

Watts Water Technologies Q1 2023 Earnings Conference Call

May 4, 2023



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These statements are related to forecasts of sales, margins, earnings, earnings per share, effective tax rate, capital expenditures, cash flow, water market growth, acquisition strategy, the impact of the Ukraine War, supply chain disruptions, inflation and management goals and objectives.

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Q1 Performance

- Results better than expected; positive price, mix and productivity
- +LSD top-line growth despite challenging comp from prior year (14% organic growth in Q1 2022)
- Record Q1 adjusted operating margin of 17.9%, expansion of 220 bps
- Announced 20% dividend increase



Operations

- Completed acquisition of Enware in Q2; integration going well
- Staying ahead of price / cost curve as inflation moderates
- Remain focused on ESG efforts; 2022 Sustainability report to be published in Q2



Market Expectations

- Global GDP lower than prior year, but revised upward; R&R holding
- Europe stabilizing
- Single-family new construction weak; multi-family and non-residential indicators signaling slowdown
- Institutional and light industrial (data centers, food & beverage) remain supportive



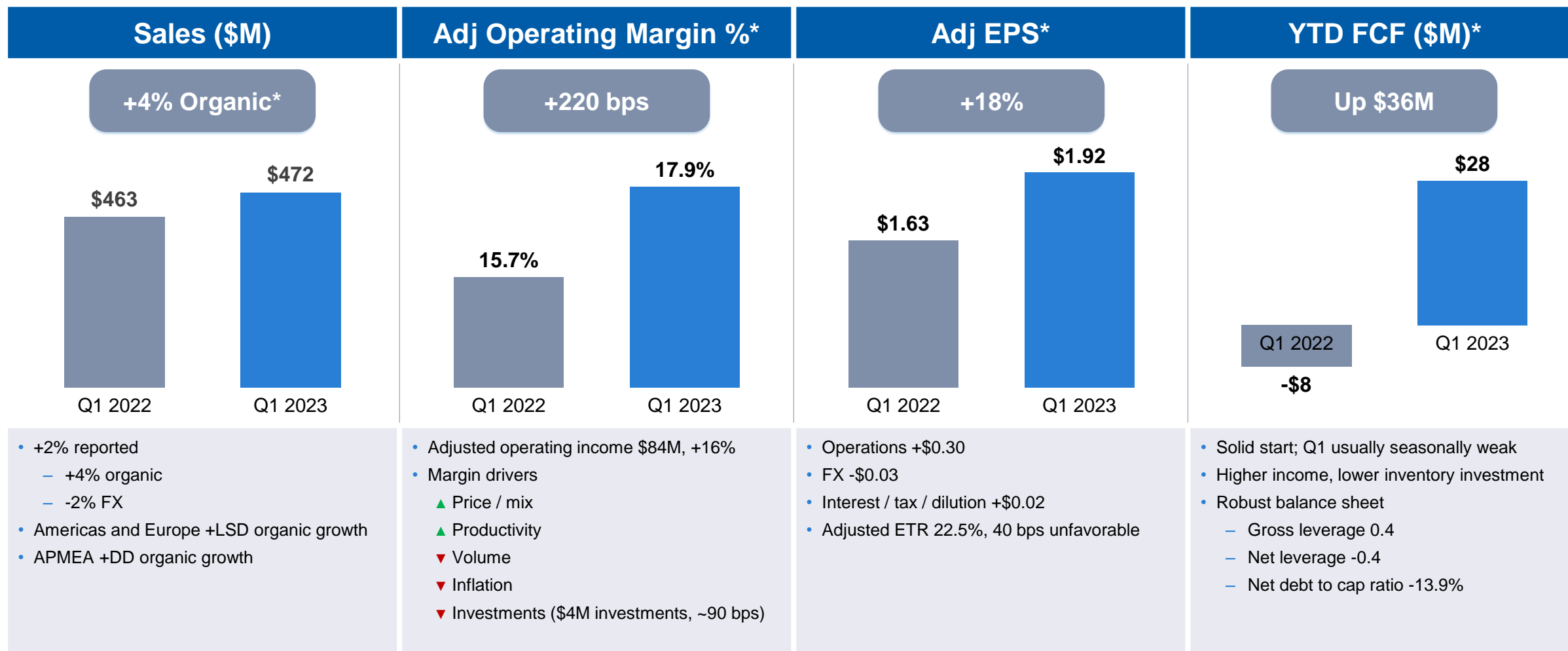
Outlook

- Challenging comps in Q2 (16% organic growth in Q2 2022)
- Maintaining full year organic sales growth outlook and raising operating margin outlook
 - ▲ Q1 performance
 - ▲ Price / mix
 - ▲ GDP positive
 - ▼ Multi-family new construction potential slowing
 - ▼ Rising interest rates / lending tightening
- Enware acquisition adds ~\$20M sales in 2023; breakeven in 2023

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

Good Q1 Execution; Raising Margin Outlook for 2023

Q1 2023 Financial Summary



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

Record Q1 Sales, Operating Income, Operating Margin and EPS

Q1 2023 Regional Results



	Sales (\$M)	Adj Operating Margin %*	Sales and Business	Adj Operating Profit* and Margin
AMERICAS	<p>\$323 Up 3% Organic*</p>	<p>22.5% Up 400 bps</p>	<ul style="list-style-type: none"> +3% reported and organic Solid price realization Mix shift: non-residential increase, residential decrease 	<ul style="list-style-type: none"> Adjusted operating profit ~\$73M, +25% Margin drivers: <ul style="list-style-type: none"> ▲ Price, mix ▲ Productivity ▼ Volume ▼ Inflation ▼ Investments
EUROPE	<p>\$128 Up 4% Organic*</p>	<p>14.6% Down 250 bps</p>	<ul style="list-style-type: none"> -1% reported +4% organic -5% FX Solid price realization DD growth in Germany and Benelux, MSD growth in France and Italy, Scandinavia down MSD Russia exit approximately \$2M (-1%) VPY 	<ul style="list-style-type: none"> Adjusted operating profit ~\$19M, -15% Margin drivers: <ul style="list-style-type: none"> ▲ Price ▲ Productivity ▼ Volume ▼ Inflation ▼ FX
APMEA	<p>\$20 Up 11% Organic*</p>	<p>19.7% Up 490 bps</p>	<ul style="list-style-type: none"> +4% reported +11% organic -7% FX DD growth in China and Middle East Historic flooding driving MSD decline in New Zealand 	<ul style="list-style-type: none"> Adjusted operating profit ~\$4M, +38% Margin drivers: <ul style="list-style-type: none"> ▲ Price ▲ Trade / interco volume ▲ Productivity ▼ Inflation

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

Delivered Another Solid Quarter

Q2 and Full Year 2023 Outlook*



	Q2 2023	Full Year 2023		Other Key Full Year Inputs
Organic Growth	-4% to Flat Acquired sales ~\$7M	Total: -5% to +2% [Prior Same] Acquired sales ~\$20M	Corporate Costs	~\$52M
Adj Op Margin	17.2% to 17.8%	Total 15.7% to 16.3% [Prior 15.4% to 16.0%]	Interest Expense	~\$8M
Adj Margin Growth	-130 bps to -70 bps	-70 bps to -10 bps [Prior -100 bps to -40 bps] Includes \$20M of incremental investments	Effective Tax Rate	~25%
Free Cash Flow	Seasonally Slower	≥ 100% of Net Income [Prior Same]	CAPEX / D&A	~\$42M / ~\$42M
FX Euro / \$	1.09 VPY (+2%) Sales (~\$2M); EPS (~+\$0.01)	1.09 VPY (+4%) Sales (+\$12M); EPS (~+\$0.04)	Share Count	~33.5M Shares

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

* As of May 3, 2023

Solid start to 2023 with Q1 results better than expected

Increasing full year operating margin outlook; maintaining full year organic sales growth

Closed on Enware Australia acquisition in Q2

Managing the price / cost dynamic

Investing for the future; increasing dividend 20%

Increasing FY Op Margin and Maintaining FY Organic Sales Growth

Appendix

Company Highlights

WTS

NYSE

1874

Year Founded

North Andover, MA

Headquarters

~4,600

Employees

24

Total Brands

>75

Countries Served

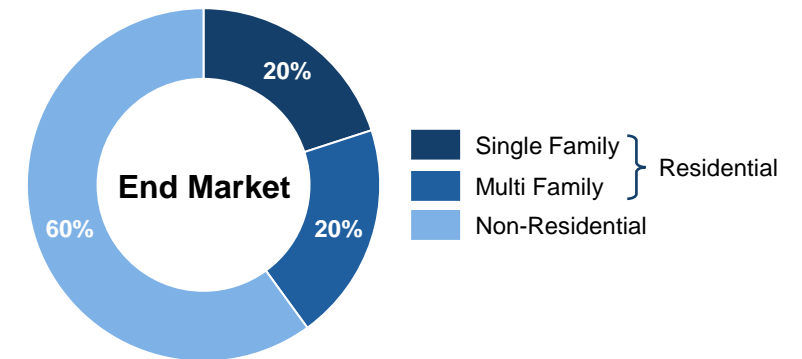
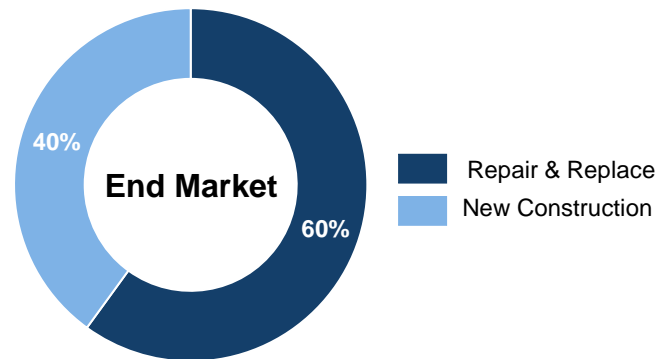
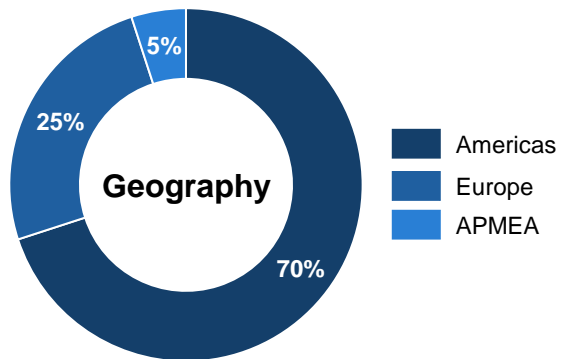
>\$15B

Addressable Market

One Watts

Operating System

Revenue Breakdown FY 2022



Global Leader in Commercial and Residential Water Products



RECOGNIZED LEADER

- Global reach with leading market positions in commercial and residential water space



ALIGNED TO LONG-TERM SECULAR TRENDS AND DIVERSE MARKETS

- Addressing global secular macro themes
- Large installed base; strong repair and replacement footprint



FOCUS ON INNOVATION AND PROFITABLE GROWTH

- Continuing execution drove record Q1 2023 performance
- Continuing investment in Smart & Connected portfolio in 2023



ACCRETIVE CAPITAL DEPLOYMENT AND STRONG BALANCE SHEET

- Targeting >100% cash conversion with efficient capital structure
- Balanced capital allocation



RESILIENT BUSINESS MODEL TESTED ACROSS ECONOMIC CYCLES

- 2023 outlook reflects challenging global macros and difficult comps
- Maintaining long-term strategy

Consolidated Statements of Operations



(M)
(Unaudited)

	First Quarter			
	2023	2022	B/(W)	%
Net sales	\$471.7	\$463.2	\$8.5	2%
Cost of goods sold	253.6	264.6	(11.0)	(4%)
Gross profit	218.1	198.6	19.5	10%
	46.2%	42.9%	+330 bps	
Selling, general & administrative expenses	133.7	126.1	(7.6)	(6%)
	28.3%	27.2%	-110 bps	
Restructuring	(0.3)	1.0	1.3	130%
Operating income	84.7	71.5	13.2	18%
	18.0%	15.4%	+160 bps	
Other expense	1.2	1.6	0.4	25%
Income before taxes	83.5	69.9	13.6	19%
Provision for income taxes	18.8	15.4	(3.4)	(22%)
Net income	\$64.7	\$54.5	\$10.2	19%
Diluted earnings per share	\$1.93	\$1.61	\$0.32	20%

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	First Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2023	\$323.2	\$128.3	\$20.2	\$471.7
Reported net sales 2022	\$313.9	\$129.9	\$19.4	\$463.2
Dollar change	\$9.3	(\$1.6)	\$1.2	\$8.5
Net sales % increase (decrease)	3%	(1%)	4%	2%
Decrease due to foreign exchange	-	5%	7%	2%
Organic sales increase	3%	4%	11%	4%

Reconciliation of GAAP to Non-GAAP Measures



(M)
(Unaudited)

	First Quarter	
	2023	2022
Net Sales	\$471.7	\$463.2
Operating income - as reported	\$84.7	\$71.5
<i>Operating margin %</i>	18.0%	15.4%
Adjustments for special items:		
Restructuring	(\$0.3)	\$1.0
Operating income - as adjusted	\$84.4	\$72.5
<i>Adjusted operating margin %</i>	17.9%	15.7%
Net income - as reported	\$64.7	\$54.5
Adjustments for special items - tax effected:		
Restructuring	(\$0.2)	\$0.7
Net income - as adjusted	\$64.5	\$55.2
Earnings per share		
Diluted earnings per share - as reported	\$1.93	1.61
Adjustments for special items	(\$0.01)	\$0.02
Diluted earnings per share - as adjusted	\$1.92	\$1.63

Adjusted Operating Income by Segment



(M)
(Unaudited)

	First Quarter 2023					First Quarter 2022				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$72.5	19.2	4.0	(11.0)	\$84.7	\$57.9	21.1	3.0	(10.5)	\$71.5
<i>Operating margin %</i>	22.4%	15.0%	19.7%		18.0%	18.4%	16.2%	15.5%		15.4%
Adjustments for special items	\$0.1	(0.4)	-	-	(\$0.3)	\$0.1	1.0	(0.1)	-	\$1.0
Adjusted operating income (loss)	\$72.6	18.8	4.0	(11.0)	\$84.4	\$58.0	22.1	2.9	(10.5)	\$72.5
<i>Adjusted operating margin %</i>	22.5%	14.6%	19.7%		17.9%	18.5%	17.1%	14.8%		15.7%

Reconciliation of Net Cash Provided by Operations to Free Cash Flow



(M)
(Unaudited)

	First Quarter	
	2023	2022
Net cash provided by (used in) operations – as reported	\$33.4	(\$2.0)
<u>Less:</u> additions to property, plant, and equipment	(5.1)	(5.6)
Free cash flow	\$28.3	(\$7.6)
Net income – as reported	\$64.7	\$54.5
Cash conversion rate of free cash flow to net income	44%	(14%)

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



(M)
(Unaudited)

	March 26, 2023	December 31, 2022
Current portion of long-term debt	\$ -	\$ -
<u>Plus:</u> Long-term debt, net of current portion	147.8	147.6
<u>Less:</u> Cash and cash equivalents	(311.8)	(310.8)
Net debt	(\$164.0)	(\$163.2)
Net debt	(\$164.0)	(\$163.2)
<u>Plus:</u> Total stockholders' equity	1,345.8	1,300.6
Capitalization	\$1,181.8	\$1,137.4
Net debt to capitalization ratio	(13.9%)	(14.3%)

Calculations of Gross and Net Leverage



(M)
(Unaudited)

	Trailing Twelve Months through March 26, 2023
Net income – as reported	\$261.7
<u>Plus:</u> Interest expense, net	6.2
<u>Plus:</u> Income taxes	59.4
<u>Plus:</u> Depreciation	27.5
<u>Plus:</u> Amortization	12.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$366.8
Gross debt as of March 26, 2023	\$147.8
<u>Less:</u> Cash & cash equivalents as of March 26, 2023	311.8
Net debt	(\$164.0)
Gross debt to EBITDA ratio (Gross leverage)	0.4x
Net debt to EBITDA ratio (Net leverage)	(0.4)x

Reconciliation between GAAP and Non-GAAP Measures Included in 2023 Outlook*



	Second Quarter 2023	Full Year 2023
Net Sales		
Reported net sales growth	-3% to 1%	-4% to +3%
Forecasted impact of acquisition / FX	(1)%	(1)%
Organic net sales growth	-4% to Flat	-5% to +2%
Operating Margin		
Operating margin range	17.2% to 17.8%	15.7% to 16.3%
Forecasted restructuring / other costs	0.0%	0.0%
Adjusted operating margin range	17.2% to 17.8%	15.7% to 16.3%

* As of May 4, 2023