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Pentair Plc (PNR)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Pentair Third Quarter 2018 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Mr. Lucas, please go ahead.

Jim Lucas

Senior Vice President-Investor Relations and Treasurer, Pentair Plc

Thanks, Crystal, and welcome to Pentair's third quarter 2018 earnings conference call. We're glad you could join us today. I'm Jim Lucas, Senior Vice President of Investor Relations and Treasurer. 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 third quarter 2018 performance, as well as our fourth quarter and full-year 2018 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 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. We're pleased with our third quarter as we were able to deliver results in line or better than our forecast on all of our key metrics, marked by 6% core sales growth, 10% adjusted EPS growth, and over $100 million of free cash flow generated in the quarter and $265 million year-to-date.

All three segments contributed to the top line performance with Aquatic Systems delivering a strong 12% core sales growth in the quarter. We also used our strong balance sheet and cash flow to buy back $100 million of shares in the quarter and then purchased $400 million through the first three quarters.

For the full year, we have raised our core sales growth expectation by a full point to be 4% to 5%, and we are still expecting ROS expansion of approximately 50 basis points to 18%. We are also raising our adjusted EPS guidance to be approximately $2.33, which reflects the third quarter performance as well as a small benefit from

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share repurchases in the quarter. This marks the second consecutive quarter that we have raised our expectations driven in part by continued healthy end markets as well as continued execution across our portfolio.

I would now like to turn the call over to Mark to discuss the third quarter results and update you on the details of our full-year 2018 outlook before I provide an update on our key strategic growth initiatives.

Mark C. Borin

Chief Financial Officer & Executive Vice President, Pentair Plc

Thank you, John. Please turn to slide 5 labeled Q3'18 Pentair Performance. As John mentioned, core sales grew 6%. All three segments contributed this quarter with particular strength in Aquatic Systems. We'll provide more color on the performance of all three segments shortly. Segment income increased 1%, while ROS contracted 40 basis points to 17.1%, in line with expectations as price increases implemented to offset inflation took effect late in the quarter. We will expand on the margin performance when discussing the individual segments.

Adjusted EPS grew 10% to $0.54 per share, which was $0.02 ahead of our prior guidance. Our adjusted tax rate remained 18% and our share count came in at 175.7 million shares, benefiting in part from the $150 million in shares we repurchased during the second quarter and an additional $100 million we repurchased during the third quarter. Free cash flow is strong in the quarter at $108 million and we have generated $265 million in free cash flow year-to-date, which is in line with normal seasonal patterns.

Please turn to slide 6 labeled Q3'18 Pentair Segment Performance. This slide lays out the performance of our three segments. Aquatic Systems delivered its strongest performance of the year with 12% core sales growth in the quarter, income growth of 13%, and ROS expansion of 60 basis points. We saw strong demand in the quarter, favorable mix and continued dealer gains. In addition, we implemented our annual price increase in September while continuing to increase our growth investments in this important segment. We believe the outlook for Aquatic Systems remains very favorable and we continue to believe in the long-term outlook of our franchise business.

Filtration Solutions returned to growth in the quarter with core sales increasing 2%. We continue to see pockets of strength in our important North American Residential and Commercial markets. We saw particular strength in our niche industrial businesses but just as important, our Food and Beverage business showed signs of stabilizing after first half declines. Segment income decreased and ROS contracted 70 basis points to 16%. We implemented price increases in September to help mitigate increased inflation due in part to tariffs implemented in July, but we do not expect to see the full benefits of the price increase until the fourth quarter.

Flow Technologies reported its third consecutive quarter of core sales growth and its 5% core sales growth was its strongest performance of the year. We saw solid performance in our North American Residential and irrigation business, and our large pump business showed further signs of stabilization. But we would remind everyone that this is the smallest part of our Flow Technologies segment and tends to be longer cycle and, therefore, a bit lumpier than our other businesses in Flow. Segment income was down 7% and ROS contracted 150 basis points to 15.4%. The margin performance was similarly impacted as Filtration Solutions due to the timing of inflationary pressures and the corresponding price realization.

Please turn to slide 7 labeled Balance Sheet and Cash Flow. This continues to be one of our favorite slides as free cash flow remains strong and we have significantly reduced our debt levels during the year. As we pointed out last quarter, our debt is now at a level not seen since 2010. Given the strength of our balance sheet, we believe we are well-positioned to invest in the business, look at attractive, strategically-aligned tuck-in or bolt-on acquisition targets, and continue to return cash to shareholders. We have bought back $400 million in shares year-to-date, and we would remind everyone that we have raised our dividend for 42 consecutive years.

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Please turn to slide 8 labeled Q4'18 Pentair Outlook. We anticipate fourth quarter core sales to grow 4% to 5%, with all three segments contributing. We expect Aquatic Systems to be up 10% to 12%, Filtration Solutions up 1% to 2%, and Flow Technologies to grow 2% to 3%. Segment income is anticipated to be up approximately 6%, while ROS is expected to expand roughly 30 basis points. Below the line, we expect the adjusted tax rate to be around 18%, net interest and other expense to be approximately $7 million, and our share count to be around 176 million. Adjusted EPS is expected to be approximately $0.59 per share, which would be the fourth consecutive quarter of double-digit adjusted EPS growth.

Please turn to slide 9 labeled 2018 Pentair Outlook. This slide is one we first introduced at our Investor Day in February, and we wanted to provide an update as we enter the homestretch of 2018. Given our strong year-to-date performance, the expected overall sales number is slightly higher than our initial forecast for the year.

All three of our businesses implemented price increases in September. Consistent with our second half outlook we discussed in our second quarter earnings call in July, the price implementation is essentially in line with our prior expectations, and our full-year outlook for inflation has not materially changed. The net result is that our full-year segment income expectations have not changed, and we will continue to expect to drive productivity in addition to price increases we have implemented.

Please turn to slide 10 labeled Full Year 2018 Pentair Outlook. For the full year, we have raised our core sales growth forecast by a point and now expect core sales to increase 4% to 5%. We expect Aquatic Systems' core sales to grow roughly 10%, Filtration Solutions to be up 1% to 2%, and Flow Technologies to increase 2% to 3%. Segment income is expected to be up around 8%, while ROS is expected to end the year around 18%, which would represent an increase of roughly 50 basis points.

Below the line, we expect the full-year adjusted tax rate to be around 18%, adjusted net interest and other expense to be roughly $30 million, and shares to be around 178 million. For the full year, we now expect adjusted EPS to be around $2.33 per share, and we continue to target free cash flow to approximate 100% of adjusted net income.

I would like to turn the call back to John.

John L. Stauch

President, Chief Executive Officer & Director, Pentair Plc

Thank you, Mark. Please turn to slide number 11 titled Pentair Strategy Summary. We have used this page consistently in our earnings presentations to remind everyone of our strategy to be the leading Residential and Commercial water treatment company, and to share with you the areas where we are investing in growth. Our focused areas of strategy remain on advancing growth in Pool and accelerating Residential and Commercial water treatment, which requires investment at the business and the enterprise level.

Our approach to capital allocation remains disciplined, and we remain committed to maintaining our investment grade rating, reinvesting in our most attractive core businesses, and paying competitive dividend yield. We will also look at a balanced approach between M&A and intelligent buybacks, with our M&A decisions being informed by overall valuations and the quality of assets available, as well as our ability to integrate them successfully.

Please turn to slide 12 labeled Focused Strategies. As we prioritize our growth priorities, we believe this allows us the best opportunity to drive differentiated growth in what we believe is a very attractive water quality space. I would like to give you a quick update on our progress regarding our two most important focused strategies.

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The first strategy is advancing Pool growth. One of our biggest opportunities is around automation in connected pools and products. We continue to increase our new product introductions inclusive of smart technologies and have launched two new automation systems. Our IntelliConnect is an entry level automation system that connects only a few existing pool products. And we have also launched our next generation of our more advanced IntelliConnect platform that provides the highest level of automation for our end consumers and pool dealers. Less than 10% of the 5 million installed in-ground pools today have some form of automation system, and we believe this represents a continued runway of growth where we will continue to invest.

Our second key growth initiative is accelerating Residential and Commercial water treatment. We have conducted several consumer surveys to better understand the market but equally important, we are engaging consumers through digital marketing to build brand strength and drive demand through our dealer network. We are in the early innings of moving up the value chain from being a leading component supplier to introducing smart connected branded products and solutions. We've made several investments in China and Southeast Asia as we see a lot of opportunities in this large market.

Please turn to slide number 13. This is a slide that we publicly introduced at the EPG Conference in May of this year. We wanted to remind everyone of our long-term goals. In the current inflationary environment where price has been easier to get and assuming this continues, we would not be surprised to see core sales growth trending toward the upper end of the range, if not slightly better. We are currently expecting the pricing environment, coupled with productivity, to generally offset inflation, and we'll provide more details on the impact to 2019 guidance when we release our fourth quarter earnings at the end of January, but we wanted to remind everyone that our long-term goals have not changed.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question is from Deane Dray with RBC Capital Markets.

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.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Hey. Start off with a congratulations on that pricing power in Pool, and last quarter, it was controversial at the time that you were one of the few companies to hold off on implementing price increases for this one segment, but it certainly came through. Could you give us some color as to what that process was? How much price did you get? How much of it stuck? And what you think the underlying growth in pool was in the quarter.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Sure, Deane, and thanks for the comments, and agree that the Pool business certainly has the ability to control their pricing decisions and had a strong result. Pricing was in line with expectations. So, as we discussed before, the price went in in mid-September. So, in Q3, only saw a small impact of that for the pool business in the Q3 quarter, but we'll see the full benefit of that in Q4. And it's in line with our expectations overall and it's part of the price that you see for the full-year expectation on our full-year walk.

In terms of their growth split between price and core growth, think that most of the growth in Q3 coming from volume rather than price, only maybe a point to two points of growth coming from price and then that grows about double that in Q4.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Got it. And then, just could you clarify the outlook for this IntelliConnect product? This seems to us to be – have the potential to be one of these revolutionary products similar to the variable speed pump that you introduced. So, today, what's your expectation for growth in IntelliConnect and do you have to retrofit pools in order to implement the system?

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

A

The answer to the last question is no. I mean, it is an automation system that obviously works off of Wi-Fi or the Internet and then connects to the products to basically give you an intelligent pool system, Deane. And yes, we do believe that – you're talking about 5 million installed pools and less than 10% of them today run on some type of automation capability, and that automation capability provides two opportunities, one is for dealers to remotely

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monitor pools and manage the proper pool for composites for people, but the other one is for the consumer themself to interact with their pool more effectively, lighting, variable speed pumps as you mentioned, saltwater pools, the chemistry.

So, we see it as a revolutionary product, for sure. And this one's an easier one that creates over the year software updates and really has a better graphic user interface capability. And it's open architecture, meaning it will work not only with Pentair products, but it will also work with our competitors' products as well, which we think is also revolutionary.

Deane Dray
Analyst, RBC Capital Markets LLC

Q

Good to hear. Thank you.

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

A

Thank you, Deane.

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

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Hey, guys. Good morning.

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

A

Good morning.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Good morning.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

So, if we look at the other non-pool businesses, how do you feel like you were with your price increases? Do you think you were forward-thinking enough or were they large enough to deal with your forward expectations for inflation? How do you see that kind of playing out over the next few quarters?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Yeah. Yeah, we do – so again, similar response for the other two businesses. The price kicked in in the back half of September and the realization is consistent with expectations, and we see that reading out as expected in Q4. We had a little bit of pull-in in Q3 ahead of the price increase, which we had anticipated, so that reduces a little bit of the price expectation for the full year. But overall, on a run rate basis, it's consistent with our expectations and our views on inflation, which price was put in to offset and mitigate or remain unchanged as well, so you can see the full-year expectation on inflation remains about $80 million.

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Joseph Giordano
Analyst, Cowen & Co. LLC

Q

And then, as it relates to your China strategy, how have your discussions at least changed a little bit to consider what's going on trade-wise and geopolitically there, and is there any alterations that you need to make to how you deploy that strategy?

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

A

It's a great question. I mean, we do about $160 million in China and Southeast Asia overall from a revenue stream and most of that in our Filtration businesses. We still are committed to our China strategy primarily because they're advanced in the way that the market is evolving. I mean, the rate of pace – they're going to put 3,000 new Starbucks stores in, there's a competitor coffee chain called Luckin doing 1,000 stores this year, 2,000 next year. These are some enormous growth rates.

We also have the context of we're working with the Internet there and the way that people buy off the Internet, and looking at two to three-hour delivery windows for the product. So, I think it's an area that we're going to continue to participate in because we're learning and growing and establishing a lot of the tools and principles that I think ultimately are going to work themselves back into Europe and in North America as well.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

And then, last for me, it's still early days post-split but maybe can you go – John, can you just talk about maybe what are some of the biggest changes you've seen internally so far and maybe an example of something that's taking a little bit longer than you'd like to move forward in the direction you see?

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

A

Yeah. I'm very impatient so everything takes longer, but I'm very proud of the way the team is leaning in. Obviously, great result in the quarter as evidenced by dealing with a late announcement of the tariff impact and reacting to it the best we could and managing through those expectations, and we're getting back to consistency and predictability.

But what we're most excited about is we're having discussions about winning at the product line level again. We have some 30 major product lines and that's where you win, you differentiate your product against the competition and the customers' eyes. And we're having good discussions about how to utilize technology and innovation and business model innovation to really differentiate that customer experience. And that's going to take longer time, but that's ultimately how we're going to get back to the core organic growth that I know we can achieve.

Joseph Giordano
Analyst, Cowen & Co. LLC

Q

Thanks, guys.

Operator: Your next question comes from the line of Steve Tusa with JPMorgan.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

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Hey, guys. Good morning.

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

Good morning, Steve.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc
A

Good morning, Steve.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Just on free cash flow, you guys I think are running slightly ahead of net income. I don't know which net income you use, whether it's adjusted or GAAP or whatever year-to-date, and I think fourth quarter is usually relatively strong. Anything different about this year or am I just not getting the normal seasonality right?

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

No. You got it right, Steve. I mean, we're still targeting adjusted net income. Cash flow would be 100% of adjusted income. And obviously, we'll work through the normal seasonality patterns, and there's nothing really to update at this time.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

And anything unusual about the performance in the third quarter that stands out that's not sustainable on the cash front?

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

No.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc
A

Third quarter was in line with expectations, and we don't see anything necessarily unusual in the fourth quarter as well.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC
Q

Okay. I don't know if anybody asked it yet, but tariffs, just kind of give us an update on how you're thinking about that and maybe just give us an update on – or some color, remind us about your kind of sourcing structure. I think you noticed anything from China is going to get marked up. So, how are you guys thinking about it into 2019?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc
A

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Sure, Steve. And the overall story on tariffs and inflation in general, as I mentioned before, is the consistency with our previous expectations. So, as we look at the balance of the year, our inflation expectation remains at about $80 million. That includes all the tariffs that have been announced and implemented, so it includes sort of the – people talk about Lists 1, 2 and 3, and the different sections that make that up. So, that's all reflected in our expectations. So, really, no change from what we talked about before as we've already touched on pricing and our expectations there.

And we certainly are going to continue to evaluate the overall supply chain and look for opportunities to be able to make changes to reduce the impact of tariffs long term. Those things take a little bit longer, obviously, but we're certainly looking at that. We have a factory in Suzhou, and so we'll evaluate what we do there and how our overall supply chain structure is organized.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Yeah. I guess, just more specifically. I mean, you're only getting hit by part of this year and then there's other list, who knows, 3, 4, 5, 6, 7 coming through. What do you see as of today, assuming some of these things come through, just using a kind of simplified view of what you're sourcing from China and then sticking some sort of an increasing cost on that, what would you expect that headwind in 2019 to be that you could overcome with productivity or whatever else you do?

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

A

Yeah. So, Steve, just to reiterate, the 2018 for 2018 reflects everything that we currently get out of China, including direct and indirect sourcing.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

When we put the pricing forward on September 15, we assumed that we'd likely see another couple points of inflation heading into 2019. That is probably at least the likely scenario given the fact that we're going to continue to see inflationary pressures come from all of these lists that happened. So, I think right now, we feel like we've got things well-contained and we can only deal with what we know, Steve. And if there's anything else that comes about, we reserve the right to go back with incremental price increases.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Okay. Sorry, one last question. What is that bucket of cost that you talked about, either direct or indirect, coming from China?

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

A

What do you mean, Steve?

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Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

What is the total cost of the stuff you're sourcing from over there, so maybe we can do the math ourselves?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Think of it as roughly $300 million, both direct and indirect.

Charles Stephen Tusa
Analyst, JPMorgan Securities LLC

Q

Great. Great. That's exactly what I'm looking for. All right. Thanks a lot. Great color.

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

A

Thank you.

Operator: Your next question comes from Steve Graham (sic) [Scott Graham] with BMO Capital Markets.

R. Scott Graham
Analyst, BMO Capital Markets (United States)

Q

Yeah. Hi. Good morning. I guess I just want to piggy back a little bit on Steve's question here because if we look in the third quarter, the waterfall, the inflation is a $24 million number. And I know you guys indicated that it's still in line with your expectations but the most recent list, the most recent two lists were post your second quarter earnings report and the $24 million does not seem to be yet fully loaded with inflation. So, could you give us an idea, is there going to be a need to go out with more pricing, let's say, in pool and have your price increases in the other two segments contemplated what could be over $100 million number next year?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

As John referenced before, I mean, our expectations haven't changed and the forecast that we put forth of approximately $80 million reflects all the tariffs that have been announced and implemented, which there's nothing new that's out there. The list that you're referring to, even though they hadn't been implemented in effective prior to our last quarter's guidance, there was enough information out there that we had some visibility to that. And as John said, we frankly don't know what we don't know and so, we reserve the ability and the right to be able to go back and adjust and go back for more price if necessary, but the guidance that we have for the year stands on its own and remains unchanged from what we provided previously.

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

A

And just to add to that, Scott, as I said, I mean we put in price increases that not only reflected our 2018 expectations for inflation but that inflation would continue. And so, we're hopeful that we've got enough in there. If not, we'll adjust accordingly.

R. Scott Graham
Analyst, BMO Capital Markets (United States)

Q

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Okay. Great. And then maybe just as a quick follow-up to that, I know that the model has been so far as an independent to sort of do the price plus productivity will offset inflation. I'm just wondering if given your answers to the above, your thinking on the price increases, which you've answered affirmatively that they have contemplated more inflation, can we get to where we are price-cost-neutral in the first half of next year excluding productivity, just pure price cost?

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

A

I don't think so, Scott. I think we're counting on prices, the majority of it, but we also need productivity. And keep in mind, our sourcing teams are active every single day seeking alternative sourcing. So, we even, within the inflation number this year, have favorable productivity and you see that in the column offsetting that. But I think we're going to need productivity and we're also going to need growth contributions, Scott. I think that's just the environment we're in right now.

R. Scott Graham
Analyst, BMO Capital Markets (United States)

Q

I got you. And if I could just squeeze one more in, if you don't mind, and thank you for that answer. I was very interested in your comments, John, about the surveys, understanding the market which you and I have discussed before, how you're engaging consumers more, the dealer network, the whole thing. I was just wondering if you can give us maybe a couple of win examples, things that you're really excited about that the team actually was able to monetize over the last quarter?

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

A

Yeah, I think, first of all, we really – I'll go across the segments. I think Pool really has a great dealer intimacy. And when I mention the dealer, it's the actual dealer talking to the consumer and working with the consumer. And what we're learning is that that consumer is becoming more and more educated, and as they become more and more educated, we're able to create more content because as you put your pool in or you think about your retrofits to the pool, you're very excited about all of the other products that you can bring to the table. So, we are clearly getting more content through to the aftermarket, and I do think that that's a result of learning that the consumer is important in helping to influence that end state.

In Filtration, what we're learning is, as you would expect, it's not a national or global issue. It's more local. Your city and where you live, your water quality varies. And obviously, I've shared this with you, New York City is not a problem for water. As you start to move into other particular regions, you have challenges, and getting more specific around the challenges to each region allows us to have the right products to our dealer channel to solve those issues. So, very excited about our growth there.

And in Flow, I think we're starting to realize that we have a good brand across – well, we have major brands that are very well respected and that we need to continue to work to get those products and make those available to the end customers. And we have to work through various distribution channels to do that since there isn't a large distributor or a large dealer that covers nationally.

And in China/Southeast Asia, as I mentioned, people want to buy on the Internet. They want ready-now products. They want an experience center. And I do think all of those things we're doing in China that we've learned from connecting with the consumer will work their way into the North American market as well. So, thanks for asking, Scott.

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R. Scott Graham
Analyst, BMO Capital Markets (United States)

Q

Thanks a lot for that answer. I appreciate it.

Operator: Your next question comes from the line of Mike Halloran with Baird.

Mike P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Morning, guys.

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

A

Morning.

Mike P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

So, on the Food and Beverage side, you're starting to see some stabilization there. Maybe just dig a little bit more granularly into what you're seeing in the market, why the stabilization is occurring and how you're thinking about that as we move into the fourth quarter and next year.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Yeah. Sure. As we've talked before, as that business has experienced challenges and has been shrinking for quite a while, frankly, it's gotten to a point where it's a smaller portion of the portfolio and it's really not something that's going to drive our overall performance. And so, it's – feel like it's sort of hit the bottom and we're seeing some signs of life and decent order rates. And it's something frankly that we hope to not have to continue talking about, because it's just a small piece of the overall picture and we're focused on, more importantly, on our Residential and Commercial side of the business.

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

A

And Mike, just to remind you, the market is growing and we're growing with the market, but we have a very high-value membrane and we have products that are really helpful in the overall Food and Beverage processing. What we're no longer doing is building the systems in the skids around them and just assembling other people's products to go forward. So, that's what really drove the decline and we feel confident that we have a product that other people can buy and assemble and put into the process, and that's really where we think we should be long term. It's also better margins for us and better predictability and consistency as our future revenue streams.

So, it was all conscious and it was all an effort that we put in this year.

Mike P. Halloran
Analyst, Robert W. Baird & Co., Inc.

Q

Makes sense. And then, on the capital deployment side, obviously you've been running the buybacks through pretty aggressively last few quarters. I know balance is what you're thinking about on a forward basis but it takes

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time to build the funnel back up. How are you thinking about that M&A funnel and how are you thinking about balancing the two, M&A versus buybacks? Obviously, dividends are a core part but that's been pretty consistent.

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

Yeah. I think our first goal was to get back to predictable and consistent results, and I'm pleased that we're making progress on that. I think we've got three quarters now where we're starting to build that consistency. And we're starting to also understand strategically where our best businesses are and how those businesses are positioned and we're really aligned not only as a management team but with our board of where we'd like to make those acquisitions and they're tuck-ins and cores, like basically bolt-ons. And so, I do think we're starting to build a really robust funnel and I really am hopeful that we'll be able to get some things done over the next year.

Mike P. Halloran
Analyst, Robert W. Baird & Co., Inc.
Q

Great. Appreciate it. Thank you.

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

Thank you.

Operator: Your next question comes from the line of Steven Winoker with UBS.

Steven Winoker
Analyst, UBS Securities LLC
Q

Thanks. Good morning, all.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc
A

Hey, Steve.

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

Good morning.

Steven Winoker
Analyst, UBS Securities LLC
Q

Hey. So, just on the thoughts around holding – I think you still expect ROS to be about 50 basis points up, but why not more given the additional point of growth and particularly the concentration in Aquatic? So, I think if you could just talk through the puts and takes there a little bit that explain why there's not more ROS coming in.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc
A

Sure. I mentioned that earlier. As we're coming through September, we did see some pull-in to beat the price increase, so we do have slightly less price benefiting the year than we had previously forecasted. And I mean, then we're continuing to see sort of the ramp in our growth investments as we move through the balance of the

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year. So, when you think of those two things on balance, overall, that's where we landed at maintaining our guidance on income.

Steven Winoker
Analyst, UBS Securities LLC

Q

How much do you think that took away from, if you were to quantify the impact that you would have otherwise had?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Well, the price change was about $3 million, $2 million to $3 million, and the investment is probably a couple million dollars.

Steven Winoker
Analyst, UBS Securities LLC

Q

Okay. Great. And just as you guys are thinking about that growth for the fourth quarter also, coming off the 6% to 4% to 5%, I mean it's your exceptional growth rates, but just any thoughts on slowing mostly comps, other factors here?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

No. I mean, part of it is, as I've mentioned, it's the price increase acceleration that we experienced in Q3. So, Q3 was higher than expected. Maybe half of that increase was driven by the pull-in to beat price, and so we don't see that continuing into the fourth quarter.

[indiscernible] (00:34:45-00:34:46)

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

A

...we're talking about a point of, we're going from 6% to 4% to 5% on the Q4, and right now, we don't see – as you asked, we don't see market slowing. I mean, we still feel good. I want to remind you, Steve, you know this, but in our Residential and Commercial businesses, this is primarily an installed base that we serve. It isn't a new housing start, really, phenomenon or anything. As a matter of fact, we shared this before, but a lot of new housing starts are actually urban, which don't utilize our water systems as much as they do out in the rural areas. So, we really just believe there's a consumer pull on demand on the aftermarket channel and we see consistency, so far, on those outlooks.

Steven Winoker
Analyst, UBS Securities LLC

Q

Great. John, that's actually leading to my follow-up, which was within that all of this great Pool growth, more than three-quarters or roughly of the business is usually aftermarket, I suppose. So, maybe just any chance you can break down your thoughts around how much is coming from new installation versus the existing installed base on the growth in the new product introductions like connected that you mentioned?

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

A

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Yeah. I mean, we've seen – this is a general rule of thumb for that business. You take housing starts, which it's somewhere around 1.2 million housing starts and about 10% or 11% of those are generally pulling pool permits. And I think that's just the way the demographics generally work out, so think about 120,000 to 130,000 new pools.

Which if you really think about what that's up versus last year, it's not up very much. We'll be talking about single digits. So, we continually work the dealers and the installed base to convince people that more larger systems and more capability in their pool is the way for them to reduce their energy costs, both in LED lighting and also the efficiencies that they can get on the variable speed pump. And then, as I mentioned in my comments, giving them easier ways like their iPhone and/or remote monitoring to actually manage their pool, and that's what's driving a lot of the content and capability.

And so, we're really growing the content on the pad fairly significantly and then taking more share to our dealer channel within that growing content. That's been our [indiscernible] (00:36:51).

Steven Winoker
Analyst, UBS Securities LLC

Q

And you said converting dealers as well, right?

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

A

Correct.

Steven Winoker
Analyst, UBS Securities LLC

Q

Is there a number around that?

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

A

Absolutely. Yes.

Steven Winoker
Analyst, UBS Securities LLC

Q

Any percentage or any numbers around that?

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

A

No.

Steven Winoker
Analyst, UBS Securities LLC

Q

Okay. All right. Thanks a lot. Bye.

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

A

Thank you, Steve.

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Operator: Your next question comes from the line of Nathan Jones with Stifel.

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.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Good morning.

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

Q

I'd like to pick up the productivity side of the price cost productivity equation. You guys had $20 million of productivity improvements in the first half, dropped to $1 million in the third quarter and I think the implication is about $5 million in the fourth quarter. Can you talk about the things that have driven those gains down in the back half? Is that comp issues, timing of projects, whatever color you can shed on that?

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

A

Yeah. So, I mean, I'd start with, as Mark mentioned, that we're ramping up the growth investments. In the beginning of the year, we're identifying where we should place our bets, working on our strategies and making sure we're all aligned. And as we went through the year, we're starting to see our innovation centers for technology, certainly our digital marketing, our consumer insights, and putting more spending in, first of all. And that's really what you're seeing is generally offset in the productivity, Nathan.

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

Q

Okay. So, growth investments kind of against your productivity number?

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

A

Correct.

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

Q

Underlying that, has the productivity number improved, declined, stayed about the same as we've gone through the year if you excluded the growth investments?

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

A

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It's improving primarily because we started the year with significant inflationary pressures on the material side, as we mentioned. And then, we have begun to work sourcing alternatives and opportunities, which tend to take time, and those have started to ramp up here as we head into the back half of the year.

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

Q

If you think a little bit longer term, as a percentage of revenue, what kind of number would you expect to be able to get out in terms of productivity every year? Is it a point, two points, if we exclude growth investments from the equation?

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

A

I mean, it's a question that I don't want to dance around. I mean, in a normal environment, we would seek for productivity less in inflation on a gross margin basis to drive 100 basis points to 150 basis points of expansion. And then, we would look to offset with somewhere around 50 basis points to 100 basis points of growth investment. That's a normalized model. Obviously, we're not in normal times. And so, I think we're still thinking we can get continued margin expansion and still invest.

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

Q

And then, I just want to follow up on some of these revenue numbers. I think, Mark, you said about half of the organic growth rate in 3Q 2018 you thought was pull-forward from 4Q 2018?

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

A

No. That's not true.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Yeah. Yeah. No, sorry, to clarify that, half of the beat in the third quarter. So, we were higher than expected by about $10 million, about half of that came from the pull-in. [ph] So about $5 million (00:40:03).

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

Q

Got it. That makes sense.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Yeah.

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

Q

Okay. Thanks very much.

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

A

Clarifying question. Thank you.

Operator: Your next question comes from the line of Brian Lee with Goldman Sachs.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Thanks for taking the questions. Maybe staying on the revenue topic here for a moment, just when you think about the Pool business, I know this may be tough to quantify, but can you give us some sense of how much of the strength in Aquatics was just broader volume-based versus how much was maybe driven by mix of new products and increased share that's specific to you? Just trying to get a sense for maybe what the market's underlying growth is versus how much share expansion you guys are seeing right now.

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

A

I mean, we think we're taking somewhere in the 1% to 2% share range and the rest would represent the market growth that we think broadly others are experiencing as well.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

And then, when you think about the new product introductions and sort of the vitality index, if you will, as you look into next year, is that still the same range of target share outcomes you'd be hoping for or does that start to accelerate even further?

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

A

I mean, if you took kind of where we are, you take double-digit growth, we think about half of that is coming from new content adds. You know that we're going out and creating more content on what we call the pad. So, what used to be a pump and a filter gets expanded into the automation and gets expanded to lighting, gets expanded to a chlorinator saltwater pool, those types of things, and we think that adds about half of the growth. And then, as I mentioned, the rest is share.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. And then, maybe just last one for me, I'll pass it on. I guess, specific to China, some of your industrial peers have alluded to weaker volumes in various end markets and the macro recently. Can you level set us a bit on your China exposure and then how you're comping there versus maybe some of the more cautious commentary that's been starting to pop up as of late?

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

A

Yeah. I'll start with the fact that we're not as big as some of those peers. I mean, keep in mind that, as I mentioned, we're $160 million in total in the China and Southeast Asia region. So, we're not anywhere. Some of our competitors are two times our size and those comps get harder. I also think that we're definitely growing

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double digit, but we're also working through changing channels over there in China as well and making sure we're controlling our own destiny.

As I said, most of the consumers want to deal directly with the Internet and then they want to connect directly with the experience center and the company themselves. And so, I think our comps are a little easier from where we're starting from, but I also am very excited about what the team is doing over there. And I really like how we're going about winning and just the innovation and the excitement that we have for our new products and new product introductions.

Brian Lee
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Fair enough. Thanks, guys.

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

A

Thank you.

Operator: Your next question comes from the line of Jeff Hammond with KeyBanc Capital Markets.

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

Q

Hey. Good morning, guys.

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

A

Good morning, Jeff.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Good morning.

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

Q

Hey, just on the – it looks like your divestiture number was about 2%. Were there discrete divestitures in there or is that just run-off of product lines that you're ramping down? And how does that look into 4Q and into 2019?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

That really – there's no discrete divestitures there. It's the product line exits that we've talked about previously.

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

Q

Okay. And when are we done seeing those?

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Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

It completes in Q4 and so we'll have a little bit of that in the first half of the year, but then it'll lap itself.

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

Q

Okay. And then, what went on with interest expense? It was a little bit lower and how should we run rate that going forward? Thanks.

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

A

Well, we gave you the Q4 number.

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Yeah. We're, I mean, still thinking around $7 million. It's become – frankly, it's a relatively small number given our overall debt levels and so it can bounce around a little bit, really mainly driven by how much interest income we had. So that's why it was a little bit lower in Q3.

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, Jeff.

Operator: Your next question comes from the line of Brian Drab with William Blair.

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

A

Hey, Brian.

Jim Lucas
Senior Vice President-Investor Relations and Treasurer, Pentair Plc

A

Brian?

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

A

Brian? Mute button?

Brian P. Drab
Analyst, William Blair & Co. LLC

Q

There we go. All right.

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

A

Welcome back. Morning.

Brian P. Drab
Analyst, William Blair & Co. LLC

Q

Yeah. My kids were running around in the background, so I had forgot I pressed that button.

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

A

It's all right.

Brian P. Drab
Analyst, William Blair & Co. LLC

Q

I just have one question at this point. The Aquaculture and agriculture end markets I don't believe were mentioned on the call here, at least not significantly. I joined a little bit late. But what percentage of revenue roughly do those account for today and are you seeing any growth off the bottom here in ag, and just any update on Aquaculture, which I think has been a good growth market for you?

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

A

Yeah. I mean, those two things total somewhere around $150 million of total revenue, so not really a big piece of the overall Pentair and not really worth mentioning, to be honest. But I think, ultimately, those are cyclical markets, and they've been performing well lately.

Brian P. Drab
Analyst, William Blair & Co. LLC

Q

Okay. I'll follow up more later then. Thank you.

Operator: Your next question comes from the line of Walter Liptak with Seaport Global.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Thanks for taking my question. Good morning, guys.

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

A

Hi, Walt. Good morning.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

I have a question about weather. We haven't talked about that at all on this call, but there's been a couple of big storms and I wonder about any third quarter impact and if you're seeing any pipeline for renovations of pools especially in the fourth quarter.

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

A

No. I will say it's just really thank you to our team and I'm sure a lot of companies had this as well, but we do have a – our pool business is in Cary, North Carolina, and I can't thank the team enough for how they stepped in. And we lost a few days of deliveries due to the hurricane but they were able to recover all those shipments in Q3 and did a marvelous job just protecting the plant, protecting the assets, protecting the people. And then also getting the product out. But other than that, there's no meaningful amount of revenue one way or the other that we can track to weather.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. And in the fourth quarter, do you guys track pools that were damaged by flooding, pumps, filters that need to get replaced?

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

A

Not on a real-time basis, no. I mean, we usually expect and do see a little uptick in the aftermarket repair business there and we'll see that in the order rate as it comes through Q4, but not able to track the specific amount.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Great. And then, staying in Aquatics and the price increase, I wonder if you could walk us through the pricing that you guys did and the competitive situation. Do your competitors take up pricing earlier in the year and so you were just playing catch-up? Where is your supply chain, I guess, versus some of your competitors?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

We did our price increase on cycle which was in mid-September. Our competitors did do some targeted price increases earlier for various reasons. But we chose to continue to stick with our standard timeline. We implemented a 5.5% price increase. And that's been consistent with what we've communicated previously and our expectations have been consistent.

Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Are your competitors in the same kind of supply chain situation with you where tariffs impact them and they have to react?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Some of our competitors have similar supply chain, some of them don't. I mean, everybody looks a little bit different than us. But as we've talked about it, it's not just the direct impact. It's ultimately, and maybe more importantly, just seeing what the indirect impact ends up being as tariffs start to impact the overall pricing, not just from China suppliers but others as well.

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Walter Scott Liptak
Analyst, Seaport Global Securities LLC

Q

Okay. Great. All right. Thanks for taking my questions.

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

A

Thank you.

Operator: Your next question comes from the line of Brett Linzey with Vertical Research.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Hi. Good morning, all.

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

A

Good morning.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Hey. So, just want to talk about some of the regional growth. I mean, obviously, U.S. was strong mostly driven by Pool. You're talking a little bit about China. Could you just maybe walk around some of the major international markets you serve, and then any concern on the pace or tenor within your European business?

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

A

Yeah. I mean, we – just generally, overall, you've got it. North America had been relatively strong this year. China, as I mentioned, has been a growth area for us. We've selectively chosen to get out of a lot of geographies, which is part of the product line exits that Mark has referenced in our divestiture line, geographies where it's not so much a geography call which just didn't have scale or didn't have the appropriate presence in those areas to compete long term.

And then, Europe has not been a robust growth environment. It's been relatively muted most of the year. And so, we don't see that picking up in the back half the year, but we also don't see it declining in the back half of the year.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay. And then, maybe just back to growth investments. I think you had previously said this year your incremental investment was around $20 million. What have you spent year-to-date and how Q3 looked? And then, as we look into 2019, you broaden out the China and Southeast Asia strategy, does that incremental number step up 2019 versus 2018?

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

A

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Yeah. I don't know. We're certainly not going to give it in detail by quarter. But for the full year, we expect still to be in that range for 2018. And I would say as we think about going forward, maybe $5 million to $10 million incremental next year is the way we're thinking about it for primarily digital investment and also our R&D and innovation activities we have identified this year, but not a meaningful step up from where we are currently.

Brett Logan Linzey
Analyst, Vertical Research Partners LLC

Q

Okay. Great. Appreciate the color.

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

A

Thank you.

Operator: Your last question comes from the line of Julian Mitchell with Barclays.

Q

Hi, guys. This is [ph] Jason (00:51:21) on for Julian. Just looking at the Aquatic Systems' demand and taking into account that the 1% to 2% of share gain is roughly consistent with the color given on Q2, backing out the demand you saw as a result of pre-buy, does this imply, given the tougher year-over-year comp in Q3 versus Q2, that there was sort of end-market demand acceleration here? And then, what was the cadence of that demand acceleration going through the quarter, was it stronger in September, et cetera?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

I mean, no, I don't think there was anything unusual about the end-market demand in the quarter. It was strong in September but that's not unusual, and some of that was driven by the price increase timing. And when you've seen the guidance for Q4, we don't see a significant slowdown as we look at the Q4 run rate and expectation on growth in pool.

Q

Understood. And just going back to the pricing increases, there was sort of an acknowledgement that if there was further inflation sort of seen in the pipeline, there would have to be pricing increases put in to net that out. Sort of just on the pace of those increases, what would be the lag post the acknowledgement of further inflation, i.e., like 30 to 60 days or maybe a quarter in terms of how long it would take for those pricing increases to be effective?

Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

Sure. And maybe to clarify, we said that we'll continue to use price as a lever. We didn't say that we would have to do that in light of inflation.

Q

Right, right. Sorry. Sorry

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Mark C. Borin
Chief Financial Officer & Executive Vice President, Pentair Plc

A

But it's a lever. And it would take approximately 90 days to get that price fully implemented.

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

A

That being said, it's also about 90 days for us to see the impact of increases from our suppliers as well. So, what was unusual about Q3, if you recall, was the timing of the tariff announcement and the increase of that coming pretty quickly and not having the time to react.

Q

Understood. Thank you.

Operator: And presenters, do you have any closing remarks?

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

Yes, I do. So, thank you, everybody, for joining us today. And I hope you agree that we delivered a solid third quarter and that we are demonstrating our ability to use agility and prioritization to meet our commitments. By building up a track record of meeting and exceeding commitments, we hope to earn the trust and right to pursue a compounding strategy that allows us to not only achieve core growth in earnings, but to also utilize our strong cash flow and capital structure to pursue strategic, targeted and accretive bolt-on and tuck-in acquisitions.

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

Operator: Thank you, sir. This concludes today's conference call. You may now disconnect.

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