

Watts Water Technologies 2Q 2021 Earnings Conference Call

August 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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2Q Performance

- Record results; better than expected
- Revenue driven by economic recovery; U.S. freeze tailwind
- Expanded adjusted operating margin; solid free cash flow

Operations

- Finalized negotiations for French plant exit

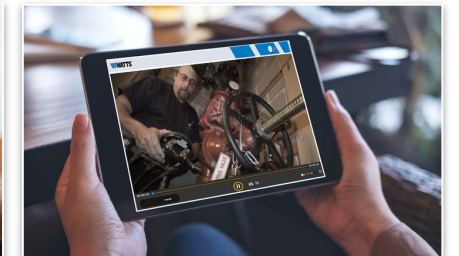
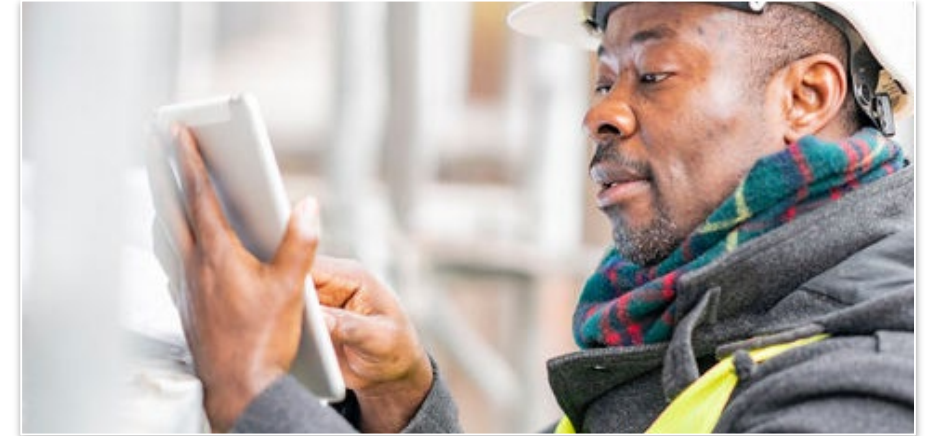
Markets

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

Outlook

- 3Q - expect incremental sales / margin improvement vs 3Q 2020
- Full year adjusted outlook increased due to market strength

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



2Q Performance Better than Anticipated; Increasing Full Year Outlook

tekmar BACnet Snow Melt Control



- Provides snow melt capabilities directly into a Building Automation System
- Ensures high performance with no custom code to develop or maintain

Simplified Snow Melting Controls

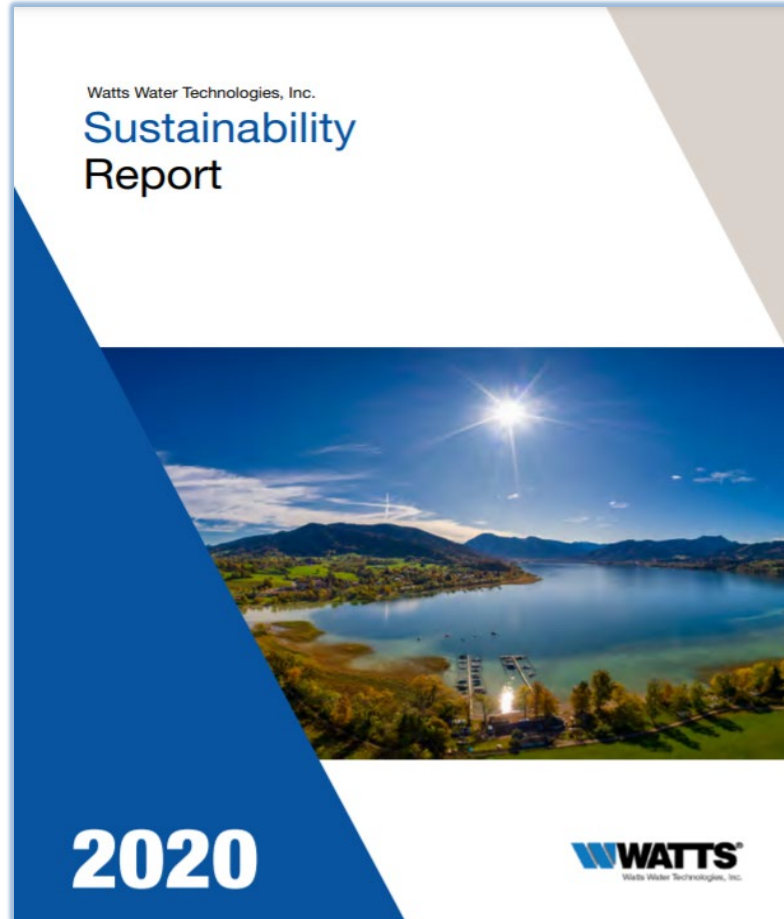
HF scientific Copper Silver Monitor (CSM)



- CSM is designed to enhance the performance of copper-silver ionization systems
- Helps control Legionella bacteria in potable water systems

Improving Legionella Control

Continuing to Innovate on Building Safety

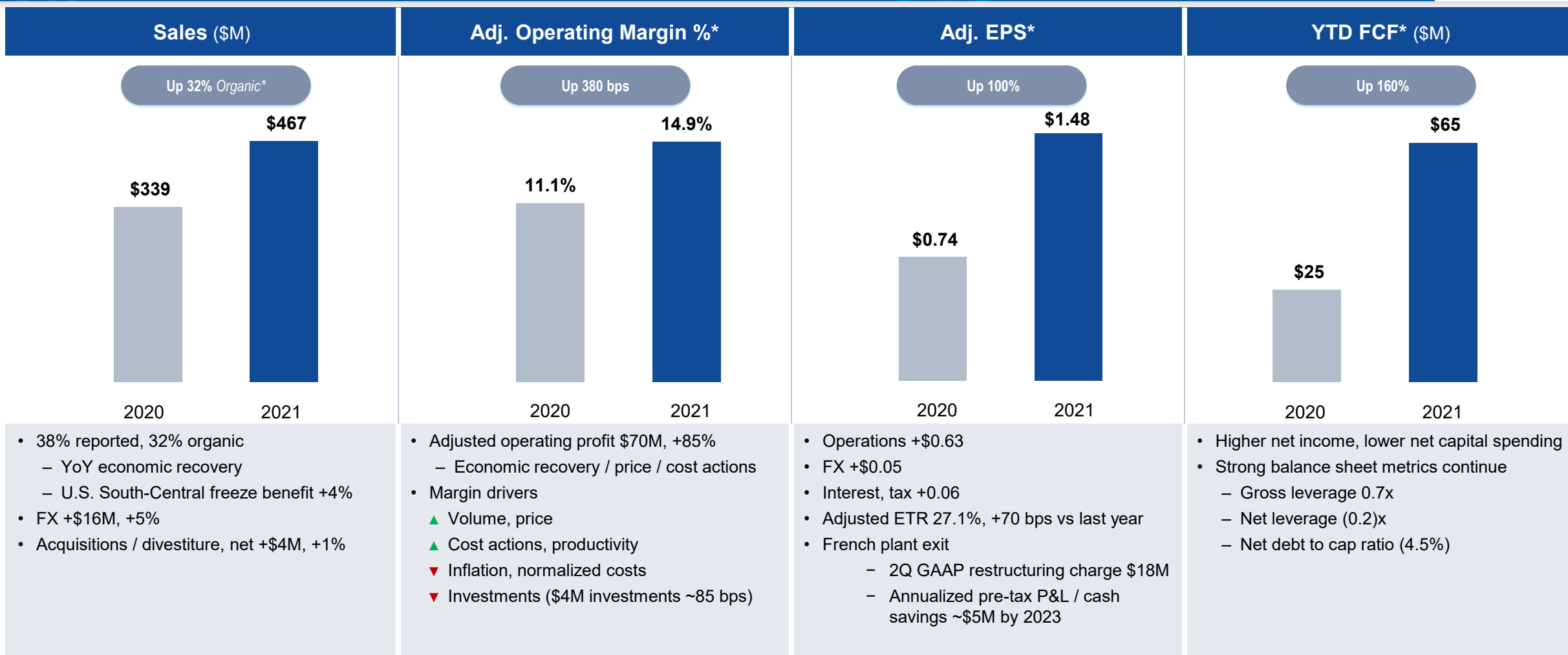


2020 HIGHLIGHTS

- ✓ Published 5th annual Sustainability Report on June 16, 2021
- ✓ Reduced consumption of natural resources; set longer-term goals to reduce the Company's future environmental impact
- ✓ Continue to shift toward an eco-friendlier portfolio of products and solutions
- ✓ Committed to providing clean water to disadvantaged communities
- ✓ Addressing diversity, equity and inclusion through multiple avenues

Significant Gains Across Each Dimension of Sustainability

2Q 2021 Financial Summary



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

Recovery Driving Stronger Demand Than Expected

2Q 2021 Regional Results



	Sales (\$M)	Adj. Operating Margin %* <i>Change (bps)</i>	Sales / Business Highlights	Adj. Operating Profit / Margin Commentary
AMERICAS	\$307 <i>Up 28% Organic*</i>	17.7% <i>Up 270 bps</i>	<ul style="list-style-type: none"> +29% reported <ul style="list-style-type: none"> +28% organic +1% acquisition / FX YoY economic recovery U.S. South-Central freeze benefit +5% Strong Repair & replacement activity 	<ul style="list-style-type: none"> Adj. operating profit* \$55M, +54% Margin drivers <ul style="list-style-type: none"> ▲ Volume, price ▲ Cost actions, productivity ▼ Investments, normalized costs, inflation
EUROPE	\$137 <i>Up 41% Organic*</i>	17.1% <i>Up 700 bps</i>	<ul style="list-style-type: none"> +55% reported <ul style="list-style-type: none"> +41% organic, +14% FX YoY economic recovery Growth in all major regions Government green incentives 	<ul style="list-style-type: none"> Adj. operating profit* \$23M, +162% Margin drivers <ul style="list-style-type: none"> ▲ Volume, price, mix ▲ Cost actions, productivity ▼ Investments, normalized costs, inflation
APMEA	\$23 <i>Up 51% Organic*</i>	17.9% <i>Up 460 bps</i>	<ul style="list-style-type: none"> +75% reported <ul style="list-style-type: none"> +51% organic, +10% FX +14% acquired / divested, net YoY economic recovery Double digit growth in all regions 	<ul style="list-style-type: none"> Adj. operating profit* \$4M, +141% Margin drivers <ul style="list-style-type: none"> ▲ Trade volume ▲ Affiliate volume +61% ▲ Productivity, cost actions ▼ Normalized costs, inflation

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

Solid Results Across All Regions

Revenue

8% to 12% organic increase YoY; acquired sales an additional ~\$2M

Adjusted Operating Margin

13.7% to 14.5%

Corporate Costs

~\$13M

Interest Expense

~\$1.5M

Adjusted Effective Tax Rate

~27%

FX Impact

Neutral to slightly positive to 3Q 2020 at current FX rates

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

Market Growth and Performance Driving Upside

2021 FY Outlook – August 5, 2021

FY 2021 Adjusted Outlook		
	Org. Rev Growth*	Adj. Op. Margin Growth*
AMERICAS	9% to 13% [Prior 2% to 7%]	Up [Prior Up]
EUROPE	10% to 14% [Prior 1% to 5%]	Up [Prior Up]
APMEA	23% to 27% [Prior 10% to 15%]	Up [Prior Flat to Up]
WATTS	10% to 14% [Prior 2% to 7%]	Up 100 to 150 bps [Prior up 30 to 70 bps] \$17M investments [Prior \$16M]

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

Other Key Inputs	
Item	Expectation
Corporate Costs	~\$48M
Interest Expense	~\$7M
Adjusted Effective Tax Rate*	~27.5%
CAPEX / D&A	~\$35M / ~\$46M
Free Cash Flow Conversion	≥100%
Share Count	~34M shares

Revised for Stronger Underlying Market Activity

-
- 2Q results better than anticipated; R&R demand strong, U.S. freeze tailwind
 - Third price increase announced in Americas due to supply chain / inflation impact
 - Markets supportive near-term; non-residential new construction leading indicators turning positive for 2022
 - Continuing to invest for future
 - Expect better YoY 3Q; increasing FY 2021 adjusted outlook
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See Appendix for reconciliation of non-GAAP measures to their corresponding GAAP measures

Strong Results with Continued Focus on the Future

Appendix

Consolidated Statement of Operations



(M)
(Unaudited)

	Second Quarter			
	2021	2020	B/(W)	%
Net sales	\$467.0	\$338.7	128.3	38%
Cost of goods sold	266.9	203.8	(63.1)	(31%)
Gross profit	200.1	134.9	65.2	48%
As a % of sales	42.8%	39.8%	300 bps	
Selling, general & administrative expenses	130.4	97.6	(32.8)	(34%)
As a % of sales	27.9%	28.8%	90 bps	
Restructuring / impairment	17.0	6.3	(10.7)	(170%)
Operating income	52.7	31.0	21.7	70%
As a % of sales	11.3%	9.2%	210 bps	
Other expense	1.0	3.5	2.5	71%
Income before taxes	51.7	27.5	24.2	88%
Provision for income taxes	14.2	7.3	(6.9)	(95%)
Net income	\$37.5	\$20.2	17.3	86%
Diluted earnings per share	\$1.11	\$0.59	\$0.52	88%

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	Second Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2Q'21	\$307.1	\$136.8	\$23.1	\$467.0
Reported net sales 2Q'20	\$237.4	\$88.1	\$13.2	\$338.7
Dollar change	\$69.7	\$48.7	\$9.9	\$128.3
Net Sales % increase	29%	55%	75%	38%
Increase due to acquisition, net	-	-	(14%)	(1%)
Increase due to foreign exchange	(1%)	(14%)	(10%)	(5%)
Organic sales increase	28%	41%	51%	32%

	Six Months			
	Americas	Europe	APMEA	Total
Reported net sales 2021	\$579.9	\$259.7	\$40.7	\$880.3
Reported net sales 2020	\$499.8	\$198.3	\$23.2	\$721.3
Dollar change	\$80.1	\$61.4	\$17.5	\$159.0
Net Sales % increase	16%	31%	75%	22%
Increase due to acquisition, net	-	-	(18%)	(1%)
Increase due to foreign exchange	(1%)	(12%)	(10%)	(4%)
Organic sales increase	15%	19%	47%	17%

Reconciliation of GAAP to Non-GAAP Measures



(M)
(Unaudited)

	Second Quarter		Six Months	
	2021	2020	2021	2020
Net sales	\$467.0	\$338.7	\$ 880.3	\$ 721.3
Operating income - as reported	\$52.7	\$31.0	\$112.3	\$78.8
Operating margin %	11.3%	9.2%	12.8%	10.9%
<u>Adjustments for special items:</u>				
Restructuring / footprint optimization	17.0	5.7	17.3	6.1
Impairment charges	-	1.0	-	1.0
Total adjustments for special items	17.0	6.7	17.3	7.1
Operating income - as adjusted	\$69.7	\$37.7	\$129.6	\$85.9
Adjusted operating margin %	14.9%	11.1%	14.7%	11.9%
Net income - as reported	\$37.5	\$20.2	\$79.2	\$52.2
<u>Adjustments for special items - tax effected:</u>				
Restructuring / footprint optimization	12.6	4.3	12.8	4.6
Impairment charges	-	0.7	-	0.7
Total adjustments for special items, tax effected	12.6	5.0	12.8	5.3
Net income - as adjusted	\$50.1	\$25.2	92.0	57.5
<u>Earnings per share:</u>				
Diluted earnings per share - as reported	\$ 1.11	\$ 0.59	\$2.34	\$1.53
Adjustments for special items	0.37	0.15	0.37	0.16
Diluted earnings per share - as adjusted	\$1.48	\$0.74	\$2.71	\$1.69

Adjusted Operating Income by Segment



(M)
(Unaudited)

	Second Quarter 2021					Second Quarter 2020				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$ 55.2	\$ 5.4	\$ 4.3	(\$12.2)	\$52.7	\$ 29.5	\$ 9.2	\$ 0.8	(\$8.5)	\$31.0
<i>Operating margin %</i>	18.0%	3.9%	18.9%		11.3%	12.4%	10.4%	6.4%		9.2%
Adjustments for special items	(0.7)	17.9	(0.2)		17.0	6.0	(0.3)	0.9	0.1	6.7
Adjusted operating income (loss)	\$54.5	\$23.3	\$4.1	(\$12.2)	\$69.7	\$35.5	\$8.9	\$1.7	(\$8.4)	\$37.7
<i>Adjusted operating margin %</i>	17.7%	17.1%	17.9%		14.9%	15.0%	10.1%	13.3%		11.1%

	Six Months 2021					Six Months 2020				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$103.7	\$24.9	\$6.6	(\$22.9)	\$112.3	\$72.9	\$22.9	\$0.7	(\$17.7)	\$78.8
<i>Operating margin %</i>	17.9%	9.6%	16.0%		12.8%	14.6%	11.5%	3.2%		10.9%
Adjustments for special items	(0.7)	17.9	0.1		17.3	6.4	(0.3)	0.9	0.1	7.1
Adjusted operating income (loss)	\$103.0	\$42.8	\$6.7	(\$22.9)	\$129.6	\$79.3	\$22.6	\$1.6	(\$17.6)	\$85.9
<i>Adjusted operating margin %</i>	17.8%	16.5%	16.4%		14.7%	15.9%	11.4%	7.1%		11.9%

Reconciliation of Net Cash Provided By Operations to Free Cash Flow



(M)
(Unaudited)

	Six Months	
	2021	2020
Net cash provided by operations - as reported	\$73.2	\$47.3
<u>Less:</u> additions to property, plant, and equipment, net	(8.1)	(22.3)
Free cash flow	\$65.1	\$25.0
Net income - as reported	\$79.2	\$52.2
Cash conversion rate of free cash flow to net income	82.2%	47.9%

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



(M)
(Unaudited)

	June 27, 2021	December 31, 2020
Current portion of long-term debt	\$ -	\$ -
<u>Plus:</u> Long-term debt, net of current portion	191.5	198.2
<u>Less:</u> Cash and cash equivalents	(240.1)	(218.9)
Net debt	(\$48.6)	(\$20.7)
Net debt	(\$48.6)	(\$20.7)
<u>Plus:</u> Total stockholders' equity	1,117.9	1,069.8
Capitalization	\$1,069.3	\$1,049.1
Net debt to capitalization ratio	(4.5%)	(2.0%)

Calculations of Gross and Net Leverage

(M)
(Unaudited)

	Trailing Twelve Months through June 27, 2021
Net income – as reported	\$141.3
<u>Plus:</u> Interest expense, net	9.7
<u>Plus:</u> Income taxes	63.2
<u>Plus:</u> Depreciation	32.0
<u>Plus:</u> Amortization	14.9
Earnings before interest, taxes depreciation and amortization (EBITDA)	\$261.1
Gross debt at June 27, 2021	\$191.5
<u>Less:</u> Cash & cash equivalents at June 27, 2021	<u>240.1</u>
Net debt	(\$48.6)
Gross debt to EBITDA ratio (Gross leverage)	0.7x
Net debt to EBITDA ratio (Net leverage)	(0.2)x

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



(M)
(Unaudited)

	Watts	Americas	Europe	APMEA	Watts
	Full Year 2021	Full Year 2021	Full Year 2021	Full Year 2021	Third Quarter 2021
	Approximately	Approximately	Approximately	Approximately	Approximately
Sales					
Reported net sales growth	12.5% to 16.5%	10.1% to 14.1%	16.5% to 20.5%	38.0% to 42.0%	9.1% to 13.1%
Forecasted impact of acquisition / FX	(2.5%)	(1.1%)	(6.5%)	(15.0%)	(1.1%)
Organic sales growth	10.0% to 14.0%	9.0% to 13.0%	10.0% to 14.0%	23.0% to 27.0%	8.0% to 12.0%
Operating Margin					
Operating margin growth	(15) to 35 bps				
Operating margin range					13.5% to 14.3%
Forecasted restructuring / other	~115 bps				~20 bps
Adjusted operating margin growth	100 to 150 bps				
Adjusted operating margin range					13.7% to 14.5%

Note: Assumes FX rates are consistent year to year