund Site, Hartford, Illinois

In August 2017, Watts Regulator Co. (a wholly-owned subsidiary of the Company) received a "Notice of Environmental Liability" from the Chemetco Site Group ("Group") alleging that it is a potentially responsible party for the Chemetco, Inc. Superfund Site in Hartford, Illinois (the "Site") because it arranged for the disposal or treatment of hazardous substances that were contained in materials sent to the Site and that resulted in the release or threat of release of hazardous substances at the Site. The letter offered Watts Regulator Co. the opportunity to join the Group and participate in the Remedial Investigation and Feasibility Study ("RI/FS") at the Site. Watts Regulator Co. joined the Group in September 2017 and was added in March 2018 as a signatory to the Administrative Settlement Agreement and Order on Consent with the United States Environmental Protection Agency ("USEPA") governing completion of the RI/FS. Based on information currently known to it, management believes that Watts Regulator Co.'s share of the costs of the RI/FS is not likely to have a material adverse effect on the financial condition of the Company, or have a material adverse effect on the Company's operating results for any particular period. The Company is unable to estimate a range of reasonably possible loss for the above matter in which damages have not been specified because: (i) the RI/FS has not been completed to determine what remediation plan will be implemented and the costs of such plan; (ii) the total number of potentially responsible parties who may or may not agree to fund or perform any remediation has not yet been determined; (iii) the share contribution for potentially responsible parties to any remediation has not been determined; and (iv) the number of years required to implement a remediation plan acceptable to USEPA is uncertain.

13. Subsequent Events

On November 2, 2020, the Company declared a quarterly dividend of twenty-three cents (\$0.23) per share on each outstanding share of Class A common stock and Class B common stock payable on December 15, 2020 to stockholders of record on December 1, 2020.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion and analysis are provided to increase the understanding of, and should be read in conjunction with, the accompanying unaudited consolidated financial statements and related notes. In this quarterly report on Form 10-Q, references to “the Company,” “Watts,” “we,” “us” or “our” refer to Watts Water Technologies, Inc. and its consolidated subsidiaries.

We are a leading supplier of products, solutions and systems that manage and conserve the flow of fluids and energy into, through and out of buildings in the commercial and residential markets in the Americas, Europe and Asia-Pacific, Middle East and Africa (“APMEA”). For over 140 years, we have designed and produced valve systems that safeguard and regulate water systems, energy efficient heating and hydronic systems, drainage systems and water filtration technology that helps purify and conserve water. We earn revenue and income almost exclusively from the sale of our products. Our principal product lines include:

- Residential & commercial flow control products—includes products typically sold into plumbing and hot water applications such as backflow preventers, water pressure regulators, temperature and pressure relief valves, and thermostatic mixing valves.
- HVAC & gas products—includes commercial high-efficiency boilers, water heaters and heating solutions, hydronic and electric heating systems for under-floor radiant applications, custom heat and hot water solutions, hydronic pump groups for boiler manufacturers and alternative energy control packages, and flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications. HVAC is an acronym for heating, ventilation and air conditioning.
- Drainage & water re-use products—includes drainage products and engineered rain water harvesting solutions for commercial, industrial, marine and residential applications.
- Water quality products—includes point-of-use and point-of-entry water filtration, conditioning and scale prevention systems for commercial, marine and residential applications.

We believe that the factors relating to our future growth include continued product innovation that meets the needs of our customers and our end markets; our ability to continue to make selective acquisitions, both in our core markets as well as in complementary markets; regulatory requirements relating to the quality and conservation of water and the safe use of water; increased demand for clean water; and continued enforcement of plumbing and building codes. We have completed 11 acquisitions in the last decade. Our acquisition strategy focuses on businesses that promote our key macro themes around safety and regulation, energy efficiency and water conservation. We target businesses that will provide us with one or more of the following: an entry into new markets and/or new geographies, improved channel access, unique and/or proprietary technologies, advanced production capabilities or complementary solution offerings.

Our innovation strategy is focused on differentiated products and solutions that will provide greater opportunity to distinguish ourselves in the marketplace. Conversely, we continue to migrate away from commoditized products where we cannot add value. Our goal is to be a solutions provider, not merely a components supplier. We continually look for strategic opportunities to invest in new products and markets or divest existing product lines where necessary in order to meet those objectives.

The Internet of Things has allowed companies to transform components into smart and connected devices. Over the last few years we have been building our smart and connected foundation by expanding our internal capabilities and making strategic acquisitions. Our strategy is to deliver superior customer value through smart and connected products and solutions. This strategy focuses on three dimensions: Connect, Control and Conserve. We intend to introduce products

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that will connect our customers with smart systems, control systems for optimal performance, and conserve critical resources by increasing operability, efficiency and safety.

Products representing a majority of our sales are subject to regulatory standards and code enforcement, which typically require that these products meet stringent performance criteria. We have consistently advocated for the development and enforcement of such plumbing codes. We are focused on maintaining stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products in compliance with code requirements and take advantage of the resulting demand for compliant products. We believe that product development, product testing capability and investment in plant and equipment needed to manufacture products in compliance with code requirements, represent a competitive advantage for us.

COVID-19 Pandemic

The unprecedented global COVID-19 pandemic presents significant risks to our company, and we are not able to fully evaluate or forecast the impact on our business at the current time. Our revenues for the third quarter ended September 27, 2020 were adversely impacted as a result COVID-19. Demand for our products decreased as compared to the same period in 2019 as the pandemic continued and various governmental measures were imposed to combat the spread of the virus. Third quarter sales improved when compared to the second quarter of 2020. However, as the third quarter progressed, we noted sequential monthly declines in our order and sales rates as some restocking orders early in the quarter did not repeat. The exact timing and pace of the recovery remain uncertain and are impacted by certain markets which are now experiencing a resurgence of COVID-19 cases. Future sales expansion or contraction is dependent on the duration and severity of the COVID-19 pandemic, including, the time it takes for normal economic and operating conditions to resume, easing of the construction lending markets, improvements in overall investments and capital spending in building services construction markets, additional governmental actions that may be taken, and numerous other uncertainties, including the time to develop an effective vaccine or therapeutic treatments.

Our operations in the fourth quarter are expected to continue to be negatively impacted by COVID-19. Currently, we estimate fourth quarter sales may decline by 4% to 8% compared to prior year. We continue to be concerned about the far reaching impacts of the pandemic on our business, operations, and financial results and conditions, directly and indirectly, including, without limitation, impacts on the health of our employees, manufacturing capabilities, supply chain, distribution networks, sales opportunities, customer and consumer behaviors, and on the overall economy. The scope and nature of these potential impacts are pervasive, many are beyond our control, continue to evolve and their outcomes are uncertain.

Many of our products qualify as “essential products” under local, state, and national guidelines and orders. We remain focused on protecting the health and safety of our employees and the communities in which we operate while maintaining the continuity of our business operations. The Company created a COVID-19 Task Force to develop and implement a coordinated response to protect our employees while maintaining production capabilities, and we have implemented social distancing guidelines and temperature monitoring, provided personal protective equipment, established a COVID-19 website for employees, which includes the latest CDC and other government protocols, and promoted work-from-home where practical. We are in communication with both customers and suppliers, we established a COVID-19 customer hotline in the US to support critical infrastructure projects, and we worked with our suppliers to ensure they could obtain the “essential” product classification from various government organizations.

In response to the business impact of the COVID-19 pandemic, we undertook several cost management actions in order to reduce costs, including merit deferrals, salary and incentive reductions, furloughs, reduced discretionary spending, factory overhead cost reductions, renegotiated material costs and reductions-in-force and other exit activities initiated in the second and third quarters of 2020. We also implemented various measures to conserve cash. In addition to the cost actions noted above, we temporarily suspended our stock repurchase program during the second quarter, which was reinstated on June 29, 2020, maintained a flat dividend rate, and deferred employer payroll tax payments as permitted under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). We have also implemented additional procedures to manage risks related to our working capital, specifically the collectability of our trade accounts receivable, by monitoring the financial stability, credit rating, payment terms and credit limits of our credit customers.

Due to the above circumstances and as described generally in this Form 10-Q, the Company’s results of operations for the third quarter and nine months ended September 27, 2020 are not necessarily indicative of the results to be expected for the full fiscal year. Management cannot predict the full impact of the COVID-19 pandemic on the Company’s sales,

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supply chain, manufacturing and distribution or to economic conditions generally, including the effects on customer spending. The extent of the effects of the COVID-19 pandemic on the Company is highly uncertain and will depend on future developments, and such effects could exist for an extended period of time even after the pandemic ends. For further information regarding the impact of COVID-19 on the Company, see Part II, Item 1A, “Risk Factors.”

Financial Overview

During the third quarter of 2020, sales decreased 2.7%, or \$10.8 million, on a reported basis and 5.0%, or \$19.7 million, on an organic basis, compared to the third quarter of 2019, primarily due to the impact of the COVID-19 pandemic across all of our operating segments. The reported decline was partially offset by an increase in sales from the impact of foreign exchange of 1.3%, or \$4.9 million, primarily driven by a stronger euro, and a net increase in acquired/divested sales of \$4.0 million. Organic sales is a non-GAAP financial measure that excludes the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. Management believes reporting organic sales growth provides useful information to investors, potential investors and others, because it allows for additional insight into underlying sales trends by providing sales growth on a consistent basis. We reconcile the change in organic sales to our reported sales for each region within our results below. Operating income of \$47.9 million decreased by \$0.9 million, or 1.8%, in the third quarter of 2020 as compared to the third quarter of 2019. This decrease was primarily driven by lower sales volume as a result of the COVID-19 pandemic, higher general inflation, including tariffs, strategic investments and incremental restructuring costs, partially offset by benefits from productivity initiatives, reduced long-term incentive costs, lower Corporate related professional fees, and benefits from cost reduction actions in response to the COVID-19 pandemic.

Recent Developments

On November 2, 2020, the Company declared a quarterly dividend of twenty-three cents (\$0.23) per share on each outstanding share of Class A common stock and Class B common stock payable on December 15, 2020 to stockholders of record on December 1, 2020.

Results of Operations

Third Quarter Ended September 27, 2020 Compared to Third Quarter Ended September 29, 2019

Net Sales. Our business is reported in three geographic segments: Americas, Europe and APMEA. Our net sales in each of these segments for each of the third quarters of 2020 and 2019 were as follows:

	<u>Third Quarter Ended September 27, 2020</u>		<u>Third Quarter Ended September 29, 2019</u>		<u>Change</u>	<u>% Change to Consolidated Net Sales</u>
	<u>Net Sales</u>	<u>% Sales</u>	<u>Net Sales</u>	<u>% Sales</u>		
	(dollars in millions)					
Americas	\$ 261.5	68.1 %	\$ 270.3	68.5 %	\$ (8.8)	(2.2)%
Europe	106.7	27.8	107.9	27.3	(1.2)	(0.3)
APMEA	15.7	4.1	16.5	4.2	(0.8)	(0.2)
Total	\$ 383.9	100.0 %	\$ 394.7	100.0 %	\$ (10.8)	(2.7)%

The change in net sales was attributable to the following:

					<u>Change As a % of Consolidated Net Sales</u>				<u>Change As a % of Segment Net Sales</u>		
	<u>Americas</u>	<u>Europe</u>	<u>APMEA</u>	<u>Total</u>	<u>Americas</u>	<u>Europe</u>	<u>APMEA</u>	<u>Total</u>	<u>Americas</u>	<u>Europe</u>	<u>APMEA</u>
	(dollars in millions)										
Organic	\$ (10.1)	\$ (6.2)	\$ (3.4)	\$ (19.7)	(2.6)%	(1.5)%	(0.9)%	(5.0)%	(3.7)%	(5.7)%	(21.8)%
Foreign exchange	(0.2)	5.0	0.1	4.9	—	1.2	—	1.2	(0.1)	4.6	0.8
Acquired/divested, net	1.5	—	2.5	4.0	0.4	—	0.7	1.1	0.5	—	16.6
Total	\$ (8.8)	\$ (1.2)	\$ (0.8)	\$ (10.8)	(2.2)%	(0.3)%	(0.2)%	(2.7)%	(3.3)%	(1.1)%	(4.4)%

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Our products are sold to wholesalers, OEMs, DIY chains, and through various specialty channels. The change in organic net sales by channel was attributable to the following:

	Wholesale	OEMs	DIY	Specialty	Total	Change As a % of Prior Year Sales				
						Wholesale	OEMs	DIY	Specialty	
(dollars in millions)										
Americas	\$ (1.8)	\$ (0.4)	\$ 1.8	\$ (9.7)	\$ (10.1)	(1.2)%	(2.2)%	12.2 %	(11.6)%	
Europe	(6.1)	(0.2)	0.1	—	(6.2)	(8.4)	(0.6)	19.9	—	
APMEA	(3.4)	—	—	—	(3.4)	(22.6)	—	—	—	
Total	<u>\$ (11.3)</u>	<u>\$ (0.6)</u>	<u>\$ 1.9</u>	<u>\$ (9.7)</u>	<u>\$ (19.7)</u>					

Organic net sales in the Americas decreased primarily due to a decline in volume in the majority of our channels, with the most significant decline in our specialty channel. The decrease within our specialty channel primarily relates to our heating and hot water products and is due to project timing impacted by the COVID-19 pandemic. This decrease was partially offset by increased volume within our DIY channel as many DIY customers continued working on residential projects.

Organic net sales in Europe decreased primarily due to lost volume related to the COVID-19 pandemic within the majority of our regions and across most of our product lines.

Organic net sales in APMEA decreased primarily due to a decline in volume related to the COVID-19 pandemic, primarily in the Middle East and Australia, partially offset by increased sales in New Zealand.

The net increase in sales due to foreign exchange was primarily due to the appreciation of the euro against the U.S. dollar in the third quarter of 2020. We cannot predict whether foreign currencies will appreciate or depreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net sales.

The change in net sales due to acquired/divested relates to two immaterial acquisitions, one in the APMEA segment in the third quarter of 2020, and one in the Americas segment in the third quarter of 2019, partially offset by an immaterial divestiture in our APMEA segment during the third quarter of 2020.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for the third quarters of 2020 and 2019 were as follows:

	Third Quarter Ended	
	September 27, 2020	September 29, 2019
(dollars in millions)		
Gross profit	\$ 158.5	\$ 168.6
Gross margin	41.3 %	42.7 %

Gross profit and gross margin declined primarily from lower sales volume as a result of the COVID-19 pandemic, partially offset by benefits from productivity initiatives, and cost reduction actions implemented in response to the COVID-19 pandemic.

Selling, General and Administrative Expenses. Selling, general and administrative, or SG&A, expenses decreased \$13.2 million, or 11.0%, in the third quarter of 2020 compared to the third quarter of 2019. The decrease in SG&A expenses was attributable to the following:

	(in millions)	% Change
Organic	\$ (15.4)	(13.0)%
Foreign exchange	1.1	1.0
Acquired/divested, net	1.1	1.0
Total	<u>\$ (13.2)</u>	<u>(11.0)%</u>

The organic decrease was related to cost reduction actions taken in response to the COVID-19 pandemic of \$7.2 million, decreased variable costs due to the decline in sales volume of \$2.3 million, restructuring savings of \$3.5 million, decreased stock compensation expense of \$1.2 million primarily due to adjustments to expected attainment levels of

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performance goals related to our performance stock units, and a decrease of Corporate related professional fees of \$2.3 million. These decreases were partially offset by an increase in strategic investments of \$1.5 million, including investments in research and development for new products, commercial excellence, and technology and information systems as well as general inflation of \$0.6 million compared to the third quarter of 2019. The increase in foreign exchange was mainly due to the appreciation of the euro against the U.S. dollar. The acquired/divested, net SG&A costs were related to two immaterial acquisitions, one in the APMEA segment in the third quarter of 2020, and one in the Americas segment in the third quarter of 2019, partially offset by SG&A costs related to an immaterial divestiture in our APMEA segment. Total SG&A expenses, as a percentage of sales, were 27.8% in the third quarter of 2020 compared to 30.4% in the third quarter of 2019.

Restructuring. In the third quarter of 2020, we recorded a net charge of \$3.4 million primarily for severance benefits related to reductions in force programs initiated in the second and third quarter of 2020 in response to the economic challenges from the COVID-19 pandemic. For a more detailed description of our current restructuring plans, see Note 6 of Notes to Consolidated Financial Statements.

Loss on disposition. In the third quarter of 2020, we recorded a pre-tax loss on disposition of \$0.6 million in our APMEA segment related to an immaterial divestiture.

Operating Income. Operating income (loss) by segment for the third quarters of 2020 and 2019 was as follows:

	<u>Third Quarter Ended</u>		<u>Change</u>	<u>% Change to Consolidated Operating Income</u>
	<u>September 27, 2020</u>	<u>September 29, 2019</u>		
	(dollars in millions)			
Americas	\$ 47.3	\$ 48.5	\$ (1.2)	(2.4)%
Europe	10.4	12.1	(1.7)	(3.5)
APMEA	—	1.4	(1.4)	(2.9)
Corporate	(9.8)	(13.2)	3.4	7.0
Total	\$ 47.9	\$ 48.8	\$ (0.9)	(1.8)%

The (decrease) increase in operating income (loss) was attributable to the following:

						<u>Change As a % of Consolidated Operating Income</u>					<u>Change As a % of Segment Operating Income</u>			
	<u>Americas</u>	<u>Europe</u>	<u>APMEA</u>	<u>Corporate</u>	<u>Total</u>	<u>Americas</u>	<u>Europe</u>	<u>APMEA</u>	<u>Corporate</u>	<u>Total</u>	<u>Americas</u>	<u>Europe</u>	<u>APMEA</u>	<u>Corporate</u>
	(dollars in millions)													
Organic	\$ (0.7)	\$ (0.6)	\$ (0.5)	\$ 3.4	\$ 1.6	(1.4)%	(1.2)%	(1.0)%	7.0 %	3.4 %	(1.5)%	(5.0)%	(35.7)%	25.8 %
Foreign exchange	—	0.6	0.1	—	0.7	—	1.2	0.2	—	1.4	—	5.0	7.1	—
Acquired/divested, net	0.1	—	0.7	—	0.8	0.2	—	1.4	—	1.6	0.2	—	50.0	—
Loss on disposition	—	—	(0.6)	—	(0.6)	—	—	(1.2)	—	(1.2)	—	—	(42.8)	—
Restructuring, impairment charges	(0.6)	(1.7)	(1.1)	—	(3.4)	(1.2)	(3.5)	(2.3)	—	(7.0)	(1.2)	(14.0)	(78.6)	—
Total	\$ (1.2)	\$ (1.7)	\$ (1.4)	\$ 3.4	\$ (0.9)	(2.4)%	(3.5)%	(2.9)%	7.0 %	(1.8)%	(2.5)%	(14.0)%	(100.0)%	25.8 %

The increase in organic operating income was due to benefits from productivity initiatives, reduced long-term incentive costs, lower Corporate related professional fees, and benefits from cost reduction actions in response to the COVID-19 pandemic. These increases were partially offset by lower sales volume as a result of the COVID-19 pandemic, higher general inflation, including tariffs, and strategic investments.

Interest Expense. Interest expense in the third quarter of 2020 decreased \$0.5 million, or 14.3%, compared to the third quarter of 2019 due to a decline in interest rates as well as reduction in the principal balance of debt outstanding in the third quarter of 2020 compared to the third quarter of 2019. Refer to Note 11 of the Notes to Consolidated Financial Statements for further details.

Other expense (income), net. Other expense (income) decreased \$1.9 million to an expense balance of \$1.1 million compared to the third quarter of 2019. The decrease was primarily due to higher net foreign currency losses.

Income Taxes. Our effective income tax rate decreased to 24.9% in the third quarter of 2020, from 30.1% in the third quarter of 2019. The lower rate is primarily driven by the 2020 issuance of final regulations from the IRS that provided a

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high-tax exception to the Global Intangible Low-taxed Income (“GILTI”) tax, in addition to a discrete tax benefit recognized on an immaterial divestiture in our APMEA segment.

Net Income. Net income was \$32.9 million, or \$0.97 per common share on a diluted basis, for the third quarter of 2020, compared to \$32.3 million, or \$0.94 per common share, for the third quarter of 2019. Results for the third quarter of 2020 include an after-tax charge of \$2.5 million, or \$0.07 per common share, for restructuring; \$0.7 million, or \$0.02 per common share, for acquisition related costs; \$0.2 million, or \$0.01 per common share, for footprint optimization; partially offset by \$0.7 million, or \$0.02 per common share of a net gain on disposal.

Results for the third quarter of 2019 include an after-tax charge of \$2.3 million, or \$0.07 per common share, for Corporate professional fees; \$0.7 million, or \$0.02 per common share, for acquisition related costs, and \$0.3 million, or \$0.01 per common share for footprint optimization costs.

Nine Months Ended September 27, 2020 Compared to Nine Months Ended September 29, 2019

Net Sales. Our business is reported in three geographic segments: Americas, Europe and APMEA. Our net sales in each of these segments for the first nine months of 2020 and 2019 were as follows:

	Nine Months Ended September 27, 2020		Nine Months Ended September 29, 2019		Change	% Change to Consolidated Net Sales
	Net Sales	% Sales	Net Sales	% Sales		
Americas	\$ 761.3	68.9 %	\$ 816.2	68.0 %	\$ (54.9)	(4.6)%
Europe	305.0	27.6	337.4	28.1	(32.4)	(2.7)
APMEA	38.9	3.5	46.6	3.9	(7.7)	(0.6)
Total	\$ 1,105.2	100.0 %	\$ 1,200.2	100.0 %	\$ (95.0)	(7.9)%

The change in net sales was attributable to the following:

	Change as a % of Consolidated Net Sales				Change as a % of Segment Net Sales		
	Americas	Europe	APMEA	Total	Americas	Europe	APMEA
	(dollars in millions)						
Organic	\$ (60.4)	\$ (32.0)	\$ (9.5)	\$ (101.9)	(5.0)%	(2.7)%	(0.8)%
Foreign exchange	(0.8)	(0.4)	(0.7)	(1.9)	(0.1)	—	(0.1)
Acquired/divested, net	6.3	—	2.5	8.8	0.5	—	0.2
Total	\$ (54.9)	\$ (32.4)	\$ (7.7)	\$ (95.0)	(4.6)%	(2.7)%	(0.6)%

Our products are sold to wholesalers, OEMs, DIY chains, and through various specialty channels. The change in organic net sales by channel was attributable to the following:

	Change As a % of Prior Year Sales			
	Wholesale	OEMs	DIY	Specialty
	(dollars in millions)			
Americas	\$ (34.5)	\$ (7.1)	\$ 5.2	\$ (24.0)
Europe	(27.0)	(4.8)	(0.2)	—
APMEA	(10.3)	(0.1)	—	0.9
Total	\$ (71.8)	\$ (12.0)	\$ 5.0	\$ (23.1)

Organic net sales in the Americas decreased primarily due to a decline in volume in a majority of our product lines primarily due the impact of the COVID-19 pandemic. This decrease was partially offset by a general price increase across the majority of our channels and higher volume within our DIY channel as many DIY customers worked on residential projects during the pandemic.

Organic net sales in Europe decreased primarily due to lost volume related to the COVID-19 pandemic within all major regions and across all of our product lines, partially offset by selected price increases.

Organic net sales in APMEA decreased primarily due to a decline in volume related to the COVID-19 pandemic in all regions.

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The net decrease in sales due to foreign exchange was primarily due to the depreciation of the euro, Chinese yuan, and Canadian dollar against the U.S. dollar in the first nine months 2020. We cannot predict whether foreign currencies will appreciate or depreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net sales.

The change in net sales due to acquired/divested relates to two immaterial acquisitions, one in the APMEA segment in the third quarter of 2020, and one in the Americas segment in the third quarter of 2019, partially offset by an immaterial divestiture in our APMEA segment during the third quarter of 2020.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for the first nine months of 2020 and 2019 were as follows:

	Nine Months Ended	
	September 27, 2020	September 29, 2019
	(dollars in millions)	
Gross profit	\$ 456.2	\$ 507.4
Gross margin	41.3 %	42.3 %

Gross profit and gross margin declined primarily from lower sales volume as a result of the COVID-19 pandemic, partially offset by benefits from price, productivity initiatives, government subsidies within Europe and APMEA, and cost reduction actions in response to the pandemic.

Selling, General and Administrative Expenses. SG&A expenses for the first nine months of 2020 decreased \$35.7 million, or 10.1%, compared to the first nine months of 2019. The decrease in SG&A expenses was attributable to the following:

	(in millions)	% Change
Organic	\$ (37.8)	(10.6)%
Foreign exchange	(0.6)	(0.2)
Acquired/divested, net	2.7	0.7
Total	\$ (35.7)	(10.1)%

The organic decrease was related to cost reduction actions in response to the COVID-19 pandemic of \$23.6 million, decreased variable costs due to sales volume declines of \$7.8 million, restructuring savings of \$6.6 million, and decreased stock compensation expense of \$3.5 million primarily due to adjustments to expected attainment levels of performance goals related to our performance stock units. These decreases were partially offset by strategic investments of \$4.9 million, including investments in research and development for new products, commercial excellence, and technology and information systems as well as general inflation of \$3.9 million compared to the first nine months of 2019. The decrease in foreign exchange was mainly due to the depreciation of the euro, Canadian dollar, and Chinese yuan against the U.S. dollar. The acquired/divested, net SG&A costs are related to two immaterial acquisitions, one in the APMEA segment in the third quarter of 2020, and one in the Americas segment in the third quarter of 2019, partially offset by SG&A costs related to an immaterial divestiture in our APMEA segment. Total SG&A expenses, as a percentage of sales, were 28.9% in the first nine months of 2020 compared to 29.6% in the first nine months of 2019.

Restructuring. In the first nine months of 2020, we recorded a net charge of \$8.7 million compared to a net charge of \$2.7 million in the first nine months of 2019. The charge for the first nine months of 2020 was primarily for severance benefits due to reductions in force programs initiated in the second and third quarters of 2020 in response to economic challenges related to the COVID-19 pandemic. For a more detailed description of our current restructuring plans, see Note 6 of Notes to Consolidated Financial Statements.

Other long-lived asset impairment charge. In the first nine months of 2020, we recorded an impairment charge of \$1.0 million in our Americas segment related to a long-lived asset in which market value expectations indicated the carrying amount of this asset was in excess of the fair value.

Loss on disposition. In the third quarter of 2020, we recorded a pre-tax loss on disposition of \$0.6 million in our APMEA segment related to an immaterial divestiture.

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Operating Income. Operating income (loss) by segment for the first nine months of 2020 and 2019 was as follows:

	Nine Months Ended			% Change to Consolidated Operating Income
	September 27, 2020	September 29, 2019	Change	
	(Dollars in millions)			
Americas	\$ 120.2	\$ 142.3	\$ (22.1)	(14.8)%
Europe	33.3	38.1	(4.8)	(3.2)
APMEA	0.7	3.9	(3.2)	(2.1)
Corporate	(27.5)	(34.5)	7.0	4.7
Total	\$ 126.7	\$ 149.8	\$ (23.1)	(15.4)%

The (decrease) increase in operating income (loss) was attributable to the following:

	Change as a % of Consolidated Operating Income					Change as a % of Segment Operating Income								
	Americas	Europe	APMEA	Corporate	Total	Americas	Europe	APMEA	Corporate	Total				
	(Dollars in millions)													
Organic	\$ (16.5)	\$ (6.2)	\$ (1.2)	\$ 7.1	\$ (16.8)	(11.0)%	(4.1)%	(0.8)%	4.8 %	(11.1)%	(11.6)%	(16.0)%	(30.8)%	20.6 %
Foreign exchange	—	0.1	(0.1)	—	—	—	0.1	(0.1)	—	—	—	0.3	(2.6)	—
Acquired/divested, net	0.6	—	0.7	—	1.3	0.4	—	0.5	—	0.9	0.4	—	17.9	—
Loss on disposition	—	—	(0.6)	—	(0.6)	—	—	(0.4)	—	(0.4)	—	—	(15.4)	—
Restructuring, impairment charges	(6.2)	1.3	(2.0)	(0.1)	(7.0)	(4.2)	0.8	(1.3)	(0.1)	(4.8)	(4.4)	3.1	(51.3)	(0.3)
Total	\$ (22.1)	\$ (4.8)	\$ (3.2)	\$ 7.0	\$ (23.1)	(14.8)%	(3.2)%	(2.1)%	4.7 %	(15.4)%	(15.6)%	(12.6)%	(82.2)%	20.3 %

The decrease in organic operating income was due to lower sales volume as a result of the COVID-19 pandemic, higher general inflation, including tariffs, and strategic investments, partially offset by benefits from cost reduction actions including restructuring taken in response to the COVID-19 pandemic, price, productivity initiatives, reduced variable costs due to sales volume decline, reduced long-term incentive costs and a reduction in Corporate related professional fees.

Interest Expense. Interest expense decreased \$0.8 million, or 7.4%, in the first nine months of 2020 as compared to the first nine months of 2019 primarily due to a decline in interest rates and a reduction in the principal balance of debt outstanding. Refer to Note 11 of the Notes to Consolidated Financial Statements for further details.

Other expense, (income) net. Other expense (income) decreased \$1.4 million to an expense balance of \$1.0 million compared to the first nine months of 2019. The decrease was primarily due to higher net foreign currency losses.

Income Taxes. Our effective income tax rate decreased to 26.6% in the first nine months of 2020, from 28.6% in the first nine months 2019. The lower rate is primarily driven by the 2020 issuance of final regulations from the IRS that provided a high-tax exception to the GILTI tax, in addition to a discrete tax benefit recognized on an immaterial divestiture in our APMEA segment.

Net Income. Net income was \$85.1 million, or \$2.50 per common share on a diluted basis, for the first nine months of 2020, compared to \$99.7 million, or \$2.91 per common share, for the first nine months of 2019. Results for the first nine months of 2020 include an after-tax charge of \$6.5 million, or \$0.19 per common share, for restructuring; \$0.7 million, or \$0.02 per common share, for other long-lived asset impairment charges; \$0.7 million, or \$0.02 per common share, for acquisition related costs; \$0.8 million, or \$0.02 per common share, for footprint optimization; partially offset by \$0.7 million, or \$0.02 per common share of a net gain on disposal.

Results for the first nine months of 2019 include an after-tax charge of \$2.3 million, or \$0.07 per common share, for Corporate professional fees; \$1.9 million, or \$0.06 per common share, for restructuring charges; \$0.7 million, or \$0.02 per common share, for acquisition related costs; and \$0.3 million, or \$0.01 per common share for footprint optimization costs.

Liquidity and Capital Resources

We generated \$127.4 million of net cash from operating activities in the first nine months of 2020 as compared to \$94.9 million of net cash provided by operating activities in the first nine months of 2019. The increase in cash was primarily related to lower working capital including reductions in accounts receivable that more than offset lower net income.

We used \$39.1 million of net cash for investing activities in the first nine months of 2020 compared to \$61.7 million used in the first nine months of 2019. We used \$35.0 million less cash for acquisitions and used \$14.7 million more cash for capital expenditures in the first nine months of 2020 compared to the first nine months of 2019. We received \$1.5 million in cash proceeds from the sale of property, plant and equipment and received \$0.9 million in proceeds from the sale of assets in the first nine months of 2020. For the last quarter of 2020, we expect to invest approximately \$5 million to \$10 million in capital equipment as part of our ongoing commitment to improve our operating capabilities.

We used \$119.5 million of net cash in financing activities in the first nine months of 2020 primarily due to long-term debt repayments of \$467.5 million, dividend payments of \$23.2 million, tax withholding payments on vested stock awards of \$7.8 million, and payments of \$24.8 million to repurchase approximately 295,000 shares of Class A common stock. Debt repayments of \$467.5 million include the termination of the term loan facility under the Prior Credit Agreement, payments made under both the Revolving Credit Facility and the Prior Revolving Credit Facility, and payment of \$75 million to retire notes issued under the 2010 Note Purchase Agreement. These payments were partially offset by proceeds from drawdowns on both our Prior and current Revolving Credit Facilities totaling \$407.5 million.

In February 2016, we entered into the Credit Agreement (the "Prior Credit Agreement") among the Company, certain subsidiaries of the Company who become borrowers under the Prior Credit Agreement, JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and the other lenders referred to therein. The Prior Credit Agreement provided for a \$500 million, five-year, senior unsecured revolving credit facility (the "Prior Revolving Credit Facility") with a sublimit of up to \$100 million in letters of credit. The Prior Credit Agreement also provided for a \$300 million, five-year, term loan facility (the "Term Loan Facility") available to us in a single draw, of which the entire \$300 million had been drawn in February 2016.

On April 24, 2020, we entered into an Amended and Restated Credit Agreement (the "New Credit Agreement") among the Company, certain subsidiaries of the Company who become borrowers thereunder, JPMorgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and the other lenders referred to therein. The New Credit Agreement amends and restates the Prior Credit Agreement in its entirety while increasing the amount of revolving credit available from \$500 million to \$800 million, and extending the maturity by one additional year to February 2022. This senior unsecured revolving credit facility (the "Revolving Credit Facility") also includes sublimits of \$100 million for letters of credit and \$15 million for swing line loans. As of September 27, 2020, we had drawn down \$250.0 million on this line of credit and had \$16.2 million in letters of credit outstanding, which resulted in \$533.8 million of unused and available credit under the Revolving Credit Facility. The term loan facility under the Prior Credit Agreement was terminated and paid off effective April 24, 2020, with funds from the Revolving Credit Facility. Borrowings outstanding under the Revolving Credit Facility bear interest at a fluctuating rate per annum equal to an applicable percentage defined as (i) in the case of Eurocurrency rate loans, the adjusted British Bankers Association LIBOR rate (which at all times will not be less than 1.00%) plus an applicable percentage, ranging from 1.50% to 2.10%, determined by reference to our consolidated leverage ratio, or (ii) in the case of alternate base rate loans and swing line loans, interest (which at all times will not be less than 2.00%) at the greatest of (a) the Prime Rate in effect on such day, (b) the FRBNY Rate in effect on such day plus 0.5% and (c) the adjusted LIBOR rate plus 1.0% for a one month interest period in dollars. In addition to paying interest under the New Credit Agreement, we are also required to pay certain fees in connection with the Revolving Credit Facility, including, but not limited to, an unused facility fee and letter of credit fees. The New Credit Agreement matures on February 12, 2022, subject to extension under certain circumstances and subject to the terms of the New Credit Agreement. We may repay loans outstanding under the New Credit Agreement from time to time without premium or penalty, other than customary breakage costs, if any, and subject to the terms of the New Credit Agreement. As of September 27, 2020, we were in compliance with all covenants related to the New Credit Agreement.

On June 18, 2010, we entered into a note purchase agreement with certain institutional investors (the 2010 Note Purchase Agreement). Pursuant to the 2010 Note Purchase Agreement, we issued senior notes of \$75.0 million in principal, due June 18, 2020. On June 18, 2020, we borrowed \$40.0 million under the Revolving Credit Facility and used \$35.0 million of our available cash to pay off all amounts outstanding under the 2010 Note Purchase Agreement.



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As of September 27, 2020, we held \$188.3 million in cash and cash equivalents. Of this amount, \$125.1 million of cash and cash equivalents were held by foreign subsidiaries. Our U.S. operations typically generate sufficient cash flows to meet our domestic obligations. However, if we did have to borrow to fund some or all of our expected cash outlays, we can do so at reasonable interest rates by utilizing the undrawn borrowings under our Revolving Credit Facility. We believe that our financial resources allow us to manage the anticipated impacts of the COVID-19 pandemic on our business operations for the foreseeable future, which include reductions in revenues and potential delays in payments from customers. We anticipate the impacts of COVID-19 will continue to evolve rapidly, and, as a result we will continue to evaluate our financial position as additional information becomes available, particularly relating to COVID-19. Subsequent to recording the Toll Tax as part of the Tax Cuts and Jobs Act of 2017, our intent is to permanently reinvest undistributed earnings of foreign subsidiaries, and we do not have any current plans to repatriate post-Toll Tax foreign earnings to fund operations in the United States. However, if amounts held by foreign subsidiaries were needed to fund operations in the United States, we could be required to accrue and pay taxes to repatriate these funds. Such charges may include potential state income taxes and other tax charges.

Non-GAAP Financial Measures

In accordance with the SEC's Regulation G and Item 10(e) of Regulation S-K, the following provides definitions of the non-GAAP financial measures used by management. We believe that these measures provide additional insight into underlying business results and trends. These non-GAAP financial measures are not intended to be considered by the user in place of the related GAAP financial measure, but rather as supplemental information to more fully understand our business results. These non-GAAP financial measures may not be the same as similar measures used by other companies due to possible differences in method and in the items or events being adjusted.

Organic sales growth is a non-GAAP financial measure of sales growth that excludes the impacts of acquisitions, divestitures and foreign exchange from period-over-period comparisons. A reconciliation to the most closely related U.S. GAAP financial measure, net sales, has been included in our discussion within "Results of Operations" above. Organic net sales should be considered in addition to, and not as a replacement for or as a superior measure to net sales. Management believes reporting organic sales growth provides useful information to investors, potential investors and others, by facilitating easier comparisons of our revenue performance with prior and future periods.

Free cash flow is a non-GAAP financial measure that does not represent cash provided by operating activities in accordance with U.S. GAAP. Therefore, it should not be considered an alternative to net cash provided by or used in operating activities as an indication of our performance. The cash conversion rate of free cash flow to net income is also a measure of our performance in cash flow generation. We believe free cash flow to be an appropriate supplemental measure of our operating performance because it provides investors with a measure of our ability to generate cash, repay debt, pay dividends, repurchase stock and fund acquisitions.

A reconciliation of net cash provided by operating activities to free cash flow is provided below:

	Nine Months Ended	
	September 27, 2020	September 29, 2019
	(in millions)	
Net cash provided by operating activities	\$ 127.4	\$ 94.9
Less: additions to property, plant, and equipment	(33.8)	(19.1)
Plus: proceeds from the sale of property, plant, and equipment	1.5	0.1
Free cash flow	\$ 95.1	\$ 75.9
Net income—as reported	\$ 85.1	\$ 99.7
Cash conversion rate of free cash flow to net income	111.8 %	76.1 %

Free cash flow improved in the first nine months of 2020 when compared to the first nine months of 2019 primarily driven by lower working capital including reductions in accounts receivable which more than offset lower net income and higher capital expenditures.

Our net debt to capitalization ratio, a non-GAAP financial measure used by management, at September 27, 2020 was 5.5% compared to 8.4% at December 31, 2019. The decrease was driven by a decrease in net debt outstanding during the first nine months of 2020 of \$29.9 million. Management believes the net debt to capitalization ratio is an appropriate supplemental measure because it helps investors understand our ability to meet our financing needs and serves as a basis

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to evaluate our financial structure. Our computation may not be comparable to other companies that may define their net debt to capitalization ratios differently.

A reconciliation of long-term debt (including current portion) to net debt and our net debt to capitalization ratio is provided below:

	September 27, 2020	December 31, 2019
	(in millions)	
Current portion of long-term debt	\$ —	\$ 105.0
Plus: long-term debt, net of current portion	247.9	204.2
Less: cash and cash equivalents	(188.3)	(219.7)
Net debt	<u>\$ 59.6</u>	<u>\$ 89.5</u>

A reconciliation of capitalization is provided below:

	September 27, 2020	December 31, 2019
	(in millions)	
Net debt	\$ 59.6	\$ 89.5
Total stockholders' equity	1,024.6	978.0
Capitalization	<u>\$ 1,084.2</u>	<u>\$ 1,067.5</u>
Net debt to capitalization ratio	<u>5.5 %</u>	<u>8.4 %</u>

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Application of Critical Accounting Policies and Key Estimates

We believe that our critical accounting policies are those related to revenue recognition, inventory valuation, goodwill and other intangibles, product liability costs, legal contingencies and income taxes. We believe these accounting policies are particularly important to an understanding of our financial position and results of operations and require application of significant judgment by our management. In applying these policies, management uses its judgment in making certain assumptions and estimates. Our accounting policies are more fully described under the heading "Accounting Policies" in Note 2 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K as filed with the SEC on February 20, 2020.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We use derivative financial instruments primarily to reduce exposure to adverse fluctuations in foreign exchange rates, interest rates and costs of certain raw materials used in the manufacturing process. We do not enter into derivative financial instruments for trading purposes. As a matter of policy, all derivative positions are used to reduce risk by hedging underlying economic exposure. The derivatives we use are instruments with liquid markets. See Note 5 of Notes to the Consolidated Financial Statements for further details.

Our consolidated earnings, which are reported in United States dollars, are subject to translation risks due to changes in foreign currency exchange rates. This risk is concentrated in the exchange rate between the U.S. dollar and the euro; the U.S. dollar and the Canadian dollar; and the U.S. dollar and the Chinese yuan.

Our non-U.S. subsidiaries transact most business, including certain intercompany transactions, in foreign currencies. Such transactions are principally purchases or sales of materials and are denominated in European currencies or the U.S. or Canadian dollar. We use foreign currency forward exchange contracts from time to time to manage the risk related to intercompany loans, intercompany purchases and intercompany sales that occur during the course of a year, and certain open foreign currency denominated commitments to sell products to third parties. We have entered into forward exchange contracts which hedge approximately 70% to 80% of the forecasted intercompany purchases between one of

our Canadian subsidiaries and our U.S. operating subsidiaries for the next twelve months. We also entered into forward exchange contracts which hedge up to 60% of the forecasted intercompany sales transactions between one of our Chinese subsidiaries and one of our U.S. operating subsidiaries for the next twelve months. We record the effective portion of the designated foreign currency hedge contracts in other comprehensive income until inventory turns and is sold to a third-party. Once the third-party transaction associated with the hedged forecasted transaction occurs, the effective portion of any related gain or loss on the designated foreign currency hedge is reclassified into cost of goods sold within earnings. The fair value of the Company's designated foreign hedge contracts outstanding was deemed not to be material as of September 27, 2020.

Under the Prior Credit Agreement, we could choose either an Adjusted LIBOR or Alternative Base Rate ("ABR"). Accordingly, our earnings and cash flows were exposed to interest rate risk from changes in Adjusted LIBOR. In order to manage our exposure to changes in cash flows attributable to fluctuations in LIBOR-indexed interest payments related to our floating rate debt, we entered into two interest rate swaps. For each interest rate swap, we receive the three-month USD-LIBOR subject to a 0% floor, and pays a fixed rate of 1.31375% on a notional amount of \$225.0 million. As a result of entering the New Credit Agreement, interest rate swaps as referred to in Note 5 of Notes to the Consolidated Financial Statements are no longer effective in offsetting changes in the cash flow of the hedged item as the critical terms of the New Credit Agreement do not match to the hedged item. We recognize the mark-to-market fair value adjustments on a monthly basis in the consolidated statement of operations and will continue to do so through the expiration date of the swaps, which is February 12, 2021. Information about our long-term debt including principal amounts and related interest rates appears in Note 11 of Notes to the Consolidated Financial Statements.

We purchase significant amounts of bronze ingot, brass rod, cast iron, stainless steel and plastic, which are utilized in manufacturing our many product lines. Our operating results can be adversely affected by changes in commodity prices if we are unable to pass on related price increases to our customers. We manage this risk by monitoring related market prices, working with our suppliers to achieve the maximum level of stability in their costs and related pricing, seeking alternative supply sources when necessary and passing increases in commodity costs to our customers, to the maximum extent possible, when they occur.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, or Exchange Act, as of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily applies its judgment in evaluating and implementing possible controls and procedures. The effectiveness of our disclosure controls and procedures is also necessarily limited by the staff and other resources available to us and the geographic diversity of our operations. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting that occurred during the third quarter ended September 27, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We will continue to review and document our disclosure controls and procedures, including our internal control over financial reporting, and we may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in Part I, Item 1, “Product Liability, Environmental and Other Litigation Matters” and Item 3, “Legal Proceedings” of our Annual Report on [Form 10-K](#) for the year ended December 31, 2019, we are party to certain litigation. There have been no material developments with respect to our contingencies and environmental remediation proceedings during the quarter ended September 27, 2020, other than as described in Note 12 of the Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our Annual Report on [Form 10-K](#) for the year ended December 31, 2019, which risk factors are incorporated herein by reference, with the exception of the below updated risk factor.

We face risks related to the impact of the COVID-19 pandemic.

In March 2020, the World Health Organization categorized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. We are subject to risks and uncertainties as a result of the COVID-19 impact, and the extent of the impact on our business is highly uncertain and difficult to predict, as the response to the pandemic continues to unfold and information is rapidly evolving. In response to COVID-19, national and local governments around the world have instituted certain measures, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, curfews, stay-at-home orders and recommendations to practice social distancing. These measures have resulted in business closures and slowdowns which have already adversely impacted and will likely continue to adversely impact us directly. The health and safety measures we’ve adopted to slow the spread of the COVID-19 pandemic have resulted in reduced production capacity and, in some cases, required temporary closures of certain of our facilities, among other impacts. The duration of these measures is unknown, and they may be lifted, extended, or reinstated, and additional measures may be imposed due to new outbreaks and resurgences of COVID-19 in various regions. The measures imposed have resulted in supply chain disruption, reduced demand and higher absenteeism in our manufacturing facilities. There remains a risk of future employee health concerns, and we cannot predict whether any of our manufacturing facilities will experience disruptions or how long such disruptions would last. While we are unable to predict the magnitude of such impact at this time, the loss of, or significant reduction in, purchases by our customers could materially impair our business, operating results, prospects and financial condition.

Capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic. This economic disruption has had a material adverse effect on our business as customers curtail and reduce capital and overall spending. The severity of the impact of the COVID-19 pandemic on our business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers and suppliers, all of which are uncertain and cannot be predicted. We may also incur additional costs to remedy damages caused by business disruptions, performance delays or interruptions, payment delays, and defaults or bankruptcy of our third-party customers and suppliers, which could adversely affect our consolidated financial condition, liquidity and results of operations. Additionally, the impact of any initiatives or programs that we may undertake to address financial and operational challenges faced as a result of COVID-19 may not be successful.

Due to the evolving and highly uncertain nature of this event, we cannot predict at this time the full extent to which the COVID-19 pandemic will adversely impact our business, results and financial condition, which will depend on many factors that are not known at this time. There is no guarantee that our efforts to mitigate the impact of COVID-19 will be effective.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We satisfy the minimum withholding tax obligation due upon the vesting of shares of restricted stock and the conversion of restricted stock units into shares of Class A common stock by automatically withholding from the shares being issued a number of shares with an aggregate fair market value on the date of such vesting or conversion that would satisfy the withholding amount due.

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The following table includes information with respect to shares of our Class A common stock withheld to satisfy withholding tax obligations during the third quarter ended September 27, 2020.

Period	Issuer Purchases of Equity Securities			
	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
June 29, 2020 – July 26, 2020	2,442	\$ 80.72	—	—
July 27, 2020 – August 23, 2020	29	\$ 95.79	—	—
August 24, 2020 - September 27, 2020	—	\$ —	—	—
Total	2,471	\$ 80.89	—	—

The following table includes information with respect to repurchases of our Class A common stock during the third quarter ended September 27, 2020 under our stock repurchase program.

Period	Issuer Purchases of Equity Securities			
	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
June 29, 2020 – July 26, 2020	12,539	\$ 81.73	12,539	\$ 120,255,440
July 27, 2020 – August 23, 2020	13,570	\$ 89.21	13,570	\$ 119,045,208
August 24, 2020 - September 27, 2020	15,033	\$ 97.48	15,033	\$ 117,580,094
Total	41,142	\$ 89.95	41,142	

- (1) On February 6, 2019, the Board of Directors authorized a stock repurchase program of up to \$150 million of the Company's Class A common stock to be purchased from time to time on the open market or in privately negotiated transactions. The timing and number of shares repurchased will be determined by the Company's management based on its evaluation of market conditions and other factors.

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Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Restated Certificate of Incorporation, as amended. Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (File No. 001-11499).
3.2	Amended and Restated By-Laws. Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 27, 2015 (File No. 001-11499).
31.1†	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2†	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1††	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350
32.2††	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

† Filed herewith.

†† Furnished herewith.

* Attached as Exhibit 101 to this report are the following formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at September 27, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the Third Quarters and Nine Months ended September 27, 2020 and September 29, 2019, (iii) Consolidated Statements of Comprehensive Income for the Third Quarters and Nine Months ended September 27, 2020 and September 29, 2019, (iv) Consolidated Statements of Stockholders' Equity for the Third Quarters and Nine Months ended September 27, 2020 and September 29, 2019, (v) Consolidated Statements of Cash Flows for the Nine Months Ended September 27, 2020 and September 29, 2019, and (vi) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATTS WATER TECHNOLOGIES, INC.

Date: November 5, 2020

By: /s/ Robert J. Pagano, Jr.

Robert J. Pagano, Jr.
Chief Executive Officer (principal executive officer)

Date: November 5, 2020

By: /s/ Shashank Patel

Shashank Patel
Chief Financial Officer (principal financial officer)

Date: November 5, 2020

By: /s/ Virginia A. Halloran

Virginia A. Halloran
Chief Accounting Officer (principal accounting officer)

**WATTS WATER TECHNOLOGIES, INC.
CERTIFICATION PURSUANT TO**

SECTION 302 OF

THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Pagano, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Watts Water Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Robert J. Pagano, Jr.

Robert J. Pagano, Jr.

Chief Executive Officer

WATTS WATER TECHNOLOGIES, INC.
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Shashank Patel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Watts Water Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Shashank Patel

Shashank Patel
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officer of Watts Water Technologies, Inc. (the "Company") hereby certifies that, to his knowledge, the Company's quarterly report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: November 5, 2020

/s/ Robert J. Pagano, Jr.

Robert J. Pagano, Jr.

Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officer of Watts Water Technologies, Inc. (the “Company”) hereby certifies that, to his knowledge, the Company’s quarterly report on Form 10-Q to which this certification is attached (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K (“Item 601(b)(32)”) promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: November 5, 2020

/s/ Shashank Patel

Shashank Patel

Chief Financial Officer
