

# Q2 2016 EARNINGS RELEASE

---

*July 28, 2016*

# FORWARD-LOOKING STATEMENTS

---

## CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

*This communication contains statements that we believe to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact are forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets," "plans," "believes," "expects," "intends," "will," "likely," "may," "anticipates," "estimates," "projects," "should," "would," "positioned," "strategy," "future" or words, phrases or terms of similar substance or the negative thereof, are forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include overall global economic and business conditions, including worldwide demand for oil and gas; the ability to achieve the benefits of our restructuring plans; the ability to successfully identify, finance, complete and integrate acquisitions, including the ability to successfully integrate and achieve the expected benefits of the acquisition of ERICO Global Company; competition and pricing pressures in the markets we serve; the strength of housing and related markets; volatility in currency exchange rates and commodity prices; inability to generate savings from excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices; increased risks associated with operating foreign businesses; the ability to deliver backlog and win future project work; failure of markets to accept new product introductions and enhancements; the impact of changes in laws and regulations, including those that limit U.S. tax benefits; the outcome of litigation and governmental proceedings; and the ability to achieve our long-term strategic operating goals. Additional information concerning these and other factors is contained in our filings with the U.S. Securities and Exchange Commission ("SEC"), including in our 2015 Annual Report on Form 10-K. All forward-looking statements speak only as of the date of this report. We assume no obligation, and disclaim any obligation, to update the information contained in this report.*

---

# KEY DEFINITIONS

---

- **Except as Otherwise Noted All References to 2016 and 2015 Represent Our Results from Continuing Operations for the Period Indicated Presented on an Adjusted Basis**
- **"Core Sales" Refers to GAAP Revenue from Existing Operations Excluding (1) the Impact of Currency Translation and (2) the Impact of Revenue from Acquired Businesses Recorded Prior to the First Anniversary of the Acquisition Less the Amount of Sales Attributable to Divested Product Lines Not Considered Discontinued Operations**
- **Segment Income Represents Equity Income of Unconsolidated Subsidiaries and Operating Income from Continuing Operations Exclusive of Non-Cash Intangible Amortization, Certain Acquisition Related Expenses, Costs of Restructuring Activities, "Mark-to-Market" Gain (Loss) for Pension and Other Post-Retirement Plans, Impairments, and Other Unusual Non-Operating Items**
- **Return on Sales ("ROS") Equals Segment Income Divided by Sales**
- **See Appendix for GAAP to Non-GAAP Reconciliations**

# EXECUTIVE SUMMARY

---

- **Q2 Results at High End of Range Driven by Strong Execution and Continued Momentum Around Cost-Out Benefits**
- **ERICO Integration Meeting Expectations ... Synergies on Track**
- **Seasonal Free Cash Flow Strength ... Full Year Free Cash Flow Still Anticipated to Approximate Adjusted Net Income**
- **Tightening Full Year Adjusted EPS Outlook to \$4.05 - \$4.20**

---

**Delivered Solid Second Quarter Results**

# Q2'16 PENTAIR RESULTS

	<u>Q2'16</u>	<u>Q2'15</u>
Sales	\$1.73B	\$1.66B
Op. Income	\$217M	\$218M
Seg. Income	\$291M	\$274M
ROS	16.8%	16.5%
EPS <i>(Rpt.)</i>	\$0.78	\$0.84
EPS <i>(Adj.)</i>	\$1.11	\$1.08

## SUMMARY

- Revenue Met Expectations with 2 of 4 Segments Delivering Growth
- ERICO Contributed to Bottom Line and Met Integration Expectations
- V&C Cost-Out Benefits Gaining Momentum
- Free Cash Flow Seasonal Strength

## FINANCIAL HIGHLIGHTS (YoY)

### Core Sales Down 3% (Up 4% Incl. FX and ERICO)

- Water Quality Systems Up 3% (Up 2% Incl. FX)
- Flow & Filtration Solutions Down 1% (Down 2% Incl. FX)
- Technical Solutions Flat (Up 33% Incl. FX and ERICO)
- Valves & Controls Down 11% (Down 13% Incl. FX)

### Segment Income Up 7%

### ROS 16.8% ... Up 30 bps

### Adj. EPS Up 3%

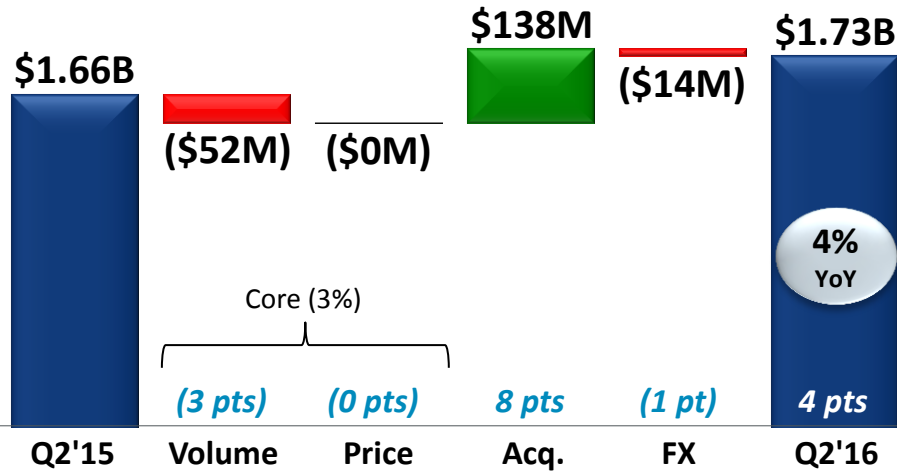
- Adjusted Tax Rate of 20.5%
- Net Interest of \$36M; Share Count 183M

Q2 Free Cash Flow was \$351M;  
YTD Free Cash Flow of \$304M, up \$153M YOY

**Quarter Met Expectations at High End of Range**

# Q2'16 PENTAIR PERFORMANCE

## SALES

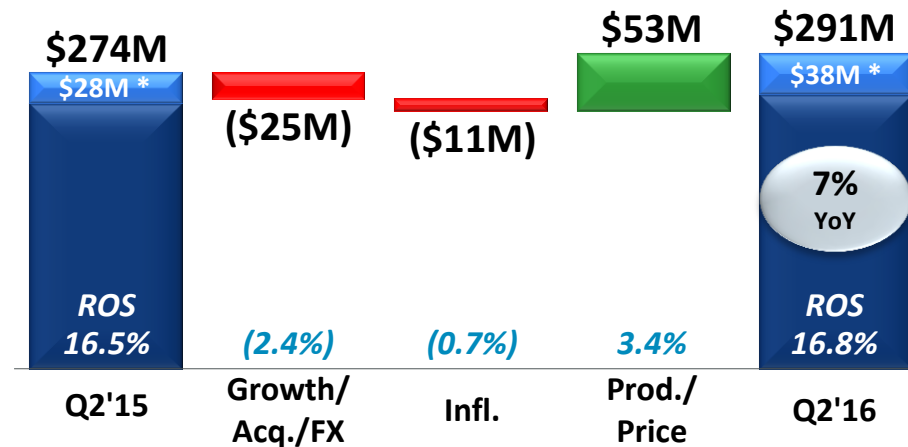


### Sales Highlights

#### Core Sales Down 3%

- Residential / Commercial Up 2% (~35% of Sales)
- Industrial Down 5% (~25% of Sales)
- Energy Down 11% (~20% of Sales)
- Food & Beverage Down 3% (~10% of Sales)
- Infrastructure Up 7% (~10% of Sales)

## SEGMENT INCOME



\*Non-Cash Intangible Amortization

### Segment Income Highlights

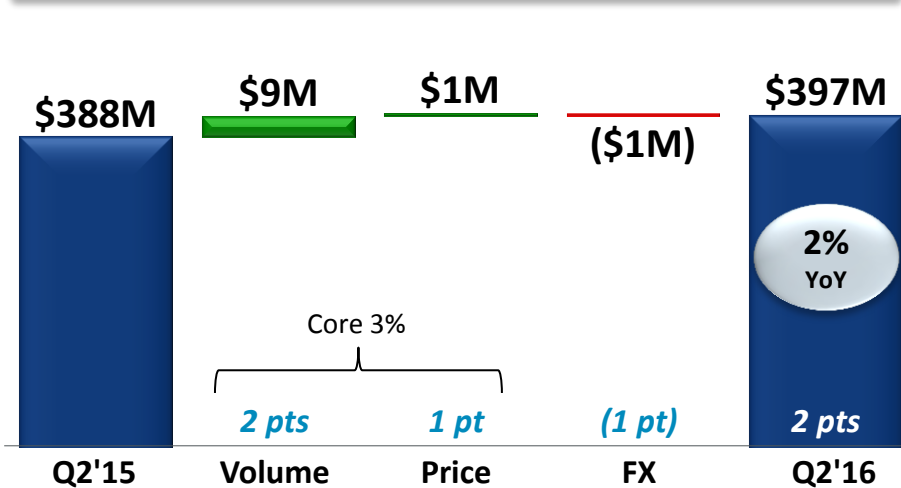
#### Return on Sales 16.8%

- Price and Productivity Continued to More than Offset Inflation
- Cost-Out Actions Read Out
- ERICO Contributed Strength to Bottom Line

**Residential & Commercial Strength Continued ... Infrastructure also Positive**

# Q2'16 WATER QUALITY SYSTEMS PERFORMANCE

## SALES

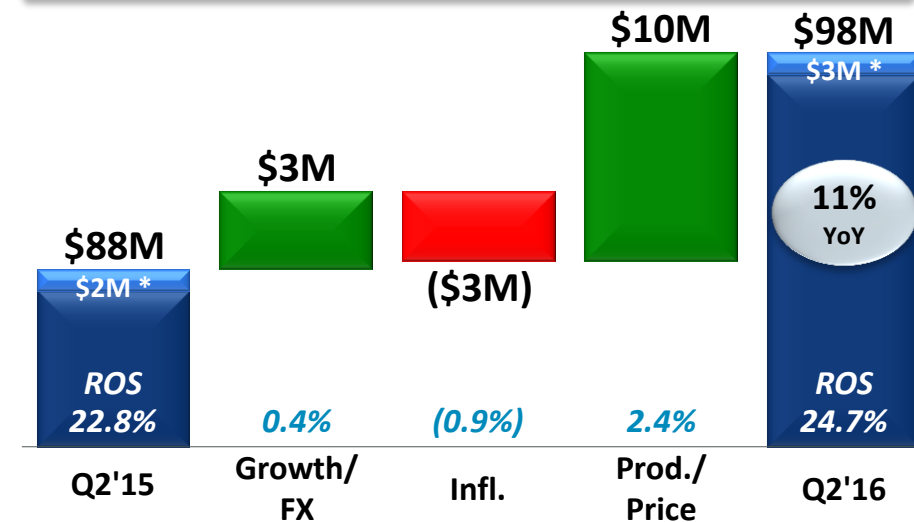


### Sales Highlights (by Strategic Business Group)

#### Core Sales Up 3%

- Aquatic & Environmental Systems Up 4%
- Water Filtration Up 1%

## SEGMENT INCOME



\*Non-Cash Intangible Amortization

### Segment Income Highlights

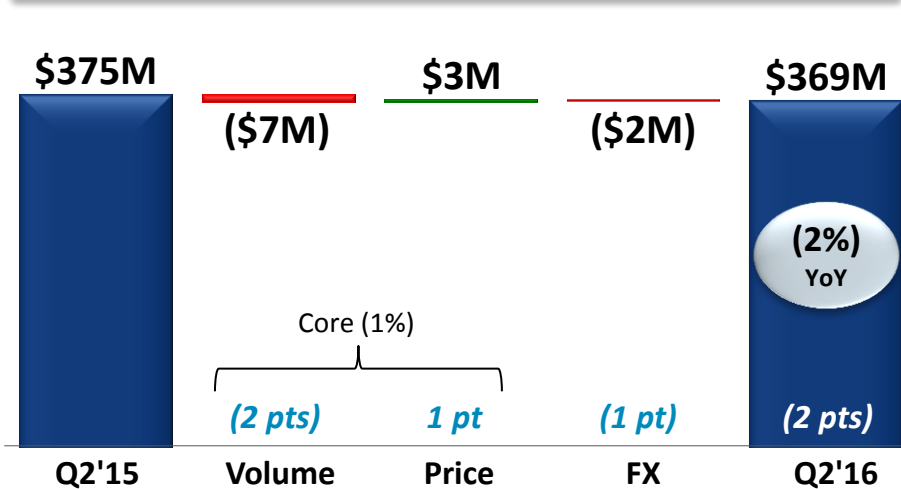
#### Return on Sales 24.7%

- Robust Operating Leverage and Positive Mix
- Price and Productivity Offset Inflation
- Growth Investments Continued

## Another Strong Quarter of Execution

# Q2'16 FLOW & FILTRATION PERFORMANCE

## SALES

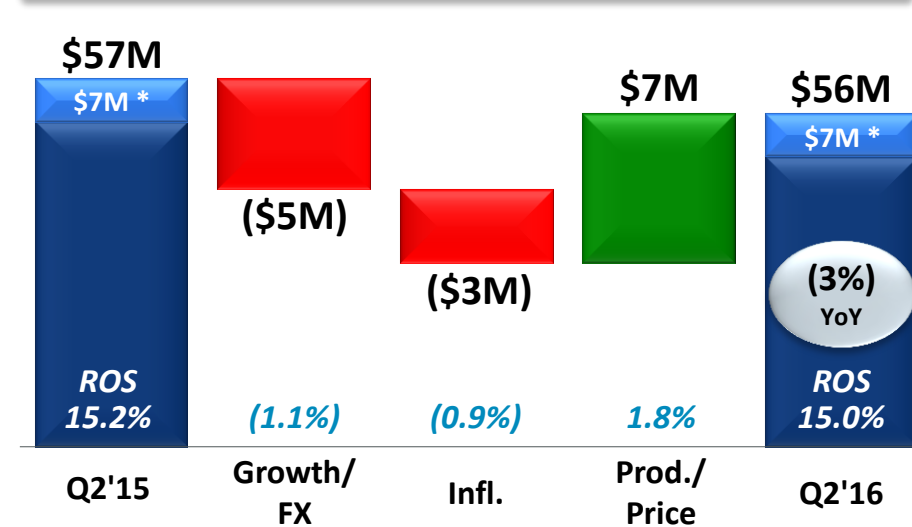


### Sales Highlights (by Strategic Business Group)

#### Core Sales Down 1%

- Water Technologies Down 3%
- Fluid Solutions Down 3%
- Process Filtration Up 10%

## SEGMENT INCOME



\*Non-Cash Intangible Amortization

### Segment Income Highlights

#### Return on Sales 15.0%

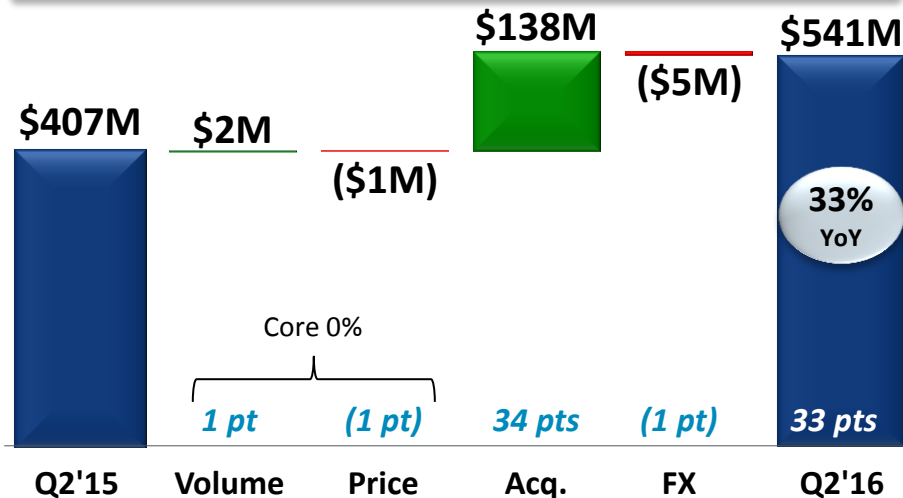
- Price and Productivity Offset Inflation
- Negative Mix
- Cost-Out Actions Remain Underway

**Growth Remains Elusive ... Focus is on Cost and Execution**



# Q2'16 TECHNICAL SOLUTIONS PERFORMANCE

## SALES

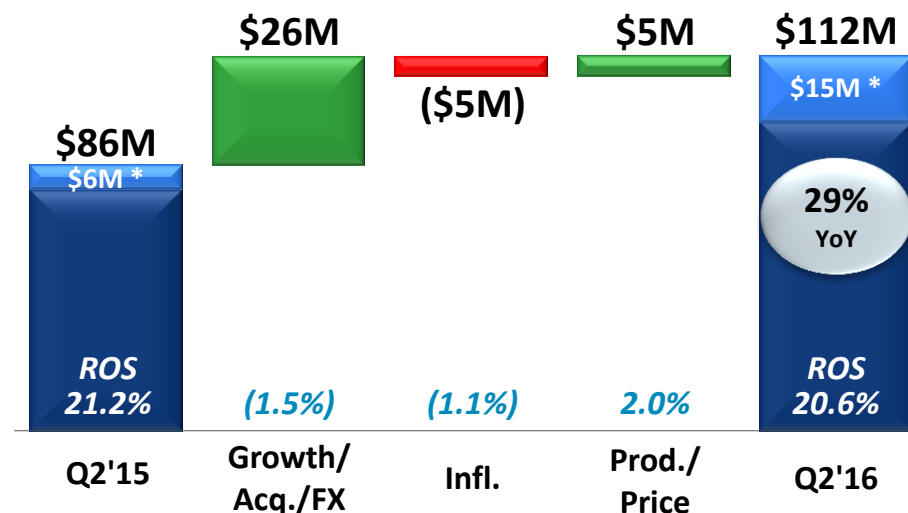


### Sales Highlights (by Strategic Business Group)

#### Core Sales Flat

- Enclosures Down 5%
- Thermal Management Up 7%
- Engineered Fastening Solutions N/A

## SEGMENT INCOME



\*Non-Cash Intangible Amortization

### Segment Income Highlights

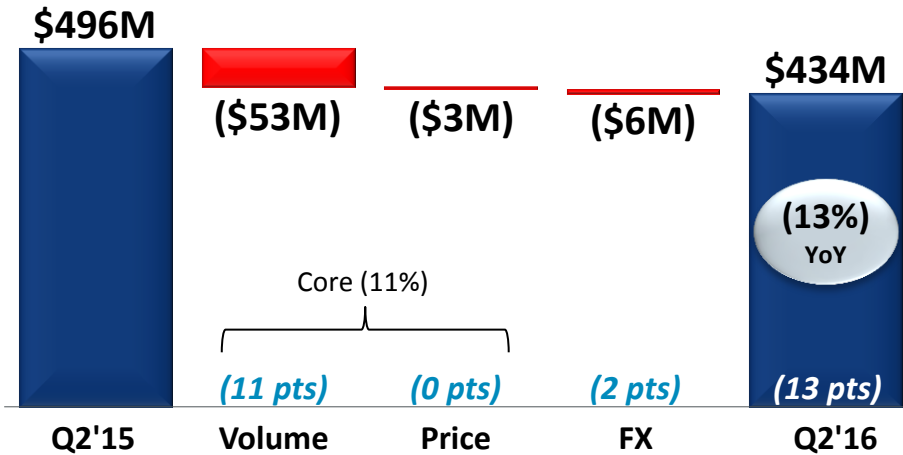
#### Return on Sales 20.6%

- Positive ERICO Contribution In-Line with Expectations
- Negative Mix Impact from Thermal
- Focus on Productivity and Cost-Out Actions

**ERICO Integration on Track and Further Signs of Industrial Stabilization**

# Q2'16 VALVES & CONTROLS PERFORMANCE

## SALES



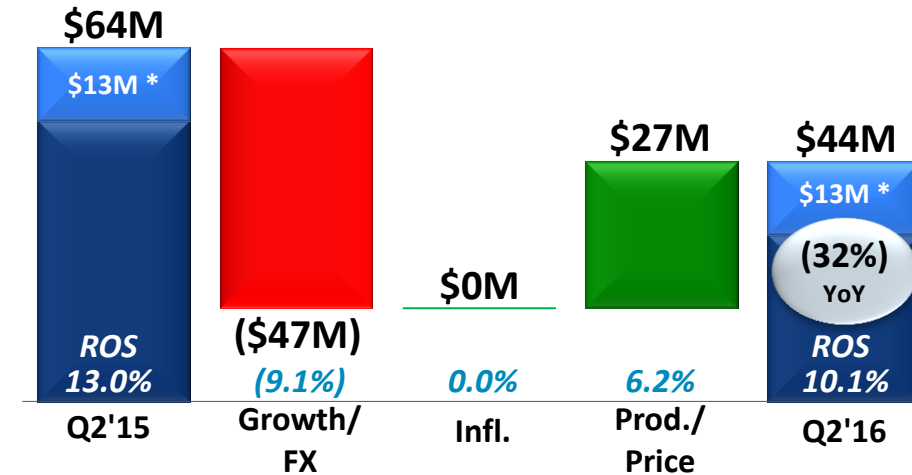
### Sales Highlights (by Strategic Business Group)

Backlog Including FX Down ~7% Sequentially at \$1.0B ... Orders of \$358M; ~Flat with Q1

### Core Sales Down 11% YoY

- Aftermarket/MRO Down 6%
- Engineered Projects Down 17%

## SEGMENT INCOME



\*Non-Cash Intangible Amortization

### Segment Income Highlights

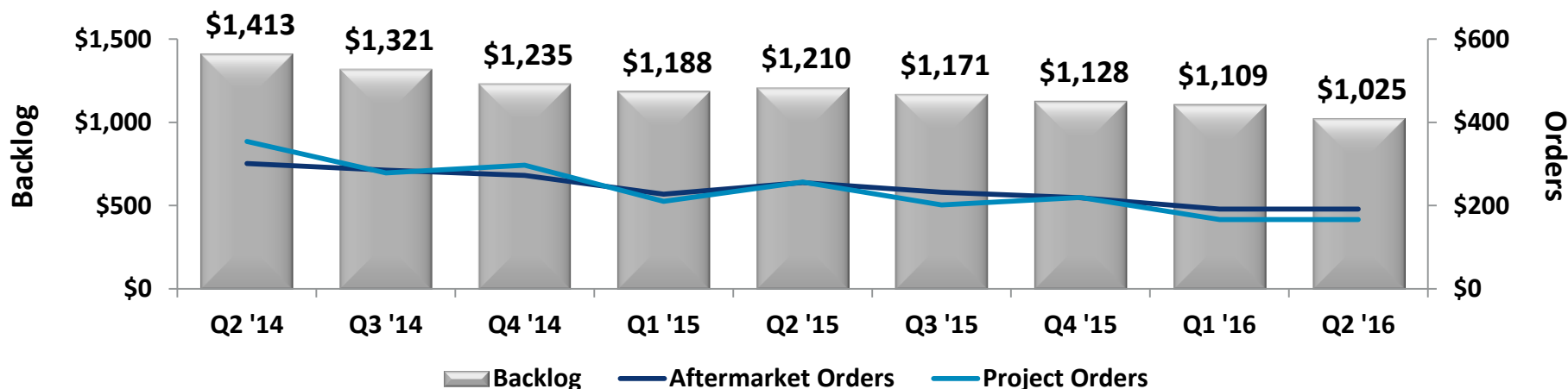
### Return on Sales 10.1%

- Project Margins Remained Under Pressure
- Aftermarket Pricing Pressure Moderated
- Productivity and Cost-Out Benefits Reading Out

**Predictability Returning ... Sales and Margins Exceeded Forecast**

# VALVES & CONTROLS BACKLOG

(\$ Millions)



## AFTERMARKET ORDERS

- Core Orders Down ~20% YoY but Flat with Q1 ... Easier 2H Comparisons
- Customer OpEx Constraints Impacting Order Flows in Europe and NA ... but Stabilizing
- Aftermarket Orders now ~55% of Overall Orders (Should Improve Std. Margin Mix)

## PROJECT ORDERS

- Core Orders Down 34% YoY but Flat with Q1 ... Bottoming Out
- ~\$100M of Orders >\$5M Booked in 2015 and No Orders >\$5M in 1H '16 ... Downside Limited and Order Funnel Improving
- Oil & Gas Remains Most Challenged Segment

**Order Funnel Building ... Signs of Stabilization and Acceleration**

# BALANCE SHEET AND CASH FLOW

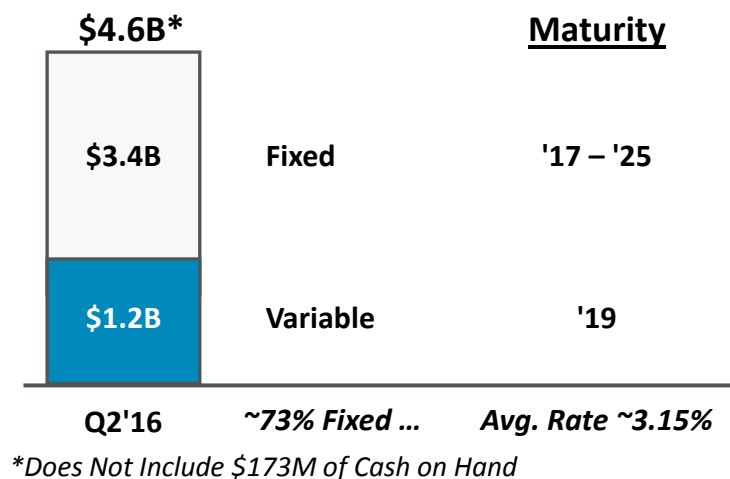
## CASH FLOW

(\$M)	Q2 2016	YTD 2016
<b>Net Income - Continuing Ops</b>	<b>\$ 143</b>	<b>\$ 250</b>
Amortization	38	75
<b>Subtotal</b>	<b>\$ 181</b>	<b>\$ 325</b>
Depreciation	35	68
Capital Expenditures	(36)	(75)
Asset Sales	3	10
Working Capital	186	79
Other Accruals/Other	(18)	(103)
<b>Free Cash Flow</b>	<b>\$ 351</b>	<b>\$ 304</b>

## Other FY Key Financial Metrics:

- Capital Expenditures ~\$150M
- Total D&A of ~\$285M + ~\$37M of Non-Cash Stock Compensation
- ROIC at Quarter End 9.6%

## DEBT SUMMARY



## DEBT ROLLFORWARD

Use of Cash: (\$M)	Q2 2016	YTD 2016
<b>Beginning Debt</b>	<b>\$ 4,838</b>	<b>\$ 4,687</b>
Used (Generated) Cash	(351)	(304)
Dividends	60	120
Other	5	49
<b>Ending Debt</b>	<b>\$ 4,552</b>	<b>\$ 4,552</b>

**Remain Focused on Free Cash Flow and Debt Reduction**

# Q3'16 PENTAIR OUTLOOK

	<u>Q3'16</u>	<u>Q3'15</u>
Sales	~\$1.66B	\$1.55B
Op. Income	~\$239M	\$180M
Seg. Income	~\$277M	\$250M
ROS	~16.7%	16.1%
EPS <i>(Rpt.)</i>	\$0.86-\$0.92	\$0.63
EPS <i>(Adj.)</i>	\$1.02-\$1.08	\$0.97

## SUMMARY

- WQS Growth Offsetting FFS
- V&C Rate of Decline Moderating and Expectations of Orders Improving Sequentially
- ERICO Contributing to Bottom Line but Thermal Mix Impacting Margins
- Cash Flow Expected to Continue Positive Trajectory

## Q3'16 FINANCIAL OUTLOOK (YoY)

### Core Sales Flat (Up ~7% Including FX and ERICO)

- Water Quality Systems Up ~8% (Up ~8% Incl. FX)
- Flow & Filtration Solutions Down ~1% (Down ~1% Incl. FX)
- Technical Solutions Flat (Up ~27% Incl. FX and ERICO)
- Valves & Controls Down ~6% (Down ~7% Incl. FX)

### Segment Income Up ~11%

### Return on Sales ~16.7% .. Up 60bps

- Water Quality Systems ~19.5%
- Flow & Filtration Solutions ~15.0%
- Technical Solutions ~22.5%
- Valves & Controls ~13.0%

### Adj. EPS Up ~8%

- Tax Rate of ~20.5%
- Net Interest ~\$35M; Shares ~183M

### Q3 Free Cash Flow Strong and In Line with Seasonality

**Expecting Solid Income Growth, ROS Expansion, and Cash Flow**

# FULL YEAR 2016 PENTAIR OUTLOOK

	<u>FY'16</u>	<u>FY'15</u>
Sales	~\$6.68B	\$6.45B
Op. Income	~\$897M	\$177M
Seg. Income	~\$1,088M	\$1,004M
ROS	~16.3%	15.6%
EPS <i>(Rpt.)</i>	\$3.23-\$3.38	(\$0.36)
EPS <i>(Adj.)</i>	\$4.05-\$4.20	\$3.94

## SUMMARY

- Residential & Commercial Strength Expected to Continue ... Industrial Stabilization
- V&C Orders Accelerating from 1H Levels
- Expect 3 of 4 Segments to Grow Income
- Margin Expansion and EPS Growth on Cost-Out Actions and ERICO Contribution

## FY'16 FINANCIAL OUTLOOK (YoY)

### Core Sales Down ~1% (Up ~4% Incl. FX and ERICO)

- Water Quality Systems Up ~6% (Up ~6% Incl. FX)
- Flow & Filtration Solutions Down ~1% (Down ~2% Incl. FX)
- Technical Solutions Flat (Up ~20% Incl. FX and ERICO)
- Valves & Controls Down ~9% (Down 10% Incl. FX)

### Segment Income Up ~8%

### ROS ~16.3% ... Up ~70 bps

- Water Quality Systems ~21.5%
- Flow & Filtration Solutions ~14.0%
- Technical Solutions ~22.0%
- Valves & Controls ~11.0%

### Adj. EPS Up ~5%

- Tax Rate of ~20.5%
- Net Interest ~\$141M; Shares ~183M

### Free Cash Flow of >100% Adj. Net Income

**Income Growth, ROS Expansion, and Strong Cash Flow Expected**



# **APPENDIX**

## ***GAAP to Non-GAAP Measurements & Reconciliations***

# REPORTED TO ADJUSTED 2016 RECONCILIATION

**Pentair plc and Subsidiaries**  
**Reconciliation of the GAAP year ended December 31, 2016 to the non-GAAP**  
**excluding the effect of 2016 adjustments (Unaudited)**

	Actual		Forecast			
	First Quarter	Second Quarter	Third Quarter		Full Year	
<i>In millions, except per-share data</i>						
Total Pentair						
Net sales	\$ 1,575.5	\$ 1,733.3	approx	\$ 1,660	approx	\$ 6,680
Operating income	170.6	216.9	approx	239	approx	897
% of net sales	10.8%	12.5%	approx	14.4%	approx	13.4%
Adjustments:						
Restructuring and other	0.7	35.9	approx	—	approx	37
Intangible amortization	37.6	37.6	approx	37	approx	150
Equity income of unconsolidated subsidiaries	0.9	1.0	approx	1	approx	4
Segment income	209.8	291.4	approx	277	approx	1,088
% of net sales	13.3%	16.8%	approx	16.7%	approx	16.3%
Net income from continuing operations—as reported	107.4	145.0	approx	162	approx	604
Adjustments to operating income	38.3	73.5	approx	37	approx	187
Income tax adjustments	(7.8)	(15.1)	approx	(7)	approx	(38)
Net income from continuing operations—as adjusted	\$ 137.9	\$ 203.4	approx	\$ 192	approx	\$ 753
Continuing earnings per ordinary share—diluted						
Diluted earnings per ordinary share—as reported	\$ 0.59	\$ 0.78	approx	\$ 0.86 - 0.92	approx	\$ 3.23 - 3.38
Adjustments	0.17	0.33	approx	0.16	approx	0.82
Diluted earnings per ordinary share—as adjusted	\$ 0.76	\$ 1.11	approx	\$ 1.02 - 1.08	approx	\$ 4.05 - 4.20



# Q2 2016 CORE SALES GROWTH RECONCILIATION

Pentair plc and Subsidiaries  
Reconciliation of Net Sales Growth to Core Net Sales Growth by Strategic Business Group  
for the quarter ended June 30, 2016 (Unaudited)

	Q2 Net Sales Growth			
	Core	Currency	Acq./ Div	Total
<b>Water Quality Systems</b>	2.9%	(0.5%)	—%	2.4%
Aquatic & Environmental Systems	4.0%	(0.5%)	—%	3.5%
Water Filtration	1.4%	(0.2%)	—%	1.2%
<b>Flow &amp; Filtration Solutions</b>	(1.1%)	(0.5%)	—%	(1.6%)
Water Technologies	(2.8%)	(0.3%)	—%	(3.1%)
Fluid Solutions	(2.9%)	(0.5%)	—%	(3.4%)
Process Filtration	9.7%	(0.5%)	—%	9.2%
<b>Technical Solutions</b>	0.2%	(1.3%)	33.9%	32.8%
Enclosures	(4.9%)	(0.7%)	—%	(5.6%)
Thermal Management	7.0%	(2.3%)	—%	4.7%
Engineered Fastening Solutions	—%	—%	100.0%	100.0%
<b>Valves &amp; Controls</b>	(11.2%)	(1.5%)	—%	(12.7%)
Aftermarket/MRO	(5.9%)	(1.5%)	—%	(7.4%)
Engineered Projects	(16.5%)	(1.1%)	—%	(17.6%)

Pentair plc and Subsidiaries  
Reconciliation of Net Sales Growth to Core Net Sales Growth by Vertical  
for the quarter ended June 30, 2016 (Unaudited)

	Q2 Net Sales Growth			
	Core	Currency	Acq./ Div	Total
<b>Total Pentair</b>	(3.1%)	(0.9%)	8.3%	4.3%
Residential & Commercial	1.7%	(0.5%)	15.3%	16.5%
Industrial	(4.6%)	(0.8%)	6.0%	0.6%
Energy	(11.1%)	(1.5%)	3.4%	(9.2%)
Food & Beverage	(3.2%)	(0.4%)	—%	(3.6%)
Infrastructure	6.6%	(0.3%)	16.4%	22.7%

# OTHER RECONCILIATIONS

<i>Dollars in millions</i>	Second Quarter 2015	Third Quarter 2015	Fourth Quarter 2015	First Quarter 2016	Second Quarter 2016
<b>Return on Invested Capital (ROIC)</b>					
Segment Income	\$ 273.5	\$ 250.1	\$ 281.1	\$ 209.8	\$ 291.4
Adjusted Effective Tax Rate	23.0%	23.0%	16.3%	20.5%	20.5%
NOPAT	\$ 210.6	\$ 192.6	\$ 235.2	\$ 166.8	\$ 231.7
Depreciation	34.4	34.6	38.1	33.5	34.8
Capital expenditures ("Cap Ex")	(32.0)	(33.8)	(33.7)	(38.2)	(36.4)
Total NOPAT, Depreciation and Cap Ex	\$ 213.0	\$ 193.4	\$ 239.6	\$ 162.1	\$ 230.1
Trailing four quarter NOPAT, Depreciation and Cap Ex	\$ 821.5	\$ 786.0	\$ 797.1	\$ 808.1	\$ 825.2
Ending Invested Capital	\$ 7,661.0	\$ 9,353.0	\$ 8,569.0	\$ 8,763.8	\$ 8,544.7
Trailing five quarter average invested capital	\$ 7,788.8	\$ 8,002.8	\$ 8,163.9	\$ 8,407.5	\$ 8,578.3
After Tax Return on Invested Capital	10.5%	9.8%	9.8%	9.6%	9.6%

*NOPAT (Net Operating Profit After Tax) is Defined as [(Segment Income) X (1 - Adjusted Effective Tax Rate)]*

*Ending Invested Capital is Defined as [Total Shareholders' Equity + Long-term Debt + Current Maturities of Long-term Debt and Short-term Borrowings - Cash and Cash Equivalents]*

<b>Free Cash Flow</b>					
Net cash provided by (used for) operating activities	\$ 321.3	\$ 208.0	\$ 346.9	\$ (15.0)	\$ 384.5
Capital expenditures	(32.0)	(33.8)	(33.7)	(38.2)	(36.4)
Proceeds from sale of property and equipment	20.8	1.7	2.5	6.3	3.2
Free cash flow	\$ 310.1	\$ 175.9	\$ 315.7	\$ (46.9)	\$ 351.3

# REPORTED TO ADJUSTED 2015 RECONCILIATION

Pentair plc and Subsidiaries  
Reconciliation of the GAAP year ended December 31, 2015 to the non-GAAP  
excluding the effect of 2015 adjustments (Unaudited)

<i>In millions, except per-share data</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<b>Total Pentair</b>					
Net sales	\$ 1,475.0	\$ 1,661.2	\$ 1,552.1	\$ 1,760.7	\$ 6,449.0
Operating income	171.2	217.9	180.0	(391.9)	177.2
% of net sales	11.6%	13.1%	11.6%	-22.3%	2.7%
Adjustments:					
Restructuring and other	—	25.5	25.3	70.1	120.9
Pension and other post-retirement mark-to-market gain	—	—	—	(23.0)	(23.0)
Intangible amortization	27.6	28.0	28.2	37.6	121.4
Inventory step-up	—	1.5	1.4	32.8	35.7
Deal related costs and expenses	—	—	14.3	—	14.3
Goodwill and tradename impairment	—	—	—	554.7	554.7
Equity income of unconsolidated subsidiaries	0.5	0.6	0.9	0.8	2.8
Segment income	199.3	273.5	250.1	281.1	1,004.0
% of net sales	13.5%	16.5%	16.1%	16.0%	15.6%
Net income from continuing operations—as reported	118.2	153.9	115.2	(452.3)	(65.0)
Loss on sale of businesses	—	—	—	3.2	3.2
Amortization of bridge financing fees	—	—	10.7	—	10.7
Adjustments to operating income (loss)	27.6	55.0	69.2	672.2	824.0
Income tax adjustments	(6.4)	(12.6)	(18.4)	(16.7)	(54.1)
Net income from continuing operations—as adjusted	\$ 139.4	\$ 196.3	\$ 176.7	\$ 206.4	\$ 718.8
Continuing earnings per ordinary share—diluted					
Diluted earnings per ordinary share—as reported	\$ 0.65	\$ 0.84	\$ 0.63	\$ (2.51)	\$ (0.36)
Adjustments	0.11	0.24	0.34	3.64	4.30
Diluted earnings per ordinary share—as adjusted	\$ 0.76	\$ 1.08	\$ 0.97	\$ 1.13	\$ 3.94