

# Watts Water Technologies Q3 2023 Earnings Conference Call

November 2, 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 and integration, supply chain disruptions, inflation 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 our most recent Annual Report on Form 10-K and in subsequent reports filed with the SEC.



## Q3 Performance

- Organic sales growth flat to prior year despite challenging comp (12% organic growth in Q3 2022)
- Record Q3 adjusted operating margin of 18.0%, expansion of 120 bps
- Strong free cash flow YTD; balance sheet remains strong



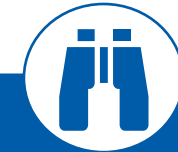
## Operations

- Closed acquisition of Bradley in October; integration underway
- Enware integration ahead of schedule
- Continuing investments to drive productivity



## Market

- Global GDP remains favorable
- Europe indicators softening
- Americas single-family new construction bottoming out; multi-family softening
- Americas non-residential indicators mixed
- China economy decelerating; continued growth in Middle East and Australia
- Geo-political risk driving uncertainty








## Outlook

- Challenging comps in Q4 (11% organic growth in Q4 2022)
- Raising full year margin outlook
  - ▲ YTD performance
  - ▲ Price / mix
  - ▲ Americas non-residential
  - ▼ Europe macros softening
  - ▼ Americas specialty channel
  - ▼ Rising interest rates / lending tightening
  - ▼ Bradley & Enware acquisition margin dilution

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

# Record Q3 Sales and Operating Margin; Raising Full Year Op Margin Outlook

## Highlights

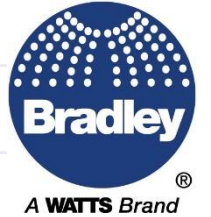
-  Total consideration of \$303M (\$268M net of discounted tax benefits) funded through cash on hand and existing line-of-credit
-  Increases addressable market with front-of-the-wall products for commercial washrooms and comprehensive solutions for industrial emergency safety applications
-  Expands exposure to attractive institutional and industrial end markets and long-term secular growth trends such as water conservation, safety and regulation and energy efficiency
-  Leverages combined strengths of Watts and Bradley sales networks and channel relationships
-  Creates potential for value creation through greater scale, growth opportunities and cost synergies

## Bradley Profile & Products

HQ in Menomonee Falls, WI; 100+ year history

Manufacturing sites in the Midwest; ~500 employees

~\$200M annual sales in North America



**Handwashing**  
(~1/3rd of sales)



**Washroom Specialties**  
(~1/3rd of sales)



**Safety**  
(~1/3rd of sales)



## Broad Portfolio of Products and Solutions for Attractive Vertical End Markets

## Strategic Criteria

- ✓ Core or Related Complementary Markets
- ✓ Addresses Macro Themes
- ✓ Brand Name Products and Market Leadership
- ✓ Entry Into New Markets and Geographies
- ✓ Product Offering Expansion, New / Improved Technology

## Financial Criteria

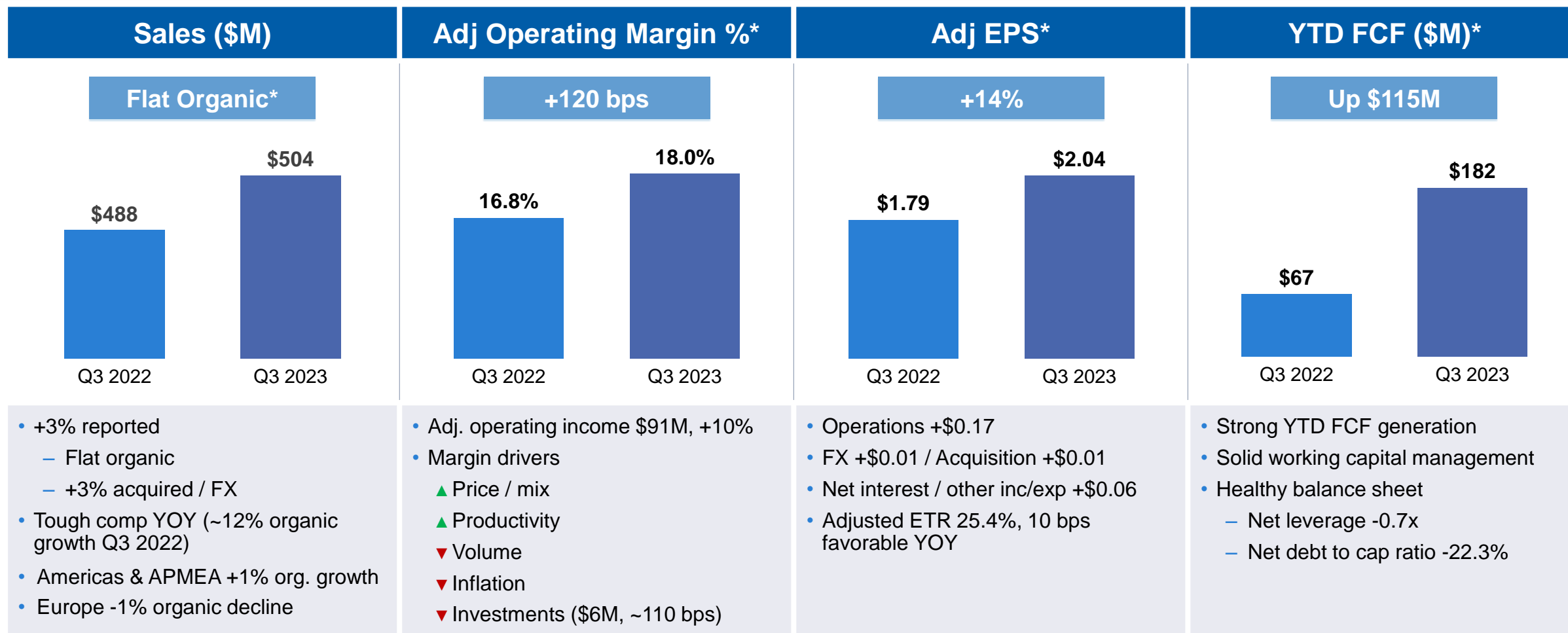
- ✓ ROIC > Cost of Capital
- ✓ Accretive to EPS in Year 1
- ✓ Accretive to EBITDA Margin within 3 to 5 years

## Highlights

- Meaningful synergies (~\$12M run-rate) captured through One Watts Performance System
- Funded with cash and revolver
- Proforma net leverage <0.1x
- Multiple <8x of proforma Adjusted EBITDA including run-rate synergies

## Disciplined Acquisition Supports Growth

# Q3 2023 Financial Summary



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

## Record Q3 Sales, Operating Margin and EPS

# Q3 2023 Regional Results



|          | Sales (\$M)                              | Adj Operating Margin %*              | Sales and Business   | Adj Operating Profit* & Margin  |
|----------|--|--------------------------------------|--|---|
| AMERICAS | <p><b>\$351</b><br/>Up 1% Organic*</p>   | <p><b>24.5%</b><br/>Up 260 bps</p>   | <ul style="list-style-type: none"> <li>• Flat reported and +1% organic sales growth</li> <li>• Tough PY compare; 13% organic growth in Q3 '22</li> <li>• Solid price realization</li> <li>• Strong growth in core valve products</li> <li>• Continued double-digit decline in gas connectors, marine instrumentation and radiant heating applications</li> </ul> | <ul style="list-style-type: none"> <li>• Adjusted operating profit ~\$86M, +12%</li> <li>• Margin drivers: <ul style="list-style-type: none"> <li>▲ Price</li> <li>▲ Favorable mix</li> <li>▲ Productivity</li> <li>▼ Volume</li> <li>▼ Inflation</li> <li>▼ Investments</li> </ul> </li> </ul>         |
| EUROPE   | <p><b>\$120</b><br/>Down 1% Organic*</p> | <p><b>10.4%</b><br/>Down 190 bps</p> | <ul style="list-style-type: none"> <li>• +6% reported<br/>-1% organic<br/>+7% FX</li> <li>• Solid price realization</li> <li>• Growth in Germany, France and Benelux</li> <li>• Italy and Scandinavia down; reduction in Italian subsidies</li> </ul>  | <ul style="list-style-type: none"> <li>• Adjusted operating profit ~\$13M, -10%</li> <li>• Margin drivers: <ul style="list-style-type: none"> <li>▲ Price</li> <li>▲ Productivity</li> <li>▼ Volume</li> <li>▼ Inflation</li> <li>▼ Investments</li> </ul> </li> </ul>                                  |
| APMEA    | <p><b>\$33</b><br/>Up 1% Organic*</p>    | <p><b>17.2%</b><br/>Up 70 bps</p>    | <ul style="list-style-type: none"> <li>• +33% reported<br/>+1% organic<br/>+36% acquired<br/>-4% FX</li> <li>• Strong growth in Middle East and Australia; China down DD</li> <li>• Enware integration going well; contributed ~\$9M revenue, MSD operating margin</li> </ul>  | <ul style="list-style-type: none"> <li>• Adjusted operating profit ~\$6M, +39%</li> <li>• Margin drivers: <ul style="list-style-type: none"> <li>▲ Price</li> <li>▲ Intercompany volume</li> <li>▲ Productivity</li> <li>▼ Inflation / investments</li> <li>▼ Enware acquisition</li> </ul> </li> </ul> |

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

# Q4 and Full Year 2023 Outlook\*



|                          | Q4 2023   | Full Year 2023  |                             | Other Key Full Year Inputs                                       |
|--------------------------|---|---|-----------------------------|--|
| <b>Organic Growth</b>    | <b>-6% to -1%</b><br>Acquired sales ~\$9M Enware; ~\$30M Bradley                | <b>Flat</b><br>[Prior -2% to +2%]<br>Acquired sales ~\$26M Enware; ~\$30M Bradley   | <b>Corporate Costs</b>      | <b>~\$54M</b>  |
| <b>Adj Op Margin</b>     | <b>15.0% to 15.6%</b>   | <b>Total 17.6% to 17.7%</b><br>[Prior 16.7% to 17.3%]   | <b>Net Interest Expense</b> | <b>~\$2M</b><br>Bradley acquisition interest ~\$3M               |
| <b>Adj Margin Growth</b> | <b>+70 bps to +130 bps</b><br>Acquired dilution ~10 bps Enware; ~80 bps Bradley | <b>+120 bps to +130 bps</b><br>[Prior +30 bps to +90 bps]<br>Acquired dilution ~20 bps Enware; ~20 bps Bradley<br>Includes \$22M of incremental investments | <b>Effective Tax Rate</b>   | <b>~25%</b>  |
| <b>Free Cash Flow</b>    | <b>Seasonally Strong</b>  | <b>≥ 100% of Net Income</b><br>[Prior Same]   | <b>CAPEX / D&amp;A</b>      | <b>~\$35M / ~\$45M</b><br>Bradley acquisition D&A ~\$2M to ~\$3M |
| <b>FX Euro / \$</b>      | <b>1.06</b><br>Sales (~+\$6M); EPS (~+\$0.02)                                   | <b>1.08</b><br>Sales (~+\$8M); EPS (~+\$0.03)   | <b>Share Count</b>          | <b>~33.5M Shares</b>   |

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

\* As of November 1, 2023; Assumes no significant market impact from the Israel-Hamas conflict



**Closed Bradley acquisition in early Q4; integration underway with strong collaboration**

**Q3 results ahead of expectation; benefiting from favorable mix and price**

**Increasing full year operating margin outlook**

**Monitoring weakening global macro's**

**Balance sheet remains strong post acquisition and provides ample flexibility**

**Increasing Full Year Adjusted Operating Margin Outlook**

# Appendix

## Company Highlights\*

**WTS**

NYSE

**1874**

Year Founded

**North Andover, MA**

Headquarters

**~4,600**

Employees

**24**

Total Brands

**>75**

Countries Served

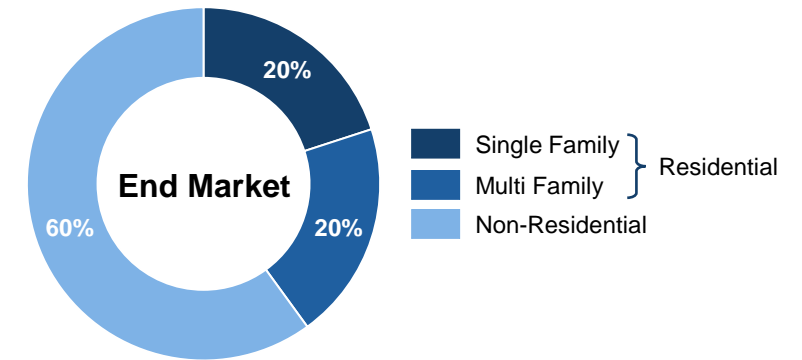
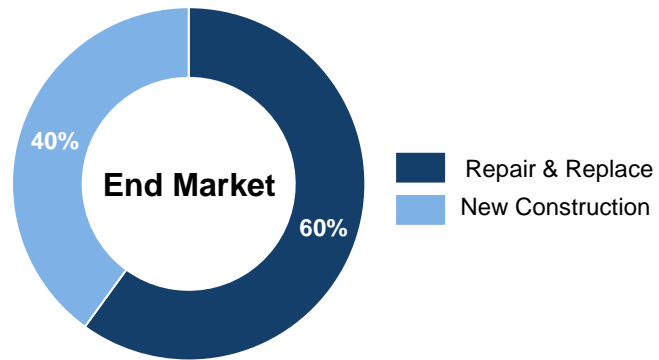
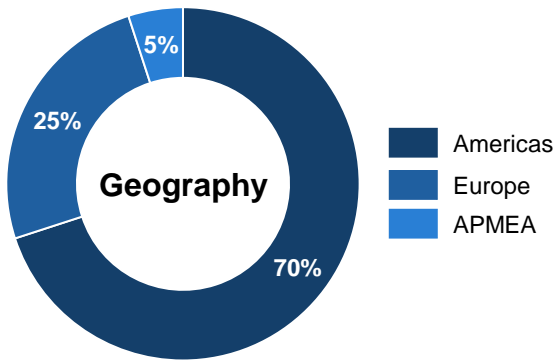
**>\$15B**

Addressable Market

**One Watts**

Operating System

## Revenue Breakdown FY 2022



\* \*\*Excluding Enware and Bradley acquisitions

**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

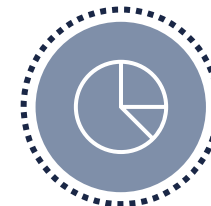
Large installed base; strong repair and replacement footprint



## Focus on Innovation and Profitable Growth

Strong execution driving record 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)

|  | Third Quarter |         |          |       |
|--|---------------|---------|----------|-------|
|  | 2023          | 2022    | B/(W)    | %     |
| Net sales                                  | \$504.3       | \$487.8 | \$16.5   | 3%    |
| Cost of goods sold                         | 269.9         | 269.9   | -        | 0%    |
| Gross profit                               | 234.4         | 217.9   | 16.5     | 8%    |
|  | 46.5%         | 44.7%   | +180 bps |       |
| Selling, general & administrative expenses | 146.9         | 135.8   | (11.1)   | (8%)  |
|  | 29.1%         | 27.8%   | -130 bps |       |
| Restructuring                              | 0.4           | 1.7     | 1.3      | 76%   |
| Operating income                           | 87.1          | 80.4    | 6.7      | 8%    |
|  | 17.3%         | 16.5%   | +80 bps  |       |
| Other (income) expense                     | (1.0)         | 1.6     | 2.6      | 163%  |
| Income before taxes                        | 88.1          | 78.8    | 9.3      | 12%   |
| Provision for income taxes                 | 22.3          | 20.1    | (2.2)    | (11%) |
| Net income                                 | \$65.8        | \$58.7  | \$7.1    | 12%   |
| Diluted earnings per share                 | \$1.96        | \$1.75  | \$0.21   | 12%   |

# Reconciliation of Reported Sales to Organic Sales



(M)  
(Unaudited)

|   | Third Quarter |         |        |         |
|---|---------------|---------|--------|---------|
|   | Americas      | Europe  | APMEA  | Total   |
| Reported net sales 2023                     | \$351.0       | \$120.2 | \$33.1 | \$504.3 |
| Reported net sales 2022                     | \$349.8       | \$113.1 | \$24.9 | \$487.8 |
| Dollar change                               | \$1.2         | \$7.1   | \$8.2  | \$16.5  |
| <b>Net sales % increase</b>                 | 0%            | 6%      | 33%    | 3%      |
| (Increase) decrease due to foreign exchange | (1%)          | (7%)    | 4%     | (1%)    |
| Increase due to acquisitions                | -             | -       | (36%)  | (2%)    |
| <b>Organic sales increase (decrease)</b>    | 1%            | (1%)    | 1%     | 0%      |

|   | Nine Months |         |        |           |
|---|-------------|---------|--------|-----------|
|   | Americas    | Europe  | APMEA  | Total     |
| Reported net sales 2023                     | \$1,041.1   | \$384.1 | \$83.6 | \$1,508.8 |
| Reported net sales 2022                     | \$1,039.6   | \$370.9 | \$67.1 | \$1,477.6 |
| Dollar change                               | \$1.5       | \$13.2  | \$16.5 | \$31.2    |
| <b>Net sales % increase</b>                 | 0%          | 4%      | 25%    | 2%        |
| (Increase) decrease due to foreign exchange | 1%          | (1%)    | 6%     | -         |
| Increase due to acquisitions                | -           | -       | (25%)  | (1%)      |
| <b>Organic sales increase</b>               | 1%          | 3%      | 6%     | 1%        |

# Reconciliation of GAAP to Non-GAAP Measures



(M)  
(Unaudited)

|   | Third Quarter |         | Nine Months  |           |
|---|---------------|---------|--------------|-----------|
|   | 2023          | 2022    | 2023         | 2022      |
| Net Sales                                     | \$504.3       | \$487.8 | \$1,508.8    | \$1,477.6 |
| Operating income - as reported                | \$87.1        | \$80.4  | \$272.2      | \$247.8   |
| <i>Operating margin %</i>                     | <b>17.3%</b>  | 16.5%   | <b>18.0%</b> | 16.8%     |
| Adjustments for special items:                |               |         |              |           |
| Restructuring                                 | \$0.4         | \$1.7   | \$1.7        | \$4.4     |
| Acquisition-related costs                     | \$3.1         | -       | \$5.0        | -         |
| Operating income - as adjusted                | \$90.6        | \$82.1  | \$278.9      | \$252.2   |
| <i>Adjusted operating margin %</i>            | <b>18.0%</b>  | 16.8%   | <b>18.5%</b> | 17.1%     |
| Net income - as reported                      | \$65.8        | \$58.7  | \$206.4      | \$182.9   |
| Adjustments for special items - tax effected: |               |         |              |           |
| Restructuring                                 | \$0.3         | \$1.3   | \$1.2        | \$3.3     |
| Acquisition-related costs                     | \$2.3         | -       | \$3.6        | -         |
| Net income - as adjusted                      | \$68.4        | \$60.0  | \$211.2      | \$186.2   |
| Earnings per share                            |               |         |              |           |
| Diluted earnings per share - as reported      | \$1.96        | \$1.75  | \$6.15       | \$5.43    |
| Adjustments for special items                 | \$0.08        | 0.04    | \$0.15       | 0.10      |
| Diluted earnings per share - as adjusted      | \$2.04        | \$1.79  | \$6.30       | \$5.53    |

# Adjusted Operating Income by Segment



(M)  
(Unaudited)

|                                    | Third Quarter 2023 |        |       |        |         | Third Quarter 2022 |        |       |        |         |
|------------------------------------|--------------------|--------|-------|--------|---------|--------------------|--------|-------|--------|---------|
|                                    | Americas           | Europe | APMEA | Corp.  | Total   | Americas           | Europe | APMEA | Corp.  | Total   |
| Reported operating income (loss)   | \$85.7             | 12.5   | 5.4   | (16.5) | \$87.1  | \$76.2             | 12.6   | 4.1   | (12.5) | \$80.4  |
| <i>Operating margin %</i>          | 24.4%              | 10.4%  | 16.2% |        | 17.3%   | 21.8%              | 11.2%  | 16.5% |        | 16.5%   |
| Adjustments for special items      | \$0.4              | -      | 0.3   | 2.8    | \$3.5   | \$0.4              | 1.3    | -     | -      | \$1.7   |
| Adjusted operating income (loss)   | \$86.1             | 12.5   | 5.7   | (13.7) | \$90.6  | \$76.6             | 13.9   | 4.1   | (12.5) | \$82.1  |
| <i>Adjusted operating margin %</i> | 24.5%              | 10.4%  | 17.2% |        | 18.0%   | 21.9%              | 12.3%  | 16.5% |        | 16.8%   |
|                                    | Nine Months 2023   |        |       |        |         | Nine Months 2022   |        |       |        |         |
|                                    | Americas           | Europe | APMEA | Corp.  | Total   | Americas           | Europe | APMEA | Corp.  | Total   |
| Reported operating income (loss)   | \$249.8            | 53.2   | 11.9  | (42.7) | \$272.2 | \$219.6            | 53.3   | 10.7  | (35.8) | \$247.8 |
| <i>Operating margin %</i>          | 24.0%              | 13.8%  | 14.2% |        | 18.0%   | 21.1%              | 14.4%  | 15.9% |        | 16.8%   |
| Adjustments for special items      | \$0.5              | 0.1    | 3.3   | 2.8    | \$6.7   | \$0.8              | 3.7    | (0.1) | -      | \$4.4   |
| Adjusted operating income (loss)   | \$250.3            | 53.3   | 15.2  | (39.9) | \$278.9 | \$220.4            | 57.0   | 10.6  | (35.8) | \$252.2 |
| <i>Adjusted operating margin %</i> | 24.0%              | 13.9%  | 18.1% |        | 18.5%   | 21.2%              | 15.4%  | 15.8% |        | 17.1%   |



# Reconciliation of Net Cash Provided by Operations to Free Cash Flow



(M)  
(Unaudited)

|   | Nine Months    |         |
|---|----------------|---------|
|   | 2023           | 2022    |
| Net cash provided by operations – as reported                         | <b>\$200.9</b> | 86.3    |
| <u>Less:</u> additions to property, plant, and equipment              | <b>(19.0)</b>  | (20.2)  |
| <u>Plus:</u> proceeds from the sale of property, plant, and equipment | -              | 0.9     |
| Free cash flow  | <b>\$181.9</b> | \$67.0  |
| Net income – as reported  | <b>\$206.4</b> | \$182.9 |
| Cash conversion rate of free cash flow to net income                  | <b>88%</b>     | 37%     |

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



(M)  
(Unaudited)

|   | September 24, 2023 | December 31, 2022 |
|---|--------------------|-------------------|
| Current portion of long-term debt                   | \$ -               | \$ -              |
| <u>Plus:</u> Long-term debt, net of current portion | 98.2               | 147.6             |
| <u>Less:</u> Cash and cash equivalents              | (362.7)            | (310.8)           |
| Net debt  | <b>(\$264.5)</b>   | <b>(\$163.2)</b>  |
| Net debt  | <b>(\$264.5)</b>   | <b>(\$163.2)</b>  |
| <u>Plus:</u> Total stockholders' equity             | 1,452.0            | 1,300.6           |
| Capitalization                                      | <b>\$1,187.5</b>   | <b>\$1,137.4</b>  |
| Net debt to capitalization ratio                    | <b>(22.3%)</b>     | <b>(14.3%)</b>    |

# Calculations of Gross and Net Leverage



(M)  
(Unaudited)

|   | Trailing Twelve Months<br>through September 24, 2023 |
|---|--|
| Net income – as reported  | <b>\$274.9</b>                                       |
| <u>Plus:</u> Interest expense, net                                      | <b>2.2</b>   |
| <u>Plus:</u> Income taxes   | <b>61.9</b>  |
| <u>Plus:</u> Depreciation   | <b>28.0</b>  |
| <u>Plus:</u> Amortization   | <b>12.0</b>  |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | <b>\$379.0</b>                                       |
|   |  |
| Gross debt as of September 24, 2023                                     | <b>\$98.2</b>  |
| <u>Less:</u> Cash & cash equivalents as of September 24, 2023           | <b>362.7</b>   |
| Net debt  | <b>(\$264.5)</b>                                     |
| Gross debt to EBITDA ratio (Gross leverage)                             | <b>0.3x</b>  |
| Net debt to EBITDA ratio (Net leverage)                                 | <b>(0.7)x</b>  |

# Reconciliation of “Adjusted” Non-GAAP Effective Tax Rate



(M)  
(Unaudited)

|  | Third Quarter |        | Nine Months  |         |
|--|---------------|--------|--------------|---------|
|  | 2023          | 2022   | 2023         | 2022    |
| Income before income taxes – as reported         | \$88.1        | \$78.8 | \$272.2      | \$242.9 |
| Provision for income taxes – as reported         | \$22.3        | 20.1   | \$65.8       | \$60.0  |
| <i>Effective tax rate – as reported</i>          | <b>25.3%</b>  | 25.5%  | <b>24.2%</b> | 24.7%   |
| Income before income taxes – as reported         | \$88.1        | \$78.8 | \$272.2      | \$242.9 |
| Total adjustments for special items              | 3.5           | 1.7    | 6.7          | 4.4     |
| Income before income taxes – as adjusted         | \$91.6        | \$80.5 | \$278.9      | \$247.3 |
| Provision for income taxes – as reported         | \$22.3        | \$20.1 | \$65.8       | \$60.0  |
| Tax effect of total adjustment for special items | 0.9           | 0.4    | 1.9          | 1.1     |
| Provision for income taxes – as adjusted         | \$23.2        | \$20.5 | \$67.7       | \$61.1  |
| <i>Effective tax rate – as adjusted</i>          | <b>25.4%</b>  | 25.5%  | <b>24.3%</b> | 24.7%   |

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



|  | Fourth Quarter 2023 | Full Year 2023 |
|--|---------------------|----------------|
| <b>Net Sales</b>                       |                     |                |
| Reported net sales growth              | +3% to +8%          | +3%            |
| Forecasted impact of acquisition / FX  | (9)%                | (3)%           |
| Organic net sales growth               | -6% to -1%          | Flat           |
| <b>Operating Margin</b>                |                     |                |
| Operating margin range                 | 14.0% to 14.6%      | 17.0% to 17.1% |
| Forecasted restructuring / other costs | 1.0%                | 0.6%           |
| Adjusted operating margin range        | 15.0% to 15.6%      | 17.6% to 17.7% |

\* As of November 1, 2023