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PNR - Q4 2014 Pentair PLC Earnings Call

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OVERVIEW:

Co. reported 4Q14 results. Expects 2015 adjusted EPS to be $4.10-4.25 and 1Q15 adjusted EPS to be $0.75-0.77.

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PRESENTATION

Operator

Good morning. My name is Alyssa and I will be your conference operator today. At this time, I would like to welcome everyone to the Pentair Q4 2014 earnings conference call. (Operator Instructions). Thank you.

Jim Lucas, you may begin your conference.

Jim Lucas - *Pentair plc - VP of IR*

Thanks, Alyssa, and welcome to Pentair's fourth-quarter 2014 earnings conference call. We're glad you could join us. I'm Jim Lucas, Vice President of Investor Relations. With me today is Randy Hogan, our Chairman and Chief Executive Officer; and John Stauch, our Chief Financial Officer. On today's call we will provide details on our fourth-quarter 2014 performance, as well as our first-quarter and full-year 2015 outlook, as outlined in this morning's 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 10-K and 10-Q, and today's 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 investors section of Pentair's website. We will reference these slides throughout our prepared remarks. Any reference 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 limit your questions to one, and a follow-up, and get back in the queue for further questions in order that everyone has an opportunity to ask their questions.

I will now turn the call over to Randy.

Randy Hogan - *Pentair plc - Chairman and CEO*

Thanks, Jim, and good morning, everyone. Let me begin with a summary of 2014 on slide 4. As we highlighted during our outlook call in December, we are very pleased with the integration of Flow Control. And our progress the last two years demonstrates the power of the Pentair Integrated Management System, or PIMS, as a differentiating tool for integrating acquisitions. We're very pleased with how the company has come together, and One Pentair culture has been firmly established. Yet, we know the best is still to come.

In 2014 we delivered 2% core sales growth, which we recognize as mid-pack, at best. But our 160 basis points of margin expansion, 24% adjusted EPS growth, and very strong free cash flow clearly places us in the upper quartile of performance last year compared to our peer group.

In addition, we returned $1.4 billion to our shareholders through share repurchases and dividends; a very solid year, indeed. While the market environment remains challenging, we have further simplified the business and have consolidated a GBU. We are more closely aligned around channels and solutions than ever, and we have structured our four business units as reporting segments, allowing even more strategic alignment.

2014 was another good year for Pentair, as we built momentum on our internal execution to drive shareholder value in 2015 and beyond.

Now let's turn to slide 5 for a quick look at our key 2015 forecast assumptions. A lot has changed in the world since we provided our initial 2015 outlook just last December. In our initial EPS guidance, we provided a list of key variables that could impact the low, mid, and high end of the range. Some of these have gotten better; but, unfortunately, several critical factors have gotten more negative. The further fall in oil prices has rightly commanded a lot of attention; but, as many other companies have indicated, the ongoing strengthening dollar has created substantial foreign exchange headwinds as well.

In mid-December, we forecasted an FX headwind of roughly $0.10 per share. This headwind has now doubled as the dollar further strengthened against most currencies. We have not sat by idly, and have continued to go after further cost structure, resulting in recognizing additional restructuring during the fourth quarter as we have positioned for a continued push to achieve topline growth.

These external challenges are also reflected in our core sales growth outlook, which is now targeted to be 2% to 3%, down from 2% to 4%. The point off the top line is in response to the reality of the substantial uncertainty in our Energy vertical, due to oil & gas.

We had forecasted $200 million of buyback for 2015, and that has already been completed. Our balance sheet capacity remains over $1 billion, and we will continue to remain disciplined in our capital allocation as we build an active M&A pipeline.

Taking all of this into consideration, we are adjusting our 2015 EPS guidance to a range of $4.10 to $4.25 from a range of $4.20 to $4.35, with the $0.10 adjustment being solely related to the increased FX headwind. John will cover the 2015 outlook in greater detail later in the call, but it's important for us to be realistic about the economic environment of the world today while we continue to execute on the elements within our control at a very high level.

Now let's turn to slide 6 for a discussion of our fourth-quarter results. We delivered a strong fourth quarter, with core sales growth of 2%, which was in line with our forecast. We saw continued strength in our Residential & Commercial, and Food & Beverage verticals, while Industrial improved in the second half and appeared to build momentum entering the new year. Technical Solutions had another strong quarter with 7% core sales growth, and Process Technologies also delivered strong core sales growth of 5%.

We delivered 10% adjusted operating income growth, 160 basis points of margin expansion, and 23% adjusted EPS growth. Free cash flow was very strong in the quarter and the full year, as we generated nearly $900 million of full-year free cash flow, which represented a 121% conversion of adjusted net income. This is a large part of Pentair's ongoing value proposition.

Now let's turn to slide 7 for a more detailed look at the fourth-quarter results. Our 2% core sales growth consisted of 1 point of volume growth and 1 point of price, but FX was a 4% headwind as the dollar strengthened later in the year. We're expecting this type of foreign exchange headwind to persist in 2015, with the first quarter facing a particularly tough comparison.

The quarter's 10% adjusted operating income growth is also consistent with our long-term value proposition, with price and productivity offsetting inflation. We saw inflation run fairly consistent throughout 2014, and while material inflation may moderate, wage inflation is expected to persist.

Our Lean, sourcing, and standardization efforts continue to deliver, contributing to our 160 basis points of margin expansion in the quarter. The fourth quarter showed solid core sales growth, which we believe demonstrates the diversification in our portfolio. And our strong internal execution highlights our unwavering focus to over-deliver on the elements within our control.

Now let's turn to slide 8 for a review of our largest segment, Valves & Controls. Valves & Controls fourth-quarter sales declined 1% as we faced a very tough year-over-year comparison, since the prior year Q4 included over $30 million of low-margin shipments out of the backlog. Including significant adjustments due to currency translation, the quarter-ending backlog declined 7% sequentially, with over half of the decline a result of FX headwinds.

Given that backlog is generally shippable in the next 6 to 12 months, we feel it's prudent to adjust backlog for FX to give the most appropriate view of the business. Core orders declined 6%, which we will discuss in more detail on the next slide. Once again, the sales results were mixed for Valves & Controls, with process up modestly, oil & gas down, and power and mining both flat in the quarter.

The right half of the page shows fourth-quarter Valves & Controls operating profits and margins. Although the top line has had its fair share of the volatility, the operating income performance within Valves & Controls has been very strong. Operating income grew 30%, and operating margins expanded 470 basis points to 16.9%.

While the comparable quarters' results were dragged down by the low-margin shipments last year, Valves & Controls has made tremendous progress in driving productivity as they built momentum in Lean, sourcing, and standardization, all part of PIMS.

Now let's turn to slide 9 for a look at the orders and backlog for Valves & Controls. As you can see on slide 9, Valves & Controls backlog is broken down in four key industries, three of which fall into our Energy vertical -- those are oil & gas, power, and mining -- and one in our Industrial vertical, which is the process business.

There's clearly been a lot of focus on our Valves & Controls business, particularly its oil & gas exposure, yet 65% of the Valves & Controls is not oil & gas related. Orders remained volatile, with core orders growing in process and mining, while they declined double digits in both oil & gas and power. The decline in oil & gas orders followed two quarters of orders growth, but was not unexpected given the dramatic decline in oil prices throughout the fourth quarter.

Power and mining both continue to see volatile order patterns; but, excluding that negative impact of FX, backlog in these two smaller sub-verticals appears to be stabilizing. Process orders showed small growth in the quarter, and we continue to expect orders to grow in 2015 as the North American chemical buildout continues. Valves & Controls orders come later in the procurement cycle. And projects that have already been commissioned continue to move forward, giving us confidence in some order momentum building in 2015.

Now let's move to slide 10 for a look at our Process Technologies segment. Process Technologies achieved another strong quarter of growth, with 5% core sales growth overall, with all key verticals contributing. Food & Beverage growth of 7% was spread across both our beverage and food services businesses, and Residential & Commercial saw growth from both pool and residential filtration.

The right half of the page shows fourth-quarter Process Technologies operating profit and margins. So while the top line showed strength once again, this is the second quarter in a row where income and margin performance were challenged. We continue to see opportunities to drive Lean and standardization within many of our filtration businesses, and have combined these businesses with Flow to focus on accelerating the pace of change.

While price and productivity were not enough to offset inflation this quarter, we've taken the necessary root cause countermeasures, and are focused on driving the type of income growth and margin expansion we expect on this strong core sales growth performance.

Now let's move to slide 11 for a look at Flow Technologies. Flow Technologies reported a core sales decline of 4%, half of which was attributable to our strategic decision to exit the big-box channel and focus on the more profitable pro channel. Despite this headwind, our Residential & Commercial business showed a modest increase in the quarter. We're not pleased with our performance in Industrial and Infrastructure during the fourth quarter, but we believe backlog has stabilized. While we do not anticipate this will read out fully in the first half of 2015, we do expect continued improvement in both of these verticals within the segment as 2015 progresses.

The right half of the page shows fourth-quarter Flow Technologies operating profits in margins. Operating income grew 5%, and operating margins expanded 110 basis points to 10.3%. Flow Technologies delivered strong price and productivity, while differentiated growth and improving mix should help continue the momentum we have built to drive margins to a higher performance level.

Let's now turn to slide 12 for a look at Technical Solutions results. Technical solutions had another fantastic quarter, with 7% core sales growth, led by Energy and Residential & Commercial. For the first time this year, Technical Solutions posted a small decline in Infrastructure, as comparisons for the electronics business begin to get more challenging.

Within Energy, we saw strength once again in the Canadian oil sands shipping on projects currently in the backlog. Our heat management solutions business is more than just oil & gas, and we saw strong orders and backlog growth in the fourth quarter, driven by two large projects. Residential & Commercial benefited from continued growth in Europe and North America. Industrial growth of 6% was led by our North American equipment protection and North American heat management solution businesses.

The right half of the page shows third-quarter Technical Solutions operating profits and margins. Operating income grew 7% in the quarter, and operating margins expanded 90 basis points to 22.9%. Our price and productivity initiatives continued to outpace inflation, while core sales growth leverage was partially offset by increased FX headwinds during the quarter.

Now let's turn to slide 13 for a review of 2014's full-year results. In 2014, we delivered 2% core sales growth, led by our Process Technologies and Technical Solutions segments. We completed our previous share buyback program during 2014. Adjusted operating income for the full year increased 13%, and adjusted operating margins expanded 160 basis points to 14.5%.

We made a lot of progress the last two years improving our operating margins, but many opportunities remain to drive overall margins even higher. Free cash flow was nearly $900 million, and represented 121% conversion of adjusted net income. We are pleased with our operating performance in 2014, and recognize that we must continue to drive more consistent, predictable, organic growth.

Let's now turn to slide 14 for a look at our oil & gas profile. Pentair is a narrowly diversified industrial company operating in five verticals. Just under 20% of our business is exposed to global oil & gas markets, and over 80% of the portfolio participates in other verticals where we believe growth exists today. We highlighted this part of our portfolio in the December outlook call, and wanted to remind our shareholders that even within oil & gas, we are diversified.

Specifically, we are 5% exposed to upstream, 5% midstream, and 9% downstream on a total Pentair sales basis. Our upstream and midstream exposure is mostly in our Valves & Controls segment, and we are split roughly 60/40 between new construction and installed base. The upstream portion is where we believe the greatest uncertainty exists today. Our downstream exposure is within both Valves & Controls and Technical Solutions.

During the fourth quarter, as we mentioned previously, we saw strong orders and backlog growth in our heat management solutions business within Technical Solutions. While there's been some focus recently on the outlook for refining, we continue to see strong MRO activity, and have not seen any slowing in maintenance spending as our focus on the installed base continues to gain traction. The continued volatility in oil prices, which remain below $50 per barrel, does create a level of uncertainty within 19% of our portfolio. So, our focus for growth is squarely on the other 81% of our portfolio, where we have several areas of opportunity entering 2015.

As shown on slide 15, our overall 2015 core sales growth, profiled by vertical. As you can see on 15, starting with Industrial, our largest vertical, representing roughly 29% of sales, we are forecasting 3% to 5% core sales growth in 2015. Our Valves & Controls business is expected to see improving orders during the year in North America as expansion in process industries continues.

Within Technical Solutions, our North American equipment protection business saw improving order trends in the second half of 2014. And global ISM reports remain positive, and support our expectation that Industrial and will remain solid. Our second-largest vertical, Residential & Commercial, has been a bright spot the past couple of years, and 2015 should see that momentum continue. This vertical represents approximately 27% of our sales, with a large portion of our Residential And Commercial business exposed to replacement spending, which remains positive.

We recognize that our big-box exit within Flow Technologies creates a modest headwind for this vertical; but, overall, we're forecasting 4% to 6% core sales growth in Residential & Commercial. Roughly 10% of our sales are within Food & Beverage vertical. Our agriculture-related businesses are facing markets that are likely to be down overall again in 2015. But both our irrigation and crop spray businesses are expected to deliver differentiated growth to mitigate some of the market-related headwinds.

Our food service business is expected to continue to perform well, expanding with customers globally while also further penetrating areas such as grocery stores and convenience stores. We believe our beverage business is well-positioned with global customers in the beer industry, and we expect to see more growth as our dairy business gains momentum.

Within our Infrastructure vertical, which accounts for less than 10% of our overall sales, we are forecasting modest growth in 2015. Our electronics business in Technical Solutions faces tough comparisons in the first half of the year, but the business is focused on winning new opportunities. Within our advanced filtration business, it appears the global desalination markets and water treatment have finally reached a bottom after a prolonged hibernation, and we were encouraged to see order growth in the fourth quarter of 2014. Within our engineered flow business, our infrastructure backlog improved in the back half of 2014, and leads us to believe that after a challenging first quarter this business should see growth return in the second half.

In addition to our 19% in oil & gas, we have another 8% of our sales in power and mining within our Energy vertical. For 2015, we now expect core sales in Energy to be down 5% to 7% on a core basis. But the momentum we're seeing in the majority of our portfolio that is non-energy-related is expected to drive low-single-digit overall core sales growth in 2015.

Let's now turn to slide 16 for a look at how we believe we are driving shareholder value. Before I hand off the call to John, I wanted to focus on what we believe we are doing to drive shareholder value. Simply put, we remain focused on three areas: organic growth, margin expansion, and free cash flow and capital allocation.

We recognized, in the last couple of years, we are in the second and third performance quartile in organic growth, and that's why we continue to sharpen the growth tools within our PIMS toolbox. At the beginning of last year, we organized into 18 growth platforms under our four reporting segments, which provides us a better mechanism to prioritize investments across the enterprise.

The platform focus allows us the ability to differentially fund and track growth actions on a more granular level within the businesses. While we cannot control the external economic environment, we are focused on driving differentiated growth within our most attractive business in our portfolio, and it's already reading out in spots.

Regarding margin expansion and free cash flow and capital allocation, we believe we have a proven track record of success that places us in the first quartile of performance; top of class. Over the last two years, we have expanded our adjusted operating margins over 300 basis points, and we believe we have the proven playbook to continue driving productivity and cost structure. Our free cash generation has increased dramatically the last two years.

We have returned $2.3 billion to our shareholders through buybacks and dividends in the last two years. We remain disciplined in our capital allocation, and our free cash flow is nearing $1 billion per year on an annual basis, allowing us more degrees of freedom than at any other time in Pentair's history.

All three components are important to driving shareholder value. We are doing very well in two areas, and are focused on improving the third area, organic growth, which we know is important in driving long-term shareholder value, and we're committed to delivering that.

So with that, I will turn it over to John.

John Stauch - *Pentair plc - EVP and CFO*

Thank you, Randy. Please turn to slide number 17, entitled 2014 free cash flow generation. Cash flow was strong in 2014, as free cash flow for the year was $889 million, which represented 121% of net income. This is the second consecutive year that free cash flow has exceeded 120% of net income. Just as important, ROIC increased to over 11%. Free cash flow is an important component of our value creation story, and we remain committed to delivering strong free cash flow on a consistent basis.

Please turn to slide number 18, labeled balance sheet and cash flow. As I mentioned on the previous slide, ROIC ended the year just over 11%, which we believe demonstrates the value creation from the Flow Control acquisition. We returned $1.4 billion to shareholders in 2014 through share repurchases and dividends. Our capital expenditures were lowered last year to $130 million as we focused on fewer higher-return investments. But we expect that number to increase in 2015 as we continue to invest in growth and productivity initiatives across the Company. Ending debt was $3 billion, or $2.9 billion on a net debt basis, inclusive of global cash on hand.

Please turn to slide number 19, labeled 2015 forecasted cash flow usage and capital allocation. We expect another strong year of free cash flow in 2015, with free cash expected to be around $925 million, or greater than 115% of net income. We anticipate returning at least $440 million to shareholders through share repurchases and dividends. Through January of 2015, we completed $200 million of share repurchases under our current $1 billion authorization, and we recently announced a dividend increase for the 39th consecutive year. We remain disciplined in our capital allocation approach, which starts with our investment-grade debt rating.

We continue to fund organic growth opportunities and expect capital expenditures to be slightly ahead of depreciation. We are building our M&A funnel and expect to see acquisition activity return as the year progresses. We have made great strides in our standardization efforts, and many of our businesses have earned the right to make strategic acquisitions. If we do not see deals materialize as we get later into the year, we would consider incremental share repurchases.

Please turn to slide number 20, labeled new Pentair segmentation. As Randy mentioned earlier in the call, we have further streamlined the organization and have eliminated a GBU. This means that each of our four remaining GBUs will now also be an external reporting segment. We expect this new alignment to help optimize the revenue expansion of our growth platforms while also driving standardization through PIMS within the platforms and GBUs.

We have moved our former Filtration & Process platforms, and combined them with our former Flow Technologies business to create Flow & Filtration Solutions. The process technology segment has been renamed Water Quality Systems, and includes our aquatic systems, water purification, food service, and environmental systems platforms. Valves & Controls and Technical Solutions remain the same. For your modeling purposes, we have included restated segment numbers in the appendix of today's presentation.

Please turn to slide number 21, labeled Q1 2015 Pentair outlook. For the first quarter, we expect core sales to increase 2% to 3%, with FX anticipated to be a large 4% to 5% headwind. On a core basis, we expect Valves & Controls' sales to be flat based on their shippable backlog. Flow & Filtration Solutions' sales are anticipated to be down 2% to 3% on a core basis, which includes the big-box exit. Water Quality Systems' sales are anticipated to grow 6% to 7% on a core basis, with pool energy efficient penetration and continued growth in food service. Finally, Technical Solutions' sales are expected to be up 2% to 3% on a core basis, with strength in both industrial and energy. We are expecting adjusted operating income to be flat, and adjusted operating margins to expand 40 basis points to 12.6%.

Below the operating line, we anticipate our tax rate to be approximately 23%, net interest and other to be around $18 million, and the share count to be approximately 183 million. Our first-quarter adjusted EPS range of $0.75 to $0.77 represents 7% growth at the midpoint. As a reminder, free cash flow historically runs negative in the first quarter.

Please turn to slide number 22, labeled full-year 2015 outlook. As Randy mentioned earlier in the call, we are lowering our 2015 adjusted EPS guidance by $0.10, to a range of $4.10 to $4.25. This reduction is solely attributable to the anticipated increased FX headwind that we, and most others, are expecting.

We continue to focus on the elements within our control and are working to deliver another year of double-digit adjusted EPS growth. For the full year, we expect core sales to grow 2% to 3%, which we anticipate will be more than offset by a 4% to 5% FX headwind. Valves & Controls sales are anticipated to be flat to down 2% on a core basis. We will watch orders closely and continue to drive the short cycle business.

Flow & Filtration Solutions' sales are expected to be up 3% to 5% on a core basis, inclusive of the big-box exit. Water Quality Systems' sales are anticipated to be up 5% to 7% on a core basis. And Technical Solutions' sales are expected to be up to 3% to 5% on a core basis. We anticipate growth in our Residential & Commercial, Industrial, and Food & Beverage verticals, while Infrastructure is expected to improve as the year progresses.

We expect adjusted operating income to be up 5% for the year, and adjusted operating margins to expand 90 basis points to 15.4%. We continue to drive Lean, sourcing, and standardization, expecting growth leverage to materialize within our businesses that are growing, although FX headwinds will mitigate some of the leverage.

We expect overall corporate cost to be approximately $105 million; net interest and other to be around $71 million; our full-year tax rate around 23%; and the share count for the full year to be approximately 183 million. EPS growth is anticipated to increase 10% at the midpoint of the range. Finally, we expect another strong year of free cash flow at approximately $925 million, or greater than 115% of net income.

Alyssa, can you please open the line for questions? Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

What are you assuming on the raw materials dynamics for this year?

John Stauch - *Pentair plc - EVP and CFO*

We're expecting to see little inflation, if no inflation there, Steve. Clearly we're going to expect, especially in Valves & Controls, a more difficult pricing environment with our large customers, and they're going to ask us to work with our channel partners and suppliers to keep costs down. So we're basically assuming no inflation right now on material.

Steve Tusa - *JPMorgan - Analyst*

Okay. And is there anything, if you marked it to market, is there any kind of benefit or anything like that?

Randy Hogan - *Pentair plc - Chairman and CEO*

Not really that, but we are looking for -- how do we turn the FX change into an advantage, from a sourcing standpoint?

John Stauch - *Pentair plc - EVP and CFO*

Yes.

Randy Hogan - *Pentair plc - Chairman and CEO*

That's one of the active actions we have on. We don't have anything quantified yet. So, Europe is on sale and some other countries are, too.

Steve Tusa - *JPMorgan - Analyst*

Right. On the oil & gas weakness in the fourth quarter, where exactly -- could you maybe be a little more precise about where you saw that? The orders?

John Stauch - *Pentair plc - EVP and CFO*

Well, upstream, for sure. So what we saw was -- what we were calling earlier, Steve, is we saw those orders being delayed in Q2 into Q3. And, in fact, they just continue to push out, so most of the weakness was in the upstream and the capital expenditure models of our customers.

Steve Tusa - *JPMorgan - Analyst*

Sorry, downstream or upstream?

Randy Hogan - *Pentair plc - Chairman and CEO*

Upstream.

John Stauch - *Pentair plc - EVP and CFO*

Upstream, Steve. Thank you.

Steve Tusa - *JPMorgan - Analyst*

Yes, too many streams.

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes, you are already seeing rig counts declining. The projects that are committed, the downstream ones -- refining and other processing -- those committed ones are, we think, are moving ahead. And we're seeing the releases on those. What it means for downstream in 2016, we'll figure out. But we are seeing a much faster change in the upstream activity. Midstream still looks good.

Steve Tusa - *JPMorgan - Analyst*

Within your upstream, I know the business is pretty diverse globally. Within your upstream is there any geography that -- I know this kind of parses it again -- but any geography that you're seeing that in? It's pretty obvious the North America rate of change is obviously pretty dramatic, even though there were some companies that didn't really see it in the fourth quarter yet. Is it a global thing? Is it North America?

Randy Hogan - *Pentair plc - Chairman and CEO*

Well, yes, North America clearly, there's a lot of coverage on that; but North Sea, offshore -- which is obviously North Sea -- even Middle East.

Steve Tusa - *JPMorgan - Analyst*

Okay, so it's in global stuff. And then (multiple speakers).

Randy Hogan - *Pentair plc - Chairman and CEO*

There really is -- on the upstream side, they are rapidly looking at all the budgets globally.

Steve Tusa - *JPMorgan - Analyst*

And then just one last comment. This re-segmenting, I understand that there's a degree of perhaps cost saves associated with realignments and stuff. But this constant re-segmenting just breeds skepticism, I think, in the investment community. Hopefully, this is the last one. It really does not help, especially in an environment like this where there's a lot of stuff moving around. It does not help people gain confidence in the numbers.

Randy Hogan - *Pentair plc - Chairman and CEO*

No, I appreciate that. And we didn't do it to make anyone's life difficult or to make things opaque. When we merged the companies two years ago, we had seven GBUs. That wasn't sustainable. We got down to five GBUs. And what this alignment was was we had some underperformance in one of the GBUs. We are getting cost structure; that's easy and fast. But the real focus is to get -- we now have all of -- in water, we have all of our standard product sold through distribution in one business. And now we move the engineered solutions, the filtration together with the engineered solutions of Flow, particularly with the exit of big box. So we have more consistency of end market and channel this way, and hopefully get some leverage.

Steve Tusa - *JPMorgan - Analyst*

Right, okay. Best of luck, thanks.

Operator

Steven Winoker, Bernstein.

Steven Winoker - *Sanford Bernstein - Analyst*

Randy, it sure sounds like you were declaring victory on Tyco Flow at the beginning of this call. And we are two years in, obviously some great margin expansion. But could you maybe expand a little bit on that, and where you are headed? And what does that imply for your thinking about M&A going forward?

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes. We feel pleased about where we are. We are two years in. I hesitate to call it a declaring victory, but we are pleased with our progress. I'd put it that way. And we are pleased because we believed, in going in there, that there were some very good businesses that were not performing at the level they could perform if you applied good operating disciplines.

And this two years has proven that, number one, yes, they are good businesses. Number two, our approach, which we call PIMS, was fundamental to bringing operating disciplines to those businesses very quickly. It raises our confidence; it raises the Board's confidence; it raises many of our shareholders' confidence that we can do it again. Our capacity is larger. And what I mean by that, our capacity and our expertise, and the talent base we built to do it again.

And we believe that we created a lot of value through doing it. We talked before that the biggest miss in Tyco was the fact that, if you go back to the Form 10 of forecasted growth that they would see in those businesses, was at least three times higher than in all of the segments than what the world really delivered over that two years. So, we over-delivered on what we controlled in an environment that turned out to be not as good.

So, what's the implication for M&A, is we believe we have capability, and we should put it to work. But we're going to remain disciplined. We have the capacity. We mentioned $1 billion worth of capacity, but we're going to remain disciplined.

We wanted to fit our five questions we always go through, which is, how does it fit our strategy? Number two, how do the financials work? Number three, why are we the right buyer; where is the value? And, actually, we have more to offer there now with our capital structure and our tax structure and our domicile. We actually have more unique opportunities to bring to play there. And then what's the integration plan, importantly, and what's the integration team? And we really got those right on Tyco. And we're not going to rush anything, but we're certainly up on our toes, on our balls of our feet, looking out.

Steven Winoker - *Sanford Bernstein - Analyst*

Okay. And on the oil & gas topic, let's assume for a minute that oil prices stabilize, maybe even get a little bit better from here. In terms of -- I don't want to -- maybe I shouldn't use this word. Well, in terms of the damage that has already been done to this point, as this just -- the time -- can you help me with the pacing through orders and revenues and earnings, assuming things were to get a little bit better from here on the commodity side? Does that still -- how would that maybe change your outlook, or how you're thinking about everything flowing through the business? (multiple speakers).

Randy Hogan - *Pentair plc - Chairman and CEO*

Well, our forecast -- I'll ask John to give a little more detail on the forecast -- as we look at our -- our forecast is we've reset Valves to basically be flat year-over-year, and it's going to take work to be there because we are seeing some price pressures. Our base case of how we're looking at this is we're -- our underlying base case is that oil is going to be in turmoil for at least another 9 to 12 months. And even when it gets back up to a more, let's call it, a sustainable level of $70-ish a barrel, the spending in the oil companies isn't going to snap back as quickly as it snapped away, because I think they will remain cautious.

But it's basically a supply/demand imbalance. The price went lower than people expected, so they weren't forecasting this six months ago. I tend to be cautious about the forecasts I make now. That's why we're assuming -- we're not assuming that there's any kind of snapback.

Steven Winoker - *Sanford Bernstein - Analyst*

Okay. And when you mentioned downstream and petro -- and North America process buildout on page 15 in industrial -- the North America process buildout, you're talking about petrochem and everything, or do you include (multiple speakers)?

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes, we put process industries and petrochemical, not ex -- after the refinery; petrochemical and other chemicals that aren't just petroleum-related. We put that in our Industrial category. And there's still a lot of attractive economics to most of those projects, and we're not seeing cancellations there.

Some of the ones that are on the deep planning board may have a little bit of doubt to them now. But even the LNG facilities, all of the ones that FERC has approved, we expect those to go forward. Basically we still have the opportunities to ship natural gas overseas to other countries in North America. We still have an advantaged, if not an even more advantaged, situation.

Steven Winoker - *Sanford Bernstein - Analyst*

Okay, and just building on Steve, just one last question. That page 10, Process Technologies, is the only place where you had inflation not offsetting productivity and price. So is that part of (technical difficulty) function of this additional segmentation? Is that what you're saying?

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes, our performance on productivity and managing inflation, and actually price realization, wasn't very good in that GBU.

Steven Winoker - *Sanford Bernstein - Analyst*

Okay. All right, thanks.

Operator

Deane Dray, RBC Capital Markets.

Deane Dray - *RBC Capital Markets - Analyst*

Appreciate all the calibration you are providing on your oil exposure. And I know it's 19% of your portfolio, but that's where we're seeing most of the changes, and that's why you're getting all of these questions. So let me just chime in with mine. Just for clarification on slide 9, the energy backlog, the sequential decline. I believe you said that you had re-priced your backlog for FX. So how much of that sequential decline was in FX versus push-outs?

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes, it's about half. What we did there is we -- that's the reality. If you priced it today, and revalued it with FX today, we just think that's the better way to do it, because if you sold it today, that's what it would be at. And in our Valves & Controls business, we have a fairly large book of business that's actually in Europe that is booked in euros. I'd like to change that; put them more in dollars. That's work to be done yet. So that's what we're doing there (multiple speakers).

Deane Dray - *RBC Capital Markets - Analyst*

Has any of that backlog been re-priced, customers coming back to you?

Randy Hogan - *Pentair plc - Chairman and CEO*

No, no. No, we are hearing from customers, as John mentioned, customers asking us to look hard at price on what's being let, what's being worked; but not in what's in the backlog.

Deane Dray - *RBC Capital Markets - Analyst*

Okay. And then if we go back to slide 5 -- which was very helpful in saying, look at the changes since the December outlook call -- maybe just clarify on the restructuring comment, where in December there was modest, and then saying more aggressive. But it says 2014 restructuring. Does that suggest you did more in the quarter? And what about -- can you give us some color on the restructuring actions for 2015?

John Stauch - *Pentair plc - EVP and CFO*

Yes, we did do more in the quarter. That's really what we're referring to. As we started to see some of the currency challenges and the oil & gas headwinds, we went to the businesses and took incremental restructuring. So far, for 2015, we're not anticipating any more. So our current guidance reflects that adjusted and reported are equal there. If we need to do more, we'll do more.

Deane Dray - *RBC Capital Markets - Analyst*

And then last question, John, since I've got you here. On FX, just refresh us on what types of natural hedges that you have, the currency exposure; might you be doing any translational hedging? We're seeing companies like GE and Honeywell talking about that. We're in an unprecedented FX headwind right now. Might you be doing anything additional on the hedging front? And especially if it ties to your foreign domicile, whether that's an advantage or a disadvantage?

John Stauch - *Pentair plc - EVP and CFO*

Yes. So, this number here represents the translational impact of the dollar against global currencies. It is unprecedented, being that the dollar strengthens against every currency generally in the world. Usually there are natural hedges where the dollar weakens against some and strengthens against others. There is, as Randy mentioned, also the transactional benefit that we would expect. And that would come through the sourcing line, where the lower currencies actually give us a productivity on less expensive purchases. And I would think that's somewhere in the 40% of this number range, in that we'll see to the sourcing benefit.

As far as what everybody else is doing in hedging, I remain interested and curious. We are looking at some of those options. But quite frankly, we got to find a way to make them work into our reporting. And as you know, you can hedge sequentially, but you can't hedge year-over-year. So we have to be comfortable that if we were to do that, that everybody would understand what we're doing. And I think right now, there's -- it's anybody's call what's going to happen. And so I'm not a genius at hedging, so we'd have to look at the upsides and downsides.

Deane Dray - *RBC Capital Markets - Analyst*

Got it, thank you.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - *Goldman Sachs - Analyst*

My first question is on V&C. The margins were incredibly strong this quarter. And I basically wanted to just get a sense from you on the long-term trajectory of these margins. I think we've talked historically that this could be a high-teens type business. But just in light of your commentary on wage inflation, pricing could be a little bit more difficult in 2015. I'm just trying to understand the trajectory of that business, moving forward.

John Stauch - *Pentair plc - EVP and CFO*

Yes, I'll start with just framing it. We still think we're roughly 400 to 500 basis points behind what we would call a peer group that continues to perform and improve their margins, as well. And so, we still have -- and I look at this as opportunity -- but we acquired some 20-some ERP systems and lots of global back offices, and lots of entities that were never integrated.

And so what we're doing, and we're launching this year, is our OMT initiative, which is our operating model transformation. And as we go live, we'll be able to put all of this business on a common framework; and really believe that there's enormous potential that still remains on the margin side.

I'll have Randy comment on incremental value from that.

Randy Hogan - *Pentair plc - Chairman and CEO*

Well, really, we want to turn some of that increased capability to improving our differential growth. But we haven't actually touched the go-to-market side of Valves & Controls. We've been focusing on the operating side, so that we could keep growth going. But, frankly, I'm disappointed with the performance on the growth side of Valves & Controls.

So I think we need to leverage that OMT to get better connected in leverage and gain share on -- based on the execution improvements we've had in things like pressure management, where we have moved -- the situation was very difficult, up to being almost high-performing in terms of delivery and quality. We should be gaining a lot more share from that.

Joe Ritchie - *Goldman Sachs - Analyst*

No, that makes sense. But maybe following up on OMT, did you guys start to see some of the benefit already this quarter? And can you just remind us what your expectation is for the benefit in 2015?

John Stauch - *Pentair plc - EVP and CFO*

A lot of the benefits of that we've been getting in 2013 and 2014 was from lean and sourcing; low-hanging operational fruit: fixing quality and delivery and overtime, and premium freights.

Randy Hogan - *Pentair plc - Chairman and CEO*

Then a few plant shutdowns.

John Stauch - *Pentair plc - EVP and CFO*

And then a few small plant closures, as Randy mentioned. Also fixing some low-margin product mix challenges. So a lot of more the operational prioritization side in what we've realized in 2013 and 2014. What we're going to see now, coming in 2015 and beyond, will be the benefits related to the OMT as we would see coming through primarily the G&A side, as well as more operational efficiencies and working capital improvements.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. And is there a number that you guys have quantified that is embedded in your guidance?

John Stauch - *Pentair plc - EVP and CFO*

Yes, it's probably about 200 to 300 basis points more, on that regard, regarding over the next couple of years.

Randy Hogan - *Pentair plc - Chairman and CEO*

Next couple of years, not this year.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay. And maybe one last question. John, you mentioned earlier -- clearly, you guys bought back about $200 million this quarter. You've got about $1 billion left. And I think you mentioned earlier that you'd consider incremental share repurchases if M&A didn't come to fruition. So is it fair to say that you are going to put the buyback on hold for now, just based on what you see in your pipeline, and then could get more aggressive in the back half of the year? Is that how we should interpret your comments?

John Stauch - *Pentair plc - EVP and CFO*

That's a fair assessment. Correct.

Joe Ritchie - *Goldman Sachs - Analyst*

Okay, great. Thanks, guys.

Operator

Shannon O'Callaghan, UBS.

Shannon O'Callaghan - *UBS - Analyst*

Well, I do have one non-oil question.

Randy Hogan - *Pentair plc - Chairman and CEO*

Thank you. You win the prize. (laughter) How many minutes in are we?

Shannon O'Callaghan - *UBS - Analyst*

On Tech Solutions, this Industrial strength that you started to see the last couple quarters, could you maybe fill that out a little bit in terms of what you're seeing, and your confidence that that's real, sustained momentum? And then also on the flip side there of -- I guess I'm not totally avoiding -- is the energy piece on Canadian oil sands. Where does that head from here?

Randy Hogan - *Pentair plc - Chairman and CEO*

Sure. On the first one, a lot of that strength in Industrial is North America. It's the North American investment. You can see it in the ISM numbers. We've also had -- one of the reasons we are up in Energy there is that we've launched a new line of product that is finding good promise, particularly in the downstream refining end. Really very well received by customers, so we believe we're gaining share in that product line. So, it's end market;

it's North America; and it's both discrete and process manufacturing. So that's why said we feel like the second half bodes well for the Industrial part of Technical Solutions there.

On the oil sands, the small projects are going forward. The MRO, it's a hostile environment that requires money to be spent to keep it going, and we think it will. That money, the MRO, the short cycle, will keep going. A couple of larger projects have been affirmed, and going forward. And I think all the other projects are probably -- all the projects that haven't been given the go-ahead are questionable, at this point. That would be my conjecture.

Shannon O'Callaghan - *UBS - Analyst*

Okay. And then on the re-segmentation again, could you just fill out a little bit more what you expect the benefits to be? Is it more of a -- you think it's going to show up -- you mentioned where you are in quartiles on growth, versus things like cash or margins. Do you expect this re-segmentation to benefit more on the growth side, or margins? Or what was exactly not working?

Randy Hogan - *Pentair plc - Chairman and CEO*

Let me start with -- seven GBUs was too many. I think four was just right. What we were really driving to was a simpler structure that is more intimate for John and I, in particular, to deal with the presidents on the opportunities and challenges that they each have. We had a mix -- we had two in the Process Technologies. We had the Water Quality businesses, which included pool and residential filtration. And these were products that were -- that they are largely standard. They are engineered, but they are a standard set of products, largely sold through distribution. And it's a different go-to-market model than the engineered, bespoke filtration systems that was at the high end. And it's closer to the Infrastructure and Industrial kind of things that Flow does, particularly as Flow has moved away from the big-box business.

So we have the opportunity to get cost, but we have a simpler organization. They are each well over $1 billion in size, so we have scale. And we have expectations on those four presidents that are higher, clearer, and more demanding.

Shannon O'Callaghan - *UBS - Analyst*

Okay. Great, thanks.

Operator

Scott Graham, Jefferies.

Scott Graham - *Jefferies & Company - Analyst*

Thanks for all this clarity. The one thing I would hope that maybe you can bring a little bit more to bear on would be the Valves & Controls 2015 outlook, which actually looks like -- was upgraded from what you said a month ago, month and a half ago, of down 2% to 4%, to flat to down to 2%, in an oil environment that has obviously deteriorated. So could you give us your thinking on that?

John Stauch - *Pentair plc - EVP and CFO*

Yes, I think just to clarify, too, Scott, I think the update we probably gave last time included the foreign exchange impact, and the flat to down 2% that we're looking at now is just core. If you look at them on an FX or the same basis, we think it's maybe 2 points worse on the top line in Valves & Controls.

Randy Hogan - *Pentair plc - Chairman and CEO*

On a same-same basis.

John Stauch - *Pentair plc - EVP and CFO*

On a same-same basis, yes.

Scott Graham - *Jefferies & Company - Analyst*

So you're saying that within your 2015 outlook, that was a grossed up number?

John Stauch - *Pentair plc - EVP and CFO*

Yes, I think that was (multiple speakers). We definitely adjusted 2 points down on the top line. As you know, there is a piece every single year that you head into the year on a shippable backlog, so we've FX-adjusted that shippable backlog. And that makes up almost 50% of the shipments we expect this year. And then the rest is what orders you've taken, and then the book and ship nature of those orders within the year.

So, I think we are really talking, as Randy mentioned earlier, what is the impact to 2016 and 2017, as we go through the year with a Valves & Controls, on what happens with oil prices and what happens with these end markets that we're facing.

Scott Graham - *Jefferies & Company - Analyst*

Okay, with you. On the adjusted margins, no change there, but obviously a little bit lower on the operating leverage. And you are essentially saying -- and obviously a little bit off on the FX -- but you're saying that the restructuring kind of fills a lot of that gap, yes?

John Stauch - *Pentair plc - EVP and CFO*

Yes. And I think if you took out the translational impact of foreign exchange, you'd still see double-digit operating income across most of these segments.

Scott Graham - *Jefferies & Company - Analyst*

Okay, great. Thank you. Last question. How skewed towards the second half of the year is the share repurchase going to be? Could you maybe be a little bit more specific on that prior question?

John Stauch - *Pentair plc - EVP and CFO*

We've already finished the $200 million out of the (multiple speakers).

Randy Hogan - *Pentair plc - Chairman and CEO*

$200 million out of the $1 billion. The original approval was the $1 billion over multiple years, and the first $200 million was what we intended to do this year. And we finished it already.

Scott Graham - *Jefferies & Company - Analyst*

I was referring to the 15 within the guidance.

John Stauch - *Pentair plc - EVP and CFO*

Yes, Scott, I think we really -- we're seeing a richer funnel of M&A activity right now. And we think that our business that we mentioned that are more standardized, and certainly the ones that are growing organically could certainly benefit from adding some content to the customers. And I think this could be a year where we complete several transactions. And if those don't materialize, or we feel like they are fading away from the funnel, then we would look at our capital allocation strategy again. And certainly buyback is a smart thing to do if you don't have any other use of the capital.

Scott Graham - *Jefferies & Company - Analyst*

Got you. All right, thank you.

Operator

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond - *KeyBanc Capital Market - Analyst*

Just to clarify, so what's the offset to the oil & gas top line weakness? Is that the additional restructuring within the guide?

John Stauch - *Pentair plc - EVP and CFO*

Yes.

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes.

Jeff Hammond - *KeyBanc Capital Market - Analyst*

Okay. And then just on the new segments, how should we think about the long-term margin trajectory in the two segments? You have one that sticks out as very good margins, and one as much lower. Where can those go?

John Stauch - *Pentair plc - EVP and CFO*

I would just say, you are going to see a higher level of basis point improvement in Valves & Controls and Flow & Filtration Solutions. Both have significant standardization opportunities in front of them. And both -- obviously Valves & Controls, because they started later, but both have more lean opportunities. Water Quality Systems and Technical Solutions today have pretty nice margins in the majority of their platforms. But some of their platforms still have substantial opportunities, as well.

So we see margin improvement across all of them, but you're going to see the majority of the opportunity in Flow & Filtration Solutions and Valves & Controls.

Randy Hogan - *Pentair plc - Chairman and CEO*

And I'd just add, also, those higher-margin ones -- Water Quality Systems and Technical Solutions -- they have really good growth opportunities. And we want to make sure that we are taking that high profitability and high-grading what they're going after. so that we can continue to drive that. And you see that in the Technical Solutions performance in the fourth quarter, where we had good core growth, and we got some margin expansion on top of that. Which was the operating leverage (multiple speakers)?

Randy Hogan - *Pentair plc - Chairman and CEO*

Okay. Thanks, guys.

Operator

Brian Konigsberg, Vertical Research Partners.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Just actually one clarification. On the guidance, it just looks like you reset the base a little bit, both on the Q1 comparison, also the full year. Is that just purely the water transport business that is being reflected there?

Randy Hogan - *Pentair plc - Chairman and CEO*

No. Water transport, we took out. We had no water transport in for the year.

John Stauch - *Pentair plc - EVP and CFO*

Yes, that's in discontinued operations, Brian, so there's no impact in water transport. The full-year guidance was just adjusted $0.10 on the lower end, and $0.10 on the higher end, for further foreign exchange headwinds as that currency moved -- just the euro moved from the mid-$1.20s all the way down to $1.13. So that's really what we are adjusting for, in this view.

As far as Q1, there's a little bit more FX, on a year-over-year basis, of headwind. And then there is less shipping days in the quarter. It's just overall not the strongest quarter of the year.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Actually, I guess I was asking a different question. I was just looking at your Q1 2015 guidance. You're looking -- the comparison is $1.64 billion. When you reported it, it just was $1.725 billion in the first quarter of last year.

John Stauch - *Pentair plc - EVP and CFO*

I will have to follow-up with you off-line on that, Brian, on that one.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Okay. And I think actually the full-year 2014 number -- well, actually I'm sorry. The full-year 2013 number is a little bit different, too. Anyway, we'll follow up on that.

John Stauch - *Pentair plc - EVP and CFO*

Just to clarify, last year's shipments were $1.644 billion Q1.

Randy Hogan - *Pentair plc - Chairman and CEO*

That's restated.

John Stauch - *Pentair plc - EVP and CFO*

Yes, on a continuing operations basis.

Randy Hogan - *Pentair plc - Chairman and CEO*

So, it probably is water transport (multiple speakers).

Brian Konigsberg - *Vertical Research Partners - Analyst*

Okay, so it was the water transport. It was just in disc ops.

Randy Hogan - *Pentair plc - Chairman and CEO*

Yes, you're probably right.

Brian Konigsberg - *Vertical Research Partners - Analyst*

The base was just -- okay, got it. Separately, just on working capital, so you kept the free cash flow assumption. I think when you gave the outlook for 2015, you only anticipated about $10 million of working capital benefit. Is that still the same in the outlook? And maybe separately, just maybe comment on the lower CapEx, where you're cutting and (multiple speakers)?

John Stauch - *Pentair plc - EVP and CFO*

Yes, roughly -- yes. We do still have a significant working capital improvement in front of us. We're not forecasting a lot of improvement in 2015, but it remains our largest opportunity. And so, really, on a cash flow to net income basis, we're somewhere in that 115 to 120 range. You can only collect cash once, so we had a strong cash performance in 2014, and we're expecting to have it strong again in 2015.

Not really cutting capital; we're prioritizing it. And we're prioritizing it to programs that have the highest level of return. And right now, we've always generally had a concept here that we have creativity before capital. And that's part of Lean. And a lot of our businesses are realizing that through the Lean adoption, especially our newer businesses, that less capital is required. But where we have opportunities to upgrade for automated purposes, or driving significant productivity, we continue to fund those projects, because they generate substantial returns.

Brian Konigsberg - *Vertical Research Partners - Analyst*

If I could sneak one last in, just on the FX. So obviously with the stronger dollar and the weaker euro, would you anticipate that to translate actually into greater demand within the European region? Is that in the plan at all, or maybe just general thoughts on (multiple speakers).

Randy Hogan - *Pentair plc - Chairman and CEO*

Over time you would expect that the European businesses, the European-based businesses, will be more competitive globally. So, that over time -- macroeconomics would say that that would favor economic growth there. And economic growth there would be good for the world, unless it comes at the expense of another region like --.

Brian Konigsberg - *Vertical Research Partners - Analyst*

But not in the 2015 plan?

Randy Hogan - *Pentair plc - Chairman and CEO*

The United States.

Brian Konigsberg - *Vertical Research Partners - Analyst*

All right, thank you very much.

Operator

Andrew Obin, Bank of America Merrill Lynch.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Just a couple of clarifications. Did I hear right, on Valves & Controls pricing, that you are renegotiating with the customers, given the current environment?

Randy Hogan - *Pentair plc - Chairman and CEO*

No. What we said was that customers are asking us to participate in the difficulties they're facing. Nothing is being renegotiated; this is on new things. So it's just what I would characterize it as a tougher pricing environment on the horizon.

Andrew Obin - *BofA Merrill Lynch - Analyst*

So, do you think pricing could turn negative?

John Stauch - *Pentair plc - EVP and CFO*

In Valves & Controls, yes. Obviously it's anticipated pricing, so it's not anything to do with margin and backlog. These are projects that are on the horizon, so you don't usually score keep price, but the competitive dynamics will be tougher. And so, therefore, we will have to get tougher on our cost reductions to be competitive on those projects.

Andrew Obin - *BofA Merrill Lynch - Analyst*

And just another clarification on Valves & Controls backlog. Did I hear you right, that you guys think that it will start going up in the second half? I'm just questioning, where does the confidence come from, given that, so far, I think it has been somewhat below expectations?

John Stauch - *Pentair plc - EVP and CFO*

Yes, I don't -- we don't want to interpret it that there's a lot of confidence in the backlog increasing. What we're suggesting is that the orders throughout the year will reflect the projects and the markets that we are participating in. So not suggesting that we're going to raise backlog substantially through the year. We are actually saying (multiple speakers)

Andrew Obin - *BofA Merrill Lynch - Analyst*

But did I hear right that the expectation is that sometimes this year backlog will turn positive?

Randy Hogan - *Pentair plc - Chairman and CEO*

No, what we said specifically was that we think that the process segment, which is in Industrial, orders will go forward and we expect that we will get orders. We didn't read that across the backlog at all.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Okay. Then just a last question on M&A. It sounds like you said certain businesses have earned their right to do business -- to do deals. And clearly you guys are very happy with underlying performance at Tyco. You also highlighted that -- I think I heard a comment that Europe is on sale. Private equity guys are pulling back due to regulations. Does that mean that Energy is probably the most likely place where you guys are going to look for M&A? Just a little bit more color there.

Randy Hogan - *Pentair plc - Chairman and CEO*

Our performance on the integration of Tyco is what I said. It's been very, very good. And we have one company now. It's not Tyco; it's not Pentair. It's one new Pentair.

Andrew Obin - *BofA Merrill Lynch - Analyst*

Yes, I apologize, yes.

Randy Hogan - *Pentair plc - Chairman and CEO*

And we're -- we have demonstrated with our performance, and we have lots of happy shareholders as a result. The M&A -- I would not rule out oil & gas, but I would not say that that was necessarily the priority. I wouldn't say anything in particular is priority. We will apply our disciplines; we will apply our five questions; and if we find things that meet our screen, we will be active. If we don't, we won't.

Andrew Obin - *BofA Merrill Lynch - Analyst*

So what are the other businesses that earned their right to do M&A, then? You were very, obviously and deservedly so, highlighting very strong underlying execution. So what other businesses should I think about?

Randy Hogan - *Pentair plc - Chairman and CEO*

Well, Technical Solutions and Water Quality Systems are our highest-performing businesses. We like those a lot. But all four of the businesses do have opportunities in one or more of their 18 platforms. But I won't, in the interest of competitiveness --.

Andrew Obin - *BofA Merrill Lynch - Analyst*

No, sure. I appreciate it. Thank you so much.

Randy Hogan - *Pentair plc - Chairman and CEO*

All right. That was the last question. How about the replay information?

Operator?

Operator

Thank you for participating in today's Pentair Q4 2014 earnings conference call. This call will be available for replay beginning at 12 o'clock noon Eastern Standard Time today through 11:59 PM Eastern Standard Time on February 27. The conference ID number for the replay is 63853866. Again, the conference ID number for the replay is 63853866. The number to dial for the replay is 800-585-8367, or 404-537-3406.
