

# Watts Water Technologies 3Q 2021 Earnings Conference Call

November 4, 2021



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

These statements are related to forecasts of sales, margins, earnings, earnings per share, capital expenditures, water market growth, acquisition strategy, the impact of the COVID-19 pandemic, supply chain disruptions and management goals and objectives.

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## 3Q Performance

- Record results; maintained customer focus
- Revenue growth in all regions driven by economic recovery
- Expanded adjusted operating margin; YTD free cash flow ahead of prior year

## M&A

- Purchased Sentinel Hydrosolutions LLC in 4Q; annual sales ~\$6M; broadening leak detection offering

## Operations

- Supply chain / logistics remain challenging; prioritizing customer order fulfillment

## Markets

- North American residential / commercial R&R strong and single-family residential new construction solid
- Europe and APMEA markets resilient

## Outlook

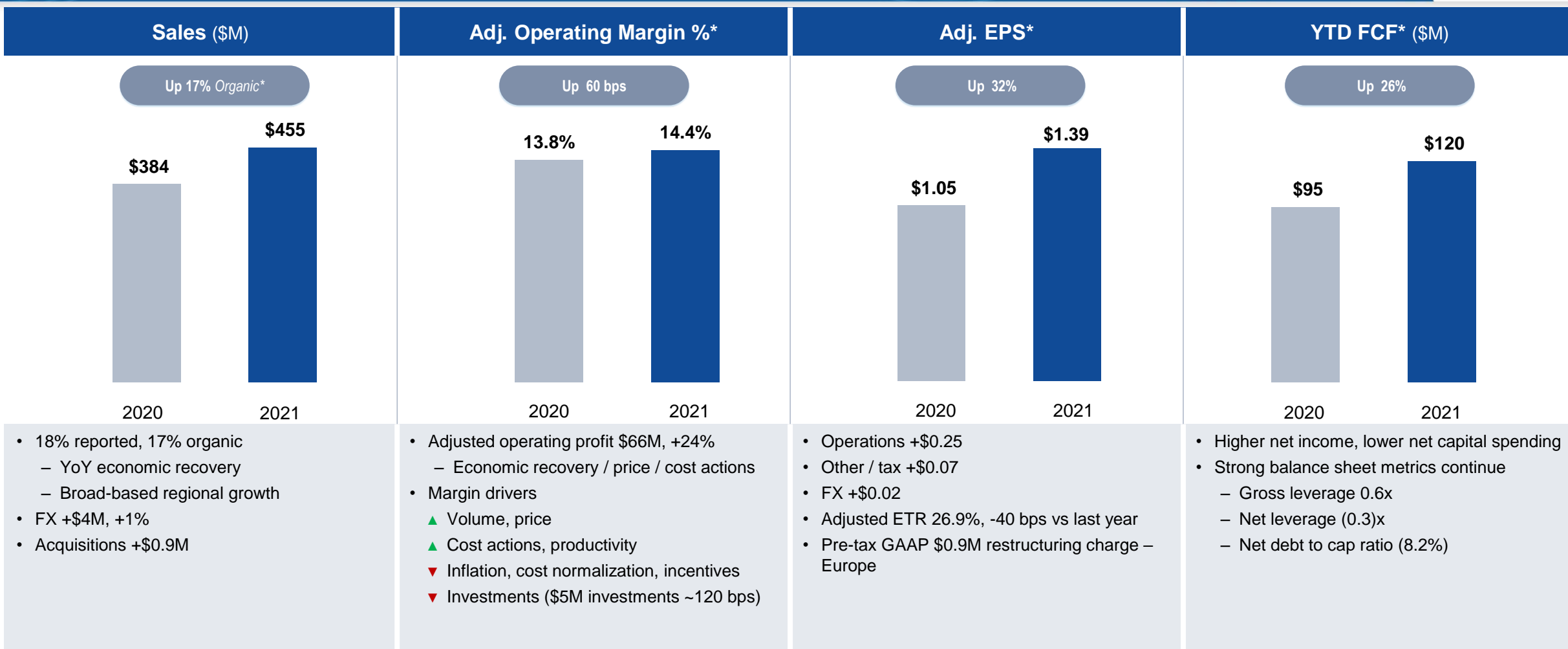
- Raising full year sales outlook

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



## ***Solid 3Q Performance; R&R Market Remains Resilient***

# 3Q 2021 Financial Summary



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

## Recovery Continues to Drive Demand

# 3Q 2021 Regional Results



	Sales (\$M)	Adj. Operating Margin %* <i>Change (bps)</i>	Sales / Business Highlights	Adj. Operating Profit / Margin Commentary
AMERICAS	<b>\$309</b> <i>Up 17% Organic*</i>	<b>18.1%</b> <i>Down 30 bps</i>	<ul style="list-style-type: none"> <li>+18% reported                             <ul style="list-style-type: none"> <li>+17% organic</li> <li>+1% acquisition / FX</li> </ul> </li> <li>YoY economic recovery</li> <li>Strong repair &amp; replacement activity</li> </ul>	<ul style="list-style-type: none"> <li>Adj. operating profit* \$56M,+16%</li> <li>Margin drivers                             <ul style="list-style-type: none"> <li>▲ Volume, price</li> <li>▲ Productivity</li> <li>▼ Investments, normalized costs, inflation, incentives</li> </ul> </li> </ul>
EUROPE	<b>\$124</b> <i>Up 14% Organic*</i>	<b>15.5%</b> <i>Up 420 bps</i>	<ul style="list-style-type: none"> <li>+16% reported                             <ul style="list-style-type: none"> <li>+14% organic</li> <li>+2% FX</li> </ul> </li> <li>YoY economic recovery</li> <li>Growth in all major regions</li> </ul>	<ul style="list-style-type: none"> <li>Adj. operating profit* \$19M,+59%</li> <li>Margin drivers                             <ul style="list-style-type: none"> <li>▲ Volume, price, mix</li> <li>▲ Productivity</li> <li>▼ Investments, normalized costs, inflation</li> </ul> </li> </ul>
APMEA	<b>\$22</b> <i>Up 33% Organic*</i>	<b>19.1%</b> <i>Up 400 bps</i>	<ul style="list-style-type: none"> <li>+39% reported                             <ul style="list-style-type: none"> <li>+33% organic</li> <li>+6% FX</li> </ul> </li> <li>YoY economic recovery</li> <li>Continued growth both inside and outside China</li> </ul>	<ul style="list-style-type: none"> <li>Adj. operating profit* \$4M,+75%</li> <li>Margin drivers                             <ul style="list-style-type: none"> <li>▲ Trade volume, price</li> <li>▲ Affiliate volume +57%</li> <li>▲ Productivity</li> <li>▼ Normalized costs, inflation, incentives</li> </ul> </li> </ul>

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

## Strong Results Across All Regions

	4Q 2021	Full Year 2021
<b>Organic Growth</b>	10% to 14%	14% to 17% [Prior 10% to 14%]
<b>Adj. Op Margin</b>	13.4% to 13.8%	13.9% to 14.4% [Prior Same]
<b>Adj. Margin Growth</b>	-20 bps to +20 bps	+100 bps to 150 bps [Prior Same]
<b>Free Cash Flow</b>	Seasonally Strong	>100% of Net Income [Prior Same]

OTHER KEY FULL YEAR INPUTS	
ITEM	EXPECTATION
Corporate Costs	~\$48M
Interest Expense	~\$6.5M
Adjusted Effective Tax Rate	~27.0%
CAPEX / D&A	~\$33M / ~\$46M
Share Count	~34M shares

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

## *Solid Finish; Raising Full Year Sales Expectations*

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- 3Q results better than anticipated; R&R demand remained strong
  - Price increases being realized
  - Proactively managing supply chain disruptions
  - Raising full year revenue outlook
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***Focused Execution Delivering Consistent Results***

# Appendix



# Consolidated Statement of Operations



(M)  
(Unaudited)

	Third Quarter			
	2021	2020	B/(W)	%
Net sales	\$455.0	\$383.9	71.1	18%
Cost of goods sold	261.0	225.4	(35.6)	(16%)
Gross profit	194.0	158.5	35.5	22%
As a % of sales	42.6%	41.3%	+130 bps	
Selling, general & administrative expenses	128.4	106.6	(21.8)	(20%)
As a % of sales	28.2%	27.8%	-40 bps	
Restructuring / other	0.9	4.0	3.1	78%
Operating income	64.7	47.9	16.8	35%
As a % of sales	14.2%	12.5%	+170 bps	
Other expense	1.2	4.1	2.9	71%
Income before taxes	63.5	43.8	19.7	45%
Provision for income taxes	17.1	10.9	(6.2)	(57%)
Net income	\$46.4	\$32.9	13.5	41%
<b>Diluted earnings per share</b>	<b>\$1.37</b>	<b>\$0.97</b>	<b>\$0.40</b>	<b>41%</b>

# Reconciliation of Reported Sales to Organic Sales



(M)  
(Unaudited)

	Third Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 3Q'21	\$309.1	\$124.1	\$21.8	\$455.0
Reported net sales 3Q'20	\$261.5	\$106.7	\$15.7	\$383.9
Dollar change	\$47.6	\$17.4	\$6.1	\$71.1
<b>Net Sales % increase</b>	<b>18%</b>	<b>16%</b>	<b>39%</b>	<b>18%</b>
Increase due to acquisition	(0.5%)	-	-	-
Increase due to foreign exchange	(0.5%)	(2%)	(6%)	(1%)
<b>Organic sales increase</b>	<b>17%</b>	<b>14%</b>	<b>33%</b>	<b>17%</b>

	Nine Months			
	Americas	Europe	APMEA	Total
Reported net sales 2021	\$889.0	\$383.8	\$62.5	\$1335.3
Reported net sales 2020	\$761.3	\$305.0	\$38.9	\$1,105.2
Dollar change	\$127.7	\$78.8	\$23.6	\$230.1
<b>Net Sales % increase</b>	<b>17%</b>	<b>26%</b>	<b>61%</b>	<b>21%</b>
Increase due to acquisition, net	(0.4%)	-	(9%)	(1%)
Increase due to foreign exchange	(0.6%)	(8%)	(11%)	(3%)
<b>Organic sales increase</b>	<b>16%</b>	<b>18%</b>	<b>41%</b>	<b>17%</b>

# Reconciliation of GAAP to Non-GAAP Measures



(M)  
(Unaudited)

	Third Quarter		Nine Months	
	2021	2020	2021	2020
Net sales	\$455.0	\$383.9	\$ 1,335.3	\$1,105.2
Operating income - as reported	\$64.7	\$47.9	\$177.0	\$126.7
<i>Operating margin %</i>	14.2%	12.5%	13.3%	11.5%
<u>Adjustments for special items:</u>				
Restructuring / impairment	0.9	3.4	18.2	9.7
Acquisition / footprint optimization / disposal	-	1.8	-	2.6
Total adjustments for special items	0.9	5.2	18.2	12.3
<i>Operating income - as adjusted</i>	\$65.6	\$53.1	\$195.2	\$139.0
<i>Adjusted operating margin %</i>	14.4%	13.8%	14.6%	12.6%
Net income - as reported	\$46.4	\$32.9	\$125.6	\$85.1
<u>Adjustments for special items - tax effected:</u>				
Restructuring / impairment	0.7	2.5	13.5	7.2
Acquisition / footprint optimization / disposal	-	0.2	-	0.8
Total adjustments for special items, tax effected	0.7	2.7	13.5	8.0
Net income - as adjusted	\$47.1	\$35.6	\$139.1	\$ 93.1
<u>Earnings per share:</u>				
Diluted earnings per share - as reported	\$1.37	\$ 0.97	\$3.70	\$2.50
Adjustments for special items	0.02	0.08	0.40	0.24
Diluted earnings per share - as adjusted	\$1.39	\$1.05	\$4.10	\$2.74

# Adjusted Operating Income by Segment



(M)  
(Unaudited)

	Third Quarter 2021					Third Quarter 2020				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$55.9	\$18.3	\$4.2	(\$13.7)	\$64.7	\$ 47.3	\$ 10.4	\$ -	(\$9.8)	\$47.9
<i>Operating margin %</i>	18.1%	14.7%	19.1%		14.2%	18.1%	9.7%	(0.6%)		12.5%
Adjustments for special items	-	0.9	-	-	0.9	0.9	1.7	2.4	0.2	5.2
Adjusted operating income (loss)	\$55.9	\$19.2	\$4.2	(\$13.7)	\$65.6	\$48.2	\$12.1	\$2.4	(\$9.6)	\$53.1
<i>Adjusted operating margin %</i>	18.1%	15.5%	19.1%		14.4%	18.4%	11.3%	15.1%		13.8%

	Nine Months 2021					Nine Months 2020				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$159.6	\$43.2	\$10.8	(\$36.6)	\$177.0	\$120.2	\$33.3	\$0.7	(\$27.5)	\$126.7
<i>Operating margin %</i>	18.0%	11.3%	17.1%		13.3%	15.8%	10.9%	1.6%		11.5%
Adjustments for special items	(0.7)	18.8	0.1	-	18.2	7.3	1.4	3.3	0.3	12.3
Adjusted operating income (loss)	\$158.9	\$62.0	\$10.9	(\$36.6)	\$195.2	\$127.5	\$34.7	\$4.0	(\$27.2)	\$139.0
<i>Adjusted operating margin %</i>	17.9%	16.2%	17.4%		14.6%	16.7%	11.4%	10.3%		12.6%

# Reconciliation of Net Cash Provided By Operations to Free Cash Flow



(M)  
(Unaudited)

	Nine Months	
	2021	2020
Net cash provided by operations - as reported	\$134.9	\$127.4
<u>Less:</u> additions to property, plant, and equipment, net	(14.7)	(32.3)
Free cash flow	\$120.2	\$95.1
Net income - as reported	\$125.6	\$85.1
Cash conversion rate of free cash flow to net income	95.7%	111.8%

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



(M)  
(Unaudited)

	September 26, 2021	December 31, 2020
Current portion of long-term debt	\$ -	\$ -
<u>Plus:</u> Long-term debt, net of current portion	151.7	198.2
<u>Less:</u> Cash and cash equivalents	(238.7)	(218.9)
Net debt	<b>(\$87.0)</b>	<b>(\$20.7)</b>
Net debt	<b>(\$87.0)</b>	<b>(\$20.7)</b>
<u>Plus:</u> Total stockholders' equity	1,150.1	1,069.8
Capitalization	<b>\$1,063.1</b>	<b>\$1,049.1</b>
Net debt to capitalization ratio	<b>(8.2%)</b>	<b>(2.0%)</b>

# Calculations of Gross and Net Leverage



(M)  
(Unaudited)

	Trailing Twelve Months through September 26, 2021
Net income – as reported	<b>\$154.8</b>
<u>Plus:</u> Interest expense, net	<b>8.2</b>
<u>Plus:</u> Income taxes	<b>69.5</b>
<u>Plus:</u> Depreciation	<b>31.6</b>
<u>Plus:</u> Amortization	<b>14.2</b>
Earnings before interest, taxes depreciation and amortization (EBITDA)	<b>\$278.3</b>
Gross debt at September 26, 2021	<b>\$151.7</b>
<u>Less:</u> Cash & cash equivalents at September 26, 2021	238.7
Net debt	<b>(\$87.0)</b>
Gross debt to EBITDA ratio (Gross leverage)	<b>0.6x</b>
Net debt to EBITDA ratio (Net leverage)	<b>(0.3)x</b>

# Reconciliation between GAAP and Non-GAAP Measures Included in 4Q and Full Year 2021 Outlooks – November 4, 2021



(M)  
(Unaudited)

	Watts	Watts
	Fourth Quarter 2021	Full Year 2021
	<i>Approximately</i>	<i>Approximately</i>
<b>Sales</b>		
Reported net sales growth	10.5% to 14.5%	16.8% to 19.8%
Forecasted impact of acquisitions / FX	(0.5%)	(2.8%)
Organic sales growth	10.0% to 14.0%	14.0% to 17.0%
<b>Operating Margin</b>		
Reported Operating margin range	13.2% to 13.6%	12.8% to 13.3%
Forecasted restructuring	~20 bps	~110 bps
Adjusted operating margin range	13.4% to 13.8%	13.9% to 14.4%

*Note: Assumes FX rates for 4Q are consistent year to year*