

10-Mar-2020

Pentair plc (PNR)

J P Morgan Aviation, Transportation and Industrials Conference

CORPORATE PARTICIPANTS

John L. Stauch

President, Chief Executive Officer & Director, Pentair
plc

.....

OTHER PARTICIPANTS

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

.....

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the JPMorgan Pentair Presentation Conference Call. At this time, all participants are in a listen only mode. [Operator Instructions]

I'd now like to hand the conference over to your speaker today, Mr. Steve Tusa. Please go ahead, sir.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Great. Thanks operator and thanks everybody for joining us for another presentation or conference here starting the afternoon virtual session, I guess is what we'll call it, but we're very happy to have from Pentair, Jim Lucas; and CEO, John Stauch. Guys, thanks for joining me and thanks for being flexible and dialing in for today.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair
plc

Thank you, Steve.

QUESTION AND ANSWER SECTION

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Let's just start with you guys don't stand out to me as being in and around ground zero for many of the concerns we're seeing out there, whether it's China in particular, air travel or oil and gas now and anything to do with the Middle East. I'm not sure really what's left there other than maybe construction, which is where you guys have obviously the guts of your exposure. Maybe you can just talk about what you've seen so far quarter-to-date from all the stuff and any kind of changes in your view of the world since we last spoke on earnings?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, thanks, Steve. I'd start with we did put a disclaimer in our 10-K that you can read that will share some of the information I'm going to share with you today really around just the percentage of revenue exposure and then percentage of supply chain exposed given the fact that we had the benefit that we were heading into coronavirus at the time, so like most companies we put a disclaimer out there.

Overall, our revenues in China should be shipped into China or shipped inner China is about 3% to 4% of overall Pentair revenue, so somewhere around \$90 million or \$100 million in total. Within the quarter, given the fact that we would have had more of the Lunar New Year, it would have been a little bit lighter than a one quarter impact of that. And we don't think we're going to recover all of our estimated sales within Q1. And so I'm sharing today that there's about a \$10 million to \$15 million revenue exposure to the quarter of Q1 relative to China's sales in particular. And Steve, you know this but you can probably assume 15% to 20% drop through on that revenue is a like-income exposure to that. So our EPS range, as a summary for the quarter, is intact still and we feel good about our EPS range as we sit here and we look through the quarter.

From the supply chain standpoint, somewhere around 12% to 15% of our overall supply chain of around \$1.2 billion of purchase materials is exposed to China in some way. Feel like there won't be an impact in Q1 at all relative to that. Primarily we've done a lot of work, to remind everybody we were exposed to tariffs. So we've done a lot of work around what our supply chain exposure is to China and we were in the process of trying to mitigate some of that as we have not yet received the relief associated with that. But all of our suppliers are reporting that they're generally at 75% if not closer to 90% of capacity and in all of our China facilities, as of today, are close to 100% capacity. So not seen any disruption for Q1 from the supply chain, Steve.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Got it. I'm a little bit disappointed actually I have to do the work of reading the K now but I'll double back and go read that. We don't – we try and stay a little bit higher level.

.....

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, I think – I actually think I summarized it for you, so I don't think you have to.

.....

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Thanks. Thanks. We appreciate that. I'm just kidding. I love the Ks. What is the offset here in the first quarter, if that's the – I mean, it's obviously moderate pressure from China, but how do you plan to offset that? Is that just initial conservatism or is there something else whether it's, I don't know, price cost or share buyback or I would say something else that kind of offsets that?

.....

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, I think the revenue I gave you is I think we'll let that fall through in the sense that I don't think it's prudent to try to reach for more revenue across the channels in the rest of our businesses.

.....

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right.

.....

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I think we've been working hard on bringing inventory levels down. So I do think we'll not make up the revenue in the quarter as I said to the extent we talked about.

Steve, I think the obvious answer to make up the operating income challenges there is just the offset on travel. I mean, this is being done virtually most of our employees have been limited to only essential travel, all nonessential travels been eliminated. We've also had trade shows get cancelled and most large gatherings get cancelled. So there is a benefit to not traveling and that is likely the income offset to what we're seeing.

As Q2 to Q4 plays out, we'll assess what the supply chain risk could be, what the demand risk could be and then obviously we'll take further cost actions, if necessary. As a reminder, Steve, and you know this, but we're about 80% residential, commercial. So demand in our channels have remained pretty strong throughout the quarter and we haven't yet seen slowdowns across our key end markets and we're only exposed about 20% to industrial and infrastructure across the globe.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. And on that front, on the industrial front, people are a little bit concerned about oil and gas now to say the least. I know you guys did a good job of paring down your exposure with the Valves & Controls business. Any lingering remaining oil and gas exposure that you'd – you call out there?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I mean, our overall exposure to oil and gas across the entire company is less than 2%, 1.5% somewhere in that range. And so most of it is refineries and most of it is efficiency gains, so – and a lot of its rented equipment, so not expecting significant exposure, Steve. And we're expecting that to moderate anyway as we headed into the year. So we plan that relatively conservatively.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

What – speaking of the end markets a little bit more on your biggest one and your most profitable one on the pool front, any indications here around early season buys? I know it's an extremely easy comp, what kind of visibility do you have here into early March and how the channel is behaving?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So we have lots of visibility, to answer that question. We have solid sell-throughs, I mean consistent with what our expectations were and really pleased with how the weather pattern has shaped up throughout the quarter Q1. So we had easy comparisons and we have a much more normalized weather pattern and obviously that's good to see.

.....

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. So that's – so when you look at kind of the annual guidance you have out there a little bit of weakness, maybe \$15 million or so of weakness here in the first quarter. But you still think you're kind of within that range of 2% to 4%?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, I mean with what we know right now there's no reason to update the full year. I mean, I think from a Pool perspective, going back to Pool, we're double-digit up. The Consumer Solutions is double-digit core up for the year – for the quarter and we think we're going to be up 5% to 7% for the year from a core performance standpoint. And obviously the first quarter is easy comparison, but on a smaller base. So it moderates as the year goes on, but we feel good about that outlook.

.....

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. When we look at the kind of bottom line dynamics for the year, I just want to kind of level set. I think the standing guidance on the bridge is \$25 million or so in productivity and then that's kind of offset by incentive comp and other variable expense items more or less. I mean, does this change that at all where you're going to get some of those variable expenses like travel et cetera are going to be down, and more of that productivity can read through? And then in addition on the cost side while you may have to manage your supply chain a bit, is there any chance where you're going to see a bit of a tailwind over the course of the year on raw materials?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, Steve, I think it's way too early to predict that. I think as we entered the year felt good and confident about our guide for the year, felt really balanced around the expectations for IFT being muted from a revenue perspective but really going after the cost side and really felt on the Consumer Solutions side, we're going to get after some pretty good growth. Most of that in the first half, because they're easier comparisons. And then we're going to take some of that investment and put it work to even drive future growth.

So we felt really good about the balanced outlook for the year. As at this point in time, Steve, I haven't given any updated outlook for the year. I mean, we're going to have to see how everything plays out and where this goes. And then adjust appropriately like everybody else will do based upon new information. There's no reason to adjust it right now and we're going to take a look at the levers we can pull if there's demand offsets or there is relative challenges in the supply channel and work like hell to try to make it up and deliver the income that we expect to deliver.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

When you talk about the kind of risks and I guess there aren't many opportunities but the risk, I guess, how do you look at – just starting with Pool, how do you look at that – the risk to that activity over the course of the year? I mean, there is – it's still a big replacement market over that time period, what – have you heard from the channel that people are nervous about consumer confidence yet or anything like that? Anything on the pool front that can help us put a context around what we might see over the next few quarters.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. It's an evolving thing within the United States as you know and as we look at the key states of Arizona, California, Florida and Texas and those markets are important to Pool. Right now, I mean, dealers are feeling good about the backlog, they're completing projects that some of them are still deferred from last years. They're feeling really like robust. They're probably not the right people to ask because they work in backyards, where they're not exposed to other people, right? So that's kind of what I'm hearing as we talk to them that they feel still really good about the economy.

I think if there's a challenge to that piece of the business, we'll see in the form of supply chain, they were the most exposed to tariffs. So, the supply chain somehow gets pinched. We would be in the situation we would experience the channel still fulfilling the shipments from the inventory and then, trying to figure out when we would balance selling back into the channel to make up with the inventory. So, we could see a timing issue throughout the year, but I think we really feel like the fundamental demand would still going to remain relatively strong.

A

Not really a discretionary item, there is only 80,000 new pools, most of those houses are being built and the pools go behind them. And then ultimately we have 5.5 million installed pools in which we're servicing them and when things break most people fix them. Same thing with our water filtration, we're working into mostly an installed base, 85%-ish and we're fixing water that used to taste good and people want it to taste good.

The one area of the portfolio that I would say if we see a sustained slowdown would be our Food Service business which produces the filtration for hotels, for restaurants and if we see less people going to restaurants, less people actually traveling to hotels, we would probably see less usage and therefore, yes, less replacement, again, probably a moderate risk, but risk that we'll continue to monitor.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Can you talk about, on the Pool side, the opportunities around the variable speed pumps in 2021?

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair Plc

Yeah, so our pool pumps make up 25%-ish of the \$1 billion or so in revenues of pool. About half of that is single speed and a little bit more than half of that is variable speed. So the migration from single to variable, the variable pumps cost about 60% more or they're actually priced about 60% higher and there is an ongoing change required by the Department of Engineering to move everything to variable speed. So we should be helped over the next several years relative to that change.

How much that happens this year, I'm not sure because I've been through this before where distributors can buy ahead, dealers can buy ahead to manage some of that forced change. And we want to make sure that we maintain share, so that we're not out in front of forcing everybody in a direction and then some of our competitors may be responding and selling the single speed. So we're going to manage this, but over time it should produce incremental value for us and the channel and we think we're going to benefit from that. When, not quite sure.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Got it. But this is something I thought that was kind of mandated in 2021 or that's not the case?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

It is. But I think, Steve, you would probably find some of the HVAC changes when they occurred. And I don't know if this is going to happen or not, but there were ways and there were workarounds. And the benefit came from the SEER change, it wasn't always as predicted or not in the quarter that people thought it was going to happen.

.....

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. Do you think there's going to be – would there be pre-buy here, is there enough capacity in the channel to like pre-buy the single speed?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair Plc

Yeah. There could be. I don't think or know that could happen, Steve. And it's just that there's probably inventory in the channel already that was bought ahead of the deadline, people can still buy, and then it's bought ahead of the deadline. And then that could be let out of the channel in some way, shape or form that would mute the benefit and the short cycle that we might expect from that change. That's why it's not in our guide right now, just to be clear, and we haven't given specific guidance as to when we think we're going to benefit. We will benefit, it's just a matter of when.

.....

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Is it a build deadline or is it a install deadline? The HVAC ones have mostly been build deadlines where you have to stop building them by December 31 or whatever, but you can build as many as you want. What is the date, and is it a build – it is a build deadline?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

It is a build deadline, correct.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And what is the date?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Oh, sorry, it's really a buy deadline more, June next year.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

June of next year? Okay. So it's actually like right in the middle of the season, which is interesting because for HVAC, they usually do it in December, so there can't be a – it's harder to kind of – you put the onus on the distributor to kind of take that inventory for three to four months, which deters some from pre-buying. But we'll have to watch that.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

And that's what I'm saying, you probably are going to have a situation where dealers will spec it in and customers won't challenge that. The quicker they do that, the better off we're all going to be. But if someone wants to spec in a single speed, they're going to be able to do it and then we'll have to manage that flow through it.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

So that's why I've been very careful giving a date, and by the way June is just really weird for this industry. I mean, you could easily move it out to September, and now you're into the early buy the next season and it would have been a lot more thoughtful. But...

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right, right. What are you seeing competitively on Pool here in the US?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So, our competitors have gotten stronger. I mean we have two formidable competitors. I mean we're north of roughly 50% of the share in the United States. And they both are – make up the remainder. They're really good companies. One is public now, one is under private ownership. And so, there is a much more aggressive stance today than there was three or four years ago. And we work really hard to maintain and grow share, and to make sure that our channel is aware of all the things we're doing. And the way we think we really change that game is accelerating the new product introductions, right? So, there is things that we think we can do around filters, which is a space that hasn't seen a lot of upgrading. I mean we do have membranes that we make ourselves. And so, we think we could do a membrane based filtration capability that would certainly reduce the turbidity of the pools and give you a clearer pool and we think that would be something that helps maintain a share increase for Pentair.

Our automation platforms, one in which we have a lead on and we have to continue to advance that lead. And then we have to continue to innovate. And we have to give the channel every reason to continue to be loyal to us and make sure that the consumer feels loyal to Pentair. So – but it's a stronger competition today, Steve, for sure because it's a very profitable space for everyone. And that usually brings the competition forward.

What we haven't seen is any Internet channel disruption. As you know that was a full stop/start from one of the big companies and we saw some of the competitors try that route. It didn't work out so well and then we haven't seen really any Chinese product infiltrate the pool content. So I mean those would be two threats that would be on a longer term cycle and neither one of them has materialized.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Now you guys had historically provided a bit of color around price for the total segment and then you guys have restructured, re-segmented a bit, so it's kind of hard to tell. But for this segment, in particular, this kind of consumer segment, is that kind of more at the high end of the range of you'd expect to get an annual basis on price...?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

...kind of like that 2% type of number?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And then that's kind of offset by flattish in the Industrial & Flow Tech side, is that we should think about it?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

More closer to one maybe and around for IFT.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. Got it. So into that kind of 1.5% range in this deal, okay. On the other business within the consumer side, can you talk about how those acquisitions are going and what the trend is for – I know you mentioned it could be tough for people aren't going out nor they are not going to work, there is no – there is less of a run on those cartridges that are out there, but maybe talk about I guess how that business is progressing with the deal?

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, so we're really happy with both of them. We bought Aquion which is RainSoft is the channel – the affiliated channel, it's a water softener channel. And they are the systems capabilities. So they make their own systems which was a capability we didn't have before, we used to sell valves and tanks. And we sold those mostly to private OEMs who would go out under their own brand and try to create the water treatment sale to an end customer. And we still have that and we still service that channel. We thought there would be a downtick in sales on that side and they were, but it wasn't outside of the norm of what we expected by moving up the channel and that risk was happening anyway and I think we did a good job balancing that risk.

So very happy with how that is playing out, that systems capability gives us the ability to expand our branded system offerings to those people that want to be authorized pros of Pentair, and work within our Pentair Water Solutions branding mechanism that we're bringing to light on the website and creating digital leads, and then servicing that either through an authorized pro or doing it ourselves. And when we do it ourselves, we think the secret sauce is we send out this mobile retail centers which is Pelican.

We create the digital lead. We sell the sales – send the sales team out. They do onsite water test using a really sophisticated analytical instrument system sold by a really good company that has a first name of H. And that's being done real time in the field allows us to give to the consumer, the print out of their water quality and then that consumer generally feels that they're getting a more objective selling process and then they can choose the types of solutions which are inside that van to solve their water needs.

And so we can give them a water conditioner which is a lower price solution or we can go all the way up to a high-end sophisticated more water expert need depending on what their water challenges are. So we have a very high conversion rate, Steve. We're somewhere around 50% from lead to conversion. I think if we can maintain that a greater than 40%, that would be world-class standards. And so we're really happy with both of these acquisitions. And our goal is to build out the digital leads on a national basis, work with our authorized channel to bring them along and better selling techniques, better conversion techniques, but require them to buy our systems when they do that, so that we get enough in the margins of that sale.

And then in the high density areas, we don't think we've got enough penetration coverage. We want to do it ourselves and then it can capture incrementally some of the services revenue that can come along with that. So really feel like it jumpstarted the water filtration platform, so year one was really good on an integration front and we couldn't be happier with the cultural fits and the progress we're making. So thanks for asking, Steve.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Got it. On an Industrial & Flow Tech, maybe just I know you mentioned the Food Service business is going to be perhaps impacted by this, but maybe just talk about what – new products are coming out there and the types of longer term growth opportunities within food service?

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, so just to remind you, Food Service is actually back in the Filtration and Consumer Solutions, Steve. When we began Industrial Flow Technologies, we have an Industrial platform which is made up of product lines and applications using membranes. And then we have a Food and Beverage which is a \$250 million-ish platform in which we have components that we sell into the beverage industry. These are beer, big large beer OEMs and then we also have beer membrane filtration systems which we are replacing diatomaceous or filtration devices which are cancer causing agents.

And so there's been a big environmental movement to doing what we've been doing and we're the sole provider of those membranes so we either provide the systems or we sell those membranes to others who sell those systems to customers. And I think we've done a really nice job of balancing the margin profile there by building only systems where we think we are differentiating ourselves or selling membranes to others who are taking on riskier systems. The good news is our systems are well known. They're branded and people are replacing them at a really good rate.

The third product line we have there is sustainable gas. So through a series of – it's through the old CPT we have an organic play and then we bought an acquisition. We do CO2 recovery for the beverage industry. So they're capturing the CO2 and then turning it back into food grade and then redistributing that food grade either into their own systems or selling it to on CO2 providers who take it elsewhere. We have 1,400 installations globally mostly in Europe, but we're working with large stream companies who are really serious about driving sustainability standards and trends, so that business is growing really strong and we see that trend continuing as more and more people are concerned about their sustainability need. Also take biogas or waste and turn that into methane that can be re-plugged into the energy grids. So it's been a really good product line that we've had.

.....

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And then on the margin front for Industrial & Flow Tech notwithstanding what's happened here early in the year, I mean what's your visibility on opportunities to expand margins in 2020 and beyond?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So to set a framework I mean – I think 200 basis points to 300 basis points over the next four to five years is an appropriate longer term target. It's going to be probably slightly better here in Q1 as we get after some low hanging – I mean first year one as we get after the low hanging fruit associated with some challenges we had on the large projects last year, so if you recall we talked about having the premium freight product because we're behind that shipment dates and we had some late delay penalties. And so there some of that's easy to get in year one and that hopefully is not there in year two and beyond.

But structurally there is a lot of opportunity to share across project efficiencies between Flow and the Industrial Filtration side, both new projects and we can build best-in-class, how do we build the projects, how do we source more effectively. And then also we have the ability to take share processes on the operational side. I mean these are not high volume plant production sites. They tend to be more higher complexity lower volume and there's ways that we can learn from each of the sides of the businesses to do that more efficiently, so I'm very optimistic about the margin enhancement opportunities in IFT.

They came in with a plan that they suggested that they could grow a little bit more bullishly than we let them put together the plan on and because we didn't want to make the same mistake we made last year was expecting Ag to rebound, or expecting some of these markets to rebound and then not have it happened. So I don't think they're going to rebound this year but if they rebound at least they're on the upside.

.....

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. When we think about the balance sheet pretty strong, first of all on the free cash, how do you see this year playing out kind of seasonally? I know that you ended last year on a little bit of a weak note, some of the cash was pull forward into 4Q 2018. How do we see seasonality playing out here in the first quarter?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So I feel – obviously you always want to drive cash at the highest level you can, but I feel like the way we did at the end of Q4 2019 is at more sustainable level. So that's going to come back and benefit Q1 obviously. Our real cash quarter is Q2, and we feel good about the cash profile of the earnings. Working capital for us is already somewhere around 17% of sales. So it's not at a level that's going to drive that incremental value for us.

But we have had between pension funding and because we concluded all our pension and no longer have pension liabilities, and we annuitized all those, we've had some incidents over the last couple of years, heavier restructuring with a split. So, a lot of that is behind us. And so, I think we really feel good about our cash generating profile. As you mentioned our balance sheet is strong. We don't need to go to capital markets. We've got a revolver that actually is the backdrop against our commercial paper. We don't have any large maturities in the next several years, and we're going to be under 2 times levered this year.

So feel like we got flexibility to do the \$150 million buyback, that's in our EPS guidance, and we should have the ability to take advantage of opportunities if they should come along later in the year.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And when you think about acquisitions, anything out there in the pipeline that we just I guess talk about the pipeline breadth and size – types of deals that are in there.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So there's a lot happening in the space, Steve, and some of it's happened already. Culligan, Advent that was a large private equity firm is in the process of buying AquaVenture. Half of that business would have been something we would have desired. I don't think we were desired to pay what it went for. Other properties have come to market, and the multiples have been high-teens are close to 20 times EBITDA.

So we've been focused on doing as much as we can organically because we have most of the capability in-house. But if we can get the multiples in the space to be more reasonable to augment or accelerate what we're trying to do, we're going to try to get them done. And there's some small stuff that we can do in Pool. Product lines that we don't have that some of our dealers want. I'm hopeful that comes in the first half of this year. And then we have a few dealer acquisitions that we want to do in those high density zip codes to help augment our MRC rollout strategy.

A

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair
plc

So I feel like the pipeline is more likely to pop given the slight disruption in the market and bringing in some cases valuations down which I think will make some private equity firms a little jittery and I'm hopeful that some of the properties that they're holding onto will come out at what I call reasonable multiple, Steve. But too early to call that and I think we want to be as conservative as everybody else to make sure we're not doing anything crazy until we know what the rest of the year looks like.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

When you think about the levers on cash, are there any more opportunities around working capital or anything like that they can help you improve and already kind of solid conversion rate.

John. L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, I mean I think when you take a look at working capital IFT, if we were split it for you by segment, you should imagine that we're much higher turns on the Consumer Solutions side and those longer project profiles on the IFT side are the biggest opportunity. Some of that is – not every large project needs to realize sourcing savings for instance and I think the way you quote projects that way you anticipate the longer sourcing funnels coming through is very important and how you bring that inventory into the equation.

So I think we've got to balance, is this really worth getting an extra point of sourcing savings and when we're buying and holding the inventory. Or is it worth actually going and paying the extra maybe point of sourcing cost and not taking the inventory till we need it. Those – it doesn't sound like much, but that is a lot of contained inventory on that side of the house and that's how we think the project efficiencies will come to bear.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Last one for you, just on the portfolio, any pruning to come here at all over the next couple of years kind of like the portfolio where it is?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, so I have a new segment leader in place, he was actually running our Pool business. He's been with us. I have few segment leaders who've been with us for a while on the Industrial & Flow Technologies. I'm giving – I want him to assess that portfolio and see what the crown jewels are and where should invest and where we should maintain discipline around probably growing a GDP. I think there's a lot of cash and there's a lot of EBITDA that can still be generated from that side of the portfolio.

But given the size the company we are, I mean I think there will be some product lines or two that emerge, Steve. I just don't have an idea of what they look like and I think that'd be more opportunistically doing it than a wholesale big change. So as we do things on the Consumer Solutions side, we might fund it with a product line or two from IFT, but nothing really to talk about that would be anything of size.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. Okay. I have a couple more questions, but if anybody wants to e-mail me any questions ask obviously feel free, I should have mentioned that earlier on, but I – hopefully after like three or four of these you guys on the line on those drill. I guess how just at a higher level, you were CFO in the downturn, you've been around a while and through a few cycles including the oil and gas cycle in 2014-2015 when you guys had the Valves & Controls business.

I mean how does this one feel to you when you look back at 2001-2002, 2008-2009, 2014-2015, are you – do you have contingency plans for another kind of round of restructuring just in case kind of things get worse and consumer sentiment starts to roll over. How are you – what is your mind set right now as a CEO of a publicly traded company and do have contingency drawn up, how close are you to executing on those. How should we think about – maybe how some of you and your peers are feeling through all this?

John. L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. It's a great question, Steve. And at this particular point in time, it feels nothing like the 2008-2009 crisis because fundamentals are out of whack then from the standpoint of – 2.6 million houses, we're still in the 1.1, 1.2 stage. The housing in most areas is constrained. And that feels better. But I've never dealt with any form of world wide spread of flu and/or pandemic. So it's a new playbook.

A

If things start to soften, although we started the year thinking that our markets will be relatively strong and I am still hopeful that they are, pulling the cost playbook out is fairly easy to do. We have a solid network of companies here in Minnesota, we're all talking about what we're doing. We're staying close on the labor fronts or things we would do, because really our first goal is to protect the 10,000 employees we have here in Pentair.

The second one would be to assess the situation and what we expect to be either disruptions in economy and/or supply chain risk. And then third one was act on it. And I don't want to be an early mover because a lot of the discussions are really around how do we make the hourly workers hold from a political standpoint and I don't want to do something ahead of when we might be able to benefit our employees and work in tandem with the countries that we might be working with to make sure that we're doing it the right way.

So I feel good about where we are. I feel like I got a team that's working this daily, every factory is doing their enterprise risk management plans. We've got a unique recovery plan for each factory and how it might be affected. So I think we're well-positioned, Steve, to answer your question and my balance sheet is fine, right. And so I can weather a small storm here because I don't need to go to the capital markets, which was different than 2008-2009 when commercial paper dried up and people had to worry about that they have a revolver in place, et cetera. So I really feel like our fundamentals are in much, much better shape at this stage than the last two downturns that you mentioned.

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. That's – if this sort of kind of extend in the – deeply into the second quarter, is that kind of midway through the second quarter you think you'll have a good idea or is that something that by the time you guys report the first quarter like you'll have kind of, okay this is something it's now lasting a couple of quarters instead of a couple of months and we've got to take action. I mean at what stage of the game do you think those decisions start to move from contingency into action?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah I think it's both and that we asked the question and I think yes we'll know more as the second quarter unfolds but I think we're going to have to just like everybody else, make a reasonable assessment of what we think it's going to look like at the end of the Q1 earnings cycle...

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

...and at least to have our contingency our mitigation plans ready to go and quantify what those could be. And probably do scenario planning. I mean I think that's one way at our best is when we're looking at okay, here is the most likely case. But let's not work around the best case, let's maybe work closer to the worst case scenario, be prepared.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. Okay, guys. Thanks a lot for your time, your flexibility. Hopefully you stay healthy and looking forward to hearing more when you guys report earnings on the first quarter.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair

Thanks, Steve. Thanks for doing this.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yep. Absolutely. Have a good day.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair
plc

A

John L. Stauch

Bye.

Operator: This concludes today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis

of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS,

BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED

WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE

LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY

INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE,

SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.