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Pentair plc (PNR)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Pentair's First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Mr. Jim Lucas. Please go ahead, sir.

Jim C. Lucas

Senior Vice President, Treasurer & Investor Relations, Pentair plc

Thanks, Shelby, and welcome to Pentair's first quarter 2020 earnings conference call. We're glad you could join us today. I'm Jim Lucas, Senior Vice President, Treasurer and Investor Relations. And with me today is John Stauch, our President and Chief Executive Officer; and Mark Borin, our Chief Financial Officer. On today's call, we will provide details on our first quarter 2020 performance as outlined in this morning's press release.

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

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

I will now turn the call over to John.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Jim, and good morning everyone. Please turn to slide number 4, titled Executive Summary. This is certainly a historic time that we are experiencing and the last few months have tried the patience of the entire world and Pentair. I would like to extend my sincerest sympathies to all that have suffered loss during this horrific global pandemic. I would also thank all of our employees; their continued efforts to stay safe and protect each other, for taking care of our customers and for continuing to focus on delivering the best financial results possible.

I also want to thank a moment to take our COVID-19 crisis response team for all of their efforts to respond to this global challenge and a very special thank you to all of our manufacturing employees for their tremendous commitment to our customers and to Pentair. They truly represent the spirit of our culture and I appreciate their dedication, their courage and their contributions to the first quarter results.

We were very pleased to deliver adjusted EPS for the quarter that was above the high-end of our prior guidance range, inclusive of the challenges from COVID-19 that initially impacted our business in China earlier in the quarter and then globally towards the end of the quarter.

We also recently announced key hires for CFO and for our previously announced segment structure. First, I would like to welcome Bob Fishman who will become CFO tomorrow, May 1st, as part of an orderly transition from Mark Borin who previously announced he would be leaving Pentair for another opportunity. Bob joins Pentair after a long successful career at NCR, where he was an essential part of the company's transformation from a hardware and systems manufacturer into a software and services provider.

We also announced the hiring of Mario D'Ovidio to lead our Consumer Solutions segment. Mario joins us most recently from Electrolux and brings a strong background from several consumer-influenced businesses focused on multiple channels. Mario will bring a growth mindset and a sense of urgency to our Consumer Solutions businesses.

Jerome Pedretti who has been with Pentair for nearly 15 years will lead our Industrial & Flow Technologies segment. Jerome has held experiences at Pentair and has proven himself as a developer of talent. He also embraces our PIMS processes and culture, and we utilize his experiences to improve the operating capabilities of the Industrial & Flow Technologies businesses.

Finally, we announced the elimination of the COO role and that Karl Frykman will help oversee an orderly transition with Mario and will also work with me to the end of the year as a special advisor. I would like to personally thank Karl for his leadership and partnership over the years.

Turning back to the market demands, while we formally withdrew our quarter and annual guidance at the end of March due to a lack of visibility, we are planning for significantly reduced demand throughout the remainder of 2020. We do not have clarity at this time around the potential impact to each of our lines of business or when the markets will recover. Because of lack of clarity, we are taking appropriate actions to adjust our cost structure while still keeping a focus on the longer-term as we expect that demand will eventually return for most of our businesses. Finally, we are focused on maintaining a strong liquidity position. Pentair has a long track record of being a strong cash flow generator and our balance sheet is in a solid position. We understand that the remainder of the year will be a challenge and bring uncertainty, however we believe there our strong operating culture and well-positioned businesses will eventually prevail over this pandemic and its impacts on the economy.

Please turn to slide 5 labeled COVID-19 Update & Focus. Our focus has been and will continue to be on the safety and well-being of our employees, while also being mindful of serving customer demand to the best of our abilities. Our business in China and Southeast Asia saw considerable negative impact in the first quarter, but we did not see much impact in Europe or the US until later in the quarter. While we have seen our operations in China return to more normalized levels, demand still has not returned to China and Southeast Asia to levels before the pandemic.

Outside of China, we have seen softening demand at the start of April and we took actions to reduce the bottom line impact of expected revenue declines. In the short-term, we are focused on cost reductions in-line with lower revenue levels. We feel good about our balance sheet, cash flow and liquidity and believe that we are well prepared to survive the storm. We remain focused on our long-term goals and strategy and we will continue to prepare to take advantage of opportunities when business recovers.

Please turn to slide 6 labeled Consumer Solutions. I wanted to spend a few moments on our portfolio exposure and what demand trends we are currently experiencing. Consumer Solutions is a \$1.6 billion segment, comprised of our Pool and our Water Solutions businesses. And as you can see on this slide, Consumer Solutions is approximately 75% residential and approximately 75% of the revenue serves the installed/aftermarket base. Our Pool business is a leader in the North American pool equipment business. There are approximately 5.5 million pools installed in the ground. Our dealers continue to operate in most geographies and we expect the aftermarket business, which represents roughly 80% of our Pool business to see some short-term softness but not to the extent that we might expect will occur in the new pool construction and remodeling parts of the business. While we had a solid start to the season in March, we have seen some softness to start April. We believe that inventory levels in the channel are in-line with historic levels but we'll be monitoring demand throughout the season.

Our Water Solutions business is made up of Components, Residential Systems and Commercial Systems. Within our Components business, we have not yet seen many changes within the important wholesale channel. Residential Systems which includes the Aquion and Pelican businesses we acquired last year are somewhat

dependent on in-home visits and retail traffic. While we have not yet seen a material drop-off in demand, there are concerns over consumer behavior in the short-term. Finally, our Commercial Systems business has large exposure to restaurants and hospitality and have seen significant slowing of demand as expected with the closures of businesses in these industries.

While we expect some short-term disruptions for our Consumer Solutions segment, we continue to believe that water quality will remain a key focus for consumers and other commercial businesses and we anticipate this business will be well-positioned when markets eventually recover.

Please turn to slide 7 labeled Industrial & Flow Technologies. Industrial & Flow Technologies or IFT is a \$1.3 billion segment comprised of our Residential & Irrigation Flow, Commercial & Infrastructure Flow and Industrial Filtration businesses. As you can see, IFT is a more diverse segment than Consumer Solutions with approximately half of sales tied to various industrial markets. IFT does however generate approximately 65% of sales from the installed/aftermarket base.

Within Residential & Irrigation Flow, we have seen some slowing among our distributors but this is more in the retail than professional channel. This business is where we have some exposure to agriculture and while the OEM exposed business is down; our aftermarket business is performing better than it did a year ago. It is important to note that the majority of the Residential & Irrigation Flow portfolio consists of products that are break and fixed in nature and tend to be less discretionary purchases.

Our Commercial & Infrastructure Flow business manufactures larger engineered pumps and it tends to be a backlog-driven business. Our Commercial businesses have seen some slowing of orders but backlog has not yet been impacted. Within Infrastructure, which is the smaller piece of this business we are seeing strong backlog but we'll be watching orders for any signs of slowing given this is a long cycle business.

Our Industrial Filtration business is comprised of a number of product lines that serve a wide variety of applications. For instance, we have a strong niche in Beer Membrane Filtration and other components of the beer industry. We also have a sustainable gas business that recycles CO2. We continue to feel comfortable about our overall portfolio given our large installed base and limited industrial manufacturing exposure. Our products, our solutions that help customers solve needs and we'll be prepared to serve demand when it returns.

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

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thank you, John. Before discussing the business, I want to first welcome Bob to the team and I feel proud to be leaving a strong finance and IT team as I move on to the next chapter of my career. It is hard to leave after 12 years with Pentair but I believe the company is well-positioned and will emerge from this current situation stronger as a leading water treatment company.

Please turn to slide 8 labeled Cost Structure and Actions. This chart is to help illustrate our cost structure and the levers available to us as the top line visibility remains challenged. Materials is our biggest cost at approximately 40% of sales and is the one piece of our structure that is truly variable. We are engaged in a number of supplier rapid renegotiations to continuously look for opportunities to further reduce input costs. The rest of the cost structure has variability but requires actions on our part and many of the actions come with costs and/or consequence. In the short-term we will look to drive manufacturing and labor reductions in-line with volume declines with temporary measures such as furloughs to keep as much of the team intact for the eventual recovery.

Although a significant portion of our overhead is fixed, we are focused on deferring and reducing non-labor outside spending. We are targeting overhead reduction at roughly half of the potential volume drop.

On the operating expense side, we have implemented hiring freezes and we are driving significant savings from delaying, reducing or eliminating purchased services and travel. There are other costs to go after depending on the extent and level of the volume decline and we also recognize if the declines expected globally in the second quarter carry over to the remainder of the year, then sales and management incentive plans may not pay out at planned levels. We are taking necessary actions in the short-term to mitigate the expected top line decreases and we'll watch closely for signs of stabilization before looking to pull additional levers. Our goal is to manage through this environment to the best of our abilities while doing what we can to prepare for an eventual recovery.

Please turn to slide 9 labeled Balance Sheet and Access to Liquidity. With liquidity in focus, we want to spend a few minutes highlighting why we feel comfortable with our financial position. As this slide illustrates, we do not have any meaningful debt maturities for the next few years. We ended the quarter with \$169 million in cash and \$326 million available under our revolver. Given the seasonality of our Pool business, we tend to use cash in the first quarter and our second quarter tends to be our strongest cash-generating period given the collection on the Pool receivables. We do not expect that trend to change this year and therefore we anticipate our financial position strengthening even further as the second quarter progresses.

We ended the first quarter with a leverage ratio of 2.1 times, which is well below our 3.75 times covenant. Given the dramatically changing environment, we have lowered our capital expenditures forecast by over 10% for the year. During the first quarter, we repurchased a \$115 million of our shares but we suspended the buyback during the quarter and are currently choosing to remain on the sidelines as we focus on our strong liquidity.

Please turn to slide 10 labeled Balance Sheet and Cash Flow. This is our standard slide we present each quarter. On the left-hand side of the page, our free cash flow improved rather dramatically from the comparable period last year. As we highlighted on our fourth quarter earnings call, we did see some timing issues around payables at the start of 2019 but we believe that this year's performance is more reflective of our normal seasonal pattern. The right-hand side of the page highlights our debt position at the end of the quarter. While we covered our liquidity position on the previous slide, we would point out that we have a healthy mix between fixed and variable debt. Our average borrowing rate for the quarter was a very respectable 2.6% and we ended the quarter with 14.4% ROIC. Overall, we feel our balance sheet is strong and while the outlook for the P&L in the near-term is a bit challenging given the lack of visibility, we believe that our balance sheet is well-positioned to help us navigate through these uncertain times.

Please turn to slide 11 labeled Q1'20 Pentair Performance. For the first quarter, overall sales grew 3% and core sales also increased 3%. Segment income grew 13%, return on sales expanded 140 basis points, and adjusted EPS increased 21%. This performance was held by positive sales mix, price cost and productivity. Below the line, we saw an adjusted tax rate of 16%, net interest/other expense of \$7.5 million and our average shares in the quarter were 168.7 million.

Please turn to slide 12 labeled Q1'20 Consumer Solutions Performance. Consumer Solutions saw sales increased 9% with core sales growing 7%. Pool grew at a low double-digit rate against an easy comp and more normal weather patterns. The pool season appeared to start off more positively this year, and as John alluded to earlier in the call, it seems anecdotally that pool owners who are sheltered in place are opening their pools perhaps a bit earlier than normal.

Our Water Solutions business grew high single-digits in the quarter as positive acquisition contribution helped offset sharp declines in China and Southeast Asia that were impacted by the global pandemic. Within the larger US market, demand had not begun to fall off at the end of the quarter and we are monitoring trends closely. The segment had strong segment income performance growing 13% year-over-year and ROS expanded 80 basis

points to 21.8%. We are pleased with the strong start to the year by Consumer Solutions but we expect that this will reverse course in the second quarter. While we plan to manage the cost structure accordingly, we remain focused on the long-term opportunities for the segment.

Please turn to slide 13 labeled Q1'20 Industrial & Flow Technologies Performance. IFT reported a 3% decline in sales with core growth down 2%. Residential & Irrigation Flow saw flat sales performance as positive pricing and a still healthy professional channel was not enough to offset weakness in agriculture and retail. Commercial & Infrastructure Flow experienced a mid single-digit decline in the sales as some of the backlog-driven business was negatively impacted by COVID-19 related delays. In addition, we continue to focus on improving internal delivery rates for this business but, overall, backlog remains solid and we are monitoring the order book closely. Industrial Filtration saw sales decline low single-digits due primarily to global delays and global projects. Similar to Commercial & Infrastructure Flow, this is a backlog-driven business and we will also be closely monitoring the order book for the business. Segment income was a positive story with a 9% year-over-year increase and ROS improved 150 basis points to 13.9%. While mix and price cost were positive contributors, productivity was especially strong. While its mix of businesses will create some near-term challenges for IFT, there remain a number of self-help opportunities that we remain focused on intently.

I would now like to turn the call over to John to discuss our assumptions for the rest of 2020.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Mark. Please turn to slide number 14, labeled 2020 Current Planning Assumptions. While we have suspended our guidance until better visibility returns, we wanted to provide some of our current planning assumptions to help you understand how we are approaching the outlook for the remainder of the year.

First, we are planning for recessionary environment. Forecast call for double-digit declines in GDP in the short-term and it's hard to imagine that we would be immune from these external forces. While we have some businesses that may fare a little better than others such as are Pool and Water Solutions businesses, other parts of the portfolio might see more significant near-term headwinds. As a result, as Mark highlighted earlier, we are aligning our cost with a lower expected values.

We do have additional cost levers to pull if necessary, but we want to be thoughtful in pulling any of these levers too soon. We have made a number of significant investments to better position our Consumer Solutions business and while we may delay some of those investments, we do not want to cut them off altogether. Our Pentair employees have been a big part of building our businesses and I would like to keep our talented teams in place and I'm hopeful that we can weather the storm and aggressively pursue opportunities in our segments as the economy recovers.

As Mark highlighted earlier, we feel our liquidity is in a very strong position. We have historically been a strong cash flow generator and I believe that we are well-positioned financially to weather this uncertain environment.

Finally, our goals remain on protecting our employees, customers and our businesses. We will continue to optimize our free cash flow and liquidity and we expect to deliver the best financial results possible in near-term, while focused on our longer-term strategies.

Before I turn the call over to Shelby for Q&A, I wanted to thank Mark for his partnership to me since 2008 and his tireless dedication to Pentair. I'm sure when Mark said he would stay to oversee a smooth transition, he never envisioned a quarter like this. I'm very excited to have Bob on board and he and Mark are driving a seamless

transition. I'm very confident that Bob will be a great replacement for Mark, but I'm still losing and will miss one of my best friends. I wish you only the best, Mark. You truly deserve it.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Josh Pokrzywinski of Morgan Stanley.

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John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hello, Josh Pokrzywinski. How are you?

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A

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Hi, good morning.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

.....

A

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Well, thanks. How are you guys doing?

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Q

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good.

.....

Q

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Excellent. So I guess just first question, anything that you can share with us, John, on exit rates? Any kind of shutdown impacts, impacting the commercial and hospitality level, just trying to get a sense of maybe kind of the snap the line impact on demand today?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, Josh. I mean, clearly, we thought we're going to have a Q1 and quite frankly, it would have even been better than it was, given the fact that we had to – at given times, we had five factories that were completely closed and we are working through all of the global challenges around the shelter-in-place or the orders country by country. So as I am sure many companies have already shared that that became a little bit disruptive. I'm really proud of the teams about how they move to create a social distancing and get most of our factories up and running. And so we didn't see supply chain disruptions very much, but we did leave a little bit of backlog heading into the quarter. What we did see starting April that the order rates are declining. And as I mentioned in my comments, we're not going to be immune. I think the fact that most global restaurants, hospitality et cetera are closed, it's going to take a while for our distribution channel to balance that inventory need.

One of the things we did learn though is that when these restaurants come back and open up, they're more likely to change those cartridges out for our water filtration unit. So that's the visibility we need, Josh, to be able to call it. But across the portfolio as we started April, we certainly started to see order declines and revenue declines.

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Q

Joshua Charles Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Got it. And maybe just a follow-up that might be a little bit easier to point to, anything in the portfolio or any sites that are closed as non-essential as we say sit here today?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Right now, all our factories are open. The degree of open, the degree of capacity varies obviously, Josh. But right now we have 100% of our facilities deemed to be essential and therefore available to produce product.

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Joshua Charles Pokrzywinski

Q

Analyst, Morgan Stanley & Co. LLC

Great. Thanks for that. Best of luck.

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John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Thank you.

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Operator: Your next question is from Jeff Hammond of KeyBanc Capital Markets.

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Jeffrey D. Hammond

Q

Analyst, KeyBanc Capital Markets, Inc.

Hey. Good morning, guys.

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John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Hey, Jeff.

.....

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Good morning, Jeff.

.....

Q

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey, so really – I understand the guidance pole, but just trying to get a better sense of kind of April trends as we – and I don't know if you can go through either by business what you're seeing in order of magnitude or what's proving most resilient versus most challenged as you look across the board. I'm just trying to get a sharper, more granularity there?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. Jeff, I appreciate the question. I mean I'd answer it a couple of ways. First of all, we're a global business as you know. So everything's in a varying degree of response to what's going on with this pandemic. I don't think April is a great month to judge anything on in general just because it's a very short month. It's got some holidays in, but if I put it into context, I mean nothing was immune from an order of softness even including our Pool business. As we mentioned in our comments, I do think while we believe our Pool business is likely to hold up through this, at least Q2 because it is a key season and we do think those in-ground pools are going to be serviced, we do think that we're going to see a slowdown or push out of some of the remodeling or the new pool builds as people monitor their spends. So I would just say, overall, I mean we saw a pretty sharp decline in April to start, and we think our steepest decline for the year will be Q2.

That being said, we also have the season for most of our businesses that might help mitigate it. So we're in a observe mode here for the next week or two as we watch orders and the order patterns. And also as we make sure that we're checking beyond our distributors into the sell-through into the channels because that's key for us; is what's happening in the sell-through to the consumer. And then we can make our decisions on what we think the buying is going to be for the rest of year.

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Q

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then – so you mentioned Pool as maybe one of the more resilient ones, what specifically are seeing the sharpest declines into April?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

I would say things like Ag OEM where we have the OEM offerings or we have into maintenance or equipment builds; that would be on the sharper side, but they're in the in sort of like a 20% decline kind of range.

Jeffrey D. Hammond

Q

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then just on the Industrial segment, margins looked really good there. If you were to see a 10% to 15% decline in that business on a full-year basis, like what – how resilient can the margins be or how should we think about decrementals?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

We're thinking mid-30s.

Jeffrey D. Hammond

Q

Analyst, KeyBanc Capital Markets, Inc.

Okay. Thanks a lot. I'll get back in queue.

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Thank you.

Operator: Your next question is from Steve Tusa of JPMorgan.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Hey, guys.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, Steve.

.....

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Good morning.

.....

Q

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Good morning, Steve.

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A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Sorry that last answer, was that for a kind of total company? What year you would target for? What was that decremental margin comment again related to?

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I would say – it was – the question was specifically to IFT, but I would say it'd be relatively same across both ends of the portfolio, and so that's both the total company and an IFT response.

A

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C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And that's for 2Q or that's for like total year?

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I would say if you look at the revenue for the total year, I think that would be the relative expectation we would have. So sales line is material and then mitigated by cost actions to get to somewhere around the mid-30s decremental.

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A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And are you taking any of these cost actions? Are you taking structural cost? Do we see – are we going to see restructuring go up or is it more of the temporary actions like furloughs and things like that and just kind of waiting and seeing how the volumes play out?

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. Our actions right now have been limited to trying to pace the manufacturing labor in accordance with the volume declines and utilizing furloughs in those particular areas to make sure our employees are well taken care of and be there when the volume comes back, as well as aggressively attacking purchased services and obviously getting benefits from things like T&E and no tradeshows for the remainder of the year, Steve. So that's been where we are today which has been a cash focus. We have not yet looked at those 2008-2009 levers, those are the ones that we're talking about would be the next lever to pull or any permanent reductions, and that would be based upon how we see things start to uncover here as we work our way through Q2.

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A

Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Got it. Okay. And is there a revenue decline that kind of breaks those decrementals like if revenues are down. I know Lennox talked about if revenues are down greater than 20% that their decrementals kind of go to hell. Are you – is there like a level of revenue that you're thinking about that like, hey, well, bets are off on kind of those decrementals? So you...

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A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

You probably gave a pretty good answer there; that once you get up to that like mid-20s, then I think our decrementals start to get worse, right? I mean there's this level one of cost actions we're taking right now we feel very confident in. If volume continues to get challenged, we take that next set of actions that can still hold those decrementals. But, yeah, when you start – if you got up to like a mid-20 number, I think the decrementals would start to get worse. Now, I don't...

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Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Would that...

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A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Steve, at the moment, I don't see that happening in the long-term. And so what we're really looking at is really where the longer-term order rates and where the longer-term sell-throughs of our products, and then have more visibility of product line by product line, what we think the impact is going to be, not just for 2020 but what we think a potential recovery could be into 2021. So I mean really what we're doing is trying to position ourselves the best for how we recover.

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Q

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right. And what are you seeing so far in April in the Pool business?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Sell-throughs have hung in through the visibility that we have, not to our original forecast but they're doing relatively okay. But, as I mentioned, I would be concerned as we proceed here through Q2 and Q3 that we start to see a slowdown or pullback in the new construction build side or the new remodel, which is the much higher price tag for the end-consumer.

C. Stephen Tusa

Q

Analyst, JPMorgan Securities LLC

Got it. One last one for you, inflation has been kind of a stubborn drag for you guys, any potential relief there. And then on free cash flow, can you guys kind of, as volumes go down, can you translate that into better cash, really some working capital?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. Mark?

Mark C. Borin

A

Executive Vice President & Chief Financial Officer, Pentair plc

Yeah. So, first just on inflation is we had talked previously, I certainly see that moderating this year and continuing to just focus on kind of that price cost being more neutral and not being the headwind that it had been in the past. So – and looking for opportunities to mitigate continued inflationary pressure, so pursuing those things pretty aggressively.

And then, yeah, on the cash flow side that's certainly the way we would think about it as well is looking as we see that volume decline, looking for opportunities on the working capital side to help us further improve the overall cash flow performance but keeping track of it as you would expect really, really close monitoring of our customer receivables and ensuring that we feel comfortable that those are – continue to be credit-worthy and those are going to come in as planned, managing and monitoring our payables and then being opportunistic, if necessary, to the extent we see places where we can help customers. We haven't seen a significant amount of that yet. But if the opportunities come up where we need to help customers or work with our suppliers, we're certainly going to

look at that as well, all within the context of managing our own liquidity which, as I said in my comments, we feel very good about it.

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C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah. Great. All right. Thanks for all the detail, guys. I appreciate it.

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thanks, Steve.

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A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thanks, Steve.

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

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..... Brian Lee

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Good morning. Thanks for taking the questions.

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey. Good morning.

A

Q

..... Brian Lee

Analyst, Goldman Sachs & Co. LLC

Good morning. Not to beat a dead horse here, but just on the Pool business. I know a lot of focus here just around the run rates and sort of activity levels you're seeing just because it's such a big piece of the business for you and it sounds like it's been more resilient here at least in the early part of this COVID crisis. Would you say that it's actually been tracking better year-on-year even through the month of April? I know you're saying there's some slowdown, but the comps from last year, at least for the early part of Q2, are pretty solid, so I'm wondering if you're still tracking better to that degree in the Pool business?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I would say no. I mean – clearly, I shared with you where we are. I mean the sell-through to us matters because it's ultimately an indicator of how our distribution channel is going to prepare to support the dealer channel for those views and it held up like I said for the most part, but we expect that as we move through Q2 and head into Q3 that we're going to see the order rates decline primarily around servicing those new pools or remodel pools, that's the working assumption right now. So I would say as we head into Q2, I don't think this Pool business, it will fare better. It's not going to be immune to a year-over-year headwind.

Q

..... Brian Lee

Analyst, Goldman Sachs & Co. LLC

Okay. Fair enough. And then just the second question here on price, you had a positive two points here in Q1. I was just wondering if you're expecting this to soften through 2020 given the weaker demand outlook or just maybe if you could provide some context around how you've seen pricing trends in prior downturns and how you'd expect this one to compare to those?

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Given the nature of our business, much of it through distribution, we would expect to see kind of price continue to read out. A lot of that price has already been put in and so it's in place and it's at lower levels, again as I mentioned earlier, lower levels than we saw in late 2018 and into 2019 but continue to expect to see kind of price read out and again offset inflation. So I think if we thought about price adjustments as we head into 2021, that's probably where you'd see less of an increase if things continue the way they were, Brian.

Q

..... Brian Lee

Analyst, Goldman Sachs & Co. LLC

Okay. Fair enough. Thanks, guys.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

Operator: Your next question comes from Joe Giordano of Cowen.

Q

Joseph Giordano

Analyst, Cowen and Company LLC

Hey, guys. Good morning.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey. Good morning, Joe.

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Good morning, Joe.

Q

Joseph Giordano

Analyst, Cowen and Company LLC

Apologies if you touched on any of these things in your prepared remarks, I had some issues getting into the call but can you talk about the spending that you're going to plan on doing for some of the new tech-enabled parts of the Consumer platform, like how does that change in environment where you're managing cash and there might be slower adoptions of these things as consumers are a little bit weaker, so can you just talk about how you're thinking about those businesses given how fundamental they are to the forward view of the company?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So just to put it in perspective, the big consumer-enabled investment we're making across Consumer Solutions is really the front-end web capability to be able to create a digital lead and to be able to transact that lead all the way into a collection. That project is ongoing. It will be completed by the end of the year but order of magnitude, think about a \$3 million to \$5 million kind of cash flow spend there. So not sizable or significant in any one quarter and certainly something that I want to get after because of the impact it has on the business.

So there's natural delays in spend, things like new product developments, new product development actions. Those are going to delay even if I didn't want them to because our lab capacities cannot get back up to 100%. A lot of new product designs are being pushed a little bit at least a quarter to the right.

As I mentioned, the tradeshow, the marketing activities, et cetera, they're going to have a lot less impact and so they're easier to moderate the spend on it, as we think about the investment cycle and the value of that investment. So I mean – I think the only one that I'm keeping going really is our web-enabled and I think it's important that we continue to build our brand and lean into this as a water expert and consumer solutions leader and that's really just that web capability, which I think is pretty modest given our overall cash generation.

Q

Joseph Giordano

Analyst, Cowen and Company LLC

And then how are you thinking about like the pacing of – like once economy is open, how willing are people going to be to have people in their house? So how fast do commercial facilities sort of ramp-up? Like, I know you're not giving forward guidance, but how are you guys kind of framing that out once kind of orders are lifted?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

No. You got it, right. And in my remarks I said, our Consumer Solutions, water business, our Water Solutions has several different channels. There's the traditional lead generation, which would be more localized in nature; kind of probably not go to state fairs to do that business or Kitchen & Bath Show, but still doing direct mail.

We are seeing a lower response rate as far as the overall customer asking people to come and do the water filtration installs. That being said, we have a higher yield of the people that are asking to the actual convert, right? So, less quotes but overall a higher percentage of those quotes turning into sales, and that's what we are monitoring here as we move through.

I mean other industries are dealing with this too and I think we're just moving to contact-less visits, training our employees to not touch things while they're there, looking at wearing a mask; all those types of things to prepare for a safety environment. So we'll see how that unfolds in the next couple of quarters but that's really where we are.

.....
.....
Joseph Giordano

Analyst, Cowen and Company LLC

Okay. And just last for me, I'm just – can you touch on the purchased productivity you saw on consumers, this quarter being a little bit light?

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.....
John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I would say primarily two things; mix of business. As I recall. I mean both businesses here did well. We did have some challenges to get product out in our Pool business. We continued some of those investments as I said, but we also had to move to the shelter-in-place expectations, primarily in China first where we had China shutdown. And so across all of our factories even though we're up and running between social distancings and the types of things we had to do to keep those factories running, we certainly weren't at 100% of our expected productivity yields.

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.....
Joseph Giordano

Analyst, Cowen and Company LLC

Thanks, guys.

.....
.....
Operator: Your next question is from Andy Kaplowitz of Citigroup.

Q

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Hey. Good morning, guys.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, Andy.

.....
Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Good morning.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

John, can you talk about your China and Southeast Asian business in particular, you had good momentum going into the pandemic, you mentioned you're back online, but demand hasn't recovered. So where is it versus pre-pandemic demand and is there any more color you can give us in the shape of the recovery, is it U, V anything more that you can give us there?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I can. I obviously – very interesting periods of how things unfold because they were the first to experienced things; they're the first to go back to normal, but candidly even though we are having and seeing restaurants open, in China we're not seeing the traffic in those restaurants anywhere near pre-pandemic. And think of that maybe as one-third or 50% in the aspects of people coming back in to the capacity it used to have.

When it comes to the residential and commercial side and the retail elements, the way people transacted was going into a retail area, looking at the particular device that they wanted to buy and then ordering online, that traffic is also a lot slower than it was to pandemic. So while all our capacity is up and running, we're seeing demand slowly recover but at a very moderate rate. And I can't predict when it's going to come back to pre-pandemic levels but let's say it's climbing up the curve slowly.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

That's helpful. And then if I look at your Food & Beverage Filtration business around the world not just China, obviously you talked about it falling off significantly when the shelter-in-place initiatives ramped up, has that rate of decline stabilized yet outside of China and how much overall exposure do you have to that particular filtration business?

John L. Stauch

President, Chief Executive Officer & Director, Pentair Plc

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So a couple things in Filtration, our F&B is really around your Beer Membrane Filtration, components into dairy and to beer and CO2 recovering the sustainability. So productivity and efficiency is what it really promotes on the Industrial Filtration side. That business is still doing relatively okay especially given the fact that beverage is generally up across the world.

If you flip that into Consumer Solutions, that's where we've got the water filtration into hospitality. So, hotels, restaurants; that is the business that's been extremely challenged. And while we expect that to start coming back online as we see states and countries open, I think that's going to be a long slug to get back to anywhere near pre-pandemic levels.

.....

A

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Thanks, guys.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

.....

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thank you.

.....

A

Operator: Your next question comes from Saree Boroditsky of Jefferies.

Q

Saree Boroditsky

Analyst, Jefferies LLC

Thanks. So you suspended your share repurchases and lower CapEx in the quarter. Could you just talk through how you're thinking about capital deployment in this current environment and what would you need to see in the market in order to start lifting these restrictions?

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Sure. As I talked about, the really – a very strong focus on liquidity and then maintaining our liquidity in light of the uncertainty and so we're going to wait and see and with respect to share repurchases and just how we deploy and utilize our capital. So really pulling that back and sitting on the sideline and waiting to see how things play out.

We continue to pay our dividend and that's something that's very important to us, and so we'll continue to look at that as well. But that would be something that we would see as a priority as we think about how we're allocating and spending our capital.

Q

Saree Boroditsky

Analyst, Jefferies LLC

And then you highlighted material savings as one cost buff that you were targeting. Could you provide some color on how your conversations with suppliers are progressing and are you getting any pushback there?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. Couple of things. I mean, I want to be clear, I mean it's part of direct sourcing, savings. We're expecting inflation to moderate but we haven't put a lot of savings into the forecast regarding that just because the length of time it takes to realize.

What I was talking to is purchased services, more discretionary spend or outside purchased services and – listen, we're not the only company doing that. So delaying, deferring, eliminating is really what we're doing there. So it's not really supplier negotiations. It's more of our choice not to spend.

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair Plc

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Saree Boroditsky

Q

Analyst, Jefferies LLC

Great. Thanks for taking my questions.
Thank you.

Operator: Your next question is from Deane Dray of RBC Capital Markets.

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..... Deane Dray

Q

Analyst, RBC Capital Markets LLC

Thank you. Good morning, everyone.

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John L. Stauch

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President, Chief Executive Officer & Director, Pentair plc

Hey, Deane.

.....

.....

Mark C. Borin

A

Executive Vice President & Chief Financial Officer, Pentair plc

Good morning, Deane.

.....

..... Deane Dray

Q

Analyst, RBC Capital Markets LLC

Hey. I just wanted to wish Mark all the best and a welcome to Bob. When do you start? So I think you said tomorrow?

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.....
John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, he's actually officially there tomorrow. He's been here for...

.....

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

He's been here for two weeks and he's intently listening to this call.

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

He owns this forecast and he's been a big part of it. So thank you, Deane.

.....

A

..... **Deane Dray**

Analyst, RBC Capital Markets LLC

That's good to hear. All right. So first question I guess I would qualify it as one of these high-quality problems to ask because I'm still kind of unclear, why did you pull the first quarter guidance when you ended up with what we would consider a high-quality beat, you pulled the guidance the right towards the end of March so you probably had a good sense of how you were going to shake out in the quarter?

.....

Q

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair Plc

Yeah. I appreciate it, Deane. That is a great question. I mean but here's really where I was at. I got to a point where we have large facilities, especially a support Pool and Pool, as you know, is a big piece of our overall revenue stream. And as the state, shelter-in-place started to be named and there is confusion about what was essential and non-essential, I felt we needed to pull the guidance because the decision on any given day could become a material event to Pentair's earnings and disclosures. So we were able to work through those better than I anticipated and we shipped more products than I thought we would but that's the short answer, Deane.

..... Deane Dray

Q

Analyst, RBC Capital Markets LLC

That's really helpful. And then just on that theme because we were watching this carefully regarding which businesses' states were saying we're essential and it wasn't clear whether pool servicing was going to be consistently considered essential or not. Like in Connecticut it was, in parts of New York; I don't know if the whole state it was not. So where does that stand in terms of the state-by-state, I mean not go through them all, but just are they all now considered essential or are their pockets where it's not?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

I would struggle saying all. I think we're well into the 90% type of range for our pool dealers are sharing with us that they're servicing pools in their particular areas and probably even higher than that. I mean pool turns green if you don't do anything with it. So it's also a outdoor backyard-type of activity. So I think they've been able to work through that relatively well, Deane, but we're in constant contact with that channel. That channel is reporting that their back servicing pools for sure.

..... Deane Dray

Q

Analyst, RBC Capital Markets LLC

Yeah. We agree. We think that's well-positioned. And then last question is – I know it's not a big piece of the business, but on the municipal side, what's your sense of the muni budgets over the near-term? A big chunk of your business is break and fixed that tends to be really resilient, but in terms of projects, there's usually a delay before muni start pulling back, but is there anything different this time? What's your expectation?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

I think it's lack of visibility right now, Deane. I mean one hand you would say, in your gut, that states are going to be challenged certainly for budgets and tax revenue and they're going to see a compression of the overall tax revenue and how to spend it. So you'd say that that would be a negative potential headwind that would start to unfold in Q3 and Q4. In the same sense, a lot of these states, the federal government are talking about infrastructure bills to try to get people working again. So I don't know yet and that's a big part of lack of visibility that we're referring to. So we're monitoring the backlog. We're monitoring the orders. It is a break and fixed for the most part, Deane. But that's one that I really have no visibility into at the moment.

Q

..... Deane Dray

Analyst, RBC Capital Markets LLC

Got it. Much appreciated. And best of luck to everybody.

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Thank you, Deane.

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thanks, Deane.

.....
Operator: Your next question is from Nathan Jones of Stifel.

Q

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning, everyone. Thanks for taking my questions.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

John L. Stauch

President, Chief Executive Officer & Director, Pentair Plc

A

.....
Hey, Nathan.
.....

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

A

Hey, Nathan.
.....

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I'd like to start on channel inventory outside of Pool. I think you said on the Pool business, you think that the channel inventories there are okay, but could you comment on the channel inventories outside of Pool and any expectations you have for de-stocking and what kind of impact that could have on the top line over the next two, three quarters?
.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. I really don't have the specificity except everything looks more normal, Nathan. It doesn't look out of line. That being said, we don't yet have all of that visibility around the sell-through into the dealers, into channel, and one of the things we'll be monitoring.

One of the areas that I would envision the inventory being slightly high and I don't mean by a lot, but a little bit would be in the foodservice area, where if you think about our revenue streams as we exited the quarter to where we are and what mode that channel is in right now, I think this inventory in the channel will service the start-ups and we'll have that slower ramp-up in that particular business that we will in most of the others.
.....

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Fair enough. A follow-up on the productivity question from earlier. With volumes likely to decline ahead here, does that put pressure on your expected productivity numbers for the year, if we take out discrete events like having to close down a facility or something like that and the impact that could have, or are you able to accelerate productivity actions to make up for that? Just how you're thinking about productivity in a declining volume environment?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

No, you're right. It does put pressure and if you don't get the cost out in the labor and the overhead and the factory, you end up producing unwanted inventory, which usually challenges you when the recovery occurs. So it is the keenly – it is the most focused area we are.

We also learned in the last recoveries, both in this one, in Valves and Controls with the downturns in 2008-2009 in Valves and Controls, that's the area that you've got to have the most amount of focus on because if you don't get after that class in the input side, you don't see it in the short run from a P&L issue, but you start seeing it in the form of cash, and then you don't benefit when the market recovers as I said. So it is Playbook 101 to make sure we're pacing that manufacturing cost with the downturn volume, and it should reflect orders more than sales, Nathan.

.....

Nathan Hardie Jones

Q

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. I've got one more. I'm going to have one more crack at the top line question because we don't have a lot of historical data about these businesses and as they've reacted in recessions. You said you're preparing for a recessionary environment. Can you give us any color on what these businesses have typically seen in a recessionary environment and whether it's a reasonable expectation for this time to be shorter and sharper than historically?

.....

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair Plc

.....

Nathan, I've got all of these notes in front of me, don't give guidance on revenue, I'm not going to give it to you even though you asked it in a different way. I mean, here's the challenge we have. This is not like anything we've seen before.

When we took a look at this and people say looking at 2008-2009, you're looking at 2000, what recession are you going back to? Keep in mind, our businesses has got residential – significant residential exposure, and when we entered that 2006, 2007, 2008 timeframe, we're talking about housing starts two or three times normal levels, and that was an inventory that had to work its way down.

We're not in that situation with housing today. Where we're at is the pandemic is causing stay-at-homes, it's causing loss of employment, it's causing stress to people on where are they on their spending patterns. And until there's visibility there, it's hard to predict how those wallets can open up again and then how that demand comes back across to our businesses. That's why I can't give you a number, Nathan.

.....

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. Fair enough. Thanks for taking my question.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

Operator: Your next question is from Scott Graham of Rosenblatt Securities.

.....

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Yeah. Hey, good morning and good luck to you, Mark.

.....

Q

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thanks, Scott.

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, Scott.

.....

A

Scott Graham

Analyst, Rosenblatt Securities, Inc.

So I'm going to beat that dead horse a little bit further, I'm sorry, but that's been this way. So, we are April 30th and we're kind of the first month and you were kind of giving us some order rate numbers as sort of we turned into April. I guess I was curious to understand that the use of the word sharp which we're just trying to hang onto anything here to try to make our models work essentially. And then you turned around you and the first place you went to was Ag which is a very small business and you said down 20%. Down 20% doesn't feel sharp to me, maybe that's to you, but if Ag OEM down 20% in April on orders, are you suggesting that was the worst business, Mark?

.....

Q

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

That is sharp. It feels sharp to me, especially given the Q1 we had, Scott. So keep in mind we're continuing to see orders rising throughout Q1, and even though the pandemic worked its way across the globe in various degrees, we did still see demand hang in there to what would have likely been up until the last couple of weeks of March. And even some of that was, we still saw orders and we didn't know if that was in – customers buying inventory with the anticipation of supply chain disruption, et cetera, et cetera. So – but yet in April and I think most people have been very planful in the way they thought about reacting to shelters-in-place and overall volume and demand. And, just like us, if we're going to see a decrease in Q2, I mean shouldn't we pace our manufacturing in-line with that expected decline and get in front of it in a planful way as I think a lot of our customers were doing. So, yeah, you've got the outer end of where I think you too could be.

But that being said I don't think April is indicative of any pattern or trend yet. And as we head into May and June, we'll have a much better clarity, primarily because this is our season. This is usually our peak quarter in the year, Scott.

Q

..... **Scott Graham**

Analyst, Rosenblatt Securities, Inc.

Yeah. No. Understood. Understood, that was great additional color. Thank you.

Just one other question and I'm hoping you can connect these dots maybe very simply. You have in your decremental of 60% and that's with no cost actions, and you're now alluding to a sort of mid-30s number. So can I take that to mean that line, that connection is very simply all of these variable cost actions that you're doing because obviously you're not doing anything structural yet, is that how you got here?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes.

Q

..... **Scott Graham**

Analyst, Rosenblatt Securities, Inc.

Okay. I told you it would be simple. Thanks a lot, guys.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Scott.

.....

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thanks, Scott.

.....

A

Operator: Your next question is from Julian Mitchell of Barclays.

.....

..... Julian Mitchell

Q

Analyst, Barclays Capital, Inc.

Hi, good morning. And I would like to say thank you to Mark for all the help. Maybe just my first question around, you've mentioned it several times the issues in the hospitality and the restaurant sector. Maybe just size those for us in terms of Pentair kind of firm-wide, how large is that piece of your end-market exposure way, are you most worried about a sluggish recovery and then could you just remind us or update us on the status of organic sales trends within Aquion and Pelican and how satisfied you are with their integration to-date?

.....

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. So 6% of sales roughly would be that Commercial and Foodservice revenue for overall Pentair, okay. Most of that tie to cartridge replacement or aftermarket replacement and we'll call that predominant 75% to 80% of it and the 20% maybe on original equipment so.

As far as the second question, yeah, I'm very happy with both of the acquisitions for different reasons. So as a reminder what we liked about the Aquion acquisition was it made softener systems and POU systems, and that systems integration and capability is something we're excited about as we start to brand it Pentair and Pentair Water Solutions and offer it to a broader channel set. It's front-end though is in affiliated channel, and that affiliated channel primarily works through Home Depot. And the traffic in Home Depot is not there to demand or

A

ask for those leads and also a lot of those leads come from larger appliance purchases where softening the water is kind of critical. So, let's say, we've seen a drop-off in the demand on that front-end of the channel.

Opposite story the Pelican water solutions, where we do our own direct lead and we market and we can market on digital media things like Facebook. You probably seen us on LinkedIn, et cetera. So those are different channel dynamics. And as I mentioned earlier even though we're getting less leads, we're converting those leads at a higher rate meaning we have a much more interested party to gain. So the revenue up on the direct channels is up significantly. I mean it's in-line with what we expected. And on the other side, we have seen a fall off demand because of the retail traffic as I mentioned, but we're happy with the systems capability that it brings. And that's why I want to continue to invest in the front-end of the channel because I think if we're doing our own lead generation and we're converting that into our systems and the things we're selling, we gain that higher margin but we're also controlling our own destiny. And so that's why I'm excited about seeing through the Water Solutions piece.

Q

..... Julian Mitchell

Analyst, Barclays Capital, Inc.

Thank you very much. And just my follow-up question, you had noted that the sell-through of pool product has been good so far in Q2, and I just want to hone in on that sell-in. There was a company this morning also in the sort of building products arena focused on tools, they talked about double-digit sort of point-of-sales increase in April, but their sell-in into that market could be down 30% or so; so enormous disparity between the sell-in and the sell-through. I guess when I'm looking at Pentair, am I right in thinking that there is a large disparity but perhaps not on the scale of what that tools company had mentioned they had seen in April?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I think you're thinking about it right. I think the magnitude is a lot less than a tool company. But that is exactly where I'm at, meaning I think the sell-through, the channel remains positive. I would expect us to be in a sell-in negative; not because there's extra inventory today but because that channel has got anticipate the falling demand as it looks forward into the new pools and the remodeled pools, and I think they'll moderate their orders until they see that that part of the market continues to unfold.

Q

Julian Mitchell

Analyst, Barclays Capital, Inc.

Very helpful. Thank you.

Operator: Steve Tusa of JPMorgan has a follow-up question.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Hey, guys. Sorry. Did I hear say you had basically no disruption from the kind of plant shutdown in California?

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I did not say that. So thank you for that clarification. What I said was, at one point, we were shut down or told to shut down. We deemed ourselves as essential, got back up online, obviously not at a full capacity and quite frankly, Steve, it was, as I mentioned, having backlog and pass-through at the end of the quarter, which is not a norm in Pool. That is actually a facility in which we had backlog and pass-through and still do today.

.....

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. So like would you have been able – was there any meaningful impact to the quarter?

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

There would have been at least another \$10 million of revenue from that one plant alone.

.....

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

That said – thanks for not – I mean a lot of companies are kind of using obviously – many trying to kind of use as many excuses as possible. So we appreciate you guys just kind of eating that to a degree and putting it in the results. So thanks for the clarification, best of luck in the second quarter.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

Mark C. Borin

Executive Vice President & Chief Financial Officer, Pentair plc

Thanks, Steve.

A

Operator: There are no other questions in the queue. John, do you have any closing remarks?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I do. Thanks, Shelby. Thank you for joining us today. I just want to take a moment to remind everyone of our long-term strategy which remains unchanged: We believe we serve large and stable end-markets, particularly within our Consumer Solutions segment. Our Pool business has a proven track record and we believe we are positioning our Water Solutions businesses to take advantage of helping consumers and businesses solve their water quality needs. We still see a number of growth levers longer-term. Our 2019 acquisitions of Aquion and Pelican help move us closer to the consumer and we have continued to invest in building our digital capabilities in new product pipeline.

In addition, we are accelerating PIMS to help fund many of our growth initiatives. We have been and will continue to be focused on disciplined capital allocation. We start with our commitment to our investment grade ratings. We have increased our dividend for 44 consecutive years and are proud to be a dividend aristocrat. We expect to continue to use our strong cash flow to fund the most attractive growth opportunities.

Before I turn the call over to Shelby for Q&A, I just want to let everybody know that we are navigating these uncertain times together and I would like to offer my best wishes to all of our employees, customers and shareholders. Thank you for your continued interest. Shelby, you can conclude the call.

Operator: This concludes today's conference call. Thank you for your participation and you may now disconnect.

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