



# **BADGER METER, INC.**

## **GENERAL INVESTOR PRESENTATION**

April 2022



# FORWARD LOOKING STATEMENTS

Certain statements contained in this presentation as well as other information provided from time to time by Badger Meter, Inc. (the “company”) or its employees, may contain forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those statements. The words “anticipate,” “believe,” “estimate,” “expect,” “think,” “should,” “could” and “objective” or similar expressions are intended to identify forward looking statements. All such forward looking statements are based on the company’s then current views and assumptions and involve risks and uncertainties. Potential factors that could affect such forward-looking statements include the duration, severity and geographic spread of the COVID-19 pandemic, government actions to address or mitigate the impact of the COVID-19 pandemic, and the potential negative impacts of COVID-19 on the global economy, the company’s operations and those of our customers and suppliers. The company’s results are subject to its ability to develop and manufacture technologically advanced products that are accepted by the market, supply chain risk, legal and regulatory risks, political and general economic risks, risks related to doing business in foreign countries, including foreign currency risk, competition for skilled employees, material and labor cost increases, competitive pricing and operating efficiencies, the effects of climate change, cybersecurity attacks and disruptions to our information technology and the successful integration of acquisitions. See the company’s Form 10-K filed with the SEC for further information regarding risk factors, which are incorporated herein by reference. The company disclaims any obligation to publicly update or revise any forward-looking statements as a result of new information, future events or any other reason.

In this presentation certain non-GAAP financial measures may be used. Please see the supplemental financial schedules at the end of this presentation for a reconciliation to the appropriate GAAP measure.



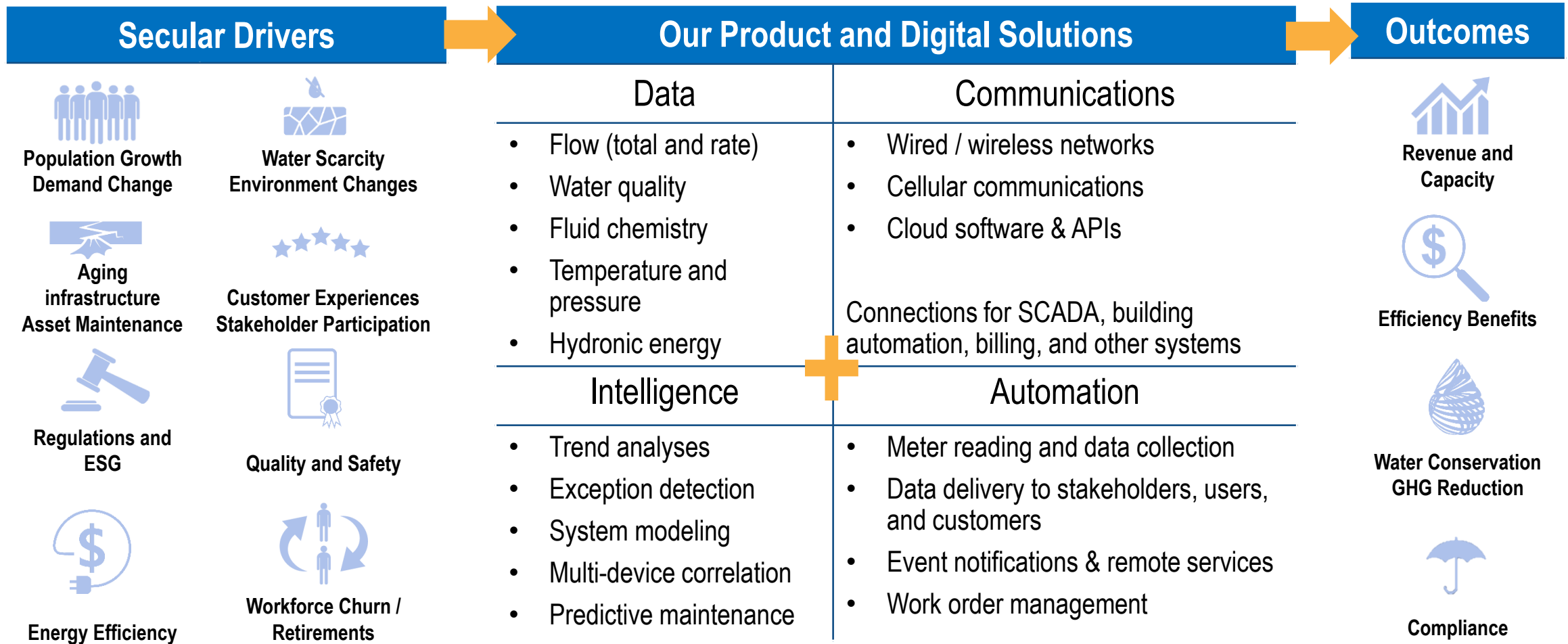
# BADGER METER IS A PREMIER SMART WATER SOLUTIONS PROVIDER



- Comprehensive suite of digital smart water offerings including flow measurement, water quality and other parameters with software / analytics solutions
- Industry leader in North American smart water metering, with a strong global position in flow measurement and water quality technologies
- Attractive, long-term growth fundamentals:
  - Technology/digital adoption accelerating - improve operating efficiency, resiliency and sustainability
  - Stable business model supported by replacement demand
  - Strategic tuck-in acquisitions and partnerships to expand breadth of offerings
- Culture of innovation, continuous improvement and sustainability
- Premium financial profile and exceptional operational track record



# COMPREHENSIVE PORTFOLIO OF SMART WATER OFFERINGS TO SOLVE CUSTOMER CHALLENGES



Competitive Advantage with “Choice Matters” – Broadest Portfolio of Solutions Will Continue to Expand



# FIRST QUARTER FINANCIAL SNAPSHOT

(US\$ in millions, except per share data)

	<u>Q1 2022</u>	<u>Q1 2021</u>	<u>Change</u>
Sales	\$132.4	\$117.8	12.4%
Gross Margin	50.7 38.3%	49.4 41.9%	2.8% (360) bps
SEA	31.9 24.1%	31.6 26.8%	0.8% (270) bps
Op Income	18.9 14.2%	17.7 15.1%	6.3% (90) bps
Income Tax Rate	23.7%	22.2%	
EBITDA	25.6 19.3%	24.7 20.9%	3.8% (160) bps
EPS	0.49	0.47	4.3%
Free Cash Flow	\$8.1	\$28.8	

See appendix for reconciliation of GAAP to Non-GAAP measures

- Utility water sales increased robust 15%, yet were limited by component availability; growth most notable in ultrasonic meters, cellular endpoints and BEACON SaaS
- Flow instrumentation sales flat as manufacturing output limited by supply chain despite strong demand
- Difficult margin comparison against record in prior year. Widespread inflation and manufacturing inefficiencies from ongoing component constraints more than offset realized pricing
- SEA leverage improved; spending controls
- Seasonally low cash flow; temporary working capital increase related to supply chain impacts



## OUTLOOK / MACRO-TRENDS

- Capitalizing on robust customer demand for our leading water instrumentation and digital software offerings enabling efficiency, resiliency and sustainability – “choice matters” portfolio to meet wide-ranging customer needs
- Differentiating performance with disciplined execution, enhancing our competitive position
- Continually adapting to acute and dynamic macro challenges exacerbated by recent geopolitical events including component availability, pervasive inflation and logistics challenges. “Whack-a-mole” continues in various forms.
- Pace and breadth of macro improvement not expected to be linear; remaining nimble and communicative with customers
- Strong balance sheet to innovate both organically and via acquisitions

**Orders/Backlog Supportive of Durable Multi-Year Growth; Executing Against Macro Headwinds**



# CAPITAL ALLOCATION PRIORITIES

- 1 **Internal Investment** to support organic growth and sustain core business
- 2 Grow the **dividend** annually in line with earnings
- 3 Accelerate **acquisitions** that align to strategy and return targets

- No outstanding debt obligations and \$89M of cash at March 31, 2022
- Strong free cash flow, working capital management – 133% conversion of net earnings in 2021
- \$150M untapped revolver – recently upsized facility adding covenant and other flexibility
- August 2021 dividend increase of 11% marked 29 consecutive years of dividend increases.

Ample Liquidity to Fund Growth Priorities





# ENVIRONMENTAL, SOCIAL AND GOVERNANCE INTEGRAL TO BUSINESS STRATEGY

- Top ESG ratings – recognition of our ESG journey
- Smart water solutions enable water conservation, resiliency and improved water quality – aligned with United Nations SDGs
- Governance
  - Values/Culture
  - ESG risk and opportunity oversight by Board/Committees; informed by stakeholder outreach
  - 2020 SASB / GRI reporting; 2020-2021 biennial Sustainability Report to be issued summer 2022
- Diversity & Inclusion
  - 33% of Board is diverse
  - 40% of executive officers diverse
- 2020 baseline GHG emissions; Goal=15% intensity reduction by 2030; 2021 year one target exceeded
- Continuous improvement processes for employee engagement, employee safety and regrettable turnover







# SMART WATER INNOVATION LEADER

## Driving Enhancements in Smarter Measurement & Actionable Data → Enhanced Operational Efficiencies

### Ultrasonic Metering

- Smarter meters – flow, pressure, temperature, valves
- 2<sup>nd</sup> generation platform releases started in 2020
- Vertical integration of chip sets in order to control the evolution of smarter devices
- Improved accuracies

**Innovation Centers:**  
Lulea, Sweden  
Milwaukee, WI, USA



### Water Quality

- Low maintenance, reagent-less sensors
- Advanced IoT edge computing detects events
- 60+ parameters for water and gas
- 20+ years of leadership in optical spectrometry, 30+ years in electrochemical

**Innovation Centers:**  
Vienna, Austria  
Philadelphia, PA, USA



### Cellular & IoT

- 5th generation endpoint released in 2021
- 18-24 month iterative development cycles
- Pioneer in market; first generation debut was 2014
- Millions of cellular endpoints deployed

**Innovation Center:**  
Milwaukee, WI, USA



### Software & Analytics

- Cloud software for utility operations, sustainability
- Holistic view of water systems
- Real time detection of anomalies and events
- Decision dashboards
- Process automation

**Innovation Center:**  
Los Gatos, CA, USA





# BUILDING ON OUR ESTABLISHED FOUNDATION OF CORE SOLUTIONS WITH WATER QUALITY MONITORING



## Macro Trends Driving Water Quality Applications



**Distribution system security / resiliency**



**Increased reporting mandates for water discharge/effluent monitoring**



**Heightened COVID-19 impact to vulnerable populations – hospitals, senior living, education and corporate facilities**



**Corporate ESG reporting requirements**

- Complementary offerings
  - Product technology - electrochemical and optical sensors
  - Geographies - ATi in the US and UK, s::can installed product in 50 countries
  - Scale - customer relationships, inside sales & distribution for greater ability to cross sell
  - Coverage - spans the water eco-system – including water utilities, wastewater treatment and industrial water applications
- Working to deliver long-term growth synergies
  - Quantity plus quality data parameters - online, real-time via ORION® Cellular
  - BEACON® and EyeOnWater® to store, integrate, analyze and visualize information for holistic view of water network
  - Expanded international footprint/customer relationships for metering

**Water Quantity Plus Quality - On Demand / Real Time / Anywhere**



# BACKGROUND INFORMATION

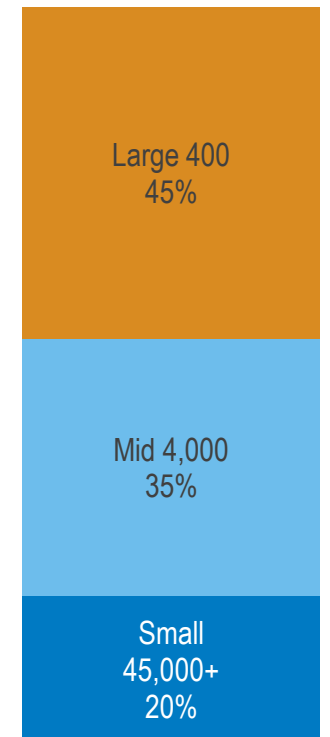


# COMPETITIVE ADVANTAGES – WHY BADGER METER WINS

Broadest Range of Offerings – Choice Matters	<ul style="list-style-type: none"> <li>• Brass and polymer</li> <li>• Mechanical and static (ultrasonic)</li> <li>• Drive by, fixed and cellular radio technology</li> </ul>
Technology Leadership	<ul style="list-style-type: none"> <li>• Well established E-Series Ultrasonic expertise</li> <li>• ORION Cellular – leverages existing infrastructure, flexible, coverage</li> <li>• BEACON/EyeOnWater – actionable data for utility and homeowner</li> </ul>
Innovation	<ul style="list-style-type: none"> <li>• D-Flow technology for performance enhancement, cost reduction and larger sizes</li> <li>• Remote actuating flow restriction valve</li> <li>• Real-time water quality sensing – optical and electrochemical</li> </ul>
High Service Levels and Customer Support	<ul style="list-style-type: none"> <li>• Strong brand preference – long term relationships / loyalty</li> <li>• Channel coverage - regional service center and local distribution to cover smaller utilities</li> <li>• Highly trained Solution Architect, customer care and field technology support</li> </ul>
Low Lifecycle Costs	<ul style="list-style-type: none"> <li>• Highly accurate and quality products / low warranty</li> <li>• Exceptional battery life</li> <li>• Leverage existing cellular technology network</li> </ul>

## >50K Water Utilities in US

Utility Size and their Share of Meter connections



Strong Market Position in North American Oligopoly; Significant Customer Diversity



# CELLULAR COMMUNICATION VS. FIXED NETWORK

## DATA COLLECTOR FIXED NETWORK

SINGLE PURPOSE NETWORK



### SYSTEM ENGINEERING / DEPLOYMENT



### ONGOING SYSTEM MAINTENANCE / FEES

## CELLULAR FIXED NETWORK

LONG-TERM EVOLUTION M2M (LTE-M) / SMART CITY / IoT NETWORK



### SYSTEM ENGINEERING / DEPLOYMENT



### ONGOING SYSTEM MAINTENANCE / FEES

- *Easy*
- *Flexible*
- *Resilient*
- *Savings*
- *Standard*

LTE-M Cellular Communication Technology – Example of Innovation Leadership



# SMART WATER ACCELERATION

## The Business Case

Why are utilities willing to pay more?

- Reduce non-revenue water (NRW)
  - Mechanical meters lose some accuracy over time
  - Leak detection
- Lower operating cost / improve efficiencies
  - Move out reads / billings
  - Flow shut-off/restriction technology – labor to turn off and on water services
- Encourage conservation
  - Manage what you measure
  - Leak avoidance / fix

## The Solutions

How our leading technologies deliver

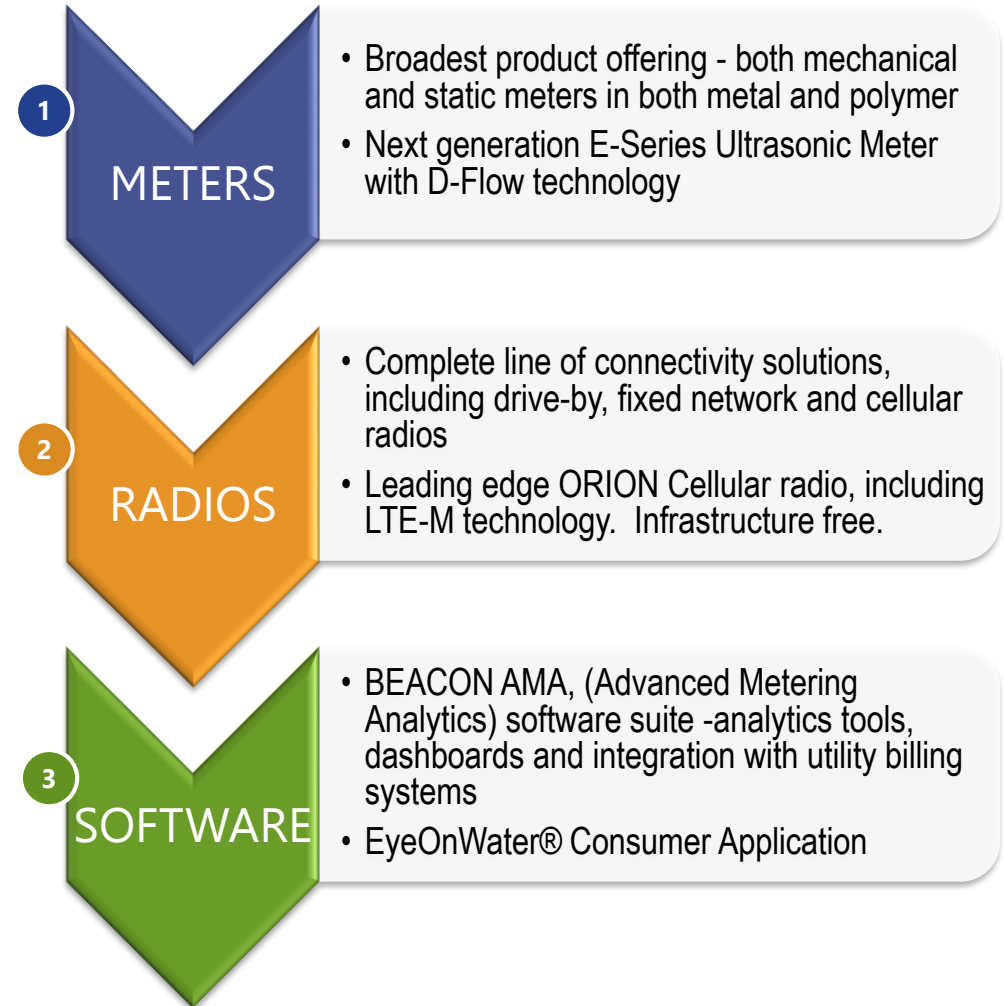
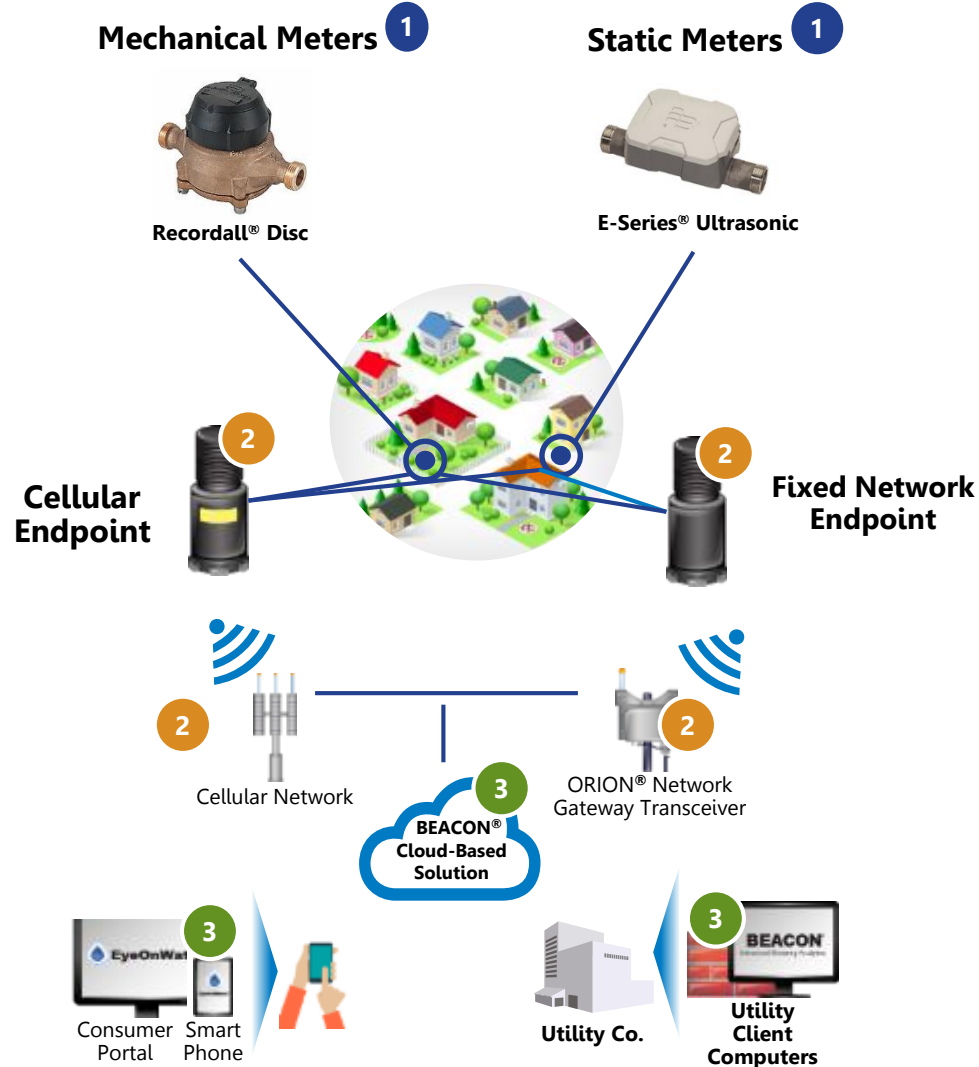
- Meters
  - Static (E-series ultrasonic) holds accuracy over lifetime; commercial sizes
- Radio Endpoints
  - Safety- remote reads
  - Data and analytics – more data, more often
  - Cellular – infrastructure-free for utilities; enables efficiencies for remote flow restriction, move-outs, installation pacing
- Software
  - Leak identification / detection
  - EyeOnWater App for consumer awareness

Overall Served Available Market Value Continues to Trend Higher





# UTILITY WATER-INTEGRATED SOLUTION OFFERING







# SMART WATER KEY GROWTH STRATEGIES

- Maintain leading position in the North American smart water market through continued development of leading-edge offerings
- Penetrate and grow select international markets (e.g. Middle East, UK) with fit-for-market solutions
- Leverage addition of real-time water quality monitoring, and other system health parameters into actionable data to improve utility operations
- Augment software, including consumer engagement technology, for optimized customer solution





# RADIO CONNECTIVITY - PENETRATION

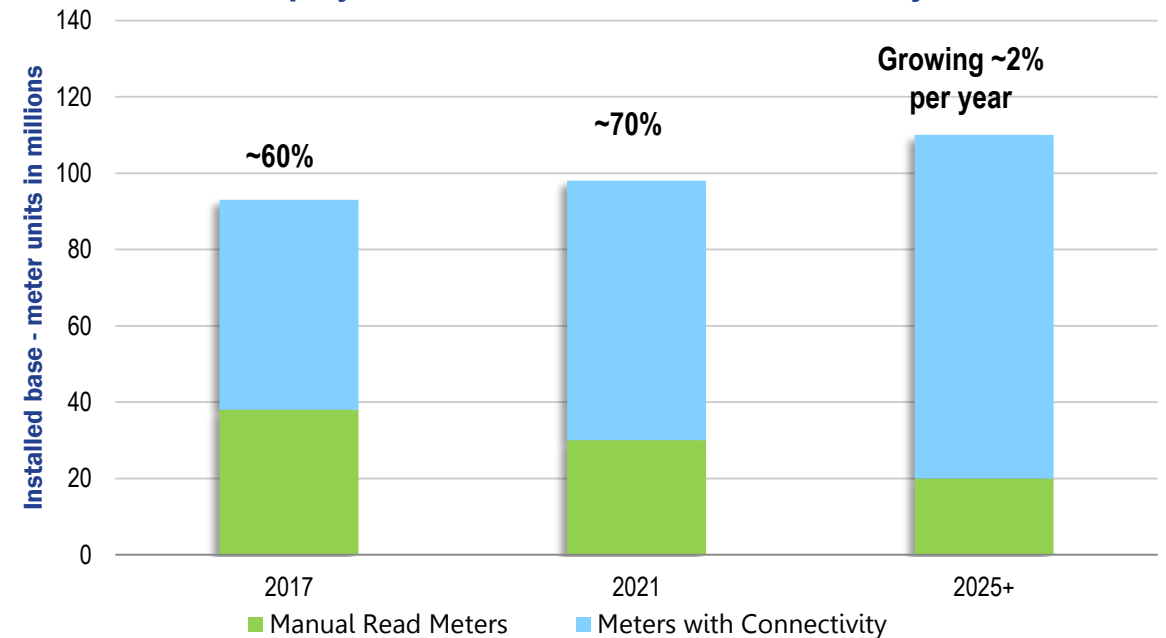
## CONVERSION TO CONTINUE

- Badger Meter was the first US company to offer radios on water meters (1988)
- Radio connectivity allows for automated metering and integration of real-time data with analytics software
- Radio connectivity reduces utility costs, improves billing accuracy, aids in leak detection and encourages conservation
- Approximately 70% of the U.S. market has been converted (per IHS) – additional conversions represents increased sales opportunity for Badger Meter for both hardware and SaaS

MANUAL READ \$40-\$50 price per meter	METERS WITH RADIOS/SOFTWARE \$150-\$250 price per system
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North American water meter market  
projected conversion to radio connectivity



Source: IHS Research



# FLOW INSTRUMENTATION KEY GROWTH STRATEGIES

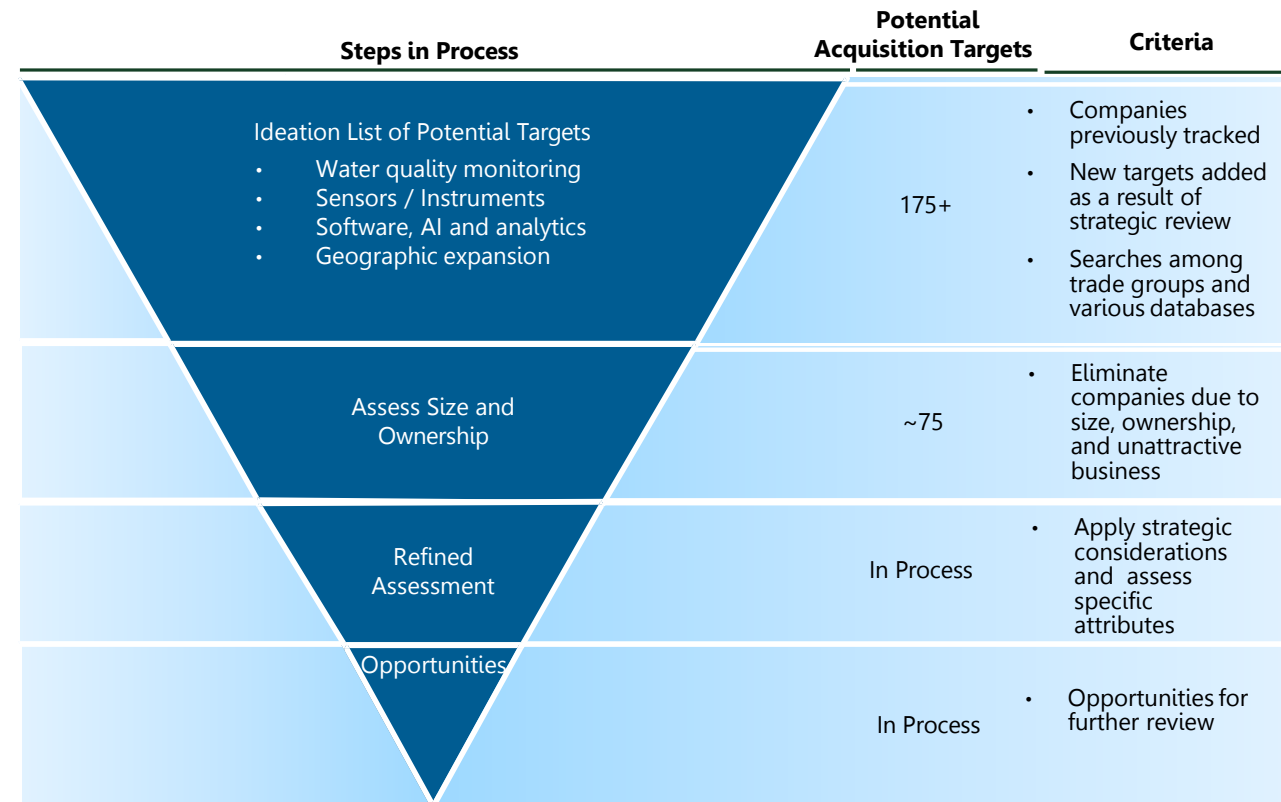
- Expand niche share by targeting water-related applications, predominately
  - Building Automation/HVAC/Sustainability
  - Water and Wastewater treatment and distribution
- Leverage addition of real-time water quality monitoring for industrial process and discharge water
- Penetrate international markets where both smart water and industrial applications exist





# STRATEGIC ACQUISITIONS

- Technology solutions that can be leveraged across both utility and flow instrumentation markets
  - Water quality monitoring
  - Leak detection, conservation
- Software enhancements - SaaS
  - Utility operations
  - Consumer portals
- Smart City / Internet of Things
- International penetration



Disciplined Capital Allocation – accretive, growth synergies, leverage globally



# ACQUISITION HISTORY

Year	Company	Type	Location	Price
<b>Utility Water Instrumentation and Connectivity:</b>				
2021	Analytical Technology, Inc	Water quality monitoring	USA / UK	\$44M
2020	s::can	Water quality monitoring	Vienna, Austria	\$31M
2018	Innovative Metering Solutions	Distributor	Tampa, FL	\$8M
2017	Carolina Meter	Distributor	Wilmington, NC	\$6M
2017	D-Flow	Ultrasonic Technology/R&D	Lulea, Sweden	\$23M
2015	United Utilities	Distributor	Smyrna, TN	\$3M
2014	National Meter	Distributor	Denver, CO	\$23M
2013	Aquacue	Software/cellular technology/R&D	Los Gatos, CA	\$14M
<b>Flow and Industrial Instrumentation:</b>				
2012	Racine Federated	Technology/Manufacturing	Racine, WI	\$57M
2011	Remag	Technology/Manufacturing	Bern, Switzerland	\$5M
2010	Cox Instruments	Technology/Manufacturing	Scottsdale, AZ	\$8M



# GLOBAL INNOVATION AND MANUFACTURING FOOTPRINT



❖ Innovation / R&D Centers

● Manufacturing Facilities

Also operate four US distribution centers and a variety of global sales offices



# ANNUAL FINANCIAL TRENDS

(US\$ in millions, except per share data)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Sales	\$433.7	\$424.6	\$425.5	\$505.2
Adj Oper Earnings	59.4 13.7%	62.2 14.6%	65.2 15.3%	78.7 15.6%
Adj EBITDA	83.8 19.3%	86.0 20.3%	90.2 21.2%	106.5 21.1%
Adj EPS	1.54	1.61	1.69	2.08
Free Cash Flow	\$51.7	\$73.2	\$80.5	\$80.8
FCF Conversion	115%	155%	163%	133%

Note: Adjusted figures in 2018 which exclude pension termination settlement and executive retirement charges.  
See Annual Report for GAAP to Non-GAAP reconciliations.

- Sales growth driven primarily by smart water solution penetration
  - Radios and SaaS
  - Water quality
- Margins driven predominately by favorable sales mix, volume and price/cost
- SEA expense control with leverage improvement
- Robust cash flow generation with working capital management; conversion above 100%
- Ample balance sheet flexibility





# GAAP TO NON-GAAP RECONCILIATIONS

## EBITDA

	(US\$ in millions)	
	<u>Q1 2022</u>	<u>Q1 2021</u>
Net Earnings (GAAP)	\$14.4	\$13.8
Interest expense	0.0	0.0
Income tax provision	4.4	3.9
Depreciation	2.8	2.9
Amortization	<u>4.0</u>	<u>4.1</u>
EBITDA	\$25.6	\$24.7

## Free Cash Flow

	(US\$ in millions)	
	<u>Q1 2022</u>	<u>Q1 2021</u>
Cash from Ops (GAAP)	\$9.2	\$30.6
Capital Expenditures	<u>(1.1)</u>	<u>(1.8)</u>
Free Cash Flow	\$8.1	\$28.8