



Watts Water Technologies 3Q 2017 Earnings Conference Call

November 2, 2017

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, lead free developments, 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.

- Top-line improvement and continued margin expansion
 - Record adjusted operating margin of 12.6%; record adjusted 3Q EPS of \$0.80
 - Sustained earnings momentum while investing for growth
- Regional performance
 - Americas solid top line growth
 - Steady markets, AERCO recovery, growth initiatives, minimal hurricanes impact
 - Europe strong operating margin despite top-line headwinds
 - Markets stabilizing, restructuring benefits, product exits, lower HVAC demand
 - APMEA softness
 - Markets mixed, product exits, project timing, geographic expansion
- Expect solid finish, in line with second half guidance

Record Operating Margin and EPS

Financial Summary



(M except per share amounts)

	3Q17	3Q16	
Sales	\$365	\$341	<ul style="list-style-type: none"> • 7% Increase <ul style="list-style-type: none"> ◆ +1% organic ◆ Product rationalization⁽³⁾ impact (1%) ◆ +4% acquisition, +2% FX
Operating Profit⁽¹⁾	\$46	\$41	<ul style="list-style-type: none"> • 11% Increase <ul style="list-style-type: none"> ◆ Transformation, productivity ◆ 70 bps margin expansion, ex-M&A ◆ Record margin performance
<i>Margin %</i>	<i>12.6%</i>	<i>12.1%</i>	
Net Income⁽¹⁾	\$28	\$25	<ul style="list-style-type: none"> • 12% Increase <ul style="list-style-type: none"> ◆ Operations and PVI
EPS⁽¹⁾	\$0.80	\$0.71	<ul style="list-style-type: none"> • 13% Increase <ul style="list-style-type: none"> ◆ Operations +\$0.07 ◆ FX / tax +\$0.02
<i>Tax Rate</i>	<i>32.9%</i>	<i>33.3%</i>	
YTD Free Cash Flow⁽²⁾	\$57	\$43	<ul style="list-style-type: none"> • 31% Increase <ul style="list-style-type: none"> ◆ Lower 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 Flow = Cash Flow from Operations Less Capital Expenditures, a non-GAAP measure, see slide 14 for calculation and reconciliation.

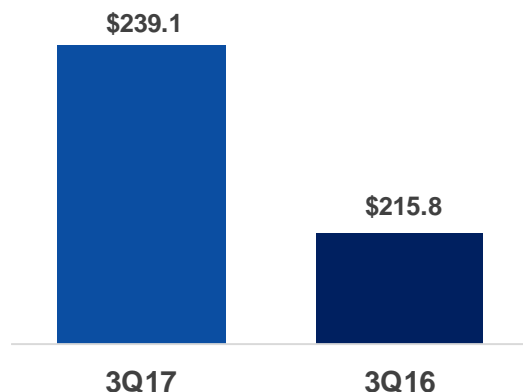
(3) Product rationalization represents the exit of low-margin non-core products

Strong Margin Expansion & Double Digit Earnings Growth

(M)

Sales

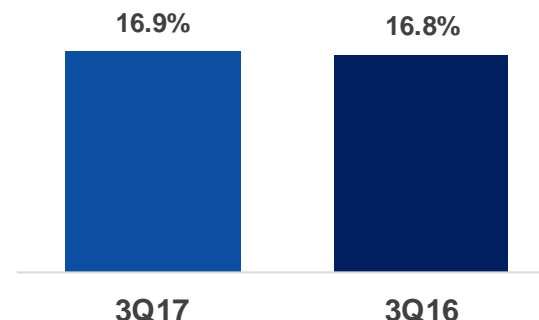
Reported +11% | Organic⁽¹⁾+4%



- Strong growth in plumbing and drains
- AERCO & PVI mid-single digit growth
- Canada growth led by valves and drains
- Announced 4Q price increase

Operating Margin⁽¹⁾

Up 10 bps



- Operating profit⁽¹⁾ \$40.5M
 - ◆ Up \$4.2M or 12%
- Operating margin⁽¹⁾+10 bps; ex M&A +70 bps
 - ▲ Volume
 - ▲ Productivity, transformation
 - ▼ PVI impact, investments, materials

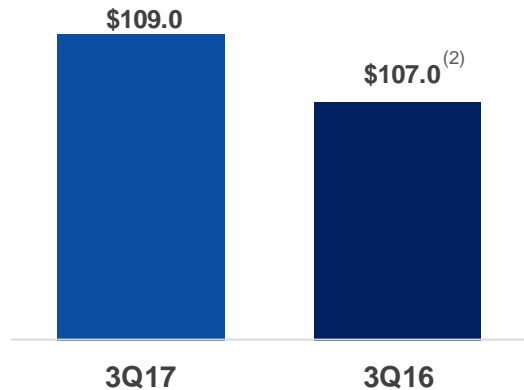
(1) Organic sales growth, Operating Profit and Operating Margin are non-GAAP financial measures, see slides 11 and 13 for reconciliation

Strong Growth and Margin Improvement

(M)

Sales

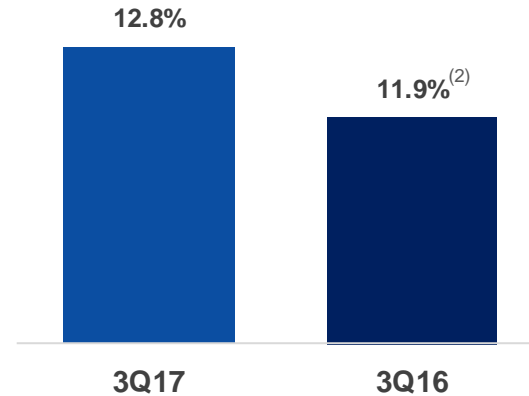
Reported +2% | Organic⁽¹⁾ (3%)



- Fluid Solutions softness; solid drains growth
- FX impact +5%; product rationalization⁽³⁾ (1%)
- France flat; Italy, Germany down

Operating Margin⁽¹⁾

Up 90 bps



- Operating profit⁽¹⁾ \$14.0M
 - ◆ Up \$1.3M or 10%
- Operating margin⁽¹⁾ +90 bps
 - ▲ Productivity, restructuring
 - ▲ Sales mix, bad debt recovery
 - ▼ Volume, materials

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

(2) Adjusted for segment composition change, see slide 16 for details

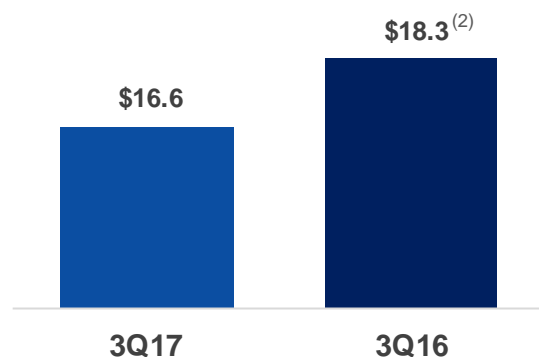
(3) Product rationalization represents the exit of low-margin non-core products

Strong Margin Expansion Despite Top-line Headwinds

(M)

Sales

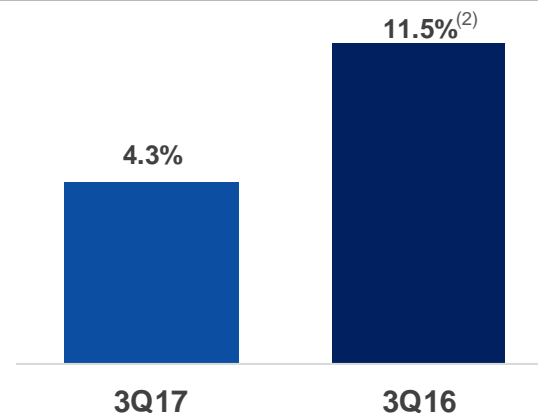
Reported (10%) | Organic⁽¹⁾ (10%)



- Product rationalization⁽³⁾ impact (11%)
 - ◆ China sales +8%; valve strength
- Outside China (3%); Australia soft, Middle East project timing

Operating Margin⁽¹⁾

Down 720 bps



- Operating profit⁽¹⁾ \$0.7M
 - ◆ Down \$1.4M or 67%
- Operating margin⁽¹⁾ (720 bps)
 - ▼ Volume, affiliate sales down 26%
 - ▼ Sales mix, growth investments

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


(2) Adjusted for segment composition change, see slide 16 for details

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

Expect 4Q Top-line Improvement

- Organic sales growth higher than 3Q'17
 - Improvement in Europe & APMEA
 - Product rationalization ~\$3M
 - PVI will be organic effective November 1
- Operating margin expansion vs 4Q'16; down sequentially vs 3Q'17
 - Volume and continued productivity
 - Higher investments, material inflation
- Seasonally, a strong quarter for cash flow
 - Working capital improvement
 - Higher capital spend

Expect Solid Q4

A world map in a light blue color, centered on the Atlantic Ocean. Overlaid on the map are several dark blue, wavy, horizontal lines that sweep across the continents from left to right, creating a sense of global connectivity or data flow.

Appendix

Consolidated Statements of Operations



(M)
(Unaudited)

Third Quarter Ended				
	2017	2016	B/(W)	%
Net sales	\$364.7	\$341.1	\$23.6	7%
Cost of goods sold	212.0	199.1	(12.9)	(7%)
Gross profit	152.7	142.0	10.7	8%
	<i>41.9%</i>	<i>41.6%</i>	<i>+0.3p</i>	
Selling, general & administrative expenses	107.0	104.5	(2.5)	(2%)
	<i>29.3%</i>	<i>30.6%</i>	<i>+1.3p</i>	
Restructuring	1.4	1.0	(0.4)	(40%)
Operating income	44.3	36.5	7.8	21%
	<i>12.1%</i>	<i>10.7%</i>	<i>+1.4p</i>	
Other expense	4.8	4.1	(0.7)	17%
Income before taxes	39.5	32.4	7.1	22%
Provision for income taxes	13.0	10.5	(2.5)	(24%)
Net income	26.5	\$21.9	\$4.6	21%
Diluted earnings per share	\$0.77	\$0.63	\$0.14	22%

Reconciliation of Reported Sales to Organic Sales



(M) (Unaudited)	Third Quarter Ended			
	Americas	Europe*	APMEA*	Total
Reported net sales 3Q'17	\$239.1	\$109.0	\$16.6	\$364.7
Reported net sales 3Q'16	215.8	107.0	18.3	341.1
Dollar change	\$23.3	\$2.0	\$(1.7)	\$23.6
Net Sales % increase (decrease)	11%	2%	-10%	7%
(Increase) due to foreign exchange	—	-5%	—	-2%
(Increase) due to acquisition	-7%	—	—	-4%
Subtotal	-7%	-5%	—	-6%
Organic sales increase (decrease)	4%	-3%	-10%	1%

	Nine Months Ended			
	Americas	Europe*	APMEA*	Total
Reported net sales 3Q'17	\$718.3	\$324.6	\$47.5	\$1,090.4
Reported net sales 3Q'16	677.6	329.6	49.2	1,056.4
Dollar change	\$40.7	\$(5.0)	\$(1.7)	\$34.0
Net Sales % increase (decrease)	6%	-2%	-4%	3%
Decrease due to foreign exchange	—	1%	1%	—
Decrease due to divestitures	1%	—	—	—
(Increase) due to acquisition	-6%	—	-3%	-4%
Subtotal	-6%	1%	-2%	-4%
Organic sales (decrease) increase	—	-1%	-6%	-1%

* 2016 results retrospectively adjusted to reflect the change in composition of reportable segments moving Watts Middle East out of Europe and into APMEA.

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



(M)
(Unaudited)

	Third Quarter Ended		Nine Months YTD	
	2017	2016	2017	2016
Net Sales	\$364.7	\$341.1	\$1,090.4	\$1,056.4
Operating income - as reported	\$44.3	\$36.5	\$124.8	\$113.4
Operating margin %	12.1%	10.7%	11.4%	10.7%
Adjustments for special items:				
Gain on disposition	—	—	—	(8.7)
Acquisitions related costs	—	—	0.2	0.6
Restructuring	1.4	1.0	3.6	5.6
Transformation costs	0.1	3.9	2.9	11.9
	\$1.5	\$4.9	\$6.7	\$9.4
Operating income - as adjusted	\$45.8	\$41.4	\$131.5	\$122.8
Adjusted operating margin %	12.6%	12.1%	12.1%	11.6%
Net income - as reported	\$26.5	\$21.9	\$75.4	\$66.7
Adjustments for special items - tax affected:				
Gain on disposition	—	—	—	(8.3)
Acquisitions related costs	—	—	0.1	(0.5)
Restructuring	0.9	0.6	2.4	3.6
Transformation costs	0.1	2.3	1.9	7.3
Other - tax adjustment	—	(0.2)	(1.3)	1.5
	\$1.0	\$2.7	\$3.1	\$3.6
Net income - as adjusted	\$27.5	\$24.6	\$78.5	\$70.3
Earnings per share				
Diluted earnings per share - as reported	\$0.77	\$0.63	\$2.19	\$1.93
Adjustments for special items	0.03	0.08	0.09	0.11
Diluted earnings per share - as adjusted	\$0.80	\$0.71	\$2.28	\$2.04

Adjusted Operating Income by Segment



(M)
(Unaudited)

	Third Quarter Ended 2017				
	Americas	Europe*	APMEA*	Corp.	Total
Reported GAAP Operating Income	\$39.8	13.4	0.5	(9.4)	44.3
% of sales	16.6%	12.3%	3.0%		12.1%
Adjustments for special items	\$0.7	0.6	0.2	—	1.5
Adjusted Operating income (loss)	\$40.5	14.0	0.7	(9.4)	45.8
% of sales	16.9%	12.8%	4.3%		12.6%

	Third Quarter Ended 2016				
	Americas	Europe*	APMEA*	Corp.	Total
Reported GAAP Operating Income	\$32.2	12.3	1.6	(9.6)	36.5
% of sales	14.9%	11.5%	8.7%		10.7%
Adjustments for special items	\$4.1	0.4	0.5	(0.1)	4.9
Adjusted Operating income (loss)	\$36.3	12.7	2.1	(9.7)	41.4
% of sales	16.8%	11.9%	11.5%		12.1%

	Nine Months Ended 2017				
	Americas	Europe*	APMEA*	Corp.	Total
Reported GAAP Operating Income	\$110.5	38.5	3.3	(27.5)	124.8
% of sales	15.4%	11.9%	6.9%		11.4%
Adjustments for special items	\$5.0	1.1	0.6	—	6.7
Adjusted Operating income (loss)	\$115.5	39.6	3.9	(27.5)	131.5
% of sales	16.1%	12.2%	8.3%		12.1%

	Nine Months Ended 2016				
	Americas	Europe*	APMEA*	Corp.	Total
Reported GAAP Operating Income	\$95.7	32.3	13.1	(27.7)	113.4
% of sales	14.1%	9.8%	26.6%		10.7%
Adjustments for special items	\$13.1	3.4	(7.0)	(0.1)	9.4
Adjusted Operating income (loss)	\$108.8	35.7	6.1	(27.8)	122.8
% of sales	16.1%	10.8%	12.4%		11.6%

* 2016 results retrospectively adjusted to reflect the change in composition of reportable segments moving Watts Middle East out of Europe and into APMEA.

Reconciliation of Net Cash Provided by Operations to Free Cash Flow



(M)
(Unaudited)

	Nine Months Ended	
	2017	2016
Net cash provided by operations - as reported	\$73.4	\$69.6
<u>Less:</u> additions to property, plant, and equipment	(17.1)	(26.3)
<u>Plus:</u> proceeds from the sale of property, plant, and equipment	0.4	—
Free cash flow	\$56.7	\$43.3
Net income - as reported	\$75.4	\$66.7
Cash conversion rate of free cash flow to net income	75.2%	64.9%

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



(M)
(Unaudited)

	October 1, 2017	December 31, 2016
Current portion of long-term debt	\$22.5	\$139.1
<u>Plus:</u> Long-term debt, net of current portion	500.6	511.3
<u>Less:</u> Cash and cash equivalents	(246.6)	(338.4)
Net debt	\$276.5	\$312.0
Net debt	\$276.5	\$312.0
<u>Plus:</u> Total stockholders' equity	830.8	736.3
Capitalization	\$1,107.3	1,048.3
Net debt to capitalization ratio	25.0%	29.8%

Retrospective Adjustment – Segment Information

(M)
(Unaudited)

NET SALES						
For the Quarter Ended					Year Ended	
	April 3, 2016	July 3, 2016	October 2, 2016	December 31, 2016	December 31, 2016	December 31, 2015
Americas	\$222.3	\$239.5	\$215.8	\$223.3	\$900.9	\$978.5
Europe	108.3	114.3	107.0	101.7	431.3	436.0
APMEA	13.6	17.3	18.3	17.0	66.2	53.2
Total	\$344.2	\$371.1	\$341.1	\$342.0	\$1,398.4	\$1,467

GAAP Operating Income (Loss)						
For the Quarter Ended					Year Ended	
	April 3, 2016	July 3, 2016	October 2, 2016	December 31, 2016	December 31, 2016	December 31, 2015
Americas	\$28.1	\$35.4	\$32.2	\$31.4	\$127.1	\$109.9
Europe	9.8	10.2	12.3	7.7	40.0	(99.6)
APMEA	1.7	9.8	1.6	2.0	15.1	0.5
Corporate	(8.4)	(9.7)	(9.6)	(9.5)	(37.2)	(100.9)
Total	\$31.2	\$45.7	\$36.5	\$31.6	\$145.0	\$(90.1)

Adjusted Operating Income (Loss)						
For the Quarter Ended					Year Ended	
	April 3, 2016	July 3, 2016	October 2, 2016	December 31, 2016	December 31, 2016	December 31, 2015
Americas	\$33.0	\$39.5	\$36.3	\$34.2	\$143.0	\$135.7
Europe	10.2	12.8	12.7	8.9	44.6	40.0
APMEA	2.4	1.6	2.1	2.0	8.1	6.5
Corporate	(8.3)	(9.8)	(9.7)	(7.9)	(35.7)	(33.8)
Total	\$37.3	\$44.1	\$41.4	\$37.2	\$160.0	\$148.4

Note: The tables contains a retrospective revision of the quarterly, year-to-date, and annual operating results by operating segment of the Company for 2016 and the annual operating results by operating segment for 2015 to reflect the change in composition of reportable segments moving Watts Middle East out of Europe and into APMEA. Note the four quarters may not sum to full year due to rounding. See our current report on Form 8-K dated April 28, 2017 in the Investor Relations section of our website (www.wattswater.com), including a reconciliation of GAAP and Non-GAAP numbers.