Pentair plc

2021 Virtual Investor Day

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CORPORATE PARTICIPANTS

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Mario D’Ovidio - Executive Vice President, President Consumer Solutions

Jerome Pedretti - Executive Vice President, President of Industrial Flow Technologies

Phil Rolchigo - Executive Vice President, Chief Technology Officer

Bob Fishman - Executive Vice President, Chief Financial Officer, Chief Accounting Officer

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations

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PRESENTATION

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations
Good morning, everyone. And thank you for joining us. I'm Jim Lucas, Senior Vice President Treasurer, FP&A and Investor Relations. I could not be more excited to have you with us today for Pentair’s 2021 Investor Day. Today, members of our management team have a full agenda of topics that they will cover. After the presentations, we will have a Q&A session in which we will do our best to answer as many questions as possible. If we are not able to answer your questions during our Q&A session, we will reach out to you directly afterwards.

Before we begin, I'll remind you that during our presentations today, we will make forward looking statements. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Pentair. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in our SEC filings.

We will also reference certain non GAAP measures. Reconciliations of these non GAAP measures to the most directly comparable GAAP measures are available at our website, pentair.com. This morning, we updated our Q2 and full year guidance. All references today to 2021 forecast results, reflect either the guidance ranges or the midpoint of our updated guidance. We are anticipating that the entire day will be about two and a half hours in length. At the conclusion of our presentations, we will switch to an audio only Q&A, via the raise hand feature in this webinar. We appreciate your attention and we are excited to share with you the opportunity in front of us.

Now, without further ado, it is my pleasure to introduce John Stauch, President and Chief Executive Officer of Pentair.

John Stauch - President, Chief Executive Officer
Thank you, Jim. Welcome, everyone. And thank you all for joining us today for our 2021 Investor Day. Wherever you are joining us from today, we hope that you are well and find today's presentation be useful in understanding Pentair our vision and our value creation roadmap.

To start, I would like to thank all of the Pentair employees, especially those in our global operations, supply, sales and customer care organizations for the relentless effort and agility in managing through significant demand, dealing with global inflation, and delivering with a sense of urgency for our customers and shareholders. We would not be where we are today without their commitment and dedication to our Win Right values. It is humbling to be their leader and tell the great story that we are about to share with you today.

Let me begin by introducing the Pentair leadership team. We have an incredibly strong team and today we have come together to share our go forward strategy. In addition to me, sharing our vision in more detail, are Mario D’Ovidio, President of our Consumer Solutions Segment; Jerome Pedretti, President of our Industrial and Flow Technologies Segment; Dr. Phil Rolchigo, our Chief Technology Officer; and Bob Fishman, our Chief Financial Officer, and Chief Accounting Officer.
Other members of this fantastic team, but not presenting today are Kelly Baker, our Chief Human Resources Officer; Adrian Chiu, Lead of our transformation journey; John Jacko, our Chief Growth Officer; Steve Pilla, our Chief Supply Chain Officer; and finally, Karla Robertson, our General Counsel, Secretary, and Chief Social Responsibility Officer. I’m proud to lead this team and believe that they all bring the right skills and capabilities to create the next wave of value for Pentair.

Now, I’d like to take you through our agenda for today, I will start with an overview of our business strategy. From there, Mario and Jerome will touch upon their specific priorities to drive value in the respective segments. Phil will give you an update on our key technologies and exciting product launches. And Bob will summarize how it all comes together to create value. To wrap things up, I will close with our commitment to ESG, and then we will take live questions from you. I appreciate your attention and I’m excited to share with you the opportunity in front of us.

We believe the health of the world depends on reliable access to clean, safe water. This purpose is what energizes me, and as I lead this organization, and collectively what pushes our team day in and day out. This is an exciting and enormous responsibility as we work with each other and our channel partners to make the world better. It used to be that companies were either profit driven, or purpose driven. This is no longer the case. With research supporting that purpose fuels profits, we believe purpose attracts the best people, and those people are likely more motivated and empowered, and therefore they tend to satisfy customers and drive better business outcomes.

Customers care about purpose. Employees care about purpose, and more and more of you, the shareholder, want a superior financial return driven by a company that is dedicated to an important purpose. Our purpose ties into our company’s mission of delivering smart, sustainable solutions that empower our customers to make the most of life’s essential resources, which are limited and needs our best solutions, and trusted expertise.

Let’s look at Pentair a bit more closely. Our company was founded in 1966, with the main intention of driving higher levels of operating efficiencies to attract customers, while delivering for its shareholders. These ideals remain the cornerstone of what guides us and motivates us today. We’ve had an eventful journey since our founding, including most recently, working through an unforeseen pandemic. Based on the updated guidance that Jim referenced earlier, we expect to deliver approximately $3.6 billion in revenue this year at the midpoint, return on sales of roughly 18% and I’m proud to note, that our anticipated ROIC is nearing the upper teens, which highlights the value creation from organic revenue growth and performance.

Our business employs approximately 9,800 associates around the world, all living our Win Right values. At the same time, we are serving a large installed base, which supports stability of revenue, and has allowed us to be a dividend aristocrat with 45 consecutive years of raising our dividend. Not bad, however, there’s still so much more to do.

Here’s how the $3.6 billion in revenue breaks out by segment, vertical and geography. Overall, you can see that we are balanced and diverse while still maintaining focus, focus that is critical for our future success. We believe that we are truly in the right space for the future. Global water
awareness is increasing. We serve large and stable end markets and we have numerous growth levers to create opportunities.

Our two live largest revenue streams, Pool and Water treatment, are within sectors combined to be nearly $40 billion and are growing faster than GDP. This creates a lot of opportunity for Pentair and makes us excited about our vision to be the leading residential and commercial water treatment company. Our potential to influence the world is enormous.

We are providing clean, safe water to millions of people, eliminating bottles of water that are harming our environment, using less chemicals and detergents in our lives through soft water solutions, enhancing and extending the lives of appliances in the home and in business, reducing carbon based electricity needs through variable speed pumps and LED lighting, capturing CO2 gas for reuse, eliminating diatomaceous earth filtration through our industry leading beer membrane filtration systems and decreasing our own carbon and water footprint with energy efficient processes and bottle free facilities. We’re helping the world through our offerings and providing value creation levers as we do it. We believe this creates a solid foundation to accelerate growth and profitability.

Since becoming a pure place sustainability focused company, we have experienced strong growth since 2018 when we spun our sister division, nVent. With the updated guidance issued today, our 2021 forecast demonstrates roughly a 6% sales CAGR and a 13% EPS CAGR at the midpoint of the ranges. This performance gives us confidence in achieving our aspirations of mid-single digits, plus sales performance by 2025, through a combination of higher performing businesses, focused investments and a few strategic priorities and tuck in M&A.

We also expect to utilize operational excellence combined with our newly launched transformation office, to drive in excess of 300 basis points of margin expansion on that revenue growth, which we are targeting to achieve by 2025. By achieving both of these aspirations, we will then target to be able to deliver double digit EPS growth and nearly $2.5 billion accumulative cash flow by 2025, creating a flexible and rich balance sheet that should provide another level of value creation on top of our base performance. This is why we believe that Pentair is a compelling investment opportunity.

Today, we hope you come away with a few key understandings. Number one, Pentair has strong business platforms that are industry leaders in their designated spaces. Number two, that we are in spaces that are growing faster than the overall global industries and are propelled by attractive secular trends. Number three, we have carved out exciting strategic growth priorities, in which we have already begun to demonstrate performance. Number four, our transformation journey is designed to unlock value to allow us to grow faster than the industries that we participate in and also expand margins rapidly by 2025. And five, our balance sheet is strong, and we believe will continue to get stronger, which allows us to create incremental value above and beyond what our base businesses can do on their own and with tuck in M&A only. Overall, we believe we are poised to create substantial shareholder value over the next several years.

At Pentair, we utilize our Win Right values, leadership competencies and cultural framework to help create an overall culture of focus, accountability empowerment and teamwork. What we mean by this is that, by prioritizing sequencing and resource in the critical few, we can make progress and deliver to our customers while also driving shareholder value. Generally, companies have too many priorities. And I’m not telling you that we have wrung out the sponge
yet, but we are making progress on the big deliverables. We’re investing in them and we are seeing the results of these investments.

Empowerment and accountability of our employees close to the customer, allows our business teams to deliver with a sense of urgency. Like many other companies, we are still too top down and too many the ideas are still driven from the top. However, we have made significant progress since 2018 on letting the best ideas be driven by our business leaders, with the ELT and the segment’s helping create the scaled capability to drive superior outcomes for the customers and shareholders. I am excited and pleased with the progress.

We win better together means when something works, we share it, we standardize it, and we utilize it across its highest level of impact. This affords us the ability to reduce cost, and move noncustomer generating revenue activities to the most efficient place in the organization. Overall, we believe we have a great culture, we have great people, and we’re executing better and improving every day against our aligned strategic goals.

At Pentair, the team is united in our belief that our products and actions are making a difference. Here, we highlight just a few of the ways we are making an impact. As I will discuss in more detail later today, in our published corporate responsibility report, we’re asking the global organization to move faster, and with a greater sense of transparency and urgency. I hope you liked the progress we have made, and we are excited to share with you annually how we are doing against our ambitions.

In early 2020, we reorganized the company into two segments, with Mario coming on board to lead our Consumer Solutions Segment and Jerome taking the helm of our Industrial and Flow Technology Segment. This move was to have these two segments provide the appropriate strategic growth and operational priorities necessary to accelerate the performance of the respective businesses. Our consumer solutions businesses are primarily moving to business to consumer models, where brand matters, how we transact with customers matter, how we connect to the internet matters, and how we deliver in shorter windows with a greater sense of urgency to our consumers matters.

In addition, getting these consumers connected with the right expertise to solve their challenges is different than the way we handle these calls elsewhere within Pentair. Mario brings deep consumer insights and is focused on bringing these capabilities to the consumer solutions, businesses, and the best way to serve the customer. Our IFT Segment led by Jerome, is global with sales offices around the world. The team works with larger OEMs on technical applications, and customer IoT platforms. Further, it has make to order and make to configure business models that require robust processes that are repeatable and predictable. Jerome brings deep knowledge to Pentair and can connect the right processes and resources to the businesses to extract value.

As both of these segments develop technologies to accelerate performance, we’re sharing those technologies as well. Examples are how we utilize our software, our 100 plus IoT engineers, share a membrane capabilities and our lean operations playbook. I’m really happy about our progress and additionally, how our approximately 23 category, or product managers are innovating and differentiating products for the customers while utilizing the business unit resources for prioritization, sequencing, and efficiencies. Within our two segments, we have four major business platforms that share like processes, industries and capabilities. The first one is
Pool, which is a leading North American in ground pool equipment maker, with the largest installed base primarily across the Sunbelt states.

Pool is roughly $1.5 billion in sales, high 20s return on sales and generated a 10 year CAGR of greater than 10%. We believe we have significant opportunities to create incremental value by continuing to grow faster than the industry through faster introductions of energy efficient equipment, accelerating our smart and connected solutions, getting closer to the consumer and helping to connect consumers with our trusted dealers and technicians. Also within Consumer Solutions is our Water Treatment platform, which is quickly becoming a scaled solution provider and preferred water expert for consumers and dealers.

This set of businesses is approaching 800 million in size and generates mid-teens return on sales. We expect that our growth opportunities in this set of businesses will be driven by the introduction of advanced products that help drive sustainability and a suite of smart connected solutions. In addition, we are focused on building out a nationally known brand, Pentair Water Solutions, through DTC and services and expand in the KBI service capabilities to new customers and adjacencies.

Turning to IFT, our business platforms consist of Flow technologies, which is roughly $900 million in sales and generates mid-teens return on sales. We have great brands and applications and we believe we can continue to drive value through growing faster than the industry through dealer and distributor intimacy, reducing unneeded complexity, and accelerating ROS to drive cash. Our Industrial Filtration business is approaching $500 million in sales, with low teens return on sales, and is focused on solving unique challenges for a wide range of customers.

We believe we can continue to add value through bringing sustainable solutions to the food and beverage industry through our beer membrane filtration, BMF systems, as well as accelerating our biogas applications. Overall, we believe we have a great set of core businesses, which are well positioned in growing industries with focused execution opportunities that should continue to provide value for shareholders. As we execute our value creation journey, we are focusing on delivering the core while building our future. While many companies do one or the other, we want to do both.

To help ensure that we accomplish this, we are focusing on delivering the core by ensuring that the four business platforms that I just walked you through, continue to evolve with their customers and innovate and differentiate their offerings to satisfy those customers profitably. We also have to continue to utilize our lean toolkit to expand return on sales every year, through operational excellence and execution. We are working with our business leaders and functional leaders to transform the way we efficiently serve our customers. And by doing this, we expect to continue to accelerate our performance, cash flow and return on invested capital.

When we talk about building our future, we are talking about utilizing digital innovation and technology and the four strategic growth initiatives that I'll introduce in a moment, as well as opportunistically utilizing M&A to accelerate our performance in these same targeted areas and executing tuck ins within the core businesses as they become available. As I just alluded to, we have four larger strategic growth initiatives that Mario, Jerome will spend more time on later this morning. Our first one's in Pool. We're building out our brand digitally to gain brand awareness and demonstrate to consumers the opportunities to utilize their pool in the way that works best for them.

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It also means, when they have a problem and do not know who to call or how to get the service they need, they’ll reach out to us and we will connect them with their existing dealer or provide them a dealer experience that will satisfy their needs. We intend to do this all through our existing channels, curating the best end to end model that consumers can imagine. It also means that in the rare instances where the dealer cannot fix their challenge, we would deploy a Pentair technician to their home to work alongside our dealers to ensure that the problem is resolved. We also envision monthly service models and equipment protection plans, as well as subscription based connected solutions and self-service plans for the Do It Yourself homeowner.

For Water Treatment, there are two strategic growth initiatives. The first one is centered around a recent Rocean acquisition, which is designed to bring an IoT enabled countertop, superior filtered water experience directly to consumer. This platform will start out with a simple countertop unit with superior filtration capability in 2022, and then its planned to evolve eventually into a smart connected unit that will provide still or sparkling water with flavored experiences. We expect these units will provide optimal flavor profiles, modular designs and consumables that will be industry leading.

Our second Water Treatment strategic growth initiative is DTC direct to consumer and services. Simultaneously building out a suite of superior branded products and water treatment, we are also building a DTC platform and a dedicated services platform. Our revenue in this space with the completion of KBI, is expected to be a little over $200 million and is rapidly growing. We are utilizing this platform to understand the end to end customer need and then give them an end to end solution. By building out this expertise, we are confident that our product introductions will be more successful and user friendly. And as a result, we believe that we will become the trusted water experts within the industry.

Our final strategic growth initiatives is in IFT, and more specifically, in our Industrial Business. It is our roughly $100 million sustainable gas platform focused on biogas. This space needs niches like ours that help customers get to carbon neutrality or take harmful gases like methane and CO2 and allow for their reuse in a sustainable way. We’re excited in our position in technology and believe we can rapidly expand our position in this high growth area.

Overall, we believe that these four strategic growth initiatives can give Pentair a one to two point revenue lift per year over the 2021 to 2025 timeframe and position our businesses to be even more successful in the future. In Phil Rochigo’s section today, I’m hopeful that you will see some of the exciting solutions that we have launched, getting ready to launch and working on to separate us in the future. These solutions are focused on overall better water treatment outcomes, utilizing more sustainable materials and applications and consumer solutions and smarter connected systems in IoT enablement solutions for both segments. We have leveraged our global capabilities and utilized our newly launched engineering labs and application design centers to bring a customer centric vision to our new product development roadmap.

That brings me to Pentair’s transformation, an area I am very passionate about. We believe that we have significant unlock value within Pentair. From doing things the way we used to do them, versus doing them the way that will be best to position us for the future. It is not lost on me that many of these processes and businesses I was a part of creating. I consistently tell the team that we need to celebrate all of the successes that we have had, doing it the way we have done.

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it. In most of these cases, it was probably the best pragmatic solution or process at the time, but that does not mean that is the right process going forward.

Adrian Chiu has been tasked with leading our transformation journey. Adrian is a visionary and a project management expert. He has a collaborative style and a track record of driving breakthrough change. He came to us when we were implementing a reengineering of our people, processes and systems. And I worked alongside of him as he helped us navigate our company’s separation from nVent. In this role, Adrian will lead a group of internal and external experts to facilitate a roughly 12 week sprint to generate ideas that we believe will create breakthrough results across our four businesses, identify the critical few segment processes and growth enablement opportunities, identify operations in sourcing transformation, and help modernize how we provide transactional business partnership and compliance support in our G&A functions.

While we are not yet ready to proclaim the exact benefits we expect, we can share that we are targeting at least 300 basis points of margin expansion by 2025 through the following pillars. Our first pillar is reducing complexity. Today, approximately 5% of our product SKUs generate about 80% of our gross margin. This means that we have 95% of our SKUs only generating 20% of our profit. This creates challenges for all of our data sources, our operations and planning efforts in our factories and making it overly complex for our customers to do business with us. Our focus will be simplify and enhance.

Our second pillar is to architect a future state digital enterprise by eliminating nonvalue added activities, streamlining processes, working directly with customers and suppliers, and then automating these systems to unlock value by simplifying efforts. Our third pillar is modernizing G&A. Today, most of our resources in G&A functions are spending way too much time looking in the rearview mirror, collecting and aggregating data, and working on activities that we believe can deliver better value. In the future, we want more of their time spent on business partnership and driving results.

And finally, our fourth and final pillar is delivering decision making speed through improved processes and analytics. Overall, we believe that we will yield a funnel of three times the productivity needed by 2025. We plan to create a bankable plan of two times the required results and then prioritize and sequence the ones that will create the highest value over the targeted horizon. We also plan for this office to also serve as our project management office for any transition in Pentair including ERPs, plants, real estate, software implementation and acquisition integrations, ultimately raising the level of execution on all key projects within Pentair.

We have built tremendous momentum since 2018. We have lined our organization to our strategy, we have built important growth capabilities and we are utilizing the segments in business unit leadership to raise the level execution on the core. We have carved out four exciting growth opportunities and we have demonstrated our capital discipline through focus tuck in acquisitions that are aligned with these initiatives. I am proud that all of this is evidenced in our end of year forecast of nearly 18% ROIC.

In addition, we believe that we are going to transform our margin profile and unlock even more value through our transformation office and continue to utilize our rich balance sheet and cash flow to hopefully compound our value creation desires. I would now like to hand it over to Mario, who will share with you his vision for creating value for Consumer Solutions. Mario, take it away.
Mario D’Ovidio - Executive Vice President, President Consumer Solutions

Thank you, John. I’m excited to be here to talk to you about Consumer Solutions Segment and all the exciting things we’re working on. Let me begin with a quick overview. First, we’re proud to be a leader in Pool and Water treatment. We have a long history of success in terms of market changing, new product innovation and strong trusted relationships with our channel partners. Second, we’re excited about the deeper connections we’ve made with consumers. We spend a great deal of time and effort sitting down with our end users to truly understand their needs and pain points. And we’re leveraging these insights across our business to be able to provide future growth.

Our portfolio strength and focus on sustainability and innovation continue to drive value. Our broad and differentiated offering enables us to provide solutions to critical consumer problems, and at the same time, support efficiency and resource conservation. And finally, we continue to expand our growth prospects by developing our value proposition through new opportunities, that move beyond one time product sale and build a customer lifetime value approach. You see that in our recent acquisitions, such as A&A, Pelican, Aquion, Rocean, and KBI. We’ve taken advantage of opportunities to expand our offering and the value we can provide to our consumers and channel partners.

We have two great businesses within our consumer solution segment, which we expect to generate roughly $2.2 billion of revenue for 2021 at the midpoint of our guidance. These businesses primarily serve a dealer, distributor or retail network. At the same time, we are accelerating our direct to consumer business in water treatment to enable us to provide purchase options that our consumers expect. Both our pool and water treatment businesses have great reputations in their respective areas. We believe that reputation provides a powerful opportunity to drive value creation, as we build trust with consumers and customers looking for well-defined guidance in a not so clear environment.

We aim to leverage this opportunity to grow Pool and build brand awareness around Water Treatment. We understand consumers want cleaner, safer, bluer, maintenance free water, changing needs greater desire to understand and to conserve, to monitor and provide peace of mind in their pool, water quality, and equipment functionality provides meaningful places to use our portfolio of technologies and capabilities and bring meaningful innovations to market. Thus, we aim to drive value through the delivery of effortless differentiated user experiences as we leverage our digital capabilities.

Third, we aim to drive value through our focus on our end user. Whether that be an installer, a barista, or a homeowner, we plan to bring user inspired smart and sustainable solutions to Pool and Water Treatment. When looking at the industry as a whole, we have an over $5.3 million existing pool base to work with. Over 100,000 new pools were built and added in 2020 and 2021 is looking just as strong. With automation at 10% penetration rate, this follows the continued trend of home automation across multiple residential categories.

More and more consumers are looking to monitor control and optimize the functionality of their homes through smart technologies. As a leader in manufacturing pool equipment, this provides us with a strong opportunity to tap into. Preferred by our pool dealers, who we recently surveyed regarding quality, service and support levels and breadth of product line, we are two times more...
likely to be recommended over our next competitor. We lead the industry in consecutive Energy Star Awards. In fact, we are the only and I repeat, the only current ENERGY STAR Partner of the Year in pool equipment. And we are the only Energy Star Partner of the Year sustained Excellence Award ever in the pool equipment industry.

We're proud to have been an Energy Star pool pump award winner every year since the inception of the category in 2013. And so, we believe our commitment to bringing smart, meaningful products that address consumers biggest pain points is second to none. And the fruits of our labor are just beginning to come to market as we've launched five new products in the last 18 months and anticipate the launch of many more in the months and years to come.

Our position in pool is solid, and our commitment to our partners and our pool owners has never been stronger. This legacy has allowed us to deliver strong returns over the last 10 years, with just over a 10% sales CAGR. When breaking down pool equipment by the numbers, we see an industry opportunity of $10 billion. For 2021, we forecast roughly $1.5 billion in revenue and expect return on sales to reach the high 20s.

Pool is benefiting from several social and economic tailwinds, that we believe will ultimately drive growth for the business moving forward. Consumer spending on home improvement is on the rise as trends to improve homes went into high gear during COVID19 pandemic, driven by greater at home recreation. We expect this trend to continue for the foreseeable future. And we believe that consumers’ expectations for a complete solution that moves beyond the product to include ongoing upgrades, maintenance and service will continue to increase. Additionally, new technologies are raising spending per pool as consumers become educated on all the ways that we can improve their overall pool experience.

Second, growing environmental concerns are fueling increased interest in products that can not only help save money, but also reduce energy consumption, waste, and chemical use like chlorine in pools. We also expect government regulations and restrictions to continue and drive the need for efficient products. Sustainability is here to stay, and consumers are increasingly choosing companies and products ability to conserve resources as a key purchase criteria.

Finally, smart home and connected devices are here and now. Adoption continues to rise as companies in touch with their consumers find meaningful uses for this technology and pool automation remains highly valued. We've been on this path for several years and we're accelerating our smart technology investments to build a leadership position in the home automation space.

Our strategy execution has expanded our addressable opportunity and created new areas of growth for Pentair’s Consumer Solutions segment. Social and economic trends, coupled with our focus on a deep and intimate understanding of our consumer and channel partner’s needs, have laid out a clear path to win and provided a focused approach for our growth roadmap. We believe our strategic growth initiatives will enhance the pool ownership experience for our consumers.

As part of this, we aim to drive growth through direct digital engagement with our consumers to improve their experiences and increase Pentair brand consideration. We continue to invest in digital tools and content to enable consumers to better understand their options and possibilities. We also aim to optimize guided purchase journeys to solve consumer needs directly and through existing channel partners.
Our insight work continues to demonstrate the challenges consumers face in understanding their choices, and we see significant opportunity to be a leader in helping consumers understand potential solutions to their needs. While we continue to bring reliable, energy efficient and sophisticated products to market, we plan to address consumer and dealer pain points by developing and launching extended warranty and maintenance programs, monitoring services, and create a field force that will assist our partners in connecting more consumers to their pools and answers to their daily questions and needs. We believe this will drive our adoption of automation in the field and open new service opportunities to assist our consumers and partners while expanding our revenues and contributing a recurring income stream to our business.

Turning now to Water Treatment. Did you know that over 50% of consumers are concerned with water quality, and over 60% of consumers prefer an end to end option? Additionally, the point of use category is at a 10% CAGR. These points provide a unique opportunity for Pentair, as we understand that water is life and we want to encourage, inspire and enable our consumer to enjoy both confidently. Our place in commercial food services is well established and respected, and we’re honored to be highly regarded and recommended by our dealers. In fact, based on our recent survey of our filtration dealers, we’re two times more likely to be recommended over our next competitor.

And in 2020, we experienced 25% growth in our direct to consumer offering, with 60% of our direct to customers that we surveyed, likely to recommend our product. This reputation is important and meaningful, as we continue to expand our products and services in both the residential sector and new commercial applications. While consumers are eager to improve their home’s water, we know this space is fragmented and often confusing and unsettling. As a trusted water filtration supplier to some of the most enjoyed beverage brands, we believe we have a unique opportunity to bring clear, easy to understand resource material, and curated solutions to businesses, as well as homes, from new filtration capabilities to countertop substitutes to bottled water, allowing them to confidently address their water needs and be the heroes of their own water story.

Our expansion into providing complete end to end solutions has seen strong growth, and we expect a significant contribution to our Water Treatment business as we expand our footprint and reach more homes and businesses. Our service capability allows us to build long lasting relationships with our customers, providing maintenance and replacement consumable services that extend our share of wallet and build reliable recurring income for our business while delivering confidence and peace of mind for our customers. When looking at the numbers behind Water Treatment, we see an industry opportunity of $30 billion. For 2021, we’re approaching 800 million in revenue, and we anticipate return on sales to reach the mid-teens.

We are planning to capitalize on the same strong consumer trends across both Pool and Water Treatment to drive our growth. As I mentioned, we expect consumers to continue spending on Home Improvements in the post COVID environment. Additionally, we understand and continue to hear from our consumers that the water treatment category is challenging with the wealth of options available in the marketplace. Therefore, we believe consumers are increasingly looking for a trusted partner to help them truly understand their needs and problems and provide high quality, sustainable solutions to alleviate growing concerns around water quality.
And similar to Pool, the trends in home automation provides fertile opportunities to deliver IoT enabled solutions to understand, improve and manage the water in their homes. In Water Treatment, we are rapidly expanding our position in the industry and building out end to end offerings in residential and commercial sectors. We aim to improve the entire experience from search to purchase, through ongoing ownership and usage. Smart technology and service beyond the equipment itself, enable the solutions approach that our consumers desire. In addition to achieving customer expectations, we believe our model delivers tremendous opportunities for Pentair to build out a lifetime relationship with our customer that drives recurring revenue streams.

Building on our recent acquisition of Rocean, we plan to take the Pentair brand out of the backroom, the basement and from under the kitchen sink, to a more visible and prominent position on the counter. With daily consumer interactions and a differentiated meaningful experience with our plan new product to countertop products and services, we expect not only to nourish and hydrate families, but eliminate the need for plastic bottles, a wasteful infrastructure that produces harmful emissions, unnecessary waste and garbage into our landfills and oceans. This line of countertop products will be named Pentair Rocean, as a commitment to sustainability and a word play on our ocean.

We have provided valued water filtration solutions to some of the most popular beverage brands for decades. Our potential, however, was limited without a national service network that could help specify products for specific projects and provide installation, preventative maintenance and emergency services our customers we’re needing. Today with the addition of KBI and the new digital technological capabilities we've built over the last three years, Pentair is poised to expand our business through product expansion, new channel penetration and new service offerings that build a strong important and reliable revenue stream for Pentair, and excellent customer service for our business partners.

What is common across our businesses and Consumer Solutions and what brings this business together under our structure, is our passion for our consumers, end users and channel partners. We believe our leading positions in expertise and Pool and Water Treatment provide the reliable and trusted source our consumer is desperately searching for, with both sectors equally challenged with many small local players, and inconsistent messaging and solutions to sometimes some of the most basic consumer problems and questions. Building trust for our brand through guided experiences, and knowledge sharing with our end users is our common goal. This fragmented and complicated model makes interactions with consumers and often our partners, more complicated than it needs to be, or from what consumers come to expect.

To that end, we are committed to reducing effort at every touchpoint, for our partners and our consumers across all businesses. The experiences we create are the focus. What does that mean? It means greater access to meaningful, helpful content, more self-service capabilities for consumers and our partners, eliminating the need to call us to track, monitor, or solve less complicated issues, and guided journeys that approach problems and questions the way consumers think about them, versus a technical expert. In other words, we aim to be the trusted expert and guide for the consumer, and the easiest to do business with and a partner of choice for our channel. We are proud of our strong connections with our consumer and customers and we aim to further strengthen this relationship to provide future growth.

Finally, our portfolio strength and focus on sustainability and innovation continue to drive value for Pentair, with a focus on the end user at our core. Whether that be an installer, a barista or...
homeowner, we are bringing and plan to continue to bring user inspired smart and sustainable solutions to pool and water treatment. Understanding the complete user experience and impacting that experience in a customer relevant fashion, is the focus of our product development, and the driver of our innovation process.

This is illustrated by the recent launch of our ultra-shield pool filter that incorporates our own industrial filtration technology used in the food and beverage industry, into what we believe is one of the most meaningful innovations in pool filtration in the last 60 years. This product eliminates bacterial and micro particles from pool water and creates the clearest, bluest water, while at the same time, reducing chemical usage. And stay tuned as we continue to evaluate ways to further strengthen our sustainable revenue streams through acquisitions and strategic initiatives.

Our vision for Consumer Solutions is meaningful to Pentair’s purpose. It’s impactful to our stakeholders, and it’s friendly to our planet. Together, with our trade partners, our consumers and our internal teams, we are committed to developing tailored and sustainable solutions that bring water to life, through effortless user experiences that deliver peace of mind and contribute to happier, healthier lives. And with that, I thank you. And I pass it over to Jerome who will walk you through the world of Industrial and Flow Technologies. Jerome, take it away.

Jerome Pedretti - Executive Vice President, President of Industrial Flow Technologies

Thanks so much, Mario. Hi, everyone, I'm Jerome Pedretti. And I'm very excited to be with you today to walk you through the Industrial and Flow Technologies, or IFT, planning objectives to share the progress we have made in developing the IFT business and share how we'll continue to build upon this momentum. As you'll see today, IFT's vision is centered on being a leader in smart and sustainable solutions, remaining focused on targeted critical B2B applications.

We are well known for our brands, whichever rich history, our innovation and for developing intimate customer relationship. We have a deep expertise in our industries, and we're able to tailor our products and services to meet the needs of our channel partners, and end users. We believe this allows us to quickly adapt to changing market dynamics ahead of our peers and deliver value for our customers and our shareholders.

We also pursuing selective growth initiatives backed by providing mega trends and transforming ourselves by reducing complexity to expand margins and increase cash flow. Industrial customers are early adopters of new technologies, creating an opportunity for us to serve them with innovative solutions. We fill the space by incubating and commercializing technologies that can meet new needs and grow our portfolio, while also translating in all the key areas of Pentair.

We also benefit from the fact that industrial spending OPEX is not very cyclical, meaning that we are able to capture steady demand as we continue to grow our install base and services. Notably, we have a growing presence in high growth sustainability platforms. While industries such as carbon capture and water reuse are still in the early stages, we believe there is significant upside over the near term. And on a more global level, we are benefiting from emerging trends occurring outside of North America.

For 2021, we are forecasting IFT to have revenue of approximately $1.4 billion, which is the midpoint of our guidance range. The IFT segment consists of two businesses, Glow Technologies, which is our pump business, primary serving the residential, commercial and ag
industries in North America, and Industrial Filtration, which serves a brewing, dairy and carbon capture industries globally. We’ve identified three main priorities to help improve value for the segment, investing in digital customer experience, driving innovation, and growing in the exciting biogas and carbon capture industry, which I will explain shortly.

Second, we are actively working to reduce the complexity within our businesses, streamlining our product offering and reducing the number of SKUs in our portfolio. And third, we’re executing projects focused on expanding our margins by driving commercial, manufacturing and sourcing accidents to increase our productivity. Serving an industry with approximately $14 billion in potential opportunity, our Flow Technologies business delivers nearly $1 billion in revenue, with long term revenue growth targeted in the low single digits. We are recognized for our brands, which have a deep history of innovation and service.

I’d like to highlight that Myers brand, just celebrated its 150 year anniversary. The Myers brand started setting pumps in 1870, about 15 years before the invention of a first car. We are also recognized for our reputation for quality, our deep expertise, and our close relationship with our channels. And in recently serving our dealers, we consistently ranked first among our peers in quality, technical and customer support, while also providing training to over 3,600 partners last year alone.

Using these key differentiators, we are able to pursue repeating growth opportunities in the industries that we serve. We expect the growth of our flow business to be fueled by four favorable mega trends. First, increased water scarcity, which further stresses the need for improved access to clean water and the ability to dispose of wastewater our pumps that irrigate your lawn or the farmer's field, and that help keep water from entering your basement when there is a flood. Second, there is a need to improve energy efficiency to reduce the carbon footprint of our products. Our variable frequency drives continue to be in very high demand, and we continuously improving the hydraulics of our pumps to increase their efficiency.

Third, is the growth of suburban communities, which are increasingly further away from existing water or wastewater infrastructure. Finally, there is a growing demand for digital solutions from our channel partners to help increase your productivity, and by end users to help him give him peace of mind that their homes are safe and protected. We are launching multiple products to meet this need, like our new universal smart sump pump controller. We believe these trends are opening up significant opportunities to grow food technologies to meet demand and strengthen our position within the industry.

We are focused around three goals priorities for our flow business. The first, is to reduce complexity by streamlining product lines and reducing SKUs that we believe will leverage scale and accelerate operational efficiencies. For example, we have discontinued seven product lines in the last six months, rationalized over 20,000 SKUs per year in the last three years and have made this an ongoing process.

We also focus on increasing intimacy with our channel through digital interaction, increase support and simplified commercial processes. For example, we’ve simplified and automated our order fulfillment processes, which are having an impact on our customer experience and on our bottom line. And finally, we are driving smart and sustainable innovation to increase energy efficiency, preserve resources, and improve the productivity of our channel with the launch of exciting, connected products.
Industrial Filtration is a global business with 2021 revenue approaching $500 million and ROS in the low teens. We are a leader in delivering solutions to a brew industry, focused on producing the best quality beer possible. We filter 115 million hectoliters of beer every year. Our brands are also well recognized in the dairy industry and we have extending our filtration expertise in the growing biogas and carbon capture industries. We have a strong track record of innovation in products, like membrane nano filtration, services, and smart connected products, where we monetizing our offering by helping large breweries increase their beer filtration productivity.

There are four key mega trends, which we believe are accelerating the growth of industrial filtration business. As communities continue to grow and develop in water stress areas, the need to access clean water while reusing wastewater has only increased the need for specialist solution like ours. The need to separate harmful chemicals from source water to make it safer to use, or from wastewater to make it safer to dispose, is becoming increasingly difficult and more and more regulated. Increased focus and attention on the impact CO2 and methane gases have on global warming is accelerating the need for solution which capture, purify and reuse these harmful greenhouse gases.

Third, consumers continue to shift to new beverages and food that promote healthier lifestyle. These products also require innovative filtration solution to help bring a higher concentration of the nutrients consumer want and fewer ingredients they don't. And finally, our industrial customers continue to look for ways to increase their productivity while providing a higher degree of control in their sites, opening up opportunities to deliver and monetize differentiated IoT solutions.

You've heard me referenced several times throughout the presentation, the exciting opportunities in biogas and carbon capture utilization that are in front of us and are already providing some very positive growth in our Industrial Filtration business. It is because of its exciting growth opportunity that we are actively driving the growth of a carbon capture business. We play in two distinctive and attractive areas. First, we have deep expertise in biogas, which capture and purify both CO2 and bio methane. We are innovating with solutions that upgrade biogas from multiple sources, allowing our customers to use bio methane to produce renewable compressed natural gas or liquefied natural gas that can be used to heat your home, fuel the truck that delivers the food to your grocery store, propel large ships that cross oceans, or even fuel personal cars.

Pentair’s biogas installation portfolio has the capacity to capture approximately 300,000 metric tons of CO2 per year, which is the equivalent to the CO2 emissions from over 30 million gallons of gasoline consumed. We are also a leader in carbon capture utilization in breweries, carbonated soft drinks, and industrial plants. In this application, we are able to capture the CO2 that is typically released in the atmosphere and purify to food grade level so it can be used later in our customers manufacturing processes. Think of a CO2 you consume in any fizzy drink, a typical example of carbon capture utilization.

We are also working through strategic partnership to develop breakthrough innovation solutions, like direct air capture, which pulls CO2 directly from the air so it can be used in various manufacturing process or stored back on the ground. It's a very exciting space that resonates well with our smart and sustainable solutions vision and which we believe offers very large growth opportunities for our business. So to summarize, the vision of our IFT business is to be the leader in smart and sustainable solutions for targeted critical B2B applications.
As we talked about today, we are focused on our key priorities which we believe will allow us to first, concentrate our growth on the limit with a number of products and services, which are smart and sustainable, like our connected products, which are helping our customers be more productive and preserve scarce resources. Second, we plan to leverage our strong brands with their long history of delivering quality products and services and reinforce with deep intimacy we enjoy with our channels, from distributors to dealers to end users. Third, we also plan to be very diligent and targeted with our investments remaining focused on the critical needs of our customers, backed by prevailing mega trends, which represent large and fast growing opportunities, like carbon capture, that we just discussed. And finally, we plan to continue on the path of transforming our businesses by reducing complexity in our products and processes, which we believe will allow us to expand margin and increase cash flow.

It's a very exciting time for us in Industrial and Flow Technologies, where we see many opportunities to create value for our customers, our employees and our shareholders. With that, I'll turn to Phil Rolchigo, Pentair’s Chief Technology Officer, who can fill you in on all the exciting things we are doing for technological and innovation advances we are making at Pentair.

Phil Rolchigo - Executive Vice President, Chief Technology Officer
Thank you, Jerome, and hello, everyone. I'm Phil, Rolchigo and I serve as Pentair's Chief Technology Officer. I'm pleased to be here to talk to you about some of the advancements we have made in our technology at Pentair and what I believe differentiates us from the competition. Pentair has made significant investments to support organic growth. To begin with what is different, we have implemented a highly disciplined approach to deeply understanding the needs of our customers, along the entire value chain, and then connecting those insights to more rigorous development processes.

At a high level, consumers want their water to be safe, taste great, and even be designed to suit their specific tastes and dietary needs. They also want the technology that treats water to be easy to install and service, as well as look great. And finally, our customers have ever increasing and challenging sustainability goals to meet, focusing on reducing water energy and carbon footprints. We believe these insights have opened up significant opportunities to develop new products and service solutions.

At the same time, true innovation often occurs when customer insights and technologies converge. For instance, advances in microelectronics, cloud computing, additive manufacturing, and material science are having a major impact across many industries. And we believe these technologies can greatly impact our industries as well. While our current spend on R&D is 2.5% of sales, and we aspire to increase this number to 4%, we selectively have made significant incremental R&D investments in IoT and treatment technologies for both water and process applications.

We believe our breadth of technologies and applications across Pentair provide us a true competitive advantage by leveraging these technologies and capabilities across our businesses. For example, over the past few years, we've built an IoT engineering team starting with less than 10 resources to a team of over 100 engineers to form our IoT Center of Excellence. We also supplement our team with outside experts who help keep us on the leading edge of technology, customer expectations and applications. While this team is focused on building both consumer and industrial focused platforms, the technical capabilities and digital infrastructure is shared across both our Consumer Solutions and Industrial and Flow Technologies segments.
The residential platform comes to life through the newly launched Pentair home in dealer apps, where we’ve launched 12 new connected products in a water quality testing service to date, with a pipeline of 19 new products expected to be launched by 2023. We believe this is a major differentiator for Pentair since we uniquely touch every aspect of water within a home. We believe we can own the home by providing comprehensive connected water products throughout the home through the Pentair Home app.

With this app, our goal is to provide an effortless customer experience to help consumers own and manage their water and sustainability efforts throughout their entire home. Our products in the Pentair Home app work together enabling us to build stronger relations directly with both the end users and our dealers. For the first time, this solution enables us to directly connect with consumers across all of our residential businesses, Pool, Water Treatment, and Residential Flow on a single platform helping to build the Pentair brand. Lead sharing across our business units is also now possible, as well as the ability to deliver effortless sales and service digitally and in person directly to our customers.

Now, I want to go ahead and highlight for exciting IoT enabled products that we’ve recently launched. The salt sensor. Customer research indicated that a major customer pain point is knowing when to add salt to their softening system. This new IoT device notifies the user when the salt on their system will need to be replenished. It is a DIY product that is easy to install on both Pentair and competitive water softeners and connects directly with users through the Pentair Home app.

Since this product retrofits to any water softener, this is an exciting product that we believe will allow us to directly connect to hundreds of thousands of new customers. The connected water softener valve is the key component to delivering a smart water softener. This valve platform provides consumers an interactive experience through the Pentair Home app, helping to ensure worry free performance of their softener and filtration systems. It also directly enables an effortless direct connection between the user and Pentair or one of our dealers for aftermarket sales and service. The valve also enables our dealers to directly engage with their customers through the Pentair Pro app.

ChemCheck addresses one of a pool owners biggest concerns, the water quality of their pool. This connected solution monitors the critical water quality parameters of a pool and delivers that data through a simple experience on the Pentair Home app, helping to ensure our customers peace of mind. This product is an easy retrofit to the millions of installed pools. We believe the opportunity for Pentair to directly connect to these users is significant.

The sump pump controller also addresses a major worry of residential consumers, knowing that their sump pump will operate before their basement begins to flood and that it is operating when a flood occurs. Our customer research emphasizes that peace of mind is a key factor in product selection. This controller works with any sump pump, ours are any competitor, and communicates directly with a homeowner through the Pentair Home app helping to deliver the peace of mind that their basement is protected.

We are targeting that by 2025 we will have over 1 million devices connected to through this exciting platform. And with this level of data, we believe the additional customer insights to be gained will open endless possibilities for new products and services. Our first industrial IoT application is in our food and beverage business unit and is called BrewAssist. This cloud based...
IoT solution was developed to enable an efficient way to scale our monitoring as a service solution for our industry leading beer membrane filtration systems.

This IoT service includes 24/7 support, proactive real time monitoring, analysis and reporting. By using the BrewAssist platform, we have been able to accelerate the adoption of this innovative filtration process and have helped our customers to improve production efficiency, producing more beer while using less water. Ultimately, this service is helping us to build stronger strategic relationships with our brewing partners and opening up new application opportunities for our products.

We currently have 25 IoT enabled BMF installations and we are targeting over 100 subscriptions with recurring revenue by 2025 from this service. And while this is an exciting start, we see additional opportunities to extend this industrial platform to other digital service applications, including our leading biogas and CO2 recovery systems, as well as bringing more digital service solutions to our recent acquisition of KBI through our Pentair Everpure commercial water treatment offerings.

In addition to this strong pipeline of connected products launched over the past few years, our heightened focus on developing strong customer focused insights is also resulting in the launch of many other exciting new products. Our Consumer Solution segment launched 28 new products in 2020 and is projected to launch more than 50 more products in 2021. And our Industrial and Flow Technologies Segment launched 31 new products in 2020, and it's projected to launch more than 70 more new products in 2021.

Here are some of these products that also deliver big benefits to our customers. Our newest commercial RO system designed for the mid-tier high growth coffee and tea sector is a complement to our higher capacity systems used in larger stores. The key to this design is our high efficiency membranes enabling a tankless system, saving space which is critical to these smaller storefronts and kiosks.

The easy flow point of view system is directly linked to customer feedback for those who want simple, DIY point of view solutions throughout their home. This under sink filter can be installed on any tap and your home in under 15 minutes, with no need for a separate faucet. This product addresses taste and odor issues while also removing lead and cyst.

And finally, within the Consumer Solution Segment, to meet the changing DOE regulations that are going into effect in July of this year, we have reengineered all our already industry leading energy efficient pool pumps to a new level of efficiency. We have now achieved the Energy Star Partner of the Year award since 2013 and we have helped U.S. consumers save over $3 billion in operating costs and 27 billion kilowatt hours of energy, which equates to the greenhouse gas emissions from 4.1 million passenger vehicles driven for approximately one year.

Moving to our Industrial and Flow Technologies segment, the X-Flow, X-75 ultrafiltration membrane modules are based on a new proprietary membrane, that enable us to push the limits of membrane performance. These new systems designed with these high efficiency modules benefit and a significant reduction in CAPEX and OPEX per capacity. And even more exciting opportunity is, that these modules can easily be retrofitted into the large installed base of industrial and municipal installations, increasing the capacity the systems with minimal investments.
The BMF S8 system is the latest innovation in the development of our beer membrane filtration solutions. This standard design integrates decades of our application expertise into a system design that lowers the CAPEX and OPEX for our brewery customers, and the smart controller effortlessly integrates with our brew assist IoT service platform. And finally, the new APEX Zenith gas liquid coalescer is based on a new proprietary media that dramatically improves separation efficiency. The increase in efficiency enables over 20% reduction in CAPEX for new installations or can significantly increase the capacity of an existing installation.

And finally, while we all are very excited about the near term product roadmaps being executed within our businesses, we are also looking to the future with an aspiring bold vision. In addition to the major advancements that we've made developing IoT enabled solutions, the heart of everything we do is treat water and other industrial fluids. New and emerging challenges are now front of mind across all of our segments, from the identification of new potentially harmful chemicals in our water supply, such as PFOS in pharmaceuticals, lead and arsenic, to the sustainability challenges related to bottle water and carbon emissions, new more efficient solutions are required to address these challenges.

And to help drive this vision we've created a treatment technology, COE, dedicated to longer term breakthrough R&D. Aligned with the growing market needs, this team focuses on building expertise in membrane filtration technologies, disinfection technologies, as well as chemical and bio sensing through organic R&D and external partnerships. Three big significant innovation themes have emerged that are aligned to our strategic growth initiatives. It's here where we are directing the majority of our longer term technology R&D investments.

The first theme we call the pool of the future, experience elevated. And within this theme, one of our targets is this sustainable zero impact pool, which relies on advanced filtration and IoT technologies to minimize chemical water treatments and energy usage. Our first product being launched in this space leverages the ultra-filtration technology from our Industrial Filtration business, and it's called UltraShield. This filter is capable of clarifying pool water, removing bacteria and viruses and reducing the amount of chemicals needed to keep water sanitized. Early feedback from the alpha launch of this product has been strong, with customers raving that their pools have never been so clear. The full launch of UltraShield is planned for early 2022 and this is just one innovation of many to come on our path to the sustainable pool.

The second theme we call residential water of tomorrow, water treatment reimagined. Within this theme, sustainability also is a top focus as we look to develop sustainable, zero impact water treatment systems for whole home and point of views DIY solutions to address the growing concerns of water quality and the negative environmental impact of bottled water. Both of these approaches include IoT enabled sales and service solutions powered by advanced sensing and treatment technologies to monitor and eliminate new contaminants of concern such as PFAS.

Within this area of R&D, the application of our industrial membrane technologies again playing an impactful role, our proprietary nanofiltration membranes, along with our patent pending module designs are central to new whole home treatment solutions that we expect will not only replace traditional water softeners as a sustainable salt free alternative but provide additional benefits of purification throughout your entire home. And while this whole home solution would deliver bottle water quality throughout your home, DIY under sink treatment solutions like the fresh point easy flow and countertop solutions from Rocean, are leading approaches to reduce the environmental footprint of bottled water.
Building on this technology source to the Rocean acquisition with our internal expertise and treatment technologies, we are planning that you will soon be able to create functionalized water at the touch of a button through our products, filtered, chilled, carbonated and flavored, without the need to purchase expensive bottled water products. The Rocean reservoir and Rocean One, the first products in a series of countertop products designed to deliver great tasting and functionalized water are planned to be launched within the next 18 to 24 months. Both of these DIY solutions have an innovative consumer design an interface that we believe will deliver a superior customer experience while providing a sustainable alternative to bottle water.

The final theme we call industrial waste processing reimagine transforming waste to value. Like the previous two themes, driving sustainability is central here, with many opportunities to create significant economic value. As technologies transform municipal wastewater to drinking water have evolved over the past two decades, the reimagining of other waste streams as a process feedstock have accelerated. We see numerous opportunities to apply our leading ultrafiltration and nanofiltration technologies to recover valuable byproducts such as energy, CO2, proteins, nutraceuticals, and precious metals from food and beverage and other industrial process waste streams.

A rapidly growing application for us is the treatment of biogas, to produce renewable bio methane and food grade CO2. From this chart, you can see the significant impact these solutions can have on the carbon emissions footprint. We are at a tipping point where we believe economics will drive adoption of the solutions. And given the many opportunities to innovate at the system and unit operation levels, specifically utilizing our core membrane expertise and other separation technologies, we are confident that we will continue to lead in this exciting new application.

So in summary, technology continues to be a core strength of Pentair. Our deep customer and market insights and driving a robust new product and technology roadmaps, our investments in smart IoT enabled products and advancements in our core membrane technologies are leading to exciting new products and services. And sustainability is essential and growing driver behind all of our customer’s needs. And with that, I’ll pass it along to Bob Fishman, Pentair’s Chief Financial Officer, who will walk you through an overview of our current financial positioning, as well as how we’re delivering results and creating long lasting value for our shareholders.

Bob Fishman - Executive Vice President, Chief Financial Officer, Chief Accounting Officer

Thank you, Phil, and good morning. It's hard to believe that it was just over a year ago that I joined Pentair, and what an eventful year it has been. I'm very excited about the way the team has delivered, and we are building a track record of consistent growth. Our formula to drive growth is fourfold.

First, we must grow the core to drive consistent value creation. We have a great set of businesses as we have discussed this morning. Second, we are making strategic growth investments in our Pool, Water Treatment, and Industrial Filtration businesses to accelerate the top line. Both Mario and Jerome spoke at length about these initiatives. Third, we are driving transformation, to unlock value and fund growth. We understand that we must grow the top line and expand margins. Whether it’s through G&A, complexity reduction or leveraging improved processes and analytics, we recognize we have several levers to pull to drive additional value. Finally, we have a strong balance sheet to provide flexibility and potentially add further
acceleration to the top line through strategic M&A. We expect these four focus areas to drive our long term growth.

When looking at our performance the past several years, we have built solid momentum with a 6% sales CAGR, 6% segment income CAGR and 13% adjusted EPS CAGR. At a segment level, Consumer Solutions has driven much of this growth with a 10% sales CAGR. Our Pool business has grown at a slightly faster pace, while Water Treatment has delivered strong growth as well. Industrial and Flow Technologies has been relatively flat on sales as the industrial downturn in 2020 contributed partially to the weaker performance.

Our cash flow has been very strong, averaging 110% of net income the past four years. We are especially proud of our ROIC improvement that is now in the high teens. We believe this is reflective or a focus of growing our core and supplementing growth with selective tuck in M&A. We plan to remain laser focused on ROIC, as we believe this is the key metric for measuring our capital allocation success.

In addition, our balance sheet remains very strong and we are on track to end the year, levered just over one times. As we look out over the next four years, we expect our sales growth to continue its mid-single digit trajectory. Consumer Solutions has shown that while there is seasonality to its business, that does not translate into it being cyclical. In fact, as Mario highlighted earlier today, we have strong secular trends at our back and believe this business remains well positioned to deliver mid-single digit sales growth.

While Industrial and Flow Technologies sales have been flat the past several years, many of its businesses are just rebounding after the deep capital spending freeze that occurred in 2020. The residential and agricultural parts of IFT are steadier and have been more consistent low single digit growers historically, as much of their exposure is through the break and fix business. The more cyclical parts of IFT that are backlog driven have seen improvement in orders and backlog recently, which we believe bodes well for growth over the next several years.

Strategic growth initiatives are a way for us to drive additional growth, above and beyond what we believe is a strong core or base business already. Whether it is getting closer to the consumer and Pool, expanding Water Treatment further into services or biogas, we believe these strategic initiatives should accelerate the top line a point or two. As we have said today, we also plan to strategically use M&A to drive incremental growth. We expect the majority of our M&A to be aligned with our strategic growth initiative. And as mentioned earlier, we plan to remain focused on our already strong ROIC.

Although we have made good progress on the top line the past several years, we recognize that our return on sales, or ROS, performance has left us with a lot of opportunity going forward. We have been investing in a number of growth priorities and building out our enterprise capabilities as we become more of a consumer driven company. But those investments are now in the core. Over the next four years, we see a roadmap to improve our margins around 300 basis points.

So how do we expect to do this? First, we have strong drop through in our core business, which we believe should be at least 30%. We believe our strategic growth investments should drop through at roughly half the rate of the core but should still be a positive contributor to margins. The other opportunity to drive margins is more of a self-help story as we drive broader transformation across the enterprise.
We plan to provide updates along the way, but the easiest way to think about transformation is complexity reduction across the enterprise. Between the segment’s, we expect IFT to have more of the margin upside versus Consumer Solutions, which is already at a very respectable margin. Given the strength we experienced in the second half of 2020, and what we are expecting in 2021, we are using 2021 as the foundation for our long term targets.

Over the last four years, we have experienced a 6% sales CAGR. Looking ahead over the next four years, we believe we can grow revenue, inclusive of the core in our strategic growth initiatives, at least mid-single digits. We expect M&A to be incremental to this revenue growth we are anticipating. We have established a target for ROS to expand approximately 300 basis points the next four years, which would put us around 21%.

Finally, we aspire to grow our adjusted EPS at a double digit rate, which is consistent with the track record we have built over the past four years. In addition to the momentum we have created around sales and earnings growth, we have also established a strong track record around being disciplined with our capital allocation. Between 2018 and the end of this year, we expect to have allocated and invested over $2 billion of our capital.

We have returned 70% to our shareholders through dividends and share repurchase. We are very proud of being a dividend aristocrat as we have raised our dividend for 45 consecutive years. While we’ve had some success with strategic M&A, we believe we still have a strong funnel.

As we look to incremental value creation, we are very excited about our ability to fund many avenues to create shareholder value. Between 2018 and the end of this year, we forecast to have generated roughly $1.7 billion of free cash flow. Our net income conversion rate has averaged 110% which we believe speaks to the high quality of our earnings.

Over the next four years, we expect to generate roughly $2.5 billion of free cash flow with our focus on the dividend, and also factoring in $150 million of annual share repurchases, we are targeting to return just under half of our strong cash flow to shareholders. Given our low leverage ratio today, we believe we have substantial dry powder to invest over the next four years. With our commitment to our investment grade rating, we have historically targeted average leverage around two times with a half a turn in either direction to be expected from time to time.

As a result, we believe we have the capacity to both return cash to our shareholders and invest in growth opportunities, both organic and strategic M&A. Our formula for shareholder value remains focused on delivering consistent, predictable results. This starts with steady revenue growth. As we mentioned, we believe we can grow our core business mid-single digits, add another point or two, to the top line through our strategic growth initiatives. And we have the opportunity to further accelerate the top line through strategic M&A.

We must also be focused on income growth and ROS expansion. Growing the core provides strong leverage, and our strategic growth initiatives should also be accretive. We believe transformation provides multiple levers for us to pull to drive significant ROS expansion the next several years. Finally, discipline capital allocation should continue to be a positive contributor to driving total shareholder return.
We are a very strong free cash flow generator. We have a proven track record of being shareholder friendly with our dividend and share repurchase and our balance sheet flexibility is a significant asset. We are very excited about our future and we believe we are well positioned to continue driving consistent, predictable results. John will now have some closing remarks.

Thank you for your interest in Pentair.

John Stauch - President, Chief Executive Officer
Thank you, Bob. Hopefully you now share enthusiasm for the future of Pentair. I want to briefly touch on our ESG commitment before I summarize the day, and then turn it back over to Jim to open it up for our Q&A. ESG is foundational to Pentair’s mission and vision doing the right thing for our customers employees and for our planet is embedded into our company’s purpose and mission. In fact, this is evidenced by the adoption of our Pentair Win Right values that have guided us consistently since 2000, our wind asst energy alternative investments made in Reynosa, Mexico facility in 2012 and our solar investments in Pisa, Italy in 2010, as well as our commitment to the elimination of bottled water and all Pentair facilities in 2016.

However, as we move forward, we recognize the need to be more public with our commitments and set bold but achievable targets that align with our business strategies, while minimizing the impact of this precious world that we all share. So to that end, we have set strategic social responsibility targets now public and our recently published 2020 corporate responsibility report. We are also are prepared to invest in and fund the initiatives that we expect will make the greatest impact to our ambitions. In addition, Karla Robertson, our General Counsel and Secretary has been appointed to the newly created role of Chief Social Responsibility Officer to further our efforts.

We've also redesigned our M&A, charter and business strategy guidelines to prioritize acquisitions and growth initiatives that align with these goals. We look forward to reporting on our progress and plan to continue to keep you updated annually, and I'll look forward to demonstrating best in class progress against our commitments. After today's presentations, I hope you understand a little bit more of why I'm excited to lead Pentair and why we believe that our focus, empowered and accountable employees, segment leadership, advanced technology and track record and desire to create shareholder value builds our confidence in delivering longer term top tier performance.

What I hope you came away with today, is that Pentair has strong business platforms that are industry leaders in their designated spaces. We are in spaces that are growing faster than the overall global markets and are propelled by attractive secular trends. And we have carved out exciting strategic growth priorities in which we have already begun to demonstrate performance.

Further, our transformation journey is designed to unlock value to allow us to grow faster than the industries that we participate in and help us to expand margins rapidly by 2025. And finally, our balance sheet is strong, and we believe will continue to get stronger, supporting incremental value creation above and beyond what our base businesses can do on their own and with tuck in M&A only. With that, I'll hand it back over to Jim to begin our Q&A. Jim.
Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations

Thanks, John. And thank you all again for joining us today. We will now open it up for Q&A with our presenters. Raise your hand and you'll be prompted to unmute yourself to ask your question for our panel to answer.

Thank you. Before we take our first question, Bob would like to make a few comments about our updated guidance from this morning’s press release. Bob.

Bob Fishman - Executive Vice President, Chief Financial Officer, Chief Accounting Officer

Thanks, Jim. This morning we updated our second quarter sales guidance to be up approximately 25% to 29%. We also increased our second quarter adjusted EPS guidance range to approximately $0.75 to $0.80 per share, up approximately 31% at the midpoint versus the comparable period last year. For the full year, we are now expecting sales to be up approximately 17% to 19% and adjusted EPS, to be in a range of approximately $3.10 to $3.20 per share, up approximately 26% at the midpoint of the range, versus the comparable period last year.

Our full year sales guidance now includes just over six month contribution from our recent acquisition of KBI. We continue to see strong growth in our residential facing businesses, primarily in Pool. We are also pleased with the continued recovery of our commercial water treatment business. Embedded in our full year sales guidance is consumer solutions growth of approximately 30%, with pool expected to be up approximately in the mid 30%. Industrial and Flow Technologies is also seen its orders, and it’s growth steadily improved, and we expect sales for IFT to be up approximately, low to mid-single digits.

As a reminder, the second quarter is the period when we expect to experience the highest levels of inflation. And we anticipate price, reading out more favorably in the second half of the year, based on the price and actions we have taken to date. For the second quarter, we would also expect to experience higher compensation related expenses as our overall results improve. For the full year, we would expect strategic growth initiative investment to accelerate in the second half.

We will have more details on our second quarter performance when we report earnings on July 27th. We felt it was important to update our guidance as it is the starting point for all of the growth rates that you saw in today’s presentation. We'll now take our first question.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations

Thanks, Bob. Our first question will come from Mike Halloran. Mike, unmute your line, please.

Mike Halloran - Analyst, Robert W. Baird & Co., Inc.

Hey, just some clarifications here real quick on the long term targets here. First, on the revenue line, I just want to make sure I'm interpreting this correctly. So you are saying it's a 4%, 5% kind of core growth and then the strategic initiatives add one to two points on top of that, correct?

Bob Fishman - Executive Vice President, Chief Financial Officer, Chief Accounting Officer

We're saying that the core will grow mid-single digits, and then add one to two basis points on top of that, for the strategic growth initiatives. So we think about at mid-single digit plus.
Mike Halloran - Analyst, Robert W. Baird & Co., Inc.
Gotcha. And then if I factor that out and I put a 30% incremental on the mid-single digits and then the 15% incremental on the remaining, kind of that one to two points of incremental growth there, that basically gets you towards your 21% kind of margin target. And I know in John’s prepared remarks, the commentary was, we’re gonna be slow because we want to see this evolve a little bit before we put out direct targets towards these strategic transformative margin improvement initiatives. So I guess the question is, how much of that is actually embedded in these 21% margin targets as we sit here today? Or are you looking at those transformation initiatives as a source of upside as you execute and get your hands around what the real opportunity is?

John Stauch - President, Chief Executive Officer
Mike, it’s John here. I get the math that you’re taking us through. I think what might not be as obvious is, as we think about transformation, we do believe we’re going to build a very rich funnel and start to shift from how we’ve done it historically to where we need to be to go forward. For that need to go forward, is going to be building out some of the brands, and also the technologies that are necessary. So there is, embedded in this margin goal, the offsetting costs of the sales and marketing and R&D needs to really propel this growth and position us for the future.

Mike Halloran - Analyst, Robert W. Baird & Co., Inc.
Great. Last one, we then. Can you just talk a little bit about how you’re thinking about the M&A prioritization from here. Obviously tucking M&A was the focal point, but specific areas, I’m guessing those haven’t changed a lot, but how are you thinking about funnel opportunity said, and really magnitude of capital dollars.

John Stauch - President, Chief Executive Officer
Yeah. Great question, Mike. First of all, I feel really good about the fact that we had a really good strategy that’s playing out the way we hoped it would. Mario and Jerome are in the same room with me here today, that, committed to building out these SGIs. And that’s where we balanced the bulk of our acquisition focus, was in the strategic growth initiatives and those have been tucking to the state or bolt-ons, depending on how you want to describe them. And I really feel that we’re making great progress.

And as I highlighted in my prepared remarks, that you heard me pound on the table, I’m really caught at the RIC, which means we’re delivering this organically and the acquisition that we’re doing are working so these continue to be my focus areas. You know, we’re exploring other adjacencies that might create some more green shoots, but I think we’ve laid it out, that we’re going to continue to bet on these growth initiatives, and really look the win here.

Mike Halloran - Analyst, Robert W. Baird & Co., Inc.
Hey, appreciate the time. Thanks so much.

John Stauch - President, Chief Executive Officer
Thank you, Mike.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations
Thanks Mike. Next, we’ll go to Deane Dray.

2021 Pentair plc Virtual Investor Day
Thursday, June 10, 2021, 9:00 AM Eastern
John Stauch - President, Chief Executive Officer
Deane.

Deane Dray – Analyst, RBC Capital Markets LLC
Yes, I'm here. Everyone hear me okay?

John Stauch - President, Chief Executive Officer
We can hear you, Deane.

Deane Dray – Analyst, RBC Capital Markets LLC
All right. Terrific. Hey, thanks for all the detail this morning. Great presentation. First question for John is, how has COVID changed, either your targets or timeline? I certainly appreciate the positive reception that Pool has had in post COVID. But just other puts in takes and specifically the commercial water market, how has that opportunity been either resized or reshaped based on COVID? Thanks.

John Stauch - President, Chief Executive Officer
Yeah. I'll take part of this. I might have have Mario add a few comments. I mean, I do think we benefited some from Pool, there’s no doubt about it. And we've talked forever about mid-single digit plus type of growth, and Pool, and Pool has historically been, I've dealt with double digit CAGR over the last 10 years as we highlighted today.

We used to call it cocooning you know, the movement of people to a second home in which they would build that home in a warm weather state and put a pool in their backyard and enjoy the experience. And I think that we saw acceleration there. I think we feel like that growth rate is going to continue though because there’s still pent up demand. And what we’ve really been able to inspire is, the different use of the pool and adding more equipment to the overall pad and getting people to function or have their pool function to their needs. So I feel like we got a lot more tailwind there to come.

And then, I mentioned earlier, I think we got a little bit of residential bump from water treatment across people drinking the water at home. And we’ve had the headwind associated with commercial about being where they've historically gone. As we enter or exit Q2 here, we’re back where we were in 2019, from a commercial focus, so not yet recovered to a growth state, but certainly recovered the loss that we saw from the COVID impact. I don’t know, Mario, if you want to add anything.

Mario D'Ovidio - Executive Vice President, President Consumer Solutions
Yeah. No, I would just say, obviously, through COVID, it was a big bump in Pool. There's good bump in Pool. As this continues and people, the new environment as far as working from home continues and that we see that being a longer term trend as well, that also continues to provide focus on spending on your home, and in particular in the backyard.

John Stauch - President, Chief Executive Officer
But Deane, just to follow up, we do see that the trends of people caring about their water is really what this period has been insightful for. And more people are certainly searching how to improve the water, and we're really excited with that need for the future of water treatment.
**Deane Dray** – Analyst, RBC Capital Markets LLC
And how about commercial water, how has that changed? I'm talking specifically office water.

**John Stauch** - President, Chief Executive Officer
Yeah. I still think we believe that people are going to come back in some type of a hybrid fashion or some type of flex work fashion and there's still going to seek great tasting water in the office. But what the trend is really moving on is, not single use or eliminating the plastic bottle container and people want good water and different choices the water in the commercial office space. So we continue to see it now, we've opted the reopening and we're replacing the filtration devices and I think we're going to continue to see excitement about the different opportunities to have great tasting, carbonated and filtered water in the office space. So we see that as a huge growth plan, Dean.

**Deane Dray** – Analyst, RBC Capital Markets LLC
Appreciate it. Thank you.

**John Stauch** - President, Chief Executive Officer
Thank you.

**Jim Lucas** - Senior Vice President, Treasurer, FP&A, Investor Relations
All right. I would remind you again to please use the raise hand function if you want to ask a question. We'll go next to Jeff Hammond.

**Jeff Hammond** - Analyst, KeyBanc Capital Markets, Inc.
Hi. Good morning, guys. Can you hear me?

**John Stauch** - President, Chief Executive Officer
Yes, we can.

**Jeff Hammond** - Analyst, KeyBanc Capital Markets, Inc.
Okay. Great. So just on the margin enhancement, you talked about not getting as much over the last four years and kind of accelerating it. And I think it being biased towards IFT, just maybe talk about what you think needs to change or what changes in terms of kind of accelerating that margin improvement.

**John Stauch** - President, Chief Executive Officer
Yeah. I get that we put a number out there and no matter what the number is, we're gonna debate it. So I want to have a goal out there in 2025 that I feel we can meet or exceed. But I think about what we're doing from a transportation standpoint, I'm really excited about the future and where we need to optimize our cost structures. We're starting to focus around several different areas. You saw some of them identified, in my particular view, but I don't think we're working as efficiently as we can.

In Mario's situation, we've highlighted the fact that we're not as effortless and work with our customers as we need to be. And we've got to invest to connect better, to have better insights into the sales demand, to work goes through the supply chain and SIOP processes. We don't necessarily feel that our manufacturing capacity is as efficient, or well-placed as it could be. We need to have software and tools that allow our data analytics, and our teams to work more intelligently to drive performance and be more responsive to the needs of our customer bases.
And I ultimately think all that's going to transform over the period into March. I do say, that I said, it's hard to say you're a technology company with only 2.5% R&D to sales. And we set a limiting factor with not having the consumer insights and their good marketing input to really rev off the technology machine.

I think we feel like we're getting that marketing focus now and I want to rev up the R&D and technology advancements, primarily around smart and connected solutions. That's going to be a headwind to those margin savings. And then the second piece is, we want our brand to be the first brand of choice. And you can't spend just a little bit of money to do that, you've got to position the investment lightly, but you got to build that presence and make sure that consumers aware of your products, and then bring that through the channels that we want them to come through. So it's a lot more out, and then I don't think we've highlighted enough yet because we don't know the exact spend what those headwinds will be against that stage. And overall, I feel good about the target.

**Jeff Hammond** - Analyst, KeyBanc Capital Markets, Inc.

Okay. And then just as a follow on on the R&D, I think Phil mentioned 2.5% to 4%, you need to, I guess two things on that. One, do you need to ramp that to get to those strategic growth initiative numbers? And two, when you think of R&D, how do you think about managing efficiency versus spending more?

**Phil Rolchigo** - Executive Vice President, Chief Technology Officer

Yeah. This is Phil. We're right now at 2.5% and we have incrementally invested and just done a really good job of focusing on areas where we see the opportunities, there again, around smart and around advancing our Water Treatment platform. So there's really good alignment between where we focus, and what the business needs are. Jerome and Mario's done a great job now really identifying critical customer needs.

So we've been more and more efficient, as opposed to the past but making sure that the R&D investments are aligned. So I'm just more and more confident as the money comes available, as we go through the transformation process, that we're going to be really, really efficient at targeting, where do we spend those dollars.

**John Stauch** - President, Chief Executive Officer

And Jeff, I don't want to lose sight of the fact that, in these visions, our migration being ESG focused company and I don't know what those investments look like specifically but assume that we're holding some costs to ensure that we're making our ESG goals across all of our factories we're investing wisely. And we're building that sustainable solutions pipeline of products. And don't know exactly what that's going to cost yet, but we do think that we are going to have to spend to achieve these targets that we set out today.

**Jeff Hammond** - Analyst, KeyBanc Capital Markets, Inc.

Great. Thanks, guys, appreciate the call.

**John Stauch** - President, Chief Executive Officer

Thank you.

**Jim Lucas** - Senior Vice President, Treasurer, FP&A, Investor Relations

All right. Our next question will come from Julian Mitchell.
Hi. Good morning. Maybe, just wanted to try and circle back on the margin aspiration and the reinvestments. So is the right way to think about it, that the majority of the transformation savings, coming say from comps and G&A, and then we assume that the majority of those are kind of offset by R&D and selling costs, is that the rough framework to get to that 21% margin aspiration?

John Stauch - President, Chief Executive Officer
Yes.

That's helpful. Thank you. And then maybe, on the revenue line, there's clearly been a debate for a year now about supernormal growth in residential markets and we see that today in the equity market, for example this morning. If you're looking at your growth for the second half implied, I think it implies your revenue is about 20% to 25% higher than the second half of '19 levels, in the second half of 2021, per the updated guidance this morning. Your markets, as you said, are growing mid-single digit annually, so your revenues are maybe 10% or 15% above trend in the second half of this year. Any color at all on what sort of pace of normalization back to trend, you think we should expect following the end of this year?

John Stauch - President, Chief Executive Officer
Yeah. I mean right now, it's really robust, Julian, across the residential side and I think we believe that that's going to continue into the early part of 2022. And sometime in the back half of '22 into '23, we probably will level off to more normalized growth. Right now, it's hard to see that happening anytime sooner just because of the order trends, the demand we're seeing in those residential industries. So I don't have the basketball. I do think that we're continuing to see the demand and we're doing our best we can to beat it.

That's helpful. Thank you.

John Stauch - President, Chief Executive Officer
Thank you.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations
All right. We'll take our next question from Walt Liptak.

Walt Liptak - Analyst, Seaport Global Securities LLC
Hi. Thanks, guys. Can you hear me?

John Stauch - President, Chief Executive Officer
Yes.

Okay. Great. I wanted to ask about the transformation strategy and just make sure I understand this and maybe the way to ask it is, what inning are we in in the transformation?

John Stauch - President, Chief Executive Officer
First inning. We might actually be in the pregame. We might be in the pregame warmup. We're right now in the midst of a 12 week sprint. We're looking at these opportunities throughout these
business groupings that we laid out in creating the ideation centers and those are facilitated by external help as well as our internal talent. We're then taking a look at segments support and help that support our product managers and our EUs and getting after the capability they need.

And then we’re also taking a look at our shared services or our Centers of Excellence for looking at how to drive the efficiency. So we’re running those brainstorming sessions right now, and we’re trying to create those organic set of ideas for the business leaders and the functional leaders to bring a list of what we call L1 priorities to the surface. And then L2 means we’re costing them and taking a ROI turn on those investments, and then they become part of that bankable plan that I referred to in my remarks. So that’s kind of where we are with the ideation stage right now.

Walt Liptak - Analyst, Seaport Global Securities LLC
Okay. Great. Yeah, so too preseason. That sounds good. The SKU reduction though, that sounds like that may be further along already. Have you collected data, and have you started looking into sort of the benefits you can get from SKU reduction?

John Stauch - President, Chief Executive Officer
Yeah. I’ll let Jerome take a piece of that because he’s been the leader in this area, and I think he’s seen some really nice progress around SKU reduction. Jerome?

Jerome Pedretti - Executive Vice President, President of Industrial Flow Technologies
Yeah. Thank you, John. And we’ve done recent some good job in the in the past year. We reduced over 20,000 SKUs years per year. We continue to do that this year and we make a repeatable process across our businesses in IFT. So we think that that’s going to really provide simplification in our business, and able to drive some productivity.

Walt Liptak - Analyst, Seaport Global Securities LLC
Okay. Great.

John Stauch - President, Chief Executive Officer
And I would say, hey, Walt, I can just follow up. I would say, naturally, we’re seeing it in some of the high demand areas as well, where because of our focus on getting the customer the products and we’re clearly chasing that demand. We’re seeing national SKU migration to higher runner products and products with less lead time.

Walt Liptak - Analyst, Seaport Global Securities LLC
Okay. Are there any metrics or profit benefits that you can wrap around the SKU reduction that's taking place and do you know the opportunity could be?

John Stauch - President, Chief Executive Officer
Yeah. If you can imagine, the biggest opportunity is in the factory and the supply community. And it’s really about Mario and Jerome, you’re leading the activity to ensure that we’ve got a holistic approach to what products we should be manufacturing for our customers and do we have them ranked, pricing and value attached to them. I mean in the past when you’re trying to grow you just say, okay, here’s what the customer wants, and then you’ll figure it out in manufacturing and that crazy. It’s a lot cheaper to manufacturer (Inaudible).
And so these opportunities could be there for sure. I do think the second biggest opportunity is going to be, as we bring these products to more of a consumer friendly offering or more of a customer offering, we’re going to see the thinning out those SKUs as a better way to partner in our channel and work with consumers to get them what they need, because that complexity really drives a challenge on the sales and marketing activities as well.

**Walt Liptak - Analyst, Seaport Global Securities LLC**
Okay. Great. Okay. Good luck with that transformation.

**John Stauch - President, Chief Executive Officer**
Thank you.

**Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations**
All right, we will take our next question from Francisco Amador.

**John Stauch - President, Chief Executive Officer**
Francisco?

**Francisco Amador - Analyst, Cowen & Co. LLC**
Hey, can you hear me?

**John Stauch - President, Chief Executive Officer**
We can hear you now.

**Francisco Amador - Analyst, Cowen & Co. LLC**
Thank you. Thanks for the presentation, guys. You guys mentioned (Inaudible) PFAs exposure, can you walk us through what kind of exposure you guess there, if it's either treatment or testing, and then just high level thoughts in terms of the proposed infrastructure bill and how it would benefit you?

**Phil Rolchigo - Executive Vice President, Chief Technology Officer**
Yeah. The big problem, more and more finding is a ubiquitous problem globally. Right now, focused on developing the proper technologies for the consumer market, the residential market. And I think we're seeing bigger and bigger opportunities, as more in the, I would say, the municipal space through our Industrial Filtration business. The infrastructure bill will definitely the boon to helping us accelerate bringing that technology to market and driving that growth. And Jerome, I don't know if you want to say anything else about the industrial side?

**Jerome Pedretti - Executive Vice President, President of Industrial Flow Technologies**
I think, like you said, Phil, it is a problem across the board for everybody, residential community and industrial as well. So we hear it, those requests, coming from industrial customers also.

**Francisco Amador - Analyst, Cowen & Co. LLC**
Got it. That's helpful. Thank you. And in terms of the variable speed pumps, I know the debt finance is coming up. Do you guys have any sort of update there, in terms of how it's going to play out in the next, call it, 12 to 18 months and how it will benefit you?
John Stauch - President, Chief Executive Officer
Yeah. So I'll take the first part. Variable speed pumps are the leading industry pump and tool that's used for the majority of the pumps. And we've done a really good job of migrating throughout this year from single speed to variable speed. And as you highlighted, this is for everybody, now in June, Department of Energy is mandating the switchover, the most part. We think that probably, being that 80% of pumps will be sold in variable speed, and because of that I can think there's a benefit of longer haul and so I'm gonna have Mario give you a quick insight into the variable speed pump we have (Inaudible).

Mario D'Ovidio - Executive Vice President, President Consumer Solutions Segment
Yeah. We have a great technology and are highly efficient and that's one thing that consumers of course continue to look for as they're looking at upgrading the pools or putting in new pools, is becoming more and more of a driver. And the variable speed pump provides tremendous amount of efficiency and savings for those consumers. So, the progress is going well. The transition is going well. And we have a new pump also coming out that's going to continue to expand upon efficiency and continue to deliver at a better rate, higher rate for consumers.

John Stauch - President, Chief Executive Officer
Francisco, just a follow up. This is an important product, as you can imagine, because every pool pad has to have a pump and filter, right? So we look at the heart of the pad and then that gives us the ability to have further conversations with the dealers and the pool owners, moving to more LED lighting and more energy efficient product. And then ultimately what we hope is the salt maintenance of the pool, that can give you the peace of mind about water quality and then ultimately the elevation of that. So we always strive to be leading edge at the pump, and then that gives us the ability to have further conversations with the consumers to do more for them.

Francisco Amador - Analyst, Cowen & Co. LLC
Thank you.

John Stauch - President, Chief Executive Officer
Thank you.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations
Thank you. All right. We will move next to a follow up from Mike Halloran.

John Stauch - President, Chief Executive Officer
Hey, Mike, you back?

Mike Halloran - Analyst, Robert W. Baird & Co., Inc.
Yep. I'm back. So, a handful product questions here. How are you thinking about the IoT platform on the consumer side? Obviously, building brand awareness, key initiative for the pool side. I know it's something that's very relevant on the treatment side as well. As you guys are thinking about whether it's app, brand awareness, connected solutions, how much overlap do you ultimately see? I mean does it become a unified approach to the market within your residential platform on treatment and on the pool side? How much do you think those solutions can help drive, obviously, more penetration in pool today, can that help drive customer access, etcetera, on the treatment side, just any kind of synergy overlap and how that relates to your IoT strategy?
John Stauch - President, Chief Executive Officer
First of all, Mike, thank you for the question. I'm going to lead, and I'll have Phil and Mario follow on. But we have three large business platforms that we envision using the residential IoT platform, which is cool, where we have most active users right now, I think about close to a quarter million people have some form of automation or automated device that they're controlling through their particular applications. We're building out that capability in a broad wastewater treatment, which was one of the reasons we wanted Rocean as well which, is connected filtration on the countertop combined with our water treatment in the utility room.

And then I remind you of RNI flow. So all of those have an ability to connect to an IoT platform, but we spend a tremendous amount of time and energy outsourcing the back end, making sure we've got user friendly capability and really working on external app development, to get to a strategy that really then allows to connect those consumers with peace of mind and controlling the water at home. With that, I'll give it to Phil and Mario to give you a little insight on some of those technologies.

Mario D'Ovidio - Executive Vice President, President Consumer Solutions
Mike, this is Mario. Thanks for the question. Yeah. I mean the insights that we've received from consumers as we look at this, obviously, IoT it's more about just turning something on and off and there's a lot of people out there just trying to do that. It really is about managing the entire experience, and there's a big element around peace of mind and confidence that we're trying to build through our platform, and that's really how we're trying to approach it, so that consumers know things are going well. They're ready to swim or the water continues to stay clear and clean, and it's not time to replace their filter yet and those types of things as well as bringing in other outside data that's meaningful to the entire experience, who are really satisfying those needs and it becomes very intuitive and focused on the total experience versus just flipping a product on and off.

Phil Rolchigo - Executive Vice President, Chief Technology Officer
Yeah. And if I can add, if you look at the some of the products that we highlighted, they're retrofittable to the install base. And that was part of our strategy, that we could gain access to a lot of customers, get insight to customers we have no awareness up today and then really continue to build out those touch points so that we could continue to drive that peace of mind and build the Pentair brand awareness.

John Stauch - President, Chief Executive Officer
And Mike, just to close this out as you can see the vision come together, we believe what we offer is differentiated as the largest service channel in the industry, attached to our great products, which allows us to connect that service angle and become relevant to the consumer and also become very relevant to the channel.

Mike Halloran - Analyst, Robert W. Baird & Co., Inc.
No, that makes a lot of sense. And then I guess one area within that category you touched on was the the point of view synthesis, leveraging Rocean more broadly. Maybe you could highlight the points of differentiation versus the traditional points of use categories, because certainly lower quality assets have been the focal point there before, not from Pentair but more from the industry. And certainly sounds like what you're proposing and where you think there's a lot of value you can add as a much higher quality connected solution, and so maybe just the points of differentiation would help, just so the perspective can change towards where that value creation or the industry might be going there.
**John Stauch - President, Chief Executive Officer**
It's a great question Mike. So I'm gonna have Phil give you the technological advantages and then I'll ask Mario to speak a little bit on what we think we can offer the consumer.

**Phil Rolchigo - Executive Vice President, Chief Technology Officer**
Yeah. So when when we came across Rocean, we were really excited about being able to combine the capabilities we have with the capabilities they have. The incremental R&D investments we've made over the last year, really building out strong capabilities in IoT is one of the things we're bringing, so that connects really nicely with their point of view systems to be able to get that direct consumer insight and direct consumer engagement.

And then of course, obviously, it's the deep technical capabilities we have in treatment. So that's going to help continue and accelerate and advance the Rocean products as we are able to much more quickly address new emerging treatment needs, as we integrate into their really cool, and consumer oriented design. So we're really excited about the combination of our two capabilities to a really super long and exciting roadmap.

**John Stauch - President, Chief Executive Officer**
And Mike, because I'm gonna have Mario talk about where we see the long term trajectory of this going, but when we think about filtration, it isn't about necessarily about safety even though that's front of mind to a consumer. I think most filtration devices out there a great safe water for you and most cities provide safe water. It's really about that taste profile. And as we did our voice to consumer study, we had a taste profile and the ability to dial in the water that you might need home and taste the way you want, is critical, and then adding the flavors, the carbonation to it.

**Mario D'Ovidio - Executive Vice President, President Consumer Solutions**
Mike, this is Mario. This is a really exciting space for us. Rocean really helps us round out our portfolio, so we have obviously, product that can help us treat water throughout the home, but Rocean also gives us now this countertop capability. It's literally plug and play, you take it out of the box, plug it into wall, fill the reservoir, and you have great tasting water and then we continue to build on that. If you if you think about one of the most popular waters in the country is 7,000 miles away, and it comes on a boat or a truck or a train, and the impact that that has on the planet, and then the single use bottled waters. And Rocean allows us to basically eliminate that entire supply chain and create the water that you need straight out of the tap in a very, very simple way, taking away any of the previous pain points we've had in the portfolio. So it's a really nice addition and it's something that can be multiple units in a home, not just one unit, one place.

**Mike Halloran - Analyst, Robert W. Baird & Co., Inc.**
That's super helpful. Last one for me is, you guys have talked about sustainable gas for a bit here now, $100 million dollars or so today. You know, I think it's pretty obvious to me why the opportunity exists, but maybe you could talk a little bit about how big of an opportunity it is. And that's something certainly I've struggled with and clients who call and struggle with, is just how big this opportunity can be over time from market perspective for you, any kind of color on that side would be helpful.
Jerome Pedrotti - Executive Vice President, President of Industrial Flow Technologies

Yeah. Thank you. Great question, Mike. This is Jerome. I think it is a huge opportunity. So we are present in two areas, mostly biogas that we purify, and then we're transforming via methane and CO2, but we can transformed into food grade. And what we call carbon capture, where we capture the CO2 stream from an industry to when we purify, go back to reinject it later in the process, or industry, brewers or (inaudible) carbonate (inaudible) for example.

We say we are well positioned, and that's a really exciting space, because that market is growing, growing really fast. I think the number of sources also are multiplying, where we can capture all the ideas. And we are innovating in order to be able to capture that from multiple sources, or into our customers, opportunity to use other biomethane and use that process, or CO2, in whatever form they want.

So we think it's a fast growing industry. We are well positioned with where we do business and would benefit from that.

John Stauch - President, Chief Executive Officer

Mike, we'll do some follow ups on here because we're spending a lot of time getting to know our opportunities a little deeper as well, and really framing those sizes of the individual spaces. I think our vision though is, that there's going to be some pretty large players that are going to enter this space because they're converting a large revenue streams, and they're going to need to really play here, and I think they're going to be partners of ours, as we saw, parts of equation for the customer that has to make this say, a commitment. These targets that we're signing up for as CEO aren't just about saying we're going to do something 20 years from now, we got to feel tremendous progress against the greenhouse gas emissions. And so we're, all as companies, seeking ways to do that. And that's driving this market and we're going to be a big player in there. How big, we don't know yet, but we think it's definitely multiples of where we are today.

Mike Halloran - Analyst, Robert W. Baird & Co., Inc.

Well, thanks, John. Thanks, team, appreciate all the time.

John Stauch - President, Chief Executive Officer

Thanks, Mike.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations

All right. Well next go to Eitan Buchbinder, for Andy Kaplowitz.

Eitan Buchbinder - Analyst, Citigroup Global Markets, Inc.

Hi, can you hear me there?

John Stauch - President, Chief Executive Officer

Yeah. We can hear you, Eitan.
Eitan Buchbinder - Analyst, Citigroup Global Markets, Inc.

Great. Okay. Thank you for your patience. Maybe if I could just ask about how long term pricing factors into the equation in terms of growth. I think you said that 2.5% to 3% of price for this year, has that changed at all within your new guidance? And given more innovation in pool and more focus on automation, has longer term pricing change that?

John Stauch - President, Chief Executive Officer

Yeah. It's a great question. And right now, we've got pretty much standard types of pricing in these long term and long term goals. I would think that this is a big opportunity for Pentair to explore, by looking at our dealers adaptations, our channel, pricing models and thinking about what is really driving value versus what is really participating in the market space. I think that we look at pricing, but we miss the component of net realized pricing. And that's where Mario and Jerome are spending majority their time, they think about going forward.

So, right now just to answer your question, we've got steady, steady pricing models, where we take a look at the inflation, headwind, and then we price accordingly in the areas that need to. I think, going forward, we got to pick up more value based pricing and what's the right price for the products into the right channels. And that will come out of the work that we're doing with the transformation project.

Eitan Buchbinder - Analyst, Citigroup Global Markets, Inc.

Thanks, that's helpful. And you have a clear difference between longer term expected growth rates and Consumer Solutions, and Industrial and Flow Technologies. We know you're driving biogas with carbon to capture, but can we get these businesses big enough where you'd get your overall (Inaudible) F9, FT, and if not, at what point do you push divestitures a little harder or separation to achieve higher growth?

John Stauch - President, Chief Executive Officer

Yeah. I get why I keep getting asked that question. And Jerome and I are in the same room together, as we all are, and we're lined up. The reason we really moderate growth rates of our pump businesses and some of our industrial solution businesses, because there is always a tendency to chase large projects that are one and done, where they don't have the aftermarket streams, or they don't have the continual revenue streams associated with that. We're just sharing constantly both internally and externally, that we want to limit our growth to the high value add contributions that Pentair could make.

The market themselves will grow a little bit broader than this and we'll collectively shoot at those pockets. Within those growth rates we have, we still think we can reduce the complexity, as Jerome mentioned, focus on the higher margin aftermarket solutions and drive a lot of margin expansion and cash. And I think we got the right leaders aligned on that, and I think we're executing that strategy and I see a lot of future value potential from that. So, not yet a divestiture of these products because the product lines that I keep being asked because they're pretty valuable to Pentair.

Eitan Buchbinder - Analyst, Citigroup Global Markets, Inc.

Thank you, that's helpful. I'll pass it on.

2021 Pentair plc Virtual Investor Day
Thursday, June 10, 2021, 9:00 AM Eastern
Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations
All right. Thank you. Just reminder that if you'd like to ask a question, please raise your hand and we'll call on you and next we will go to Brian Lee.

Brian Lee - Analyst, Goldman Sach & Co. LLC
Hey, guys, thanks for taking the questions. Can you hear me okay?

John Stauch - President, Chief Executive Officer
We can, Brian.

Brian Lee - Analyst, Goldman Sach & Co. LLC
All right. That's great. Appreciate all the long term outlook material here and a bunch of questions here around that. Maybe if I could focus a bit more on the near to medium term. First off, can you talk a little bit, John, about the mix of new pool construction versus renovation and repair, replace, just kind of, what sort of backlogs look like for pool builders heading into 2022 versus maybe where you were at the same point last year just historically at the midpoint of any typical year? Just trying to get a sense of how far out some of your visibility's extending here, given the environment we're in.

John Stauch - President, Chief Executive Officer
I'm going to hand over to Mario, he's closer to that, obviously. And he'll take that question.

Mario D'Ovidio - Executive Vice President, President Consumer Solutions
Sure. Thanks, Brian, for the question. Yeah. I mean the pool season obviously has been strong. New builds are strong and continue to be strong. We continue to see good order flow and good order rates. And obviously, with more people at home, more people using pools, addition of more heaters to pools to extend seasons, there's greater use and there's greater wear and tear and other things that go with that. So, I think, from a category perspective, there's good growth everywhere. It's hard to really discern what's driving what, but that continues to be strong. We have good order flow and we see through this year and even, our customers are taking orders and committing to pools into next year. So we feel pretty confident about that.

John Stauch - President, Chief Executive Officer
Yeah. Just to remind you, that limiting capacity is usually on the build side, pool build side, right, and we do see that backlogs and work its way into deposit checks for those new pools that are set up for the 2022 year. And then it's aftermarket spring, as far as I think we've seen disproportionate amount growth throughout heaters specifically. As people extend those seasons and that product lines is one that we were pushing for a long time and we really trying to understand if that penetration rate continues at this rate, or if that was more of a 2021 type of focus. But we see growth next year, and we probably see growth the year after, both the new and the aftermarket side, as the interest level will start to add up. So we're pretty excited about our position and we're pretty excited about the trends, and we're really also really excited about the new technologies we're introducing and the adoption rate of those.
Brian Lee - Analyst, Goldman Sach & Co. LLC

Okay. Thank you. That's super helpful. And just maybe a second question. This maybe leads into some discussion around the technologies, but given the outlook update here, doesn't seem like you're having any issues, but we've seen and heard about these widely reported chlorine shortages in the industry. Can you talk about what impact, if any, you're seeing on your pool business from that? And then related to that, what products you have either in the mixer or upcoming that would kind of help sort of mitigate the issue around chlorine, from I guess from an efficiency perspective?

John Stauch - President, Chief Executive Officer

Yeah. So I'll let Mario answer this one. We're not chemical suppliers, so we don't have the direct impact of the chlorine shortage, obviously. If you don't have the particular product, you can't treat your pool appropriately. That's a challenge. I will put a commercial here, we are the leader of salt based pools and we do believe that that's a form of chlorine and probably a better alternative and so we're pushing those products hard to our customers. And also, we introduced this new filter. We're finding ways to reduce the amount of chemicals by using membrane technologies to clarify the water. So those might be personal, but I'll throw it over to Mario.

Mario D'Ovidio - Executive Vice President, President Consumer Solutions

There's not a lot to add to that, that's a good answer. I mean, obviously consumers have always been interested in trying to reduce chemical usage, that's been something, a continued trend that we've been focused on. There's great product in our portfolio and we participate to be able to drive salt pools versus chlorine tools as well, and the new technology and the launch of our new product the ultra-shield that I mentioned earlier. Phil also talked about, really is great timing for that because there's more and more attention on cleanliness and bacteria and all these things, which our new product deals with quick directly.

Brian Lee - Analyst, Goldman Sach & Co. LLC

Okay. Great. Thanks, guys, I appreciate it. I'll pass it off.

John Stauch - President, Chief Executive Officer

Thank you.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations

Okay. It looks like we have no more questions at this time, so I wanted to thank everyone and if you have any follow ups, please feel free to reach out to me. And with that, we will conclude today.

John Stauch - President, Chief Executive Officer

Thank you and thank you for your interest.

Jim Lucas - Senior Vice President, Treasurer, FP&A, Investor Relations

Thank you again for joining us for Pentair's 2021 Investor Day. We hope you have gained a better understanding of our strategy, our team and the tremendous opportunity that we are pursuing. We look forward to our future conversations with you and sharing with you our progress against our goals. A reminder that today's presentation can be found at
pentair.com/investorrelations and we hope you found today's discussion to be helpful as you evaluate your interest in Pentair. We hope you will join us for the journey.