

# WATTS WATER INVESTOR PRESENTATION

AUGUST 2023

 **WATTS**<sup>®</sup>

Watts Water Technologies, Inc.



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.

- 1. \$2B Global Company with Leading Market Positions**
- 2. Leader in Commercial and Residential Water Products**
- 3. Industry-leading Brands; Key Market Drivers, Plumbing Codes**
- 4. Driving Profitable Growth through Innovation and Smart & Connected Strategy**
- 5. Strong Cash Generator; Disciplined Capital Deployment**



## 2022 Key Statistics

With 5 Year Performance

**\$7.13**

Adj. EPS

+19% CAGR

**16.4%**

Adj. Operating Margin

+450 bps Expansion

**\$1.16**

Dividends

+9.1% CAGR

**115%**

5-yr Avg Free Cash Flow Conversion

**23.3%**

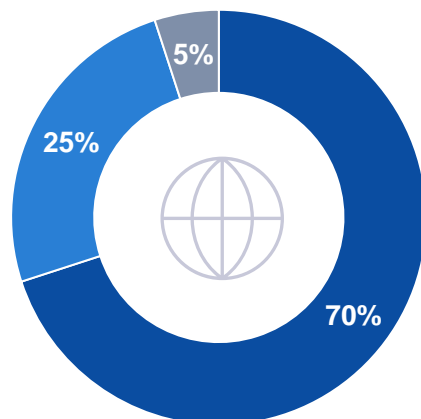
ROIC (GAAP)

+1540 bps Expansion

**109%**

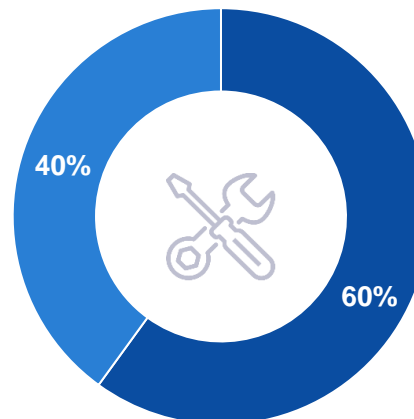
5-yr Avg Reinvestment

### Revenue by Geography



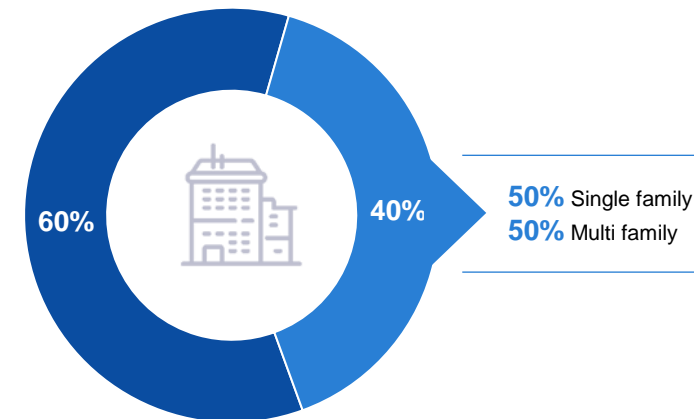
■ Americas ■ Europe ■ APMEA

### Revenue by End Market



■ Repair & Replace ■ New Construction

### Revenue by End Market



■ Non-Residential ■ Residential

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

**Global Leader in Commercial and Residential Water Products; Driving a Performance Culture**

## Safety & Regulation



Provide the highest levels of performance in the safeguarding of water systems

- Code and specification driven
- Extensive certification process
- Emerging need globally

## Energy Efficiency



Offer the most efficient conversion of energy sources into useful heat and hot water

- Large and fragmented
- Economic and environmental value proposition
- Application and engineering competencies critical

## Water Conservation



Deliver drainage and pre-treatment systems that meet the design challenges of a water scarce world

- Code and specification driven
- Environmental drivers
- Emerging need globally
- Best-in-class service

### *Market Characteristics*

**Specialty Products and Systems that Conserve and Safeguard the Flow of Fluid and Energy**

# LARGE ADDRESSABLE MARKET WITH EXPOSURE TO DIVERSE END MARKETS



**~\$15B**  
Total Available  
Market Opportunity<sup>1</sup>

## END MARKETS



RESIDENTIAL



MULTI-FAMILY /  
COMMERCIAL



INSTITUTIONAL /  
EDUCATIONAL



HEALTHCARE



LIGHT / GENERAL  
INDUSTRIAL



HOSPITALITY –  
HOTEL



HOSPITALITY –  
FOOD SERVICE



DATA CENTERS

**Balanced Portfolio Providing Tailwind For Growth**

<sup>1</sup> Based on Company estimates of global market.

# COMMERCIAL OFFERINGS

~60% of Sales; More Complexity / Systems



### Guestroom

Smart thermostats, heating pads, and lighting fixtures.

**SunTouch**  
**BLÜCHER**  
**POWERS**

### Public Restroom Safety

Thermostatic Mixing Valves • Floor Drains • Closet and Lavatory Carriers

**WATTS** **POWERS** **BLÜCHER**  
**ENWARE**

### Water Quality (Point of Entry)

OneFlow Anti-Scale Systems • Water Softeners • SmartStream UV System

**WATTS**

### Driveway / Sidewalk

Electronic Temperature Controls • Snow Melt Hydronic Systems • Manifolds

**tekmar**  
**WATTS**



### Water Safety (Point of Entry)

Backflow Preventers • Automatic Control Valves • Pressure Reducing Valves • Ball, Gate, & Butterfly Valves

**WATTS**

### Drainage / Rainwater Harvesting

Cast Iron and Stainless Drains & Pipe • Rainwater Harvesting • Roofs, Parking Garages, Bathrooms, Kitchens

**BLÜCHER** **WATTS** **ORION**

### Irrigation

Backflow Preventers • Pressure Regulating Valves • Isolation Valves

**FEBCO**

### Leak Detection

Wireless Leak Detection & Notification Systems

**WATTS**

### Fire Protection Systems

Cross Connection Systems • Automatic Control Valves • Isolation Valves

**WATTS** **AMES**

### Commercial Kitchens

Gas Connectors • Point of Use Filtration Systems • Stainless Steel Drains • Backflow Preventers

**WATTS** **DORMONT** **BLÜCHER**

### Boiler / Mechanical Room

Hot Water Heaters / Boilers • Digital Thermostatic Mixing Stations • Boiler & Pump Controls

**POWERS** **PVI** **AERCO** **tekmar**  
**Lync**

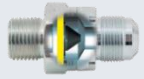
# RESIDENTIAL OFFERINGS

~40% of Sales; Product Range Unmatched



## Kitchen

Undersink Thermostatic Mixing Valves • Reverse Osmosis Water Filtration Systems • Electric Tile Warming • SmartSense Excess Flow Valve & Thermal Shutoff



WATTS  
Dormont



## Living Room

Control Panel / Thermostat • Radiant Underfloor Heating



tekmar®

## Leak Detection

Wireless Leak Detection

LEAKDEFENSE  
A WATTS Brand



## Bathroom

Tempering Valves • Electric Tile Warming • Stainless Steel Shower Drains • Hot Water on Demand Recirculation



BLÜCHER  
POWERS

WATTS  
SunTouch



## Driveway / Sidewalk

Snow Melt Hydronic Systems • Electronic Temperature Controls • Manifolds • Quick Connect Fittings • Hydrocontrol Panels • PEX Tubing



tekmar®

SunTouch

WATTS



## Water Safety (Point of Entry)

Backflow Preventers • Pressure Reducing Valves

WATTS



## Irrigation

Backflow Preventers • Pressure Reducing Valves • Flow Control Valves

FEBCO WATTS



## Water Quality (Point of Entry)

Whole House Filtration Systems • Anti-Scale Systems • Water Softeners • SmartStream UV Disinfection Systems



WATTS



## Boiler / Furnace Room

T&P Relief Valves • Tempering Valves • Pressure Reducing Valves • Expansion Tanks • Temperature & Pressure Gauges • Air Separators



WATTS









## New Product Development

- Utilizing single streamlined **product development process**
- **Leveraging Voice of Customer** to drive product innovation
- Driving **Smart & Connected strategy**
- Advancing **solutions** that address **market needs**



## Geographic Expansion

- **Cross-selling** existing products into new regions
- **Targeting countries** with well-established plumbing codes
- **Influencing plumbing code improvements** in developing countries



## Key Account Management & Commercial Excellence

- **Expanding relationships** with large customers
- Leveraging integrated business model to **cross sell**
- Providing training in 10 state-of-the-art **Watts Works Learning Centers**



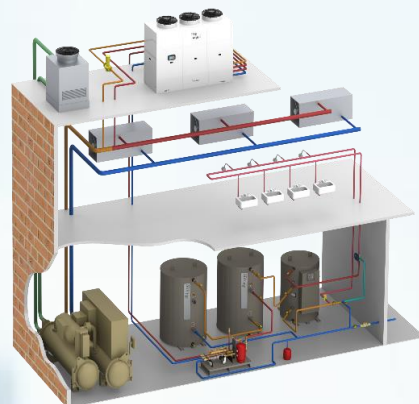
**Growing Organically Through Innovation and Commercial Excellence**

# SMART AND CONNECTED STRATEGY PROGRESS



**WATTS**

CONNECT. CONTROL. CONSERVE.



**PAST**

Launched digital journey

- Limited use of internal digital resources
- No pipeline of projects

**PRESENT**

Dedicated organizational structure deployed to support IoT

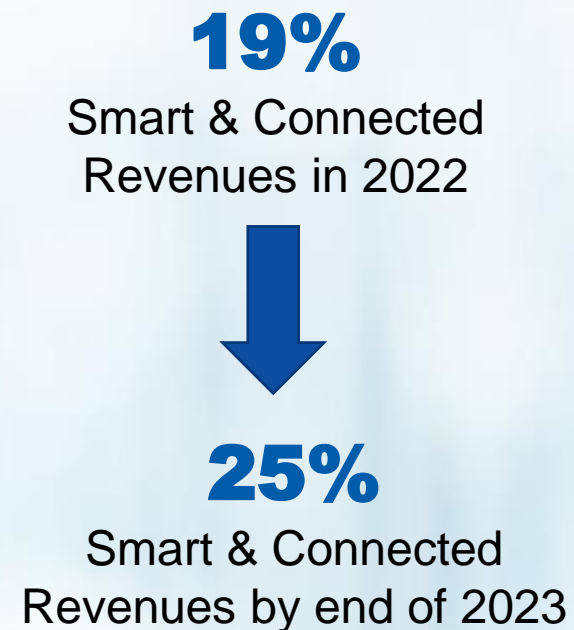
Strategic alignment with all business units

- 100+** Dedicated digital / IoT engineers
- 20** new smart & connected products introduced in 2022

**FUTURE**

- Improve use of data to enhance customer experience
- Continue to focus on key customer issues
- System Safety | Water Hygiene
- Energy Efficiency | Leak Detection

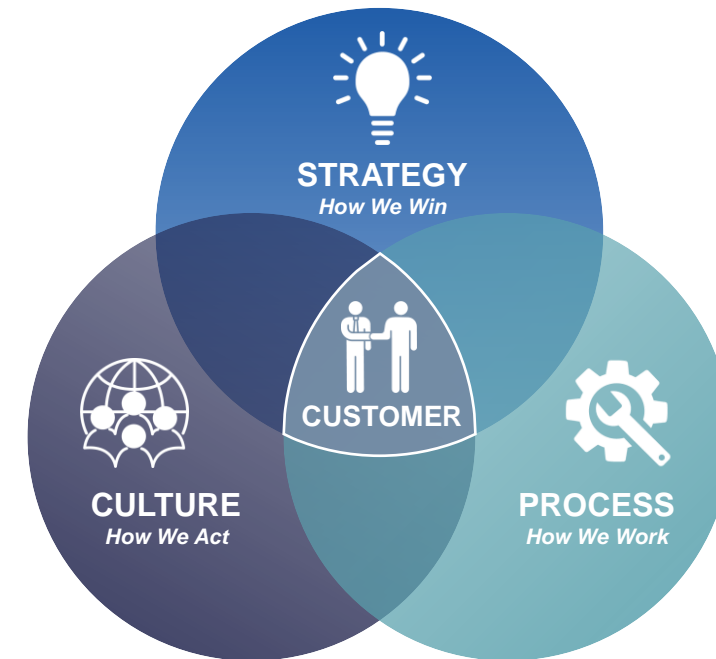
Expand subscription-based services



**Continuing to Drive Our Smart & Connected Strategy**

## OWPS Focus Areas

- ✓ VOC drives new product development
- ✓ Gross productivity project funnel growth
- ✓ Business process efficiencies
- ✓ Locating production close to customers
- ✓ Ensuring a “safety first” culture
- ✓ Providing world class quality
- ✓ Committed to great customer service – “On time in full”
- ✓ Improving working capital



**ONE WATTS**<sup>®</sup>  
PERFORMANCE SYSTEM

*OWPS is a collection of tools, processes and behaviors that help us grow and develop*

**Creating Customer Focused Culture**

## 2022 Highlights

- ✓ Improved **Sustainalytics ESG score** by 24%, promoting Watts to low-risk
- ✓ Issued **Human Rights Policy** aligned with **UN Global Compact**
- ✓ Joined **CEO Water Mandate**, expanding commitment to water stewardship
- ✓ Name by Newsweek as one of **America's Most Responsible Companies** for 4<sup>th</sup> consecutive year
- ✓ Named by USA Today as one of **America's Climate Leaders**



**Sustainability Report**



## Watts ESG Story

### Solving Sustainability for Our Customers

#### Aligning our “Triple Play” with secular growth trends

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

### Leading Employer & Community Partner

#### Making people and communities safe, healthy and strong

- Prioritizing a culture of safety at all facilities
- Investing in global leadership and inclusivity training for all employees
- Improving communities by expanding water stewardship, conserving energy and by reducing waste and emissions at our sites

### Earning the Trust of Our Stakeholders

#### Operating ethically, responsibly and sustainably

- Adhering to highest level of ethical standards, with robust governance
- Acting with integrity in every facet of our operations
- Managing our supply chain for conformance to our ESG standards

**Sustainability Is A Core Commitment**



**Craig Kissel**  
**Lead Independent Director**  
 Retired President of Trane Commercial Systems, American Standard  
 Joined: 2011



**Christopher Conway**  
 Retired President, CEO and Chairman of the Board, CLARCOR Inc  
 2015



**Michael Dubose**  
 President, Fisher Healthcare Division, Thermo Fisher Scientific Inc.  
 2020



**David Dunbar**  
 President and CEO, Standex International Corp.  
 2017



**Merilee Raines**  
 Retired CFO, IDEXX Laboratories, Inc.  
 2011



**Louise Goeser**  
 Retired President and CEO, Grupo Siemens S.A. de C.V.  
 2018



**Joseph Noonan**  
 eCommerce Entrepreneur; Horne Family Member  
 2013



**Bob Pagano**  
 CEO, President and Chairperson of the Board Watts Water  
 2014



**Joseph Reitmeier**  
 EVP and CFO, Lennox International Inc.  
 2016

## Board Skillsets and Attributes

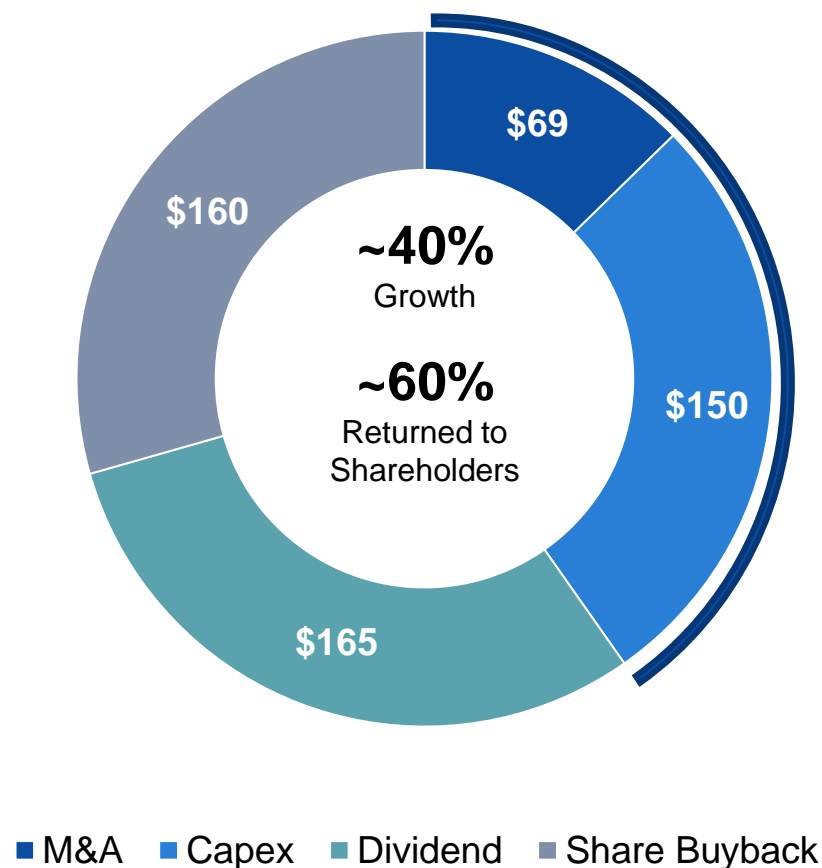
- ✓ Operational and C-Suite Experience
- ✓ International Markets Exposure
- ✓ Public Company Board Experience
- ✓ Global Manufacturing
- ✓ Relevant End Market Exposure
- ✓ Business Ethics
- ✓ eCommerce / Digital
- ✓ Finance / M&A

**62 YEARS**  
 Avg. Age

**8 YEARS**  
 Avg. Tenure

**Director Skillsets and Attributes Support Our Long-term Strategy**

## Deployment History 2018-2022



## Priorities

### Strategic M&A

- Disciplined valuation / screening process

### Investing in High ROI Capex

- ~70% of Capex invested in growth and productivity initiatives
- Reinvestment ratio 100%+

### Competitive Dividend

- 9.1% 5-year CAGR through 2022
- Increased dividend 20% effective June 2023 to \$1.44/share annual dividend, 0.8% yield<sup>1</sup>

### Stable Share Buyback

- Offset stock dilution at minimum
- New repurchase program announced in August 2023 for \$150M

**Strong Cash Flow Generation Provides Flexibility**

## STRATEGIC CRITERIA

- ✓ **Core or Related Complementary Markets**
- ✓ **Entry into New Markets and Geographies**
- ✓ **Addresses Macro Themes**
  - Safety and Regulation
  - Energy Efficiency
  - Water Conservation
- ✓ **Increase in Shelf Space with Existing Customers**
- ✓ **Brand Name Products, Market Leadership**
- ✓ **Product Offering Expansion, Including New / Improved Technology**

## FINANCIAL CRITERIA

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

**Disciplined Acquisitions Generate Incremental Growth**



\$M	June 25, 2023
Cash	\$292
Other Current Assets	731
Non-Current Assets	981
<b>TOTAL ASSETS</b>	<b>\$2,004</b>
Current Liabilities, excl. Short-term Debt	\$405
Non-Current Liabilities	87
Debt	98
Equity	1,414
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$2,004</b>
Net Debt / Capitalization Ratio	(15.9%)

Unused and available credit capacity ~ \$688M on June 25, 2023

## Debt Maturity Schedule

No Debt Due Until 2026



## Capacity to Execute on Strategic Growth

	Q3 2023	Full Year 2023		Other Key Full Year Inputs
<b>Organic Growth</b>	<b>-3% to +1%</b> Acquired sales ~\$8M	<b>Total: -2% to +2%</b> [Prior -5% to +2%] Acquired sales ~\$24M	<b>Corporate Costs</b>	~\$54M
<b>Adj Op Margin</b>	<b>16.0% to 16.5%</b>	<b>Total 16.7% to 17.3%</b> [Prior 15.7% to 16.3%]	<b>Net Interest Expense</b>	~\$3M
<b>Adj Margin Growth</b>	<b>-80 bps to -30 bps</b>	<b>+30 bps to +90 bps</b> [Prior -70 bps to -10 bps] Includes \$23M of incremental investments	<b>Effective Tax Rate</b>	~25%
<b>Free Cash Flow</b>	<b>Positive</b>	<b>≥ 100% of Net Income</b> [Prior Same]	<b>CAPEX / D&amp;A</b>	~\$35M / ~\$42M
<b>FX Euro / \$</b>	<b>1.10</b> Sales (~+\$8M); EPS (~+\$0.02)	<b>1.09</b> Sales (~+\$12M); EPS (~+\$0.04)	<b>Share Count</b>	~33.5M Shares

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

\* As of August 2, 2023

Organic Growth  
**1% Above Market**

Operating Margin  
Expansion  
**30-50 bps per Year**

Emphasis on Growth  
**Supported by M&A**

Focus in **Selected  
Emerging Markets**

Build a High Performance “Connected Water and Heating Solutions” Company



## 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



# Appendix



# 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>	<b>18.8%</b>	18.2%	<b>18.4%</b>	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>	<b>19.5%</b>	18.5%	<b>18.7%</b>	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

# 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	<b>(\$193.9)</b>	<b>(\$163.2)</b>
Net debt	<b>(\$193.9)</b>	<b>(\$163.2)</b>
<u>Plus</u> : Total stockholders' equity	1,414.3	1,300.6
Capitalization	<b>\$1,220.4</b>	<b>\$1,137.4</b>
Net debt to capitalization ratio	<b>(15.9%)</b>	<b>(14.3%)</b>

# RECONCILIATION BETWEEN GAAP AND NON-GAAP MEASURES INCLUDED IN 2023 OUTLOOK\*



	Third Quarter 2023	Full Year 2023
<b>Net Sales</b>		
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%
<b>Operating Margin</b>		
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