

28-Jan-2021

Pentair plc (PNR)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

Jim C. Lucas
*Senior Vice President – Treasurer & Investor Relations,
Pentair plc*

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

Robert P. Fishman
*Executive Vice President, Chief Financial Officer & Chief
Accounting Officer, Pentair plc*

OTHER PARTICIPANTS

Michael Patrick Halloran
Analyst, Robert W. Baird & Co., Inc.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Steve Tusa
Managing Director, JPMorgan Securities LLC

Joseph Giordano
Analyst, Cowen & Co. LLC

Deane Dray
Analyst, RBC Capital Markets LLC

Saree Boroditsky
Analyst, Jefferies LLC

Julian Mitchell
Analyst, Barclays Capital, Inc.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Nathan Hardie Jones
Analyst, Stifel, Nicolaus & Co., Inc.

Rob Wertheimer
Analyst, Melius Research LLC

Bryan F. Blair
Analyst, Oppenheimer & Co., Inc.

Scott Graham
Analyst, Rosenblatt Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Q4 2020 Pentair Earnings Conference Call. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I'd now like to turn the call over to your speaker today, Jim Lucas. Thank you. Please go ahead.

Jim C. Lucas

Senior Vice President-Treasurer & Investor Relations, Pentair plc

Thanks, James, and welcome to Pentair's fourth quarter 2020 earnings conference call. We're glad you could join us. I'm Jim Lucas, Senior Vice President, Treasurer, Investor Relations. With me today is John Stauch, our President and Chief Executive Officer, and Bob Fishman, our Chief Financial Officer. On today's call, we will provide details on our fourth quarter and full year 2020 performance, as well as our first quarter and full year 2021 outlook as outlined in this morning's press release.

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

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

I will now turn the call over to John.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Jim, and good morning, everyone. Please turn to slide number 4, titled Executive Summary. I would first like to say how proud I am of the entire Pentair organization and the contributions everyone made to help deliver on our commitments to all of our stakeholders in a uniquely challenging year. Our teams navigated this unprecedented environment and I believe that our company will emerge stronger as a result.

I would also like to take this opportunity to thank all of our global channel partners and suppliers for their patience and efforts in working with us and our consumers to meet our commitments despite the effects of the ongoing pandemic. We were pleased to deliver 2% sales growth and 5% adjusted EPS growth for the year. We generated over \$500 million in free cash flow and returned over \$275 million to our shareholders through dividends and buybacks.

While navigating this uncertain environment and making sure employees and customers were as safe as possible, we continued to invest in our top growth priorities through digital transformation, innovation and

technology. During the year, we successfully launched both the Pentair Home and Pentair Dealer apps. We also launched a brand redesign of the Pentair.com website allowing for better cross-functional use and microsite enablement based on feedback on how people want to interface with us.

We also were able to fill out our management team by hiring Bob as our new CFO, Mario as the new leader for Consumer Solutions, Steve as our Chief Supply Chain Officer and appointing Jerome Pedretti as our IFT segment leader. We have been busy building out capabilities throughout the organization, including adding over 100 IoT engineers in 2020 to drive connected solutions for consumers and for our OEM customers.

We introduced new products like FreshPoint and Easy Flow in our Residential POU category, our connected solution salt sensor for installed water softeners, advanced our leading sustainable gas solutions offering to recover and reuse methane and CO₂, as well as introduced our BrewAssist digital services to remotely optimize our beer membrane solutions. By the end of 2021, we expect to have over 20 new IoT products in the pipeline as we continue to move our Consumer Solutions platform to smart solutions.

We also made great strides in advancing our ESG stewardship, most recently appointing our General Counsel, Karla Robertson, to the additional role of Chief Social Responsibility Officer. We recently completed a comprehensive ESG assessment to identify key topics of importance to our shareholders, customers, suppliers, employees and communities. We are planning to announce specific targets, including science-based environmental targets, in 2021 to further advance our social responsibility goals and progress.

We have spent the past few years repositioning our portfolio and making investments to build out the Pentair brand and create a better experience for consumers to help solve their water treatment needs. While we benefited from a residential focused portfolio in 2020, we believe that the momentum will carry into 2021 and beyond.

I would now like to turn the call over to Bob to discuss our performance and our financial results in more detail, after which I'll provide an update on our overall strategic position.

Robert P. Fishman

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

Thank you, John. Please turn to slide 5 labeled Q4 2020 Pentair Performance. During the fourth quarter, we delivered sales growth of 5% and core sales growth of 3%. On a core basis, Consumer Solutions was up 8%, while Industrial & Flow Technologies declined 3%. I'll discuss the details for each segment on the subsequent slides. Segment income was flat, while adjusted EPS increased 3%. Our tax rate was 14%, while net interest came in at \$5 million. Price improved from the third quarter. Productivity did not read out in the quarter due to the fact that we paid bonuses this year and we continued to see some of our facilities disrupted with higher absenteeism due to COVID.

Please turn to slide 6 labeled Full Year 2020 Pentair Performance. Given the unusual timing of 2020 by quarter, we thought it would be helpful to look at the full year results to better appreciate the progress we were able to make in these challenging times. For the full year, core sales increased 1% with Consumer Solutions growing 7% and Industrial & Flow Technologies declining 6%. Segment income was flat for the year, while adjusted EPS grew 5%.

Price and productivity mostly offset inflation, but as we highlighted in the third quarter, the robust growth in Pool led to higher than usual rebate activity that lowered price. We expect price and productivity to offset inflation going forward. Given the challenges that we faced in 2020, we were very pleased to deliver overall growth while still investing for the future.

Please turn to slide 7 labeled Q4 2020 Consumer Solutions Performance. Momentum for Consumer Solutions in the third quarter carried over into the fourth quarter. For the quarter, sales grew 10%, segment income increased 9%, and return on sales was essentially flat. Considering the challenges the team faced in the first half of the year, the fourth quarter performance was a strong close to a remarkable year and we believe validation for the growth prospects of the segment's portfolio of businesses.

Pool experienced tremendous growth of 15% in the fourth quarter and slightly above that for the full year. The total pool industry received significant tailwinds from the COVID-19 pandemic, which forced consumers to stay at home and increase their desire to invest in their backyards. This trend has continued into 2021 as demand for new pools and pool maintenance remains strong. We believe the business enters 2021 with strong momentum.

While the market dynamics assisted in the growth of the pool business, this could not have been achieved had there not been previous focus on increasing dealers and driving new products into the industry. That strategy allowed Pool to reap the benefit of the remarkable growth in 2020. This past year, we spent time building the foundation of data analytics, specifically around the performance of dealers and channels. This advancement allows the leaders in the business to better dissect the areas where the business is winning and where there are opportunities to improve. Specific plans are being developed down to the individual dealer to accelerate growth in core product areas. The data shows there is still growth potential in the core even though the business has seen significant historical growth.

Water treatment grew 4% in the quarter with strong residential growth being offset by continued weakness in commercial. In particular, we saw the second consecutive quarter of growth in China, which we believe is a positive sign that the markets hit earliest by the pandemic have stabilized and are showing potential signs of a sustained recovery.

Residential Components posted high single digit growth with strength in all geographies and product lines. We saw very strong growth in our key valves product line which is a positive indicator for overall industry growth. We launched the Fleck connected valve during the quarter and are seeing early signs of market acceptance. We believe the overall North American industry as well as Europe continues to benefit from consumer focus on in-home water quality. Our Residential Systems and Services businesses both delivered strong double-digit growth as our investments to build out these businesses are beginning to read through.

We had two new product launches during the quarter – our salt level sensor and the FreshPoint Easy Flow point-of-use filtration system for existing faucets. In addition, we recently announced the acquisition of Rocean, which builds out our point-of-use product offering and complements our already strong point-of-entry portfolio. Equally important, we believe Rocean's product offerings allow Pentair to participate in an even more meaningful way to help tackle the growing challenge of single-use plastic bottled water and its impact on the environment.

Our Commercial Systems business was down low-double-digits in the quarter. But this was an improvement from the third quarter performance and the sharp drop off we experienced in the second quarter when many of our customers were forced to close due to shelter in place requirements. While our sales in this profitable product line have been down for three consecutive quarters, we are mildly encouraged that we have been outperforming the market. We attribute this in part to our strong cartridge replacements, mix of business and also finding new business opportunities, such as our Total Water Management program we discussed last quarter. While we have one more tough comparison in the first quarter, we expect Commercial Systems to continue its recovery in 2021.

Please turn to slide 8 labeled Q4 2020 Industrial & Flow Technologies performance. Industrial & Flow Technologies or IFT saw sales decline 1% as Residential and Irrigation Flow delivered double digit growth in the quarter while the other two businesses continued to be negatively impacted by a global freeze in capital spending. Segment income decreased 22% and return on sales declined 280 basis points to 10.6%. Productivity was challenged in the quarter principally as a function of a mix with lower margin backlog in addition to lower revenue spread across a higher fixed cost base. IFT has also begun some notable activities aimed at reducing complexity and reducing costs which include the discontinuation of several product lines.

Residential and Irrigation Flow grew 12% in the quarter following 6% growth last quarter. This business normally does not experience strong demand in the fourth quarter but similar to our other residential facing businesses in Consumer Solutions, there was broad based demand for residential and irrigation following the slowdown in demand experienced during the second quarter. We saw product lines contribute to the strong fourth quarter performance and we remain cautiously optimistic entering 2021 given channel inventory levels are still slightly below historical levels.

Commercial and Infrastructure Flow declined 9% in the quarter as the business continues to experience soft demand. The business has begun to focus more intently on complexity reduction, resulting in the decision to exit several product lines. The focus within C&I remains on improving operational efficiencies in addition to building up the backlog with higher margin business.

Industrial Filtration continued to be negatively impacted by a global capital spending freeze as seen in the 8% sales decline in the quarter. In addition to the broader capital spending freeze, many of our industrial customers have been negatively impacted due to worldwide COVID-related lockdowns. We are seeing sequential improvements and we are starting to see some modest increases in orders exiting the quarter, resulting in an increased backlog. Encouragingly, we have begun to see an increase in orders for our Sustainable Gas Solutions business.

Please turn to slide 9 labeled Balance Sheet and Cash Flow. One of the biggest positive developments in 2020 was the prodigious cash flow generation we experienced. For the full year, we generated \$512 million of free cash flow, which was well north of 100% conversion for the year. One of the biggest contributors to our strong free cash flow was the linearity of Pool sales in the second half and a minimal amount of early buy in the fourth quarter. This resulted in a dramatic year-over-year improvement in receivables collection.

We also showed further strengthening of the balance sheet, ending the year at 1.3 times levered and the majority of our revolver available. During the year we returned over \$275 million to shareholders through dividends and share repurchases. Last December we announced that our board authorized a new \$750 million share repurchase authorization, as there was only \$100 million remaining under our prior authorization.

In addition, the board approved a 5% increase in our quarterly dividend to be paid in the first quarter. 2021 marks the 45th consecutive year that Pentair has increased its annual dividend. Our balance sheet remains in excellent shape to fund both organic and inorganic opportunities. And as always, we plan to remain disciplined with our capital.

Please turn to slide 10 labeled Q1 and Full Year 2021 Pentair Outlook. We are initiating first quarter and full year 2020 guidance. For the first quarter, we expect sales to grow 7% to 12% and adjusted EPS to increase 6% to 21% to a range of \$0.55 to \$0.63. March is historically an important month for the quarter and we are still managing through sporadic and isolated COVID related disruptions due to the recent global spike in infection rates and are doing our best to ensure the safety of all of our employees. Below the operating line, we expect

corporate expense to be approximately \$16 million, net interest of \$6 million to \$7 million, a 15% tax rate and a share count of around 168 million.

For the full year, we expect sales to grow 3% to 5% and adjusted EPS to increase 5% to 10% to a range of \$2.60 to \$2.75. We recognize that our first half has easier comparisons that become more challenged in the second half. However, we expect continued demand in our larger residential focused businesses and remain cautiously optimistic for our commercial water treatment business to show improvements throughout the year. We remain focused on investing in our most attractive businesses.

Below the operating line, we expect corporate expense to be around \$65 million, net interest to be in a range of \$20 million to \$23 million, our tax rate to be around 15% and the share count is expected to average near 166 million shares for the full year. Capital expenditures are expected to be around \$65 million, while depreciation and amortization is expected to be around \$80 million. We continue to target free cash flow to be greater than or equal to net income.

I'd now like to turn the call back to John to provide an update on some of our key strategies.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Bob. Please turn to slide 11 labeled 2021 Execution Expectations. Our focus for 2021 does not change from last year as we are focused on delivering on our core while continuing to build out our future. As we enter 2021, our Residential businesses remain strong and we are encouraged to see ongoing signs of stabilization in our Commercial businesses. Although we have not yet seen indicators of year-over-year growth, we are expecting recovery likely in the tail end of 2021. We believe that our smaller exposure to industrial capital spending will remain hindered for now.

We have a long successful history of price realization across the majority of our portfolio. We will monitor closely the rapidly evolving inflation environment and respond accordingly. We are also pacing our growth investments and have the ability to modulate as needed, but we prefer to remain on offense and build on the momentum of the past two years. We recognize that we have opportunities to address our cost structure particularly within IFT and we plan to act as appropriate.

We discussed last year the G&A benchmarking efforts we undertook and identified that we have room for improvement. We are well underway in terms of our G&A efforts that are looking closely at our overall global enablement structure. Our goal is to deliver transformation plans that we expect will drive significant ROS expansion by 2024, while funding our strategic growth initiatives.

As we look to the future, our priorities aren't changed around growing both our Pool and water Treatment businesses. We have identified growing interest in our Sustainable Gas Solutions business and I look forward to updating all of you in the future as we believe this business has exciting growth opportunities ahead. We believe that Pool has a long runway of continued growth. The Department of Energy Regulation going into effect in mid-2021 is shifting the industry even further toward variable speed pumps, which is a category we helped to create over a decade ago. Today nearly 60% of the pumps we sell are variable speed, while the industry adoption rate is closer to 50%. Over the next two years, we expect the industry, including us, to move closer to 85% as it is expected that there will still be certain parts of the industry that will be able to use single speed pumps.

We also continue to invest in our automation platform for Pool and see strong adoption of our new offerings. In addition, despite being a leading brand in the US on the pool pad, when a consumer contacts us directly on

Pentair.com, it has not been the best experience for the consumer. We believe that there is a tremendous opportunity of engaging the consumer and curating their experience through our existing channel while also ensuring that the consumer received the experience that they desired.

Within Water Treatment, we believe there are opportunities to rapidly expand our \$50 million end-to-end residential services business and to be the leader in advanced technology and connected solutions in residential point-of-use solutions through our existing technology and the acquisition of Rocean. We also have a leading commercial food service offering that we look to expand into other segments as well as add important services for our customers. In Sustainable Gas, it is merely focusing on our high growth segment within Industrial and adding global capability to accelerate our offerings.

Finally, I wanted to touch on our approach to capital allocation which remains unchanged. Our top priority is our commitment to our investment grade rating. Our strong cash flows allow us to invest in our top organic growth opportunities. From an M&A perspective, we remained focused on strategic bolt-on and tuck-in deals and focused strategic priorities like I just shared with you. While M&A valuations remain elevated, we continue to actively build our deal pipeline and plan to remain disciplined.

Finally we are committed to returning cash flow to our shareholders through dividends and opportunistic buybacks. We believe that Pentair has a bright outlook and we will continue to invest in the future while delivering on our core business. Our goal remains to deliver more consistent, predictable results for our customers, the environment, our employees and our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Mike Halloran with Baird. Go ahead please. Your line is open.

Michael Patrick Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Good morning, everyone. Hope all is well.

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Morning, Mike.

Michael Patrick Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

So a couple things here. First, can you just help balance out a couple of comments that Bob made on a whole and how that tracks for this year around inflation, price/cost? The commentary was price/cost positive expectations this year, but not a lot of channel fill, even though there were some rebates last year inflation kind of hits you in the fourth quarter a little bit. Maybe just give us some context on how you think that balances out through the year and then what the pricing environment looks like for you as we sit here today?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

I'll take the first part. I'll have Bob on the second. It's feeling like 2018. I think inflation-wise we're seeing a lot of the commodities that we buy hitting record levels, right? And if you think about it, it's simple context and just take a pump, the copper goes into a motor, gets wound, copper's up; it goes into a metal housing, metal is at all-time highs; and then that goes into a corrugated box that gets shipped to a customer, right? All three of those are seeing record inflation levels, primarily being driven by what we think is a spike in China recovering demand, Mike.

So I think inflation's high. I think as we enter this guidance and look at next year, we think we're balanced, between the price we think we can realize from the channel and where we are on the inflation pressures as we head into next year. If we need to do more, I think there's an opportunity to do so because I think the inflation that's hitting us will also impact the whole entire industry. Bob, I don't know if you want to add anything?

Robert P. Fishman

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

A

I'd just add that price was challenged in Q3 and Q4. We did see higher rebates that masks some of that price gains and the planning assumptions for the year are that price and productivity offset inflation. And then to John's point, as circumstances change we'll need to work on the different levers that are at our disposal.

Michael Patrick Halloran

Analyst, Robert W. Baird & Co., Inc.

Q

That makes a lot of sense. And then maybe just talk a little bit about the supply chain on the Pool side. How are you thinking about visibility as we go into the front part of the year, backlog levels, channel fill, things like that? And any reason to think that weather aside, that a normal sequential pattern isn't a reasonable thought process moving through the year?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

No. I mean, I think you're thinking about it the right way. I think we've got our supply chain and our plant capacity to a level now where we're shipping at rates that are helping us catch up at a more rapid pace. And clearly the demand remains strong, but we're able to meet that demand and I think right now, pending any other COVID disruptions, which we're hopeful we're getting through most of those, we feel good that your assumptions are accurate, Mike.

Michael Patrick Halloran

Analyst, Robert W. Baird & Co., Inc.

Q

Good. Thanks, guys. Appreciate it.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Robert P. Fishman

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

A

Thank you.

Operator: Our next question comes from the line of Andy Kaplowitz with Citigroup. Go ahead please. Your line is open.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, guys.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning.

Robert P. Fishman

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

A

Good morning.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

John and Bob, you've obviously – you talked about the significant leadership change at the company. We know you've got a plan to get G&A out. As you think about 2021, maybe sort of talk about what's in the guidance. And it's interesting you talked about maybe getting out of several product lines in C&I and Industrial Filtration. So, how much could sort of the proactivity and the self-help help you in terms of your margin in 2021?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah, so Andy, I don't think we've made any decisions to exit any parts of our portfolio. I think we've got certainly areas of the portfolio that could do better. But when I step back and we looked at the G&A transformation, I believe it's more than a G&A transformation. I think what we learned from 2020, the way we sell globally, the way we interact with our customers, a lot of the virtual capability that was brought in and how we work with our channel partners, the demand to have a more consumer-enabled and have that be an effortless process through ordering on the Internet, that's a shift. And we think we have an opportunity to take a look at our global cost structure and to think about where we should put the work and where's the right person doing the right work at and there's an opportunity across the portfolio to drive significant margin expansion for that.

Same on operations and sourcing. I mean, we have factories that are at record capacity levels and we have other factories that are undercapacitized right now. So, all of that is in what we are labeling a transformation plan. In 2021, I think it's more planning, the efforts to get after it. And then I think we're confident in 2022 and beyond and we start to realize the benefits of all those efforts.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

And then I think you mentioned some improvement in orders within Industrial Filtration and a turn in backlog. So have you seen in general your customers start to revisit their budgets? You talked about still tough environment in capital spending, but maybe is that starting to turn? You mentioned China, a couple of quarters in a row of a little bit better there. So in general, what are you seeing in some of those CapEx businesses?

Robert P. Fishman

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

A

Yeah, so what we saw in 2020 from many of those businesses was down double digits. And so the good news as we look into the 2021 plan is, those businesses we're planning to be roughly flat. So, a stabilization for those businesses; some growing backlog in certain cases, and some signs of increased demand. So I would consider 2021 as being a stabilization year and potentially some upside if things improve.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Thanks, guys.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

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

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Hey, guys. Good morning.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Hey, Steve. How're you doing?

Robert P. Fishman

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

A

Hi, Steve.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Good. So you threw out 2018, I mean, I'm not sure that was like that memorable of a year for your stock. And I think that there was some difference in the timing of seeing that inflation, if I recall. I mean, you guys got I think, like a point of price back then, but then in 2019 you obviously got a lot more price.

And I think the realization of the inflation kind of hit you mid-season in 2018. So, maybe just talk about like the differences in timing between now and 2018 because it seems to be kind of like a slow moving train that you can see from a mile away and perhaps react to it. And then what are you assuming for price? Are you assuming a point, are you assuming a point and half? Like what exactly is the kind of price assumption in the numbers?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So first of all, Steve, thank you for letting me clarify that I'm not looking for 2018 stock performance efforts. But if you recall, 2018 started to experience the significant tariffs that were put into place. And we made some

decisions there to wait it out and to go on cycle with a lot of our price increases. In retrospect, I think we learned that might have not been the right playbook to use.

What I was referring to is that the 2018 levels of inflation feel like that and I do think we're out in front of the price increases because it was a slow moving train. But I'm also saying that if we need to do more we would do more, Steve. Because I don't think we want to take that position again that we did throughout the 2018 which made us play catch up all year long if you recall.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Right. And so what is the price assumption?

Robert P. Fishman

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

A

And so for the question, again the price and productivity offsetting inflation, the assumption for prices back to historical levels of around two points.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Two points? Okay. Got it. I mean, in 2019 you guys got I think like 2.5% of price. So I mean, this is not – that level is certainly not unprecedented in an inflationary time. Am I correct on that point?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

It's more normalized. And I think when you look at 2018 and 2019 together, it felt more normalized but it was very disruptive from timing perspective as you mentioned.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Yeah, okay. That makes a lot of sense. And then just lastly on this variable speed transition, how are you embedding that in guidance and what are you assuming for – just remind us of kind of like what the profile is on that as every point of that conversion goes to variable speed, kind of what that does from a revenue per unit and margin perspective?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So I mean, think about it as maybe 1.5 times the product price or sales price, Steve, when we sell a variable speed versus when we sell a single speed and not that the margin's any better, but the margin dollars are much better. I think it's a slower conversion. I think we've made progress. We picked up about 5 points in the last couple quarters. And as we mentioned moving from 60% to 85%, I think more of that is towards the tail end of 2021 and into 2022 as the channel reacts and begins to buy that for us. But I do think that's out there as a nice transition that will benefit us and it's energy efficiency too. And so these are better pumps, they last longer and I think it's better value for all the customers that buy them.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

One last question for you just on balance sheet, you guys are now at 1.3 times, you've clearly – you're generating very strong free cash flow in a downturn like kind of eye-poppingly strong there. So clearly, you can kind of defend yourselves when volumes go down and when you have a volatile environment. Another residential name like Lennox is trading at a substantial premium to you guys. They have bought back basically 30% of their earnings growth in the last five years has been driven by buyback and they do it in kind of a programmatic way. Why with this kind of free cash flow yield and with your balance sheet, you could buy back 20% of the float programmatically over the next two to three years. Why not be more aggressive on the buyback side? I mean, what are you waiting for to come along on acquisitions to not at least be more aggressive and programmatic about the buyback given how cheap your stock is?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Well, I think we certainly have options, Steve. And I think we're going to look at all those options to create the best return. Right now I think we are actively looking in the three areas I said within the M&A side. But those M&A deals are going to have to have the right returns to be able to lean into them. And if we feel the stock is a better purchase, we'll make the deal on the stock. So I think we've got flexibility and we're going to continue to maintain that flexibility and I feel confident we're going to choose the right one that adds the most value over time.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Great.

Robert P. Fishman

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

A

At that great point we have \$150 million of share buyback built into the forecast. And so our typical starting point for the year and then to continue to be opportunistic based on the circumstances.

Steve Tusa

Managing Director, JPMorgan Securities LLC

Q

Great. All right. Thanks a lot, guys. Appreciate it.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you, Steve.

Operator: Our next question comes from the line of Joe Giordano with Cowen. Go ahead please. Your line is open.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

Hey, guys. Good morning.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning.

Robert P. Fishman

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

A

Good morning.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

We kind of touched around this along with the transition to variable speed. But how do you think about like the cadence of the year, is there maybe more of like a pre-buy than seasonal – is there more like activity in the 2Q than seasonal because of like a pre-buy ahead of a regulatory change and does 3Q kind of see the offset to that? Is there maybe a little bit of a like shift in the order patterns this year?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah, Q2 and Q3 would be the heat of the pool season...

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

Yeah.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

...for our customers. And yes, we would expect to make significant progress during that timeframe. I'm just cautioning even though there's regulations that go in midseason I just don't think we're going to go all the way to the end point this year. And I think it is going to be opportunities for people to work through existing inventory supplies and work through the channel. We're spending all of our marketing efforts helping people trying to convince the end consumer that now is the time to buy the better product. And so I think we're going to make progress as you said in the pool season. And I think the tail of that will fall into next year's pool season.

Robert P. Fishman

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

A

I'd say the good news from my perspective is built into our guidance of up 3% to 5% is a pool business that's growing roughly mid-single digit plus after a year where pool saw 17% growth, so the natural demand continues. Could it be better? Potentially, but not a bad place to be after seeing such significant growth in 2020.

Joseph Giordano

Analyst, Cowen & Co. LLC

Q

Yeah. Certainly not. Hey, Bob, just on the tax rate, if we move into an environment where the US tax law changes, how protected – given your domicile, how protected do you think the overall rate is?

Robert P. Fishman

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

A

We would see a little bit of headwind in that situation, but significantly less than our competitors would see. So, overall we like our tax profile.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Perfect. And then last for me, just John, you talked about sustainable gas a lot over the last couple of quarters as something you're focused on. Can you scope that out a little bit, like, what exactly you're selling into that market, how large is the business for you now and where you think that can go?

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So real quickly we benefit from significant demand in Europe because Europe has really leaned into the environmental impact a lot stronger than we have in the United States and most of our customers are in the beverage industries or processing industries and there's an opportunity to capture the off-gases and turn them back into either energy, which produces value for them or to throw them back into the process in the form of food grade CO2. So it's a business that has substantial legs to it.

What we're starting to see is an environmental movement globally. And certainly our current administration is leaning in to try to do things that are going to help our greenhouse gases over time. So, we see an opportunity outside of Europe now and we want to make sure we've got the sales force, the engineering capability and move more to a standard product offering that's more of a plug and play with global partners that can help promote what we do. So, we're very encouraged by the order trends and the projects that we received outside of the traditional spaces and that gives us excitement that with just a little bit more investment we can certainly accelerate the outcomes.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

How big is that business now for you?

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Roughly \$90 million in total.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Great. Thanks, guys.

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Robert P. Fishman
Executive Vice President, Chief Financial Officer & Chief Accounting Officer, Pentair plc

A

Thank you.

Operator: Our next question comes from the line of Deane Dray with RBC Capital Markets. Go ahead please, your line is open.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning, Deane.

Robert P. Fishman

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

A

Hi, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Hey, can we get an update on the launch of the home and dealer apps for Pool? Any color in terms of how many users, the level of engagement that you're seeing, online ordering? Any updates would be appreciated.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah, appreciate that, Deane. They're soft launches on both and we move to more hard launches here as we head into Q2. So the experience rate has been good, without giving you actually quantification of numbers. And really what you need is the app and then you need some smart products to connect to it which is why we're spending time promoting the salt sensor and also the Easy Flow under sink application, as well as other POU units that we expect come from the Rocean acquisition, combined with our technology, Deane.

So the app is designed to do two things. It's to provide a better consumer experience to be able to understand salt sensor levels retroactively on installed base. The new valve connects to it on pre-installs. And then it also gives you an understanding of what's coming through your water and your flow rates and your need to change your filters. But the more exciting aspect is connecting with dealers. So when a end consumer needs a service on any product they have, or they're interested in learning more, we would have our dealers in that app as well and be able to connect the consumer with the dealer to help curate the experience for that individual. So very excited about the early stages of that and its connection to Alexa, connection to Google Home, connection to Apple home, all those other features, and so we're very excited, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Great to hear. So we'll be watching that for the full launch.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

And then, second question is could you provide some more color on that growth you're seeing in China? You said it's the second quarter of growth. How does that look for the commercial side versus the residential side?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So candidly, residential is up more significantly, I mean, commercial is back in China. But they're still experiencing a little lesser demand on the openings of restaurants and stores as people are still cautious about the pandemic. So they're back and they're open and it's growing, but it's not growing at the same rate that the residential water filtration is growing at this stage, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

Got it. And then just last one from me, can you comment on the product lines that you exited in commercial, just any color there, especially if you could size it?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. These are really small...

Robert P. Fishman

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

A

Yeah. Those were small product lines. And just an example of us reducing complexity and driving cost out. But again, small product lines in terms of the C&I portfolio.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

SKU reductions more than anything, Deane.

Deane Dray

Analyst, RBC Capital Markets LLC

Q

That's good to hear. I appreciate that. I mean, it's walking away from unprofitable business, it's always the right decision. So I like seeing that. Thanks.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Operator: Our next question comes from the line of Saree Boroditsky with Jefferies. Go ahead please. Your line is open.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Hello?

Saree Boroditsky

Analyst, Jefferies LLC

Q

Thanks for taking my question. Could you update us on what you're seeing on the foodservice side and should you start to see that improve as more restaurants open and need to change their cartridges?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So I'll take the first part and Bob will give you the second. Yeah, we saw a steep decline, significant double-digit decline in Q2 when the pandemic hit. And we've seen a modest recovery off of that deep decline into Q3 into Q4. We're sort of in that flattish range now. And that basically has restaurants open at roughly half capacity or quarter capacity depending on where they're living.

The piece that we have not yet seen the recovery on is really the hospitality side of the hotel industry and we're expecting that as we said in our prepared comments, probably to the tail end of 2021. That would be a really big help to that business. The obviously replacement of cartridges are continuing, probably at a slower rate because the usage is slightly slower and our portfolio is skewed more to some of the faster service and to the drive through coffee shops. So we do get a little bit better than the overall restaurant average.

Saree Boroditsky

Analyst, Jefferies LLC

Q

Then you talked about opportunities to lower G&A spending by I think 150 to 200 basis points over time. Could you talk through any improvements you're looking for in 2021 and then what's driving that improvement?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah, we're going to get a little bit of leverage in 2021. That's about it, keeping the existing cost base and growing on top of it. What we're really looking to do is how do we think of our centers of excellence and where do they best serve the business unit, the segment and the enterprise. Within that construct, how do we get the best resources at the point of impact and that's globally, right?

I mean, we've all learned that some people are now able to work virtually or work from home and we don't need all the necessary facilities we have. But at the same time, we want to create workspaces and collaboration centers for our businesses to work with customers and work with dealers on. So this is going to be a fairly sizable transformation. I think in 2021 as I said, not expecting a lot, other than the planning element of this and then we expect significant contributions in 2022 and beyond, beyond G&A even, as the sales and marketing resources also get more effective and efficient.

Robert P. Fishman

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

A

Yeah, I would just add, we're really rallying around that theme of right work in the right place. And to John's point, where should that work be done, closest to the customer at the product line, is it at the business unit level, the segment or the enterprise? And then what is that work? So, if I pick my own area of FP&A as an example, I have big businesses like Pool that that probably drive their own kind of FP&A piece. But then I have other businesses that would benefit from an efficiency and effectiveness perspective of having a shared approach or a center of excellence approach. That goes to data analytics as well so, those are the type of things that we're thinking through.

Saree Boroditsky

Analyst, Jefferies LLC

Q

Great. Congratulations on the quarter, and thanks for taking my question.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Operator: Our next question comes from the line of Julian Mitchell with Barclays. Go ahead please. Your line is open.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Hi, good morning. Maybe just a first question on the assumptions in the guidance for the Pool business. Some of the consumer facing businesses we cover are guiding for double-digit declines in the second half. Heard your guidance about mid-single for the year for Pool, but maybe help us understand first half versus second half dynamics?

Robert P. Fishman

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

A

Yeah. That's – I'll take that one and then, John, if you if you want to add – it was important for us to specify mid-single digit plus is our guidance for the Pool business embedded in our overall guidance. We continue to see strong momentum as we enter the first quarter but good natural demand. So, as the year plays out we expect obviously stronger growth as we have weaker compares in the first half, but still strong business in the back half as we bump up against those bigger compares. So overall, I think we're optimistic about the growth in the Pool business and that will certainly help free cash flow as well.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

But are you assuming the Pool business is up or flat or down in the second half, year-on-year?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Right now, we would say that we're at high historic levels but generally flattish to modestly down in Q3 and Q4. That's at the mid-single digit level. If we get that mid-single digit plus, we would expect that we could be producing modest growth in the back half of the year. I think the more important piece that we want to make sure we convey is our quarters last year represented a softer Q2. As the orders came through the distribution channel, we were not yet producing those. So we had pretty sizable Q3 and Q4 as we're catching up. And this year, if you think about the demand and the way we're meeting it in Q1 and Q2, we'll have stronger year-over-year comparisons there. As we assess where the market is going, as we start to think beyond this pool year into next pool year, we'll have a better understanding as we exit Q2 what the back half of the year looks like.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Thank you. And then my follow up would just be around the segment margin assumptions. So, it looks like segment margins maybe are up a few tens of basis points this year. Maybe just help clarify that. And then also again, how do we think about the first half versus second half in terms of the margin expansion potential. Understand the volume leverage is a bigger tailwind in the first half than in the second half because of the comp, but maybe give us any color around that inflation headwind and how that's falling first half versus second half.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. Julian, I promise the first part of my answer here is not a filibuster, but I want to make sure we describe that one of the reasons we're setting up these three strategic growth investments – two are in Consumer Solutions and one is in IFT – is we're going to disproportionately fund those with investments to drive the future.

What we're going to do a better job on is sharing with you as we go forward is the value of the core, meaning, if you take a look at the core performance absent those incremental investments, we're getting the drop-throughs you would expect. We're getting the price and productivity to offset inflation. The volume's coming through at a nice flow through rate.

And then we're taking the opportunity to build out a services organization in Residential, in Consumer Solutions, build out the front end capability in Pool. And then also make sure we put the investment ahead of the likely growth opportunities in SGS. And there's pretty substantial investment there in those three things which draw down those margins for both of those two segments. Absent that, I think we're pretty balanced in a more normal year. And so, we'll do a better job highlighting throughout 2021 how we're doing in the core and then how these investments are starting to roll through.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Got it. But there's no...

Robert P. Fishman

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

A

Was there a second part to the question?

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

I guess it was really around that, is the margin expansion sort of steady through the year or do we see a bigger first half increase, because of volume leverage and then the second half sort of rolls over because of the top line comp and more inflation coming in. It was really around...

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yes, just to answer that. Yes, you're right. It's more in the first half and it's lesser contribution in the second half, because of not so much the inflation, but the investments and the comp.

Julian Mitchell

Analyst, Barclays Capital, Inc.

Q

Great. Thank you.

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Yeah. Thanks.

Julian Mitchell
Analyst, Barclays Capital, Inc.

Q

Perfect. Thank you.

Operator: Our next question comes from the line of Jeff Hammond with KeyBanc Capital Markets. Go ahead, please. Your line is open.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys.

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Hey. Good morning.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

I think you mentioned the supply chain stabilizing from your standpoint in pools. Can you just talk about where you see inventory levels in the channel? Is there still need for restock?

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Yes. We're catching up and yes.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then just on the first quarter guidance, can you maybe give us a little more color about how you're thinking either the segments or some of the businesses that are driving that higher growth rate?

Robert P. Fishman
Executive Vice President, Chief Financial Officer & Chief Accounting Officer, Pentair plc

A

The guidance we gave was that 7% to 12% and so, again, think of Consumer Solutions with Pool driving significant growth in Q1 and think of the IFT business as being roughly flat in those numbers.

Jeffrey D. Hammond
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks, guys.

John L. Stauch
President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Operator: Our next question comes from the line of Nathan Jones with Stifel. Go ahead, please. Your line is open.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning, Nathan.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I'm going to follow up here on some of the strategic investments that you're talking about starting to make, I guess ramping up in the second half. Can you give us any color on kind of what the incremental level of increased investment is in 2021 and how you are planning for that to, I don't know, whether it increases in 2022, 2023, are we continuing to ramp up the level of investment? When do you think we kind of will hit a plateau and maybe that becomes less of a drag on the margin increases?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. I'll start with the investments that we see 2021 to 2020 that we want to make is more than a point of overall Pentair revenue – kind of frame that out a little bit, Nathan. This is uniquely different capability than we have today. This is about building out a water treatment brand that people recognize so that they can come in and work with Pentair to help curate their water experience. This is about customer experience capability, more consumer related, so that we can quickly get consumers the dealer help and/or the technical support that they need to fix their particular challenges.

So it's capability we don't have today; it's capability we think will add a lot of value. And also it's about putting more trucks on the road as far as the services in Residential. The paybacks are enormous from an IRR perspective over two year intervals. But the breakeven point is roughly a year when you put the sales team in place and you put the dealers in a geography and you wait for the return on the accrual of the annuity base there. So that's the type of investment we're making. And we paced it a little bit more in 2020 than we would have liked and we really want to accelerate it if we can here in 2021. And so it can be modulated. But that's an example of what it is and the likely levels of it.

Robert P. Fishman

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

A

And for all of these investments we're building strong business cases and return on investments, holding the teams accountable because it's a significant investment for us and we want to make sure we get the type of numbers John just talked about in terms of return.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And if you don't need to modulate those investments, we get back to kind of a more normal business environment through 2021, would you anticipate ramping those investments up again in 2022 or are you kind of going to be at a level that you need to be at for strategic investments?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

I think we would think that that would be a new normal level with maybe slightly more, Nathan. But what we would then start to see is the benefit of what we think the Pentair transformation efforts would be as far as ROS expansion that would fund that and maybe give us a little more ROS drop through.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Got it. That's great color. Thank you very much.

Robert P. Fishman

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

A

Yeah, big picture from my perspective is that even with those strategic investments, our view is that with the Pentair transformation, return on sales expansion will be significant by 2024.

Nathan Hardie Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Yeah, that all makes sense. Thanks very much.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Operator: Our next question comes from the line of Rob Wertheimer with Melius Research. Go ahead please. Your line is open.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Hey, good morning and thanks for all the clarity. This is a minor one.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Hey, Rob. Thanks for the book by the way. I'm mostly through it, so thank you.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Excellent. Excellent. Hope you like it. So just to help me I guess, maybe or perhaps a little bit more but with the pricing dynamic in pool and the rebates, you obviously had very strong sales. And I understand that sort of generates higher rebates. How does that sort of reset next year if we continue to have strong sales, do you retain more of the pricing as rebate levels stay similar? Maybe just explain that dynamic? And I'm all set. Thank you.

Robert P. Fishman

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

A

Yeah, I think more simply, the rebate structure resets off that higher base. So it's goodness for the P&L in 2021.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Okay. Perfect, perfect. The environment is obviously pretty strong, I mean, Stanley Black & Decker reported and they sort of mentioned, which I think is true, you can't get a contractor to do any kind of home work. I mean, how far out is your visibility do you think on consumer demand heading into the summer? I know a lot of folks couldn't get stuff done they wanted to last summer and I'll stop there. Thanks.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah, we have strong confidence through what I'd call this pool season, Rob. And the real question mark, which we'll get through as we get more into the summer, is how does that lead into the next pool season. We start to see that at the end of Q2 into Q3 for the next buying season. And that's as Bob was talking, mid-single digits plus. The plus is that we actually see upside in the 2022 pool season versus the 2021, which all indications are that that demand is likely to continue. We're just not ready to say that yet, Rob.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Okay. Thank you.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Also, I want to be in a chapter in your book on a positive side in the next version in addition. So, I'm going to work hard at that I think.

Rob Wertheimer

Analyst, Melius Research LLC

Q

You guys got a lot underway, which is awesome.

Operator: Our next question comes from the line of Bryan Blair with Oppenheimer. Go ahead, please. Your line is open.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Morning.

Robert P. Fishman

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

A

Morning.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

I know we're late in Q&A. I'll just ask one. Was hoping you could update us a little more on Total Water Management and how that's influencing your commercial trends? Stabilization, it's good to see there, you're clearly outperforming the market. I know that's early stage, but is that initiative significantly accelerating into 2021 and could that be more needle moving as we look to the back half and into 2022?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So, let me explain quickly what it is. I mean, in the commercial office water space, many of the units that people buy and purchase are actually leased or rented to the maintenance groups that install them. So they're monthly contract services. Since we deal on the foodservice side with larger restaurateurs or franchises or chains, the more profitable ones just purchase the product from us and then do the replacement cartridges as they go along.

But there's a huge opportunity to attack the smaller restaurants or the smaller franchises with more of the leasing model. And that's what that is about. And yes, the uptick in the early going is a really nice proof-of-concept that shows that that is a business model that people are interested in and has good returns for us and it's a good foray into having the right equipment for the restaurant. So we're encouraged. Obviously we had to do that during a COVID year but made good progress last year and we expect to continue to expand that as we go forward.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Good to hear. Thanks, again.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

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

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Hey, good morning. Nice quarter.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thanks, Scott. Appreciate it.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

I do have a question I'd like to go back and revisit the prepared comments on the G&A where I wasn't quite sure your meaning, John, in the G&A because I thought last quarter we were talking about with the new management team in place, there's been identification of G&A reduction opportunities of 150, 200 basis points per year the next three years. Are we on track for that this year?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yes. I mean, to get the – not all of that savings, but we're on track for the longer term savings for G&A absolutely. So I want to compliment my leaders who lead G&A. But as we started to work through this and COVID started to emerge, we were realizing some efficiencies we thought we could bring to the sales and marketing and the operations side as well. So, I maybe slowed the process down maybe 30 to 60 days, Scott, to make it a more enterprise wide look at what we need to do to support the segments more thoughtfully and drive a higher level of return, because there's a demand for the newer types of technologies and more digital transformation needs we do, we have to serve our customer. And I wanted to make sure we weren't putting more of the old legacy costs in at the same time we're going to add the new cost. And I think that shift is going to drive significant transformation opportunity for Pentair. Bob, you want to add?

Robert P. Fishman

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

A

Yeah. I would just add that as a significant owner of a big piece of the G&A. We are definitely on track in terms of the numbers that you mentioned and we will see improvement here in 2021.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

Thank you. That's very clear. The other question I had is about pools. The new pool build market, in particular China. Just hoping you could, based on what you're hearing from your distributors, anything that you're hearing from the contractors about what new pool builds look like this year?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

They're up. The pool permit data we have is partial for the states that we work in but they're up anywhere from 20% to 25% in a lot of those markets and regions. So, that's strong – I mean, that's encouraging and as you know, that's not the biggest part of our business. The biggest one is the aftermarket. But when you're putting your new pools in, you're getting new pool pad and you're filling out that pool pad, it leads to further equipment in the aftermarket space down the road. So, all encouraging data right now, Scott.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

John, to that end, if I may just tack this on to that because I know that you're trying to look beyond your distribution channel and kind of like right to who is doing the installing, do some of the work that you're doing in data analytics, are you finding ways strategically to get more content on the pad with the new pools, what are you doing there?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. So, I mean, just we believe our pool channel is the right channel and these are professionals that we've worked with for many, many years and we want to continue to work through them and with them. But when we sell into the channel, we don't know where the end product went, unless it's an automated product that someone downloads an app, which we said is only about 15% of consumers today.

So, what we also know is that consumers out there are just trying to get something repaired or replaced. And right now, what's happening is these contractors or these dealers are really busy. So, they're not always able to get to them. And so, when I talk about getting more through the consumer, A, it's helping them understand what they should be spec-ing in their pool pad as you mentioned. But, B, if they just need some service, how about you can call Pentair and we can get you a service technician out. And it will be through our channel because we want to continue to honor it, but we want to make sure that you're getting served within the timeframe that you need it to be. That's what we're really talking about and I'm really excited by that, Scott.

Scott Graham

Analyst, Rosenblatt Securities, Inc.

Q

John, thanks a lot.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Operator: And ladies and gentlemen, this concludes the Q&A portion of today's call. I'd like to turn the call back over to John.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, James. And thank you for joining us today. We continue to believe that Pentair has a strong foundation in portfolio of businesses to build upon. We have a strong purpose, mission and vision focused on delivering smart, sustainable solutions that empower our customers to make the most of life's essential resources. We believe that we are in attractive spaces that are expanding.

We are a leader in the pool industry and our global Tater Treatment business is helping us become an even more integral player to the global, residential and commercial segments. We believe we have the right enterprise strategy, businesses, talent and culture. From our Win Right values to our Pentair Integrated Management System and through our win strategies, we are enabling all of our employees to continuously improve. Finally, we continue to prioritize providing superior customer experiences and delivering more predictable and consistent results.

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

Operator: Ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF