WATTS WATER TECHNOLOGIES INC
Form 10-K
February 22, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001 11499

WATTS WATER TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	04 2916536
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

815 Chestnut Street, North Andover, MA 01845
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (978) 688 1811

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A common stock, par value $0.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b 2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
			Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). Yes No

As of June 29, 2018, the aggregate market value of the registrant’s common stock held by non affiliates of the registrant was approximately $2,164,731,408 based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at January 27, 2019
Class A common stock, $0.10 par value per share	27,623,445 shares
Class B common stock, $0.10 par value per share	6,329,290 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement for its Annual Meeting of Stockholders to be held on May 17, 2019 are incorporated by reference into Part III of this Annual Report on Form 10 K.

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PART I

Item 1. BUSINESS.

This Annual Report on Form 10 K contains statements that are not historical facts and are considered forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements contain projections of our future results of operations or our financial position or state other forward looking information. In some cases you can identify these forward looking statements by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “should,” and “would” or similar words. You should not rely on forward looking statements becau they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by the forward looking statements. Some of the factors that might cause these differences are described under Item 1A—“Risk Factors.” You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward looking statements were based on information, plans and estimates at the date of this report, and, except as required by law, we undertake no obligation to update any forward looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

In this Annual Report on Form 10 K, references to “the Company,” “Watts Water,” “we,” “us” or “our” refer to Watts Water Technologies, Inc. and its consolidated subsidiaries.

Overview

Watts Regulator Co. was founded by Joseph E. Watts in 1874 in Lawrence, Massachusetts. Watts Regulator Co. started as a small machine shop supplying parts to the New England textile mills of the 19th century and grew into a global manufacturer of products and systems focused on the control, conservation and quality of water and the comfort and safety of the people using it. Watts Water Technologies, Inc. was incorporated in Delaware in 1985 and is the parent company of Watts Regulator Co.

Our strategy is to be the preferred supplier of differentiated products, solutions and systems that manage and conserve the flow of fluids and energy into, through and out of buildings in the commercial and residential markets of the Americas, Europe, and Asia-Pacific, Middle East and Africa (“APMEA”), our three geographic segments. Within this framework, we focus upon three themes: safety & regulation, energy efficiency and water conservation. This strategy enables us to continue to increase our earnings via sales growth, both organic and inorganic, and the systematic reduction of manufacturing costs and operational expenses.

We intend to continue to expand organically by introducing new complementary products and solutions in existing markets, by enhancing our preferred brands, by promoting plumbing code development to drive the need for safety and quality products and by continually improving merchandising in our wholesale distribution channels. We focus on selling solutions to our customers that integrate a variety of our product offerings. We target selected new products and geographic markets based on growth potential, including our ability to leverage our existing distribution channels. Additionally, we leverage our distribution channels through the introduction of new products and solutions, as well as the integration of products of our acquired companies.

The Internet of Things "IoT" has allowed companies to transform components into smart and connected devices. Over the last few years we have been building our smart and connected foundation by expanding our internal capabilities and making strategic acquisitions. In 2018, we began accelerating our efforts and initiatives related to our Smart and Connected strategy by investing in IoT architecture development, enhancing digital tools used by our customers, and launching our new Watts' website and several new smart and connected product development projects. Our strategy is to deliver superior customer value through smart and connected products and solutions. The strategy we will focus on has three dimensions: Connect, Control and Conserve. We intend to introduce products that will connect our customers with smart systems, control systems for optimal performance, and conserve critical resources by increasing operability, efficiency and safety. Our goal is to derive 25 percent of our revenue from smart and connected products by 2023.

We intend to continue to generate incremental growth by targeting selected acquisitions, both in our core markets as well as new complementary markets. We have completed 11 acquisitions in the last decade. Our acquisition strategy focuses

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on businesses that manufacture preferred brand name products that address our themes of safety & regulation, energy efficiency and water conservation in our primary or related complementary markets. We target businesses that will provide us with one or more of the following: an entry into new markets, an increase in shelf space with existing customers, strong brand names, a new or improved technology or an expansion of the breadth of our product and solution offerings.

We are committed to reducing our manufacturing and operating costs using Lean methodologies to drive improvement across all key processes. We have a number of manufacturing facilities in lower cost regions. In recent years, we have announced global restructuring plans which reduced our manufacturing and distribution footprint in order to reduce our costs and to realize incremental operating efficiencies.

Additionally, a majority of our manufacturing facilities are ISO 9000, 9001 or 9002 certified by the International Organization for Standardization.

The majority of our sales are for products that have been approved under regulatory standards incorporated into state and municipal plumbing, heating, building and fire protection codes in the Americas, Europe, and certain countries within APMEA. We have consistently advocated for the development and enforcement of plumbing codes and are committed to providing products to meet these standards.

Products

We have a broad range of products in terms of design distinction, size and configuration. We classify our many products into four global product lines. These product lines are:

- Residential & commercial flow control products—includes products typically sold into plumbing and hot water applications such as backflow preventers, water pressure regulators, temperature and pressure relief valves, and thermostatic mixing valves. Residential & commercial flow control products accounted for approximately 52% of our total sales in 2018 and 2017, and 56% of our total sales in 2016.

- HVAC & gas products—includes commercial high efficiency boilers, water heaters and heating solutions, hydronic and electric heating systems for under floor radiant applications, custom heat and hot water solutions, hydronic pump groups for boiler manufacturers and alternative energy control packages, and flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications. HVAC & gas products accounted for approximately 32% of our total sales in 2018 and 2017, and 29% of our total sales in 2016. HVAC is an acronym for heating, ventilation and air conditioning.

· Drainage & water re use products—includes drainage products and engineered rain water harvesting solutions for commercial, industrial, marine and residential applications. Drainage & water re use products accounted for approximately 10% of our total sales in 2018 and 2017, and 9% of our total sales in 2016.

· Water quality products—includes point of use and point of entry water filtration, conditioning and scale prevention systems for both commercial and residential applications. Water quality products accounted for 6% of our total sales in 2018, 2017 and 2016.

Commercial and Operational Excellence

We strive to invest in product innovation that meets the wants and needs of our customers. Our focus is on differentiated products and solutions that will provide greater opportunity to distinguish and defend ourselves in the market place. Conversely, we continue to migrate away from commoditized products where we cannot add value. Our goal is to be a solutions provider, not merely a components supplier. We refer to this customer facing mindset as commercial excellence, and we are continually looking for strategic opportunities to invest or divest, where necessary, in order to meet those objectives. In conjunction with this customer centric focus, we continually review our operations to ensure we can efficiently and effectively produce and deliver products to customers. We are striving to simplify our administrative operations as well to drive further efficiencies. We call this aspect of our business operational excellence.

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Customers and Markets

We sell our products to plumbing, heating and mechanical wholesale distributors and dealers, original equipment manufacturers (OEMs), specialty product distributors, and major DIY chains.

Wholesalers. Approximately 61%, 63%, and 57% of our sales in 2018, 2017, and 2016, respectively, were to wholesale distributors for commercial and residential applications.

OEMs. Approximately 15%, 16%, and 21% of our sales in 2018, 2017, and 2016, respectively, were to OEMs. In the Americas, our typical OEM customers are water heater manufacturers and equipment and water systems manufacturers needing flow control devices and other products. Our sales to OEMs in Europe are primarily to boiler manufacturers and radiant system manufacturers. Our sales to OEMs in APMEA are primarily to water heater, air conditioning, and appliance manufacturers.

Specialty. Approximately 20%, 17%, and 18%, of our sales in 2018, 2017, and 2016, respectively, were through our specialty channel. The specialty channel primarily includes sales related to high-efficiency boilers and water heaters, water filtration and conditioning products, specialty floor and tile products, and food service products.

DIY Chains. Approximately 4% of our sales in 2018, 2017, and 2016 were to DIY chains. The DIY channel primarily includes sales related to ball valve and a portion of our water quality products.

In 2018, 2017 and 2016, no customer accounted for more than 10% of our total net sales. Our top ten customers accounted for approximately $329.5 million, or 21.1%, of our total net sales in 2018; $300.6 million, or 21%, of our total net sales in 2017; and $275.2 million, or 20%, of our total net sales in 2016. Thousands of other customers constituted the balance of our net sales in each of those years.

Marketing and Sales

For product sales in the Americas, we rely primarily on commissioned manufacturers' representatives to market our product lines, some of which maintain a consigned inventory of our products. These representatives sell primarily to plumbing and heating wholesalers and contractors or supply DIY stores. Our specialty channel products in the Americas are sold through independent representatives, dealers and distributors. We also sell products directly to wholesalers, OEMs and private label accounts primarily in Europe and APMEA, and, to a lesser extent, in the

Americas.

Manufacturing

We have integrated and automated manufacturing capabilities, including a state of the art lead-free foundry and a traditional brass and bronze foundry, machining, plastic extrusion and injection molding and assembly operations. Our foundry operations include metal pouring systems, automatic core making, and brass and bronze die castings. Our machining operations feature computer controlled machine tools, high speed chucking machines with robotics, robotic assembly capability, laser cutting technology, and automatic screw machines for machining bronze, brass and steel components. Our heating and hot water product manufacturing capabilities include all phases of light and heavy gage metal fabrication including laser cutting and the latest technology welding and brazing processes including automated and robotic applications, as well as metal finishing including chemical passivation of stainless steel. We have invested in recent years to expand our manufacturing capabilities and to adopt the most efficient and productive equipment. We are committed to maintaining our manufacturing equipment at a level consistent with current technology in order to maintain high levels of quality and manufacturing efficiencies. In 2018, we continued to invest in our systems and in our manufacturing and training facilities.

Capital expenditures and depreciation for each of the last three years were as follows:

	Years Ended December 31,		
	2018	2017	2016
	(in millions)		
Capital expenditures	$ 35.9	$ 29.4	$ 36.0
Depreciation	$ 28.9	$ 29.7	$ 30.4

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Raw Materials

We require substantial amounts of raw materials to produce our products, including bronze, brass, cast iron, stainless steel, steel, plastic, and other materials used in our products. Substantially all of the raw materials we require are purchased from outside sources. The commodity markets have experienced volatility over the past several years, including the imposition of tariffs, particularly with respect to copper and stainless steel. Tariffs could increase the cost of our products and the components and raw materials that go into manufacturing them. These increased costs could adversely impact the gross margin we earn on our products. Because we internationally source a significant amount of raw materials, several months of raw materials and work in process are moving through our supply chain at any point in time. We are not able to predict whether commodity costs, including copper and stainless steel, will significantly increase or decrease in the future. If commodity costs increase in the future and we are not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease. If commodity costs were to decline, we may experience pressures from customers to reduce our selling prices. The timing of any price reductions and decreases in commodity costs may not align. As a result, our margins could be affected.

With limited exceptions, we have multiple suppliers for our commodities and other raw materials. We believe our relationships with our key suppliers are good and that an interruption in supply from any one supplier would not materially affect our ability to meet our immediate demands while another supplier is qualified. We regularly review our suppliers to evaluate their strengths. If a supplier is unable to meet our demands, we believe that in most cases our inventory of raw materials will allow for sufficient time to identify and obtain the necessary commodities and other raw materials from an alternate source. We believe that the nature of the commodities and other raw materials used in our business are such that multiple sources are generally available in the market.

Code Compliance

Products representing a majority of our sales are subject to regulatory standards and code enforcement, which typically require that these products meet stringent performance criteria. Standards in the Americas are established by such industry test and certification organizations as the American Society of Mechanical Engineers (ASME), the America Water Works Association (AWWA), the Canadian Standards Association (CSA), the American Society of Sanitary Engineering (ASSE), the American National Standards Institute—Leadership in Energy & Environmental Design (LEED), the University of Southern California Foundation for Cross Connection Control and Hydraulic Research (USC FCCC & HR), FM Global (FM), NSF International (NSF) and Underwriters Laboratories (UL), the National Board (NB), the Environmental Protection Agency (EPA), and the Californian Energy Commission (CEC). International standards are established by such organizations as the International Code Council (ICC) and the International Association of Plumbing and Mechanical Officials (IAPMO). Many of these standards are incorporated into state and municipal plumbing and heating, building and fire protection codes.

National regulatory standards in Europe vary by country. The major standards and/or guidelines that our products must meet are AFNOR (France), DVGW (Germany), UNI/ICIM (Italy), KIWA (Netherlands), SVGW (Switzerland), SITAC (Sweden), WRAS (United Kingdom) and CEN (Denmark). Further, there are local regulatory standards requiring compliance as well.

We have consistently advocated for the development and enforcement of plumbing codes. We maintain stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products that comply with code requirements. We believe that product testing capability and investment in plant and equipment are needed to manufacture products that comply with code requirements. Our product-testing capabilities and dedicated investments are areas of strength for us. Additionally, a majority of our manufacturing facilities are ISO 9000, 9001 or 9002 certified by the International Organization for Standardization.

New Product Development and Engineering

We retain our own product development staff, design teams, and testing laboratories in the Americas, Europe and APMEA that work to enhance our existing products and develop new products and solutions. We maintain sophisticated product development and testing laboratories and are committed to investing more in this area. We have a new-product development program that is used globally to drive, manage and invest in innovation and product offerings. In 2016 and 2017, we continued to drive innovation to our markets, including the successful roll out of the IntelliStation™ smart

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mixing and recirculation system and the AERCO Benchmark® Platinum boiler. In 2018 we launched the IntelliStation Jr™ digital mixing valve to further our digital mixing product lines as well as a number of new drains products (cast iron and stainless steel). We continued to focus and invest in our global program to leverage our electronics capabilities to drive our Smart and Connected Strategy.

Competition

The domestic and international markets for energy efficient products, water conservation devices, and products that address the safety & regulation for the flow of fluids, are intensely competitive and require us to compete against some companies possessing greater financial, marketing and other resources than ours. Due to the breadth of our product offerings, the number and identities of our competitors vary by product line and market. We consider quality, brand preference, delivery times, engineering specifications, plumbing code requirements, price, technological expertise, breadth of product offerings and integrated solutions offerings to be the primary competitive factors. We believe that new product development and product engineering are also important to success in the water industry and that our position in the industry is attributable in part to our ability to develop new and innovative products quickly and to adapt and enhance existing products. We continue to develop new and innovative products to enhance our market position and are continuing to implement manufacturing and design programs to reduce costs. We cannot be certain that our efforts to develop new products will be successful or that our customers will accept our new products. Although we own certain patents and trademarks that we consider to be of importance, we do not believe that our business and competitiveness as a whole are dependent on any one of our patents or trademarks or on patent or trademark protection generally.

Backlog

Backlog was approximately $103.2 million at January 27, 2019 and approximately $86.3 million at January 28, 2018. We do not believe that our backlog at any point in time is indicative of future operating results and we expect our entire current backlog to be converted to sales in 2019.

Employees

As of December 31, 2018, we employed approximately 4,800 people worldwide. With the exception of two subsidiaries, one in Canada and the other in New York, none of our employees in the Americas or APMEA are covered by collective bargaining agreements. In some European countries, our employees are subject to traditional national collective bargaining agreements. We believe that our employee relations are good.

Product Liability, Environmental and Other Litigation Matters

We are subject to a variety of potential liabilities connected with our business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. We maintain product liability and other insurance coverage, which we believe to be generally in accordance with industry practices. Nonetheless, such insurance coverage may not be adequate to protect us fully against substantial damage claims. See "Item 1A. Risk Factors" and Note 16 of the Notes to the Consolidated Financial Statements, both of which are incorporated herein by reference.

Environmental Remediation

We have been named as a potentially responsible party with respect to a limited number of identified contaminated sites. The levels of contamination vary significantly from site to site as do the related levels of remediation efforts. Environmental liabilities are recorded based on the most probable cost, if known, or on the estimated minimum cost of remediation. Accruals are not discounted to their present value, unless the amount and timing of expenditures are fixed and reliably determinable. We accrue estimated environmental liabilities based on assumptions, which are subject to a number of factors and uncertainties. Circumstances that can affect the reliability and precision of these estimates include identification of additional sites, environmental regulations, level of clean up required, technologies available, number and financial condition of other contributors to remediation and the time period over which remediation may occur. We recognize changes in estimates as new remediation requirements are defined or as new information becomes available. See Note 16 of the Notes to the Consolidated Financial Statements. See "Item 1A. Risk Factors" and Note 16 of the Notes to the Consolidated Financial Statements, both of which are incorporated herein by reference.

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Asbestos Litigation

We are defending approximately 300 lawsuits in different jurisdictions, alleging injury or death as a result of exposure to asbestos. The complaints in these cases typically name a large number of defendants and do not identify any of our particular products as a source of asbestos exposure. To date, discovery has failed to yield evidence of substantial exposure to any of our products and no judgments have been entered against us.

Other Litigation

Other lawsuits and proceedings or claims, arising from the ordinary course of operations, are also pending or threatened against us.

Available Information

We maintain a website with the address www.wattswater.com. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10 K. Other than an investor's own internet access charges, we make available free of charge through our website our Annual Report on Form 10 K, quarterly reports on Form 10 Q and current reports on Form 8 K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission (SEC).

Executive Officers and Directors

Set forth below are the names of our executive officers and directors, their respective ages and positions with our Company and a brief summary of their business experience for at least the past five years:

Executive Officers	Age	Position
Robert J. Pagano, Jr.	56	Chief Executive Officer, President and Director
Shashank Patel	58	Chief Financial Officer
Jennifer L. Congdon	49	Chief Human Resources Officer
Kenneth R. Lepage	48	General Counsel, Executive Vice President & Secretary
Elie A. Melhem	55	President, Asia Pacific, the Middle East & Africa

Munish Nanda	54	President, Americas & Europe
Non Employee Directors		
Christopher L. Conway(2)(3)	63	Director
David A. Dunbar(1)(3)	57	Director
Louise K. Goeser(2)(3)	65	Director
Jes Munk Hansen(2)(3)	51	Director
W. Craig Kissel(3)	68	Chairman of the Board and Director
Joseph T. Noonan	37	Director
Merilee Raines(1)(3)	63	Director
Joseph W. Reitmeier(1)(3)	54	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

Robert J. Pagano, Jr. has served as Chief Executive Officer, President and a director of our Company since May 2014. He also served as interim Chief Financial Officer from October 2014 to April 2015 and from April 2018 to July 2018. Mr. Pagano previously served as Senior Vice President of ITT Corporation and President, ITT Industrial Process from April 2009 to May 2014. Mr. Pagano originally joined ITT in 1997 and served in several additional management roles during his career at ITT, including as Vice President Finance, Corporate Controller, and President of Industrial Products.

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ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets. Prior to joining ITT, Mr. Pagano worked at KPMG LLP. Mr. Pagano is a Certified Public Accountant. Mr. Pagano has also served as a member of the Board of Directors of Applied Industrial Technologies, Inc. since August 2017. Applied Industrial Technologies is a distributor of bearings, power transmission products, fluid power components and other industrial supplies and provides engineering, design and systems integration for industrial and fluid power applications, as well as customized mechanical, fabricated rubber and fluid power shop services.

Shashank Patel has served as Chief Financial Officer of our Company since July 2018. Mr. Patel previously worked at Xylem Inc. from the time of its spin-off from ITT Corporation in 2011 until June 2018. While at Xylem, Mr. Patel served as Vice President, Finance for Xylem Applied Water Systems, Dewatering and the America's Commercial Team from July 2017 to June 2018, Integration Leader for the Sensus business from August 2016 to June 2017, Vice President, Finance for Global Operations from April 2016 to July 2016, Interim Chief Financial Officer of Xylem from July 2015 to March 2016, and Vice President, Finance for the Applied Water Systems division from 2011 to July 2015. Mr. Patel also served in several leadership roles in finance, operations and engineering at ITT from 1996 until the spin-off of Xylem in 2011. Xylem is a global designer, manufacturer and equipment and service provider for water and wastewater applications.

Jennifer L. Congdon has served as Chief Human Resources Officer since December 2016. Ms. Congdon previously served as Vice President, Human Resources, Applied Water Systems and Business Transformation and Continuous Improvement with Xylem Inc. from August 2012 to December 2016. Xylem is a global designer, manufacturer and equipment and service provider for water and wastewater applications. From 2010 to August 2012, Ms. Congdon served as Vice President, Human Resources, Power Transmission for Rexnord Corporation. Rexnord Corporation is a multi-industry manufacturer and marketer of highly engineered mechanical power transmission components and water management products. From 2004 to 2010, Ms. Congdon held several human resources management positions of increasing responsibility with Honeywell International Inc. Prior to joining Honeywell, Ms. Congdon was a Human Resources Manager with Cisco Systems, Inc. and worked as a human resources consultant.

Kenneth R. Lepage has served as General Counsel, Executive Vice President and Secretary of the Company since August 2008. He also served as Executive Vice President of Human Resources from December 2009 to October 2015. Mr. Lepage originally joined our Company in September 2003 as Assistant General Counsel and Assistant Secretary. Prior to joining our Company, he was a junior partner at the law firm of Hale and Dorr LLP (now Wilmer Cutler Pickering Hale and Dorr LLP).

Elie A. Melhem has served as President, Asia Pacific, Middle East & Africa since February 2016. Mr. Melhem originally joined our Company in July 2011 as President, Asia Pacific. Mr. Melhem was previously the Managing Director of China for Ariston Thermo Group, a global manufacturer of heating and hot water products, from 2008 to July 2011. Prior to joining Ariston, Mr. Melhem spent eleven years with ITT Industries in China where he held several management positions, including serving as President of ITT's Residential and Commercial Water Group in China and President of ITT's Water Technology Group in Asia.

Munish Nanda has served as President, Americas & Europe since February 2016. Mr. Nanda originally joined our Company in April 2015 as President, Americas. Mr. Nanda previously served as President of Control Technologies for ITT Corporation from April 2011 to March 2015. Mr. Nanda also served as Group Vice President of ITT Corporation's Fluid and Motion Control Group from April 2008 to April 2011. ITT Corporation is a diversified manufacturer of highly engineered critical components and customized technology solutions for the energy, transportation and industrial markets. Prior to joining ITT Corporation, Mr. Nanda held several operating leadership and general management positions with Thermo Fisher Scientific Corporation and Honeywell International Inc. Mr. Nanda has also served as a member of the Board of Directors of CECO Environmental Corp. since June 2018. CECO Environmental provides air quality and fluid handling products and solutions serving the energy, industrial and other niche markets.

Christopher L. Conway has served as a director of our Company since June 2015. Mr. Conway was President, Chief Executive Officer and Chairman of the Board of CLARCOR Inc. from December 2011 until it was acquired in February 2017. Mr. Conway is now retired. Mr. Conway originally joined CLARCOR in 2006 and served in several senior management roles prior to becoming President and Chief Executive Officer, including Chief Operating Officer, President of CLARCOR's PECOFacet division, President of Facet USA, Inc., an affiliate of CLARCOR, and Vice President of Manufacturing of Baldwin Filters, Inc., another affiliate of CLARCOR. CLARCOR was a diversified

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marketer and manufacturer of mobile, industrial and environmental filtration products sold in domestic and international markets. Prior to joining CLARCOR, Mr. Conway served for two years as the Chief Operating Officer of Cortron Corporation, Inc., a manufacturing start-up based in Minneapolis, Minnesota. Mr. Conway also served for seven years in various management positions at Pentair, Inc., an international provider of products, services, and solutions for its customers' diverse needs in water and other fluids, thermal management, and equipment protection.

David A. Dunbar has served as a director of our Company since February 2017. Mr. Dunbar has served as President and Chief Executive Officer and a member of the Board of Directors of Standex International Corporation since January 2014, and as Chairman since October 2016. Standex is a global, multi-industry manufacturer in five broad business segments: Food Service Equipment Group, Engineering Technologies Group, Engraving Group, Electronics Group, and Hydraulics Group. Mr. Dunbar previously served as President of the valves and controls global business unit of Pentair Ltd. from October 2009 to December 2013. The unit was initially owned by Tyco Flow Control and Tyco Flow Control and Pentair merged in 2012. Pentair is a global provider of products and services relating to energy, water, thermal management and equipment protection. Prior to his tenure at Pentair, Mr. Dunbar held a number of senior positions at Emerson Electric Co., including President of each of the following: Emerson Process Management Europe; Machinery Health Management; and Emerson Climate Technologies Refrigeration.

Louise K. Goeser has served as a director of our Company since March 2018. Ms. Goeser served as President and Chief Executive Officer of Grupo Siemens S.A. de C.V. from March 2009 until her retirement in May 2018. In this position, Ms. Goeser was responsible for Siemens Mesoamérica, which is the Mexican, Central American and Caribbean unit of multinational Siemens AG, a global engineering company operating in the industrial, energy and healthcare sectors. Ms. Goeser previously served as President and Chief Executive Officer of Ford of Mexico from January 2005 to November 2008. Prior to this position, she served as Vice President, Global Quality for Ford Motor Company from 1999 to 2005. Prior to 1999, Ms. Goeser served as General Manager, Refrigeration and Vice President, Corporate Quality at Whirlpool Corporation and held various leadership positions with Westinghouse Electric Corporation. Ms. Goeser has served as a member of the Board of Directors of MSC Industrial Direct Co., Inc. since December 2009. MSC is a North American distributor of metal working and maintenance, repair, and operations products and services. Ms. Goeser previously served as a member of the boards of directors of Talen Energy from June 2015 to December 2016, PPL Corporation from March 2003 to June 2015, and Witco Corporation from 1997 to 1999.

Jes Munk Hansen has served as a director of our Company since February 2017. He most recently served as Chief Executive Officer OSRAM USA and Head of Global Sales for OSRAM GmbH from July 2018 to January 2019. OSRAM is a global lighting manufacturer with a portfolio ranging from high-tech applications based on semiconductor technology to smart and connected lighting solutions in buildings and cities. It has been announced that Mr. Hansen will join Terma A/S on April 1, 2019 and become President and Chief Executive Officer of Terma effective June 1, 2019. Terma develops and manufactures mission-critical products and solutions for the aerospace, defense and security sectors. Mr. Hansen previously served as Chief Executive Officer of LEDVANCE GmbH from July 2015 to December 2017. LEDVANCE is the general lighting lamps business unit of OSRAM GmbH. Prior to his tenure at LEDVANCE, Mr. Hansen served as Chief Executive Officer of the classical lamps and ballast business unit of OSRAM from January 2015 to July 2015 and as Chief Executive Officer of OSRAM Americas and President of OSRAM Sylvania from October 2013 to January 2015. Prior to his tenure at OSRAM, Mr. Hansen served in several senior management roles with Grundfos from 2000 to October 2013, including as Chief Executive Officer and

President of Grundfos North America from 2007 to October 2013. Grundfos is a leading global manufacturer of pumps as well as motors and electronics for monitoring and controlling pumps.

W. Craig Kissel has served as a director of our Company since October 2011. Mr. Kissel previously was employed by American Standard Companies Inc. from 1980 until his retirement in September, 2008. American Standard was a leading worldwide supplier of air conditioning and heating systems, vehicle control systems, and bathroom china and faucet ware. During his time at American Standard, Mr. Kissel served as President of Trane Commercial Systems from 2004 to June, 2008, President of WABCO Vehicle Control Systems from 1998 to 2003, President of the Trane North American Unitary Products Group from 1994 to 1997, Vice President of Trane Marketing of the North American Unitary Products Group from 1992 to 1994 and held various other management positions at Trane from 1980 to 1991. From 2001 to 2008, Mr. Kissel served as Chairman of American Standard's Corporate Ethics and Integrity Council, which was responsible for developing the company's ethical business standards. Mr. Kissel also served in the U.S. Navy from 1973 to 1978. Mr. Kissel served as a director of Chicago Bridge & Iron Company from May 2009 until its merger with McDermott International, Inc. in May 2018 and Mr. Kissel has served as a member of the board of directors of

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McDermott International since the merger. McDermott International is a global provider of technology, engineering and construction solutions for the energy industry.

Joseph T. Noonan has served as a director of our Company since May 2013. Mr. Noonan is currently an active entrepreneur, investor and start-up advisor. From November 2013 to January 2018, Mr. Noonan served as Chief Executive Officer of Homespun Design, Inc., an online marketplace for American-made furniture and home accents. Mr. Noonan previously worked as an independent digital strategy consultant from November 2012 to November 2013. Mr. Noonan was employed by Wayfair LLC from April 2008 to November 2012. During his time at Wayfair, Mr. Noonan served as Senior Director of Wayfair International from June 2011 to November 2012, Director of Category Management and Merchandising from February 2009 to June 2011 and Manager of Wayfair's Business-to-Business Division from April 2008 to February 2009. Wayfair is an online retailer of home furnishings, décor and home improvement products. Prior to joining Wayfair, Mr. Noonan worked as a venture capitalist at Polaris Partners and as an investment banker at Cowen & Company.

Merilee Raines has served as a director of our Company since February 2011. Ms. Raines served as Chief Financial Officer of IDEXX Laboratories, Inc. from October 2003 until her retirement in May 2013. Prior to becoming Chief Financial Officer, Ms. Raines held several management positions with IDEXX Laboratories, including Corporate Vice President of Finance, Vice President and Treasurer of Finance, Director of Finance, and Controller. IDEXX Laboratories develops, manufactures and distributes diagnostic and information technology based products and services for companion animals, livestock, poultry, water quality and food safety, and human point of care diagnostics. Ms. Raines served as a member of the Board of Directors of Affymetrix, Inc., a provider of life science and molecular diagnostic products that enable analysis of biological systems at the gene, protein and cell level, from January 2015 until it was acquired in March 2016. Ms. Raines is currently a member of the Board of Directors of Aratana Therapeutics, Inc., a pet therapeutics company focused on licensing, developing and commercializing biopharmaceutical products for companion animals. Ms. Raines also serves as a member of the Board of Directors of Benchmark Electronics, Inc., a worldwide provider of engineering services, integrated technology solutions and electronic manufacturing services.

Joseph W. Reitmeier has served as a director of our Company since February 2016. Mr. Reitmeier has served as Executive Vice President & Chief Financial Officer of Lennox International Inc. since July 2012. Mr. Reitmeier had served as Vice President of Finance for the LII Commercial business segment of Lennox International from 2007 to July 2012 and as Director of Internal Audit from 2005 to 2007. Lennox International is a leading global provider of climate control solutions and designs, manufactures and markets a broad range of products for the heating, ventilation, air conditioning and refrigeration markets. Before joining Lennox International, Mr. Reitmeier held financial leadership roles at Cummins Inc. and PolyOne Corporation.

Item 1A. RISK FACTORS.

Economic cycles, particularly those involving reduced levels of commercial and residential starts and remodeling, may have adverse effects on our revenues and operating results.

We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles. The businesses of most of our customers, particularly plumbing and heating wholesalers and OEM manufacturers, are cyclical. Therefore, the level of our business activity has been cyclical, fluctuating with economic cycles. An economic downturn may also affect the financial stability of our customers, which could affect their ability to pay amounts owed to their vendors, including us. We also believe our level of business activity is influenced by commercial and residential starts and renovation and remodeling, which are, in turn, heavily influenced by interest rates, consumer debt levels, changes in disposable income, employment growth and consumer confidence. Credit market conditions may prevent commercial and residential builders or developers from obtaining the necessary capital to continue existing projects or to start new projects. This may result in the delay or cancellation of orders from our customers or potential customers and may adversely affect our revenues and our ability to manage inventory levels, collect customer receivables and maintain profitability. If economic conditions worsen in the future or if economic recovery were to dissipate, our revenues and profits could decrease or trigger additional goodwill, indefinite lived intangible assets, or long lived asset impairments and could have a material effect on our financial condition and results of operations.

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We face intense competition and, if we are not able to respond to competition in our markets, our revenues and profits may decrease.

Competitive pressures in our markets could adversely affect our competitive position, leading to a possible loss of market share or a decrease in prices, either of which could result in decreased revenues and profits. We encounter intense competition in all areas of our business. Additionally, we believe our customers are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventories and their transaction costs. To remain competitive, we will need to invest continually in manufacturing, product development, marketing, customer service and support and our distribution networks. We may not have sufficient resources to continue to make such investments and we may be unable to maintain our competitive position. In addition, we may have to reduce the prices of some of our products to stay competitive, potentially resulting in a reduction in the profit margin for, and inventory valuation of, these products. Some of our competitors are based in foreign countries and have cost structures and prices in foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar costed products to be less competitive than our competitors' products costed in other currencies.

Changes in the costs of raw materials, including the imposition of tariffs, could reduce our profit margins. Reductions or interruptions in the supply of components or finished goods from international sources could adversely affect our ability to meet our customer delivery commitments.

We require substantial amounts of raw materials, including bronze, brass, cast iron, stainless steel and plastic, and substantially all of the raw materials we require are purchased from outside sources. The costs of raw materials may be subject to change due to, among other things, interruptions in production by suppliers, changes in exchange rates, imposition of tariffs, and worldwide price and demand levels. We typically do not enter into long term supply agreements. Our inability to obtain supplies of raw materials for our products at favorable costs could have a material adverse effect on our business, financial condition or results of operations by decreasing our profit margins. The commodity markets have experienced tremendous volatility over the past several years, including the imposition of tariffs, particularly copper and stainless-steel. Should commodity costs increase substantially, we may not be able to recover such costs, through selling price increases to our customers or other product cost reductions, which would have a negative effect on our financial results. If commodity costs decline, we may experience pressure from customers to reduce our selling prices. Additionally, we continue to purchase increased levels of components and finished goods from international sources. In limited cases, these components or finished goods are single sourced. The availability of components and finished goods from international sources could be adversely impacted by, among other things, interruptions in production by suppliers, suppliers' allocations to other purchasers and new laws, tariffs, or regulations.

We are subject to risks associated with changing technology, manufacturing techniques, distribution channels and business continuity, which could place us at a competitive disadvantage.

The successful implementation of our business strategy requires us to continually evolve our existing products and introduce new products to meet customers' needs in the industries we serve. Our products are characterized by stringent performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. If we fail to meet these requirements, our business could be at risk. We believe that our customers rigorously evaluate their suppliers on the basis of a number of factors, including product quality, price competitiveness, technical and manufacturing expertise, development and product design capability, new product innovation, reliability and timeliness of delivery, operational flexibility, customer service and overall management. Our success will depend on our ability to continue to meet customers' changing specifications with respect to these criteria. We cannot ensure that we will be able to address technological advances or introduce new products that may be necessary to remain competitive within our business. We cannot ensure that we can adequately protect any of our technological developments to produce a sustainable competitive advantage. Furthermore, we may be subject to business continuity risk in the event of an unexpected loss of a material facility or operation. We cannot ensure that we adequately protect against such loss.

Our business and financial performance may be adversely affected by information technology and other business disruptions.

Our business may be impacted by disruptions, including information technology attacks or failures, threats to physical security, as well as damaging weather or other acts of nature, pandemics or other public health crises. Cyber security attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of

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confidential or otherwise protected information and corruption of data. Cyber security may also be breached due to employee error, malfeasance, system errors or vulnerabilities, including vulnerabilities of our customers, vendors, suppliers, and their products. In addition, we have designed products and services that connect to and are part of the "Internet of Things" which may also be vulnerable to cyber security breaches. We attempt to provide adequate security measures to safeguard our products from cyber security attacks, however the potential for a breach remains. We have experienced cyber security attacks and may continue to experience them going forward, potentially with more frequency. Given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products to our customers, the compromising of confidential or otherwise protected information, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our systems, networks or our products, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

We are currently a decentralized company, which presents certain risks.

We are currently a decentralized company, which sometimes places significant control and decision making powers in the hands of local management. This presents various risks such as the risk of being slower to identify or react to problems affecting a key business. Additionally, we are implementing in a phased approach a company wide initiative to standardize and upgrade our enterprise resource planning (ERP) systems. This initiative could be more challenging and costly to implement because divergent legacy systems currently exist. Further, if the ERP updates are not successful, we could incur substantial business interruption, including our ability to perform routine business transactions, which could have a material adverse effect on our financial results.

Changes in regulations or standards could adversely affect our business.

Our products and business are subject to a wide variety of statutory, regulatory and industry standards and requirements. A significant change to regulatory requirements, whether federal, foreign, state or local, or to industry standards, could substantially increase manufacturing costs, impact the size and timing of demand for our products, or put us at a competitive disadvantage, any of which could harm our business and have a material adverse effect on our financial condition, results of operations and cash flow.

Implementation of our acquisition strategy may not be successful, which could affect our ability to increase our revenues or our profitability.

One of our strategies is to increase our revenues and profitability and expand our business through acquisitions that will provide us with complementary products and increase market share for our existing product lines. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, companies acquired recently and in the future may not achieve anticipated revenues, cost synergies, profitability or cash flows that justify our investment in them. We have faced increasing competition for acquisition candidates, which has resulted in significant increases in the purchase prices of many acquisition candidates. This competition, and the resulting purchase price increases, may limit the number of acquisition opportunities available to us, possibly leading to a decrease in the rate of growth of our revenues and profitability. In addition, acquisitions may involve a number of risks, including, but not limited to:

- inadequate internal controls over financial reporting and our ability to bring such controls into compliance with the requirements of Section 404 of the Sarbanes Oxley Act of 2002 in a timely manner;
- adverse short term effects on our reported operating results;
- diversion of management's attention;
- investigations of, or challenges to, acquisitions by competition authorities;
- loss of key personnel at acquired companies;
- unanticipated management or operational problems or legal liabilities; and

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· potential goodwill, indefinite lived intangible assets, or long lived asset impairment charges.

We are subject to risks related to product defects, which could result in product recalls and could subject us to warranty claims in excess of our warranty provisions or which are greater than anticipated due to the unenforceability of liability limitations.

We cannot be certain that our quality controls and procedures, including the testing of raw materials and safety testing of selected finished products, will reveal latent defects in our products or the materials from which they are made, which may not become apparent until after the products have been sold into the market. We also cannot be certain that our suppliers will always eliminate latent defects in products we purchase from them. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be expensive to implement and, if a product recall occurs during the product's warranty period, we may be required to replace the defective product. In addition, a product recall may damage our relationship with our customers and we may lose market share with our customers. Our insurance policies may not cover the costs of a product recall.

Our standard warranties contain limits on damages and exclusions of liability for consequential damages and for misuse, improper installation, alteration, accident or mishandling while in the possession of someone other than us. We may incur additional operating expenses if our warranty provision does not reflect the actual cost of resolving issues related to defects in our products. If these additional expenses are significant, it could adversely affect our business, financial condition and results of operations.

We face risks from product liability and other lawsuits, which may adversely affect our business.

We have been and expect to continue to be subject to various product liability claims or other lawsuits, including, among others, that our products include inadequate or improper instructions for use or installation, inadequate warnings concerning the effects of the failure of our products, alleged manufacturing or design defects, or allegations that our products contained asbestos. If we do not have adequate insurance or contractual indemnification, damages from these claims would have to be paid from our assets and could have a material adverse effect on our results of operations, liquidity and financial condition. Like other manufacturers and distributors of products designed to control and regulate fluids and gases, we face an inherent risk of exposure to product liability claims and other lawsuits in the event that the use of our products results in personal injury, property damage or business interruption to our customers. We cannot be certain that our products will be completely free from defect. In addition, in certain cases, we rely on third party manufacturers for our products or components of our products. We cannot be certain that our insurance coverage will continue to be available to us at a reasonable cost, or, if available, will be adequate to cover any such liabilities. For more information, see Item 1. Business—Product Liability, Environmental and Other Litigation Matters" and Note 16 of the Notes to the Consolidated Financial Statements, both of which are incorporated herein by reference.

We face risks from costs for environmental compliance and/or to address potential liabilities under environmental laws and regulations.

Our operations and facilities worldwide are subject to laws and regulations related to pollution and the protection of the environment, health and safety, including, but not limited to those governing air emissions, discharges to water, the generation, handling, storage, treatment and disposal of hazardous wastes and other materials, and the remediation of contaminated sites. A failure by us to comply with applicable requirements or maintain the permits required for our operations could result in civil or criminal fines, penalties, enforcement actions, third-party claims for property damage and personal injury, requirements to clean up property or to pay for the costs of cleanup or regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, including the installation of pollution control equipment or remedial actions.

Certain environmental laws and regulations impose on present and former owners and operators of facilities and sites, and on potentially responsible parties (“PRPs”) for sites to which such parties may have sent waste for disposal, requirements to investigate and remediate contamination. Such liability can be imposed without regard to fault and, under certain circumstances, may be joint and several, resulting in one PRP being held responsible for the entire obligation. Liability may also include damages to natural resources. On occasion we are involved in such investigations and/or cleanup, and also have been or could be named as a PRP in environmental matters.

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The discovery of additional contamination, including at acquired facilities, the imposition of more stringent environmental, health and safety laws and regulations, including cleanup requirements, or the insolvency, or other grounds for refusing to participate, of other responsible parties could require us to incur capital expenditures or operating costs materially in excess of our accruals. Future investigations we undertake may lead to discoveries of contamination that must be remediated, and decisions to close facilities may trigger remediation requirements that are not currently applicable. We may also face liability for alleged personal injury or property damage due to exposure to hazardous substances used or disposed of by us, contained within our current or former products, or present in the soil or groundwater at our current or former facilities. We could incur significant costs in connection with such liabilities. See Item 1. Business—Product Liability, Environmental and Other Litigation Matters and Note 16 of the Notes to the Consolidated Financial Statements, both of which are incorporated herein by reference.

Economic and other risks associated with international sales and operations could adversely affect our business and future operating results.

Since we sell and manufacture our products worldwide, our business is subject to risks associated with doing business internationally. Our business and future operating results could be harmed by a variety of factors, including:

- unexpected geo political events in foreign countries in which we operate, which could adversely affect manufacturing and our ability to fulfill customer orders;
- our failure to comply with anti corruption laws and regulations of the U.S. government and various international jurisdictions, such as the U.S. Foreign Corrupt Practices Act and the United Kingdom’s Bribery Act of 2010;
- trade protection measures and import or export duties or licensing requirements, which could increase our costs of doing business internationally;
- potentially negative consequences from changes in tax laws, including the Tax Cuts and Jobs Act of 2017 (“2017 Tax Act”), which could have an adverse impact on our profits;
- difficulty in staffing and managing widespread operations, which could reduce our productivity;
- costs of compliance with differing labor regulations, especially in connection with restructuring our overseas operations;
- laws of some foreign countries, which may not protect our intellectual property rights to the same extent as the laws of the U.S.;

· unexpected changes in regulatory requirements, which may be costly and require time to implement; and

· foreign exchange rate fluctuations, which could also materially affect our reported results. A portion of our sales and certain portions of our costs, assets and liabilities are denominated in currencies other than U.S. dollars. Approximately 38% of our sales during the year ended December 31, 2018 were from sales outside of the U.S. compared to 39% and 40% for the years ended December 31, 2017 and 2016, respectively. We cannot predict whether currencies such as the euro, Canadian dollar, Chinese yuan, or other currencies in which we transact will appreciate or depreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our reported results.

Our ability to achieve savings through our restructuring and business transformation activities may be adversely affected by management's ability to fully execute the plans as a result of local regulations, geo political risk or other factors within or beyond the control of management.

We have implemented a number of restructuring and business transformation activities, which include steps that we believe are necessary to enhance the value and performance of the Company, including reducing operating costs and increasing efficiencies throughout our manufacturing, sales and distribution footprint. Factors within or beyond the control of management may change the total estimated costs or the timing of when the savings will be achieved under the plans. Further, if we are not successful in completing the restructuring or business transformation activities timely or

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if additional or unanticipated issues such as labor disruptions, inability to retain key personnel during and after the transformation or higher exit costs arise, our expected cost savings may not be met and our operating results could be negatively affected. In addition, our restructuring and transformation activities may place substantial demands on our management, which could lead to diversion of management's attention from other business priorities and result in a reduced customer focus.

Our operating results could be negatively affected by changes in tax rates, the adoption of new tax legislation, or exposure to additional tax liabilities.

As a global company, we are subject to taxation in numerous countries, states and other jurisdictions. As a result, our effective rate is derived from a combination of applicable tax rates in the various places that we operate. Our future taxes could be affected by numerous factors including changes in the mix of our profitability from country to country, the results of examinations and audits of our tax filings, adjustments to our uncertain tax positions, changes in accounting for income taxes and changes in tax laws.

In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Significant judgment is required in determining our global provision for income taxes, deferred tax assets or liabilities, and in evaluating our tax positions. Although we believe our estimates are reasonable, our tax filings are regularly under audit by tax authorities and the ultimate tax outcome may differ from the amounts recorded and may materially affect our financial results in the period or periods for which such determination is made.

The U.S. federal government enacted the 2017 Tax Act on December 22, 2017. The 2017 Tax Act has resulted in significant changes to the U.S. corporate income tax system. These changes include lowering the corporate tax rate, implementing a territorial tax system, and imposing a one-time deemed repatriation Toll Tax on cumulative undistributed foreign earnings.

Due to the timing of the enactment and the complexity involved applying the provisions of the 2017 Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. These provisional amounts were finalized as of December 31, 2018. If additional regulatory guidance is issued by the applicable taxing authorities or if certain accounting interpretations are issued, these developments could affect our tax obligations and effective tax rate in the period or periods in which the guidance changes.

We identified a material weakness in our internal control over financial reporting relating to our accounting for the implementation of the 2017 Tax Act which, if not remediated appropriately or timely, could result in loss of investor confidence and adversely affect our stock price.

As disclosed in Part II, Item 9A, during the fourth quarter of fiscal 2018, management identified a material weakness in internal controls related to our accounting for the implementation of the 2017 Tax Act. We did not have an effective risk assessment process to identify all relevant risks within the process we implemented to account for changes resulting from the recently enacted 2017 Tax Act. As a consequence, we did not design and implement an effective process level control activity over the impact of foreign tax credits on the accounting for the tax liabilities associated with the mandatory repatriation provisions of the 2017 Tax Act. As a result, management concluded that our internal control over financial reporting was not effective as of December 31, 2018. We are implementing remedial measures and, while there can be no assurance that our efforts will be successful, we plan to remediate the material weakness prior to the end of fiscal 2019. If we are unable to remediate the material weakness, or are otherwise unable to maintain effective internal control over financial reporting or disclosure controls and procedures, our ability to record, process and report financial information accurately, and to prepare financial statements within required time periods, could be adversely affected, which could subject us to litigation or investigations requiring management resources and payment of legal and other expenses, negatively affect investor confidence in our financial statements and adversely affect our stock price.

The requirements to evaluate goodwill, indefinite lived intangible assets and long lived assets for impairment may result in a write off of all or a portion of our recorded amounts, which would negatively affect our operating results and financial condition.

As of December 31, 2018, our balance sheet included goodwill, indefinite lived intangible assets, amortizable intangible assets and property, plant and equipment of $544.8 million, $36.2 million, $129.0 million and $201.9 million, respectively. In lieu of amortization, we are required to perform an annual impairment review of both goodwill and indefinite lived intangible assets. In 2018, 2017, and 2016, none of our goodwill reporting units were impaired. In 2018 and 2017, none of our indefinite-lived tradenames were impaired. In performing our annual review in 2016, we recognized a pre tax non cash indefinite lived intangible asset impairment charge of approximately $0.4 million. We are also required to perform an impairment review of our long lived assets if indicators of impairment exist. In 2018, none of our long-lived assets were impaired. In 2017 and 2016, we recognized pre tax non cash charges of $1.0 million and $0.1 million, respectively.

There can be no assurances that future goodwill, indefinite lived intangible assets or other long lived asset impairments will not occur. We perform our annual test for indications of goodwill and indefinite lived intangible assets impairment in the fourth quarter of our fiscal year or sooner if indicators of impairment exist.

The loss or financial instability of major customers could have an adverse effect on our results of operations.

In 2018, our top ten customers accounted for approximately 21% of our total net sales with no one customer accounting for more than 10% of our total net sales. Our customers generally are not obligated to purchase any minimum volume of products from us and are able to terminate their relationships with us at any time. In addition, increases in the prices of our products could result in a reduction in orders from our customers. A significant reduction in orders from, or change in terms of contracts with, any significant customers could have a material adverse effect on our future results of operations.

Certain indebtedness may limit our ability to pay dividends, incur additional debt and make acquisitions and other investments.

Our revolving credit facility and other senior indebtedness contain operational and financial covenants that restrict our ability to make distributions to stockholders, incur additional debt and make acquisitions and other investments unless we satisfy certain financial tests and comply with various financial ratios. If we do not maintain compliance with these covenants, our creditors could declare a default under our revolving credit facility or senior notes and our indebtedness could be declared immediately due and payable. Our ability to comply with the provisions of our indebtedness may be affected by changes in economic or business conditions beyond our control. Further, one of our strategies is to increase our revenues and profitability and expand our business through acquisitions. We may require capital in excess of our available cash and the unused portion of our revolving credit facility to make large acquisitions, which we would generally obtain from access to the credit markets. There can be no assurance that if a large acquisition is identified that we would have access to sufficient capital to complete such acquisition. Should we require additional debt financing above our existing credit limit, we cannot be assured such financing would be available to us or available to us on reasonable economic terms.

One of our stockholders can exercise substantial influence over our Company.

As of December 31, 2018, Timothy P. Horne beneficially owned 6,329,290 shares of Class B common stock. Our Class B common stock entitles its holders to ten votes for each share and our Class A common stock entitles its holders to one vote per share. As of December 31, 2018, Timothy P. Horne beneficially owned approximately 18.5% of our outstanding shares of Class A common stock (assuming conversion of all shares of Class B common stock beneficially owned by Mr. Horne into Class A common stock) and approximately 99.2% of our outstanding shares of Class B common stock, which represents approximately 69.1% of the total outstanding voting power. As long as Mr. Horne controls shares representing at least a majority of the total voting power of our outstanding stock, Mr. Horne will be able to unilaterally determine the outcome of most stockholder votes, and other stockholders will not be able to affect the outcome of any such votes.

Conversion and sale of a significant number of shares of our Class B common stock could adversely affect the market price of our Class A common stock.

As of December 31, 2018, there were outstanding 27,646,465 shares of our Class A common stock and 6,329,290 shares of our Class B common stock. Shares of our Class B common stock may be converted into Class A common stock at any time on a one for one basis. Under the terms of a registration rights agreement with respect to outstanding shares of our Class B common stock, the holders of our Class B common stock have rights with respect to the registration of the underlying Class A common stock. Under these registration rights, the holders of Class B common stock may require, on up to two occasions that we register their shares for public resale. If we are eligible to use Form S 3 or a similar

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short form registration statement, the holders of Class B common stock may require that we register their shares for public resale up to two times per year. If we elect to register any shares of Class A common stock for any public offering, the holders of Class B common stock are entitled to include shares of Class A common stock into which such shares of Class B common stock may be converted in such registration. However, we may reduce the number of shares proposed to be registered in view of market conditions. We will pay all expenses in connection with any registration, other than underwriting discounts and commissions. If all of the available registered shares are sold into the public market the trading price of our Class A common stock could decline.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

We maintain 31 principal manufacturing, warehouse and distribution centers worldwide, including our corporate headquarters located in North Andover, Massachusetts. Additionally, we maintain numerous sales offices and other smaller manufacturing facilities and warehouses. The principal properties in each of our three geographic segments and their location, principal use and ownership status are set forth below:

Americas:

Location	Principal Use	Owned/Leased
North Andover, MA	Corporate Headquarters	Owned
Burlington, ON, Canada	Distribution Center	Owned
Export, PA	Manufacturing	Owned
Franklin, NH	Manufacturing/Distribution	Owned
St. Pauls, NC	Manufacturing	Owned
Fort Worth, TX	Manufacturing/Distribution	Owned
San Antonio, TX	Warehouse/Distribution	Owned
Spindale, NC	Distribution Center	Owned
Blauvelt, NY	Manufacturing/Distribution	Leased
Peoria, AZ	Manufacturing/Distribution	Leased
Reno, NV	Distribution Center	Leased
Vernon, BC, Canada	Manufacturing/Distribution	Leased
Woodland, CA	Manufacturing	Leased
Groveport, OH	Distribution Center	Leased

Europe

Location	Principal Use	Owned/Leased
Biassono, Italy	Manufacturing/Distribution	Owned
Hautvillers, France	Manufacturing	Owned
Landau, Germany	Manufacturing/Distribution	Owned
Méry, France	Manufacturing	Owned
Plovdiv, Bulgaria	Manufacturing	Owned
Sorgues, France	Distribution Center	Owned
Vildbjerg, Denmark	Manufacturing/Distribution	Owned
Virey le Grand, France	Manufacturing/Distribution	Owned
Amsterdam, Netherlands	Europe Headquarters	Leased
Gardolo, Italy	Manufacturing	Leased
Monastir, Tunisia	Manufacturing	Leased
Rosières, France	Manufacturing/Distribution	Leased
St. Neots, United Kingdom	Manufacturing/Distribution	Leased

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Asia Pacific, Middle East, and Africa:

Location	Principal Use	Owned/Leased
Ningbo, Beilun, China	Manufacturing	Owned
Shanghai, China	Asia Pacific Headquarters	Leased
Ningbo, Beilun District, China	Distribution Center	Leased
Auckland, New Zealand	Manufacturing/Distribution	Leased

Certain of our facilities are subject to capital lease arrangements and collateral assignments under loan agreements with long term lenders. In general, we believe that our properties, including machinery, tools and equipment, are in good condition, well maintained and adequate and suitable for their intended uses.

Item 3. LEGAL PROCEEDINGS.

We are from time to time involved in various legal and administrative proceedings. See Item 1. “Business—Product Liability, Environmental and Other Litigation Matters,” and Note 16 of the Notes to Consolidated Financial Statements, both of which are incorporated herein by reference.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our Class A common stock is traded on the New York Stock Exchange under the trading symbol “WTS.”

There is no established public trading market for our Class B common stock, which is held by members of the Horne family. The principal holders of such stock are subject to restrictions on transfer with respect to their shares. Each share of our Class B common stock (10 votes per share) is convertible into one share of Class A common stock (1 vote per share).

The number of record holders of our Class A common stock as of January 27, 2019 was 178. The number of record holders of our Class B common stock as of January 27, 2019 was 11.

Aggregate common stock dividend payments in 2018 were $28.3 million, which consisted of $23.1 million and $5.2 million for Class A shares and Class B shares, respectively. Aggregate common stock dividend payments in 2017 were $25.9 million, which consisted of $21.1 million and $4.8 million for Class A shares and Class B shares, respectively. While we presently intend to continue to pay comparable cash dividends, the payment of future cash dividends depends upon the Board of Directors' assessment of our earnings, financial condition, capital requirements and other factors.

We satisfy the minimum withholding tax obligation due upon the vesting of shares of restricted stock and the conversion of restricted stock units into shares of Class A common stock by automatically withholding from the shares being issued a number of shares with an aggregate fair market value on the date of such vesting or conversion that would satisfy the withholding amount due.

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The following table includes information with respect to shares of our Class A common stock withheld to satisfy withholding tax obligations during the quarter ended December 31, 2018.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2018 – October 28, 2018	1,623	$ 78.44	—	—
October 29, 2018 – November 25, 2018	55	$ 72.87	—	—
November 26, 2018 - December 31, 2018	422	$ 71.12	—	—
Total	2,100	$ 76.82	—	—

The following table includes information with respect to repurchases of our Class A common stock during the three month period ended December 31, 2018 under our stock repurchase program.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2018 – October 28, 2018	17,120	$ 76.15	17,120	$ 170,975,854
October 29, 2018 – November 25, 2018	22,245	$ 72.91	22,245	$ 169,353,910
November 26, 2018 - December 31, 2018	104,951	$ 71.99	104,951	$ 161,798,336
Total	144,316	$ 72.63	144,316	

(1) On July 27, 2015, the Board of Directors authorized a stock repurchase program of up to $100 million of the Company's Class A common stock to be purchased from time to time on the open market or in privately negotiated transactions. On February 6, 2019, the Board of Directors authorized an additional stock repurchase program of up to $150 million of the Company's Class A common stock to be purchased from time to time on the open market or in privately negotiated transactions. The $150 million has been reflected in the maximum dollar value of shares that may yet be purchased in column (d) above. The timing and number of shares repurchased will be determined

by the Company’s management based on its evaluation of market conditions and other factors.

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on our Class A common stock for the last five years with the cumulative return of companies on the Standard & Poor’s 500 Stock Index and the Russell 2000 Index. We chose the Russell 2000 Index because it represents companies with a market capitalization similar to that of

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Watts Water. The graph assumes that the value of the investment in our Class A common stock and each index was $100 at December 31, 2013 and that all dividends were reinvested.

*$100 invested on 12/31/13 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Cumulative Total Return

	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Watts Water Technologies, Inc.	100.00	103.55	82.04	108.98	128.41	110.28
S & P 500	100.00	113.69	115.26	129.05	157.22	150.33
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09

The above Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

Item 6. SELECTED FINANCIAL DATA.

The selected financial data set forth below should be read in conjunction with our consolidated financial statements, related Notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included herein.

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FIVE YEAR FINANCIAL SUMMARY

(Amounts in millions, except per share and cash dividend information)

	Year Ended 12/31/18(1)	Year Ended 12/31/17(2)	Year Ended 12/31/16(3)	Year Ended 12/31/15(4)	Year Ended 12/31/14(5)
Statement of operations data:					
Net sales	$ 1,564.9	$ 1,456.7	$ 1,398.4	$ 1,467.7	$ 1,513.7
Net income (loss)	128.0	73.1	84.2	(112.9)	50.3
DILUTED EPS					
Net income (loss) per share:	3.73	2.12	2.44	(3.24)	1.42
Cash dividends declared per common share	$ 0.82	$ 0.75	$ 0.71	$ 0.66	$ 0.58
Balance sheet data (at year end):					
Total assets	$ 1,653.7	$ 1,736.5	$ 1,763.2	$ 1,692.8	$ 1,948.0
Long-term debt, net of current portion	323.4	474.6	511.3	576.2	577.8

(1) For the year ended December 31, 2018, net income includes pre-tax restructuring charges of $3.4 million, or $2.5 million net after-tax cost. Net income also includes a tax benefit of $3.7 million related to the finalization of the impact of the 2017 Tax Act.

(2) For the year ended December 31, 2017, net income includes the following pre-tax costs: long-lived asset impairment charges of $1.0 million, deployment costs related to the Americas and Europe transformation programs of $2.9 million, restructuring charges of $6.8 million, and acquisition costs of $0.2 million. The net after tax cost of these items was $7.3 million. Net income also includes a tax charge of $25.1 million related to the provisional impact of the 2017 Tax Act.

(3) For the year ended December 31, 2016, net income includes the following net pre tax costs: long-lived asset impairment charges of $0.5 million, acquisition costs of $2.0 million, purchase accounting adjustments of $2.0 million, restructuring charges of $4.7 million, deployment costs related to the Americas, APMEA, and Europe transformation programs of $14.2 million, and debt issuance costs of $0.3 million. Net income also includes a pre-tax gain of $8.7 million related to the disposition of a subsidiary in China. The net after tax cost of these items was $6.2 million.

(4) For the year ended December 31, 2015, net loss includes the following net pre tax costs: goodwill and other long lived asset impairment of $130.5 million, acquisition related costs of $1.6 million, restructuring related costs of $21.4 million, Americas, APMEA, and Europe transformation deployment costs of $14.3 million, a $3.5 million charge for a settlement in principle relating to two class action lawsuits, a $2.5 million charge related to the resolution of certain product liability legacy claims for non-core products which we have exited, and long term obligations settlements, including our pension plan and supplemental employee retirement plan obligations of $64.7 million. The net after tax cost of these items was $197.3 million.

(5) For the year ended December 31, 2014, net income includes the following net pre tax costs: goodwill and other long lived asset impairment of $14.2 million, acquisition related costs of $5.8 million, restructuring and severance related costs of $16.4 million, Europe and Americas transformation deployment costs of $9.3 million, and customs settlement costs of $1.9 million. The net after tax cost of these items was $38.5 million.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are a leading supplier of products and solutions that conserve water and manage the flow of fluids and energy into, through and out of buildings in the commercial and residential markets of the Americas, Europe and APMEA. For over 140 years, we have designed and produced valve systems that safeguard and regulate water systems, energy efficient heating and hydronic systems, drainage systems and water filtration technology that helps purify and conserve water. We earn revenue and income almost exclusively from the sale of our products. Our principal product lines include:

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- Residential & commercial flow control products—includes products typically sold into plumbing and hot water applications such as backflow preventers, water pressure regulators, temperature and pressure relief valves, and thermostatic mixing valves.

- HVAC & gas products—includes commercial high efficiency boilers, water heaters and heating solutions, hydronic and electric heating systems for under floor radiant applications, custom heat and hot water solutions, hydronic pump groups for boiler manufacturers and alternative energy control packages, and flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications. HVAC is an acronym for heating, ventilation and air conditioning.

- Drainage & water re use products—includes drainage products and engineered rain water harvesting solutions for commercial, industrial, marine and residential applications.

- Water quality products—includes point of use and point of entry water filtration, conditioning and scale prevention systems for both commercial and residential applications.

Our business is reported in three geographic segments: Americas, Europe, and APMEA. We distribute our products through four primary distribution channels: wholesale, original equipment manufacturers (OEMs), specialty, and do-it-yourself (DIY).

We believe that the factors relating to our future growth include continued product innovation that meets the needs of our customers and our end markets, including smart and connected products and solutions; our ability to make selective acquisitions, both in our core markets as well as in new complementary markets; regulatory requirements relating to the quality and conservation of water and the safe use of water; increased demand for clean water; continued enforcement of plumbing and building codes; and a healthy economic environment. We have completed 11 acquisitions in the last decade. Our acquisition strategy focuses on businesses that promote our key macro themes around safety & regulation, energy efficiency and water conservation. We target businesses that will provide us with one or more of the following: an entry into new markets and/or new geographies, improved channel access, unique and/or proprietary technologies, advanced production capabilities or complementary solution offerings.

Our innovation strategy is focused on differentiated products and solutions that provide greater opportunity to distinguish ourselves in the market place. Conversely, we continue to migrate away from commoditized products where we cannot add value. Our goal is to be a solutions provider, not merely a components supplier. We continually look for strategic opportunities to invest in new products and markets or divest existing product lines where necessary in order to meet those objectives.

Products representing a majority of our sales are subject to regulatory standards and code enforcement, which typically require that these products meet stringent performance criteria. We have consistently advocated for the development and enforcement of such plumbing codes. We are focused on maintaining stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products in compliance with code requirements and take advantage of the resulting demand for compliant products. We believe that the product development, product testing capability and investment in plant and equipment needed to manufacture products in compliance with code requirements, represent a competitive advantage for us.

In 2018, our financial performance was driven by strong organic sales growth in the Americas and modest growth in Europe and APMEA. We continued to drive margin expansion through higher sales price, volume, productivity initiatives and restructuring savings while simultaneously reinvesting in the business. We continued to drive commercial and operational excellence, and invest in product innovation as we strive to meet the needs of our customers.

Overall, reported sales for 2018 increased 7.4%, or $108.2 million, driven by strong organic sales growth of 6.1%, or $88.9 million, primarily within the Americas. Foreign exchange contributed $19.3 million, or 1.3%, of sales growth, primarily related to the appreciation of the euro against the U.S dollar year over year. Reported sales by region in the Americas, Europe, and APMEA increased by 8.4%, 6.1%, and 2.0%, respectively, compared to 2017. Organic sales by region in the Americas, Europe, and APMEA increased 8.4%, 1.8%, and 1.6%, respectively, compared to 2017. The increase in organic sales was due to higher sales volume and increased price across all of our regions. Operating income of $188.4 million increased by $26.1 million, or 16.1% compared to 2017. This increase was driven by increased price, higher sales volume, and productivity initiatives, partially offset by higher material costs, investments in strategic growth initiatives, and general inflation.

Organic sales is a non-GAAP measure that excludes the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. Divested sales includes the exit of our non-core products through sale and through the discontinuation of product lines. Management believes reporting organic sales growth provides useful information to investors, potential investors and others, because it allows for a more complete understanding of underlying sales trends by providing sales growth on a consistent basis. We reconcile the change in organic sales to our reported sales for each region within our results below.

The 2017 Tax Act resulted in significant changes to the U.S. corporate income tax system and was enacted on December 22, 2017. These changes include a federal statutory rate reduction from 35% to 21% effective on January 1, 2018, the elimination or reduction of certain domestic deductions and credits, and limitations on the deductibility of interest expense and executive compensation. The 2017 Tax Act transitions international taxation from a worldwide system to a modified territorial system and includes base erosion prevention measures on non-U.S. earnings. The 2017 Tax Act also includes a one-time mandatory deemed repatriation tax on accumulated foreign subsidiaries' previously untaxed foreign earnings (“Toll Tax”).

Changes in tax rates and tax laws are accounted for in the period of enactment and deferred tax assets and liabilities are measured at the enacted tax rate. Therefore, during the year ended December 31, 2017, we recorded a charge totaling $25.1 million related to our estimate of the provisions of the 2017 Tax Act, including an estimated $23.3 million expense under the Toll Tax. During the year ended December 31, 2018 we finalized the impact of the 2017 Tax Act and recorded a benefit of $3.7 million, reducing the net impact to $21.4 million and increasing the Toll Tax to $33.5 million. The Toll Tax is being paid over an eight-year period, starting in 2018, and will not accrue interest.

Recent Developments

On February 6, 2019, we declared a quarterly dividend of twenty-one cents ($0.21) per share on each outstanding share of Class A common stock and Class B common stock payable on March 15, 2019 to stockholders of record on March 1, 2019.

On February 6, 2019, the Board of Directors authorized a stock repurchase program of up to $150 million of our Class A common stock to be purchased from time to time on the open market or in privately negotiated transactions. The timing and number of shares repurchased will be determined by management based on its evaluation of market conditions and other factors.

Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net Sales. Our business is reported in three geographic segments: Americas, Europe and APMEA. Our net sales in each of these segments for the years ended December 31, 2018 and December 31, 2017 were as follows:

	Year Ended December 31, 2018		Year Ended December 31, 2017			% Change to Consolidated
	Net Sales	% Sales	Net Sales	% Sales	Change	Net Sales
	(dollars in millions)					
Americas	$ 1,032.1	66.0 %	$ 951.9	65.4 %	$ 80.2	5.5 %
Europe	467.0	29.8	440.3	30.2	26.7	1.8
APMEA	65.8	4.2	64.5	4.4	1.3	0.1
Total	$ 1,564.9	100.0 %	$ 1,456.7	100.0 %	$ 108.2	7.4 %

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The change in net sales was attributable to the following:

				Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
Americas	Europe	APMEA	Total	Americas	Europe	APMEA	Total	Americas	Europe	AP
(dollars in millions)										
$ 80.2	$ 7.7	$ 1.0	$ 88.9	5.5 %	0.5 %	0.1 %	6.1 %	8.4 %	1.8 %	1.6
—	19.0	0.3	19.3	—	1.3	—	1.3	—	4.3	0.4
$ 80.2	$ 26.7	$ 1.3	$ 108.2	5.5 %	1.8 %	0.1 %	7.4 %	8.4 %	6.1 %	2.0

Our products are sold to wholesalers, OEMs, DIY chains, and through various specialty channels. The change in organic net sales by channel was attributable to the following:

						Change As a % of Prior Year Sales			
	Wholesale	OEMs	DIY	Specialty	Total	Wholesale	OEMs	DIY	Specialty
	(dollars in millions)								
Americas	$ 44.0	$ 4.3	$ 7.1	$ 24.8	$ 80.2	8.2 %	5.7 %	12.8 %	8.6 %
Europe	7.8	1.1	(1.2)	—	7.7	2.7	0.8	(31.1)	—
APMEA	4.0	(1.9)	—	(1.1)	1.0	7.1	(56.2)	—	(19.6)
Total	$ 55.8	$ 3.5	$ 5.9	$ 23.7	$ 88.9				

The increase in Americas organic net sales was primarily due to higher sales volume and increased pricing in our valve, drainage, and water quality products, which are sold primarily through the Wholesale, OEM and DIYs channels, and higher volume in heating and hot water products, which are sold through the specialty channel.

Organic net sales in Europe increased $7.7 million primarily due to higher volume and increased pricing. The higher sales volume was driven by marine-based drains, electronics products, and certain water and plumbing products sold through the wholesale channel. This was partially offset by ongoing product rationalization, especially in the DIY channel, as we continue to focus on our core product lines.

Organic net sales in APMEA increased $1.0 million primarily due to increased sales in the Middle East, Australia, and New Zealand. These increases were partially offset by softness in China and Korea, and product rationalization in the OEM channel.

The net increase in sales due to foreign exchange was mainly due to the appreciation of the euro against the U.S. dollar in 2018. We cannot predict whether foreign currencies will appreciate or depreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net sales.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for 2018 and 2017 were as follows:

	Year Ended December 31,	
	2018	2017
	(dollars in millions)	
Gross profit	$ 656.5	$ 602.4
Gross margin	42.0 %	41.4 %

Gross profit and gross margin percentage increased compared to 2017, due to increased pricing, higher sales volume, productivity initiatives, and restructuring savings, which were partially offset by higher material costs, mainly due to increased copper and stainless steel commodity costs, as well as higher inbound transportation costs and general inflation.

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Selling, General and Administrative Expenses. Selling, general and administrative, or SG&A, expenses increased $32.4 million, or 7.5%, in 2018 compared to 2017. The increase in SG&A expenses was attributable to the following:

	(in millions)	% Change
Organic	$ 27.3	6.3 %
Foreign exchange	5.1	1.2
Total	$ 32.4	7.5 %

The organic increase was primarily related to investments in strategic growth initiatives of $16.7 million, including investments in research and development for new product initiatives, commercial excellence, and technology and information systems. The organic increase was also due to higher variable costs related to increased sales volume totaling $12.2 million, and inflation of $4.4 million primarily related to transportation costs. These increases were partially offset by restructuring savings within the Americas and Europe of $3.6 million, as well as a decrease in amortization costs of $3.2 million for certain intangible assets that reached the end of their useful lives. The increase in foreign exchange was mainly due to the appreciation of the euro against the U.S. dollar. Total SG&A expenses, as a percentage of sales, were 29.7% in 2018 and 2017.

Restructuring. In 2018, we recorded a net charge of $3.4 million, primarily related to restructuring actions associated with our European headquarters and cost savings initiatives within certain manufacturing facilities in Europe, as compared to a net charge of $6.8 million in 2017. For a more detailed description of our current restructuring plans, see Note 3 of Notes to Consolidated Financial Statements in this Annual Report Form 10-K.

Other Long Lived Asset Impairment Charges. In 2017, we recorded an impairment of $1.0 million, primarily related to a technology asset in the Americas operating segment. See Note 7 of Notes to Consolidated Financial Statements in this Annual Report on Form 10 K for additional information regarding this impairment.

Operating Income (Loss). Operating income (loss) by geographic segment for 2018 and 2017 was as follows:

	Year ended December 31, 2018	December 31, 2017	Change	% Change to Consolidated Operating Income
	(dollars in millions)			
Americas	$ 171.1	$ 146.8	$ 24.3	15.0 %
Europe	49.8	47.6	2.2	1.4

APMEA	7.2	4.7	2.5	1.5	
Corporate	(39.7)	(36.8)	(2.9)	(1.8)	
Total	$ 188.4	$ 162.3	$ 26.1	16.1	%

The increase (decrease) in operating income (loss) is attributable to the following:

				Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Incor	
Europe	APMEA	Corporate	Total	Americas	Europe	APMEA	Corporate	Total	Americas	Europe
millions)										
$ 0.5	$ 2.1	$ (2.9)	$ 19.9	12.5 %	0.3 %	1.3 %	(1.8) %	12.3 %	13.8 %	1.1 %
1.9	(0.1)	—	1.8	—	1.2	(0.1)	—	1.1	—	4.0
(0.2)	0.5	—	4.4	2.5	(0.1)	0.3	—	2.7	2.7	(0.4)
$ 2.2	$ 2.5	$ (2.9)	$ 26.1	15.0 %	1.4 %	1.5 %	(1.8) %	16.1 %	16.5 %	4.7 %

Organic operating income increased $19.9 million in 2018 compared to 2017, mainly due to increased pricing, higher sales volume, productivity initiatives, operating savings from restructuring actions, and reduced transformation and restructuring costs. This increase in operating income was partially offset by higher material costs due to increases in the price of copper and stainless steel, investments in strategic growth initiatives and general inflation.

Interest Expense. Interest expense decreased $2.8 million, or 14.7%, in 2018 compared 2017 due to a reduction in our principal balance of debt outstanding. As a result of the 2017 Tax Act, we repatriated approximately $127 million of undistributed foreign earnings and used the majority of that cash to reduce our outstanding debt. The impact of the lower outstanding principal balance was partially offset by increased interest rates in 2018 compared to 2017. Refer to Note 12 of Notes to Consolidated Financial Statements in this Annual Report on Form 10 K for further details.

Other (income) expense, net. Other (income) expense increased $2.8 million to a net other income balance of $1.7 million compared to 2017. The increase was primarily due to net foreign currency gains.

Income Taxes. Our effective income tax rate changed to 26.7% in 2018, from 48.9% in 2017. The tax rate decreased primarily due to finalizing the impact of the 2017 Tax Act in the fourth quarter of 2018, which was enacted on December 22, 2017, and resulted in significant changes to the U.S. corporate income tax system. These changes include lowering the corporate tax rate from 35% to 21% in 2018, implementing a territorial tax system, and imposing a one-time deemed repatriation Toll Tax on cumulative undistributed foreign earnings.

During the year ended December 31, 2017, we recorded a provisional charge of $25.1 million related to our current estimate of the provisions of the 2017 Tax Act, including an estimated $23.3 million expense under the Toll Tax. During the year ended December 31, 2018 we finalized the impact of the 2017 Tax Act and recorded a benefit of $3.7 million, reducing the net impact of the 2017 Tax Act to $21.4 million, and increasing the Toll Tax to $33.5 million.

Net Income. Net income for 2018 was $128.0 million, or $3.73 per common share, compared to $73.1 million, or $2.12 per common share, for 2017. Results for 2018 include $3.7 million, or $0.11 per common share, in a tax benefit related to the finalization of the 2017 Tax Act, partially offset by an after-tax charge of $2.5 million, or $0.07 per common share, for restructuring and other tax adjustments of $1.5 million, or $0.04 per common share.

Results for 2017 include a charge of $25.1 million within income tax expense, or $0.73 per common share, related to the estimated impact of the 2017 Tax Act, $1.9 million, or $0.06 per common share, for the Europe and Americas transformation costs; $4.7 million, or $0.14 per common share, for restructuring charges; $0.6 million, or $0.02 per common share for long-lived asset impairment charges, partially offset by $1.6 million or $0.05 per common share in tax benefits.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Prior to 2017, our Europe segment was formerly referred to as EMEA (Europe, Middle East, and Africa) and our APMEA segment was formerly referred to as Asia-Pacific. As of January 1, 2017, we began reporting the results of Watts Industries Middle East, an indirect, wholly owned subsidiary, within our APMEA segment to align with internal operating changes. These results had previously been reported within our former EMEA segment. This change did not affect our reportable segments but represented only a change in composition that better aligned with the structure of our internal organization. The 2016 results by segment have been retrospectively revised for comparative purposes.

Net Sales. Our business is reported in three geographic segments: Americas, Europe and APMEA. Our net sales in each of these segments for the years ended December 31, 2017 and 2016 were as follows:

	Year Ended December 31, 2017		Year Ended December 31, 2016			% Change to Consolidated
	Net Sales	% Sales	Net Sales	% Sales	Change	Net Sales
	(dollars in millions)					
Americas	$ 951.9	65.4 %	$ 900.9	64.5 %	$ 51.0	3.6 %
Europe	440.3	30.2	431.3	30.8	9.0	0.7
APMEA	64.5	4.4	66.2	4.7	(1.7)	(0.1)
Total	$ 1,456.7	100.0 %	$ 1,398.4	100.0 %	$ 58.3	4.2 %

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The change in net sales was attributable to the following:

					Change as a % of Consolidated Net Sales				Change as a % of Segment Net Sales		
	Americas	Europe	APMEA	Total	Americas	Europe	APMEA	Total	Americas	Europe	AP
	(dollars in millions)										
	$ 7.4	$ 2.5	$ (2.9)	$ 7.0	0.5 %	0.2 %	(0.2) %	0.5 %	0.8 %	0.6 %	(4.
	1.4	6.5	(0.1)	7.8	0.1	0.5	—	0.6	0.1	1.5	—
	(3.5)	—	—	(3.5)	(0.3)	—	—	(0.3)	(0.4)	—	—
ons	45.7	—	1.3	47.0	3.3	—	0.1	3.4	5.1	—	2.0
	$ 51.0	$ 9.0	$ (1.7)	$ 58.3	3.6 %	0.7 %	(0.1) %	4.2 %	5.6 %	2.1 %	(2.

The change in organic net sales as a percentage of consolidated net sales and of segment net sales in the Americas excludes divested sales for both periods presented.

Our products are sold to wholesalers, OEMs, DIY chains and through various specialty channels. The change in organic net sales by channel was attributable to the following:

						Change As a % of Prior Year Sales			
	Wholesale	OEMs	DIY	Specialty	Total	Wholesale	OEMs	DIY	Specialty
	(dollars in millions)								
Americas	$ 19.9	$ 1.9	$ (5.0)	$ (9.4)	$ 7.4	3.9 %	2.6 %	(8.4) %	(3.7) %
Europe	7.6	(3.3)	(1.8)	—	2.5	2.7	(2.3)	(32.9)	—
APMEA	2.0	(4.9)	—						