

Watts Water Technologies Q2 2023 Earnings Conference Call

August 3, 2023



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, 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.

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 of which 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 our most recent Annual Report on Form 10-K and in subsequent reports filed with the SEC.



Q2 Performance

- Record results exceeded our expectations
- Organic sales growth flat to prior year despite challenging comp (16% organic growth in Q2 2022)
- Record Q2 adjusted operating margin of 19.5%, expansion of 100 bps
- Strong free cash flow in H1
- New \$150M stock repurchase program



Operations

- Enware integration going well; cost actions ahead of schedule
- Staying ahead of price / cost curve as inflation moderates
- Investment in automation paying off in productivity savings



Market

- Global GDP remains positive; R&R holding
- Europe solid through H1; indicators softening
- Americas single-family new construction bottoming out; multi-family holding up
- Americas non-residential indicators resilient; strength in institutional and light industrial
- China economy moderating; continued growth in Middle East and Australia



Outlook

- Challenging comps in Q3 (12% organic growth in Q3 2022)
- Raising full year outlook
 - ▲ H1 performance
 - ▲ Price / mix
 - ▲ Americas non-residential
 - ▼ Europe macros softening
 - ▼ Americas specialty channel
 - ▼ Rising interest rates / lending tightening
- Increasing FY investments to \$23M from \$20M

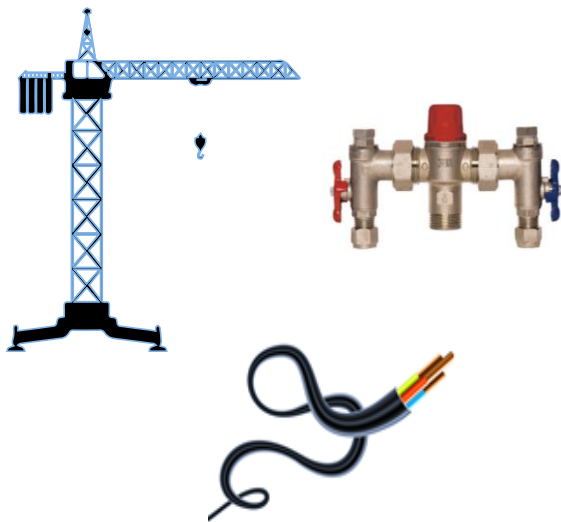
* See Appendix for reconciliation of non-GAAP measures to their corresponding GAAP measures

Solid Q2 with Strong Execution; Raising Full Year Outlook

Enware Smart Flow Water Risk Management System

- Smart and connected enabled thermostatic mixing valves (TMV) and tapware provide water temperature delivery and flow usage monitoring that assists in compliance management for health care facilities

Hardwired



Wireless



System Features and Benefits



Temperature and Flow Delivery Performance

- Mitigate scald and infection risk
- **Saves up to 80% of water** required to maintain system
- Maximize energy efficiency
- Up to **65% Operational Cost Savings** against manually managed, industry best practice



Maintenance Requirements

- Maintenance planning and documentation
- **50% reduction** in unplanned maintenance
- Provides a **better customer experience**



Auditable Confirmation of Usage and Performance

- Manage compliance
- Facility brand reputation

Enware Smart-Enabled Water Delivery Helps Manage Water System Risks



Our ESG strategy is built on four pillars and is focused on continuous improvement as we evolve to ensure sustainability is integrated at every level of our business



FOOTPRINT

Reducing our water, energy and waste footprint

- **Water** → 62% intensity reduction since 2018
- **Energy** → 57% emissions intensity reduction since 2018
- **Waste** → 12% intensity reduction since 2018
- Signed the CEO Water Mandate



HANDPRINT

Serving customers' sustainability needs with our "triple play"

- **Safety & Regulation** → 74% of product revenues contribute to health and safety*
- **Energy Efficiency** → 24% of product revenues improve energy efficiency*
- **Water Conservation** → 37% of product revenues contribute to water conservation*

* Products may fit into multiple categories



CORPORATE GOVERNANCE

Earning the trust of our stakeholders

- **Ethics and Compliance** → 99% of employees acknowledge adherence to Watts ethics Code
- **Responsible Supply Chain** → 94% of our suppliers have confirmed our ESG standards
- **Responsible Corporate Citizen** → implemented formal Human Rights Policy aligned with UN Global Compact



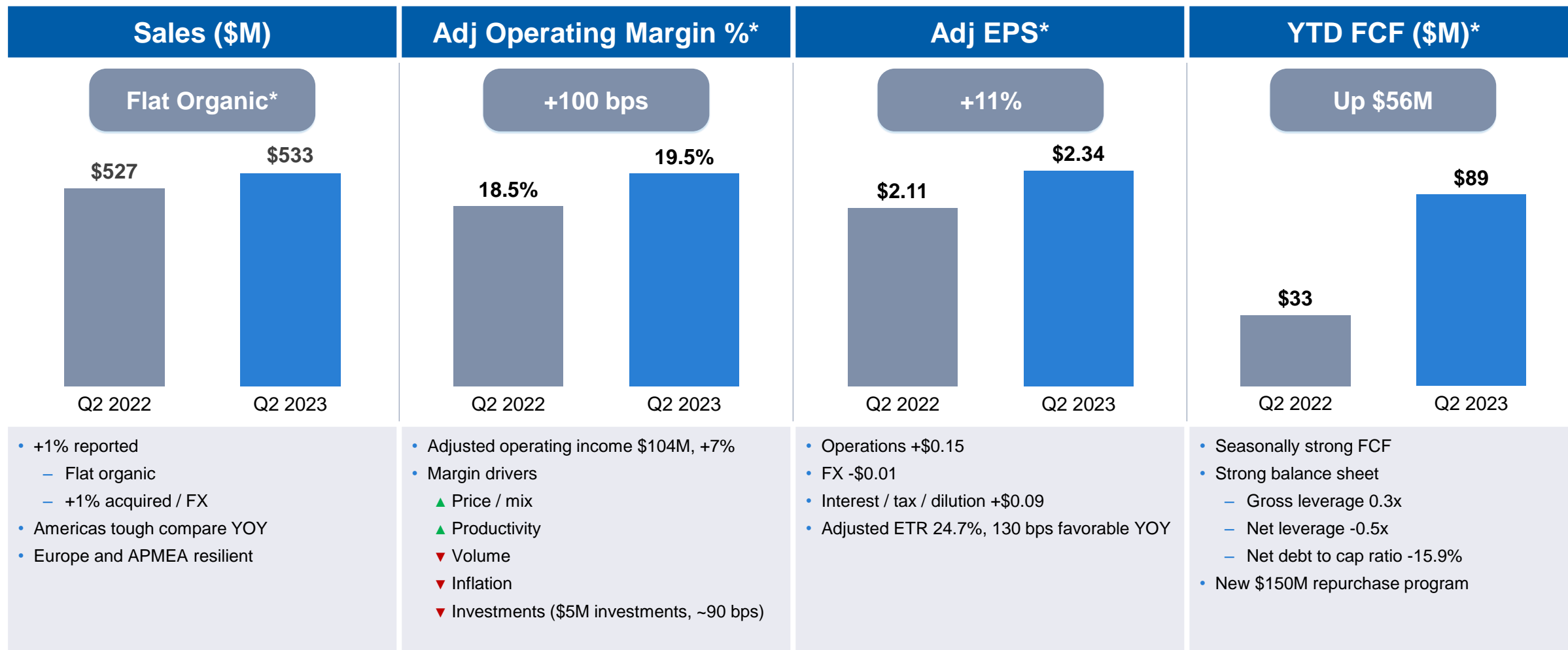
SOCIAL RESPONSIBILITY

Enriching, engaging and protecting our employees and communities

- **Employee Training** → >22k hours of employee training
- **Health & Safety** → Zero recordable injuries at 14 of our sites
- **Diversity, Equity & Inclusion** → implemented new inclusion and recruitment strategies; delivering global inclusive leadership training; fostering robust ERGs

Learn More About How Sustainability is a Core Commitment in Our 2022 Sustainability Report

Q2 2023 Financial Summary



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

Record Q2 Sales, Operating Margin and EPS

Q2 2023 Regional Results



	Sales (\$M)	Adj Operating Margin %*	Sales and Business	Adj Operating Profit* & Margin
AMERICAS	<p>\$367 Down 2% Organic*</p>	<p>24.9% Up 210 bps</p>	<ul style="list-style-type: none"> -2% reported and organic Tough PY compare; 22% organic growth Solid price realization Strong growth in non-residential core valve products Double-digit decline in gas connectors, marine instrumentation and radiant heating applications primarily driven by tough comps Single-family residential weakness 	<ul style="list-style-type: none"> Adjusted operating profit ~\$92M, +7% Margin drivers: <ul style="list-style-type: none"> ▲ Price, mix ▲ Productivity ▼ Volume ▼ Inflation ▼ Investments
EUROPE	<p>\$136 Up 5% Organic*</p>	<p>16.2% Down 10 bps</p>	<ul style="list-style-type: none"> +6% reported +5% organic +1% FX Solid price realization Growth in Germany, France and Benelux Italy and Scandinavia down; reduction in Italian subsidies 	<ul style="list-style-type: none"> Adjusted operating profit ~\$22M, +5% Margin drivers: <ul style="list-style-type: none"> ▲ Price, mix ▲ Productivity ▲ FX ▼ Volume ▼ Inflation / investments
APMEA	<p>\$30 Up 6% Organic*</p>	<p>18.2% Up 250 bps</p>	<ul style="list-style-type: none"> +33% reported +6% organic +33% acquired -6% FX Strong growth in Middle East and Australia Enware integration going well; contributed ~\$8M revenue, break-even operating income 	<ul style="list-style-type: none"> Adjusted operating profit ~\$6M, +53% Margin drivers: <ul style="list-style-type: none"> ▲ Price ▲ Trade / intercompany volume ▲ Productivity ▼ Inflation / investments ▼ Enware acquisition

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

Solid Quarter Despite Tough Prior Year Comps

Q3 and Full Year 2023 Outlook*



	Q3 2023	Full Year 2023		Other Key Full Year Inputs
Organic Growth	-3% to +1% Acquired sales ~\$8M	Total: -2% to +2% [Prior -5% to +2%] Acquired sales ~\$24M	Corporate Costs	~\$54M
Adj Op Margin	16.0% to 16.5%	Total 16.7% to 17.3% [Prior 15.7% to 16.3%]	Net Interest Expense	~\$3M
Adj Margin Growth	-80 bps to -30 bps	+30 bps to +90 bps [Prior -70 bps to -10 bps] Includes \$23M of incremental investments	Effective Tax Rate	~25%
Free Cash Flow	Positive	≥ 100% of Net Income [Prior Same]	CAPEX / D&A	~\$35M / ~\$42M
FX Euro / \$	1.10 Sales (~+\$8M); EPS (~+\$0.02)	1.09 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 August 2, 2023

Solid performance continues with Q2 results better than expected

Increasing full year sales and margin outlook

Europe macros weakening

Driving our smart & connected strategy and sustainability initiatives

Strong balance sheet provides flexibility; Announced \$150M stock repurchase plan

Increasing Full Year Sales and Margin Outlook

Appendix

Company Highlights

WTS

NYSE

1874

Year Founded

North Andover, MA

Headquarters

~4,600

Employees

24

Total Brands

>75

Countries Served

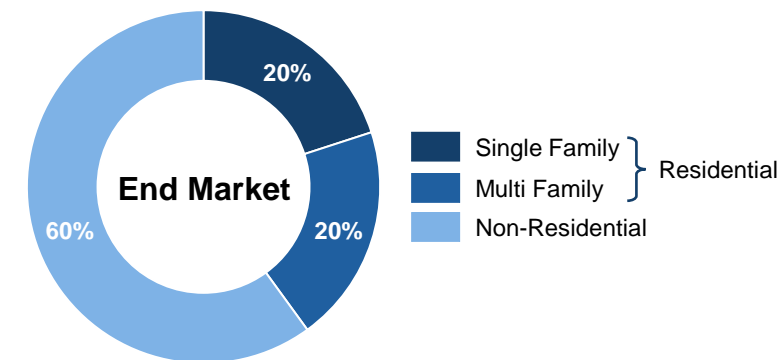
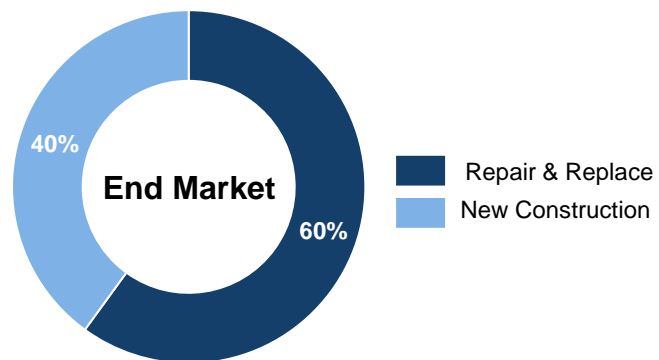
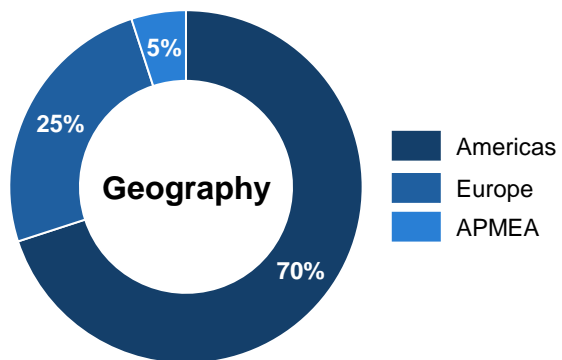
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Addressable Market

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

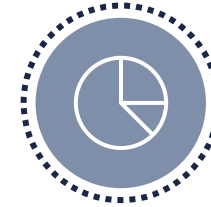
Large installed base; strong repair and replacement footprint



Focus on Innovation and Profitable Growth

Strong execution drove record 2022 performance

Continuing investment in smart and 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)

	Second Quarter			
	2023	2022	B/(W)	%
Net sales	\$532.8	\$526.6	\$6.2	1%
Cost of goods sold	280.0	287.4	7.4	3%
Gross profit	252.8	239.2	13.6	6%
	<i>47.4%</i>	<i>45.4%</i>	<i>+200 bps</i>	
Selling, general & administrative expenses	150.8	141.6	(9.2)	(6%)
	<i>28.3%</i>	<i>26.9%</i>	<i>-140 bps</i>	
Restructuring	1.6	1.7	0.1	6%
Operating income	100.4	95.9	4.5	5%
	<i>18.8%</i>	<i>18.2%</i>	<i>+60 bps</i>	
Other (income) expense	(0.2)	1.7	1.9	112%
Income before taxes	100.6	94.2	6.4	7%
Provision for income taxes	24.7	24.5	(0.2)	(1%)
Net income	\$75.9	\$69.7	\$6.2	9%
Diluted earnings per share	\$2.26	\$2.07	\$0.19	9%

Reconciliation of Reported Sales to Organic Sales



(M)
(Unaudited)

	Second Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2023	\$366.9	\$135.6	\$30.3	\$532.8
Reported net sales 2022	\$375.9	\$127.9	\$22.8	\$526.6
Dollar change	(\$9.0)	\$7.7	\$7.5	\$6.2
Net sales % (decrease) increase	(2%)	6%	33%	1%
(Increase) decrease due to foreign exchange	-	(1%)	6%	0%
Increase due to acquisitions	-	-	(33%)	(1%)
Organic sales (decrease) increase	(2%)	5%	6%	0%

	Six Months			
	Americas	Europe	APMEA	Total
Reported net sales 2023	\$690.1	\$263.9	\$50.5	\$1,004.5
Reported net sales 2022	\$689.8	\$257.8	\$42.2	\$989.8
Dollar change	\$0.3	\$6.1	\$8.3	\$14.7
Net sales % increase	0%	2%	20%	2%
Decrease due to foreign exchange	-	2%	6%	1%
Increase due to acquisitions	-	-	(18%)	(1%)
Organic sales increase	0%	4%	8%	2%

Reconciliation of GAAP to Non-GAAP Measures



(M)
(Unaudited)

	Second Quarter		Six Months	
	2023	2022	2023	2022
Net Sales	\$532.8	\$526.6	\$1,004.5	\$989.8
Operating income - as reported	\$100.4	\$95.9	\$185.1	\$167.4
<i>Operating margin %</i>	18.8%	18.2%	18.4%	16.9%
Adjustments for special items:				
Restructuring	\$1.6	\$1.7	\$1.3	\$2.7
Acquisition related costs	\$1.9	-	\$1.9	-
Operating income - as adjusted	\$103.9	\$97.6	\$188.3	\$170.1
<i>Adjusted operating margin %</i>	19.5%	18.5%	18.7%	17.2%
Net income - as reported	\$75.9	\$69.7	\$140.6	\$124.2
Adjustments for special items - tax effected:				
Restructuring	\$1.2	\$1.3	\$1.0	\$2.0
Acquisition related costs	\$1.3	-	\$1.3	-
Net income - as adjusted	\$78.4	\$71.0	\$142.9	\$126.2
Earnings per share				
Diluted earnings per share - as reported	\$2.26	\$2.07	\$4.19	\$3.68
Adjustments for special items	\$0.08	0.04	\$0.07	0.06
Diluted earnings per share - as adjusted	\$2.34	\$2.11	\$4.26	\$3.74

Adjusted Operating Income by Segment



(M)
(Unaudited)

	Second Quarter 2023					Second Quarter 2022				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$91.6	21.5	2.5	(15.2)	\$100.4	\$85.5	19.6	3.6	(12.8)	\$95.9
<i>Operating margin %</i>	24.9%	15.8%	8.4%		18.8%	22.7%	15.3%	15.6%		18.2%
Adjustments for special items	\$-	0.5	3.0	-	\$3.5	\$0.4	1.3	-	-	\$1.7
Adjusted operating income (loss)	\$91.6	22.0	5.5	(15.2)	\$103.9	\$85.9	20.9	3.6	(12.8)	\$97.6
<i>Adjusted operating margin %</i>	24.9%	16.2%	18.2%		19.5%	22.8%	16.3%	15.7%		18.5%

	Six Months 2023					Six Months 2022				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	\$164.1	40.7	6.5	(26.2)	\$185.1	\$143.4	40.7	6.6	(23.3)	\$167.4
<i>Operating margin %</i>	23.8%	15.4%	12.9%		18.4%	20.8%	15.8%	15.6%		16.9%
Adjustments for special items	\$0.1	0.1	3.0	-	\$3.2	\$0.5	2.3	(0.1)	-	\$2.7
Adjusted operating income (loss)	\$164.2	40.8	9.5	(26.2)	\$188.3	\$143.9	43.0	6.5	(23.3)	\$170.1
<i>Adjusted operating margin %</i>	23.8%	15.5%	18.8%		18.7%	20.9%	16.7%	15.4%		17.2%

Reconciliation of Net Cash Provided by Operations to Free Cash Flow



(M)
(Unaudited)

	Six Months	
	2023	2022
Net cash provided by operations – as reported	\$100.5	44.9
<u>Less:</u> additions to property, plant, and equipment	(11.6)	(13.1)
<u>Plus:</u> proceeds from the sale of property, plant, and equipment	-	0.8
Free cash flow	\$88.9	\$32.6
Net income – as reported	\$140.6	\$124.2
Cash conversion rate of free cash flow to net income	63%	26%

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



(M)
(Unaudited)

	June 25, 2023	December 31, 2022
Current portion of long-term debt	\$ -	\$ -
<u>Plus</u> : Long-term debt, net of current portion	98.0	147.6
<u>Less</u> : Cash and cash equivalents	(291.9)	(310.8)
Net debt	(\$193.9)	(\$163.2)
Net debt	(\$193.9)	(\$163.2)
<u>Plus</u> : Total stockholders' equity	1,414.3	1,300.6
Capitalization	\$1,220.4	\$1,137.4
Net debt to capitalization ratio	(15.9%)	(14.3%)

Calculations of Gross and Net Leverage



(M)
(Unaudited)

	Trailing Twelve Months through June 25, 2023
Net income – as reported	\$267.9
<u>Plus:</u> Interest expense, net	5.1
<u>Plus:</u> Income taxes	59.6
<u>Plus:</u> Depreciation	27.7
<u>Plus:</u> Amortization	12.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$372.3
Gross debt as of June 25, 2023	\$98.0
<u>Less:</u> Cash & cash equivalents as of June 25, 2023	291.9
Net debt	(\$193.9)
Gross debt to EBITDA ratio (Gross leverage)	0.3x
Net debt to EBITDA ratio (Net leverage)	(0.5)x

Reconciliation of “Adjusted” Non-GAAP Effective Tax Rate



(M)
(Unaudited)

	Second Quarter		Year	
	2023	2022	2023	2022
Income before income taxes – as reported	\$100.6	\$94.2	\$184.1	\$164.1
Provision for income taxes – as reported	\$24.7	\$24.5	\$43.5	\$39.9
<i>Effective tax rate – as reported</i>	24.6%	26.0%	23.6%	24.3%
Income before income taxes – as reported	\$100.6	\$94.2	\$184.1	\$164.1
Total adjustments for special items	3.5	1.7	3.2	2.7
Income before income taxes – as adjusted	\$104.1	\$95.9	\$187.3	\$166.8
Provision for income taxes – as reported	\$24.7	\$24.5	\$43.5	\$39.9
Tax effect of total adjustment for special items	1.0	0.4	0.9	0.7
Provision for income taxes – as adjusted	\$25.7	\$24.9	\$44.4	\$40.6
<i>Effective tax rate – as adjusted</i>	24.7%	26.0%	23.7%	24.3%

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



	Third Quarter 2023	Full Year 2023
Net Sales		
Reported net sales growth	-1% to +3%	-1% to +3%
Forecasted impact of acquisition / FX	(2)%	(1)%
Organic net sales growth	-3% to +1%	-2% to +2%
Operating Margin		
Operating margin range	16.0% to 16.5%	16.6% to 17.2%
Forecasted restructuring / other costs	0.0%	0.1%
Adjusted operating margin range	16.0% to 16.5%	16.7% to 17.3%

* As of August 2, 2023