

Watts Water Technologies 1Q Earnings Conference Call

May 5, 2021



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

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1Q Performance

- Solid results; better than anticipated
- Revenue tailwind of ~3% from South-Central U.S. freeze; easier APMEA comparison
- Cost controls / incremental sales drove adjusted operating margin expansion
- Strong free cash flow; renegotiated credit agreement in 2Q; announced 13% dividend increase

Operations

- Commodity inflation driving second price increase; supply chain constraints
- Continued investments for growth; increasing full year spend to \$16M
- Announced potential Méry, France plant closure / sale

Markets

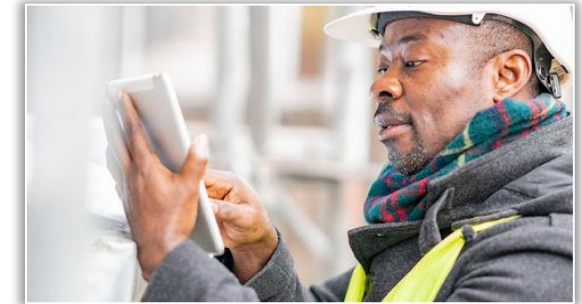
- Residential strength expected to continue
- Non-residential – R&R resilient, offsetting new construction air pocket in near-term
- Americas GDP increasing

Outlook

- 2Q – expecting strong YOY performance; easy COVID comparison, continued freeze benefit
- Full year outlook increased from strong start; focused on supply chain, inflation and vaccine rollouts

ESG Stewardship

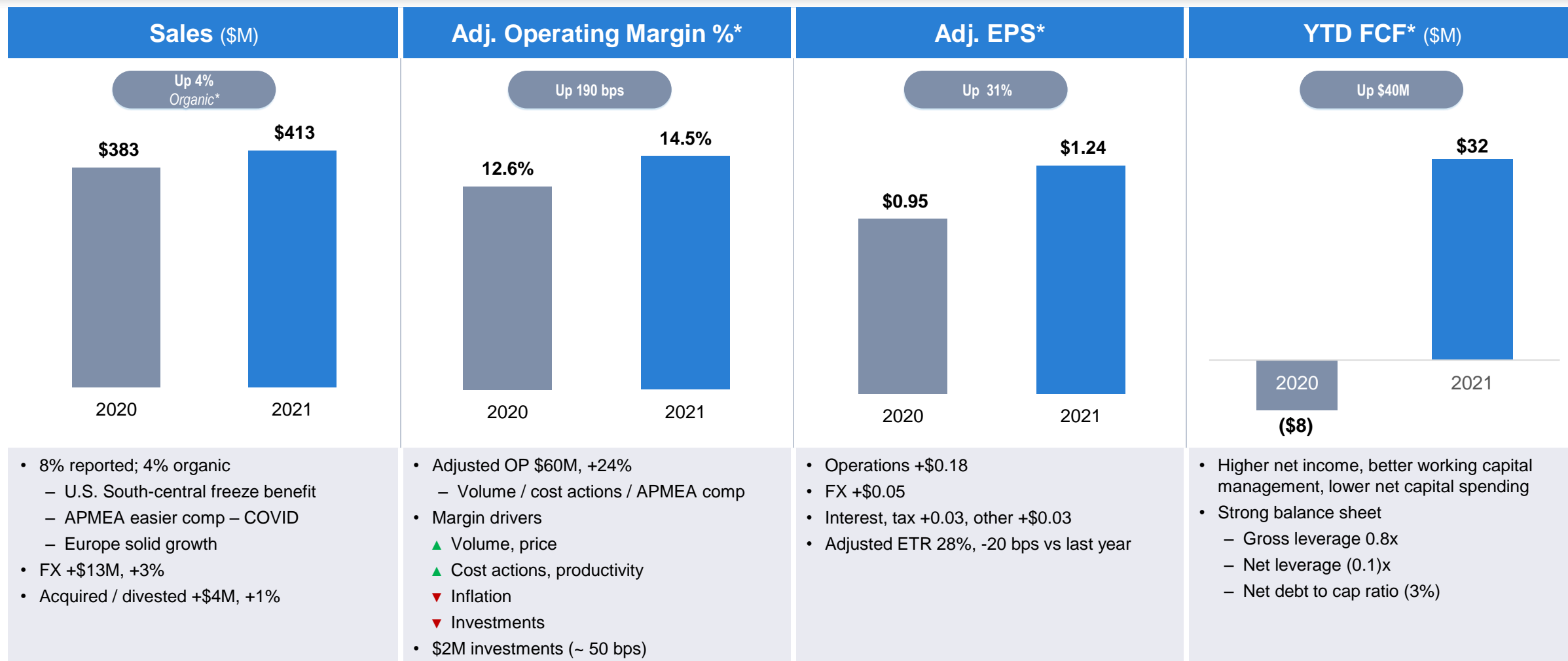
- Employee health & safety remains priority
- Planet Water partnership continues
- Issuing enhance Sustainability Report in 2Q



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

1Q Above Expectations; Leading Market Indicators Improving

1Q 2021 Financial Summary



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

Volume / Cost Actions Drove Profits; Strong Free Cash Flow

1Q 2021 Regional Results



	\$M			
	Sales	Adjusted Operating Margin %* <i>Change (bps)</i>	Sales / Business Highlights	Adjusted Operating Profit / Margin Commentary
AMERICAS	<p>\$273 <i>Up 3% Organic*</i></p>	<p>17.8% <i>Up 110 bps</i></p>	<ul style="list-style-type: none"> +4% reported +3% organic +1% FX / acquisition Freeze ~4% Plumbing and electronics growth Lower heating & hot water / water quality 	<ul style="list-style-type: none"> Adjusted operating profit* \$48M, +11% Margin drivers: <ul style="list-style-type: none"> ▲ Volume, price ▲ Cost actions / productivity ▼ Inflation, investments
EUROPE	<p>\$123 <i>Up 2% Organic*</i></p>	<p>15.9% <i>Up 350 bps</i></p>	<ul style="list-style-type: none"> +12% reported +2% organic +10% FX Plumbing / HVAC growth Growth in France & Italy; Germany & Scandinavia down Drains softness 	<ul style="list-style-type: none"> Adjusted operating profit* \$20M, +42% Margin drivers: <ul style="list-style-type: none"> ▲ Volume, price ▲ Cost actions / productivity ▼ Inflation
APMEA	<p>\$18 <i>Up 43% Organic*</i></p>	<p>14.5% <i>Up 1,550 bps</i></p>	<ul style="list-style-type: none"> + 76% reported +43% organic +23% acquired / divested, net +10% FX Easier comp - COVID impact last year China valve growth Middle East down 	<ul style="list-style-type: none"> Adjusted operating profit* \$3M Margin drivers: <ul style="list-style-type: none"> ▲ Third party volume ▲ Affiliate volume +80% ▲ Cost actions, productivity ▼ Inflation, investments

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Freeze Aided Americas; Solid Europe Performance; APMEA Easier Comp

Revenue	<i>19% to 24% organic increase YoY; includes ~4% expected freeze benefit; acquired sales an additional \$4M in the quarter</i>
Adjusted Operating Margin	<i>13.5% to 14.5%</i>
Corporate Costs	<i>~\$10M</i>
Interest Expense	<i>~\$2M</i>
Adjusted Effective Tax Rate	<i>~27%</i>
FX Impact	<i>Positive to 2Q 2020 at current FX rates</i>

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Easier Top-Line and Margin Compare Due to COVID; Freeze Benefit

2021 FY Outlook – May 5, 2021

FY 2021 Outlook		
	Org Rev Growth *	Adjusted Margin Growth*
AMERICAS	2% to 7% [Prior (5%) to Flat]	Up [Prior Down]
EUROPE	1% to 5% [Prior (5%) to Flat]	Up [Prior Down]
APMEA	10% to 15% [Prior 2% to 6%]	Flat to Up [Prior Down]
WATTS	2% to 7% [Prior (5%) to Flat]	Up 30 to 70 bps [prior down 50 to 90 bps] \$16M investments [prior \$13M]

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Other Key Inputs	
Item	Expectation
Corporate Costs	~\$42M
Interest Expense	~\$7M
Adjusted Effective Tax Rate*	~27.5%
CAPEX / D&A	~\$38M / ~\$46M
Free Cash Flow Conversion	≥100%
Share Count	~34M shares

Revised for Stronger Expectations

- 1Q results better than anticipated; unexpected U.S. freeze tailwind
- Second price increase announced due to supply chain / inflation impact
- Investing more for future; continued focus on productivity and cost efficiency
- Markets supportive near-term; more caution for H2; leading indicators turning positive for 2022
- Well capitalized with flexible balance sheet
- Expect strong YOY 2Q due to COVID compare / freeze benefits; increasing FY 2021 Outlook

Executing in Short-term with Focus on the Future

Appendix

Consolidated Statements of Operations



(M)
(Unaudited)

	First Quarter			
	2021	2020	B/(W)	%
Net sales	\$413.3	\$382.6	\$30.7	8%
Cost of goods sold	239.6	219.8	(19.8)	(9%)
Gross profit	173.7	162.8	10.9	7%
	+42.0%	42.6%	-60.0 bps	
Selling, general & administrative expenses	113.8	115.0	1.2	1%
	27.5%	30.1%	+260.bps	
Restructuring	0.3	-	(0.3)	NM
Operating income	59.6	47.8	11.8	25%
	14.4%	12.5%	+190.bps	
Other expense	1.7	3.2	1.5	47%
Income before taxes	57.9	44.6	13.3	30%
Provision for income taxes	16.2	12.6	(3.6)	(29%)
Net income	\$41.7	\$32.0	\$9.7	30%
Diluted earnings per share	\$1.23	\$0.94	\$0.29	31%

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	First Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2021	\$272.8	\$122.9	\$17.6	\$413.3
Reported net sales 2020	<u>262.4</u>	<u>110.2</u>	<u>10.0</u>	<u>382.6</u>
Dollar change	\$10.4	\$12.7	\$7.6	\$30.7
Net sales % increase	4%	12%	76%	8%
Increase due to foreign exchange	(0.5%)	(10%)	(10%)	(3%)
Increase due to acquisition, net	(0.5%)	-%	(23%)	(1%)
Organic sales increase	3%	2%	43%	4%

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



(M)
(Unaudited)

	First Quarter	
	2021	2020
Net Sales	\$413.3	\$382.6
Operating income - as reported	\$59.6	\$47.8
<i>Operating margin %</i>	14.4%	12.5%
<u>Adjustments for special items:</u>		
Footprint optimization	-	0.4
Restructuring	0.3	-
Total adjustment for special items	\$0.3	\$0.4
Operating income - as adjusted	\$59.9	\$48.2
<i>Adjusted operating margin %</i>	14.5%	12.6%
Net income - as reported	\$41.7	\$32.0
<u>Adjustments for special items - tax effected:</u>		
Footprint optimization	-	0.3
Restructuring	0.2	-
Total adjustment for special items, tax effected	\$0.2	\$0.3
Net income - as adjusted	\$41.9	\$32.3
Earnings per share		
Diluted earnings per share - as reported	\$1.23	\$0.94
Adjustments for special items	\$0.01	\$0.01
Diluted earnings per share - as adjusted	\$1.24	\$0.95

Adjusted Operating Income by Segment



(M)
(Unaudited)

	First Quarter 2021					First Quarter 2020				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$48.5	19.5	2.3	(10.7)	59.6	\$43.4	13.7	(0.1)	(9.2)	47.8
<i>Operating margin %</i>	17.8%	15.9%	13.0%	-	14.4%	16.5%	12.4%	(1.0%)	-	12.5%
Adjustments for special items	\$-	-	0.3	-	0.3	\$0.4	-	-	-	0.4
Adjusted operating income (loss)	\$48.5	19.5	2.6	(10.7)	59.9	\$43.8	13.7	(0.1)	(9.2)	48.2
<i>Adjusted operating margin %</i>	17.8%	15.9%	14.5%	-	14.5%	16.7%	12.4%	(1.0%)	-	12.6%

Reconciliation of Net Cash Provided by (Used in) Operations to Free Cash Flow



(M)
(Unaudited)

	First Quarter	
	2021	2020
Net cash provided by (used in) operations - as reported	\$33.9	(\$0.9)
<u>Less:</u> additions to property, plant, and equipment	(4.9)	(8.9)
<u>Plus:</u> proceeds from the sale of property, plant, and equipment	2.9	1.4
Free cash flow	\$31.9	(\$8.4)
Net income - as reported	\$41.7	\$32.0
Cash conversion rate of free cash flow to net income	77%	(26%)

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



(M)
(Unaudited)

	March 28, 2021	December 31, 2020
Current portion of long-term debt	\$-	\$-
<u>Plus:</u> Long-term debt, net of current portion	198.6	198.2
<u>Less:</u> Cash and cash equivalents	(225.4)	(218.9)
Net debt	(\$26.8)	(\$20.7)
<hr/>		
Net debt	(\$26.8)	(\$20.7)
<u>Plus:</u> Total stockholders' equity	1,081.2	1,069.8
Capitalization	\$1,054.4	1,049.1
Net debt to capitalization ratio	(3%)	(2%)

Calculations of Gross and Net Leverage

(M)
(Unaudited)

	Trailing Twelve Months through March 28, 2021
Net income – as reported	\$123.9
<u>Plus:</u> Interest expense, net	12.1
<u>Plus:</u> Income taxes	56.4
<u>Plus:</u> Depreciation	31.7
<u>Plus:</u> Amortization	15.2
Earnings before interest, taxes depreciation and amortization (EBITDA)	\$239.3
Gross debt at March 28, 2021	\$198.6
<u>Less:</u> Cash & cash equivalents at March 28, 2021	225.4
Net debt	(\$26.8)
Gross debt to EBITDA ratio (Gross leverage)	0.8x
Net debt to EBITDA ratio (Net leverage)	(0.1)x

Reconciliation of “Adjusted” Non-GAAP Effective Tax Rate



(M)
(Unaudited)

	First Quarter	
	2021	2020
Income before income taxes – as reported	\$57.9	\$44.6
Provision for income taxes – as reported	16.2	12.6
<i>Effective tax rate – as reported</i>	28.0%	28.3%
Income before income taxes – as reported	\$57.9	\$44.6
Total adjustments for special items	0.3	0.4
Income before income taxes – as adjusted	\$58.2	\$45.0
Provision for income taxes – as reported	16.2	12.6
Tax effect of total adjustment for special items	0.1	0.1
Provision for income taxes – as adjusted	16.3	12.7
<i>Effective tax rate – as adjusted</i>	28.0%	28.2%

Reconciliation between GAAP and Non-GAAP Measures Included in 2021 Outlook – May 5, 2021



(M)
(Unaudited)

	Watts	Americas	Europe	APMEA		Watts
	Full Year 2021	Full Year 2021	Full Year 2021	Full Year 2021		Second Quarter 2021
	Approximately	Approximately	Approximately	Approximately		Approximately
Sales						
Reported net sales growth	2.7% to 7.7%	2.4% to 7.4%	1.0% to 5.0%	20.0% to 25.0%		20.2% to 25.2%
Forecasted impact of acquisition	(0.7%)	(0.4%)	—%	(10.0%)		(1.2%)
Organic sales growth	2.0% to 7.0%	2.0% to 7.0%	1.0% to 5.0%	10.0% to 15.0%		19% to 24%
Operating Margin						
Operating margin growth	10 to 50 bps					
Operating margin range						13.5% to 14.5%
Forecasted restructuring / other	~20 bps					-
Adjusted operating margin growth	30 to 70 bps					
Adjusted operating margin range						13.5% to 14.5%

Note: Assumes FX rates are consistent year to year