Watts Water Technologies
2Q 2019 Earnings Conference Call

August 1, 2019

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Forward Looking Statements

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, the impact of tax legislation and management goals and objectives.

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2Q 2019 Overview

- Solid results – record sales, operating margin, EPS
- Strong Americas & Europe performances; APMEA softness continues
- Americas price increase effective July 1 covering latest tariffs
- Maintaining full-year sales growth expectations
- Smart & Connected strategy gaining momentum

Solid 2Q / 1H Results; Maintaining FY Growth Outlook

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Smart & Connected Update

CONNECTED PRODUCTS

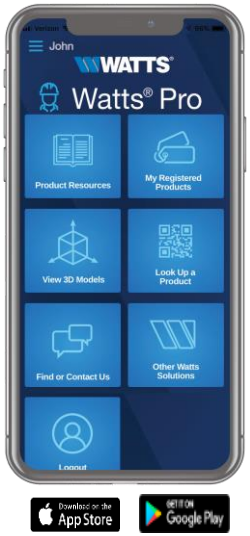
WATTS®

CONNECT. CONTROL. CONSERVE.

AERCO's Benchmark Platinum Boiler with Edge™ Controller optimizes the hot water system through self-correction and predictive maintenance, delivering maximum efficiency, savings and real-time information.

A SMARTER WAY TO HEAT

CONNECTED CUSTOMERS



- Search, browse, or scan QR code for product info
- Register Installed products (even non-Watts products)
- Augmented reality feature to see product in 3D
- Scan QR Code to look up or register products
- Find or contact nearest Watts Rep or distributor

Designed with professional contractors in mind, the Watts® Pro App offers a full product catalog with access to valuable resources, asset management through product registration, service notes and reminders.

PRODUCT RESOURCES AT YOUR FINGERTIPS

Smart & Connected Products Growing 2X Other Products

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2Q 2019 Financial Summary

(M except per share amounts)	2Q19	2Q18	
Sales	**$417**	**$408**	• **2% Increase** ◆ +4% organic[1] ◆ (2%) FX
Adjusted Operating Profit[1] *Adjusted Margin %*	**$56** *13.3%*	**$52** *12.8%*	• **7% Increase** ◆ Price, productivity ◆ Record margin performance
Adjusted Net Income[1]	**$37**	**$36**	• **4% Increase** ◆ Operations driven ◆ Partially offset by below-the-line / FX headwinds
Adjusted EPS[1] *Adjusted Tax Rate*	**$1.09** *28.4%*	**$1.05** *27.6%*	• **4% Increase** ◆ Operations +$0.08; other ($0.04) ◆ Record EPS
YTD Free Cash Flow[2]	**$5**	**($14)**	• **$19M Increase** ◆ Higher income, inventory reductions ◆ Reduced tax payments & capital spending

(1) Organic sales growth, Adjusted Operating Profit, Adjusted Operating Margin, Adjusted Net Income and Adjusted EPS are non-GAAP financial measures, see slides 12 and 13 for reconciliation
(2) Free Cash Flow = Cash Flow from Operations Less Capital Expenditures, a non-GAAP measure, see slide 15 for calculation and reconciliation.

Record Sales, Adjusted Operating Margin and Adjusted EPS

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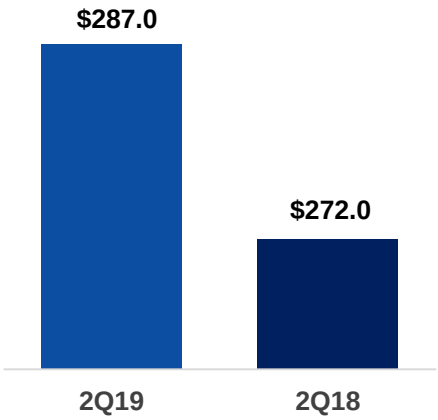
Americas

(M)

Sales

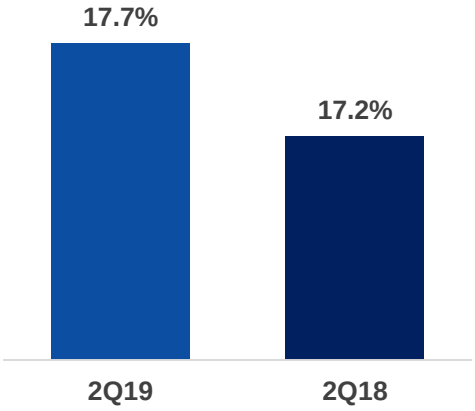
Reported +6% | Organic[(1)]+6%



- Growth in plumbing, water quality and drains
- Softness in heating & hot water solutions
- Pre-buy 2%; impact minimal Y-O-Y
- Positive price realization

Adjusted Operating Margin[(1)]

Up 50 bps



- Adjusted operating profit[(1)] $50.7M
  - Up $4.0M or 9%
- Adjusted operating margin[(1)] + 50 bps
  - ▲ Price, productivity
  - ▲ Volume
  - ▼ Inflation
  - ▼ Investments

(1) Organic sales growth, Adjusted Operating Profit and Adjusted Operating Margin are non-GAAP financial measures, see slides 12 and 14 for reconciliation

Continued Top-Line Growth & Solid Margin Expansion

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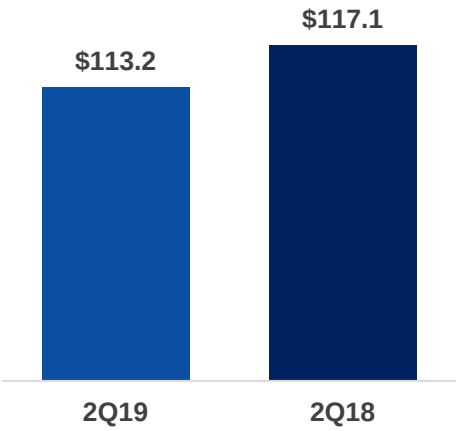
Europe

(M)

Sales

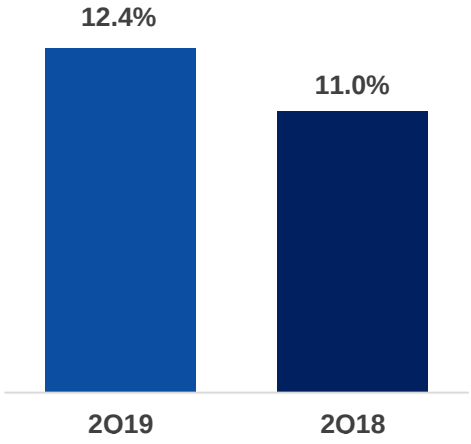
Reported (3%) | Organic[1] +3%



- Solid growth in Drains & Electronics, project driven
- Fluid Solutions growth - core plumbing / HVAC
- Regional growth – France / Germany / Italy; UK / Eastern Europe down
- FX impact (6%)

Adjusted Operating Margin[1]

Up 140 bps



- Adjusted operating profit[1] $14.1M
  - Up $1.2M or 9%
- Adjusted operating margin[1] 140 bps
  - ▲ Price, volume
  - ▲ Productivity / restructuring
  - ▼ Inflation, mix
  - ▼ Investments

(1) Organic sales growth, Adjusted Operating Profit and Adjusted Operating Margin are non-GAAP financial measures, see slides 12 and 14 for reconciliation

Good Growth and Margin Expansion

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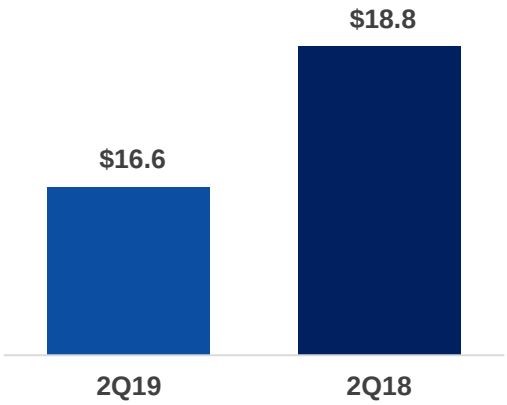
APMEA

(M)

Sales

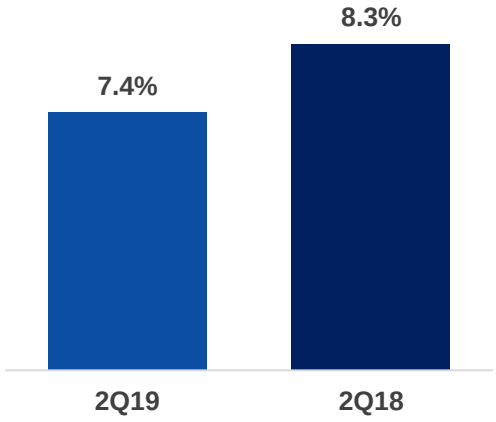
Reported (12%) | Organic[1] (8%)



- China valve strength, residential heating pick-up
- NZ & SE Asia growth; Korea, AUS slow; ME soft - project timing

Adjusted Operating Margin[1]

Down 90 bps



- Operating profit[1] $1.2M
  - Down $0.4M or 25%
- Operating margin[1] (90) bps
  - ▲ Productivity
  - ▼ Volume – third party / affiliate
  - ▼ Inflation
  - ▼ Investments

(1) Organic sales growth, Adjusted Operating Profit and Adjusted Operating Margin are non-GAAP financial measures, see slides 12 and 14 for reconciliation

Continued Softness; Expect 2H Recovery

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2H'19 Outlook

	Organic Sales Growth		Drivers / Comments
	1H	2H*	
AMERICAS	6.7%	3-4%	• Market growth at reduced levels • Price a smaller tailwind • Tougher comps in 2H
EUROPE	2.6%	1-2%	• Continued Drains momentum • Fluid Solutions nominal growth • Tougher 2H comps
APMEA	(5.6%)	5-7%	• Middle East growth returns • China valves continued growth • Easier comps in 2H
WTS	4.9%	2-3%	• Top line growth moderating in US • Margin expansion 50 – 70 bps for year • Assuming FY investments of $12M • Expect strong 2H'19 cash flow

** Excludes*

Continued Margin Expansion with Moderating 2H Growth

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APPENDIX

Watts Water Technologies, Inc.

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Consolidated Statements of Operations

(M)
(Unaudited)

	Second Quarter			
	2019	2018	B/(W)	%
Net sales	**$416.8**	$407.9	$8.9	2%
Cost of goods sold	**242.2**	238.5	(3.7)	(2%)
Gross profit	**174.6**	169.4	5.2	3%
	41.9%	*41.5%*	*+40 bps*	
Selling, general & administrative expenses	**119.0**	117.2	(1.8)	(2%)
	28.6%	*28.7%*	*+10 bps*	
Restructuring	**1.3**	-	(1.3)	(100%)
Operating income	**54.3**	52.2	2.1	4%
	13.0%	*12.8%*	*+ 20 bps*	
Other expense	**3.5**	2.5	(1.0)	(40%)
Income before taxes	**50.8**	49.7	1.1	2%
Provision for income taxes	**14.4**	13.7	(0.7)	(5%)
Net income	**$36.4**	$36.0	$0.4	1%
Diluted earnings per share	**$1.06**	$1.05	$0.01	1%

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Reconciliation of Reported Sales to Organic Sales

(M)
(Unaudited)

	Second Quarter			
	Americas	Europe	APMEA	Total
Reported net sales 2Q'19	$287.0	$113.2	$16.6	$416.8
Reported net sales 2Q'18	$272.0	$117.1	$18.8	$407.9
Dollar change	$15.0	($3.9)	($2.2)	$8.9
Net Sales % increase (decrease)	**6%**	**(3%)**	**(12%)**	**2%**
Decrease due to foreign exchange	- %	6%	4%	2%
Organic sales increase (decrease)	**6%**	**3%**	**(8%)**	**4%**

	Six Months			
	Americas	Europe	APMEA	Total
Reported net sales 2019	$545.9	$229.5	$30.1	$805.5
Reported net sales 2018	$513.1	$240.1	$33.2	$786.4
Dollar change	$32.8	($10.6)	($3.1)	$19.1
Net Sales % increase (decrease)	**6%**	**(4%)**	**(9%)**	**2%**
Decrease due to foreign exchange	1%	7%	3%	3%
Organic sales increase (decrease)	**7%**	**3%**	**(6%)**	**5%**

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Reconciliation of GAAP *"As Reported"* **to** *"Adjusted"* Non-GAAP Excluding Effect of Adjustments for Special Items

(M)
(Unaudited)

	Second Quarter		Six Months	
	2019	**2018**	**2019**	**2018**
Net sales	**$416.8**	$407.9	**$805.5**	$786.4
Operating income - as reported	**$54.3**	$52.2	**$101.0**	$ 96.1
Operating margin %	***13.0%***	*12.8%*	***12.5%***	*12.2%*
Adjustments for special items:				
Restructuring	**1.3**	-	**2.7**	-
Total adjustments for special items	**1.3**	**-**	**2.7**	**-**
Operating income - as adjusted	***$55.6***	*$52.2*	***$103.7***	*$96.1*
Adjusted operating margin %	***13.3%***	*12.8%*	***12.9%***	*12.2%*
Net income - as reported	**$36.4**	$36.0	**$67.4**	$64.2
Adjustments for special items - tax affected:				
Restructuring	**0.9**	-	**1.9**	-
Total adjustments for special items, tax affected	**0.9**	-	**1.9**	-
Net income - as adjusted	**$37.3**	$36.0	**69.3**	64.2
Earnings per share:				
Diluted earnings per share - as reported	**$1.06**	$1.05	**$1.97**	$1.87
Adjustments for special items	**0.03**	-	**0.06**	-
Diluted earnings per share - as adjusted	**$1.09**	$1.05	**$2.03**	$1.87

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Adjusted Operating Income by Segment

(M)
(Unaudited)

	Second Quarter 2019					Second Quarter 2018				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	$50.7	$12.8	$1.2	($10.4)	$54.3	$46.7	$12.9	$1.6	($9.0)	$52.2
Operating margin %	*17.7%*	*11.3%*	*7.4%*		*13.0%*	*17.2%*	*11.0%*	*8.3%*		*12.8%*
Adjustments for special items	-	1.3	-	-	1.3	-	-	-	-	-
Adjusted operating income (loss)	$50.7	$14.1	$1.2	($10.4)	$55.6	$46.7	$12.9	$1.6	($9.0)	$52.2
Adjusted operating margin %	*17.7%*	*12.4%*	*7.4%*		*13.3%*	*17.2%*	*11.0%*	*8.3%*		*12.8%*

	Six Months 2019					Six Months 2018				
	Americas	Europe	APMEA	Corp.	Total	Americas	Europe	APMEA	Corp.	Total
Reported operating income (loss)	$93.8	$26.0	$2.4	($21.2)	$101.0	$83.1	$27.8	$3.0	($17.8)	$96.1
Operating margin %	*17.2%*	*11.3%*	*8.4%*		*12.5%*	*16.2%*	*11.6%*	*8.8%*		*12.2%*
Adjustments for special items	-	2.7	-	-	2.7	-	-	-	-	-
Adjusted operating income (loss)	$93.8	$28.7	$2.4	($21.2)	$103.7	$83.1	$27.8	$3.0	($17.8)	$96.1
Adjusted operating margin %	*17.2%*	*12.5%*	*8.4%*		*12.9%*	*16.2%*	*11.6%*	*8.8%*		*12.2%*

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Reconciliation of Net Cash Provided by Operations to Free Cash Flow

(M)
(Unaudited)

	Six Months	
	2019	**2018**
Net cash provided by operations - as reported	**$19.7**	$1.5
Less: additions to property, plant, and equipment, net	**(14.3)**	(15.2)
Free cash flow (outflow)	**$5.4**	($13.7)

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

(M)
(Unaudited)

	June 30, 2019	December 31, 2018
Current portion of long-term debt	**$105.0**	$30.0
Plus: Long-term debt, net of current portion	**238.8**	323.4
Less: Cash and cash equivalents	**(166.8)**	(204.1)
Net debt	**$177.0**	$149.3
Net debt	**$177.0**	$149.3
Plus: Total stockholders' equity	**934.2**	891.3
Capitalization	**$1,111.2**	1,040.6
Net debt to capitalization ratio	**15.9%**	14.3%

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