



# Watts Water Technologies 1Q 2019 Earnings Conference Call



May 3, 2019

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 tax legislation and management goals and objectives.

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Factors that might affect forward-looking statements include overall economic and business conditions, competitive factors, changes in laws affecting Watts, future acquisitions of material assets or businesses by Watts, the demand for Watts' products and services and other factors identified in "Item 1A. Risk Factors" in Watts' most recent Annual Report on Form 10-K and in subsequent reports filed with the SEC.

- Record 1Q performance
- Americas / Europe sales growth consistent with expectations
- US end markets steady, macros signaling slower growth; monitoring Europe markets closely
- Maintaining full-year growth and margin outlooks

***2019 Solid Start; In-Line with Outlook***

# 1Q 2019 Financial Summary



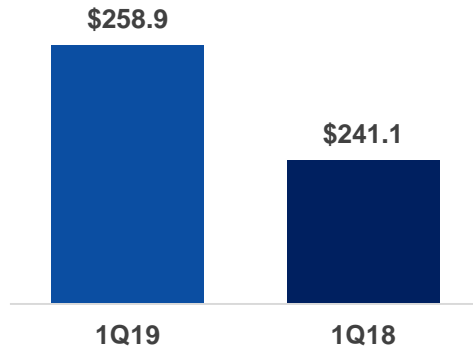
(M except per share amounts)	1Q19	1Q18	
<b>Sales</b>	<b>\$389</b>	<b>\$379</b>	<ul style="list-style-type: none"> <li>• <b>3% Increase</b> <ul style="list-style-type: none"> <li>♦ +6% organic</li> <li>♦ (3%) FX</li> </ul> </li> </ul>
<b>Adjusted Operating Profit<sup>(1)</sup></b> <i>Adjusted Margin %</i>	<b>\$48</b> <i>12.4%</i>	<b>\$44</b> <i>11.6%</i>	<ul style="list-style-type: none"> <li>• <b>10% Increase</b> <ul style="list-style-type: none"> <li>♦ Price, volume, productivity</li> <li>♦ Record 1Q margin performance</li> </ul> </li> </ul>
<b>Adjusted Net Income<sup>(1)</sup></b>	<b>\$32</b>	<b>\$28</b>	<ul style="list-style-type: none"> <li>• <b>14% Increase</b> <ul style="list-style-type: none"> <li>♦ Driven by operations, lower tax / interest</li> </ul> </li> </ul>
<b>Adjusted EPS<sup>(1)</sup></b> <i>Adjusted Tax Rate</i>	<b>\$0.94</b> <i>27.5%</i>	<b>\$0.82</b> <i>28.2%</i>	<ul style="list-style-type: none"> <li>• <b>15% Increase</b> <ul style="list-style-type: none"> <li>♦ Operations +\$0.13</li> <li>♦ Tax / other +\$0.02</li> <li>♦ FX (\$0.03)</li> </ul> </li> </ul>
<b>Free Cash Outflow<sup>(2)</sup></b>	<b>(\$31)</b>	<b>(\$33)</b>	<ul style="list-style-type: none"> <li>• <b>\$2M Improvement</b> <ul style="list-style-type: none"> <li>♦ Higher net income</li> </ul> </li> </ul>

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

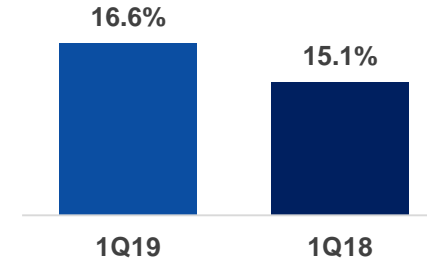
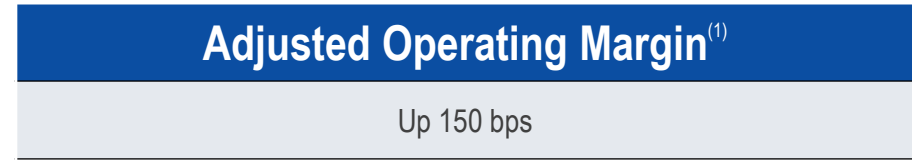
(2) Free Cash Outflow = Cash Flow from Operations Less Capital Expenditures, a non-GAAP measure, see slide 14 for calculation and reconciliation.

## Record 1Q Sales, Adjusted Operating Margin, and Adjusted EPS

(M)



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



- Adjusted operating profit<sup>(1)</sup> \$43.1M
  - ◆ Up \$6.7M or 18%
- Adjusted operating margin<sup>(1)</sup> +150 bps
  - ▲ Price, volume
  - ▲ Productivity
  - ▼ Tariffs, inflation
  - ▼ Investments

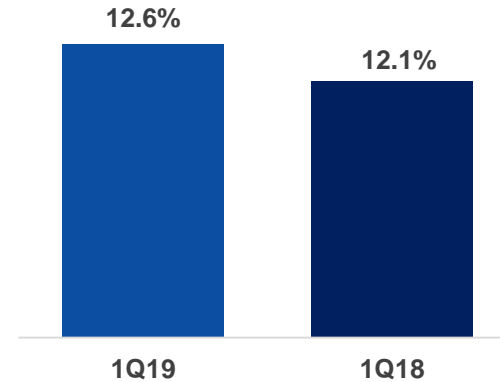
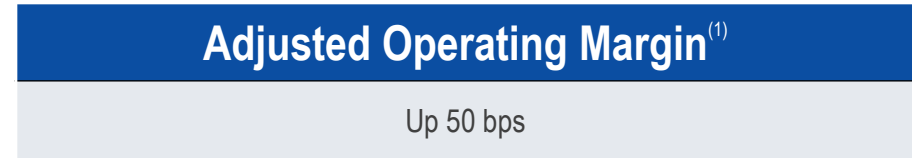
(1) Organic sales growth, Adjusted Operating Profit and Adjusted Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

## Strong Top-Line Growth and Margin Expansion

(M)



- Solid growth in drains; shipping days added ~1.5%
- FX impact (8%)
- France, Germany, Italy up; UK down

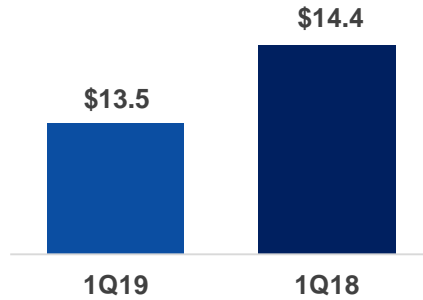
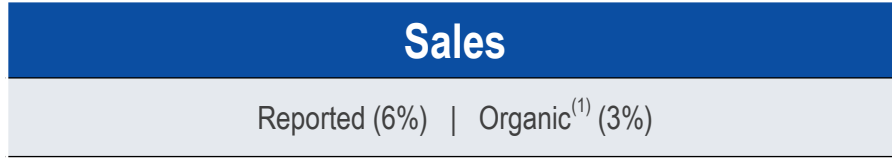


- Adjusted operating profit<sup>(1)</sup> \$14.6M
  - ◆ Down \$0.3M or (2%), FX (8%) impact
- Adjusted operating margin<sup>(1)</sup> +50 bps
  - ▲ Volume, price
  - ▲ Productivity
  - ▼ Inflation, product mix
  - ▼ Investments

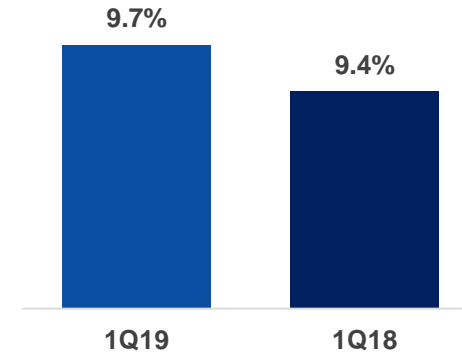
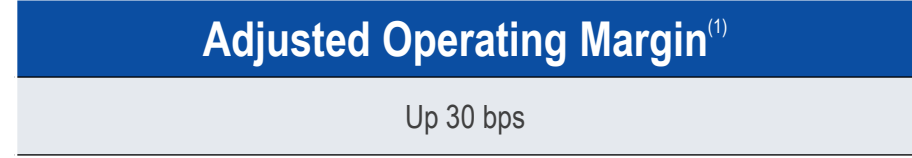
(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

## Drains / Shipping Days Driving Organic Growth

(M)



- Middle East / Australia solid growth offset by softness in Korea
- China commercial valve pick-up offset by continued residential heating weakness



- Adjusted operating profit<sup>(1)</sup> \$1.3M
  - ◆ Down \$0.1M
- Adjusted operating margin<sup>(1)</sup> +30 bps
  - ▲ Affiliate volume
  - ▲ FX favorability - affiliate sales
  - ▼ Third party volume
  - ▼ Investments, inflation

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

## Slow Start; Expecting Gradual Pick-up

# 2019 Outlook – Update

FY 2019 Outlook by Region		
	Org Rev Growth *	Adjusted Margin Growth*
<b>AMERICAS</b>	<b>4-5%</b>	Positive
<b>EUROPE</b>	<b>0-2%</b>	Positive
<b>APMEA</b>	<b>5-7%</b>	Down
<b>WATTS</b>	<b>3-4%</b>	50 to 70 bps includes \$12M investments

Other Key Inputs	
Item	Expectation
Corporate Costs	~\$41M
Interest Expense	~\$15M
Adjusted Effective Tax Rate*	~28%
CAPEX / D&A	~\$37M / ~\$48M
Free Cash Flow Conversion	≥100%
Share Count	~34.2M shares

\* Organic revenue growth and Adjusted Margin Growth are non GAAP measures, see slide 16 for reconciliations. Adjusted Effective Tax Rate is a non GAAP measure and approximates the GAAP measure.

## Growth & Margin Expectations In-Line



# Appendix

# Consolidated Statements of Operations



(M)  
(Unaudited)

	First Quarter			
	2019	2018	B/(W)	%
Net sales	<b>\$388.7</b>	\$378.5	\$10.2	3%
Cost of goods sold	<b>224.5</b>	<u>221.8</u>	<u>(2.7)</u>	(1%)
Gross profit	<b>164.2</b>	156.7	7.5	5%
	<b>42.2%</b>	41.4%	+80 bps	
Selling, general & administrative expenses	<b>116.1</b>	112.8	(3.3)	(3%)
	<b>29.9%</b>	29.8%	(10 bps)	
Restructuring	<b>1.4</b>	=	<u>(1.4)</u>	(100%)
Operating income	<b>46.7</b>	43.9	2.8	6%
	<b>12.0%</b>	11.6%	+40 bps	
Other expense	<b>4.0</b>	<u>4.6</u>	<u>0.6</u>	13%
Income before taxes	<b>42.7</b>	39.3	3.4	9%
Provision for income taxes	<b>11.7</b>	<u>11.1</u>	<u>(0.6)</u>	(5%)
Net income	<b>\$31.0</b>	\$28.2	\$2.8	10%
Diluted earnings per share	<b>\$0.91</b>	\$0.82	\$0.09	11%

# Reconciliation of Reported Sales to Organic Sales



(M)  
(Unaudited)

	First Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2019	\$258.9	\$116.3	\$13.5	\$388.7
Reported net sales 2018	241.1	123.0	14.4	378.5
Dollar change	\$17.8	(\$6.7)	(\$0.9)	\$10.2
<b>Net sales % increase (decrease)</b>	7%	(5%)	(6%)	3%
Decrease due to foreign exchange	1%	8%	3%	3%
<b>Organic sales increase (decrease)</b>	8%	3%	(3%)	6%

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



(M)  
(Unaudited)

	First Quarter	
	2019	2018
Net Sales	\$388.7	\$378.5
Operating income - as reported	\$46.7	\$43.9
<i>Operating margin %</i>	12.0%	11.6%
<u>Adjustments for special items:</u>		
Restructuring	1.4	—
Total adjustment for special items	\$1.4	\$—
Operating income - as adjusted	\$48.1	\$43.9
<i>Adjusted operating margin %</i>	12.4%	11.6%
Net income - as reported	\$31.0	\$28.2
<u>Adjustments for special items - tax affected:</u>		
Restructuring	1.0	—
Total adjustment for special items, tax affected	\$1.0	\$—
Net income - as adjusted	\$32.0	\$28.2
Earnings per share		
Diluted earnings per share - as reported	\$0.91	\$0.82
Adjustments for special items	\$0.03	—
Diluted earnings per share - as adjusted	\$0.94	\$0.82

# Adjusted Operating Income by Segment



(M)  
(Unaudited)

	First Quarter 2019					First Quarter 2018				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$43.1	13.2	1.3	(10.9)	46.7	\$36.4	14.9	1.4	(8.8)	43.9
<i>Operating margin %</i>	16.6%	11.3%	9.7%		12.0%	15.1%	12.1%	9.4%		11.6%
Adjustments for special items	\$ -	1.4	-	-	1.4	\$-	-	-	-	-
Adjusted operating income (loss)	\$43.1	14.6	1.3	(10.9)	48.1	\$36.4	14.9	1.4	(8.8)	43.9
<i>Adjusted operating margin %</i>	16.6%	12.6%	9.7%		12.4%	15.1%	12.1%	9.4%		11.6%

# Reconciliation of Net Cash Used in Operations to Free Cash Outflow



(M)  
(Unaudited)

	First Quarter	
	2019	2018
Net cash used in operations - as reported	<b>(\$24.2)</b>	(\$26.1)
<u>Less:</u> additions to property, plant, and equipment	<b>(6.9)</b>	(7.3)
Free cash outflow	<b>(\$31.1)</b>	(\$33.4)
Net income - as reported	<b>\$31.0</b>	\$28.2
Cash conversion rate of free cash outflow to net income	<b>(100.3%)</b>	(118.4%)

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



(M)  
(Unaudited)

	March 31, 2019	December 31, 2018
Current portion of long-term debt	\$30.0	\$30.0
<u>Plus:</u> Long-term debt, net of current portion	341.1	323.4
<u>Less:</u> Cash and cash equivalents	(170.2)	(204.1)
Net debt	\$200.9	\$149.3
<hr/>		
Net debt	\$200.9	\$149.3
<u>Plus:</u> Total stockholders' equity	905.1	891.3
Capitalization	\$1,106.0	1,040.6
Net debt to capitalization ratio	18.2%	14.3%

# Reconciliation between GAAP and Non GAAP Measures Included in 2019 Outlook



	Watts	Americas	Europe	APMEA
	Full Year 2019	Full Year 2019	Full Year 2019	Full Year 2019
	<i>Approximately</i>	<i>Approximately</i>	<i>Approximately</i>	<i>Approximately</i>
<b>Sales Growth</b>				
GAAP sales growth	2% to 3%	4% to 5%	(3%) to (1%)	3% to 5%
Forecasted impact of foreign exchange	~1%	-	~3%	~2%
Non GAAP sales growth - Organic	3% to 4%	4% to 5%	0% to 2%	5% to 7%
<b>Operating Margin Expansion</b>				
GAAP operating margin growth	35 to 55 bps			
Forecasted restructuring / other	~15 bps			
Non GAAP – adjusted operating margin growth	50 to 70 bps			



- Effective **1Q 2019** for Watts; used modified retrospective transition approach as of January 1, 2019 (*i.e., no comparable changes*)
- Financial statement impact as of **January 1<sup>st</sup>**
  - Balance sheet: right-of-use asset \$34M
  - Balance sheet: lease liability ~ \$10M short-term; ~\$24M long-term
  - P&L / EPS / Cash Flow: none
  - Footnotes: expanded disclosure
- No impact on economics of existing lease transactions; timing of cash payments, capital allocation has not changed
- No impact to existing debt covenants
- New leasing system / controls to capture information

***No Economic Impact; Financial Impact – Balance Sheet Only***