

**With a New Strategy Focused Around Growth, Operational Excellence and their
“One Watts Water” Way of Doing Things, Watts Water Technologies, Inc.
has Been Able to Improve their Operating Performance and Grow
Despite the Industry Wide Recession of the Last Two Years**

**Industrial Goods
Industrial Equipment
& Components
(WTS-NYSE)**

Watts Water Technologies, Inc.

**815 Chestnut Street
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**David J. Coghlan
President and CEO**

BIO:

David J. Coghlan became Chief Executive Officer, President and a Director of our Company in January 2011. He previously served as our Chief Operating Officer from January 2010 to January 2011 and as President of North America and Asia from June 2008 to January 2010. Prior to joining our Company, Mr. Coghlan served as Vice President of Global Parts for Trane Inc. from April 2004 through May 2008. Trane is a global manufacturer of commercial and residential heating, ventilation and air conditioning equipment. Mr. Coghlan also held several management positions in the United States and internationally within the Climate Control Technologies segment of Ingersoll-

Rand Company Limited, a manufacturer of transport temperature control units and refrigerated display merchandisers, from 1995 to December 2003. Before joining Ingersoll-Rand, Mr. Coghlan worked for several years with the management consulting firm of McKinsey & Co. in both the United Kingdom and the United States.

Company Profile:

Watts Water Technologies, Inc. is a world leader in the manufacture of innovative products to control the efficiency, safety, and quality of water within residential, commercial, and institutional applications. Its expertise in a wide variety of water technologies enables it to be a comprehensive supplier to the water industry.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Coghlan, you have been CEO for about a year; how has Watts Water Technologies changed in the last year under your leadership?

Mr. Coghlan: We started to develop and implement a new strategy a couple of years ago during my time as COO as we responded to one of the toughest recessions ever seen in our industry. For a company with sales at approximately \$1.5 billion, we have seen about \$200 million of volume disappear. So our focus this past year has been on implementing our strategy and continuing to work our operating parameters to deal with the recession. We've made progress in that we are delivering what are effectively peak earnings at the lowest point in

the trough. Also, last year we closed on the largest acquisition we've ever made – the acquisition of Danfoss' water assets based in Europe.

CEOCFO: Would you tell us about the new Watts Water strategy?

Mr. Coghlan: Our new strategy focuses on growth, operational excellence and something we call One Watts Water. We are working to drive growth through acquisitions and a series of organic growth strategies, which we call depth, breadth, and reach. Depth means looking for share gain opportunities within our existing customer base. With this in mind, in North America, we've reorganized our sales forces to better enable us to bring all of our products to all of our customers. For example, we are pretty heavily represented throughout the wholesale plumbing channel. However, our water quality business did not sell through these plumbing channels. So, we identified a significant sales opportunity to take our water quality products, which are sold primarily through water quality dealers, and bring them into that wholesale channel. A second example is that we found ways to bundle products from a number of our different businesses for our OEM customers. Instead of selling just plumbing products to a boiler manufacturer, we can sell scale prevention and gas installation kits to that OEM, so it is a larger sale. Breadth is really an innovation play where we sell products into a number of key systems in residential and commercial buildings, and we have identified many opportunities for growth. We are pursuing those through acquisitions, technology plays

or product development. The third part of the organic growth strategy is reach and that is our all-around geographic expansion. We have focused on expansion in three geographic areas: China, the Middle East, and Eastern Europe, and we are seeing some reasonable growth come out of those initiatives.

CEOCFO: Did Watts Water Technologies have a presence in China, the Middle East, and Eastern Europe before?

Mr. Coghlan: We had a presence in China for low-cost manufacturing and sourcing, but we were not bringing our North American and European technologies to bear on the Chinese building market, and now we are starting to. We did not have a presence on the ground in the Middle East – rather, a number of our businesses sold through local distributors. We have now opened an office, we have boots on the ground, and we are much more focused. It was the same thing in Eastern Europe. In addition to growth, the second part of our strategy is operational excellence, and there we have focused on footprint optimization and on driving continuous improvement. We have taken out 13 rooftops since 2008 and expanded our presence in low-cost countries. Our continuous improvement efforts are focused on driving improvements in key metrics such as safety, quality, productivity and working capital, using tools such as Lean and Six Sigma. We have been able to reduce our days working capital by approximately 25 in the last three years and to increase our gross margins by about 300 basis points.

CEOCFO: With a wide global reach, how does Watts Water maintain the excellence and corporate culture throughout the organization?

Mr. Coghlan: It's largely by focusing on continuous improvement. The first thing you do is identify key metrics, so we have a consistent set of key metrics that we measure our operations against on a global basis. We are

working for improvements to benefit our employees, customers, and shareholders. Internally, everybody measures their performance against those metrics in a consistent way, and we set goals for improvement. Second, we put in place some consistent tool kits and some standard ways of doing things that can be deployed across the organization. Third, we provide expertise and training to enable our teams to use the tools, the standardized approaches and to go after metric improvement. For example, an important metric we talk about when we go through our performance reviews every month is employee safety. If our employees cannot come to work and be safe, they are not going to do a good job. That's going to

We have about \$250 million in cash on our balance sheet, and while we have done some substantial acquisitions the last couple of years, between the cash and our relatively low debt-to-cap ratios, we have the ability to do some significant acquisitions going forward. So, putting all of that together, Watts Water is a pure play company in an attractive space, a company that is yielding peak results in the trough, which has a long-term record for growth through a mix of organic and acquisitions and that has a lot of resources ready to deploy as it sees attractive opportunities going forward. - David J. Coghlan

affect their ability to delight the customer, and that's going to affect our ability to create shareholder value.

When we started this continuous improvement process in 2008, our Lost Day Work Rate was 48. We are going to end 2011 with about 6.5 and room for further improvement. You do not see that improvement showing up directly on the P&L, although indirectly you do through Worker's Comp. But, it is an example of about 10 or 12 key metrics that we have driven throughout the company. Having established that metric and identified that we were not at best practice, we then developed a series of safety tools that would allow us to train our employees and to put problem-solving processes in place so we could improve our safety performance. Then we put in place safety resources in our key plant clusters, and through

the combination of the metric, the tool kits, and the resources, we established a continuous improvement process that got us that level of improvement. We are taking the same approach with our other key metrics, such as quality, productivity, and working capital.

CEOCFO: Was it easy to get people on board with the new corporate philosophy?

Mr. Coghlan: Initially, a lot of people scratched their heads and said, "What is this all about?" In reality, in continuous improvement what you are doing is inverting the pyramid. You move from command and control to a much more enabled environment. For

example, if you are trying to take waste out of a process, the folks who can do the most to accomplish that are the folks who are working in that process. And, as they are trained on our continuous improvement tools and gain experience by participating in Kaizens, they begin to understand the logic of the metrics. They also start to understand that this is empowering them and that we are serious about it, and they begin to get excited. Then they start to take ownership, and we begin to see improvement.

CEOCFO: What about the third leg of your strategy, One Watts Water?

Mr. Coghlan: The third part of our strategy is something we call One Watts Water and there are several aspects to that. For example, we had over 40 ERP systems throughout our company, and we are currently engaged in a quest to winnow that down to a single global ERP system for greater efficiency. We are also implementing shared service centers. Why should each of our businesses and locations process payroll, accounts payable checks, and pursue accounts receivables, when we can consolidate that into shared service centers? Lastly, under One Watts Water, we are implementing a mindset change, which is our version of GE's "boundary-less" thinking. What that really means is that we are building a culture to make one plus

ture to make one plus one equal three. For example, one of our account management teams started a process about a year ago with one of our large OEM accounts, an American company, to whom we were selling plumbing products. As we built relationships, we found opportunities in their US business for a lot more of our business platforms. This customer was investing a lot in growing a business in Asia, so our account team helped our Asian business build relationships with that customer on the other side of the Pacific. In Asia, the needs could best be met with products and technologies from our business in Germany. In all, we had a wonderful trifecta of an account team in the US broadening relationships with their customer, identifying an opportunity for another region and helping to open the door. Then you have our German team stepping up and helping by sending a product manager to China for two weeks to help develop a solution with the customer's product managers. We now have a much broader and deeper relationship with that customer because instead of each person thinking about their individual objectives, we looked for ways to improve the overall business.

CEOCFO: Watts Water Technologies has been around for a very long time; how important is the history to your customers and potential customers?

Mr. Coghlan: The history is tremendously important, both to our employees, who can take pride in working for a company that has been around for as long as we have, and to our customers. At the end of the day, most of our products are installed and serviced by plumbing contractors. Product availability and product quality is incredibly important to the plumbing contractor. If they trust the brand and the product, they will keep using it, even if you are a bit more expensive than the other guy. In our case, our customers say, "Look, Watts has been in the business for over 100 years. I have used the product for 10 years or 25 years, I know the quality is good, I know your reputation for standing behind your product is good, and I know your product is always

available in the plumbing wholesale supply house when I need it. That makes me more confident that the profit I have earned on the job I can put in my pocket." Because if they have to go back to repair a poor quality part, they have just lost the profit at the job. If they are scheduled to do a job and go to the wholesale supply house and can't get the part they need, then they have lost the revenue for that time and they never get it back. Therefore, the history and the brand name are incredibly important, because it gives us this longstanding relationship with our customers and they trust us.

CEOCFO: What is the market like in the water industry, and what are the biggest changes you have seen recently?

Mr. Coghlan: We see that energy efficiency, water conservation, and water quality are becoming more and more important. For example, in North America, most buildings are heated and cooled through air, but if you go to Asia, Europe, and other parts of the world, most heating is actually done by moving hot and cold water around. That plays exactly into our business. Also, markets around the world are becoming much more focused on energy efficiency, which we can support.

Water conservation is also becoming more important as demand exceeds supply in a number of places around the world. We are starting to see codes and regulations that require people to capture and reuse rainwater, and we think this is going to become more of an issue. Then there is water quality. If you read some of the environmental surveys, you see that people rate the quality of drinking water as a key concern. We help improve the quality of water coming into homes. So these are all trends that are positives for our business.

CEOCFO: What is the financial picture like today for Watts Water Technologies?

Mr. Coghlan: I briefly mentioned it earlier, but in terms of our financial picture, we have done a good job during the downturn to the point where

we are close to our peak earnings in the economic trough. What do I mean by that? For example, in 2007, our gross margins were 33.5%, in 2010 they were 36.5%. In 2007, our days working capital were about 126 and in 2010 they were just about 100. So we have been fortunate in that we have been able to take advantage of the downturn and to really become a lot fitter, leaner and meaner. So, when the recession ends and that \$200 million of volume comes back, we expect it should really give us some positive tail winds. We will be able to leverage that volume very strongly given the improvements that we have made in the business.

CEOCFO: Why should potential investors consider Watts Water Technologies?

Mr. Coghlan: First, I would say that the water industry is an attractive space for many of the reasons that I mentioned earlier, such as the need for energy efficiency, water conservation, water quality, and water safety. We are one of a handful of pure play companies in the water space. Second, we have delivered very solid results through the downturn and we believe we are positioned for some very positive results as we come out of the downturn. Third, we have a long-term record of growth. We have grown this business at a 9.7% compound annual growth rate since 1999. About half of that was organic, and the other half a series of close to 30 acquisitions. We have about \$250 million in cash on our balance sheet, and while we have done some substantial acquisitions the last couple of years, between the cash and our relatively low debt-to-cap ratios, we have the ability to do some significant acquisitions going forward. So, putting all of that together, Watts Water is a pure play company in an attractive space, a company that is yielding peak results in the trough, which has a long-term record for growth through a mix of organic and acquisitions and that has a lot of resources ready to deploy as it sees attractive opportunities going forward.



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