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Pentair plc (PNR)

Q2 2020 Earnings Call

CORPORATE PARTICIPANTS

Jim C. Lucas

Senior Vice President, Treasurer & Investor Relations, Pentair plc

Robert P. Fishman

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

OTHER PARTICIPANTS

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Andrew Obin

Analyst, BofA Securities, Inc.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Joseph Giordano

Analyst, Cowen and Company

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Deane Dray

Analyst, RBC Capital Markets LLC

Damian Karas

Analyst, UBS Securities LLC

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Julian Mitchell

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Q2 2020 Pentair Plc Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will

be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Jim Lucas. Thank you. Please go ahead.

Jim C. Lucas

Senior Vice President, Treasurer & Investor Relations, Pentair plc

Thanks, Marianna, and welcome to Pentair's second quarter 2020 earnings conference call. We're glad you could join us today. I am Jim Lucas, Senior Vice President, Treasurer and Investor Relations. And with me today is John Stauch, our President and Chief Executive Officer and Bob Fishman, our Chief Financial Officer. On today's call, we will provide details on the second quarter 2020 performance as well as our full-year 2020 outlook as outlined in this morning's press release.

Before we begin, let me remind you that any statements made about the company's anticipated financial results are forward-looking statements subject to future risks and uncertainties such as the risks outlined in Pentair's most recent Form 10-Q, Form 10-K and today's press release. Forward-looking statements included herein are made as of today and the company undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances. Actual results could differ materially from anticipated results.

Today's webcast is accompanied by a presentation which can be found in the Investor Relations section of Pentair's website. We will reference these slides throughout our prepared remarks. Any references to non-GAAP financials are reconciled in the Appendix of the presentation. We will be sure to reserve time for questions-and-answers after our prepared remarks. I would like to request that you please limit your questions to one and a follow-up in order to ensure that everyone has an opportunity to ask their questions.

I will now turn the call over to John.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Jim, and good morning everyone. Please turn to slide number 4 titled Executive Summary. First and foremost, we hope that everyone remains healthy and safe. While the impact of the COVID-19 pandemic continues to create uncertainty, our focus on the health and safety of our employees, our customers and our businesses continue to be our priority.

Throughout the quarter, we built strong COVID-19 management capabilities which are now part of our standard work processes. We recognize that there will continue to be disruptions due to the pandemic but we believe we are better positioned to help manage any potential impact. While we had withdrawn our guidance entering the second quarter, we were generally pleased with the overall performance of the company. We anticipated that our Commercial and Industrial facing businesses would face challenges as global capital spending came to a halt in April but the rate of decline did moderate as the quarter progressed.

Our Residential facing businesses including our leading Pool franchise saw healthy improvements during May and June and exited the quarter with continued improvement and trends. As consumers sheltered in place during
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the quarter, it appears swimming pools were being opened earlier and demand for swimming pools overall grew resulting in increased demand for our equipment. Consumers also remain focused on their water quality which led to improved orders for Water Solutions business.

We are extremely pleased with our free cash flow performance as we generated over \$400 million of free cash flow during our important second quarter. We used this cash flow to reduce our outstanding revolver balance and the result was further strengthening of our liquidity profile. We continue to position ourselves to take advantage of opportunities as business recovers. Residential comprises roughly 60% of our portfolio and we believe these businesses should continue to benefit from improved demand.

While we anticipate that the rest of the portfolio serving Commercial, Industrial will likely remain challenged, we remain focused on aligning the cost structure appropriately while continuing to invest in longer-term opportunities.

I'd like to thank all of Pentair's employees for continuing to deliver for our customers despite these unprecedented times.

Please turn to slide number 5 labeled, Segment Focus. We wanted to remind everyone of our focus within our two segments, which remain relatively unchanged. Within Consumer Solutions, our largest segment, our primary focus is advancing our growth in Pool, both in gaining content, as well as extending our aftermarket reach. As a reminder, there are approximately 80,000 new pools built each year and there are roughly 5.5 million pools installed in the ground. We believe that automation represents a longer-term opportunity, and we continue to evolve our product offering. We have launched the Pentair Home app and are rolling out a number of new products that can and will be interconnected.

We also wanted to comment on an upcoming Department of Energy regulation that goes into effect in July of 2021, which we expect will result in further adoption of variable speed pumps. As a reminder, this is a category that we helped invent over a decade ago. We estimate that roughly 30% to 40% of in ground pools have a variable speed pump today and we expect this number to only increase after the new DOE regulation takes effect.

While we believe we are well positioned from a product standpoint, we're working closely with our dealers and distributors to better educate them about what the new regulation means, as well as help them manage the transition away from single speed pumps.

Within our Water Solutions business, we continue to invest in innovative components such as our Fleck Connected Valve for water softeners while also expanding our Residential Systems business.

Within our Commercial Systems business, we continue invest in new areas around commercial office water and total water management. We see this as a long-term opportunity where we believe we are well-positioned and we look forward to updating you in the future.

Finally, we continue to focus on our M&A funnel primarily around tuck-in and bolt-ons. During the quarter, we made a small acquisition of an in-floor pool cleaner company that expands our product offerings. We see opportunities for other product line extensions in Pool and much broader opportunities within Water Solutions. While our focus within Consumer Solutions is principally around growth, Industrial & Flow Technologies, or IFT, has more of a focus on productivity. We have reinforced our PIMS processes as we believe that there are a number of opportunities across the segment to improve the cost structure and also improve quality and delivery within a few select businesses. We continue to invest in productivity enhancing technology in our manufacturing plants.

While the focus in IFT is more on margin improvement, we believe that there are some potential niche growth opportunities particularly in our Food & Beverage business focused on CO2 recovery as well as our Beer Membrane business. We continue to prioritize our opportunities for both segments to ensure we are allocating our resources most effectively to optimize our shareholder value creation opportunities. We have a balanced focus between growth and productivity and believe that both segments are well-positioned to make contributions to Pentair and all of our stakeholders.

Please turn to slide number 6 labeled What We Do Really Matters. Doing well by doing good has been a longstanding tradition at Pentair. Our purpose and our mission help to energize our employees to make a difference within and beyond the workplace. Sustainability is not an initiative at Pentair but instead is core to the products we create and the customers we serve. This slide is a brief snapshot of how some of our products are helping to make the world a safer, more sustainable place. Pentair is a water-focused company and many of our products are energy efficient solutions. Our variable speed pool pump has helped us to be named ENERGY STAR's Partner of the Year for six consecutive years while helping consumers save nearly \$2 billion in energy costs.

Our Residential Water Solutions business has helped reduce the need for almost 10 billion water bottles annually. We also have a leading CO2 recovery business within Industrial Filtration that has helped customers capture and reuse over 11 million metric tons of CO2 every year.

We remain focused on leveraging our strong product and technology offerings to help our customers deliver smart sustainable solutions. This is core to Pentair and essential to our purpose and mission in building a leading water treatment company.

I would now like to turn the call over to Bob to discuss our financial position and our results in more detail, Bob.

Robert P. Fishman

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Thank you, John. Please turn to Slide 7 labeled Q2 2020 Pentair Performance. For the second quarter, our sales declined 11% and decreased 10% on a core sales basis. Consumer Solutions was down 8% on a core basis while Industrial & Flow Technologies core sales declined 13%. I will discuss each segment's performance in more detail shortly.

Segment income declined 19% and return on sales contracted 180 basis points to 17.5%. We made progress on our cost reduction efforts but the timing of these actions reading out did not fully offset our decremental margins in the quarter. Below the operating line, our net interest and other expense ended the quarter at \$8.1 million. Our adjusted tax rate was 16% and our average shares outstanding in the quarter was 166.4 million.

We delivered adjusted EPS of \$0.59 which represented a 14% decline year-over-year. Overall, we were very pleased with the progression of the quarter following a difficult April. While there's still much work to do we feel positive about our ability to line our cost structure with a weakened top line.

Please turn to slide 8 labeled Balance Sheet and Cash Flow. While the P&L faced its fair share of challenges during the quarter, we were extremely pleased with our cash flow performance and the further strengthening of our balance sheet. For the quarter, we generated free cash flow of \$417 million, over a 20% increase for the

comparable period one year ago. We used our strong cash flow performance primarily to pay down our revolver balance. We ended the second quarter with \$764 million available under our \$900 million revolver.

Our net debt-to-EBITDA ratio ended the quarter at a very manageable 1.6 times. While we have one small maturity upcoming in September, we have no other pressing capital needs outside of dividends in the second half. We plan to remain disciplined with our capital and we feel good about the strength of our balance sheet and expect to deliver free cash flow for the year equal to or greater than our net income.

Please turn to slide labeled Q2 2020 Consumer Solutions Performance. Consumer Solutions sales declined 8%. Segment income decreased 11% and return on sales declined 80 basis points to 24.1%. Before discussing the full results of the two businesses within the segment, we wanted to remind you that Consumer Solutions is 75% residential and 25% commercial.

Our Pool business delivered flat sales for the quarter. This included a mid-teens decline in April followed by continued improvements in May and June. As consumers were sheltered in place, it appears that more and more people were opening their pools earlier than usual.

Further, demand inquiries for new pools were up substantially throughout the quarter as confirmed in various publications about dealers having limited ability to keep up with the increased demand. This resulted in strong demand across all of our product categories. While we were focused on meeting this demand, we were impacted in the quarter by COVID-related manufacturing delays and supplier disruptions notably during the early part of the quarter, when we would historically be ramping up productions.

We have seen less downtime in our own manufacturing facilities and have been able to ramp up production in several key product lines. The supplier disruptions occurred principally outside the US and we have worked to add suppliers in addition to our current suppliers being able to produce once again.

Within Water Solutions, the mid-teen sales decline does not tell the bifurcated story of the business. The smaller Commercial business, which is exposed to restaurants and other hospitality industries, experienced a double-digit sales decline. It was encouraging to see the rate of decline moderating throughout the quarter, but we are not expecting any meaningful recovery for this business for the remainder of the year.

Our Residential business was a different story as we did see signs of improvement throughout the quarter in what can best be described as stabilization exiting the quarter. Early in the quarter, many of our dealers and customers were unable to get into consumers' homes to test their water and install systems. As the quarter progressed, we saw dealer activity increase and we also saw some pockets of stabilization in our components business. We believe Consumer Solutions is well positioned as we enter the third quarter based on the strong demand in Pool and the continued improvement in orders.

Please turn to slide 10, labeled Q2 2020 Industrial & Flow Technologies Performance. Industrial & Flow Technologies or IFT saw sales decline 14% with all three businesses down in the quarter. Segment income decreased 26% and return on sales declined 240 basis points to 14.1%. The rate of decline in IFT was steep, limiting our ability to quickly take out costs, but there was a sequential improvement in sales as we exited the quarter.

We are working on rightsizing the cost structure in IFT according to the demand run rate, as we believe the top line will likely stay pressured in Commercial & Industrial as customers continue to pause their capital spending and reduce their aftermarket orders to lower asset utilization.

Our Residential & Irrigation Flow business experienced a low double-digit sales decline as customers were actively managing their own balance sheets and their demand was severely impacted early in the quarter due to many states residents being sheltered in place. We experienced an improvement in activity as the quarter progressed with orders in June, up significantly versus April.

Commercial & Infrastructure Flow posted a high single-digit decline in sales with commercial demand down low double digits as the smaller infrastructure business continued to ship its backlog. We are monitoring orders closely in this business, but it appears to be too early to determine at what rate the backlog will be replenished.

Industrial Filtration was hardest hit during the quarter with sales declining just over 20%. This was broad based as virtually all industries served saw a severe freeze in capital spending as well as lower asset utilization that had a negative impact on our aftermarket sales. It remains to be seen when these trends will reverse, and we're preparing for this part of IFT to remain under pressure for the remainder of the year. We expect the top line to remain pressured in IFT, and we are taking appropriate actions to right-size the cost structure. We expect decrements to improve throughout the second half of the year.

Please turn to slide 11 labeled Full Year 2020 Planning Assumptions. Despite a brief period when COVID first appeared in the US in a meaningful way, our Pool business has enjoyed an otherwise stronger first half of 2020. We expect this trend to continue in the third quarter as demand remains strong across the channel, and we make progress in satisfying the strong demand the industry is experiencing. Our Water Solutions business, on the other hand, is not expected to have a second half recovery as hospitality and commercial offices are likely to remain impacted by the COVID-19 pandemic.

We are also watching closely as COVID infection rates increase in key water quality states such as Florida, Texas, and California. If tighter shelter-in-place restrictions are instituted, this could have an impact on our Residential Water Solutions business. As we stated earlier, IFT is expected to not see much in the way of recovery as we anticipate customers continuing to pause their capital spending for the remainder of the year.

Finally, the pandemic environment continues to create challenges for us as we make base economic assumptions. We expect continued uncertainty but with the expected performance of our Pool business, we are reinstating guidance as we expect the rest of our portfolio to face continued challenges.

Please turn to slide 12 labeled, Full Year 2020 Pentair Outlook. While full visibility remains limited with half the year behind us, we are reinstating the full year guidance. For the full year, we expect adjusted EPS to be in a range of \$2.00 to \$2.20, on total sales of roughly \$2.8 billion. Below the line, we are expecting an adjusted tax rate of 16% and average shares outstanding of approximately \$167 million. We continue to target free cash flow greater than 100% of net income.

Capital expenditures are expected to be \$60 million to \$70 billion. While D&A should approximate \$75 million, and non-cash stock compensation should be around \$20 million.

I would now like to turn the call over to Marianna for Q&A, after which John will have a few closing remarks. Marianna, please open the line for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Josh Pokrzywinski with Morgan Stanley. Your line is open.

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John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hello, Josh Pokrzywinski. How are you?

.....

A

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Morning, Mr. Stauch. How are you?

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good.

.....

A

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Excellent. So, no surprise, first question on Pool. John, can you just talk a little bit about, you know, point of sale in the marketplace versus your business? Anything on backlog channel inventory, you know, that we should be thinking about as we head into the second half and how maybe those two come into lock step (19:48).

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I think, first of all, I think we're pleased with the order trend and the sell-through rates in Pool and very excited about the business' resiliency. And as we think through what's happened in the channel, I think most of that, those orders in Q2 were served through inventory. So, there's an opportunity and certainly the demand is to refill that inventory in the channel and continue to meet the external demand. So that's why Bob's comments were very optimistic about what the back half looks like and we're very hopeful that we continue to see that strong demand.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then, I'm assuming I win some sort of prize or a t-shirt for a non-Pool question, just on Commercial Filtration. I would imagine that shelter-in-place was pretty punitive to, you know, things like restaurants and institutions. Any kind of swing factor that we should be aware of where 2Q maybe doesn't tell the story but June exit rates or July, some of these organizations went from zero to something better than zero. Any shift in demand there that you can speak to?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

No. I think because even in June you'd have to look at it as two halves, I think. As the country started opening up certainly in June, very strong demand recovered. And as we started to see a pullback across the main States and certainly across the United States, we started to see the trend start to slow again.

I think our forecast assumes we just don't see recovery. And in fact, we continue to see continued pullbacks to deal with the pandemic. And so, I think it's a balance place to be right now. As Bob's notes determine, we saw a big, we did see a big pickup in Residential. Residential water quality especially in people's homes is a high demand area; that accelerated throughout the quarter.

And we've muted that expectation the back half of the year throughout the quarter and we've muted that expectation to back half of the year as well as we're concerned if states start to reverse their views on the openings. I think a highlight would be we did see China recover in the quarter, and we're very optimistic, certainly, of its year-over-year June rates and what we see of the trends heading into Q3. So, that does give us the indications that when things start to stabilize around the pandemic, that we really feel the strength of our portfolio will start to unfold.

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Q

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Okay. Appreciate it. I'll get back in queue.

.....
Operator: Your next question comes from the line of Jeff Hammond with KeyBanc Capital Markets. Your line is open.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey Jeff.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey. Good morning, guys. So...

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

A

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Just on the Pool kind of supply chain issues, can you just talk about what you think defers into 3Q as a result of that and just what's your assessment of kind of those supply chain issues? Have they fully abated or are they still lingering?

Q

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. So, Jeff, we're carrying a fairly substantial backlog into Q3. The order trend was very positive throughout Q2. And yes, we did have some supply disruptions primarily related to COVID and our supply base. And so, we are consistently trying to meet that demand and we expect a very strong July, and we're doing everything we can to meet the existing demand and also the demand that was created in the Q2.

.....

Jeffrey D. Hammond

Q

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then, IFT kind of surprised me in the model on the upside, like, where did you see maybe better trends versus what you were expecting? And then, I think, Bob made a comment on decrementals getting better. How should we look at decrementals for the back half for IFT?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yes. We'll split this answer, Jeff. I think on IFT, first of all, I think on long-cycle businesses, you carry a little bit of backlog into the quarter. So, we did have a backlog from orders that we had booked in previous quarters that we continue to ship throughout Q2. But also and I was pleased that we've become less dependent on large projects and we've got more of a recurring revenue stream across the IFT portfolio than we had maybe three to five years ago. So, I think the efforts around the team to position ourselves and more predictable revenue streams started to show through, especially as orders started to pull back.

And I think we're positioned, not to return to growth anytime soon but at least to mitigate the downside growth potentials that we had in the last cycle. So, I feel good about where we are in the portfolio. As Bob mentioned, we still have cost actions here to right-size the business to where the trends are going to take it. We've been encouraged with a little bit of the order pattern as we started Q3, but we got to get this business in line with what the longer-term revenue stream looks like and those are actions that we'll be discussing here throughout Q3.

I'll have Bob talk about decrementals.

.....

Robert P. Fishman

A

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Thanks, John. There is a tremendous amount of work going on around the cost structure, understanding fixed, variable, discretionary, non-discretionary, especially within the IFT business. I would say the best way to model the back half is to continue to use low to mid-30s (25:11) as decrements for that business.

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Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. Thanks, guys.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thanks, Jeff.

.....

A

Operator: Our next question comes from Andrew Obin with Bank of America. Your line is open.

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Andrew Obin

Analyst, BofA Securities, Inc.

Yes, good morning.

.....

Q

Just a follow-up question on Pool. You know, as we look at sales reported by public distributors, you know, how long do you think it will take for your sales sort of to match what the industry is doing? And as I said, I'm using public guys as an example. But it's just a disconnect, you guys were flat, the industry, you know, POOL, I think, reported up 14%. You know, should we expect the gap to close in third quarter or how long does it take?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes. I mean, we're going to do everything we can to close that gap in Q3. And as I said, I think the orders continue to remain strong. So, I think, through the back half of the year, we're expected to see, you know, our revenue increase significantly, Andrew.

A

Andrew Obin

Analyst, BofA Securities, Inc.

Fantastic. And just on the supply chain, you did talk about adding suppliers. Are you at the same geography or are you guys considering maybe de-risking supply chain and moving some of the suppliers to the US? Can you just talk about how you are thinking about your supply chain post-COVID? Thank you.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I think like most companies, I think we have to, you know, first do what we need to do to get our demand out. And what we have is, in a couple cases, we have suppliers that, you know, use Mexico as the source of that production. And, as you know, Mexico was hit hard in COVID here throughout Q2, and that disrupted the supply chain a little bit.

A

As we move forward, I think we're very aware that supply chains are going to need to be much more localized not just in the US but also in Europe and also in China. I think, you know, the disruptions that were caused as the pandemic worked its way through highlighted a couple issues. But as a reminder, I mean, tariffs were another indication of where supply chains needed to move as well, and there hasn't really been any movement on, you know, feeling better about where tariffs are going to be longer term, which really, I think, drives all of us in the manufacturing space to think about more localized production to serve the demand and the needs but also to

.....
balance and de-risk the aspects associated with disruption to global supply chains, Andrew. So, I think that's a trend not just for us but for everybody.
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Andrew Obin

Analyst, BofA Securities, Inc.

Thank you very much.
.....

Q

Operator: Your next question comes from the line of Steve Tusa with JPMorgan. Your line is open.
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Steve Tusa

Managing Director, JPMorgan Securities LLC

Hey, guys. Good morning.
.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, Steve.
.....

A

Robert P. Fishman

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Hi, Steve.
.....

A

Q

Steve Tusa

Managing Director, JPMorgan Securities LLC

What was the impact of the supply chain issues dollar volume wise?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, it was a big piece of what would have helped close the gap between the industry trends and where we shipped our products, Steve. Let's just put it there. Part of that being that, as Bob mentioned, we got off to a slow start in the quarter as the orders started coming in just from our manufacturing operations and ramping ours up to the demand. But then when the supply disruptions happened, as I mentioned earlier, that put us further behind and now we're digging out of that aspect.

We've seen strong demand across the entire equipment portfolio, so it's not just a product line. And as we head into Q3, we're confident we have a path to get the customers their orders within Q3 but we also see the demand working its way into Q4 as well, Steve.

Q

Steve Tusa

Managing Director, JPMorgan Securities LLC

How strong were, are orders kind of in June and July? You said you can grow significantly. I mean, are they up more than double digit?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes. No, not more than double. That would be triple, right?

Steve Tusa

Q

Managing Director, JPMorgan Securities LLC

.....

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Sorry?

.....

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

There are up double digits. There are definitely up double digits.

.....

.....

Yes. Sorry. They're not 100%. Right. Are they up more than 20%?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yes.

.....

Steve Tusa

Q

Managing Director, JPMorgan Securities LLC

Okay. So can you in Consumer actually hold the flat line this year, do you think for this segment?

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.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

I think that would be aggressive.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Okay.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I think like we said on, I think it's slide 11, Steve. We expect, listen we acknowledge that Pool we think it's going to have a good year this year anyway. As you know we had easier comparisons year-over-year. And we didn't have great weather last year and we've had tremendous weather for the pool season this year. In addition to that...

A

Steve Tusa

Managing Director, JPMorgan Securities LLC

Right.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

...we think that the shelter in place has changed the consumers' behaviors primarily round seasonal products that aren't always purchased. You know, okay, we're going to use our pool earlier, so let's talk about our heaters. We, we're home and we're maintaining our pool. Should we consider chlorinators, should we consider automating our pool? Those are all the things that we are hopeful for long periods of time that our consumers would begin to understand and start to invest in, and we're really encouraged about those order trends related to that.

A

So, we're acknowledging Pool is going to have a really good year and our only limit there is our supply chain and making sure we're managing through it. We're acknowledging the fact that we probably had a much more optimistic forecast in Water Solutions and the Commercial impact in the likelihood that people are going to open up their offices for people to come back to work or that hotels and hospitality sections are going to see travel to the level that we used to. That's what we're taking out of this look as we build this guide, Steve.

Steve Tusa

Q

Managing Director, JPMorgan Securities LLC

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Right.

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

I wouldn't think it'd be very hard for Consumer Solutions to get all the way back, but I do think we're encouraged by the trends. And as we started to see things open in June, we really liked our positioning in the Water Solutions business and we started to see that recovery. But then towards the end of June, we saw it pullback a little bit as a lot of closures started to happen.

So, I know it's a long-winded answer but I just want to give you the color. And I felt that slide was important because while there's a lot of optimism in our businesses, the final bullet point is the sobering reality that none of us know what's going to happen with this pandemic both in the impact that it has on the economic outlook to our businesses but also on what it's going to do to our global supply chains and our own manufacturing factories.

Steve Tusa

Q

Managing Director, JPMorgan Securities LLC

Right. Sorry, one last quick one. On productivity, you did \$9 million this quarter. Is that kind of a good consistent run rate for the back half or do you have some more kind of costs coming through timing-wise that can improve that in the last couple quarters?

Robert P. Fishman

A

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

We're focused on improving that number. Again, looking at the portfolio of businesses, we think there's opportunity to do better than that.

Steve Tusa

Q

Managing Director, JPMorgan Securities LLC

Okay. Great. Thanks.

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.....
John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thanks, Steve.

A

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Operator: Your next question comes from the line of Brett Linzey with Vertical Research Partners. Your line is open.

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.....
Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Hey. Good morning, everybody.

Q

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.....
John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Morning.

A

Q

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Hey. Just wanted to circle back on the DOE efficiency changeover, how do you see that playing out as we roll into next year? Do you expect some pre-buy of the single-speed ahead of the deadline and then, you get the mix-up kind of beyond 2022 or, you know, what's your thought process there?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. We've always felt that there would be some pre-buy just because the way the other industries handled transitions of this like. I think we obviously are working with our distribution and dealer channels to help understand that the value of the variable speed is significant, both in the form of how quiet it is, its efficiency, and just the fact that it plainly is a better pump. So, while we do expect some of that pre-buy to mitigate, you know, the impacts of not having it available next year, we really are hopeful that more of the mix switches to the variable speed pump in a very short order here.

.....

Q

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Yeah. Got it. And then just on price, encouraging you're able to hold the line there in both the businesses in the quarter. Just given the strength in Pool, you've got some commodities moving against you, do you think you have a price lever to kind of move price back up through the second half of the year specifically in Pool?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I think it's going to be a more normalized pricing environment, you know, similar to the way we approached this year. While there are some challenges across certain product lines, I mean, overall commodities have generally held in there and we haven't seen significant inflation. So I think it's going to be a more normalized year as we head into the season.

.....

Q

Brett Logan Linzey

Analyst, Vertical Research Partners LLC

Okay. Got it. I'll pass it along. Thanks.

.....

Operator: Your next question comes from Joe Giordano with Cowen. Your line is open.

.....

Q

Joseph Giordano

Analyst, Cowen and Company

Hey, guys. Good morning. Just – can you hear me?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes, we can, Joe.

.....

Q

Joseph Giordano

Analyst, Cowen and Company

All right. Great. So just following question on that question on the regulatory change, just can you kind of frame out what that means for you guys on like a margin profile basis or – and what it means to the competitive landscape and who is, who's producing efficient single speed versus variable speeds and how that kind of works for you guys, just the give and take in the industry?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So this has been a product that's been, you know, out there for 10-plus years. And, you know, as I said in my comments, you know, we helped with the channel and the needs primarily on the, you know, high-cost energy states introduced this product. So we've been the leader in it for a period of time. But candidly, everybody's got a

variable speed pump and, you know, I think our biggest challenge across the industry is getting people to understand that even though the cost of that product is almost double, the value in the pump both on how long it lasts and the value it creates is significant. So, it's not really a change in margin profile. It goes out at more revenue and it throws out more margin dollars but not higher margin.

.....

Joseph Giordano

Analyst, Cowen and Company

Got it. That makes sense. And I was just curious about kind of like channel evolution. Have you seen more of your business going through like an Amazon-type sale more recently? How has that kind of shifted over time?

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Online has definitely picked up on, you know, do-it-yourself products like filtration or replacement filtration cartridges. Definitely interest in [ph] sure (35:55) filtration that's going through those online channels. And then, just as a reminder, we have our own online capability that we've got through the Pelican acquisition that we utilize to take some of that demand and shift it over into more of a water expertise, because what we want to do is give people the right solution, not just sell them a products that they think they need.

.....

A

Joseph Giordano

Analyst, Cowen and Company

And what does that mean, as that shifts towards that channel, what does that mean for you guys from a margin standpoint? Thanks.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, I mean, we think – I mean, there's always going to be a curated set of products in any industry in which people are going to be able to do and replace themselves. We don't necessarily feel in Pool or in our Water Solutions businesses that that solves for the real consumer concern around taste and quality of their water. And so we believe long term that create leads that really drives a nice services revenue for us over the longer term.

A

.....

Joseph Giordano

Analyst, Cowen and Company

Thanks, guys.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

.....

A

Operator: Your next question comes from Brian Lee of Goldman Sachs. Your line is open.

.....

Brian Lee

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Good morning. Thanks for taking the questions. Just maybe firstly on the decrements on Consumer Solutions specifically and – you know, they seem to come in pretty strong, a bit better than what we would have expected given the 8% decline in sales. Anything in the quarter that might have helped the margin profile? Was it all a function of mix or was there something else? And then, you know, how should we think about you know whether this level of decrements in the segment sustains in the next few quarters?

.....

Q

Robert P. Fishman

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

For Consumer Solutions, again mix was helpful in the quarter. And you know, we expect that trend to continue in the back half of the year. There's also within Consumer Solutions a number of productivity plays that are underway. So, I expect you know decrements to continue to do well within the Consumer Solutions segment.

.....

A

Brian Lee

Analyst, Goldman Sachs & Co. LLC

.....

Q

Okay. Fair enough. And then just secondarily with respect to mix and the Pool business specifically. Do you see different margin profiles when it comes to business coming from renovation projects as opposed to new construction? And are you seeing, I think you mentioned both, but are you seeing trends in those two segments being similarly strong or is one outperforming the other? It sounds like you know backlogs on the new construction side are actually above average according to some of the supply chain players, but just be curious to hear your read and also what the relative impacts are from one type of business versus the other.

Robert P. Fishman

A

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

When we've been looking at it both you know new construction and remodels are both strong in this environment. And the margin profile is very similar between those two pieces. So, again good news from our perspective in terms of, you know, consistent demand in both of those areas.

Brian Lee

Q

Analyst, Goldman Sachs & Co. LLC

Okay, great. I'll pass it on. Thanks, guys.

Operator: Your next question comes from the line of Scott Graham with Rosenblatt Securities. Your line is open.

Scott Graham

Q

Analyst, Rosenblatt Securities, Inc.

Yes. Hey. Good morning. Thanks for taking this question. I have three for you...

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Hey, Scott.

Scott Graham

Q

Analyst, Rosenblatt Securities, Inc.

...if you could just give us a quick comment on IFT mix. Can you maybe tell us also when the new pool inquiries, when your dealers and when trade is expecting that to manifest into actual breaking of grounds? And if you could also tell us what your thoughts are on reinstating share repurchases. Thanks.

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Sure. So, I'll try and keep this with Bob. I mean, it's interesting and I want to frame it, I think when we heard the pandemic hit or we saw it start to hit late March, April, when we checked with the channel and Pool, I mean, it was – the phones weren't ringing and people were nervous. And what happened throughout Q2 is people started to focus again on, how do I get a quality of life with what I have versus maybe vacationing and going elsewhere. So, we saw that demand come in very, very strong and continues to be strong through this call today.

So, I think that, that is the signal and usually, people know that they're not going to get a pool built in weeks, it's usually a couple quarters. And so, I think we feel good about that trend and what could happen in the new and remodeled pools as it goes forward. As a reminder, Scott, we look at every one of those opportunities as a way to convince that particular homeowner that there is a best solution for that pool that includes automation and includes their ability to dose the chemicals in themselves and maintain that pool themselves and get the best overall experience. So, we love the new pool trend and the remodeled pool trend because it's our best opportunity to increase the content. We obviously continue to serve the installed pools which is again you're using your pool and you're going to run through your equipment but that tends to be more of a like-for-like replacement. So, we like the trends right now. We think it's continuing in the right direction and we're hopeful it continues into 2021.

Bob, you want to talk about the capital allocation question?

Robert P. Fishman

A

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Yeah. On share repurchases, to me, it fits within the whole approach around capital structure. We continue to have a very balanced disciplined approach. First and foremost to me, it begins with driving free cash flow greater than or equal to net income. And we're on our way to do that here in 2020 and very pleased with the second quarter from a free cash flow perspective. The debt position at the company at 1.6 times, very manageable especially with covenants at 3.75. And then our liquidity position, if you were to take what's available in the revolver and add it to the cash, it's over \$850 million. And to me, what a difference 90 days makes, we were coming out of Q1 with that same liquidity position closer to \$500 million, so \$350 million higher going into the back half of the year.

All those things then give us the optionality around return of cash to shareholders and investing in the business. We targeted \$150 million of buybacks this year. We completed a \$115 million. We may resume the share repurchase in the future. But depending on market conditions and our capital needs, we still need to make that decision. We'll continue obviously to pay the dividend and invest in our highest margin growth opportunities both

organically and inorganically. So, I would best describe it as a balanced capital structure with really a lot of optionality but based on our liquidity position.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

And, Scott, your final question was really about mix and IFT. And I would say they're all relatively the same across the businesses except we do better when agriculture does better. So, we haven't seen that uptick in demand on Ag this year as it pertains to OEM Ag or spray irrigation Ag but that's the one piece of the portfolio we love when the market is strong.

.....

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Got you. Thank you.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

.....

Operator: Your next question comes from Bryan Blair with Oppenheimer. Your line is open.

.....

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Good morning, guys. Thanks for taking my questions.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Morning.

Q

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Wanted to circle back on the runway for new pool demand for a minute. Is it reasonable given construction backlogs, labor constraints, the limited length of the construction season to assume that the spike in new pool demand is going to remain significantly supportive through 2021 or am I oversimplifying that?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

That's a reasonable expectation. Obviously, there's all kinds of things that you need to consider like economic impacts, how people are feeling about their 401ks. Those type of things. But based upon the trends we see right now, it's very realistic to assume the scenario that you shared.

Q

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Okay. And you touched on M&A – the M&A funnel in your prepared remarks. Has the pandemic in any way shifted, meaningfully impacted the specific technologies or capabilities that are of interest to you as you scale Water Solutions or tuck into the Pool platform?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I mean, it's reinforced several. I think you know, we just did a small one in Pool that we think really fits nicely in the portfolio. It's in-floor cleaning. So, as you build and create a remodeled pool, it's the ability to put the jets at the bottom of the pool to create more of a mixture of the filtration capabilities. So, that's an example of a technology that you wouldn't go retrofit but you'd certainly put in a new remodeled pool and adding that to the portfolio is really nice to have.

As we think about where we want to take Water Solutions, we really believe, more than ever now that the trends are going to shift faster. Meaning, people want touchless solutions when it comes to dispensing water. They're going to come back into office buildings and have a different feeling about the water they drink. And so, people are going to maybe tend to think of branded water or certain forms of water being dispensed to a taste profile or a health profile that they seek. So, all of those things were in our portfolio and I feel we either want to accelerate the innovation internally or augment them with channel accelerators and/or service offerings into the markets that we'll go to.

So, I expect that we'll have some looks at some deals over the next six to nine months. We're going to continue to be disciplined as Bob said because most of this capability we can do organically. But if there's an accelerator out there that we can put in as a bolt-on or tuck-in, we're going to consider it.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Okay. Appreciate all the color. Thanks, again.

Q

Operator: Your next question comes from Andy Kaplowitz with Citigroup. Your line is open.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Hey. Good morning, guys.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Morning.

A

Robert P. Fishman

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Morning.

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

You obviously had a big cash flow quarter in Q2, and we understand the cash flow strength and seasonality coming out of Pool. But could you continue to see working capital tailwind in the second half given the strength in Pool? And, obviously, your guidance of greater than or equal to 100% conversion, I mean it's a little vague. So, given what we've seen already, it would suggest that you could see conversion well above 100%. So, if you could just comment on that?

.....

Robert P. Fishman

A

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Yeah. So, I would describe you know this year as a typical year from a free cash flow perspective. I would not describe 2018 and 2019 as such because of movements in working capital. But to us, it's playing out like we thought it would. In Q2, we saw, you know, strong cash collections. And we did not have the headwind of payables in the first half that we had in 2019. So, that's you know, two reasons why we're up so significantly at the turn.

We'll continue to drive positive free cash flow in the back half of the year. What I really like about the profile right now is that the linearity both in Q3 and Q4 is going to be much better than what it's been in the past. So, I start each quarter off you know level loading the plants and then having the opportunity to collect that cash. So, I like the linearity. We do have potential to be better than 100% of net income. That's what we're calling right now. But overall, I think we've got exactly the right focus on free cash flow.

One of the things we've changed in the last you know 90 days is building out a free cash flow forecast down to the business level. And so, we have accountability around everything from CapEx to inventory to cash taxes throughout the company. So, it always helps me when the company as a whole are focused on this metric. So I expect we'll continue to have strong cash flow performance in the back half of the year.

.....

Andrew Kaplowitz

Q

Analyst, Citigroup Global Markets, Inc.

Thanks for that. And then John, can you give us a little more color into your comments regarding frozen CapEx in Industrial Filtration, if I'm not mistaken it's a backlog business. So, could you comment on the backlog trends you're seeing? And then as your customers have slowly come off of shelter in place, have they started to spend at all or is it that they just waiting for more economic certainty? I think you mentioned in the past that you had a number of self-help opportunities in this particular business. So, what are they and are they helping you at all?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. It's is a great question. I think when you think about our Industrial Filtration offerings and you think of food and beverage and then you think of our membrane applications into broad industrial. Many of our customers just don't yet have any economic outlook for their business that they can feel comfortable at. And even with in F&B, even though that the stay-at-home liquor and beer sales have been pretty tremendous, we have to offset that with the hospitality demand that has dropped off considerably.

So, a lot of our food and beverage and beer customers that we're very intimate with are considering, you know, beer manufacturing in remote locations around the world that they are uncomfortable making that strategic investment right now given where the pandemic is. So, we – I don't want to say it's a freeze and I've been very careful with that because our dialogue's really been about for where they're going to put it and when they're going to do it versus if they are.

And then in the Industrial side, our customers again are in need of capital investment to accelerate productivity and most of our membrane offerings create that, but they're in the evaluation stage of where those will be. So, we've chosen that word carefully, pause, because we think it is really paused right now pending either more of a freeze or a reboot to that capital spend to drive the productivity and need.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Very helpful. Thanks, John.

Q

Operator: Your next question comes from Deane Dray with RBC Capital Markets. Your line is open.

Deane Dray

Analyst, RBC Capital Markets LLC

Thank you. Good morning, everyone.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, Deane, morning.

A

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, want to circle back on the new pool construction industry and, you know, we've been stuck at this 80,000 capacity for a while. Do you think the industry is going to put new capacity in place and you're seeing any signs of that? And how would that change your mix? I mean, you're typically 85% more about aftermarket but would that increase, you know, the new pool sales?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. Deane, I don't know if I can get there yet. I mean, last year, you know, we did have a pullback as we talked about due to weather. And this year, there's a little catch up and, you know, we'll be looking at those pool permits and the pool permit trends by the states as we go forward. You know, I'm encourage because I do think most people in these warm weather states when they retire and/or they choose to be there, they look at the pool as a necessity for their lifestyle.

So I think we believe the trends are still in our favor. Where it goes and how fast it goes, I'm not ready to make that choice yet, Deane. I do think what we can do is continue to make you aware of, if you have a pool, how we can help you maintain it better, and how we connect you with our professional channel that can give you the solution that we feel is best for you.

.....

Deane Dray

Q

Analyst, RBC Capital Markets LLC

Got it. I'm just, you know, an observation. I'm surprised that there's not more penetration of the variable speed pump because it is such a compelling economic decision. So anyway, that looks like the natural lift there is for more sales. And then, second question on the Home app for automation, where's that stand today? How many installations or users do you have? What's the expected pull-through in terms of products? And then, more of a qualitative question is, does that in any way put you in competition with the pool service folks, I mean, these are your channel partners typically, or does that enhance the relationship? Thanks.

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. Dean, thank you for asking. I mean, we soft launched it. So, we've got it in the test phase right now, around a couple products that we've introduced. And so, I believe we'll start to see that acceleration into 2021. We want to make sure that we work the bugs out and we're giving you a better end user experience. It brings all of our products in-home products into one Pentair app and it makes it more consumer-friendly. So, we have a dealer specific app that we'll have so that more technical needs and understanding will be supported through the dealer network. And then, the consumer app will give you things, more like things are good or I need more salt or I need to adjust appropriately.

We think it's actually going to augment and accelerate our dealer relationships, Dean, because the main point of the app and I call it the – probably a bad analogy now, but I call it the Uber app, is how do we connect you with the best dealer for your particular solution or need. We still believe and I strongly believe that we're going to be best served if we're giving you the right expert decision for your water quality needs and then, we're connecting that with our best dealers to give you the best experience. So, we're trying to create the awareness through the app and give you a better experience. But when you need something, we're not going to be at odds with them, we're going to connect the consumers through our best dealers.

Deane Dray

Analyst, RBC Capital Markets LLC

That's real helpful color. Thank you.

Q

Operator: Your next question comes from Damian Karas with UBS. Your line is open.

Damian Karas

Analyst, UBS Securities LLC

Hi, good morning, everyone.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Morning.

A

Damian Karas

Analyst, UBS Securities LLC

Thanks for all the color around the business. Just a few minor model questions on my end. First one, I want to ask you about the investment. It looks like you've been cutting back on R&D a little bit in the first half and in particular in the second quarter. I know you've talked about, John, continuing your, you know, long term strategic investment. Just wondering if that's perhaps the result of maybe some of the facility shutdowns that you had in the second quarter or just any thoughts on what's going on there?

Q

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

You nailed it. It wasn't by choice. It was because R&D was one of those functions that was hard to maintain at the consistent levels that we had prior year. It was the one function certainly in Pentair, but probably in the industry, that was hard to do remotely and work from home. And we are candidly on some of the key NPI programs probably lost 90 days. And I would expect that R&D spend to pick up here in the back half of the year as we try to catch up on some of those introductions and those projects. We are back now. You know obviously, social distancing and working through all the different requirements. But yes, that was a result of COVID, not from a strategic choice.

Robert P. Fishman

A

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

And I would just add to that. We do spend you know \$60 million to \$70 million of capital, which is to be honest probably a little bit higher than what we talked about on our last call. And, you know, we look at that capital spend in three buckets: safety, growth, and productivity. You know, on the safety piece, we won't compromise on that. On growth and productivity, you know, spending a little bit more there, building the business cases to drive positive NPV and holding the teams accountable. We're also, you know, expect to see benefits from that spend in the future as well.

Damian Karas

Q

Analyst, UBS Securities LLC

Okay. Great. That makes sense. I'll leave it at that. Appreciate the time.

Operator: Your next question comes from Nathan Jones with Stifel. Your line is open.

Nathan Hardie Jones

Q

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, Nathan.

A

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

I guess I'll start, just a question on the overall guide. I mean, it looks like you've got pretty good visibility into a strong second half for Pool. And it looks like you've taken a pretty conservative approach to the IFT business in the guidance. Can you just talk about how you approach giving guidance for the full year particularly the second half? Have you taken a pretty conservative outlook to IFT where, you know, you're really confident that you can deliver that second half guidance? And if things get a little bit better than you've built into the guide, then maybe there's some upside or do you think it's more of a, you know, a realistic kind of look at the second half?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, Nathan. I mean, first of all, I'm pleased that we could introduce guidance again. I think it's important externally to frame the goalpost of what you're trying to accomplish, but also it's very important internally that people are working towards expectations and actions and targets that they're held accountable for. And I feel really good that we worked as hard as we could in Q2 to deliver the best result. And that's always been our goal here, how do we keep our people safe and how do we continue to lean in and produce the best financial results possible. That being said, you know, in the fourth bullet that I'd put on that one slide is, that uncertainty around how the pandemic plays out is still a question mark for us. It's easier to think about it now with only six months in front of us and really more like five as we work through July. So, I think we've got a better reasonable estimate of where we're going to land. And so I think we think it's an appropriate expectation.

And you know there's scenarios that get to the high end and there's scenarios that are on the low end, Nathan. But one of the things we don't want to do is have to pull back guidance because there may or may not be some issue that we have to deem to be material. So a big thought process was, what do we feel comfortable with. And how can we give the street what they need and give ourselves what we need to continue to operationalize the business and then deliver the best financial result as possible, Nathan.

A

Operator: Your next question comes from Julian Mitchell with Barclays. Your line is open.

Q

Julian Mitchell

Analyst, Barclays Capital, Inc.

Hi. Good morning. Maybe a question around the cost reduction. I think you'd alluded earlier in this call to some stepped-up cost cutting perhaps at the IFT segment. But if I look at the guidance provided in the release, it looks like you're only assuming about \$4 million of restructuring for the year and maybe \$1.5 million – \$1 million or so in the second half.

So just trying to understand, am I misreading that or is there a lot of pending restructuring to be announced or is the cost cutting more of a variable type approach and that sort of flows back once the top line recovers?

A

Robert P. Fishman

Executive Vice President, Chief Financial Officer and Chief Accounting Officer, Pentair plc

Yeah. I would not associate any of the cost reduction efforts relating to restructuring. We're primarily focused on our variable labor and our discretionary spend. So, those typically do not bring significant restructuring costs with them. We'll continue to evaluate the top line and take actions as we need to, but the focus is primarily on those variable components.

Q

Julian Mitchell

Analyst, Barclays Capital, Inc.

Thanks. So, then my second one, sticking with IFT, that relative resilience you saw in the Commercial & Infrastructure business with the organic sales only down high-single digit in the quarter. Is that a trend do you think stays fairly similar through the second half or is there something where as the backlog softens, it gets worse? Just trying to understand what's moving that business specifically more. Is it the backlog or is it the flow driven part and how you see it in the second half?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Was that specific to a business in IFT or is that a broad IFT question?

Julian Mitchell

Q

Analyst, Barclays Capital, Inc.

Yes, yes. No, so specifically around the Commercial & Infrastructure piece.

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. So, we had a fairly decent backlog and we saw orders remain strong through Q1. I think what you're feeling from us is the anticipation that municipalities and some of the commercial building needs might be lower in the future. And so, it's not necessarily indicative of a trend we know. It's more indicative sequentially of a trend we're anticipating.

.....

Julian Mitchell

Q

Analyst, Barclays Capital, Inc.

I see. So, the down high single-digits is a reasonable sort of run rate in that sense?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yes. Yes. Yes.

.....

Julian Mitchell

Q

Analyst, Barclays Capital, Inc.

Fantastic. Thank you.

.....

Operator: There are no further questions at this time. I will now turn the call back over to John Stauch for closing remarks.

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, thank you for joining us today. We are all navigating these uncertain times together and I would like to offer my best wishes to all of our employees, customers, and shareholders and urge you to all stay safe as we grind through this pandemic.

While no one was expecting the type of year we have all experienced, we continue to believe that Pentair is a strong foundation to build upon. We have a strong purpose, strong mission and strong vision focused on delivering smart sustainable solutions that empower our customers to make the most of life's most essential resources.

We believe that we are in attractive spaces that are expanding. We are a leader in helping people move, improve and enjoy their water and we are making the world more sustainable through our smarter systems and applications. We have the right enterprise strategy, businesses, talent and culture. Our win rate values, our leadership competencies and our Pentair integrated management system, will enable all of our employees to continuously improve customer experiences and deliver more predictable and consistent results.

Thank you for your continued interest. Marianna, you can conclude the call.

.....

.....

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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