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EDITED TRANSCRIPT

PNR - Pentair plc Conference Call on Valves & Controls Divestiture

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OVERVIEW:

PNR announced on 08/19/16 that it has reached an agreement to sell its Valves & Controls business to Emerson for cash purchase price of $3.15b.

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PRESENTATION

Operator

Good morning. My name is Matthew and I will be your conference operator today. At this time, I'd like to welcome everyone to the Pentair conference call.

(Operator Instructions)

Thank you. Jim Lucas, Vice President of Investor Relations and Strategic Planning, you may begin your conference.

Jim Lucas - *Pentair PLC - VP of IR & Strategic Planning*

Thanks Matthew and welcome to Pentair's call to discuss this morning's announcement of divestiture of Valves & Controls. We're glad you could join us. 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 today's announced divestiture, 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 10K and today's release.

Forward-looking statements included herein are made 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 references to non-GAAP financials are reconciled in the Appendix of the presentation. We will be sure to reserve time for questions and answers after our prepared remarks. I will now turn the call over to Randy.

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Randy Hogan - *Pentair PLC - Chairman & CEO*

Thanks, Jim. Good morning, everyone. I'm starting on slide 4. Four years ago, we merged with Tyco Flow Control in what we saw as a strong strategic fit to build on Pentair's already strong portfolio. With Tyco Flow, we create a balance sheet with more scale, one that strengthened our ability to add to our two water businesses and our Technical Solutions business.

The deal also gave us exposure to, what was then, a fast-growing energy industry. Finally, we gained an advantaged structure and not only created immediate value but also afford us opportunities longer-term. Over the past two years, the energy industry has experienced a significant reset and the result has been a dramatically revised outlook for businesses serving this industry.

We believe that partnering with Emerson is a great strategic fit for our Valves business and the combined businesses will be well-positioned for the expected energy recovery. With the closing of the transaction, our balance sheet will have flexibility that it does not currently have and we'll be able to sharpen our focus on executing our strategic priorities on our Water Quality Systems, Flow & Filtration Solutions, and Technical Solutions segments.

Now turn to slide 5 to discuss some of the deal highlights. We feel we received a fair price for Valves of $3.15 billion. The deal is expected to close late in 2016 or early 2017, subject to regulatory approvals. We expect to recognize approximately $2.6 billion of proceeds after tax and to deal costs. We anticipate using the proceeds to delever our balance sheet, resulting in net debt to EBITDA leverage of approximately 1.6 times, inclusive of cash on hand. We expect the deal to be just over $1 dilutive to adjusted EPS in 2016, but if we were to get the full-year benefit of lower interest expense, it would be only roughly $0.82 dilutive.

Now let's turn to slide 6 to discuss our updated 2016 guidance. On the left-hand of the page is our previous guidance for adjusted EPS of $4.05 to $4.20, which included Valves & Controls. This forecast of the revenue growth of approximately 4%, positive contributions from the ERICO transaction, an ongoing cost out benefit, which are expected to lead to adjusted EPS growth of approximately 5%.

Cash flow is anticipated to be greater than 100% and our balance sheet was expected to end the year, fully levered at 3.3 times. We've updated our adjusted EPS guidance of $3.07 to $3.17. This includes approximately $1 of dilution from the exit of Valves & Controls, but it's important to note that we only get a small benefit in 2016 from interest savings, where we would get a full-year of interest savings as a result of lower debt levels, the dilution be only $0.82

Our updated guidance still anticipates free cash flow to exceed adjusted net income. Finally when the deal closes, we expect our balance sheet will have $1.4 billion of capacity and we will be applying a disciplined capital allocation model and put it to work. While the decision to exit Valves & Controls dilutes our earnings in the short-term, it creates increased capital flexibility and allows us to focus on our three remaining segments: Water Quality Systems, Flow & Filtration Solutions, and Technical Solutions.

Now let's turn to slide 7 for a financial view. After excluding results of Valves, a pro forma of Pentair remains a financially strong Company. At $5 million of revenue, with a return on sales of over 17%, we still have plenty of runway for growth and margin improvement.

We expect free cash flow to remain strong and once the transaction closes, to have a very strong balance sheet that will allows us to allocate capital in a disciplined way to the most attractive opportunities, whether investing in organic growth opportunities, looking at select bolt-on acquisitions, or repurchasing our shares. For every $100 million invested in acquisitions or buybacks, we would anticipate roughly $0.03 per share of value created.

Now let's turn to slide 8 for a view on the new Pentair portfolio. We're excited about our $5 billion portfolio and believe we are well-positioned to grow the Company longer-term.

The pro forma look at our geographic mix shows that we're slightly more weighted in North America. We have a lot of opportunities to continue growing globally. From a vertical perspective, Residential and Commercial becomes our largest at just over 40% of sales and the rest of the portfolio is well-balanced, with Energy now becoming around 10%.

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We also believe that we are aligned around four attractive global themes: Water Quality & Availability, Equipment & Building Protection, Industrial & Process Efficiency, and Food & Beverage Processing. We remain narrowly diversified, which allows us to prioritize our investments and afford us opportunities to grow organically and also use our strength in balance sheet, as opportunities arise.

Please turn to slide 9 for an overview of the business segmentation. Our three segments and eight Strategic Business Groups are all investable and have significant opportunities. Water Quality Systems has a proven track record in both of its SBGs of attractive growth prospects organically, in addition to opportunities for small bolt-on acquisitions that make a lot of strategic sense.

Flow & Filtration Solutions is a business with a number of attractive growth prospects but the near-term focus will be on removing complexity from the business and positioning it to return to growth. We're excited about a number of the businesses within Flow & Filtration Solutions and this is a business that has a lot of potential, where we are working diligently to deliver more consistent and predictable results.

Technical Solutions is also a high-performing business, with three attractive SBGs, that all have opportunities to continue growing. Exiting Valves & Controls allows us to sharpen our focus on our three businesses and to be more aggressive at building on our strategic priorities of flowing resources to those most attractive opportunities.

Please turn to slide 10 for a review of the Flow Control deal. While the world looks a lot different than it did just four years ago when we acquired Flow Control, we remain steadfast and be a strategically strength at Pentair by giving the Company a balance sheet with more scale in addition to gaining an advantaged structure. It not only created immediate value but also afforded us opportunities longer-term.

As this slide illustrates, we've also created shareholder value despite the significant reset of the energy industry. After looking at the cash we've generated over the last four years, the improved tax structure, the value of the businesses we still own, plus the anticipated value from today's announced sale of Valves, there's been a strong double-digit annual return generated over the past four years. With that, I'll turn the call over to John to provide additional color on the financial details.

John Stauch - *Pentair PLC - CFO*

Thank you, Randy. Please turn to slide number 11, labeled, EPS Impact from Valves & Controls divestiture. We wanted to walk you through the impact on EPS related to the divestiture of Valves & Controls. Starting at the midpoint of our prior guidance of $4.12 per share, we expect $1 per share of dilution.

This is comprised of $0.80 of the results, which ties to our latest Q2 guidance, $0.12 of unallocated corporate costs no longer being covered by the business, and another $0.08 of other adjustments and taxes. The new midpoint of the guidance range is $3.12 per share; however, were we to look at the results on a pro forma basis, the midpoint would be $3.30 per share.

The difference is that we will not get a full-year benefit of the interest expense savings and not have the other adjusted item as we go forward, as this relates to long-term compensation impact in catch-ups related to the deal. So overall, we see about $1 dilution to 2016 and $0.82 on a pro forma basis; however, we believe we have a much higher level of consistency and predictability of earnings and also have capacity for acquisitions and buybacks.

Please turn to slide number 12, labeled, Capital Structure and Capacity. When the deal closes late this year, or early next year, we expect our balance sheet will be significantly stronger. We anticipate our balance sheet leverage to fall to a net debt level of roughly 1.6 times and to have capacity of approximately $1.4 billion.

This early look anticipates paying down our short-term debt because we anticipate that the longer, higher-cost debt may be potentially cost prohibitive to retire. If this remains the outcome, we actually will have a cash position of roughly $1.2 billion and we would obviously look for ways to optimize it.

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As a reminder, our capital allocation philosophy remains disciplined; first and foremost, we are committed to our investment grade rating. Second, we have increased our dividend for 40 consecutive years and we remain committed to it. Third, we will continue to fund the businesses that have earned the right to grow, both internally and potentially through select bolt-on acquisitions.

While our freed-up balance sheet will present opportunities that do not exist today given our current leverage, we will equally weigh what are the best avenues to pursue to deploy that capital. At today's valuations, every $100 million of buyback or acquisitions would both generate roughly $0.03 per share of accretion.

Please turn to slide 13 for a view of the new Q3 2016 outlook. This is our first look at Q3 excluding Valves & Controls. The only impact to our previous guidance at the end of Q2 are the removal of the forecasted operating results of Valves & Controls; the impact of the long-term compensation; and adjustment -- adjusted tax rate of 21.5% versus our previous forecast of 20.5% and the stranded corporate costs.

Please turn to the next slide for the full-year 2016 Pentair outlook. Again, for the full year, the only impacts to our guidance at the end of Q2 are the removal of Valves & Controls, the impact of the long-term compensation, the adjusted tax rate of 21.5% versus our previous forecast at 20.5% and the stranded corporate costs.

As you can see, the business excluding Valves & Controls is expected to be up 9% of revenue; segment income is expected to expand 14%; adjusted EPS is expected to be up 10%; and free cash flow is expected to be greater than 100% of net income.

Thank you. Matthew, can you please open the lines up for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Deane Dray, RBC.

Deane Dray - *RBC Capital Markets - Analyst*

Thank you and good morning, everyone. And congratulations.

Randy Hogan - *Pentair PLC - Chairman & CEO*

Hey, Deane. How are you?

Deane Dray - *RBC Capital Markets - Analyst*

Doing very well, thanks. Happy Friday. Just a couple of structural questions first and then a strategic question. Structurally, since Valves was the vehicle by which Pentair inverted, does this divestiture change in any way your IRS tax status?

John Stauch - *Pentair PLC - CFO*

It does not, Deane.

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Deane Dray - *RBC Capital Markets - Analyst*

And then also, the -- does Pentair retain any of the legacy liabilities related to valves? Or is this a completely clean separation?

John Stauch - *Pentair PLC - CFO*

It does not.

Deane Dray - *RBC Capital Markets - Analyst*

So it's all clean?

John Stauch - *Pentair PLC - CFO*

Those all go with the deal.

Deane Dray - *RBC Capital Markets - Analyst*

Terrific. And then strategic question for Randy is, how far might you take this theme of becoming more narrowly diversified? The business that is the pairing of Water and Technical Solutions, is there any compelling rationale why those have two be together?

Randy Hogan - *Pentair PLC - Chairman & CEO*

The main reason that they're compelling together is the value we created as Pentair. We went through the -- I went through and [may] introduce on it for the first time -- reintroduce it for the first time, the four themes that we think are really attractive for us to focus, particularly on bolt-ons. And all three of the segments can play in at least three of those four.

So we've created a lot of value, is what we've done with Technical Solutions and we've been on the defensive a little bit now for awhile because of our balance sheet. As we focused on the energy downturn, now we can get back on offensive on all three and they all three have opportunities. So we like these three businesses and we will invest in the very best opportunities that they present.

Deane Dray - *RBC Capital Markets - Analyst*

Got it. Thank you.

Operator

Steven Winoker, Bernstein.

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

Thanks and good morning, guys. Congratulations getting a deal done in a tough market, obviously. So just -- I want to make sure I have crystal clarity on the proceeds again and apologies. I know it's embedded in here. But that -- so you're using of the $2.6 billion, using $1.5 billion to pay down debt and the rest of it is optionality? And then on top of that, you're talking about the $1.4 billion or how -- just help me understand what's the total amount of optionality that you're talking about now for M&A and buybacks, et cetera, versus just the debt?

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John Stauch - *Pentair PLC - CFO*

Yes, so I mean, really, what happens is we're going to take down all of the debt that we have access to take down that's not cost prohibitive. So we're going to end up with $2.7 billion of gross debt. The difference between that and the $1.5 billion of what we're calling net debt is $1.2 billion that we'll have remaining in cash.

Now obviously, we have four or five months to figure out, A, can we effect the debt structure in a less cost prohibitive way and adjust some of the longer-term higher cost debt? Or how do we redeploy the cash? Obviously, having cash sit around that isn't earning anything and not providing value to shareholders is not a positive thing.

But at the same time, we don't want to rush out and do things that are not going to be a value-add. So we've got some time to figure it out. Obviously, we don't expect the deal to close [until] the end of December and January and we'll be also looking at our acquisition funnels and then we'll be also looking at the opportunities to use that capital in other ways.

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

Okay. Is there a reason you wouldn't get a little more aggressive on the buyback program though? Well, I said a little; I meant a lot more aggressive on the buyback for -- given the impact here for 2017? Or do you really feel like look, this is more about 2018 and so we're not going to worry about it?

Randy Hogan - *Pentair PLC - Chairman & CEO*

Well, I don't want to air guitar our strategy. As John said, we've got have four or five months to figure it out (multiple speakers) -- (laughter) figure it out. And we will take that time and work with our Board and prioritize.

We have -- we are firmly committed to shareholder value. So we're not going to let the money burn in our pocket.

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

Okay. All right. Randy, also, so one of the lessons here obviously is an anticipation of what was hopefully going to happen in energy; a high dependence on that didn't happen. But now, you've certainly made that bet, a larger bet in Residential & Commercial and Construction with ERICO, et cetera. You point out that it's about 45% -- or 44% of the business.

To what extent are you -- why should we not be concerned that we're moving late cycle there as well over the next couple of years? Or how are you thinking about that mix? And what happens when that rolls over? What -- I'm just trying to get a sense for the kind of longer-term M&A activities in different verticals?

Randy Hogan - *Pentair PLC - Chairman & CEO*

Sure. As I mentioned, we've got four themes that we're focused and even though we are -- we measure by vertical, how much of our sales, there's a lot of growth potential, particularly in Water Filtration, as people get more concerned about the safety of water. And I think we're reaching a tipping point, I'd like to think it's a tipping point, but certainly, a much greater awareness of what's going on with Water Filtration.

Given we have a leading portfolio of products in water purification for Residential & Commercial, and we still have a lot of penetration to grow globally, we think it's not going to be driven by housing specifically. The growth opportunities.

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And the -- in Flow & Filtration Solutions, we still have margin opportunities there. We still have very low penetrated in the Industrial and other commercial spaces, particularly water re-use and we've got good technologies there that we can get on the offensive with. And then Technical Solutions is, it really serves all of our markets.

I'm -- obviously, we didn't predict what was going to happen correctly with energy four years ago. So we're going to be very watchful of taking command and control of our own growth and not just get whipsawed by the verticals themselves.

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

Good luck.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Good morning. So just a quick question on the stranded cost. Why does stranded costs go up? Is that -- is there something you're pulling out that was reported within the segment that you're pulling out? I don't quite understand why that would go up?

John Stauch - *Pentair PLC - CFO*

Steve, we can allocate -- we run costs at corporate. We centralize things like IT and payroll, et cetera, and we allocate those costs to the businesses. We allocate as the normal course of -- to all of the segments; one, it's part of a -- the gross spend here. There is $27 million that will come up and not be charged to the discontinued operations and we'll have to get after it.

We're not suggesting that we won't reduce that in an enterprise-wide effort next year. It's just for 2016, there's very little room left in the year to get after that cost structure. When you take a look at for 2017, obviously, that's -- each productivity opportunity as we have less revenue, we have to think about having less cost.

Steve Tusa - *JPMorgan - Analyst*

Right; so essentially, we can take our segment EBITDA as we can see it in your financials and then we have to basically add $27 million of that, that's going out the door essentially that you guys are keeping on your books? Is it the way (multiple speakers) we would look at?

John Stauch - *Pentair PLC - CFO*

Exactly.

Steve Tusa - *JPMorgan - Analyst*

Okay. Got it. You guys did -- I know it's gone and we now want to probably forget about it but the -- you guys had talked about visibility on double-digit sequential increase in Valves & Controls orders in the third quarter. And Emerson, on their call yesterday, he was much more negative. What have you guys seen so far through August? Has any that materialized?

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John Stauch - *Pentair PLC - CFO*

I don't think we need to talk about it anymore, to your point. I don't know if we need to get a mid-quarter update.

Randy Hogan - *Pentair PLC - Chairman & CEO*

It's -- orders are always lumpy in that business so we don't read week by week. So we shall see how it turns out.

Steve Tusa - *JPMorgan - Analyst*

Okay, great. And then one last question. The free cash conversion, I think Valves & Controls is a relatively significant cash generator. Is there a -- is it like, I think our calc is coming to, like, 300 to 500 basis points coming off of the conversion rate. I mean, it's still nicely above 100 because you're still generating decent cash. But this would be dilutive. Be modestly dilutive to cash conversion?

John Stauch - *Pentair PLC - CFO*

Well, I -- listen. I -- we're going to have most of all the cash this year, Steve, because we're going to have it for most of the year, so from the standpoint of the current forecast for free cash flow, even if something in discontinued operations is counted as a corporation's free cash flow. As we go forward, we still think the 100% of net income is the right target and we still have opportunity in Flow & Filtration.

But you're right. The working capital opportunity in Valves & Controls was the highest and therefore, if you took a look at it over the period of time, the greater than 100% would have come from Valves & Controls.

Steve Tusa - *JPMorgan - Analyst*

Okay, so we --

Randy Hogan - *Pentair PLC - Chairman & CEO*

A lot of that was because companies throw off cash as they shrink. So Valves & Controls shrunk a lot.

Steve Tusa - *JPMorgan - Analyst*

So --

John Stauch - *Pentair PLC - CFO*

(multiple speakers) I don't think that they had -- on a steady-state basis, they were more heavier cash users than our other businesses. So we're much more capital efficient, particularly working capital usage.

Steve Tusa - *JPMorgan - Analyst*

So 100% as (multiple speakers) --

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John Stauch - *Pentair PLC - CFO*

And the other business is still higher margin.

Steve Tusa - *JPMorgan - Analyst*

100% as a go-forward target?

John Stauch - *Pentair PLC - CFO*

Yes. Absolutely.

Steve Tusa - *JPMorgan - Analyst*

Okay, great. All right, thanks a lot, guys.

John Stauch - *Pentair PLC - CFO*

It's over 100%. Yes.

Steve Tusa - *JPMorgan - Analyst*

Thanks a lot.

Operator

John Walsh, Vertical Research.

John Walsh - *Vertical Research - Analyst*

Hi. Good morning. Congrats on the announcement.

I wanted to ask a question about -- just thinking about potential M&A going forward. Are there any -- do have any visibility into deal valuation differences on the flow side versus the electrical side of the house that you're seeing out there?

Randy Hogan - *Pentair PLC - Chairman & CEO*

Well, we've been not active on acquisitions. We certainly have kept our toe in the water. We'll be disciplined about what we pay. And basically, the numbers we showed you are assuming that the $0.03 from $100 million was indifferent, if you will, between acquisitions and stock buyback because we just used the average multiple we have, so --

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John Quealy - *Canaccord Genuity - Analyst*

Got you. And then on the Emerson call yesterday, it sounded like this was an asset that they have been interested in for some time. I get -- I understand that it's the $0.03 for either the M&A or share repurchase is the way the math works.

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But it does feel like you would have had some thoughts on if you were to get the proceeds, what you would want to do with them. Is there truly a 50-50 or does it feel like there's -- (multiple speaker)

Randy Hogan - *Pentair PLC - Chairman & CEO*

No, no. We meant what we said earlier, which is we've got four months to put up a thoughtful plan together with our Board of Directors and deploying it to create shareholder value.

I don't want to give you any kind of split. We were just giving you some easy math to get a sense of what it would be worth. But that's not a strategy, right?

John Walsh - *Vertical Research - Analyst*

Got you. Okay. Great. I appreciate the color. Thank you.

Operator

Joshua Pokrzywinski, Buckingham Research.

Joshua Pokrzywinski - *Buckingham Research Group - Analyst*

Hi. Good morning, guys.

John Stauch - *Pentair PLC - CFO*

Hi Pokrzywinski. How are you?

Joshua Pokrzywinski - *Buckingham Research Group - Analyst*

Well, thanks. I appreciate you getting it right, John. I guess maybe to go back to your earlier statement, Randy, and I really love the air guitar quote. I might have to start using that on capital allocation but I guess thinking about some of the comments you made in terms of water purification and the global trends there. I'm surprised, not a bit more balanced in terms of the tone around some of the opportunities or some of the emphasis within Technical Solutions, given that those are some of your highest margin businesses.

They've proven to be maybe less cyclical been than what you would have expected, given some of the end markets there. Why not take a harder look at those, at least it's just on paper it so early.

Randy Hogan - *Pentair PLC - Chairman & CEO*

Thanks for giving me a chance to clarify that. I really meant what I said in the script, which is all three of them have really good opportunities. I just talk more about Water Quality Systems because of the question around Residential & Commercial.

Technical Solutions has been a huge winner; the first proof point for PIMS; that's why we had ERICO on our list for a long time, just like Emerson had the Valves & Controls business on their list, strategic list for a long time. We will look at the best opportunities that we can make actionable, right? And -- but we think all three segments have nice bolt-on opportunities.

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Joshua Pokrzywinski - *Buckingham Research Group - Analyst*

I guess maybe to follow up on that --

Randy Hogan - *Pentair PLC - Chairman & CEO*

I won't name any. (laughter)

Joshua Pokrzywinski - *Buckingham Research Group - Analyst*

Fair enough. On that bolt-on point, I think that's been your tact here for -- maybe the better part of the last year in terms of really putting the emphasis on small and mid-sized versus larger deals. Is it a, quote-unquote, lesson learned from Flow Control or is it really that you see the most value and opportunity in that small and mid-sized space, large versus some of the more platform or larger-style acquisitions you could do?

Randy Hogan - *Pentair PLC - Chairman & CEO*

Well, we just think that with the three segments we have remaining. We have bolt-ons with our structure and with how well PIMS has worked in raising margins and improving performance quickly and in smaller businesses. We'd like to get that machine running. And the larger ones take more but it's not a repudiation of doing large deals. It's applying the muscles we've proven that we have.

Joshua Pokrzywinski - *Buckingham Research Group - Analyst*

Got you. And then maybe one final question. I guess on Flow Control, there was some element of, hey, we think we're getting into an attractive market with some real long-term growth potential. And obviously, markets have changed a lot since then so not an indictment of that.

But when you think about any future portfolio construction, is the idea to stay so close to home that you understand the markets intuitively or to try to make non-cyclical bets versus ones that may have attractive growth today, but we don't know what the next couple years could look like?

Randy Hogan - *Pentair PLC - Chairman & CEO*

Well, we still have -- we still serve energy; it's an important market. It is a good market. What I would say is we want to have enough -- when we talk about being narrowly diversified, we're talking about having enough diversity to give us some balance and certainty and predictability. But narrow enough for us to reach and Valves was not a reach. It was not a reach strategically.

We understand -- I was in the energy business for a long time. And so it wasn't our lack of understanding of energy. It was a reset that we haven't seen in the likes of for 30 years. And so, well, I guess if we proved anything, we're not -- we proved we're not clairvoyant.

Joshua Pokrzywinski - *Buckingham Research Group - Analyst*

Fair enough. Congratulations on getting the deal done, guys.

Operator

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Robert Barry, Susquehanna.

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

Good morning. Congratulations. I'm just curious on Slide 10; does that $5.3 billion bar net out the cash you've spent over the years to restructure this business, which I assume has been pretty significant?

John Stauch - *Pentair PLC - CFO*

Yes. Yes, it does.

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

Got you. And on this long-term incentive compensation, what is that? How big is that piece?

John Stauch - *Pentair PLC - CFO*

It's nothing more than the anticipated impact of what would be a long-term compensation plan that was designed for sales and return on investment, excluding the impact of V&C. So it's roughly $0.04 is identified and it's this Q3 impact and that's it.

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

$0.04 is a headwind?

John Stauch - *Pentair PLC - CFO*

Yes. One time. Yes.

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

Got you. And then just maybe following up on an earlier question from a different angle. The $1 of dilution, does that include outlook for Valves that's consistent with 2Q or has it gotten weaker?

John Stauch - *Pentair PLC - CFO*

No, it assumes --

Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

Same as what was in 2Q?

John Stauch - *Pentair PLC - CFO*

Yes.

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Robert Barry - *Susquehanna Financial Group / SIG - Analyst*

Great. Great. Thank you.

Operator

Steve Tusa, JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Hey, guys. Just one quick follow-up. The Pool business and what you're seeing in the US, obviously, the weather has been pretty good. How has that trended intra-quarter here?

Randy Hogan - *Pentair PLC - Chairman & CEO*

John?

John Stauch - *Pentair PLC - CFO*

Just fine. There is no reason to update anything, Steve. So as far as all the base businesses, everything is as we said before. So it's trending just fine.

Steve Tusa - *JPMorgan - Analyst*

Okay. That's all I had as follow-up. Thanks.

Operator

There are no further questions at this time. I'll turn the call back over to the presenters.

Jim Lucas - *Pentair PLC - VP of IR & Strategic Planning*

All right, Matthew, could you give the -- Randy have any follow up?

Randy Hogan - *Pentair PLC - Chairman & CEO*

Well, I just wanted to thank you all and I want to thank the Pentair team and the Emerson team that worked together to get this done. It's a win-win-win.

Jim Lucas - *Pentair PLC - VP of IR & Strategic Planning*

All right. Thanks. Matthew, could you give the replay number please?

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Operator

Thank you for participating in Pentair's conference call. This call will be available for replay beginning at 11:00 AM Eastern time today through until midnight on September 18, 2016. The conference ID number for the replay is 67785387; again that's 67785387. The number to dial for the replay is 855-859-2056. Again, that's 855-859-2056.

This concludes today's conference call. You may now disconnect.

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