



Watts Water Technologies 1Q 2018 Earnings Conference Call

May 4, 2018



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- Record 1Q performance
- Regional sales growth consistent with expectations
- Global end markets steady; monitoring tariff impact closely
- Maintaining full year growth and margin outlooks
- CFO transition update

Strong Start to 2018

1Q 2018 Financial Summary



(M except per share amounts)	1Q18	1Q17	
Sales	\$379	\$347	<ul style="list-style-type: none"> • 9% Increase <ul style="list-style-type: none"> ◆ +4% organic,+5% FX ◆ Product rationalization⁽³⁾ ~ (60 bps)
Operating Profit ⁽¹⁾	\$44	\$38	<ul style="list-style-type: none"> • 14% Increase <ul style="list-style-type: none"> ◆ Volume, price, productivity, FX ◆ Record 1Q margin performance
<i>Margin %</i>	<i>11.6%</i>	<i>11.1%</i>	
Net Income ⁽¹⁾	\$28	\$22	<ul style="list-style-type: none"> • 27% Increase <ul style="list-style-type: none"> ◆ Driven by operations, tax reform, FX
EPS ⁽¹⁾	\$0.82	\$0.65	<ul style="list-style-type: none"> • 26% Increase <ul style="list-style-type: none"> ◆ Operations +\$0.07, Tax/FX +\$0.10 ◆ Record 1Q EPS
<i>Tax Rate</i>	<i>28.2%</i>	<i>33.4%</i>	
Free Cash Outflow ⁽²⁾	(\$33)	(\$15)	<ul style="list-style-type: none"> • \$18M Decrease <ul style="list-style-type: none"> ◆ \$13M working capital timing ◆ \$1.5M incremental capital spend

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

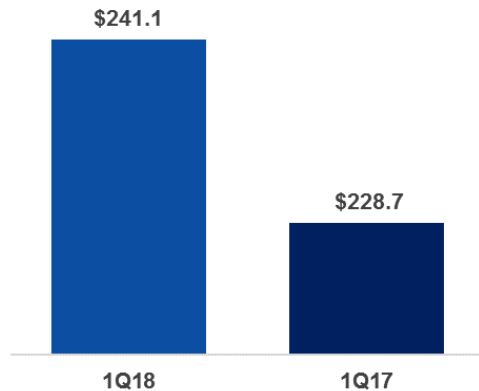
(2) Free Cash Outflow = Cash Flow from Operations Less Capital Expenditures, a non-GAAP measure, see slide 14 for calculation and reconciliation.

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

Record 1Q Sales, Operating Margin & EPS

(M)

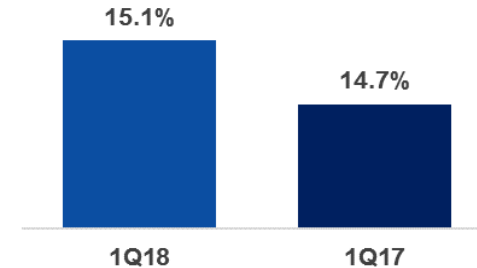
Sales

Reported +5% | Organic⁽¹⁾ +5%

- Continued growth in plumbing, drains & water quality products
- Heating & Hot Water up low double digits; favorable comps
- Positive price realization

Operating Margin⁽¹⁾

Up 40 bps

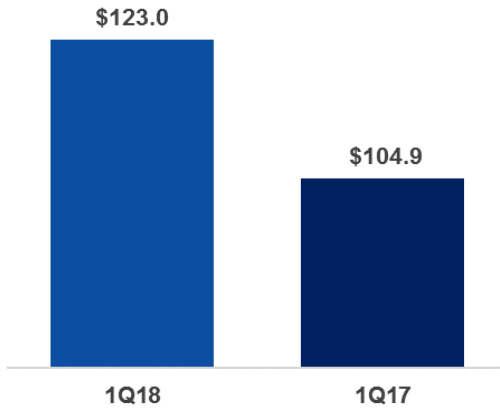


- Operating profit⁽¹⁾ \$36.4M
 - ◆ Up \$2.8M or 8%
- Operating margin⁽¹⁾ +40 bps
 - ▲ Volume, price
 - ▲ Productivity
 - ▼ Commodities, product mix
 - ▼ Investments

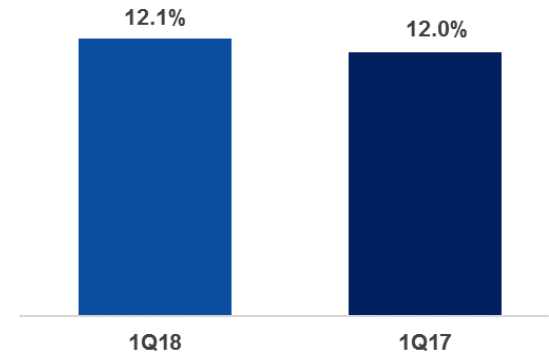
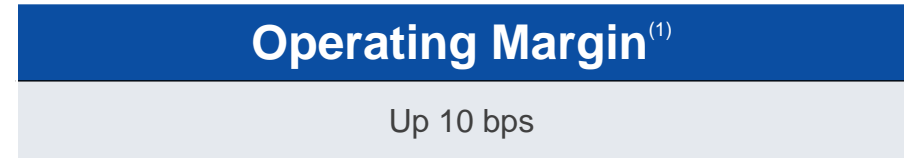
(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

Strong Top-Line Growth and Solid Margin Expansion

(M)



- Solid growth in drains; project timing
- FX impact +15%; product rationalization⁽²⁾ (1%)
- Nordics / Italy up; France, Germany flat; UK down



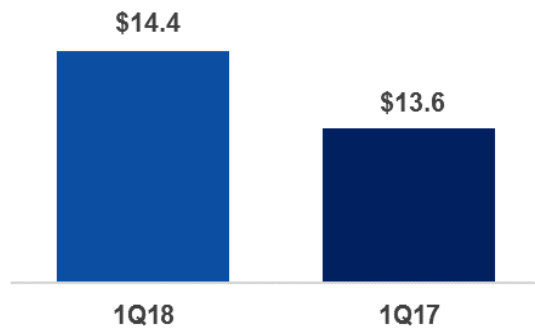
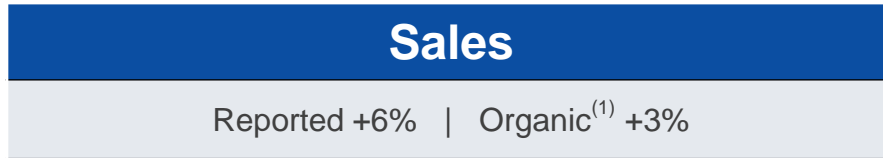
- Operating profit⁽¹⁾ \$14.9M
 - ◆ Up \$2.3M or 18%, FX +15%
- Operating margin⁽¹⁾ +10 bps
 - ▲ Volume
 - ▲ Productivity
 - ▼ Commodities, product mix
 - ▼ Investments

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

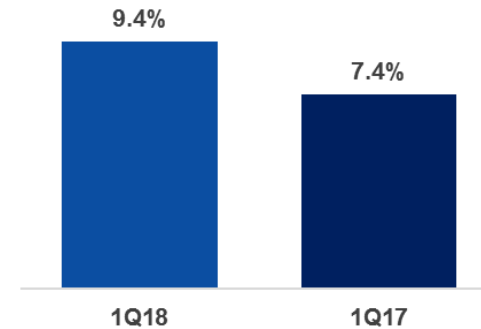
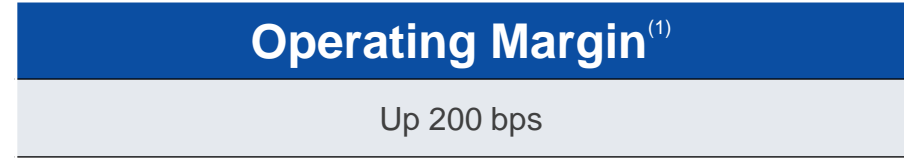
(2) Product rationalization represents the exit of low-margin non-core products

Projects Driving Organic Growth

(M)



- Product rationalization⁽²⁾ impact (5%)
- 8% growth excluding product rationalization⁽²⁾
 - ◆ China +1%; valve strength, heating slowdown
 - ◆ Outside China +11%; Korea / NZ / ME solid growth



- Operating profit⁽¹⁾ \$1.4M
 - ◆ Up \$0.4M or 40%
- Operating margin⁽¹⁾ +200 bps
 - ▲ Volume
 - ▲ Product mix
 - ▼ Commodities, affiliate sales down 15%
 - ▼ Investments

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

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

Financials In-Line with Expectations

FY 2018 Outlook by Region		
	Org Rev Growth	Margin Rate
AMERICAS	3-5%	▲ Positive
EUROPE	1-3%	▲ Positive
APMEA	7-10%	▲ Positive
WATTS	~3%	50 to 70 bps Includes \$10M Investments

Other Key Inputs	
Item	Expectation
Corporate Costs	~\$37M
Interest Expense	~\$17M
Effective Tax Rate	~28%
CAPEX / D&A	~\$38M / ~\$50M
Free Cash Flow Conversion	>100%
Share Count	~34.4M shares

Americas Growth at Higher End of Range; Other Items Consistent

APPENDIX

Consolidated Statements of Operations



(M)
(Unaudited)

	First Quarter Ended			
	2018	2017	B/(W)	%
Net sales	\$378.5	\$347.2	\$31.3	9%
Cost of goods sold	221.8	203.4	(18.4)	(9%)
Gross profit	156.7	143.8	12.9	9%
	<i>41.4%</i>	<i>41.4%</i>	-	
Selling, general & administrative expenses	112.8	107.6	(5.2)	(5%)
	29.8%	<i>31.0%</i>	<i>+120 bps</i>	
Restructuring	-	0.5	0.5	100%
Operating income	43.9	35.7	8.2	23%
	11.6%	<i>10.3%</i>	<i>+130 bps</i>	
Other expense	4.6	4.9	0.3	6%
Income before taxes	39.3	30.8	8.5	28%
Provision for income taxes	11.1	9.1	(2.0)	(22%)
Net income	\$28.2	\$21.7	\$6.5	30%
Diluted earnings per share	\$0.82	\$0.63	\$0.19	30%

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	First Quarter Ended			
	Americas	Europe	APMEA	Total
Reported net sales 1Q'18	\$241.1	\$123.0	\$14.4	\$378.5
Reported net sales 1Q'17	228.7	104.9	13.6	347.2
Dollar change	\$12.4	\$18.1	\$0.8	\$31.3
Net sales % increase	5%	17%	6%	9%
Increase due to foreign exchange	—	-15%	-3%	-5%
Organic sales increase	5%	2%	3%	4%

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



(M)
(Unaudited)

	First Quarter Ended	
	2018	2017
Net Sales	\$378.5	\$347.2
Operating income - as reported	\$43.9	\$35.7
<i>Operating margin %</i>	11.6%	10.3%
Adjustments for special items:		
Acquisitions costs	—	0.2
Restructuring	—	0.5
Transformation	—	2.0
	\$—	\$2.7
Operating income - as adjusted	\$43.9	\$38.4
<i>Adjusted operating margin %</i>	11.6%	11.1%
Net income - as reported	\$28.2	\$21.7
Adjustments for special items - tax affected:		
Acquisitions costs	—	0.1
Restructuring	—	0.4
Transformation costs	—	1.3
Tax adjustments / other	—	(1.2)
	\$—	\$0.6
Net income - as adjusted	\$28.2	\$22.3
Earnings per share		
Diluted earnings per share - as reported	\$0.82	\$0.63
Adjustments for special items	—	0.02
Diluted earnings per share - as adjusted	\$0.82	\$0.65

Adjusted Operating Income by Segment



(M)
(Unaudited)

	First Quarter Ended 2018					First Quarter Ended 2017				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$36.4	14.9	1.4	(8.8)	43.9	\$31.1	12.4	1.0	(8.8)	35.7
<i>Operating margin %</i>	15.1%	12.1%	9.4%		11.6%	13.6%	11.8%	7.4%		10.3%
Adjustments for special items	\$—	—	—	—	—	\$2.5	0.2	-	-	2.7
Adjusted operating income (loss)	\$36.4	14.9	1.4	(8.8)	43.9	\$33.6	12.6	1.0	(8.8)	38.4
<i>Adjusted operating margin %</i>	15.1%	12.1%	9.4%		11.6%	14.7%	12.0%	7.4%		11.1%

Reconciliation of Net Cash Used in Operations to Free Cash Outflow



(M)
(Unaudited)

	First Quarter Ended	
	2018	2017
Net cash used in operations - as reported	(\$26.1)	(\$9.1)
<u>Less:</u> additions to property, plant, and equipment	(7.3)	(5.8)
Free cash outflow	(\$33.4)	(\$14.9)
Net income - as reported	\$28.2	\$21.7
Cash conversion rate of free cash outflow to net income	(118.4%)	(68.7%)

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



(M)
(Unaudited)

	April 1, 2018	December 31, 2017
Current portion of long-term debt	\$22.5	\$22.5
<u>Plus:</u> Long-term debt, net of current portion	424.1	474.6
<u>Less:</u> Cash and cash equivalents	(184.7)	(280.2)
Net debt	\$261.9	\$216.9
Net debt	\$261.9	\$216.9
<u>Plus:</u> Total stockholders' equity	855.8	829.0
Capitalization	\$1,117.7	1,045.9
Net debt to capitalization ratio	23.4%	20.7%