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Pentair plc (PNR)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Q4 2021 Pentair Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Jim Lucas. Thank you. Please go ahead.

Jim C. Lucas

Senior Vice President, Treasurer, Financial Planning and Analysis & Investor Relations, Pentair Plc

Thanks, Stephanie. And welcome to Pentair's fourth quarter 2021 earnings conference call. We're glad you could join us today. I'm Jim Lucas, Senior Vice President, Treasurer, FP&A and Investor Relations. And 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 performance as outlined in this morning's press release.

Before we begin, let me remind you that during our presentation today, we will make forward-looking statements. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Pentair. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors in our most recent Form 10-Q and Form 10-K, as well as today's release.

We will also reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures can be found in the Investor Relations section of Pentair's website. We will be sure to reserve time for questions and answers after our prepared remarks. I would like to request that you please 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. We exited 2021 feeling very grateful for the tireless efforts of all of our employees who helped Pentair deliver for our customers and create value for shareholders despite significant inflation and global supply chain challenges. I am humbled and proud of our employees who remained agile and accountable throughout all of 2021.

While we faced ongoing supply chain disruptions and inflation that was almost five times higher than during 2020, our 2021 results exceeded our expectations and create momentum heading into 2022. Sales grew over 20%, while segment income and adjusted EPS increased over 30% each. Our return on sales expanded 100 basis points for the full year to over 18% despite significant inflation pressures.

We had another strong year of free cash flow, generating over \$550 million, which represented over 100% conversion to net income. We returned approximately half of our cash to shareholders through dividends and share repurchases, while also funding two strategic acquisitions. We announced a dividend increase at the end of last year. And the first quarter dividend in 2022 will mark Pentair's 46th consecutive year of increasing dividends. We're especially proud of this record as we are in a small and distinguished group of companies who can say that.

Our balance sheet ended the year in excellent shape and is poised to be deployed to drive additional shareholder value. We are introducing Q1 and full-year 2022 guidance today, which Bob will highlight in more detail later in the call. For 2022, we are looking for continued sales, income and earnings growth, as well as further margin expansion. While Q1 faces a tough comparison to last year due to the largest price versus cost impact and

continued disruptions caused by COVID-19, our full-year outlook remains optimistic, and we believe our businesses are well-positioned to create further value for shareholders.

Our Residential businesses served mainly the installed base. We estimate Pentair's overall exposure to new residential construction is roughly 10% for the entire company. Our Pool business benefits from a large installed base, movement to more autonomous and more energy-efficient pools and favorable population migration trends. Our Water Treatment business has built momentum on the residential side with smarter, connected solutions; while a more profitable commercial business has recovered nicely despite restaurant traffic still not back to 2019 levels.

Finally, our Industrial business has exited 2021 with continued growth in orders and backlog, particularly in our food and beverage and sustainable gas businesses. Overall, we believe we are well-positioned entering the new year, although we recognize that disruptions from COVID-19 are impacting the global supply chain as we start 2022.

Please turn to slide 5 labeled, ESG Priorities are Integrated with Business Strategy. Since becoming a pure-play, sustainability-focused company about four years ago, we have been focused on integrating our ESG priorities with our business strategy. We believe this supports our efforts in cultivating a long-term value proposition for Pentair. It is the right thing to do; it is good business; and it is tied to what our employees, customers and shareholders value.

Sustainability is more than an initiative at Pentair. It is core to how we operate. At Pentair, we are united in our belief that our products and actions are making a difference. We are providing clean, safe water to millions of people, while eliminating plastic bottles that are harming our environment. Our products help people use less chemicals and detergents in their lives through our water treatment solutions. We have many products that help reduce carbon-based electricity needs through variable speed pumps and LED lighting. And we are building a growing business for capturing CO2 gas for reuse. We believe our solutions help make the most of life's most essential resources.

We're also focused on decreasing our carbon and water footprint with energy-efficient processes and bottle-free facilities. In 2021, we established formal goals to reduce Pentair's Scope 1 and 2 greenhouse gas emissions and water withdrawals.

We're driving an inclusive and diverse workforce and leadership team. As a member of the CEO Action for Diversity & Inclusion coalition, leading our organization forward on diversity inclusion efforts is a priority. And I am proud of the work we are doing in this regard that contributes to us being an employer of choice. We're also working to build a more sustainable supply chain. We have continued to make progress while we are navigating global supply chain disruptions.

Finally, we believe we have always had strong governance practices, and we remain focused on ensuring that these are the best practices. We have strong diversity on our Board of Directors, and we also have strong board oversight of ESG. We recognize that our work will never be done, but we believe we are focused on the right priorities. And we will continue to engage with our stakeholders and focus areas where we can improve.

Please turn to slide 6 labeled, Building a Track Record of Consistent Growth. As we highlighted during our Investor Day last June, we believe we are well on our way to establishing a track record of consistent growth. We believe that we are in the right spaces for the future. Global water awareness is increasing, and we serve large and stable end markets. In fact, our two largest businesses, Pool and Water Treatment, are serving sectors that when combined are nearly \$40 billion in size and are growing faster than GDP. Growing the core is not just about

top line improvement, but continued income growth and margin expansion. We know we must focus on all elements of growth. And we believe we are better aligned on this focus today more than at any time in Pentair's history.

Over the last few years, we have been investing in building our brand, our digital capabilities and our innovation around smart and sustainable solutions. We've successfully rebranded Pelican, acquired in 2019, to Pentair Water Solutions, of the Water Treatment space. And we believe, we are delivering compelling and consistent messaging across all consumer touch points to generate awareness and provide consumer confidence in our solutions and expertise.

We recently launched a new home water platform on pentair.com to empower consumers to learn, shop, purchase and gain service and support on our website. We improved consumer engagement with multiple digital properties such as web, apps, social and digital ads, to optimize customer journeys and deliver consistent, differentiated brand messaging across all platforms. We saw double-digit increases last year in new visitors to pentair.com. In fact, this increased engagement has led to a substantial number of leads in our Pool business.

While we're a leader in pool equipment today, we must continue to best maintain and improve our position with customers and consumers. Major part of our effort is around building an effortless pool ecosystem. We not only strive to have the most reliable products in the pool industry, but we are also focused on providing the best information about pool ownership. And we believe we offer the highest level of training and education of anyone through the professional channel.

We're also increasing our services offerings in many of our businesses. The acquisition of KBI last year brought service capabilities to our Commercial Water Treatment business and helped us create end-to-end solutions for our customers. We are also focused on expanding services within Pool and are developing network to easily connect homeowners to the appropriate partner and service provider to take care of their needs in a proactive improvement situation. We're also developing more connected products that provide information about the performance of our equipment that will enable our channel partners to quickly react to the needs of the consumer.

When we talk about strategic growth initiatives to accelerate the top line, this is about prioritizing, sequencing and re-sourcing the critical few ideas that we can deliver to our customers while also driving shareholder value. This is primarily around investments at our leading Pool and Water Treatment businesses, but there are other opportunities, such as our Sustainable Gas business and Industrial & Flow Technologies. We are focused in two areas today, biogas and carbon capture. Our technology helps capture and purify both CO₂ and biomethane, in addition to capturing excess CO₂-created manufacturing processes that can be purified and reused.

We were also driving transformation to both unlock value and to fund growth. In 2021, we've launched and committed resources to drive transformation across Pentair. This is a multiyear initiative to transform how we do business and how we serve our customers. We are focused on four transformational areas: Pricing, sourcing, operations and organizational effectiveness. Last year was all about completing our planning and assessment phase, and we are moving to the implementation phase in 2022.

Pricing, sourcing and operations are big opportunities to drive our gross margin improvement, while we expect organizational effectiveness should help drive efficiencies across Pentair. We believe that transformation will be an important contributor to our goal of greater than 300 basis points of margin improvement by 2025, in addition to helping fund our strategic growth initiatives.

Finally, we believe our balance sheet provides flexibility to our long-term value opportunity. Pentair has been a consistent cash flow generator. And we have built a successful track record of disciplined capital deployment. We
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ended 2021 with our balance sheet levered at only 1 times, which is below our targeted leverage. This balance sheet flexibility allows us to fund acquisitions in our key growth areas, such as KBI in Water Treatment and Pleatco in Pool, which we completed during 2021. We believe that we are well-positioned to continue delivering consistent growth, and we look forward to updating you on our journey.

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. Bob?

Robert P. Fishman

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

Thank you, John. Please turn to slide 7 labeled, Pentair Sales Performance I will also be discussing slide 8 and help frame how we exited the year in context to our full-year performance. Fourth quarter sales grew 24%, with core sales increasing 19%. Consumer Solutions core sales growth was 23% and Industrial & Flow Technologies delivered saw core sales growth of 13%. For the full year, sales grew 25%, with core sales growing 21%. Consumer Solutions delivered 30% core sales growth and Industrial & Flow Technologies saw core sales growth, 9%.

We were encouraged to see price read out the strongest of the year in the fourth quarter. Nearly half of the price for the year came through in the fourth quarter. We have discussed all year the multiple price increases we implemented across all of our businesses, and the fact that there has been a delay in some of the price reading out, given the strong backlogs we have carried throughout the year. We believe the fourth quarter demonstrates our ability to have price read out. And we expect that momentum would carry over into the new year.

For the fourth quarter, segment income grew 18%, while return on sales declined 80 basis points. The margin degradation reflects further acceleration in inflation in addition to the lower-margin contribution of last year's acquisitions. We would note that we experienced inflation in the fourth quarter that was double what occurred for all of 2020. Adjusted EPS grew 24% in the quarter. For the full year, segment income grew 33% and return on sales expanded 100 basis points to 18.2%. Adjusted EPS increased 36% for the year to \$3.40. Our tax rate ended the year at 15%, and our share count was 167.5 million.

Please turn to slide 9 labeled, Q4 2021 Consumer Solutions Performance. In addition to the fourth quarter performance for Consumer Solutions, I will also be referencing the full-year performance on slide 10. Consumer Solutions grew sales 31% in the fourth quarter with Pool sales increasing 35% and Water Treatment up 23%. For the full year, Consumer Solutions grew 34% with Pool up 40% for the year and Water Treatment increasing 24%. Growth was fairly consistent throughout the year and a testament to the hard work of the teams to meet record demand, while facing significant supply chain disruptions throughout the year.

The pool industry has received a great amount of attention the past couple of years with the acceleration of demand, where already positive industry dynamics have grown stronger. Pools have become enhancements to residential properties and are desirable features that new homebuyers are searching for in their future homes. The population migration to warmer climates is another positive trend for the industry as homeowners are looking to add pools to existing homes or purchase new homes with pools in warm-weather states. We believe the signs continue to be strong for Pool growth to continue not only in 2022, but well into the future.

Channel inventories ended the year, approaching levels more in line with historical levels There are still some product lines and geographies, however, where channel inventory levels are not back to normalized levels. Our 1-877-FACTSET www.callstreet.com Copyright © 2001-2022 FactSet CallStreet, LLC

Pool team did a great job meeting robust demand, while managing supply chain disruptions and expanding capacity at the same time. We have also developed capabilities to enhance our ability to better procure products and improve a smoother delivery for our customers.

We completed the Pleatco acquisition during the quarter, and this adds to Pool's aftermarket capabilities. Pool made great progress in improving its customer service capabilities. And we believe this continues to be a differentiator for our leading Pool business, not only with industry dealers, but increasingly, with consumers. We saw strong growth across all product categories, and we believe that Pool exited the year better-positioned to face the ongoing supply challenges in order to continue meeting strong industry demand.

Water Treatment saw continued growth in Residential and further improvement in Commercial. Within Residential, we saw growth across all channels and within our legacy tanks and valves businesses. While the teams were battling inflation and supply chain challenges throughout the year, we continue to invest in the future.

With Rocean being integrated into Pentair at the beginning of 2021, we made great progress in commercializing the first product that is expected to be launched this year. We are excited about the innovation that Rocean brings to consumers around point-of-use countertop technology. And we look forward to updating you on the progress of the launch as the year progresses.

The recovery in our Commercial business continued, but industry traffic is still not back to 2019 levels. We continue to focus on the integration of KBI and the creation of an end-to-end solution for our customers that has generated an increasing amount of interest. By offering both products and services, we believe our Commercial business is better positioned to benefit from continued recovery in the industry in addition to benefiting from new customers that are showing interest in our solutions.

For the fourth quarter, Consumer Solutions grew income 10%, while ROS declined 410 basis points. The margin decline is due to three areas. First, both KBI and Pleatco joined Pentair with lower margins than our segment average. KBI, in particular, is a services business with lower ROS, but strong recurring revenue and cash flow. Second, the market pressure is in the form of higher inflation, which does not come as a surprise. In fact, Consumer Solutions experienced nearly half of its full-year inflation in the fourth quarter alone. Finally, margins were under pressure due to ongoing supply chain disruptions that have continued to be a challenge.

For 2021, Consumer Solutions grew segment income 32%, while margins were down slightly for the year due to the fourth quarter inflationary pressures that we experienced. We believe that this will begin to move back in the right direction, starting in the second quarter as price catches up with inflation and we begin to see some pressure taken off of many areas of our supply chain.

Please turn to slide 11 labeled, Q4 2021 Industrial & Flow Technologies Performance. In addition to the fourth quarter performance for Industrial & Flow Technologies, I will also be referencing the full-year performance on slide 12. IFT grew sales 14% in the fourth quarter, with Residential Flow up 14%, Commercial Flow increasing 4% and Industrial Filtration growing 24%. For the full year, IFT grew sales 12 %, with Residential Flow up 15%, Commercial Flow increasing 6% and Industrial Filtration up 12%.

Residential Flow delivered double-digit sales growth all four quarters of 2021. We believe many of the population trends that have been driving demand for Pool are also benefiting Residential Flow. Our broad portfolio of products are found in more rural and suburban areas. We exited the year with strong tailwinds, as many of our dealers are still facing low inventory levels. The growth in Residential Flow is all the more impressive, given the strong focus on complexity reduction that saw the business exit many older or less profitable product lines.

Commercial Flow has been focused on complexity reduction and improving margins with good progress made throughout 2021. We have seen improvement in our water supply and disposal businesses, while infrastructure has slowed due, in large part, to us being more disciplined on bids.

Industrial Filtration has benefited from stabilization at some of the smaller product lines, while both food and beverage and sustainable gas continued to build backlogs and see their businesses rebound. We have seen accelerating interest in our BrewAssist IoT-enabled service for brewing, and we now have over 20 connected systems. Sustainable Gas experienced strong double-digit growth in 2021 and exited the year with further increases in backlog. We have had good success in our biogas offerings with a number of wins during the year, and the funnel remains strong. We're also seeing more and more interest in our carbon capture technology.

For the fourth quarter, IFT grew segment income 63% while ROS expanded 440 basis points. For the full year, IFT grew segment income 30% and ROS expanded 210 basis points to 15%. IFT was hit especially hard on the demand side when the onset of COVID-19 brought demand to a halt. The business is focused on the elements within its control, and the combination of growth and higher-margin businesses, further complexity reduction and overall productivity. These have all been contributors to the rebound in margins throughout 2021. IFT saw all three of its businesses exiting the year with strong backlog. And we would expect another year of growth and margin expansion for IFT.

Please turn to slide 13, labeled Balance Sheet and Cash Flow. This slide is one we have been proud of all year, and it improved as we ended the year. For 2021, we generated \$557 million of free cash flow. We ended the year with our balance sheet levered at only 1 times. And our return on invested capital exceeded 19%. We returned roughly half of our free cash flow to shareholders through dividends and share repurchases. We also funded two strategic acquisitions, KBI and Pleatco, to further the strategies of Water Treatment and Pool.

It is worth noting that Pleatco also contribute a little to IFT, as it brought some clean air filtration technologies that fit nicely with one of our existing product lines in industrial filtration. We plan to remain disciplined with our capital. And we believe that we have more than enough flexibility to return capital to shareholders and fund growth both organically and through acquisitions.

Please turn to slide 14 labeled, Q1 and Full Year 2022 Pentair Outlook. Today, we are introducing Q1 and full year 2022 guidance. For the full year, we expect sales to grow 6% to 9%, segment income to grow 10% to 13% and adjusted EPS of \$3.70 to \$3.80, or up 9% to 12%. Embedded in our guidance is a continued expectation for growth in all three of our verticals. Residential is roughly 60% of our sales, with 80% of that serving replacement and only 20% exposed to new construction. While we would expect new construction overall to moderate following two stellar years of growth, we believe this will free up labor to serve strong demand in the replacement market that has been underserved due to the growth in new construction.

Commercial represents roughly 20% of sales, primarily in our Water Treatment business. We are encouraged with the growth that Commercial experienced in 2021, given that industry volumes are still not back to 2019 levels. Industrial is the remaining 20% of sales. And the strong exit to 2021 across IFT informs our expectations that Industrial growth should continue in 2022.

Within our full-year sales guidance, we expect Consumer Solutions to grow mid to high-single digits, and IFT to grow approximately mid-single digits for the year. On the income side, for the full year, we do expect price to offset inflation, given that the many pricing efforts we undertook in 2021 are reading out. And we expect inflation headwinds to lessen in the back half of the year. We also expect that our transformation activities will move to the execution phase and benefit us in 2022 and beyond. As a result, we expect further ROS expansion in 2022 to approximately 19%.

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While we expect to see continued top line growth in Q1 due to the strong demand in many of our businesses, we expect to continue to be challenged with higher inflation and supply chain challenges. While we anticipate price reading out higher in the first quarter, we do not expect it to fully offset inflation until the second quarter, which is putting pressure on our Q1 profitability. We do expect roughly 50% of EPS for the year to be in the first half, in line with historical norms.

Below the operating line, we expect corporate expense to be approximately \$20 million in Q1 and roughly \$80 million for the full year. We are forecasting net interest to be approximately \$5 million in Q1 and between \$16 million to \$18 million for the full year. We expect the tax rate to be roughly 16% and the share count to be 167 million to 168 million for both Q1 and the full year. Finally, we expect free cash flow to approximate net income.

I'd like to turn the call over to Stephanie for Q&A, after which, John will have a few closing remarks. Stephanie, please open the line for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Andrew Kaplowitz with Citigroup.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Good morning, guys.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

A

Robert P. Fishman

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

Good morning.

A

Q

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

John, you've talked in the past about construction moderating, replacement accelerating. And you've talked about dealers having backlogs in the second half of the year in Pool. So, do you basically have visibility into the end of the year at this point in Pool?

And I think you mentioned channel inventories are more normalized, but not completely normal. So, can you give us more color there? And then, why wouldn't price be a big number for Pool in 2022, so Pool revenue can be at or higher than that Consumer Solutions guidance of mid to high-single digits?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I'll take the first part. I'll have Bob chip in here. Yeah. I mean, we're exiting the year with a pretty lofty backlog. And while inventories in the channel have moderated to more normal levels, we're still seeing strong sell-through. And we're still chasing our backlog and trying to work it down. So, you're seeing that impact in Q1 and Q2.

As we think about the year, the way the full year will play out, most of the dealers will take stock of where they are sometime around the Q3 quarter, and then assess what the 2023 outlook looks like, and then adjust either the inventory or their purchasing desires as they head into the 2023 full year. So, we have visibility that we feel like there's pent-up demand, but we won't know exactly how that's going to play out in Q3, Q4 and next year till we get through Q2.

Bob, you want add to the pricing comment?

A

Robert P. Fishman

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

Yeah. We expect Pool will have another strong year after growing 17% two years ago and 40% last year. We expect significant growth again from Pool. We want to be realistic in our guidance and not get ahead of ourselves. COVID continues to be a challenge, but we do expect a strong full-year led by price.

Q

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Got it, guys. That's helpful. And then, can you give us a little more color in some of the implied margin that you were assuming for 2022 for both of your segments? I know, you mentioned the acquisitions, alluding Consumer Solutions' inflation pressure, but are you assuming flat to down margin in Consumer? And then, can you sustain the strong incremental margins you achieved in the second half of the year in IFT?

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A

Robert P. Fishman

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

So, to answer the question, overall, for Pentair, the guidance that we've given has the ROS expanding to 19% from the 18.2% that we finished 2021 with, so up 80 basis points after being up 100 basis points, and very much in line with what we discussed at our Analyst Day earlier in 2021. We would be disappointed if Consumer Solutions did not expand its ROS for 2022. And certainly, we see continued momentum from IFT. So, again, helped by price/cost favorability for the year and the transformation activities, but both of the segments will expand margins.

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Q

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Helpful, Bob. Thanks.

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A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

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

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Q

Robert Jamieson

Analyst, Cowen & Co. LLC

Hey. Good morning. This is Rob Jamieson on for Joe. I just want to quickly touch on the inventories. It looks like there's a little bit of build in the quarter here. Is that just trying to get yourself set up where you can help meet demand for 2022? Just wonder if you could provide some color there.

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A

Robert P. Fishman

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

A little bit of the build is acquisition-related around Pleatco and KBI. The rest is us setting ourselves up for the higher demand in 2022. Overall, these on hand, very much in line with what we've seen historically.

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Q

Robert Jamieson

Analyst, Cowen & Co. LLC

Okay. Thank you. And then, I'm sorry if I missed this, but what's the Pool growth embedded into your guidance for the full year? So you need to have any breakdown between new versus replacement?

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Robert P. Fishman

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

We've given guidance for Consumer Solutions, up mid to high-single digits, so you can extrapolate from that, what you think Pool might be. And I would say, that Water Treatment will continue to have another good year. But we've given guidance at the Consumer Solutions level.

Robert Jamieson

Analyst, Cowen & Co. LLC

Okay. That's great. And then, if I can just sneak one more in. I appreciate the sustainable gas update that you provide. It sounds like that business is performing well. I just wondered if you could kind of talk about the growth opportunity there. We've seen a lot of corporations come out with like carbon reduction, carbon-neutral initiatives for 2020, 2030, 2050.

Not looking for guidance, but just how should we think about that growth opportunity for you going forward, like in the medium term? Do you think that should help accelerate it? What are your thoughts there?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah, I mean, we grew that business roughly 20% last year. And we would think that we can continue to grow and expand as we look in the 2022 and beyond. Clearly, all of those initiatives creating an opportunity for us to participate in quotes and activity, and there's – we're really encouraged about what the potential frontlog and backlog could look like in this business.

Robert Jamieson

Analyst, Cowen & Co. LLC

That's great. Thanks so much.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

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Operator: Your next question is from Mike Halloran with Baird.

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Michael Patrick Halloran

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

Hey. Good morning, gentlemen.

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hey, good morning.

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A

Michael Patrick Halloran

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

Thanks. So, could you just talk through some of the competitive dynamics in the pool space right now? I think different players are deciding to go out with price increases at different times, handling backlog changes differently and capacity onboarding differently. So, maybe just kind of sync all those things together, talk about how Pentair is doing in the marketplace and also layer in some capacity commentary in there, if you don't mind.

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Q

Robert P. Fishman

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

Yeah. Maybe I'll start with that one, and then let John add to it. Obviously, the demand has been strong within the Pool business. Backlogs were up significantly, most of last year and coming into this year. We, as we looked at the backlog last year, wanted to honor the commitments that we made to our customers. That loyalty was important and will serve us very well in the future.

A

When we look at the backlog entering the year, that backlog has been repriced and will read out fully in the second quarter. So, we think, we struck the right balance around – on dealing with the higher orders and the backlog. That repricing of the backlog will help us with a strong second quarter. And it's not lost on us that our Q1 started below the guidance, the consensus that was out there. And that's because price does not fully read out in the first quarter and inflation remains high.

The good news from our perspective is that Q2 will rebound quickly. And so, we're not asking for investors to wait for the back half of the year. You'll see a strong first half from Pentair as that backlog reprices in the second quarter. That would be my response to your question.

John, is there anything that you want to add?

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John L. Stauch

President, Chief Executive Officer & Director,
Pentair plc

No. Mike, I think, Bob answered that.

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A

Michael Patrick Halloran

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

Great. And then, second question, just on the complexity reduction issues on the – in IFT. Where do we stand in as far as that journey goes, and what are the next steps as you look forward from here?

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I think, we've made tremendous progress, and I want to compliment the team. I mean, you know this business well, Mike. I mean, these are 100-year-old brands, 100-year-plus brands, right? So, there's a lot of SKUs and a lot of part numbers, and they've been doing a really good job of reducing and trying to aggregate into more common buys and a more common part numbers and products.

So, I'm excited about where we have progressed from to, but that being said, there's still so much substantial opportunity in front of us. Just the way that we think about our global supply chains, think about the way that we bring our product to distribution. And I'm really excited about the momentum, but I'm more excited about the opportunity.

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A

Q

Michael Patrick Halloran

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

Appreciate it. Thank you.

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John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

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

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Q

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Hey. Good morning, guys.

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A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

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A

Robert P. Fishman

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

Good morning.

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Q

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

So, just back on price, how should we think about price in the guide? I mean, I think you've got 5 points in 2021 and maybe it looks like a mirror image in 2022, but just how much price has kind of built in?

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Robert P. Fishman

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

The best way to think about it is the growth guidance that we gave is primarily price. So, price has a significant to our overall revenue growing. A little bit of acquisitions, but primarily price.

.....

Q

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then, just on supply chain, can you maybe just speak versus third quarter what you see is starting to get better or stabilizing? And what's still maybe most challenging?

.....

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I'll start, and I'll have Bob chip in. I mean, I'm actually proud of the fact that we made sequential progress every year or every quarter within 2021, which means we expanded our capability and processes. So, we still got the same global supply shortages that everybody else is dealing with, and we're still balancing around the freight disruptions and needs about getting the product to the right locations at the right time. And I think, the team has done a great job at moving through all that.

As we started 2022, COVID reared its ugly head again in the form of Omicron, and we saw absenteeism rates increase in our factories for the first time in a very long time. But we also saw those same increases across the entire global supply chain. And so, I think, as we think about it getting better, which it is better now, we still have to think that we're not through this. And we need to be cautious and realistic about what Q1 could look like.

Q

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Okay. Thanks, guys.

.....
.....
John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

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

..... **Nathan Jones**

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning, everyone.

Q

.....
John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

A

.....
Robert P. Fishman

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

Good morning.

A

..... **Nathan Jones**

Analyst, Stifel, Nicolaus & Co., Inc.

Just a question on some of the volume. It sounds like volume's roughly flat in the guidance. We've got your commentary there that it's primarily price, a little bit of acquisition. I know you talked about expecting new construction to moderate a little bit. Can you talk about which pieces of the business that you're thinking are going to see volume growth and which pieces are likely to see some modest volume decline?

Q

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. I mean, I think it's prudent to enter 2022 still optimistic and excited about the contributions that we're making especially in Water Treatment, Residential, Irrigation Flow and Pool across the Residential channel. And I think, if we were thinking about the first half versus second half, we think we had volume, price and acquisition contribution in the first half. And I think, we have a little bit of volume moderating as far as the thoughts around the new housing builds and/or the way the channel reacts to those expectations for 2023. So, while we still feel really good about where these markets are going, I think, it's prudent at this stage to assume that we'll see a little bit of moderating in the back half of the year, as it relates to people taking stock on the 2023 build season.

Nathan Jones

Q

Analyst, Stifel, Nicolaus & Co., Inc.

I guess, that's reasonable. So, a little bit of just caution on the back half, given some uncertainty there at the moment. Second question I wanted to ask was, one of your prepared comments, John, you said, you were looking to build a more sustainable supply chain. Can you talk about what that means to Pentair, and how you measure those things to try and ensure a more sustainable supply chain?

John L. Stauch

A

President, Chief Executive Officer & Director, Pentair plc

Yeah. So, we are spending – and one of our top transformation initiatives is sourcing. And like many other companies, our global sourcing, just the whole entire supply chain is from 10, 15 years ago. And you could see that there's been more of a demand in United States and more onshoring. And we've got to make sure that our supply chain is related to the lead times that we need for customers and is optimized, which is not just a cost issue, but it's a total landed and total end-to-end cost, as well as making sure it has the right availability. So, you can measure it through ROS expansion. And you can assume that as far as our transformation initiatives over the next several years, we believe sourcing is a significant contributor to that expansion.

Nathan Jones

Q

Analyst, Stifel, Nicolaus & Co., Inc.

Guys, thanks for taking my questions.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

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

..... Brian Lee

Analyst, Goldman Sachs & Co. LLC

Hey, guys. Good morning. Thanks for taking the questions. Kudos on the strong quarter. I guess, couple questions just again around the guidance. Q1 revenue guidance, it's only a bit ahead of revenue growth outlook for the full year. Comps, obviously, are going to be much tougher for you in the second half. But are you expecting to kind of maintain positive growth year-on-year through 2022? Is Q1 kind of the high-water mark here? Just how should we be thinking about seasonality in 2022?

Q

Robert P. Fishman

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

That part is what's encouraging about our guidance, is we see growth throughout the year, even as we bump up against those tougher comparison in Q3 and Q4. Obviously, it helps having the stronger price that's built in and the price reading out fully in the second quarter. But overall, pretty good balance. We mentioned that there'd be 50% of our EPS in the first half of the year and the remaining 50% in the back half. That's more in line with historical norms.

John touched on the fact that we've given realistic guidance, that we've not gotten ahead of ourselves on volume for the back half. But hopefully, we'll be pleasantly surprised there with the positive trends that we talked about in our prepared remarks. So, our view is that we'll have a very strong and balanced 2022; that we'll enter 2023 with lots of momentum around the demand and also the transformation.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

And the only thing I'll add to Bob's comments, because I think he answered that very well, is that Q2 is historically our strongest quarter. And we think 2022 that, that is how it'll play out again.

A

Q

Brian Lee

Analyst, Goldman Sachs & Co. LLC

All right. That's super helpful. And then, I guess, shifting to the profitability. I know, you alluded to this a few times throughout the call, but segment income is flat in Q1. You are expecting EPS and income growth to be ahead of revenue for the year off of 19%. And I think, you've quantified kind of the price.

But there's a few other moving parts that get you kind of that leverage as you move through the year. Can you give us a little bit more quantification outside of price as to what some of the big levers are to get earnings and income growth above revenue for the year and for that ROS to get to that 19% expansion level? Thanks, guys.

A

Robert P. Fishman

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

The expansion in margin from the 18.2% that we did in 2021 to 19% will be primarily us being ahead from a price/cost perspective. So, overall, we feel very confident that price will exceed inflation for the year. That will help expand margins. And then the transformation, we talked about pricing opportunities, sourcing operations, and then organizational efficiencies that we would drive. 2021 was very much a planning year for transformation. We're moving into the execution phase in 2022, and that's going to significantly help our ROS expansion as well.

Q

..... Brian Lee

Analyst, Goldman Sachs & Co. LLC

All right. Thanks a lot, guys.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

Operator: Your next question is from Bryan Blair with Oppenheimer.

Q

..... Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Thanks. Good morning, guys.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

A

Robert P. Fishman

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

Good morning.

Q

..... Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

I was hoping you could offer a little more color on Pleatco integration, how Pleatco's performing relative to your deal model in the early stages? I think you would frame something in the range of \$100 million of revenue and ROS approaching 20%. Is that still the outlook?

Robert P. Fishman

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

Pleatco is performing very well. It was included in our – for a couple of months, in our Q4 results. Very strong aftermarket business, great cultural fit with our full business, and very much in line with the numbers that you talked about. So, for us, just a great strategic acquisition and performing very well.

..... **Bryan F. Blair**

Analyst, Oppenheimer & Co., Inc.

Yeah. Appreciate the detail. As a follow-up, is there any nuance or anything unusual in how the asset's being managed? I believe it's about two-thirds Pool to more B2C alignment; and one-third Industrial Filtration, more B2B-type exposure. Just curious how you are managing that now, being in the consolidated portfolio?

..... **Robert P. Fishman**

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

Really, we talked about it. And you are right in terms of the two-third/one-third split, and we talked about the filtration business fitting nicely with our IFT portfolio in terms of that one-third. So, really, not operating it much differently than how Pleatco ran it. They have a separate manufacturing facility in Louisville. Both factories are running well. And again, they benefit from having – being part of our Consumer Solutions portfolio and also our IFT. So, really no significant difference from how that business was run in the past.

..... **John L. Stauch**

President, Chief Executive Officer & Director, Pentair plc

Yeah. Being run is a – the unit itself is being run the same way in the past. And then, we're scorekeeping the IFT related revenue in IFT and the Pool-related revenue in Consumer Solutions.

..... **Bryan F. Blair**

Analyst, Oppenheimer & Co., Inc.

Understood. Makes sense. Thanks, again.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

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

Deane Dray

Analyst, RBC Capital Markets LLC

Thank you. Good morning, everyone.

Q

John L. Stauch

President, Chief Executive Officer & Director,
Pentair plc

Hey, Deane.

A

Deane Dray

Analyst, RBC Capital Markets LLC

Hey. Impressive growth in Pool for 2021 and also your – the implied guidance there, so like seeing that. Just a couple clean-up questions on Pool. This got discussed last quarter, but just to verify, there was no early buy this quarter; it was not needed? Just what's your perspective on that?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I mean, there was a modest early buy to what we'd call the non-warm-weather states, Deane, but it was it was managed very, very modestly in the extent that we're just positioning them to have the inventory they need for their particular business when it ramps up in Q2.

A

And, obviously, not running the program was really more about that we're still in catch-up mode from backlog. And it made little sense to put more backlog on top of existing backlog. So, I think, as we head into next year, we're planning that we'll have some level of that as we take stock at the way the channel may or may not need to position itself for 2023.

Deane Dray

Analyst, RBC Capital Markets LLC

Good. And as a resident of one of those non-warm weather states, I appreciate your comments about the migration trend that's happening into warmer states. So, that would suggest the demand will be there, but how about the capacity, either dealer, pool build capacity? Do you think that will take time? Is that increasing in proportion, or will that take some time to read out?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. As Bob was saying, I mean, the channel has historically – and we think it played out exactly this way in 2021 as well. Puts their energy towards the new pools, and then begins, when that starts to moderate, lose to the remodel pools, and then get serious about the aftermarket upgrade opportunity. So, it's generally worked in those three tiers.

That's why we're excited that as it moderates, the new pool builds, we get that focus again on getting those variable speed pumps, the LED, the more autonomous pools back into either the remodeled pool or the aftermarket upgrade side to the service channel. So, this is a great industry. It's a great set of products. And we want to come back to what I'd call a more normalized pattern, which gives us that better predictability to manage our supply chain more efficiently.

Deane Dray

Analyst, RBC Capital Markets LLC

Got it. And then just last one for me is, we have already seen this earnings season of companies giving what constitutes lower first quarter guidance and certainly effects of price/cost, and inflation, Omicron, et cetera, is sector wide. So, we're really not surprised to see that.

But I did like seeing a point estimate in your guidance, which would suggest there's pretty good visibility for you to give that, to be that specific. So, just maybe talk about the visibility for the first quarter. How is January? How did that read out? And that would all be helpful. Thanks.

A

Robert P. Fishman

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

Let me take that one. It was important for us to indicate that 50% of our EPS would come in the first half in line with historical norms. We have strong headlights into the second quarter, primarily because of the repricing of the backlog. We will have that benefit in the second quarter, more fully. So, the improvement in the second quarter is driven by price. Our view is that inflation will continue to be high, but will get better in the second half of the year. So, we've not gotten ahead of ourselves with regards to inflation. So, good headlights into Q1 and Q2.

January for us was, to be honest, a little bit slower because of the COVID-19 impact on our suppliers and on our own production facilities. So, good news is, we've seen improvement in the last week or so. And we're wrapping up to achieve our commitment. But we did see a slower start in January. And that's one of the reasons why we've been able to then have better headlights into the second quarter.

Q

Deane Dray

Analyst, RBC Capital Markets LLC

That's completely understandable. Thank you.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

Operator: Your next question is from Scott Graham with Loop Capital Markets.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hello?

Operator: Mr. Graham, go ahead. Your next question comes from Steve Tusa with JPMorgan.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Hey, guys. Good morning.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Good morning.

.....

A

Robert P. Fishman

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

Good morning.

.....

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Just on the 80% of the Pool business that you identified, being remodel. What did that grow in 2021 in total?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

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A

North of double digits.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah. I think, that's pretty clear. I guess, a little more specifically. Did it grow above the aquatics average?

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Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

No, it didn't. I mean it was a significant contributor to the 40-ish percent growth that Pool had. But we saw the new Pool increase. If you think of that 20%, and you think about what size that was up, it would probably be like half and-half contribution from each of those two quadrants.

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A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

But, Steve, what I was also saying though is, there's an aftermarket and there's the remodel, right? So, the remodeled piece is the best opportunity to talk to the homeowner around the upgrades, because you re-plastering the pool or you're doing some other types of things that allow you to add more penetration.

And then the third element is really more the service and/or the break-and-fix piece. And we think there's an opportunity to upgrade the channel in the break and fix that was kind of not focused on in 2021. And that's where we think...

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A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Right.

.....

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

...the upside is on the aftermarket side.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

And so, just to be clear, you guys are guiding like the Pool business volume to be like down low-singles or zero for 2021? Just trying to kind of...

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Look, we're not down, Steve, I mean, because we see a pretty strong Q1/Q2. And then, we feel like we've got the price in the back half of the year. And right now, we're being cautious about where the dealers and distributors will be repositioning their inventory levels as they look into 2023. And I think what's captured in this particular guide is the most realistic case of assuming that there'll be some type of pause as they reset, and look forward to what they're going to do in 2023. And I think it's very important we don't get out ahead of ourselves and anticipate that growth continues. And then we're here talking at the end of the year about adjustments in the channel in Q3 and Q4.

A

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Yeah. No, no, no. That's totally fair. You talked a lot about your opportunity. I mean, are you saying that you think that the – let's call it, the non-new construction, everything not new pool construction, the consumer spending on like everything but new construction in pools will be kind of your addressable market, I would call it? Because that will be kind of flattish and that you'll outperform, because you'll be able to kind of execute on these opportunities you're talking about. Is that the way to think about it?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I don't think that's a bad way to think about it. I think, we believe, we see the thrust of the new pools being finished, right, and they're still going to be – we think, new pool demand continues to increase. As we head into

A

2023, we think the market will continue to reposition the labor to serve the remodel side, and then we'll move into the aftermarket side of the equation.

And then, Steve, not too to really confuse you, but I think we see product lines, like heaters moderate, which has been a huge product line growth play for us, right? As people moved into those states and extended their seasons, there was a big year penetration. And then, we think things more on the autonomous, the automation, the chlorinators, those types of things start to see more penetration and accelerate. And those two things start to offset each other.

.....

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Okay. Awesome. Great color. Appreciate it. Thank you.

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John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

.....

Operator: Your next question is from Brett Linzey with Mizuho.

.....

..... Brett Linzey

Analyst, Mizuho Securities USA LLC

Thank you. Good morning, all.

.....

Robert P. Fishman

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

Hi, Brett.

.....

..... Brett Linzey 

Analyst, Mizuho Securities USA LLC

Hey. Wanted to come back to the price and repricing, obviously oversized versus history, given the operating backdrop, get that. Are those actions list price increases, or are you seeing some surgical surcharges around logistics? I'm just thinking if we do see a pullback here in commodities or other inflationary pressures, do you see some of that price recede, or what's been the historical precedent there?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

We're focused on list. So, what Bob is sharing with you is list price increases. And ultimately, we care most about realized prices, right. So, we don't want to just raise list pricing and negotiate it away. So, we believe that what we're sharing with you today is our realistic view what we're going to realize in 2022.

A

..... Brett Linzey

Analyst, Mizuho Securities USA LLC

Okay. Got it. And then, Consumer, very strong pricing in Q4, 10 points. Is that actual like-for-like price or is part of that mix up on the higher ASP, given the industry shift from single speed to variable speed, or is that just simply all pure price?

Q

Robert P. Fishman

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

That is price.

A

..... Brett Linzey

Analyst, Mizuho Securities USA LLC

So, there's no mix, okay. Great. And then just this last one, if I could sneak one in here, just in regards to the DOE efficiency change over last year. Fairly significant step up in the cost of the replacement pump as we enter the selling season. Do you guys see or expect any negative demand response there to those higher prices, or do you actually think the ASP starts to gradually come down as that becomes the base offering? Any thoughts there?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

No. I think we think that, it continues to be the heartbeat of the pool pad. It is where people are – you need that product to run your pool. And there's been a significant interest level, as upgrading. And even in – within 2022,

A

where we're launching a new version of that, which is even smarter than the current version. And we think we'll continue to see the interest level there from the trade channel and the consumers.

..... Brett Linzey

Analyst, Mizuho Securities USA LLC

Okay. Great. Thanks a lot.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

It lasts longer, it's better. And it's ultimately chosen because of its variable speed and the energy efficiency, but it's just a better overall product.

A

..... Brett Linzey

Analyst, Mizuho Securities USA LLC

Yes. Makes sense. Okay. Thanks a lot. Appreciate the color.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

Operator: Your next question comes from Josh Pokrzywinski with Morgan Stanley.

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Hi. Good morning, guys.

Q

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hi, Josh. Hey.

Q

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

John, I want to follow up on Steve's question regarding kind of this remodel versus replacement dynamic, so everything outside the new in the Pool space. But what's kind of the typical level of visibility that you would have? I would guess, in remodel, because break/fix sort of implies that you don't see it coming. What do you normally have at this time of year? Like maybe some context on what you have this year? Because it just doesn't seem very consumer-like to plan this stuff out too-too far in advance. But I get that maybe there's some deferrals or lack of availability from last year. So, like how does that look and how would you kind of numerically score it?

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yeah. I mean, the pool season plays out through Q3. So, it starts in Q4 and it goes out to Q3 of 2022, as an example. And we feel like we've got really good visibility, and we partner really well on that particular part. There's the dynamics of how they do against their volume, discounts and rebates that go into that Q3 buy. And then we start all over again in Q4 of 2023. And we're not signaling anything other than we have visibility this year, and we're pausing as we think about working with the channels to see what they see for 2023.

What gets confusing is it's the same dealers who do the news. It's the same dealers that do the remodel. And most of those same dealers also do service. So, it's where they spend and focus their time, that we're always working with them. So, we see their visibility of their buy, but we want to be a little bit more surgical on where they're spending the time, and then give them the tools and capability to begin to work with consumers on getting those upgrades on the aftermarket pads.

Q

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

Got it. That's helpful. And then, dealers are obviously very integral to the business kind of across the various product lines. Any place where you're watching for bottlenecks on kind of the installer side; so not a Pentair employee per se, but kind of further down the chain where the industry just can't grow faster because there's not enough warm bodies turning wrenches.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Well, we've seen it this year. I mean, it's not just the labor, it's also the supply availability of all the products that go into the pool, around the pool, right. And it's getting better. I think the supply chain is better, so it's probably taking a little less time to build those pools. But that's delayed the remodel efforts, which has then delayed some of the aftermarket efforts.

So, I think this is going to be a great pool season. And I think we're going to continue to see the sustained demand into 2023. I just think, right now, we're making sure that we call 2022 pool season accurately, and then we'll deal with 2023 when we're done with 2022.

Q

Joshua C. Pokrzywinski

Analyst, Morgan Stanley & Co. LLC

All right. Thanks, guys. Best of luck.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

Robert P. Fishman

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

Thank you.

Operator: Thank you. We have reached the allotted time for questions. I would like to turn it back over to John Stauch for closing.

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John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thanks, Stephanie; and thank you for joining us today. We've delivered on commitments in 2021, whether measured by sales, income, EPS, cash flow or ROIC. The good news is we believe there's still significantly more value to deliver at Pentair. Since becoming a pure-play sustainability-focused company in 2018. We've been building a track record of consistent growth, while also driving our commitment to creating long-term shareholder value.

We are proud of our Pool business, but Pentair is more than just a pool equipment provider. Our Water Treatment, Flow and Industrial Solutions offerings are all proving to be sustained value contributors within our portfolio. When we combine our growth momentum with our transformation efforts and our balance sheet, I'm excited about the future value-creation opportunities for our shareholders.

Stephanie, you can conclude the call.

.....

Operator: This concludes today's conference call. You may now disconnect. Speakers, please hold the line.

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