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Pentair plc (PNR)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Shelly Hubbard

Vice President-Investor Relations, Pentair plc

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Robert P. Fishman

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

OTHER PARTICIPANTS

Julian Mitchell

Analyst, Barclays

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Deane Dray

Analyst, RBC Capital Markets

Michael Halloran

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

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Andrew Krill

Analyst, Deutsche Bank Securities, Inc.

Joseph Giordano

Analyst, TD Cowen

Nick Cash

Analyst, Goldman Sachs & Co. LLC

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Scott Graham

Analyst, Seaport Research Partners

Nigel Coe

Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Pentair First Quarter 2025 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask question. [Operator Instructions] Please note today's event is being recorded.

At this time, I'd like to turn the conference call over to Shelly Hubbard, Vice President of Investor Relations. Please go ahead.

Shelly Hubbard

Vice President-Investor Relations, Pentair plc

Thank you, operator, and welcome to Pentair's first quarter 2025 earnings conference call. On the call with me are 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 first quarter performance as outlined in this morning's press release. On the Pentair Investor Relations website, you can find our earnings release and slide deck, which is intended to supplement our prepared remarks during today's call and provide a reconciliation of differences between GAAP and non-GAAP financial measures that we will reference.

The non-GAAP financial measures provided should not be considered as a substitute for or superior to the measures of financial performance prepared in accordance with GAAP. They are included as additional clarifying items to aid investors in further understanding the company's performance in addition to the impact of these items and events have on the financial results.

Before we begin, let me remind you that during our presentation today, we will make forward-looking statements which are predictions, projections or other statements about future events. 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. Following our prepared remarks, we will open the call up for questions. Please limit your questions to two and re-enter the queue if needed to allow everyone an opportunity to participate.

I will now turn the call over to John.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you, Shelly, and good morning, everyone. Let's turn to the Q1 executive summary on slide 7. We delivered our 12th consecutive quarter of margin expansion and another strong quarter of earnings growth, while operating in a dynamic environment. Our businesses and functional teams continued to execute with agility across our move, improve and enjoy water segments to mitigate tariff impacts, launch innovation, win awards, generate new accounts, expand existing key accounts, deliver margin expansion driven by Transformation, and continue to implement 80/20. I am very grateful for how our teams continue to rise to the challenge and deliver for customers, while creating value for shareholders.

In the first quarter, sales were down 1% and were better than expected with Pool growing 7%, offset by difficult comparisons in commercial water within Water Solutions, and continued challenges in residential and irrigation

market within Flow. Adjusted operating income increased 12% to \$243 million. ROS expanded by 260 basis points to 24%, and adjusted EPS was \$1.11, up 18%. We repurchased \$50 million of shares and increased our dividend for the 49th consecutive year, further solidifying our dividend aristocrat status. Lastly, we maintained our full year 2025 sales and adjusted EPS guidance of \$4.65 to \$4.80, which is up approximately 9% at the midpoint year-over-year.

Let's move to the tariff and inflation update on slide 8. We're remaining agile in a rapidly changing environment. Bob will provide more detail on our estimated tariff impact and mitigation strategies in a moment. Our initial guidance on February 4 incorporated estimated impacts from tariffs and an expectation that volume would likely decline as prices rose. As a result, while the tariff amounts by country have changed since our last earnings call and some tariffs have been paused, we feel comfortable maintaining our initial 2025 sales and adjusted 2025 EPS guidance with the current tariff impacts. We have taken several steps to mitigate tariffs across our portfolio and continue to position our businesses to be successful in both the short term and the long term.

We believe we have multiple advantages, including a two-step distribution model representing about 75% of our sales that generally enables us to pass along price increases when we are not unique in dealing with inflationary pressures, a high recurring revenue base generated from a majority of non-discretionary replacement products, a global supply chain with reduced reliance on China, a strong US manufacturing footprint, strong free cash flow, a solid balance sheet, and a well-balanced capital deployment strategy across debt repayment, dividends, share repurchases and M&A. We are also applying our prior inflationary learnings to manage our channel and maximize our performance.

Let's turn to slide 9. Despite a dynamic environment, we continued to deliver on our Transformation goals to drive margin expansion. In 2023 and 2024 combined, we saved \$174 million due to our Transformation initiatives, and we expect to deliver another \$80 million this year net of investments. We expect our sourcing waves 1 and 2 to continue to contribute to these savings. We are implementing Wave 3, which we expect will begin to add another layer of savings in 2025 and beyond.

Looking at operational excellence, we are driving operational efficiency with our factories through lean practices, automation and digital transformation, and optimizing our operational footprint. We expect to rapidly accelerate productivity when volumes within our core markets return to normalized levels. As we continue to implement 80/20, we expect to drive high value core sales growth long term by overserving our best customers and optimizing the rest.

We have taken actions to transition our Quad 3 and 4 lower margin customers to purchase directly from our top distributors or accept new terms and conditions that we expect to enable us to become a larger and more profitable business. We're also optimizing the selection of products we offer to reduce complexity within our operations and advance productivity. Additionally, 80/20 actions have helped us to absorb higher inflationary costs. We see 80/20 as an enabler to Transformation by reducing complexity and streamlining our businesses.

Let's turn to slide 10. Before I hand the call over to Bob, I wanted to reiterate some key takeaways. We had solid execution across all three of our segments. In Q1, Pool grew 7%, while Transformation and strong execution drove triple-digit margin expansion and double-digit earnings growth for Pentair. We delivered better than expected productivity savings from Transformation, despite lower volumes.

We are maintaining our initial sales and adjusted EPS 2025 guidance provided on February 4, which includes estimated tariff impacts, mitigation strategies, and the use of our 80/20 and Transformation toolkit. We continue to

build a foundation of optimal operational efficiency that can be leveraged when volume returns to normal. We have a balanced Water portfolio with a capital-light business model and the ability to mostly pass along the price.

And finally, we have a strong free cash flow, a solid balance sheet, a low net debt to EBITDA leverage ratio, and a balanced capital deployment strategy. As a water company providing solutions to move, improve and enjoy water, we continue to believe that we are well-positioned to address opportunities from favorable secular trends by getting water to where it needs to be and away from where it doesn't, and by filtering and improving water for people to drink and enjoy.

I will now pass the call over to Bob, who will discuss our performance and financial results in more detail. Bob?

Robert P. Fishman

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

Thank you, John, and good morning, everyone. Let's start on slide 11. We delivered another strong quarter of quality earnings with triple-digit margin expansion and double-digit adjusted income and EPS growth, despite lower volume. Sales, margin and adjusted earnings outperformed our expectation. In Q1, sales were \$1 billion, down 1%. Adjusted operating income increased 12% to \$243 million. ROS expanded 260 basis points to 24%, driven primarily by Transformation, and adjusted EPS increased 18% to \$1.11. Core sales were down 1% year-over-year, driven by 4% growth in Pool, which was offset by a 3% decline in Flow, and a 4% decline in Water Solutions. Pool and Water Solutions outperformed our expectations, while Flow was in line with our guidance.

Please turn to slide 12. Flow sales declined 4% year-over-year. Within Flow, residential sales were down 6% as higher interest rates continued to pressure residential end markets. Commercial sales rose 3%, marking the 11th consecutive quarter of year-over-year sales growth. And industrial sales were down 9%, driven by a focus on profitable and higher margin business.

Segment income grew 8% and return on sales expanded 260 basis points to nearly 23%. The strong margin expansion was a result of continued progress on our Transformation initiatives. Flow continued to benefit from changes the segment made in its go-to-market strategies over the last two years and its focus on complexity reduction.

Please turn to slide 13. In Q1, Water Solutions sales declined 5% to \$258 million, which outperformed our expectations. Sales in commercial filtration increased year-over-year, while ice performed as expected, and residential performed better than expected. As a reminder, the ice business faced difficult year-over-year comparisons as Q1 in the prior year included a larger rollout in China. We expect ice to begin to return to more normalized growth rates going forward. Segment income grew 9% to \$61 million and return on sales expanded 310 basis points to 23.5%, driven by higher productivity from Transformation and 80/20 actions in Q1.

Please turn to slide 14. In Q1, Pool sales increased 7% to \$384 million, driven by price, volume and our Q4 2024 acquisition. Segment income was \$126 million, up 14%, and return on sales increased 200 basis points to 32.8%, driven by sales growth and Transformation.

Please turn to slide 15. We are well into our Transformation journey and continued to see strong results. Last quarter, we increased our 2026 ROS target from 24% as provided in our March 2024 Investor Day to 26%. Our goal is to drive incremental sales growth through value-based pricing and 80/20 and to deliver return on sales of 26% in 2026 or margin expansion of over 700 basis points since 2022, utilizing the four pillars of Transformation. We achieved 23.5% in 2024 and expect to deliver approximately 25% in 2025. We've made great progress as our teams have continued to successfully implement those initiatives.

Please turn to slide 16. Our balance sheet remained strong and our return on invested capital continued to improve, nearly reaching 16% in Q1. Long term, we continue to target high-teens ROIC. Our net debt leverage ratio was 1.6 times, down from 2.1 times a year ago. During the quarter, we repurchased \$50 million of shares. Over the last two years, our strong free cash flow has enabled us to deploy approximately \$1.4 billion in capital via debt paydown, dividends, share repurchases and a strategic acquisition. We plan to remain disciplined with our capital and have additional flexibility to strategically allocate capital to areas with the highest shareholder returns.

Let's turn to our outlook on slide 17. For the full year, we are maintaining our adjusted EPS guidance of approximately \$4.65 to \$4.80, which is up roughly 7% to 11% year-over-year. Also for the full year, we are maintaining our sales guidance of approximately flat to up 2%, which assumes FX and tariff-related price increases are roughly offset by anticipated tariff-related volume declines.

We expect adjusted operating income to increase approximately 6% to 9%, which includes the assumption that price increases are offset by higher tariffs, net of mitigation actions, and associated volume drop through. We continue to expect to drive approximately \$80 million in Transformation savings this year, net of investments.

For the second quarter, we expect sales to be up approximately 1% to 2%. We expect Pool sales to be up approximately mid-single digit and Water Solutions and Flow sales to be roughly flat. We expect second quarter adjusted operating income to increase approximately 5% to 8%, and we expect margin expansion across all three segments in Q2. We're also introducing adjusted EPS guidance for the second quarter of approximately \$1.31 to \$1.35, up roughly 7% to 11%.

Let's turn to slide 18. The purpose of this chart is to highlight the estimated tariff impact based on what we know today. The estimated tariff impact of roughly \$140 million net of mitigation actions is primarily from China as you can see on the left-hand side of the chart. The remainder of the tariffs include smaller amounts from Mexico, Europe, rest of the world, and the steel and aluminum tariffs.

In our initial 2025 guidance, we had included an estimated impact of enacted and potential tariffs, and we began taking actions in Q1 to mitigate risk. We've taken further actions to mitigate the impacts of tariffs. Some examples of these include tariff-related price increases, inventory pre-buys, and capping orders to optimize our supply chain, inventory and production. Over 90% of goods that we import to the US from Mexico qualify under the current USMCA. And through our Transformation sourcing initiatives, we have already lowered our supply and production from China over the last three years.

We also expect that we can pass along pricing through our channel, as 75% of our sales are to two-step distribution, in which we sell into distribution, who then sells to dealers and ultimately, the end consumer. As a reminder, over 75% of our sales are also aftermarket or break/fix-related revenue. We continue to monitor the rapidly changing landscape and remain agile to quickly adjust as necessary. We believe that we are taking the right actions to mitigate tariff impacts.

We have a strong balance sheet and a balanced capital allocation strategy. Our significant free cash flow enables us to continue to pay down debt, increase our dividend, repurchase shares and remain strategic on M&A. We plan to continue to deploy capital in areas that drive the highest return for our shareholders, while being mindful of protecting capital during periods of macroeconomic and geopolitical uncertainty.

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

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, at this time, we'll begin the question-and-answer session. [Operator Instructions] We do ask that you please limit yourselves to a single question and a follow-up. [Operator Instructions] Our first question today comes from Julian Mitchell from Barclays. Please go ahead with your question.

Julian Mitchell
Analyst, Barclays

Q

Hello?

Operator: Julian, your line is open.

Julian Mitchell
Analyst, Barclays

Q

Hi. Good morning, guys. Sorry about that. Maybe just my first question would be around the assumptions on organic sales as you're going through the year and help us understand the volume assumption embedded in the organic sales guide? Do you assume sort of offset one-for-one of higher price of, say, 3 points offset by lower volume?

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

A

Hey, Julian. As a reminder, I think when we started this year, we did not anticipate that we would see recovery in the North American residential housing which is roughly 50% of our revenue. We counted on it a little bit last year and thought we'd see lower interest rates. And when we entered this year, we've kind of put that on the upside to our original guide.

As you take a look at the way tariffs are coming through, they're different than what we anticipated on February 4, but they still are going to lead to higher prices through the channels and we think we could see [ph] de-featuring (00:20:45), we think we could see consumers defer. So, we're anticipating that. We don't know that, but that is the assumption in our current guide is that the more price goes up, the more volume will likely to see start to soften.

Julian Mitchell
Analyst, Barclays

Q

That's helpful. Thank you. And then, just to understand on the tariff element, the sort of \$140 million growth, is that an annualized number or is that sort of in-year in fiscal 2025? And any help you could give us on differences in sort of phasing of the offsets through the year or differences in sort of offsets by segment? Any sort of color around that, please.

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

A

Yeah. I'll start off and I'll give it to Bob. I mean, you're right on your assumption, it is the in-year 2025 number. I mean, I think it would be slightly higher on an annual basis. We are getting some small benefits related to mitigation of buy-aheads and the things that we bought in Q1 and also the fact that we do have inventory on hand.

So, as you think about the tariffs, it'll mostly hit the second half of the year as it unfolds and then our pricing is staged between April actions, May actions and potentially, June actions, if necessary. And so, those, as we head into 2026, more than offset the tariffs and they more than offset this year as they phase in, Julian. And then, Bob, you want to give it by segment?

Robert P. Fishman

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

A

Yeah. I think the only thing I would add is that we think of that \$140 million net of mitigating actions, a split about a third, a third, a third between Flow, Water Solutions and Pool.

Operator: And our next question comes from Andy Kaplowitz from Citigroup. Please go ahead with your question.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Hi, Andy. How are you?

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Good. John and Bob, you're assuming you could absorb the entire \$140 million of incremental tariffs in your margin guidance, which I think is decently higher than your original tariff assumption from last quarter. And I think, today, Bob, you've guided to the higher end of your margin range, 25%. Is that basically all the prices that gets you there? Do you have higher embedded productivity in your forecast, and how much, if at all, is currency helping you in terms of a tailwind?

Robert P. Fishman

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

A

Yeah. From a – I'll start with the last one. Currency helps a little bit. I think of it as being roughly 50 basis points, but not much help to the income or the bottom line. I would say that to John's point, it's primarily us pricing to exceed the tariffs, a volume drop that's roughly in line with that. We do benefit slightly from mix. That's helping us out a little bit. But overall, we feel good that we're closer to that 25% ROS as we run the different scenarios.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

It's helpful. And then, John, you didn't change your Pool forecast growth for 2025, but maybe give us a little more color into what you're seeing as the selling season develops here in Q2? The rates, as you know, they look like

they want to stay relatively high. Is 60,000 new pools still the right number, positive break and fix, just any color would be helpful on the year?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. I think we saw, as we normally see, if there's any movement in Q1, most of the movement that we saw on the sell through, sell in was more what we think is weather related in certain regions, getting off to a slower start. As we head into Q2, we're thinking that we're right in line with where we thought we were before.

As the season unfolds, most of those pools were already being built or the permits were in place and they needed to get finished. And then, we would anticipate in this particular outlook that we would see some softening in either the remodeling aspect of the pool or, as I said earlier, some discretionary push-outs on some larger ticket items as it relates to even the break and fix in the back half of the year. So, those price increases will go in.

And then, we would expect that consumers will look for the best timing of when they should replace their product. So, I think that's a fair balanced approach. I think it's still a good industry in the sense that we're out of more of a historical low levels. So, significant downside from here is hard to see and we're going to have to work harder on getting consumers and getting our dealers to sell the high-end features that we want within this environment.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Thanks, John. Appreciate it.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Thank you.

Operator: Our next question comes from Deane Dray from RBC Capital Markets. Please go ahead with your question.

Deane Dray

Analyst, RBC Capital Markets

Q

Thank you. Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning, Deane.

Robert P. Fishman

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

A

Hi, Deane.

Deane Dray

Analyst, RBC Capital Markets

Q

I was hoping to get some more color regarding your pre-positioning of inventory ahead of tariffs. What was the impact there? And then, there's – in the release, you talk about also capping orders for customers. Just what's the

strategy there? How was that played out? And I was curious if anyone, any of your suppliers were capping any of your orders for pre-positioning?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. Deane, I mean, just on the mitigating, think about a couple of months of inventory being pretty basic throughout the channel. And given the fact that we're talking about the substantial tariffs coming from China, most of the things are pre-ordered and on their way. And so that's – it's a modest amount of number, but it does help you from a timing and a delay perspective, especially given the fact that most of it is raw materials, which is a subcomponent of a subcomponent. So, it's – I wouldn't say, it's really any action we took on. It's just the normal part of the supply chain that we were dealing with.

As far as the overall environment of what we're looking at, I would say that we're capping the order strategy, primarily the learning from the last supply chain issue we had, where if we let the channel just buy whatever it wants to buy, it's going to try to get ahead of all of the potential increases and you can create shadow inventory in inventory. So, we're working with our top customers and giving them an ability to order at sell through rates, which then gives them the necessary inventory they have to meet the demand, but doesn't get us in a situation where we get behind or disruptive in the supply chain again. Just the learning from the last, last go around.

Deane Dray

Analyst, RBC Capital Markets

Q

Got it. Then just broadly, what's your expectation for the businesses? Any demand destruction that's happened from all the tariff uncertainty? Are you seeing any project push-outs, cancellations, anything that would be material in your outlook?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Not yet, Deane. I mean, we are definitely looking for the fact, I mean, we are a small part of usually a project and we are definitely more the break and fix of the needed components. But we'll keep an eye out on the future projects where a large project could be paused or deferred and this would be more in the food and beverage side and/or the large infrastructure pump side. We have not yet seen anything, but we're keeping an eye on it and making sure that we're looking through sell-throughs and making sure we're looking at front log orders to make sure we're not in an adverse position there. Now, most of those projects are local for local, and so they're not necessarily impacted by huge tariffs.

Operator: And our next question comes from Mike Halloran from Baird. Please go ahead with your question.

Michael Halloran

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

Q

Hey. Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning, Mike.

Robert P. Fishman

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

A

Hi, Mike.

Michael Halloran

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

Q

So, a little bit of a follow-up to that. How is the channel reacting at this point? I know you're limited and are limiting the amount they can pre-buy. Is there any sense that they're trying to take inventory down on any levels? How are they responding? And earlier, you mentioned about sales force having to be a little bit more proactive to up sell. Have you put that in place and how are you interacting with the channel when it comes to managing a lot of the moving pieces?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Mike, I don't say this in a flip or a joking way. This is probably the most exhaustive quarter I can ever remember participating in. I say that because we run so many different scenarios and so many different alternatives of what this could be. I mean, think about the way this quarter played out. The way the announcements came, the way you heard about them, the reactions, the counter tariffs, there is retaliatory, tariffs were in, then paused, and so I think, the right answer to say is, everybody is looking and seeking that solution, Mike.

I think right now, as I mentioned, I think a lot of projects that are getting completed now were put in motion a while ago and you're just to the stage where you're going to finish that pool or you're going to finish that particular need in that housing development. I think the bigger decisions and the way the channel is going to react is still out there in a couple of quarters, like depending on what scenario we see play out, just being honest.

Michael Halloran

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

Q

Yeah. No. And that makes sense. And that makes sense. On the capital usage side, any change in how you're thinking about buybacks in the short term? I'm guessing no shift on the M&A side, but if anything is interesting on that side, certainly, curious there, too.

Robert P. Fishman

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

A

Yeah. You probably noticed that we did do a \$50 million share buyback in Q1. That's a little unusual for us. Usually, we wait to our bigger free cash flow quarter in Q2, but we felt good about the free cash flow, in fact, \$70 million better than the prior year. But overall, I would say we're continuing to be disciplined around our capital allocation, continuing to do debt paydown, share buyback. We increased our dividend by 9% this year and looking at strategic bolt-on M&A, if they come our way. So, that balanced approach has been good to us. And I think we'll continue to look at ROIC, which was close to 16% in the quarter and stay very focused on shareholder returns.

Operator: Our next question comes from Steve Tusa from JPMorgan. Please go ahead with your question.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hey, guys. Good morning, guys.

Robert P. Fishman

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

A

Hi, Steve.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

You hear me okay?

Robert P. Fishman

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

A

Yes. Now, we can.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Hey. Sorry about that. So, I just wanted to make sure from an annual basis, you guys didn't provide the bridge, the profit bridge in the deck. Just wanted to make sure that the kind of \$80 million of productivity is still there, kind of the core inflation number, I think it was roughly that is also still there. And then, I guess, if we just assume the \$140 million gets entirely offset with price, that would get us to like a 5% year-over-year price number for the company in total. Are those – and then you just stick on the \$140 million of tariff headwind, is that – are those kind of the moving parts of the bridge and then you back out volume?

Robert P. Fishman

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

A

Well, we didn't provide a bridge, but if we were, that would be pretty close to it.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. Steve, I'd answer, yes, yes and yes. Your price assumption makes sense to us. The productivity has stayed at \$80 million net of investment and we're off to a pretty fast start here in Q1 versus – certainly versus last year. And then, the core inflation number prior to tariffs makes sense as well.

C. Stephen Tusa

Analyst, JPMorgan Securities LLC

Q

Got it. Okay. And then just last one, just on Pool. I'm not sure if I caught this before, but what is like channel telling you about? I think you had said that you address these tariffs, you would expect some demand disruptions. Any feedback on the channel on that so far?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Not yet, Steve. I think we're well-positioned. I mean, 80/20 has been a great tool for us. Keep in mind, we're really only shipping to a handful of key distributors now directly as part of the 80/20 effort. And so, it's a lot less channel partners that we have to work through. And I think in – from our perspective, we think all of them think they're being treated fairly.

And I think right now, what you're hoping for is that you don't see large price increases that would be disruptive by having a price decreases in the future. And so, we've paced out the price increases, and I think we've done that in a thoughtful way. And I think so far, it's given the channel a heads up on what's coming and I think they're prepared for it.

Operator: Our next question comes from Jeff Hammond from [ph] KeyBanc (00:34:19) Capital Markets. Please go ahead with your question.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, guys.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Hi, Jeff.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Just the tariff detail is great. Can you just level set us on what percentage of your cost of goods sold is sourced from China today versus three years ago? It seems like you've been moving it. And then, if we kind of live in this world going forward, what are the big changes you're contemplating to your sourcing and manufacturing footprint long term?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. I mean, mathematically, Jeff, when you calculate, you'll see that it's just less than \$100 million that's sourced from China. It doesn't seem like a lot, but you put a big, pretty hefty tariff on there and it starts to impact us. It also is one of those situations where very little of it is finished goods. And so, a lot of it is a subset of a subset, which means it's spread across a lot of different products and a lot of different motors and items like that, that take time to actually unwind, Jeff, in the sense that we have to get certifications, we have to get approvals, we have to re-engineer. So, we're in a situation where even though it's not a lot, it's still enough to be annoying and we're working through that.

To answer your other question, it would have been about 2.5 times that if we would have went back three or four years ago. And as we were looking through our Transformation process, we were able to mitigate a lot of that single country exposure. Did not think this was going to come, I'm not going to say, that's why we did it. We really just wanted to spread out the purchase buying across many different suppliers so that we weren't in any one single risk situation.

Jeffrey D. Hammond

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That's helpful. And then, is there anything in the guide contemplated around restructuring actions you might take if you do see that demand destruction? And any kind of ability to pull forward or kind of ramp-up Transformation above that \$80 million if we do start to see that demand destruction?

Robert P. Fishman

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

A

Yeah, Jeff. We're in the process of looking at all that. We don't forecast the actual Transformation impact. But I think the next wave of projects would be probably related to how do we reposition our supply chains and how do we reposition our factories to be more effective. Most of that would be realized in 2026 and beyond because it would take time to actually benefit from that cost out.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. And from a Transformation perspective, we're always working on a funnel that's 2 to 3 times higher than our commitment. And so, that gives us the flexibility to use Transformation as we need to.

Operator: Our next question comes from Nathan Jones from Stifel. Please go ahead with your question.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I'll start with the question on competitive differences. I'm sure you are supplying – your supply chain is not always exactly the same positioning as your competitor supply chains. Are there places where you see either risks or opportunities given an advantaged or disadvantaged supply chain relative to your competitors?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yes. I mean, and it is why I chose the wording I chose in that second bullet on the slide that we're going to position ourselves to be the best for our businesses in the short term and long run, meaning some of our businesses don't have the ability to just pull the price lever. They're going to have to compete and we're likely to see some margin challenges there as we work through the longer term actions in some of our businesses and are in a situation where the pricing might actually exceed the tariffs.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And I guess then on the China sourcing, it's less than it used to be, but it's still when you put 145% tariff on it pretty material. Are there already plans enacted to move more of that supply chain out of China? Can you get the whole lot out of China? Are there things that you can only get from China? How should we think about that? I know you said that's probably until 2026 and [indiscernible] (00:38:31) happen.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yes, yes and yes to what you just said. There's things that we can only get from China. We're going to have to make a determination if customers still want that product. So, embedded in some of that volume, which is some of that mitigating aspects is we just might not be able to carry that product line going forward because we can't be competitive. It's the only place it could be sourced at.

And then that addresses the mix issue that Bob said, how do we move somebody to a – might be a more expensive product line on a normalized basis, but probably less expensive given the tariffs and probably provides a better solution. And then that helps free up what the supply chain could look like in the future and then we could start to assess what we need to do longer term.

Operator: Our next question comes from Bryan Blair from Oppenheimer. Please go ahead with your question.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Thank you. Good morning, everyone.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Hi, Bryan.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Obviously, you're pacing ahead of the \$80 million in guided Transformation benefit for the year. And if we assume that \$80 million is the number and that does not move higher, how should we think about the phasing or cadence of the remaining \$56 million over Q2 to Q4 and how does that shake out by segment?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

That \$56 million would be pretty evenly spread for each of the quarters. And by segment, it continues to be a Flow play, Water Solutions also has some complexity reduction. So, I usually look at Flow and Water Solutions first and then Pool. This will be – if they drive the growth that we forecasted in Q2, this will be their fifth consecutive quarter of top line growth and that certainly helps the leverage. So, again, feel good about all three segments participating in the Transformation.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Understood. Appreciate the detail. And you maintain the consolidated growth outlook for the year actually, signaled the higher end of the range, which is encouraging. Is there any change in expectation by segment? You had last quarter, I believe, broken out around 100 basis points in Pool, roughly equal contribution from the other

segments. Just curious with everything that's going on and the moving parts of navigating this environment, if the platform level expectations have shifted?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Not really. Those estimates continue to track well for this forecast.

Bryan F. Blair

Analyst, Oppenheimer & Co., Inc.

Q

Understood. Thank you, again.

Operator: Our next question comes from Andrew Krill from Deutsche Bank. Please go ahead with your question.

Andrew Krill

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks. Good morning, everyone. Sort of step back and take a slightly longer-term view, but I know you mentioned again your 2026 targets, including the 26% margin. And I think as of last earnings, you said low-single digit growth this year and next year was kind of the path and assumption to get there. So, just what's your level of confidence in still hitting that margin target in 2026? And let's say, we did have some form of – maybe a recession here, like, do you still think you have enough contingency in those plans to get to that 26% margin next year? Thanks.

Robert P. Fishman

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

A

Yeah. We continue to feel good about that 26%. So, something around 25% this year, 26% led by Transformation next year. So, I had that in my prepared remarks and we continue to feel good about the 26% in 2026.

Andrew Krill

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. And on just April, I know it's early in the quarter, but just anything noteworthy in the first week or two you may have some information on, on April trends? Thanks.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Our guide includes all that. Obviously, we'll expect to see a lot of different order patterns here in Q2, depending on how the channels are working through the various tariff impacts and we're looking at sell through, we're looking at all the data. And we think our Q2 is the best practical guide we have and full year is the best practical guide we have.

Operator: Our next question comes from Joe Giordano from TD Cowen. Please go ahead with your question.

Joseph Giordano

Analyst, TD Cowen

Q

Hey. Good morning, guys.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Good morning.

Robert P. Fishman

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

A

Hi, Joe.

Joseph Giordano

Analyst, TD Cowen

Q

John, you were around during the Tyco days, so to say, this is like the most exhausting quarter you can imagine – you remember, that's a strong statement.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

That is true. And I had a dual job back in those days, too. But, yes, it is the most exhausting. And by the way, I don't mean that for me, I worry about all the finance teams and the operations and sourcing teams. I mean, you're doing Transformation and then layer on top of that, re-looking at the supply chain again and all the different impacts. Couldn't be more proud and grateful for the work that the entire team has done.

Joseph Giordano

Analyst, TD Cowen

Q

So, I'm just curious, on these price increases, are they different than normal ones? Like, how specifically tied are they to tariffs? Like, if something happen tomorrow and tariffs go away, you have to go back out and cancel these price increases?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

No. I mean, we generally don't have a channel that loves the [indiscernible] (00:43:55) or a specific incremental amount that's tied to a particular product line. It's easier to do more across the board types of actions. What I would say is different this time, and we are phasing them out so we have more of 30-day increments, which allows us to continue to react to what's known and to anticipate what could happen. And I think that allows the channel to generally get ahead a little bit of where they need to be. So, there's about 75% of the price actions to cover everything is included or have been actioned already and the rest has been notified that it's still coming.

Robert P. Fishman

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

A

Yeah. We really like the phased approach around pricing. It allows us to react to the changing circumstances. So, I wouldn't say that's something different than what we've done in the past.

Joseph Giordano

Analyst, TD Cowen

Q

And is there something – is there exposure we need to consider on stuff that's currently on hiatus like some of the electronics that are on temporary exclusions from tariffs that may need to come in and would that be already contemplated in the price increases you've announced?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

I think it's not meaningful. I would tell you, I had a worst-case scenario at one point, and it literally said worst-case scenario and then this exceeds the worst-case scenario. So, I won't say that this is the final-final. I think we're going to see lots of movements and we're going to have to capture by channel and by product line and by source what those movements are and react accordingly. I do think if more tariffs come in, there's a likelihood that maybe some tariffs go away, and we'll have to look at what the net of those impacts are.

Operator: Our next question comes from Brian Lee from Goldman Sachs. Please go ahead with your question.

Nick Cash

Analyst, Goldman Sachs & Co. LLC

Q

Hi, everyone. This is Nick Cash on for Brian Lee. Can you guys hear me?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yes.

Robert P. Fishman

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

A

Yeah. Hi, Nick.

Nick Cash

Analyst, Goldman Sachs & Co. LLC

Q

Hey. Just wanted to circle back on one of the 80/20 questions earlier. I guess, what impacts are you seeing, if any, on progress in relation to the tariffs and timing and not sure if we're thinking about this the right way, but if you're mitigating tariffs with price and one of the tactics is to move from Quad 4 customers to Quad 3 or push them out by raising prices, could this potentially accelerate 80/20 in that sense? Any color would be helpful. Thank you.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. It does and it will get captured in volume. I don't think it's an intentional acceleration of letting our customers go. It's the natural reaction to we want to take care of Quad 1, which is our best customers and our best products. And that's where the majority of the 80s are and that's our focus. So, we want to get that right.

And we can't necessarily continue to make or produce or source a lot of the Quad 4 products because of the impact that tariffs have on it. So, just discontinuing it, which is part of the volume drop, is one solution. Raising those prices and moving the customers around the quadrants is another solution. But I feel really good about having the 80/20 toolkit at our disposal and really happy that's part of the Pentair business system given what we're dealing with.

Nick Cash

Analyst, Goldman Sachs & Co. LLC

Q

Awesome. I appreciate that color. That is all for me. Thank you.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you.

A

Operator: Our next question comes from Andrew Buscaglia from BNP Paribas. Please go ahead with your question.

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Hi. 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

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

So, just based on holding guidance and some of your commentary, I would assume you probably have some negative Pool volumes going forward or slightly negative but your pricing is strong. So, how do you think about being able to expand margins, especially relative to the comp you have in the back half of this year? Is that a goal here still?

Q

Robert P. Fishman

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

We still feel good about that approximately 100 basis point improvement in Pool's return on sales. Again, there's not just the volume, but in addition to that, a number of the Transformation pillars that they've been working on as well. So, to drive the ROS improvement, continuing to be very focused on costs and the mix of the business as well.

A

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

I'd add to it that we...

A

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Yes.

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

...we look at this as net of investment and there's a fair amount of growth investment in the Transformation number. And those growth investments are what we call sales plays, where we'll sample a particular sales play in

A

a different region and then we'll scale it. And clearly, Water Solutions, parts of Flow and Pool had the majority of that. If it's an environment where no matter what effort we're trying to put at it, we're not going to see that incremental volume, then that's another lever that we have at our disposal as the year unfolds.

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Q

Okay. Okay. And then, I was surprised to see the commentary around your distributors and raising prices. So, I was thinking you'd have some pushback. So, I guess my question is, do you...

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Nobody wants them, I'll be honest.

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Q

Yeah.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

I think it's about, first of all, do we have to do them? And if you have to do them, are they being fairly implemented and is everybody still feeling like they're getting the best possible price for their relationship and that's what I'm responding to, not that anybody welcomes them or wishes for them.

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Q

Yeah. I guess, I was – just I was wondering the difference between the price increases and then like the actual price realization. It doesn't seem like there's a big delta there. The distributors are generally taking it in without a ton of pushback is what the takeaway is?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. Because everybody is doing it. And I think we're all...

Andrew Buscaglia

Analyst, BNP Paribas Securities Corp.

Q

Yeah.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

...in the situation where we're getting hit with, these are stunning numbers, right? And when they come at you this quickly, I mean, there's only one way to respond. And I think they'll be looking for longer term solutions and wanting to make sure that we're partnering to give the best possible value to their customers and their customers' customers, which is still an obligation we have as we go forward into 2026 and 2027.

Operator: Our next question comes from Scott Graham from Seaport Research Partners. Please go ahead with your question.

Scott Graham

Analyst, Seaport Research Partners

Q

Hey. Good morning. Thanks for my – taking the question. I wanted to understand something. You guys said that you were sort of gapping or pacing the pricing, but you also said 75% have been actioned, 25% notified. Can you explain what you mean by that?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yeah. We went out with significant price increases in April across all the different businesses. And we have, as we mentioned, between both mitigating things, having the inventory on hand and also the timing of the tariffs, notified that if things don't change and the assumption here is they don't, then we would be back out with modest price increases in May. And then if things don't change again, we have more modest increases in June. So, 75% actioned and the other 25% still coming in May and June timeframe.

Scott Graham

Analyst, Seaport Research Partners

Q

That's clear. That's much clearer. Thank you. Last time we talked about the Pool market's components, your thinking on the market was low-single digit for the three components. I'm assuming that with sales potentially having a little bit of destruction demand wise that, do all three of them come down or is it more focused on the remodeling side?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

No. No. I mean, right now, we're guessing at what that impact would be, so we have very limited volume growth in this particular forecast. We're expecting that break and fix will still happen and the new Pool side is relatively flat. If we see softness, we, as I mentioned earlier, might be in the remodeling side or might be in, what I'd call, a discretionary purchase. I think we'll have more clarity as the year unfolds, obviously. But right now, it's way too early in the season to tell.

Operator: And our next question comes from Nigel Coe from Wolfe Research. Please go ahead with your question.

Nigel Coe

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. Just a couple of quick ones for me. So, just to double clarify on the pricing actions, John, that these are regular price actions, not surcharges.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

A

Yes, correct.

Nigel Coe

Analyst, Wolfe Research LLC

Q

And just the question really is, if there's a de-escalation in these China tariffs that the prices would remain intact?

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

That is correct.

A

Nigel Coe

Analyst, Wolfe Research LLC

Hello?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Hello? I'm here. I said that is correct.

A

Nigel Coe

Analyst, Wolfe Research LLC

Can you hear me?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes. I can.

A

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Did you get the question?

Q

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Yes. And I agreed with you, I said that is correct. Your assumption is correct.

A

Nigel Coe

Analyst, Wolfe Research LLC

Okay. Okay. Sorry. You didn't sort of come through. Okay. Great. And then just maybe, again, I'm sorry if I missed this, kind of how should we think about capital allocation in light of the balance sheet strength that you have carrying into the year, especially with the pullback in the stock price. Just wondering if – obviously sort of \$50 million of share purchases this quarter or last quarter, any thoughts on that?

Q

Robert P. Fishman

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

Yeah. I think to a previous question, we discussed the balanced capital allocation strategy. So, again, nice mix of debt paydown, share repurchase. We've increased the dividend. And then, if the opportunity comes up for bolt-on M&A, maybe similar to what we did in Q4, all four of those make a lot of sense to us.

A

Operator: And ladies and gentlemen, at this time, we've reached the end of the question-and-answer session. I like to turn the floor back over to John Stauch for any closing remarks.

John L. Stauch

President, Chief Executive Officer & Director, Pentair plc

Thank you for joining the call today. In closing, I want to reiterate some key themes on slide 19. We delivered our 12th consecutive quarter of margin expansion and Pool grew its top line 7%. We maintained our sales and adjusted 2025 EPS outlook. We expect a long runway of productivity savings driven by Transformation and 80/20. Our focused water strategy and strong execution continue to build a solid foundation to drive long-term growth, profitability and shareholder value and we believe we are well-positioned to effectively manage the challenges from the current volatility. Thank you, everyone. Have a great day.

Operator: Ladies and gentlemen, that concludes today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.

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