



# **Watts Water Technologies 1Q 2018 Earnings Conference Call**

May 4, 2018



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.

Watts cautions investors that any such forward-looking statements made by Watts are not guarantees of future performance. All forward-looking statements are subject to known and unknown risks, uncertainties, and contingencies, many that are beyond the control of Watts, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

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

(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.

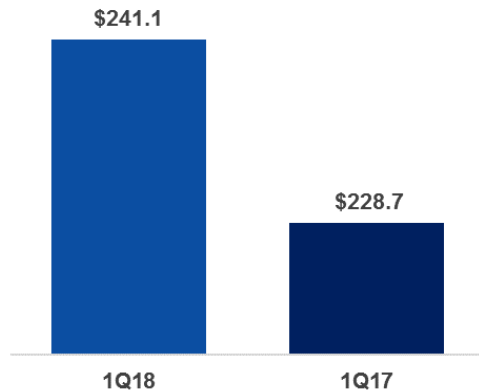
(3) Product rationalization represents the exit of low-margin non-core products

## Record 1Q Sales, Operating Margin & EPS

(M)

## Sales

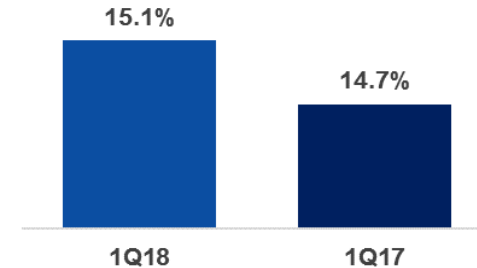
Reported +5% | Organic<sup>(1)</sup> +5%



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

## Operating Margin<sup>(1)</sup>

Up 40 bps



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

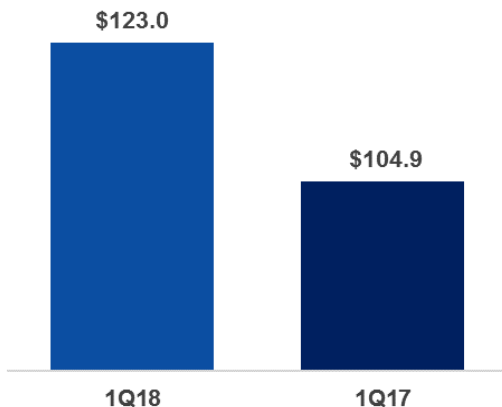
(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

## Strong Top-Line Growth and Solid Margin Expansion

(M)

## Sales

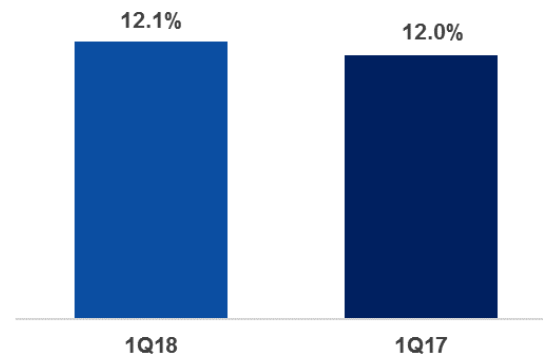
Reported +17% | Organic<sup>(1)</sup> +2%



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

## Operating Margin<sup>(1)</sup>

Up 10 bps



- Operating profit<sup>(1)</sup> \$14.9M
  - ◆ Up \$2.3M or 18%, FX +15%
- Operating margin<sup>(1)</sup> +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

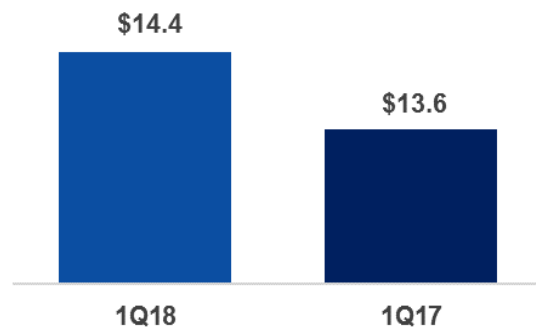
(2) Product rationalization represents the exit of low-margin non-core products

## Projects Driving Organic Growth

(M)

## Sales

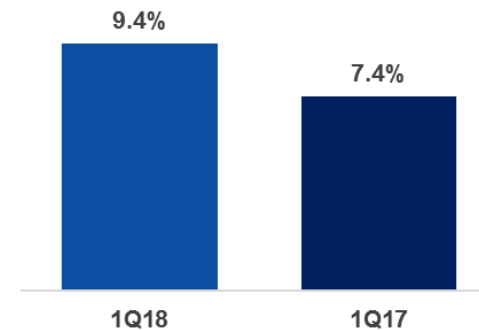
Reported +6% | Organic<sup>(1)</sup> +3%



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

## Operating Margin<sup>(1)</sup>

Up 200 bps



- Operating profit<sup>(1)</sup> \$1.4M
  - ◆ Up \$0.4M or 40%
- Operating margin<sup>(1)</sup> +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	<b>\$378.5</b>	\$347.2	\$31.3	9%
Cost of goods sold	<b>221.8</b>	203.4	(18.4)	(9%)
Gross profit	<b>156.7</b>	143.8	12.9	9%
	<b>41.4%</b>	41.4%	-	
Selling, general & administrative expenses	<b>112.8</b>	107.6	(5.2)	(5%)
	<b>29.8%</b>	31.0%	+120 bps	
Restructuring	-	0.5	0.5	100%
Operating income	<b>43.9</b>	35.7	8.2	23%
	<b>11.6%</b>	10.3%	+130 bps	
Other expense	<b>4.6</b>	4.9	0.3	6%
Income before taxes	<b>39.3</b>	30.8	8.5	28%
Provision for income taxes	<b>11.1</b>	9.1	(2.0)	(22%)
Net income	<b>\$28.2</b>	\$21.7	\$6.5	30%
<b>Diluted earnings per share</b>	<b>\$0.82</b>	\$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
<b>Net sales % increase</b>	5%	17%	6%	9%
Increase due to foreign exchange	—	-15%	-3%	-5%
<b>Organic sales increase</b>	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
Operating margin %	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
Adjusted operating margin %	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	<b>(\$26.1)</b>	(\$9.1)
<u>Less:</u> additions to property, plant, and equipment	<b>(7.3)</b>	(5.8)
Free cash outflow	<b>(\$33.4)</b>	(\$14.9)
Net income - as reported	<b>\$28.2</b>	\$21.7
Cash conversion rate of free cash outflow to net income	<b>(118.4%)</b>	(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%