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<<Michael Halloran, Analyst, Robert W. Baird & Co.>>

[Call Starts Abruptly]

…open up to an informal Q&A, again as a reminder, any questions, raise your hand, we'll calling you or just use the look at the sheet in front of you, there should be an email address, email me the questions and I'll certain make sure we get to note that. John, floor is yours.

<<John L. Stauch, President and Chief Executive Officer>>

Thank you, and thank you for having us and appreciate all the attendance, appreciate being here. I promise this won't be a filibuster, so we'll leave room for Q&A and make sure you have an opportunity to ask us whatever's on your mind. I thought for the people that weren't as familiar with Pentair though, I'd start with just a quick overview of our strategy.

Earlier this year, we split the company Pentair into two. We have a company called nVent, which is our Electrical business that we spun off from Pentair, and we are, in fact, the RemainCo. And as part of RemainCo, we're about a $3 billion water company broken into three segments, which is our Aquatics, our Filtration and our Pump businesses. And we have a good operating margin and a really strong cash flow profile. And what we have to do is make sure we continue to generate that cash and put that cash to good use.

On the growth side, we're focusing on two areas. We have a great Pool business that has great demographics and has an awesome opportunity to invest to drive a 5 million pool installed base to an automation. Take rate now, there's only 5 – of the 5 million pools, only 10% have an automated capability to them, and we think that's about 30% to 40% below what it should be, and an opportunity to really continue to advance that pool growth.

The second area is Residential Commercial filtration. First, making sure we have a strategy which serves both the consumer and our affiliated channels and also making sure that we're pulling demand for the channel so that consumers can get what they want. We think it all comes down to product line by product line, having more innovated products and differentiated products than competition and serving your customer better, and also making sure that we understand that with 60% of our business eventually ending into some type of consumer's hands, that we understand that the Internet needs to be our friend and not our enemy.

As you can see on the right-hand side of the chart, we are a public company. And I take it really seriously that our most important fundamental is return on invested capital over the time of my tenure. So not screwing up the capital and the precious capital we have and making sure we invest it wisely is the critical aspect. You can see that we have a really good productivity culture in Pentair. Proving that we can get core growth is something we think you want to see from us.

And we think if we can get that core growth and then combine that with tuck-in or bolt-on M&A, so I'm talking smaller M&A capability here, we can then be a compounder, but you have to do both, right? We have to prove our ability to deliver on the core and also give with the acquisitions an incremental return to the shareowner.

Through the couple of details behind advancing the Pool growth and accelerated Residential and Commercial treatment, I won't go through them all, but it really is about making sure that we're taking advantage of a growing pool demographic and making sure that we're building more content. About seven to 10 years ago, an average pool pad was about $2,500. Today, that's approaching $7,500, and we think it could actually be $12,500 or $15,000 for most of the higher-end pools.

In the Residential Commercial treatment side, it's about making sure we build the brand and build awareness of the things that we do and helping a consumer understand that we are a trusted source as the leading producer of water treatment products in the world. And then ultimately making sure that, that is a global business, and so that we're taking care of business and making sure we're protecting ourselves from emerging products or particular technologies that are coming from around the world.

Here's our long-term value creation goals. We put this out at Electrical Products Group earlier this year. We have not updated them. This in no way shape or form suggests that we have the crystal ball for what 2019 is going to be. But we ultimately think that we want to create long-term, sustained value creation on an annual basis of around double-digit EPS growth, including a little bit of buyback and then add to that the cash flow usages and the incremental capital allocation.

Today, we think that's about $1 billion of potential incremental capital allocation starting from where we think we'll be about onetime levered by the end of the year. And somewhere in that, if that's 2 to 2.5 turns range, that would give us another $1 billion of investment, and as I said earlier, my job is to make sure we use that wisely and quite frankly just don't screw it up and make sure it creates incremental value to you.

And here's a quick summary. I think we had a good solid Q3 and Q3 year-to-date. It's been exhausting to think about splitting the company, moving from 33 websites to 1. All the different work that's gone in the background, building new leadership team, making sure we're building a growth culture, making sure we have the organization aligned properly to deliver both productivity and growth. But also the T word, which really should've been a four-letter word this year kind of captured us all, and I think we've done a pretty good job managing through the price-cost relationship and we think we're well positioned as we head into 2019.

We have about 80% to 85% of our revenue that goes into installed base. We think that's the moat that we want to protect. And most of our products and services get installed by trained technician or a higher-end trades channel provider, which we think also gives us an opportunity to partner with and create a little bit of a moat. We want to continue to be prioritized. We have about 30 product lines under eight businesses and three segments. We have to differentially invest in them

and expect differential return across them. And then ultimately, as I said earlier, not loosing sight that it's about cash flow, capital allocation and return on invested capital.

So with that, I'll turn it over to Q&A.

Q&A

<Q – Michael Halloran>: I think that's the perfect segway, because when we think about the opportunity set that old Pentair had on a combined entity, prioritizing where that capital allocation went was intermittent. Sometimes really good. Sometimes it became a little bit too broad. The messaging, since you were announced as the CEO of this company, has got a lot cleaner, a lot more specific. Can you talk through some of the things that you're doing to make sure that, that is the culture that's being driven internally? And give some examples of where that prioritization has paid off?

<A – John L. Stauch>: Yes. I think it's a great question. I mean, I have a famous line I like to use internally and externally, which is, "You can't bet on every horse in a horse race and high-five when one of them wins." You might have the winning ticket, but financially it probably did not pay off. And I think we have a lot of great technologies in a lot of great markets we serve, and it's our job as leaders to understand which ones need the differentiated investment. And so we picked Residential and Commercial and you'd say, "Okay, is that the best dynamic?" First of all, it is. For us the profitability is really high because ultimately we don't have a scaled buyer that we're serving that can exist in industrial and also it doesn't have the uniqueness that a municipality space has.

One of the challenges that you find in municipal areas is everybody's water challenge is different. And when you solve that challenge in one municipality, it's hard to scale it across the world. And water is a global challenge, but it's really a localized solution. And so we think providing products and services that have a larger scale advantage, which is Residential and Commercial works for us, and also it represents 60% to 70% of what we do. And I think you've got to be good at what you do first before you earn the right to think about another space that you can go into.

So we're being prioritized. And so for us it's the Pool and its Water Filtration, which those two things represent about 60% of our revenue streams. And I think winning their first will earn us the right to also win in the other areas of Pentair.

<Q – Michael Halloran>: About technology differentiation within context of that, where are you putting your investment dollars? What's coming up the curve? Obviously, Pool is the best example. Maybe start there, and then how transferable what you've done in pools and some of the lessons learned there can be to other areas?

<A – John L. Stauch>: Yes. I think Pool is a good place to start because I think we have a really good position in Pool and we've been a new product innovative leader in the space. As I mentioned, we have been able to take a pool pad from roughly $2,500 of average content and

triple it over the last 8 years to 10 years. That's growing content so you're not competing on price, and you can continually create a awareness that there'll be continually new product.

We have a really loyal dealer channel, which we work really hard to maintain the loyalty of, which means we partner with about 6,000 dealers in the United States and we make sure that those dealers are projecting a good Pentair image in dealing with consumers. And we have a good distribution partnership with the key distributor in the space. But we can't rest there because ultimately, the more and more consumer becomes aware of our product, the more and more the consumer is looking for a better experience.

And so what that teaches us is it's not an either or, it's both. We have to make sure the consumer is satisfied and if they're not satisfied, then we're finding way to satisfy them and then making sure that our dealer also feels part of that connectability. If you were to transfer that into Water Filtration and where we are have an ability to really create a technology differentiator, most of the channel since it's not really affiliated with one manufacturer would prefer that technology doesn't exist, right?

And what they want is the same old product and the same old technology to serve the same old problems. We do have the ability to make our products Internet enabled to do create the sensing and the push notifications to you that you would need your product, your filtration to be served differently. And we do believe that those are services that the consumer wants. But we have to make sure that the consumer is aware of them, they know about them and then our channels ready to give them the experience they deserve. So that's an example of some of the technology we have.

<Q – Michael Halloran>: And so on the Pool side specifically, maybe talk about the content ads. What is the value proposition from a consumer's perspective? Because going from 25k up to 7 to 7.5k and having bandwidth on top of that is a pretty significant jump. So talking about return profile versus a connectivity and ease and then the energy efficiency side, I guess, which ties the return profile?

<A – John L. Stauch>: Yes. I mean, I don't want to be flip, but most pool owners are fairly wealthy individuals who don't necessarily look for a cost-value proposition. They're looking for enhancements to a system that they have today that either makes their life easier or they want something cool that they see that's coming, right? And so our technology used to be a pump and a filter. It was a basic way to just filter pool and continue to circle the water and maintain the water to a certain quality level.

What we are able to do is create a heater option, which becomes more economical for you, and therefore, you're willing to heat your pool to a certain temperature. Create a Variable Speed Pump, which was able to save you a ton of energy in the way you use your pool. But more importantly, these five states that generate majority of the pool demand also had a demand on their grids and electricity. So they partnered with us to create a variable speed option pump that created to conserve the energy because every time your pool is running, it is likely your air-conditioning is running too, right? So that was a breakthrough technology.

What then came along was LED lighting and the ability to have LED lighting consume less energy for your pool. But then we were able to put light shows into your pool, colored lights, be able to let your pool come alive at night, and then also create water features and water fountains for you as well. The next step in the evolution became the technology to self-maintain your pool. Saltwater pools, chlorinated capability, monitor your pH levels in your pool and manage that from your iPhone app. And as I mentioned, less than 10% of the pools today do that. But the people who have the ability to maintain their pool and take care of a second home, and maybe they want to turn the temperature down because they forgot to do it before they left or they could take a look at the particular balance of their water chemistry remotely.

And so we think that was a huge feature that we added. And as I mentioned, if you bought every single one of the products that we sell, you're probably be approaching $12,500 to $15,000 in the pool pad for what a normal pool would be. But that pool would probably be costing you $150,000 to $200,000 all-in, including your landscaping and everything else you have to do in the yard to have it. So a small piece of the overall backyard, but we are a big fundamental value proposition to that backyard.

<Q – Michael Halloran>: Makes sense. Let's switch gears to the Filtration side then. This is a segment where there has been really strong performance like on the Everpure side and in areas that you're working to improve. Let's start with value proposition you've got from the best performing assets, Everpure, anything else you want to highlight? And why you've seen such success in those pieces? And then we will switch gears to the other side of what you're doing.

<A – John L. Stauch>: Yes. Great question. So we have an Everpure product line that is best known for being in restaurants, and it is a leading provider of water filtration for primarily not only fast food restaurants but high-end restaurants and hotels. And our proposition is that we're going to filter water to a standard that is demanded by the end consumer, both for taste and for water quality aspects. As you can imagine, most restaurants really care. If you're a large coffee manufacturer and water is – or coffee retailer and water is the most important part of your ingredient, you really care.

And what we've been able to do is not only bring you a solution that saves your water usage as you filter the water for your purpose of use, but we've been able to tailor the water quality for the type of flavor you also want as well as manage through an Internet capability and data management all the water quality going in by ZIP Code, the water usage you're using by ZIP Code, and then also give to you the output or what was required to deliver the output so you can create a standard water flow to your customers.

The reason this is important is that you're taking a coffee chain around the world, you want your water to taste the same everywhere in the world. And as we mentioned earlier, the water starting point isn't the same everywhere in the world. Where we think this goes from here on this asset is really the ability to break down water and recreate water to any flavor or any composite, allows you to then dose in minerals that can identify your favorite taste so, i.e., if you grew up in Europe, you like mineral water normally because that's the way mineral water – that's where most mineral water is sold.

Sometimes the United States, we have spring water and there's a different taste to those two. And the way you dial in the taste around those two might change your behaviors and your desires. As we think about taking that brand and that value proposition that we brought, we have to bring that into the consumer homes. We are the largest provider of products today, but you don't know we really exist. We don't use brands that tieback to Pentair or Everpure. We don't market or advertise ourselves to the end consumer. It's primarily because we've had an unaffiliated channel selling our products for a period of time.

We are seeing new entrants into the water space, and I think that is it – it creates a sense of urgency for us to move up the channel, which means to start telling our story to you and to make sure that you understand that Pentair can bring that same solution we brought to that coffee manufacturer or that coffee distributor to your home, household, and that's where we think we want to go.

<Q – Michael Halloran>: And so the Food and Beverage side, that's been rightsized, right? You've taken the systems out, focusing on the core component piece and that's on a better trajectory. Maybe some thoughts on the residential opportunity set, technologies there, you've had nice introductions over time. Adoption has been the department that you're trying to get in a better spot. Maybe some thoughts about just what it will take? Obviously talk about the branding opportunity set and kind of more of a cohesive sale process. Anything else you'd want to add?

<A – John L. Stauch>: No. I mean, you nailed it so – and just to follow-up on some of the data you shared. We have – in Filtration, we have a Water Filtration business about $600 million. We have a Food and Beverage Filtration business that went from 250 to 200, primarily by design. We sell beer membrane filters to most of the beer manufacturers in the world. What we stopped doing is really wrapping in the skins. And so we're selling the membranes into others who are selling those finished systems. And I think that takes away some of our revenue, but actually creates a better margin profile for us and a better predictability and consistency of revenue, which I know you guys want.

As we think about what we could bring to the consumer in the home, I think keep in mind 12% of houses today have a filtration device in them. Take a look at how many houses have a furnace, a backup power generator, a air conditioner, et cetera, et cetera. So the consumer generally wants a filtered water option in their home. It's just one of those things that's hard to retrofit, right? The plumbing at home is created and it's not something you just go in like a wireless device and reinstall.

So you have to create awareness. So when you build your home, you fit out your home for the types of solutions that you want, or create an easily prepackaged solution that can give on a high-volume basis for a price point what the end consumer really wants. We do believe that the same membrane capability that we're using for beer filtration, which is why went through the long-winded answer is the long-term solution for how to do that at a household at scale and volume.

And so as people say to me, well, John, why don't you take this asset that you don't love and get rid of it? It is an example how shared technology and building scale in one market gives you a cost competitiveness to bring that scale into others. I still think we are three years to five years

away from that solution, but we do think that the early tests on that are very promising to what that can produce. And now I think we have a breakthrough product, and you combine that with the technology to manage that, and I think we can really demonstrate a breakthrough capability.

<Q – Michael Halloran>: And then the kind of add-on question to that segment from the audience is automation of treatment systems. Are you looking that as a growth opportunity for you ultimately? And what are the services you guys have to maybe pursue that?

<A – John L. Stauch>: Yes. I mean, let's be honest. 10 years ago, we didn't even know we needed this mobile device that we can't all live without now. We stare at it now. Now there is actually, Apple's telling us how many hours a week we're actually staring at our screen, right? But we still do it more and more, and we're addicted to it. And I think the more and more information that any consumer has in their hands, you're running out to the store and you want to know if you needed a new water filtration device. You'll not know if you need salt for your water softener. These are all questions that you can answer and I think basically that's a starting point.

The second one is dialing in. And I think as we get to the point where you can dial in your water to the needs that you want for your water, I think it's going to be important that the consumer has the ability to do that and making sure that, that's done through whatever device the consumer wants, meaning, I'm not suggesting we're going to sell a device that allow you to do it, it needs to connect to Amazon and/or Google home and/or Apple home as we think through it.

<Q – Michael Halloran>: So the margin side, obviously, the Aquatics margin are best-in-class. It's been a very strong story for you guys. Flow Filtration have been the areas of opportunity. When you look at the long-term targets, you guys are certainly constructive on what that opportunity set looks like. How do you bridge that? What are you doing internally to get from A to B?

<A – John L. Stauch>: Yes. I think this goes back to prioritization as you answered. I mean, we have 30 product lines. I've asked every one of the product line leaders to answer five basic questions for me that, that sets in part, how investable these are. We're then prioritizing where we are putting our differentiation around investment, and if we are picking than five to seven product lines than we're investing in, in any given year, I think that's too many, which means everybody has a role to play in the company, which some of these product lines are really about demonstrating cash and/or productivity as well.

And it's interesting as we started to talk about this early in the year, people say, "Well, that must mean you're divesting them." I came from a culture that – I moved around four or five different businesses at AlliedSignal and Honeywell, and I was told that's a growth business, that's a cash cow. And you have to treat businesses differently and people have to know what you mean and what your intentions are. It doesn't mean you're selling businesses. It means that the growth priority in this economy aren't what they are everywhere else.

And so I use this as a sports analogy. There's 11 people on a football field, everyone has got to do their job, and sometimes there is the person who gets the highlight reel, but the people were

blocking on that same play, and it's really important that everybody understands their role in the organization. And so, to your point, Flow and Filtration have a lot of margin opportunity. Parts of Filtration have a growth opportunity. And unfortunately, our best business Pool has been the cash cow generator for the rest of the portfolio. That's got to flip.

They have the greatest growth opportunities in front of them. The other businesses have to generate the productivity and the cash flow so that Pool can take that money and disproportionately invest in their market for their opportunities. So hopefully that answers your question.

<Q – Michael Halloran>: No, that absolutely did. And then on the M&A buyback discussion, obviously, coming out of the spin or split, excuse me…

<Q>: Actually it was a spin.

<Q – Michael Halloran>: Coming out of that, you are much more focused internally, much more focused on buyback. So there's still an opportunity for you to do outsized buybacks maybe relatively long-term growth rate near-term how do you think about balancing that with what the M&A environment looks like? You're building capabilities there, it feels like you're a little more constructive on the pipeline. Maybe talk about that balance and talk about what the opportunity on M&A looks like?

<A – John L. Stauch>: Yes. So, I mean, we've done $400 million year-to-date on the buyback side, I don't think we're done in any way, shape or form to continually looking at our stock is an option to buy. Our base plan next year has $150 million sort of wired into it. I think the reason it's good to have a disciplined buyback program is because now you have something to compare an acquisition to. And I think you're always looking at, "Do I buyback myself or do I buyback somebody else." To have a really good M&A pipeline and finally have to have a really good strategy. I think companies who don't define their strategy and try to make acquisitions stumble.

And I think we do really now have a good Pool strategy and Filtration strategy, which does open up the M&A opportunities for us. I really want to bet on tuck-ins and bolt-ons. We're in a space where it's mostly small types of plays. I don't think this is large as I think there is space to do generally both over time. And as I mentioned earlier, I know and I'm told every single day by you and also my board that I will be measured on the return on incremental capital invested over my tenure period.

<Q – Michael Halloran>: And then how do you feel about sustainability of the current landscape both this quarter and moving forward? Anything from a…

<A – John L. Stauch>: You're asking me on election day by the way so.

<Q – Michael Halloran>: Yes, right. Is there anything from a trade perspective that has you worried looking through the election day if possible, but more importantly, what are the growth concerns for you out there? It certainly seems like a healthy outlook is in place for 4Q and probably the next year.

<A – John L. Stauch>: I think growth looks great. I think if you take a look at most of our businesses, I mean, I think you're hearing this from everybody else. I don't think we see growth slowing right now. I spent a lot of time this morning talking about the fact that I don't see interest rates at this point in time impacting our Pool business at all. That's mostly a cash buyer who's indifferent to what interest rates are. And 80% to 85% of our business actually goes to the installed base and this is not a product that you can take home or a second mortgage to go fund. So I generally think our backdrop is relatively stable. I think the only thing that certain is uncertainty, and we're building agility into our core culture and making sure that we have the ability to respond.

I'm proud of the way the team responded this year to the surprise associated with inflation. And we responded in a way where it didn't cost shareowners any money, and we're able to still generate value and beat our EPS expectations.

<Q – Michael Halloran>: Very well. Please join me in thanking Pentair for their time today.