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PRESENTATION

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. So, good morning. Thank you all for joining us at Bernstein's 31st annual strategic decisions conference. We're very happy to have Randy Hogan, Chairman and CEO of Pentair, with us at this conference for the second time, I think, Randy.

Pentair is roughly a $12 billion market cap company with about $6.4 billion of sales expected, at least in my numbers, this year, approximately 36% gross margin, and 15% operating margins by my definition.

The new Pentair formed through a reverse Morris trust merger with the former Tyco Flow Control, a similarly sized business, back in October of 2012, so almost three years ago.

Randy's been with Pentair for 17 years and 14 years as CEO, 13 as Chairman. Prior to Pentair, Randy spent time at United Technologies as well as GE before that and, in the early days, McKinsey & Company.

So, with that, I'd like to remind all of you that we have those anonymous index cards for you to fill out questions. Raise them up and we have runners who will bring them up to me for Randy. But, please really do use those, take advantage of those. That's one of the unique things about the conference that I think I find very helpful, at least in the other discussions that I have.

So, thanks, Randy. Do you want to get started? And then we'll go to Q&A.

Randy Hogan - *Pentair plc - Chairman, CEO*

Sure. Thanks, Steve, and thank you all for your interest. I'm just going to go through a few pages to level set on what Pentair is today and how we're going to add value -- how we're adding value and how we're going to add value before we get into the richer part of the Q&A.

We believe we have put together -- and as Steve mentioned, most recently through a merger with Tyco's Flow Control Business, we've put together an exciting group of businesses that can create real value. Create real value because of the operating disciplines that we bring to the company in what we call the Pentair Integrated Management System, which is our approach to lean enterprise, but also by taking the cash flow that we're able to develop and put that to work both to support organic growth and acquisitive growth.

The company today is narrowly diversified, and that's how we describe the company. We're a narrowly diversified industrial company. And narrowly diversified in terms of the scope of products we have, but also with enough diversity to give us end market diversity, geographic diversity, and by vertical here.

The reporting segments we have are four; Valves & Controls, which is our largest; Technical Solutions, which basically makes products that house and protect sensitive electronics and other process equipment; Flow & Filtration Solutions, which is our pump business as well as our large Filtration business; and then our Water Quality Systems business, which includes our Pool equipment, our Residential and Commercial Filtration business, and our Food and Beverage Filtration business in the Food Service area.

You can see we're about half US and Canada and half not. And actually a quarter of our business is in fast growth markets. And you can see by vertical markets that we serve, focused on five separate vertical markets.

Now, as we've built the company and what informed our merger with Tyco's Flow Control is that we believe that we want to focus the business on true fundamental growth drivers. And the one we're really focused on is what we call the nexus of food, energy, and water.

We've gone from a billion to two billion middle class people. That's going to go from two to five billion middle class people. Those middle class people are going to put extraordinary demands on energy, food, and water, and we need to find sustainable ways to support that.

So, despite near term issues and challenges that we're seeing, particularly in the oil and gas business, we believe that fundamental driver is going to be positive and allow us to have organic growth that's better than GDP over the next 20 years. And in fact, 75% of our sales today actually serve one of those three large verticals.

In terms of how we drive shareholder value, there's really three elements. Two of them we're delivering well on. The other one we're delivering in some places, but we need to show you we can deliver on it in a sustainable way. And that's actually the first one, organic growth.

We have organic growth going -- working well in a number of areas with challenges presented from the Oil and Gas business right now. But, we're investing in process and better sales excellence leadership right now in order to drive that differential growth rate.

The second area is margin expansion. In this, our track record is very strong. We've done -- we've lifted Valves & Controls' margins over 300 basis points, the Thermal business over 350 basis points just over the last two and a half years, with plenty of headroom to go. And actually, the core businesses in water also still have a lot of margin.

And then finally, because of the size we've built, the tax advantages we have with being a European-based company, our cash flow has actually quadrupled, as I'll show you in a minute. And putting that cash flow to work to help drive growth is the third element of our value proposition.

So, if you think about it just in terms of the numbers we're trying to deliver, our long term goals are 3 to 5 points of organic growth, 10% growth in adjusted operating income, getting leverage on that to 13% to 15% on net income level, and leverage further from capital allocation to get 15% to 20% adjusted earnings per share growth.

Now, that's our long term goals. Now, you can compare that to what we've done over the last three years and see those are not out of line with what we've been able to do, with the exception of organic growth, which has been a little more challenging than the others for us to deliver. So, we believe we can deliver this, despite the fact that we're in what we call a pause year right now.

So, the key elements that I'm focused on right now are the following. In growth, we've gone to a platform structure. So, we have four segments. Underneath that, we have 18 platforms, and that's to allow us better granularity on where we're investing to drive growth and also where we're disinvesting where we don't think the growth is available.

And then, as I mentioned earlier, the other key focus for us is we're a process oriented company. We believe in lean enterprise. We're bringing process disciplines into what we're calling sales excellence, because we think that's the missing -- last missing link to driving organic growth to a higher level. And there's some exciting things going on to drive that.

And then, in terms of productivity, we've got great track record on Four-Wall Lean and we're totally committed to that to drive productivity. We still have a lot of opportunity in that within the factory four walls, and then what we call standardization or process lean.

We still have a lot of complexity. Complexity is cost. Complexity is the enemy of serving customers well. So, we have a number of really exciting programs in order to reduce that complexity, and those are our standardization programs. So, those are the four key elements of what's driving growth in productivity for us.

Now, I mentioned earlier, as much fun and as different as we've been able to create the company in terms of who we serve, where we serve, and the size of the company, the most profound change we've had in the company over the last several years is our ability to deliver cash flow.

Not only can we deliver that cash flow, but because we're a European company, we can use that cash flow. We don't have a lot of trapped cash, and that's a strategic advantage that we intend to put to work.

So, you can see here on the left-hand side of this page our cash flow has more than quadrupled from $200 million to over $800 million a year, and we've returned a lot of that to shareholders. We actually have, 39 years in a row, raised our dividend. And the dotted lines there show that we've done $2.3 billion of stock buyback over the last two and a half years. So, we believe in returning cash.

So, what are we going to do? Our cash flow usage now, I won't go through all the details on the chart. But basically, without much stretch, we have about $800 million of capacity. We'd like to put that capacity to work to support the strategic growth initiatives of our segments.

In particular, our focus right now is in Water Quality Systems and Technical Solutions. And we could do something larger than that if we got a little more creative at deal structures, which is certainly something we've done in the past.

So, with that, we believe we've built a great company. We have a lot to prove, and we have the opportunity to prove it. So, with that, I'll turn it over to you, Steve.

QUESTIONS AND ANSWERS

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Fantastic, Randy. Come sit down. We have a lot of ground to cover that I'm excited about. Thanks again for coming.

Let's start with -- since this is a strategic conference, let's start off with your view now that you're two and a half years into this, more than that, since the close of Flow Control. To what extent was that a good deal for Pentair's shareholders? And where is the opportunity as you see it strategically? Where hasn't it lived up to what you'd expected? And how do we put that in context in terms of maybe the -- well, why don't we just start with that?

Randy Hogan - *Pentair plc - Chairman, CEO*

Sure. It's something that we actually review with the Board on a regular basis, because they ask the same questions --.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Glad to hear that.

Randy Hogan - *Pentair plc - Chairman, CEO*

As you would hope they would. And basically the merger has created enormous value for both the Pentair shareholders and the Tyco shareholders. You can see it in just the numbers. While our stock reached over $80.00, we're still above $65.00. When we were negotiating the deal, we were at $37.00 a share.

They were looking at spinning off a company that didn't have a track record, and the Tyco shareholders were not expecting that to yield a lot for them. So, if you just look at the pure metrics, they're good.

But, if you take a look at the company we've created and the potential that's there, both what would have been Pentair alone and what Flow Control alone would have been, we have much more than two times the potential. And the cash flow is a good indication of that.

Our cash flow is actually four times higher than we were on our own. And we have barely begun to really deliver on the cash flow potential on Valves & Controls, for instance.

And when you take a look at the company we've built, we're an S&P 500 company now. We're more global. We have more talent depth. And we've already, as I mentioned, raised margins already over 300 basis points in Valves & Controls. That's despite oil and gas.

Now, what didn't go well? Well, when we were negotiating the deal in the fall of 2011 and we announced the deal in March of 2012, we really thought that sometime between 2011 and 2015 we'd have a full economic recovery in the world. That didn't happen.

We didn't count on oil and gas going down and mining staying weak this far, this long. So, some of the market assumptions we had weren't right, but we still were able to create a leader in the flow space in the merger.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, then talk about on the sales force side in Valves & Controls. They've been dealing with, I'm sure, deployment issues. They've had data questions out of the ERP complexity that you've mentioned in the past. How can we be confident that future deals maybe won't see those challenges or that you're -- how are you handling those challenges right now?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, I think the -- what Valves & Controls is seeing is fairly unique. Because of the complexity, 37 ERPs, the sales force has to deal with 37 ERPs, there was data integrity issues. We've sorted all that out.

But, the real lift is going to come when we -- what we call our Operating Model Transformation, the OMT project, which is basically getting to much fewer ERPs, but more importantly, really building the business out of a tax efficient Swiss structure, which doesn't exist today. We were Swiss, but the operations were not Swiss.

So, that will make it a much more profitable business. Simplifying the ERPs is going to let us have a much more intimate relationship just between our sales forces and our businesses.

So, I'd say that's fairly unique to Valves & Controls. If you take a look at the Thermal business, the Thermal business has been doing very well despite whatever market challenges they've had. So, they've taken what was already a fairly high performing go to market, and we've added lean enterprise to that.

And our ability to do that with other acquisitions -- now, Flow Control was larger than Pentair, so most of the things we're looking at today aren't anything like that.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. Before I get to that, the capital deployment, on the question of Valves & Controls, this has been a business back when it was part of Tyco which was largely component oriented. Certainly a significant portion of that portfolio was what I'll call standardized product. How do you do something more with that? Do you want to put your strategic hat on, which I'm -- and tell me --?

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes, I'd characterize it -- there's probably 80% of the product set there that is fairly high value and would not compete on price. And I would call -- the two valve franchises in that regard are Pressure Management and Process Flow Isolation. And that would be -- the triple offset valves, the high resiliency butterfly valves, and the pressure management are all of the different kinds of valves that protect process pressures and keep things from blowing up.

And those are products that have nice service revenues. They have real value. And I think we can be more aggressive on selling those. Pressure Management, for example, is a nice aftermarket, but we tend to be more passive as opposed to aggressive in terms of going after and really owning that aftermarket. So, I think there's some things we can do there.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And beyond aftermarket, what about the increasing level of intelligence in field instrumentation that you see?

Randy Hogan - *Pentair plc - Chairman, CEO*

Right. Basically, we do actuation and control, and they have to be able to talk to whatever DCSs there are. And there's lot of dynamics going on there, so we're spending money to make sure that we can be part of any solution.

And we spend a lot of time talking to customers about where their interests are in terms of how what we offer fit into those automated solutions. I know there are different points of view from different companies that basically they're going to own the whole DCS and they will decide everything.

Their customers haven't yet agreed with them wholly on that. The ExxonMobils and the Dows of the world, they still want to be able to say which triple offset valve they're going to use.

And so, I think there's a lot of dynamism in how that's going to -- that strategy is going to unfold. Our role, we're not going to go up into the DCS end. That's plowed space. But, we want to make sure that we are easy to do business with and we have value propositions to the end customer so that our systems and solutions fit.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Are you seeing Chinese or other competition of any kind of consequence in that space at this point?

Randy Hogan - *Pentair plc - Chairman, CEO*

Not new. There have been valve players, Chinese valve players for a long time. There are Indian valve players, and they've been out there for a long time.

And they're getting better and better, but that's not new in the industrial world and it's certainly not new to Valves & Controls world. So, it really is making sure that you know your value proposition and that you're prosecuting it.

And it requires you to own what your franchise is. I'll give you an example. So, we are the originators of the triple offset valve. That's the Vanessa brand made in Italy. And that has zero leakage. It's used in a lot of very high-end applications.

As we have pushed that more and more into more applications, the business has become a little less attentive to the more ordinary applications. And that has provided an opportunity to others. That's space that we're not going to advocate anymore.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. It's a really interesting point, right, because these competitive -- if I just think about it in terms of the trajectory of Pentair's Valves & Controls business and the gap that you have enjoyed in both reliability, in quality, in technical specifications versus -- and availability and all of those things versus those guys, the ankle biters at first who are now trying to come in and have maybe grown, maybe not scale but at least some sizeable position in their niches, that must be narrowing to some extent. So, how do you --?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, what it is, as we've focused on the higher end and filled our factories with that, we haven't really thought about, well, we're the largest player in Valves & Controls. We have lots of factories. We can make higher performance valves in lower cost factories and beat them. And that's what we're going to do.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, you've moving to take advantage of scale.

Randy Hogan - *Pentair plc - Chairman, CEO*

We have a program. We've talked about the mid tier three -- the mid tier triple offset valve program that we're launching shortly.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. And currency, while we're on the topic. To what extent is currency impacting competition and pricing today? I guess we can talk broadly across the portfolio for a minute, and to what extent it hasn't but you expect it to. And how are you handling that?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, the biggest change is that all of us are global in terms of our footprint. So, plants that we had that were maybe marginally competitive and they were in Europe before are looking a lot more competitive than they were before. And the flipside of that for the US; plants that were competitive that are going to be challenged now because of the US dollar.

Now, what we're doing to help moderate that or take advantage of that is by looking to our supply base and making sure that we're making good decisions on sources of supply based on exchange rate moves. So, we're pretty aggressively focused on that.

And we're also focused on making sure that where we have plants that are, say, were selling in the US where we have perhaps a more aggressive competitive posture from some of our competition because they're leveraging their lower cost base, we want to make sure that we address that and are aggressive to make sure we don't lose share on that.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Are they already doing that in certain spots?

Randy Hogan - *Pentair plc - Chairman, CEO*

There are episodes of it, yes. And we want to make sure we're actually on the aggressive on that, so we've done that.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And the margin protection? So, in other words, okay, so therefore you must be seeing some margin pressure in some of those spots, because you're going to not give up that share.

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes. I think it varies by business. The biggest challenge -- and we've already seen it, you saw it in the first quarter -- is the translation, right? So, a US product sold into Canada, that's actually a big deal for us. We don't make that much in Canada, but Canada is a decent sized market. So, that translation effect has hit us already.

So, it's the transactional effect that we're focused on now. And we want to make sure that we are at least neutral on how that works for us so that -- we'd like it to be an advantage, but ultimately right now we just want to make sure it's neutral.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Right. And that third piece that I keep coming back to is that competitive pricing question.

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes, but that feeds through in transactions. That's what I mean by --.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. All right.

Randy Hogan - *Pentair plc - Chairman, CEO*

The transactional is that. It's what's happening to you on price. It's what's happening to you in cost based on the relative position of competition.

There's not that many places where cost structures are that different between all the competitors, right? Most valve players have pretty big positions in Europe. So, while that may be an advantage for us in some costs versus other Italian players, it's not that we all have the same.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And you're not making every product in every country, right?

Randy Hogan - *Pentair plc - Chairman, CEO*

Right. Correct.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, the way that that supply chain links.

Randy Hogan - *Pentair plc - Chairman, CEO*

But, we do -- there are some products we make both in Europe and the US. And we have skewed production to the US because of where the euro was. We'll think about that differently now.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

What business units are those?

Randy Hogan - *Pentair plc - Chairman, CEO*

In water, for the water side.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Let me come back, since you've mentioned water, and talk about a different part of water, which is back on that Flow Control view that you had. In terms of lessons out of the Flow Control deal and all the positives that happened, what was missed with the Water business itself inside of Flow? And how much do you attribute to end markets, for example, versus structural issues versus due diligence?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, nothing really was missed. And what Tyco called water was pipe, steel and iron pipe that was used to move water and oil. It was never a strategic part of why we did the deal.

We liked Thermal because of its structure. We liked Valves & Controls because of its opportunity. But, we always knew that pipe wasn't part of our strategic roadmap.

So, I would say we didn't miss anything in due diligence. We were skeptical about the growth that was there. But, the business went from $700 million to $200 million in sales, right? And it was all market. The mining market went away, because they used a lot.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And it was too fast for you to get rid of sooner?

Randy Hogan - *Pentair plc - Chairman, CEO*

We shut half the factory. And there were no takers. There was not a lot of people interested in buying it at that point in time.

So, I guess in hindsight, and you never have -- you never have the benefit of doing things in hindsight, if we had announced we were selling it right away and had sold it in the first two months we would have been better off.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Where are you in that process right now, by the way?

Randy Hogan - *Pentair plc - Chairman, CEO*

It's pretty much completed, along the lines of what we had announced. But, we sold it in pieces.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Right, right. So, let me move on a little bit here. But, I guess the way I'd close this out is almost three years into it --.

Randy Hogan - *Pentair plc - Chairman, CEO*

Can I say one other thing?

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Yes, of course.

Randy Hogan - *Pentair plc - Chairman, CEO*

Even with as disappointing as that was with water transportation or pipe, the deal was enormously accretive, enormously accretive.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Well, you expanded operating margins by 300 basis points overall, right?

Randy Hogan - *Pentair plc - Chairman, CEO*

Right. Yes.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And the legacy business has been strong as well, plus you've combined the S&P point, the Irish domicile point, an advantage of flexibility in your use of cash that you still haven't take full advantage of yet. So, let's go to that, okay?

So, from an M&A perspective now that you are well into this integration, where do you take the company from here? You talk about becoming the next great industrial company. Acquisitions are clearly a part of that.

Randy Hogan - *Pentair plc - Chairman, CEO*

Right. Yes, as many of you know, I'm a big admirer of Danaher. The Pentair Integrated Management System was modeled after the Danaher Business System, which was modeled after the Toyota Production Management System.

And so, we -- and we've reshaped the company. And when I become CEO, we were $1.1 billion in market cap. Now we're $12 billion. And our ambition is to be a $20 billion market cap company and to be over $10 billion in sales but still have the kind of margins we have told people we would achieve. And we achieved 15% operating margin, ROIC over 10%.

We believe we can do that. We want to do it with balance. We want to do it around the segments we're in. That doesn't mean we'll keep each piece of every segment. But, we particularly want to build out in the food space and in the general industrial space where we think there's still a lot of opportunities to create good value.

A good example of that is Nuheat. Nuheat is a small company that was in the Thermal Management focused on Residential/Commercial in North America. We actually had a bigger position in Residential and Commercial in Europe than we did in North America.

This is a small bolt-on. It basically is -- it was very affordable, wasn't that expensive, fits our strategy. It's small. It's a small acquisition. We believe that there are more of those to do.

They're not the headline things people like to talk about with us, and that doesn't mean that we won't do a headline thing someday. But, there are some -- there are quite a bit of interesting private or private equity owned properties that would fit our strategy today.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, that's a really interesting set of points you just made. You've got -- you're in an environment right now where, certainly in some segments in which you participate, earnings are depressed for peer companies and adjacent companies. But, if you're going to move into those spaces over time, is it not better to do it in a trough time of the market, or is your view that valuations are already at a point that they're not reflecting the tough earnings cycle and you might as well wait until you're in a different position?

Randy Hogan - *Pentair plc - Chairman, CEO*

That is the dilemma. Take Valves & Controls here. We've looked at all the Valves & Controls properties that have come on the market. The valuations were not such or there was elements about the deal that made them not interesting to us in the end.

And sometimes it was valuation. Sometimes it wasn't. But, we go through and look at every acquisition through five screens. The first is the strategic one. How does it fit our strategy?

The second is the financials. And our financial disciplines are no different. We want to earn a risk-adjusted rate of return above our cost of capital. And we tell the businesses our cost of capital is 10% even though at today's rate you could argue that's really not true. It's a lot lower.

The third thing is we look at why are we the best buyer. And that gets into is this the right time and is it the right time for us. And then, the last two questions are what's our integration plan and who's our integration team?

So, in those second two -- second and third questions about are we the right buyer and this is the right time and the financials, that gets into these wouldn't you rather buy something depressed that's going to come back. And that would be -- the best example of that would be oil and gas and Valves & Controls.

We're looking, but I would say we're going to remain very disciplined. We have a lot of work left to do and a lot of opportunity to do with what we have.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, I was going to say is your core business --?

Randy Hogan - *Pentair plc - Chairman, CEO*

So, you get to that last question, which is who's going to do the integration. And if you're going to integrate into Valves & Controls, who's going to do it of the Valves & Controls team and are they ready to do it, in contrast to our Water Quality Management team and our Technical Solutions team, which frankly have depth, capacity, and capability.

So, to make an acquisition work, you can screw it up by paying too much at the frontend or you can screw it up by not integrating it right. And so, we use the financial discipline to make sure we don't screw up the first way, but I spend a lot of time on question five. Who's going to do it?

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

It sounds like question five, and also just is the business ready. Between the systems investments and changes and other things, and financial planning even part of Valves & Controls, you're on an evolutionary path and you're not quite there yet.

Randy Hogan - *Pentair plc - Chairman, CEO*

Right, we're not. And then, I try to separate the disappointments that we saw in the first quarter of the near term performance from the more systemic challenges or opportunities we have to make it better when you make a strategic decision. But, that still informs it, right?

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Right.

Randy Hogan - *Pentair plc - Chairman, CEO*

The fact is is that we're still getting a surprise with some of the data. And that doesn't make me feel good about integrating into Valves & Controls at this point. And in contrast, I have other opportunities.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. And the idea of buying quote turnarounds or whatever you want to call it, margin expansion and from that perspective versus those that are already doing well and more of a growth play, do you have a philosophy about that?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, we've done -- we've created more value buying things and fixing them up, we've done that -- that were good strategic fits. We've done that in Water. We've done it in Technical Solutions. We've done it with Valves.

I would say we're -- I wouldn't say we're agnostic. But, we certainly -- take a business like Everpure that we bought in 2003. That was a high performing business. It's still very high performing. So, we have examples where we actually did make it better because we brought lean to it, but it was already a high performing business.

So, I think that we see more of those kind of opportunities. And I would like to buy things that would help our growth profile, would help our organic growth profile going forward.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

When I look at an Industrial business with gross margin profiles in the mid 30%s or in that range, it's usually indicative to me of either a fairly low tech, less solutions and service oriented portfolio, less aftermarket, something that's driving that, or it's just that the number should be higher and it's an operational evolutionary path that -- they really have the right to be a 40% plus gross margin type business and are just not there. How do you think about your portfolio on that track?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, I focus on op margin, not gross margin, because there's lot of different ways that you can account for things, putting things in gross margin or out of gross margin. So, really op margin is the real number that I look at.

So, I always compare our numbers to our peer numbers and say what is preventing us from being there. And then once we're there, how do we set a new standard, which we've done in Technical Solutions, which we've done in Pool, we've done in Food Service.

So, we still have opportunities in a number of places. Our Flow & Filtration business is off peer margins. Valves & Controls I still think can get to 18% in a more normalized revenue environment.

And so, that's the way I think about it. I actually don't think about --.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Well, pricing --.

Randy Hogan - *Pentair plc - Chairman, CEO*

I may get gross margin, but --.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Well, on the gross margin side, it's more pricing power, right? When I say that, I'm really addressing pricing power, that higher R&D levels maybe get you there below it and higher sales force investments, but it allows you to capture the pricing, right? And so, you're making these investments between gross and op. So, that's why I'm sort of referencing that.

Randy Hogan - *Pentair plc - Chairman, CEO*

Right, right.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, it's really a more pricing power question inside the businesses.

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes, I would -- I still view it as -- the core question about any business is can you control you own destiny? And it isn't always just about product innovation. It could be owning your channel.

The example I've used is we make metal boxes. And I've been asked by shareholders a lot how can you make 22% margin on metal boxes? And I always tell people we don't sell metal boxes. We sell safety and security exactly where a customer needs it when they want it and how they want it.

And as long as you view the business that way and you understand what is the fundamental value-add, that's the way I think about it. Applying R&D against something where the real value added isn't really in product innovation is wasting money.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Agreed. And just as a reminder to the audience, if you have cards with questions, please do raise them up. I'd love to go to some of those as well.

Cost playbook versus growth playbook, okay? So, the cost playbook, as you have personally shown me and I've seen, is extensive. And it's being applied. It has been applied. It's a question of just executing that cost playbook and improving it over time, but you've got it.

The growth playbook, right, is something that you've been thinking about and is not --.

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, we've been talking about it.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Maybe talk about that.

Randy Hogan - *Pentair plc - Chairman, CEO*

The way we look at growth is we want to grow differentially above the market. And we're going it in a number of places. Not surprisingly, it's in the same places that -- he's got a couple.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Yes, I know. He's got to get them over here.

Randy Hogan - *Pentair plc - Chairman, CEO*

And it's where we have everything aligned. We do have innovation. We have intimacy with the customer. We have opportunities to grow geographically or through other applications. So, it's really building that out.

We went to the platform structure underneath our segments. The segments are to drive the operations excellence, the standardization agendas so that we can be high performing executors. The platforms are to give the intimacy, focus, and granularity so that we're investing in our best opportunities and not using our best opportunities as a Band-Aid on covering our worst and averaging so that we have a lot more granularity.

And I've flattened the organization so that we have more -- John and I have more visibility on where we're investing and what we're getting for those investments at those 18 platform levels.

So, we get the operating leverage of large -- $1.5 billion, $2 billion businesses, but we have the intimacy of a $100 million or $200 million fighting force. That's one, and then the second is the sales excellence.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

This is a really hard thing to do across my space. And you may admire Danaher, but I can tell you they've been at this for years and now we're finally giving them credit for showing a move from three to four to five, right? This is really hard. It's hard for 3M. It's hard for a lot of these great innovative -- highly innovative companies.

And so, the question then is -- it just begs is, okay, so of your time that you have to spend and creating consistency in that, just how much effort do you put into that?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, yes. I put my effort into people. I need to make sure that I have people that are driving the growth agenda. So, if you've met my President of Water Quality Systems, Karl Frykman, who fixed the Pool business and then I gave him Food. I gave him the Water Purification.

And so, if you have people that know how to drive the growth agenda and I make sure that everything is aligned, that's how I can affect it. Because growth is market back and it's customer intimate, so my goal is to align the organizations and the people against the opportunities.

But, it's not for me to make the company grow. It's the rest. And you could argue that it is -- it's what we do anyway. It's what any leader knows.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Right, right. So, the questions from the audience are all -- right now they're largely M&A related, but let me ask these. You mentioned admiring Danaher. They just did a big deal and dropped their return on invested capital hurdle for that deal per se. Would you do that for a strategic deal?

And then, related to that is, since M&A is getting more aggressive, are you willing to issue stock anyway to get a transformational deal done?

Randy Hogan - *Pentair plc - Chairman, CEO*

On the first, personally I'm a shareholder of both Danaher and Pall, and I am an admirer of Danaher.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, you're mostly happy.

Randy Hogan - *Pentair plc - Chairman, CEO*

And well, I get what they're doing. I get what they're doing. I don't know of a deal that I would -- that we need to do or whether I could ever get there, because our financial goal -- yes, I could see taking a longer view and saying, okay, we're not going to get to ROIC on this until year six instead of year three.

I could see doing that for the right deal, but -- and I'm sure they did this. I don't think they got there first. I think they got to what they wanted to do strategically, which is build that higher technology life science focus and then cleave in two so they'd have -- they could run the playbook in two different places or three, depending on the accounts. And so, at least as I look at them as a shareholder, I get what they did.

I think we have a lot of opportunities in the bolt-on arena that we're spending a lot of time thinking about. We've had a number of people suggest bigger things to us, and we welcome ideas from wherever they come. And we've got the discipline of looking through those things.

And anything about $800 million, we'd have to get creative. That might mean we'd have to have stock. But, the way I think about using stock is it would have to be like how we used it in Tyco, right?

When we were negotiating that deal, the stock was at $37.00, $38.00. The day of the announcement, our stock went to $49.00. So, it was negotiated at 8.4 times EBITDA. And at the end of the day Ed Breen could say it was 10. And they were both correct, because the market validated what we were doing and bid the price up.

So, it would have to be something that -- if we're using stock, it would have to be something that was that compelling and obvious, that it would have that impact on the stock.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Not to mention taking advantage of your position in Ireland.

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, that's what I'd really like to do, because we're trading at a discount from where we believe we should trade, given our advantaged structure. So, what we'd like to do is we'd like to give an example of that with a larger deal than Nuheat. Nuheat was too small for anyone to really notice that.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Right. And you've also -- well, do you see further consolidation in Flow? And someone specifically asked about SPW as a strategic asset.

Randy Hogan - *Pentair plc - Chairman, CEO*

I think in Flow in general, whether it's large flow including water or -- a lot of people think Flow Control and think of valves control. But, if you think of valves and you think of pumps and you think of -- there's a lot of consolidation. There's a lot of fragmentation.

There's a lot of consolidation opportunities, but they have to make sense strategically and they have to be actionable. And so, I think that's about all I'd say about SPX.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. Given the $800 million you have in balance sheet capacity at 2.5 times net debt to EBITDA, I think you've stated you'd consider incremental buybacks if deal do not materialize. But, what's your general philosophy behind both dividends and stock repurchase?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, 39 years in a row we've raised dividends, and so the last 15 of those were mine, on my watch. And I think it's a promise we make to a certain class of shareholders, and it's a promise that we would be loath to change, I think.

We have been more aggressive on stock buyback over the last two and a half years then we've ever been in our history. And I think it's been a positive thing. The average price at which we did that was still an attractive average.

I actually believe, and this is the scientific point, that the unconstrained resource is always wasted. So, having excess cash lying around in companies is a bad thing. It's a bad thing. So, if we don't use it in acquisitions, we probably should do something with it to return to shareholders. But, I'm guessing that we probably will use it to do some acquisitions.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. All right, let's go back to oil and gas and the economic kind of Industrial landscape globally. I don't think I've hit on that. I need to, of course. March has basically -- maybe fallen off a cliff is too strong a word, but it was certainly bad in Industrial.

Randy Hogan - *Pentair plc - Chairman, CEO*

Someone called it an air pocket, and I think that was an apt description.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. Yes, a large one.

Randy Hogan - *Pentair plc - Chairman, CEO*

Hit an air pocket with a wind shear.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, are we through that now? Do you see a trough?

Randy Hogan - *Pentair plc - Chairman, CEO*

Our view was is that it was a moment of when the industrial channels froze up because of the uncertainty around what the knock -- we call it the knock on effect from oil and gas capital spending. We still believe that. We still believe March --.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

You still believe that's what happened then?

Randy Hogan - *Pentair plc - Chairman, CEO*

We still believe that's what happened.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay.

Randy Hogan - *Pentair plc - Chairman, CEO*

And so, that doesn't mean things will pop back up to a wonderful level, but that things are more predictable now.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Have they stopped getting worse?

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay, not just decelerating slower, there's --?

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. And are you -- and does that mean -- is part of that that you're seeing an end to the destocking?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, I think a big part of it was destocking. You saw that in the Wesco numbers. You saw that in Grainger numbers and at Fastenal. So, I think largely you can't destock forever. Ultimately you've got to restock and sell through.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And are you seeing any positive impact from the oil price stabilization?

Randy Hogan - *Pentair plc - Chairman, CEO*

I would say that there's no real change. I think the oil and gas capital spending is getting sorted out about what they're going to spend on and what not. We've seen the delays. We were seeing delays. There's still being delays. There's not being cancellations. So, that's kind of still the same.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And midstream, downstream you're talking about as well?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, downstream held up pretty well in North America for us. The LNG business, where we have a unique position, has remained pretty good, so it's -- in North America.

In Asia, they have not held up. We thought they would, but they haven't. In Europe they haven't. That was in our numbers in the second quarter. That's not new information. I mean in our first quarter.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Your share position, though, is a lot stronger than in North America anyway than the other regions, or --?

Randy Hogan - *Pentair plc - Chairman, CEO*

Actually, our share position is weaker in North America. Europe is strong share. Asia and the US are probably about the same.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay. So, Europe's your best position on that front.

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, do you have some currency benefit on that?

Randy Hogan - *Pentair plc - Chairman, CEO*

We hope so.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Those are locally manufactured because of the Italian business.

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes. Yes.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

That's what you mean.

Randy Hogan - *Pentair plc - Chairman, CEO*

And we have really high share in the oil and gas business there.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, you're defining it as sort of by --.

Randy Hogan - *Pentair plc - Chairman, CEO*

Sure.,

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Okay, in that way. How about construction? You guys have some exposure on that front obviously where the -- in spending. Are you seeing trends that are still positive?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, positive, Residential/Commercial in the US. We actually saw a little bit of stabilization in Europe on Resi/Commercial. And I think that the weakening euro has helped. There's a little bit more spending there.

So, we haven't seen as much benefit on the Residential Filtration and Pump side as we have in the Pool side. Pools remain strong.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

You talked about a thermal project where I think you agreed to maybe a lower price on the narrow set of products, but you ended up with a much broader deal that you made out of that. Can you talk about that dynamic?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, I think everybody's heard about how the oil companies sent letters and asked for people to have a 20% -- said give us a 20% reduction. Our view of those letters is -- and I've actually seen those in my past too going back years. I've actually sent letters like that.

That's really an invitation to let's work this problem together. And so, an example, we got a letter like that in thermal, a large project. And it was phase one, and basically they asked for a 20% reduction.

And we came to a point where we redefined the project, changed the scope up a little bit. They did get a 1% price reduction, but the scope changed. We had a little bit more and that set us up well for the phase two of the project too.

So, that's what -- and I talk about it externally because I talk about it internally, because I want all my sales forces to approach things that way, as sort of, okay, this is an opportunity to have a dialogue around -- with a customer around a problem. We'll find a way to work it together.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Is it indicative of the broader -- is that just one anecdote?

Randy Hogan - *Pentair plc - Chairman, CEO*

It's one anecdote, but it's indicative of what happens on larger projects. There is I think a risk for investors to read price pressure as a broad issue as opposed to a narrow issue. And basically short cycle business, you may not be able to get more price but you're not going to see a lot of downward price pressure, particularly not through distribution.

The service business won't see price pressure. Smaller projects might see a little price pressure, but it's more on the larger projects and it's more from the second tier players that drive the price competition. So, our view is, yes, we'll see price pressure mostly in Valves & Controls. But, it's probably only going to be, at the Valves & Controls levels, single digit price pressure.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

You also stepped up your repositioning and restructuring with another I think $60 million this year.

Randy Hogan - *Pentair plc - Chairman, CEO*

Right. And what we did is we did that because our view -- my CFO, John, and my view is that we should treat the strengthening of the US dollar as a permanent change, and therefore our cost structure should reflect it.

So, it put us out of whack in terms of cost structure in a number of places, including the United States, and that we needed our businesses to adjust accordingly.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

All right. Is the next leg of margin expansion more challenging than the last one?

Randy Hogan - *Pentair plc - Chairman, CEO*

The next leg is going to be actually going back to -- is going to be at the gross margin level more than the op margin level.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

I thought we didn't care about that, right? I'm just kidding.

Randy Hogan - *Pentair plc - Chairman, CEO*

Okay, I changed my mind (laughter). What I mean by that is the true productivity, real labor and materials productivity, which reads through in gross margin. It's at that level. It's not in the SG&A. It's not in the, if you will, overhead structure, which actually is gross margins law, your plant and overhead structure, which is where most of the cuts have -- most of the beneficial cuts have been made.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Do you anticipate reinvesting more of that margin? In other words, there's sort of the cost piece and margin, and then you can choose to --.

Randy Hogan - *Pentair plc - Chairman, CEO*

Our philosophy on lean was is that we'd drive productivity, and half goes to the bottom line and half gets reinvested. That's sort of the core operating philosophy we have.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Do you anticipate continuing that?

Randy Hogan - *Pentair plc - Chairman, CEO*

Yes, but I want the presidents and the businesses to decide where it gets reinvested. In other words, every platform doesn't have the same opportunities, so I want to make sure that's what I -- when I talk about having a more granular insight into our opportunities and differentiating the investments, that's an example of what I expect.

The savings -- it'll come up to the president. The segment level will decide where the business would get invested.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

And I think I forgot -- I neglected to ask, were you as a betting man, if you think about where your trough growth is going to come in this current cycle, what do you think investors should think about? Is it later this year? Is it into next year?

Randy Hogan - *Pentair plc - Chairman, CEO*

We called this year a pause year, and a lot of people said, well, that's -- and our view is we're planning this year to be flat with last year, and that we would grow earnings again next year.

It may not be that much from revenue next year, because I think we'll still have revenue pressure in Valves & Controls next year because the orders we're getting this year will be the sales of next year. So, the fact that orders are down will have that trailing effect.

But, we still have enough cost structure and benefit to get here that we should be able to -- if we can hold them flat on earnings into next year the rest will give us a lift.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

So, in the remaining time, Randy, how would you like to close off?

Randy Hogan - *Pentair plc - Chairman, CEO*

Well, thanks for having us again, Steve.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Thank you for coming.

Randy Hogan - *Pentair plc - Chairman, CEO*

And this is an interesting conference because you get a lot of different companies here. You get a lot of different points of view. And I get to ask investors questions too, at least in the meetings I've had so far, and I'll continue to do that. And that cross fertilization of ideas I think is helpful for someone like me to get.

Just wrapping up on Pentair, we're on a journey of value creation. I'm a big shareholder. We are very aligned to shareholder value creation. And we're very creative. So, we believe that it doesn't matter what happens in the external market, that we have -- we're responsible for controlling our own destiny and driving that shareholder value.

So, I've talked about the things we're doing inside the business. I've talked about the M&A I'd like to add to that. And you can count on us to continue to be creative and open to any ideas that come our way.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Great. Thank you. And thanks for listening. You always -- you guys are great listeners too. Appreciate it.

Randy Hogan - *Pentair plc - Chairman, CEO*

Thanks.

Steve Winoker - *Sanford C. Bernstein & Company - Analyst*

Right. Thank you.
