

10 - 24 - 2023

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## CORPORATE SPEAKERS:

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*Pentair plc; Vice President of Investor Relations*

**John Stauch**

*Pentair plc; President and Chief Executive Officer*

**Robert Fishman**

*Pentair plc; Chief Financial Officer*

## PARTICIPANTS:

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*Mizuho; Executive Director*

**Andrew Kaplowitz**

*Citi; Managing Director*

**Brian Lee**

*Goldman Sachs; Chief Risk Officer*

**Bryan Blair**

*Oppenheimer; Analyst*

**Michael Halloran**

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**Julian Mitchell**

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### **PRESENTATION:**

Operator^ Good morning. And welcome to the Pentair Third Quarter 2023 Earnings Conference. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Shelley Hubbard, Vice President of Investor Relations. Please go ahead.

Shelly Hubbard^ Thank you, [Anthony]. And welcome to Pentair's third quarter 2023 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 third 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 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.

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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 up the call for questions. Please note that we will limit your questions to two, after which we ask you to then reenter the queue in order to allow everyone an opportunity to ask questions. A quick reminder before I hand the call over to John.

Similar to last quarter, we have included included Slides Four through Seven in our earnings slide deck, which provide a brief overview of Pentair. Please see the slides titled Strategic Framework, Pentair at a galnce, Pentair overview and making better essential for more information.

In reference to Slide Seven, making Battery Essential, we are proud to share two recent recognitions that Pentair has received for its work in social responsibility and ESG.

We've been recognized as a constituent of the FTSE for good Index series and we have been named one of America's Greenest Companies, 2024 by Newsweek. This recognition from Newsweek evaluated Pentair's environmental performance in relation to our industry, assessing our progress against key and environmental factors, including greenhouse gas emissions, water usage, waste profile and commitment to disclosing sustainability data.

Pentair's achievement supports our purpose to create a better world for people in the planet through smart, sustainable water solutions.

We look forward to continuing to reduce the environmental impact of our operations and further integrate sustainability into our product innovation, as guided by our social responsibility strategic targets. Please refer to our published 2022 Corporate Responsibility Report for more information on our sustainability strategy. I will now turn the call over to John.

John Stauch^ Thank you, Shelley. And good morning, everyone. Let's begin with the executive summary on Slide Eight. We are very pleased with our third quarter results,

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which surpassed the guidance that we provided on our last earnings call. Q3 marked the sixth consecutive quarter of sales over \$1 billion and the sixth consecutive quarter of adjusted margin expansion.

Segment income increased 3% and our worth expanded by 140 basis points. Adjusted EPS was \$0.94 versus our previous guidance of \$0.84 to \$0.89. And year-to-date free cash flow was \$453 million, up 115% over the prior year.

As we look to the full year, we are updating our 2023 adjusted EPS guidance range to \$3.70 to \$3.75, which reflects the high end of our previous guidance. I want to celebrate these strong results with our employees. Your resilience and dedication to serving our customers and delivering value for our shareholders during a year of global macroeconomic uncertainty is making a difference. Thank you for your leadership.

Let's move to Slide Nine, titled Strategic Focus. Through our mission to help the world sustainably move, improve and enjoy water, we are enabling the right investments to both deliver the core and build our future, to drive long-term value for shareholders. And deliver the core, we have driven profitably profitability and productivity across all 3 segments, Industrial & Flow Technologies, Water Solutions and Pool in 2023.

We have also been making better essential through our products and solutions for people in the planet with a focus on sustainability, and we have been investing in our people to develop talent and build a higher performing culture. Another strategic focus of ours is to build our future to accelerate performance.

In 2023, we have further invested in transformation, innovation and M&A. In fact, we have seen great results across all three of these areas with our transformation having begun to read out and new innovation launch this year with exciting new products coming in all three segments. And our Manitowoc Ice acquisition is exceeding expectations.

Regarding innovation, in 2023, our businesses have launched 25 new products. Examples include, a new high-efficiency icemaker for convenience stores and fast casual restaurants, designed in advance to meet the future EPA regulation for refrigerants.

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Expansion of our ENERGY STAR award winning and Smart IntelliFlow 3 pump series, and the advancement of our beer membrane filtration solutions to operate continuously with higher levels of smart automation. In addition to these new product launches, our innovation teams continue to make great progress advancing our strategy to build our future as they focus on our longer-term growth theme centered on the Pool of the future, reimagining residential commercial water treatment and industrial waste-to-value solutions.

Over the last three years, we have launched over 100 new products. Let's turn to Slide 10 titled Transformation Updates. We embarked on this transformation journey nearly two years ago, with the intent to transform our business for the Pentair of the future. Our company has evolved substantially with the separation of nVent and then evolving to a leading diversified water company.

Through our four key transformation themes, including pricing, sourcing, operational excellence and organizational effectiveness, we are streamlining our processes and building additional capabilities, which add more tools in our toolbox to drive growth and productivity.

In Q3, Transformation gained momentum and drove a substantial increase in productivity, sequentially from Q2. After implementing Wave 1 in both pricing and sourcing, we expect the Transformation to begin to scale in the second half of this year, and we are pleased to note that our transformation initiatives remained on track.

Let's turn to Slide 11, titled CEO [Submarine]. We delivered another strong quarter with significant ROS expansion. Our Manitowoc Ice acquisition continued to exceed expectations. Our IFT and Water Solutions segment more than offset Pool's volume decline and our transformation initiatives drove margin expansion.

Our performance through Q3 resulted in another positive update to 2023 adjusted EPS guidance. All in, we are building a strong foundation to drive long-term growth and profitability, across our Diverse Water portfolio. We have updated the full year adjusted EPS guidance to a range of \$3.70 to \$3.75, from the previous range of \$3.65 to \$3.75.

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We are mindful of the uncertainty across the global macroeconomic and geopolitical landscape and we continue to closely monitor macroeconomic developments and implement risk mitigation strategies when and where necessary.

We have continued to accelerate transformation funnels while focusing on investing in the long-term growth of our company. We remain confident in our diversified Water Business model, long-term strategy and our transformation initiatives, which we expect to continue to drive shareholder return.

We have a long successful track record of generating strong cash flow and being disciplined with capital allocation. We achieved 47 consecutive years of dividend increases and are targeting high teens ROIC. We have a strong balance sheet and an enviable five-year financial track record. I will now pass the call over to Bob, who will discuss our performance and financial results in more detail. Bob?

Robert Fishman^ Thank you, John, and good morning, everyone. Let's start on Slide 12, titled Q3 2023 Pentair Performance. We delivered another strong quarter of significant margin expansion, despite sales being down 4% year-over-year.

The diversification of our portfolio and our transformation initiatives continued to more than offset Pool's lower volume impact on margins. Core sales for Q3 were down 7% year-over-year, driven by our residential businesses. Our commercial and industrial businesses performed well in the quarter.

While Q3 sales declined primarily due to the volume headwind in Pool, the negative volume impact on Pentair and Pool improved sequentially from Q2. Third quarter segment income increased 3% to \$212 million and return on sales expanded 140 basis points year-over-year to 21%.

This improvement was driven primarily by productivity from Transformation, accretive margins from the Manitowoc Ice acquisition and some price versus cost benefit. We delivered adjusted EPS of \$0.94. Net interest expense was nearly \$29 million and our adjusted tax rate was 15% during the quarter with a share count of \$166.6 million.

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Please turn to Slide 13, labeled Q3 2023 Industrial & Flow Technologies performance. Industrial & Flow Technology sales increased 3% year-over-year driven by commercial sales growth of 8% and industrial sales growth of 12%. Which more than offset a decline in residential sales of 7%.

Segment income grew 18% and return on sales expanded 250 basis points to 19.4%, marking the fifth consecutive quarter of equal to or greater than 200 basis points of improvement. The strong margin expansion was a result of continued progress on our transformation initiatives.

IFT's continued success was partly driven by a revised go-to-market strategy and industry leadership that has been underway over the last two years. For example, within our industrial businesses, our strong reputation and industry expertise is driving above industry growth. We've been moving away from primarily project-led business to standardized solutions, focused on ease of doing business with distributors and our key accounts have begun to reinvest in sustainable product lines following the pandemic.

Within our commercial businesses in IFT, we are focused on driving business beyond warehouses and office space to data centers and institutions, such as universities, airports, hospitals, and government buildings. We also believe there are large opportunities in municipal infrastructure as driven by the Infrastructure Investment and Jobs Act Legislation in the U.S. with a focus on investments in clean water, flood control and broadband.

Interestingly, one of our customers is the leader in directional drilling equipment for fiber optic cables. We continue to believe the aftermarket is a good opportunity for future growth, because of our significant product installed base.

Lastly, we believe we are in a strong position to benefit from the Build America Buy America Act as our compliance is expected to give us a strategic advantage. Within our residential businesses and IFT, we have seen a return to normalization. Recall that these products are typically not a discretionary spend. When a sump pump or a well pump brakes, it's critical to get it fixed.

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Please turn to Slide 14, labeled Q3 2023 Water Solutions Performance. In Q3, Water Solutions sales increased 9% to \$299 million, driven by our Manitowoc Ice acquisition and price. Segment income grew 40% to \$69 million and return on sales expanded 510 basis points to 23%, driven primarily by our accretive Manitowoc Ice acquisition and productivity from our transformation initiatives.

Margins have expanded over the last seven quarters, from 10.8% in Q1 of 2022 to 23% and in Q3 of 2023. Within our Residential Business and Water Solutions, we noted last quarter that we are seeing North America stabilize. This was evident in Q3, as residential sales decline improved sequentially from Q2.

Within our Commercial business and Water Solutions, filtration sales in North America remained strong. And Manitowoc Ice continued to exceed our expectations. Please turn to Slide 15 labeled Q3 2023 Pool Performance.

In Q3, Pool sales declined 21% to \$309 million. The volume decline of 28 points was primarily due to continued channel inventory corrections in the quarter. And reflects a strong Q3 2022 comparison. Sequentially, the negative impact of volume significantly improved from Q2.

The pricing benefit of 7 points helped partially offset the volume decline. Despite lower Pool sales in Q3, return on sales expanded 130 basis points, due to price offsetting inflation, prior actions to rightsize direct labor to align with lower volumes and improved productivity driven by our transformation initiatives.

Please turn to Slide 16, labeled transformation initiatives. Similar to last quarter, we believe this slide provides a good illustration of our transformation initiatives and our ultimate goal of driving margin expansion. For reference, our transformation initiatives focus on four key themes, pricing excellence, strategic sourcing, operations excellence and organizational effectiveness.

As we've mentioned in past quarters, we expect strategic pricing actions to benefit the top line of all three of our segments. We expect our other 3 transformation initiatives to help improve our overall cost structure. As a result, we are targeting ROS of

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approximately 23% by the end of fiscal 2025. Expanding margins over 400 basis points as compared to fiscal 2022.

Please turn to Slide 17, labeled Transformation Runway. As you look at each of the 4 key themes, you can see that the work within these transformation initiatives is in various different stages. For example, in 2023, we have begun to see early readouts from wave 1 within pricing, sourcing and operations. We are beginning Wave 2 within each of these 3 themes and expect margin benefits to read out in 2024.

You can see how each new wave is expected to compound on the others to drive expected margin expansion year-over-year through 2025 and beyond. In Pricing Excellence, the strategic pricing playbook has been developed, which is just beginning to roll out across segments and categories. For example, in Q3, we began to implement strategic pricing actions across select products within our Pool segment.

Within these price actions, while these price actions are reflected in our recent annual price increase. Please note that these strategic actions differ from annual price increases. Typically, on an annual basis, we evaluate overall inflation, both material and cost to determine the appropriate price increase across our products.

With regards to strategic price actions, we are evaluating all products through a value-based model and identifying which ones have opportunities for adjustments. Recall that in the past, we primarily evaluated pricing through a cost-plus approach. In Sourcing Excellence, the implementation of Wave 1 is underway with savings currently reading out. As a reminder, Wave 1 included materials such as electronics, motors, maintenance, repair and operation spend, packaging and logistics.

Additionally, we successfully kicked off Wave 2 this summer with over 800 suppliers attending our supplier show. For reference, Wave 2 materials include metals, molding, resins, ocean freight and purchased finished goods. We expect Wave 2 to begin to read out beginning in 2024. Incremental to our strategic sourcing waves, we have seen benefit from our rapid renegotiation process, that is a part of our transformed sourcing excellence work.

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In Operational Excellence, we have completed the consolidation of 3 facilities, while continuing our execution on lean transformation plans across our sites. In Organizational Effectiveness, we are in the earliest stages with Wave 1 and expect margin benefits to be realized beginning in 2024. Due to the staggered nature of these transformation initiatives, we expect Wave 3 to begin to read out post 2025 in Operations Excellence and Organizational Effectiveness.

Overall, we are excited about the savings we have begun to realize from the early waves and remain confident that our teams can execute on pricing actions and savings, we have identified, particularly in sourcing.

Please turn to Slide 18, labeled balance sheet and cash flow. In Q3, we generated \$143 million in free cash flow, up nearly 100% year-over-year, reflecting another strong quarter. Year-to-date, our free cash flow was \$453 million, up nearly 115% year-over-year. Our net debt leverage ratio was 2.1x, down from 2.6x in Q1 and 2.2x in Q2.

Our maturity stack is very manageable. Total debt is now less than \$2 billion, and the average rate is approximately 5.3%. Our ROIC was 14.1%, exceeding our cost of capital and includes debt from the Manitowoc Ice acquisition. We continue to target High Teens ROIC in the long term.

We plan to remain disciplined with our capital and continue to focus on debt reduction amid the higher interest rate environment. Moving to Slide 19, titled Q4 and Full Year 2023 Pentair outlook. For the full year, we are updating our adjusted EPS guidance to approximately \$3.70 to \$3.75, from our previous range of \$3.65 to \$3.75.

Also for the full year, we expect sales to be roughly down 1%, segment income to increase 10% to 11%, with corporate expense of approximately \$85 million to \$90 million. Net interest expense of roughly \$123 million to \$125 million and adjusted tax rate of approximately 15% and a share count of \$166 million.

For the fourth quarter, we expect sales to be down approximately 3% to 4%. This is mainly attributable to expected lower Pool volume year-over-year and the return of seasonality in our business, now that lead times have normalized. We expect fourth

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quarter segment income to increase 3% to 8% with corporate expense of roughly \$23 million. Net interest expense of roughly \$28 million to \$30 million. An adjusted tax rate of approximately 15% and a share count of \$166 million.

We are also introducing adjusted EPS guidance for the fourth quarter of approximately \$0.82 to \$0.87. Moving to Slide 20, titled Full Year 2023 Guidance at Midpoint. We continue to expect total Pentair sales in fiscal 2023 to be approximately \$4.1 billion or down about 1%. We continue to expect IFT sales to be up mid-single digits and Water Solutions sales to be up high teens.

For pool sales, we have made a slight adjustment to down high teens from previous guidance of down mid-teens at the high end of the range. Segment income is expected to increase approximately 10% to 11% and with ROS expansion of over 200 basis points to 20.9%.

Moving to Slide 21, titled Q3 Progress Summary. We are very pleased with our Q3 and year-to-date performance. As John mentioned earlier, our third quarter marked the sixth consecutive quarter of sales over \$1 billion and the sixth consecutive quarter of adjusted margin expansion. We have executed well in a dynamic environment and delivered on our commitments.

Specifically, our diversified Water portfolio and transformation initiatives have driven significant margin expansion despite Pool's volume decline. Our Manitowoc Ice acquisition has exceeded our expectations. We have instilled performance accountability across the organization, which is being measured through key metrics.

We have a very strong balance sheet and free cash flow generation, and we have a disciplined capital allocation strategy, that aligns to our High teens ROIC target. I'd now like to turn the call over to the operator for Q&A, after which John will have a few closing remarks. Anthony, please open the line for questions. Thank you.

Operator^ (Operator Instructions) Our first question will come from Brett Linzey with Mizuho.

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Brett Linzey^ First question is just on pricing in Pools. So it sounds like you're going to have two different actions here. So one being the normal course of business. And then on top of that, some surgical, if you could just square that comment? And then anything you can share in terms of the magnitude of the actions that you're contemplating there?

John Stauch^ No. I think just to clarify, as we go into next year, we're only counting on a price increase, which would be a more normalized price increase and modest compared to prior years, but slightly higher than what we would have said would have normally occurred, which is us covering the inflationary aspects. Not aware of anything incremental than that. And those price increases have already been announced in the market.

Robert Fishman^ Yes. Our comment was that not only did we use an approach that looked at inflation. But for certain product lines, looked at adjustments based on a value-based model, but that is all included in the pricing that went out to be effective Jan 1.

Brett Linzey^ Understood. And then just wanted to circle back to the comments around the market extensions within IFT commercial. It's great to see some opportunity outside those traditional verticals, is there any way to quantify the total addressable market size that will increase here given this new reach, this new focus?

John Stauch^ No. But I mean it opens up what we would say would be at least \$1 billion plus for our particular opportunities. And I think that's a conservative estimate, Brett.

Operator^ Our next question will come from Andy Kaplowitz with Citigroup.

Andrew Kaplowitz^ John, can you update us, give us more color on what you're seeing in the Pool market. It looks like you're suggesting with your Q4 guide slightly bigger inventory correction in the \$150 million you were guiding to. Maybe you could give us some more color on that. And then how do you think that sets up Pool for 2024, especially given a higher interest rate environment?

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John Stauch^ Yes. So I think, first of all, we're pleased that we were able to predict the way that Q3 was going to unfold and it played out generally as we expected. I think we focused on sell-through data and then also focus on the metrics of our channel partners.

And I think that data is providing clarity of what's going on. I think the inventory is generally behind us. I don't think that's what Q4 represents. I think Q4 represents what we would say is reflecting the higher interest rates and the impact it could have on the sell-through aspects within the market. And it's helping to position ourselves for the best possible 2024 that we can have.

So it's a modest participation in early buy. It's making sure that we're not continuing to build inventory ahead of next year. And it's setting ourselves up for a really good 2024.

Andrew Kaplowitz^ It's helpful, John. And then you beat your forecast for Q3 sales overall with down to 4%, I think you're expecting down 7%. You didn't change anything other than Pool, which we just talked -- but my question is whether you're seeing anything in IT or Water Solutions, that stopped you from raising your forecast at all. I would imagine you want to be conservative as you talked about, but any more color there on current economic conditions, how they effect to the other segments?

John Stauch^ No. I mean I think Water Solutions has benefited from significant performance at Manitowoc Ice and we're really pleased with how that acquisition came in and has performed. Just a reminder, though, we're going to start comparing against really good delivered quarters in the prior years.

And so that year-over-year performance is going to moderate. I think the market outlook for that business continues to be strong, but it's going to be hard to continue to put up those types of numbers on a consistent basis.

Andrew Kaplowitz^ And then in IFT, anything you're seeing in terms of channel destock or anything like that?

John Stauch^ No. But I think it's only fair to suggest that higher elevated interest for longer make sure that productivity-based projects and/or expansion investments are

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going to be up against higher hurdle rates. And we're reflecting that in our particular revenue forecast as we go forward.

Operator^ Our next question will come from Brian Lee with Goldman Sachs.

Brian Lee^ I know there's a lot of questions around Pool. I'll just throw another one in there, and a lot of moving parts and the macro is still uncertain, but is there sort of a framework you guys can provide us to think about for Pool? Because if all goes right, it sounds like by the time we get to end of '23 here, channel destocking is fully complete. You've got normal seasonality returning, prices still kind of elevated in the mid-single digits. So I guess, first off, do you see that holding in '24 on the price side?

And then just from a volume framework perspective, assuming all those things do play out as you expect, channel destocking, seasonality? Like what is the framework we should be thinking about in terms of the Pool volume outlook here as we think about the next kind of 12 to 18 months?

John Stauch^ Yes. First, I think we're feeling really good about the ability in 2023 to have continued to raise our guidance through the diversified portfolio offsetting really consistent performer and Pool. I mean, Pool has generated a lot of income and growth for us over the years.

And I think it was a little bit worse this year than we anticipated coming into the year, primarily because that inventory was larger. And the overall market wasn't as strong as we had hoped it would be.

But as we head into 2024, we're looking at the framework as being that we do pick up the tailwind from not having that inventory correction. And then as we get closer to the end of the year, we'll predict what the markets are going to be. I think it's fair to say that we're not thinking that overall Pool Builds expand from here.

And we don't think overall remodeling expands, but I do think we're going to see a little bit of recovery in that aftermarket, which I think was accelerated into the prior years and now it will be normalized. And a lot of those are nondiscretionary purchases, and

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we think we get back to a potential overall growth plus the benefit of the tailwinds of inventory.

Brian Lee^ Okay. Fair enough. Makes sense. And then maybe just with interest rates backing up here and the macro, I think a lot of focus around kind of what it meant for your Pool business all year long. And are you seeing anything beyond the resi sector in your kind of end market exposures, that are having any impacts or constraints on spending, when it comes to that sort of cost of capital environment and just financing conditions getting a little bit tougher here. Anything you can speak to at kind of a high level?

John Stauch^ Yes. I mean I think you're calling and I think we're seeing it everywhere, to be honest with you in a little bit. I mean, as a reminder, 75% of our end customers are small dealers and professional trade channel people and their borrowing of capital is higher and harder to get access to capital. I think that slows down some of the projects they we were working on.

We're not exposed to commercial buildings more than \$1 million or a couple of hundred million, but I think you're going to see financing be tougher on the building side. And so an elevated higher interest rates for long just, I think, produces a sluggish environment, is the way we're looking at it. Which is why we're really putting that accelerate on the transformation initiatives we have, pricing selectively, making sure that we understand market back and how to position our products and services effectively in the industries. And then making sure that we're managing the cost structure well within the company.

Operator^ Our next question will come from Brian Blair with Oppenheimer.

Bryan Blair^ Just hoping to drill down a little bit more on Commercial Water Solutions trends. It sounds like underlying market activity remains pretty solid. Just curious if your team is seeing anything shift on a sequential basis. I know a lot of questions have been asked already in terms of macro backdrop. Higher for longer rate environment, et cetera.

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Specific to that platform. Are you seeing anything as we get into Q4 or the outlook for 2024, that concerns your team in terms of the strength that you've been leveraging recently?

Robert Fishman^ There's no doubt that Commercial Water Solutions has had an excellent 2023, going to market with the end-to-end solution of water quality, Ice and services has been very compelling. Manitowoc has had an excellent year, and we've done well in North America filtration.

So overall, we continue to see the market within the restaurants, primarily the quick service restaurant space, staying solid for us. The challenge for us is bumping up against tough compares next year. But overall, the markets that we serve are doing well.

John Stauch^ Just to give you some indication of point-to-point, I mean, despite the fact that we're going to see significant shipments in Manitowoc this year and feel really good about their progress. The overall CAGR from 2019 to the end of 2023 is about 8%-ish or slightly a little bit higher than that. Which be slightly normal than -- or higher than the mid-single digits that we had forecasted business to have. So just a reminder that the markets, as Bob mentioned, are recovering globally, and they continue to participate in that recovery.

Bryan Blair^ I appreciate The color. That's very helpful. You mentioned the [Intent] Solution and there is no doubt that the value proposition combining Everpure, KBI, Nance, that's resonating with your customer base. Can you speak to direct cross-selling traction within the platform, what's been realized to date for your legacy businesses, not just the lift demand Ice?

John Stauch^ Yes. I mean I would quantify that value is a couple of points of incremental growth as the overall commercial Water Solutions business from those synergies. I mean, lots of excitement and putting Everpure in the trade shows next to the Manitowoc Ice and vice versa. And helping our customers, which are a distributor and in an installer, realize the benefits of promoting both.

And I think when you have a good filtered solution on an Ice machine, you're extending the life of the ice machine. And then it also leads to the service capabilities we have and

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the fact that we can offer some of those services or more importantly, just to understand with the service providers up against.

So that we can redesign for service and also work with our partners to help them get in and out of those end markets faster. So I mean there's a lot of energy and excitement, and we couldn't be more pleased with the synergies and the go-to-market strategies of these three businesses put together.

Operator^ Our next question will come from Mike Halloran with Baird.

Michael Halloran^ So two quick ones here. First, on the destock impact last quarter, you talked about \$150 million impact on destock this year. Is that still the number we should be thinking about? Or has that changed at all?

John Stauch^ No, I think there's nothing that's changed in that number, it played out as we said, as expected.

Michael Halloran^ And then on the balance sheet side of things, you're 2x levered now, on a net basis. Bob talked to debt pay down, still the priority. Maybe you could just talk to, given the changes in the interest rates, how your financing terms are, is there a -- has there been any shift in what kind of leverage levels you're looking at going forward or maybe better put, where would you -- what kind of leverage levels would you want to see before you became more aggressive using your balance sheet. Whether it's for buybacks, M&A or whatever it is?

John Stauch^ Mike, I promised myself I wouldn't give a target today. I think right now, I think we all have to be mindful of access to capital and managing with our capital framework. And I think paying down the debt right now is good use of it.

Obviously, we're always looking at strategic complementary businesses to our current business units. The market is not robust, though at the moment. And even when you're seeing assets availability, you've got to question how those interest rates environments affect their business. So, you're not seeing transactions happen. So I think just paying down the debt right now and giving ourselves the maximum flexibility is where Bob and I are focused for the remainder of this year and into next year.

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Robert Fishman^ Yes. I would just add to that, that obviously, staying investment grade is hugely important to us. As the variable rates have crept up. We did undertake the interest rate swap in the collar. So that turned out to be a smart move, where -- when you include the collar, effectively, 65% of our debt is fixed.

That brings us to kind of a weighted average rate of 5.3% in the quarter, maybe 5.5% going forward. So overall, we've done some good things to manage within this environment and paying down the debt, certainly helped from an overall perspective.

Operator^ Our next question will come from Julian Mitchell with Barclays.

Julian Mitchell^ Maybe just wanted to follow up on the sort of profit bridge a little bit from Slide 12. So the sort of price net inflation number was close to zero. I see inflation picked up a bit as a headwind year-on-year versus the prior quarter. So maybe help us understand kind of the inflation moving part in Q4 into early next year? And should we expect that price net of inflation number to be sort of close to zero like it was in Q3?

John Stauch^ So I think the way -- it's a good observation. I would remind you that in inflation, as we show in our bridges, is year-over-year. So it doesn't necessarily reflect sequentially this year. It could be that we saw some elevated inflation on some of the buys that we had last year. So we think that we are overall moderating to price versus cost being neutral or slightly more close to neutral.

And then obviously focusing on the productivity contribution, that's coming from our transformation initiatives. That's the model going forward. If you recall, we were benefiting quite substantially earlier in the year and last year on price versus cost. And now that's shifting to more of a transformation benefit as we go forward. Bob, I don't know if you want to add anything.

Robert Fishman^ Yes. I would just add to that, that while inflation did the change in inflation increase in Q3 versus Q2, the nice thing was that price was able to cover that. We do expect inflation to moderate significantly in the fourth quarter, and certainly, where price exceeds inflation. At the beginning of the year, we talked about inflation being around 4.5% of sales.

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And we're really tracking right towards that. So the team has done a nice job of understanding inflation and factoring in the impact of that. So overall, pleased with what we're seeing, and that will moderate in the fourth quarter.

Julian Mitchell^ That's helpful. And as you said, hopefully, that productivity piece becomes larger as a driver. It was substantial already in, maybe just sort of refresh where we are on the sort of Wave 2 from transformation savings and how substantive that productivity number should be as a segment income driver next year, when you kind of roll together sort of incremental savings from Transformation next year?

Robert Fishman^ Yes. And that is a very important part of our margin expansion story, as we talk about price equaling inflation, it's important that productivity then drives that that ROS expansion. So we were pleased to see the \$29 million readout in the third quarter, up significantly from the single digit in Q2. And expect to have a significant transformation benefit in the fourth quarter. We're really within Wave 1 in terms of reading out in 2023.

We've built some healthy funnels around each of the 4 pillars of Transformation. And so that will start to read out to an even greater extent next year. So overall, pleased with the momentum going into 2024.

Julian Mitchell^ Got it. And your sort of second half run rate for those savings we should expect that sort of to be steady through at least the first half of next year, I suppose? And then maybe the sort of the comps get a bit tougher on productivity.

John Stauch^ Well, and then that's when the Wave 2 kicks in, Julien. So -- but you're right, the material took a long time to realize because of all the engineering work and the resupply efforts that we had to do with the supply community. So we're starting to benefit from those in Q4, that run rate will go into next year and then Wave 2 starts to take over in the second half of next year from a sourcing standpoint.

To give you some color, about 1/3 of our business is engaged in the pricing exercises in 2023. We'll be close to 2/3 of the way through that in 2024. So that's kind of how the

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waves that Bob mentioned start to unfold, and we start to benefit from the performance inside the businesses.

Operator^ Our next question will come from Saree Boroditsky with Jefferies.

Saree Boroditsky^ Just going on the Transformation initiative comment, you discussed the [benefit] from Wave 2 in the second half of next year. Could you just quantify how we should think about that as contributing margin performance?

Robert Fishman^ Well, we're very focused on ROS's expansion. So if you think about us finishing around 21% this year, we've talked about improving the ROS to 23% by 2025. And we've said that being done in a linear way versus it being all back-end loaded. So we expect ROS to improve next year as we head towards that 23%.

Saree Boroditsky^ I appreciate the color. Then just kind of going back to Pool, we've done a lot of questions today, but you talked about some of the early buy programs having modest participation there. And maybe as you think about [for delivery] versus 1Q, is there any way to think about how you thought about those delivery patterns in what that comes for [1Q sell]?

John Stauch^ Yes. I mean I think, what we'd like to see unfold is, we believe Q4 can be higher from a shipment perspective for Pentair than Q3, and then we would expect Q1 to be better than Q4. And then we would be in the normalized pattern then of Q2 next year, finally being a normal seasonal pattern, which would be the strongest full quarter of the year.

And as a reminder, Q3 is modestly less than that. And then again, Q4 starts to preload for in 2025 season. So we feel like we've worked through this, and now we've got a clear line of sight to more normal seasonality in the business. And really keeping our eye on sell-through going forward so that we don't get into this inventory situation with our channel again.

Operator^ Next question will come from Jeff Hammond with KeyBanc Capital Markets.

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Jeffrey Hammond^ Just on IFT, can you just talk about like the order trends you're seeing. I don't know if it was really a comp issue, but it seemed like there was a step down in the growth rate. And I'm just wondering what the orders are telling you about kind of the go forward there?

John Stauch^ Yes. I mean just again, we're looking at year-over-year comps, Jeff. And our infrastructure businesses had a really solid 2022. And so some of these growth rates reflect against the prior quarter of 2023.

I think the orders continue to be strong, from a mid-single-digit indicator, as we go forward. But the year-over-year comparisons are going to be tougher. And as Bob mentioned, we are really focused on nonproject-related wins. We're focusing on service. We're focusing on aftermarket. We're focusing on recurring revenue streams with our key distributors and end market providers, Jeff.

Jeffrey Hammond^ Okay. Great. And then just back on this Manitowoc Ice, a tough comp issue. Can you just talk about -- I think you called out a lot of the success in the synergies, but just what's been going on with backlog drawdown and order rates there to kind of think about this tough comp dynamic. We're also kind of picking up in the channel that commercial food equipment in some of their markets are maybe starting to see more normal growth as well?

Robert Fishman^ Yes. I would say backlogs have returned to more normalized levels. Just as a reminder, Manitowoc grew roughly 30% in the second quarter. Will have grown or did grow 20% in the third quarter. And for the full year, Manitowoc will be up roughly 20%.

So they've had a very strong year. To John's point, when you look at the CAGR from 2019, that's sitting at roughly 8%. So we do expect a more normalized year next year, as we bump up against 2023 is 20% growth. But Overall, the business remains very healthy. The end-to-end approach in terms of going to market is resonating well. So very confident in the Manitowoc business.

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John Stauch^ And Jeff, your data points are right. This isn't a sustainable growth level for our Ice business. I mean, when you're mid- to high single digits, we would have hoped that, that is the more linear growth rate that we get to.

And obviously, we're going to satisfy the demand and make sure that it's a Manitowoc Ice machine that someone is putting into their restaurants. So it gives us the ongoing service and relationship with that customer. But this is not normal as we've said all year.

Operator^ Our next question will come from Andrew Krill with Deutsche Bank.

Andrew Krill^ I want to go back to the Pool prebuy. I think you might say you were expecting like a modest prebuy this year. So just any more insight you can give on that and maybe try to quantify how tracking versus more normal years? And just to clarify, are you assuming that as part of the 2023 guide? Or would that be incremental to the Pool sales guidance?

John Stauch^ No, it's all included in our current view of what our business will do in Q4. And just to remind everybody, what we try to do is level load factories to make sure that we're not taking down our shipments in any one quarter, beyond the level of our employment grouping.

So we're obviously encouraging the channel to buy ahead of next year's Pool season through discounts that we offer and term extensions, right? We're now at a level that we think is prudent for us and that's where the modest [duly] buy is. And as you know, the channel would take more if they're incentivized more to take it. And if they don't, then those become standard by orders in the next year. And so, that's always what the forecast is reflecting and we have to do, it's in our economic best interest.

Our channel partners do it's in their best economic interest. And right now, we feel our guide is the best reflection of what we'd say a more normal seasonality and a more normal early buy. Which would set us up nicely for our 2024 growth year.

Andrew Krill^ Got it. And just for the 4Q guidance, the implied margins for the total company marked a pretty meaningful step down sequentially. I think historically, you've

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been more flattish from 3Q to 4Q. I know this isn't necessarily a normal year, but just it seems a little perhaps conservative, especially with the cost actions starting to come through. So maybe if you could unpack that and if like any segment in particular, I think the margins are weaker than normal for 4Q.

Robert Fishman^ We implicit in our guide is a significant ROS expansion versus last year's Q4. When you look sequentially, it does come down, but a lot of that does reflect some of the seasonality, that is returning back to more normalized levels. So overall, pleased with the ROS expansion in Q4 versus last year's Q4, and it will be the momentum we need exiting the year.

Operator^ Our next question will come from Joe Giordano with Cowen.

Joseph Giordano^ I want to start on margins and keep it there for a second. I mean not probably splitting hairs a little bit, but Pool margins went below 30%. I think we were kind of talking about 30% being like a new floor. And you're close enough where that's still like a statement. But just from here into the fourth quarter into next year, is that 30% kind of feel good still is probably kind of a bottom level?

John Stauch^ Let's say, yes, on the second part of your question. And I think delivering the margins we did despite the year-over-year decline in volume, is what I'm most proud of the team having accomplished. And yes, I mean, I do think we're splitting hairs. I think they're directionally in a really good spot as a business model, and obviously, getting growth from here is going to leverage up nicely.

Joseph Giordano^ Okay. And then similarly on Water Solutions, I think you were talking about like the commentary coming out of last quarter was that the margins were going to step down pretty decently sequentially in the third quarter because of the deliveries that Manitowoc did in 2Q and if the opposite happened, right? It went up sequentially. So how should we think about margins there? I know Manitowoc still delivering at a high level, but how should we think about sequential margins there and the sustainability of this like 22%, 23% level there?

John Stauch^ Yes. I would remind you that Water Solutions has a residential components and systems businesses, and they also have the commercial water

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solutions when we mix towards commercial, we're going to have a lot higher margin profile. And what we're really doing is being very selective on the products that we're offering on the residential side, and we try to mix up that business. And so a lot of the decline in the revenue was on the residential side and that actually helped the overall mix of the business to the positive.

Joseph Giordano^ Okay. That makes sense. And if I could just sneak in one last one on just volume. So I mean your pool volumes this quarter came in better than what we were thinking about, when we spoke three months ago, your commentary from your largest distributor calls for like fourth quarter, their inventory levels and dollars are going to go up from the third quarter. So like that kind of implies growth for you guys.

If they do normal seasonality implies growth in Pool of like high single digits, if they do less, maybe it's more modest growth. But how would you kind of think about where growth could look like for Pool into the fourth quarter?

John Stauch^ Well, I think we're a piece of their puzzle. So we'll start there. And I think we are indicating that we do think sequentially, our revenue numbers do go up from Q3.

And then it's really a discussion of how much more, and I really think that we do our best to predict that business with regional accuracy and getting it exactly to the dollar isn't probable. And so I would say we got really close in Q3, and I think we feel really good about our Q4 revenue estimate at this moment.

Operator^ Our next question will come from Scott Graham with Seaport Research.

Scott Graham^ So the productivity jump was obviously meaningful. How much of that 2.8% maybe was some help from a better supply chain sort of external?

John Stauch^ Well, I think a lot is coming from that, Scott. I mean, I think we're working more seamlessly with our supply chain today. Obviously, we've caught up on most of the demand to them and aligned with our channels. And so we are benefiting substantially from a lot of more seamless deliveries across the entire supply chain today.

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Scott Graham^ Back on to Pool, sorry. But historically, these numbers kind of shook out as \$40 million, \$30 new remodel and then sort of the maintenance of the aftermarket. As we look at a week 2023, kind of what is that -- what are those numbers kind of end the year at? Is that an estimate you can make?

John Stauch^ Yes. I think they're generally in that ballpark. And we could argue week -- I mean I think the overall builds in 2023 are going to definitely be a prepandemic levels, but generally in line with what we had seen prior to the pandemic. So I think we're in a more normalized area.

Scott, I think the learning is across the channel is there's high-end pools, there's low to mid-market pools and the -- interest rates are definitely impacting the more low to mid, and the highs are continuing to be built. So I think that we'll all probably start to refine the numbers to try to break it out by the demographics that it's serving. But I think generally, the model is still working.

Scott Graham^ Okay. John. Last one. You indicated builds you are assuming kind of flattish or modeling flattish and then aftermarket up. Were you referring to the fourth quarter or a period of time longer than that?

John Stauch^ No, we're talking about, if we think about heading into the 2024 Pool season, that's generally what we're -- our current expectations would likely suggest.

Scott Graham^ Okay. So your mid-single-digit plus long-term thinking on pool, it's not going to be that next year based on that.

John Stauch^ We'll give that in January, Scott, I'd remind you that there's an inventory correction next year, which creates some benefits. And then there's the overall general market conditions that we were addressing. But when we get to giving Q4 earnings, we'll update and share with our 2024 guide.

Operator^ Our next question will come from Deane Dray with RBC Capital.

Jeffrey Reive^ This is Jeff Reive on for Deane. Maybe my first question, you talked about your innovation, the 25 new products this quarter, 100 for the year over the last 12

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months. Is there an internal metric you target? Are you targeting a new product vitality. And what is the typical margin differential on new products?

John Stauch^ Yes. I mean, we do. We have all those vitalities. Obviously, they're right product line by product line. When we create valuable products at the market or that our customers want, we tend to see margin lift from those new products.

Not usually in its initial stage, it usually takes probably the year 2 for that to recognize, but that is the model we work to.

Jeffrey Reive^ So nothing to quantify. And then maybe on IFT, you kind of mentioned the Build America Buy America provision in infrastructure spending. Are there any products that you offer where you're -- or virtually 100% America made where your competitors aren't? And is that a meaningful piece of the business?

John Stauch^ Yes. We add to that the born in America where a lot of our historic brands, 120, 130 years old have originated in the United States. They've been specified here for long periods of time.

And they're manufactured here. And so our employees are really proud of those brands. Our customers are really proud of those brands, and they tend to give us the ability to have at least a fair opportunity to win those jobs when we go to market.

Operator^ Our next question will come from Nathan Jones with Stifel.

Nathan Jones^ A couple of questions on Water Solutions. I think first one is probably on Manitowoc Ice, I think you guys have shipped out of backlog this year. You had maybe a couple of large projects that might not repeat last next year. You talked about mid-single-digit plus, but should we be thinking of that long-term mid-single-digit pluses being of lower number than what you've done in 2023? Or do you think you can actually grow from the number that you're putting up in 2023 as we go into 2024?

John Stauch^ That's a nice try then. We're not going to go there yet. Right now, we're trying to satisfy our customer demand for the rest of the year, and then we'll do an

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assessment of where we think we are, and we'll be prepared to share that insight with you as we head into 2024.

Nathan Jones^ Okay. Fair enough. In Water Solutions, I think you've also had some inventory destocking in some other business, Residential Water Treatment businesses. Can you talk about the impact that comping against that as we go into next year, might have without looking at the fundamental outlook of 2024?

John Stauch^ Yes. As a reminder, we what we did in 2022 as we exited a fair amount of lower margin direct-to-consumer business, and we've been up against those comparisons this year in Water Solutions, those comparisons as we head into next year go away.

And so obviously, this is all included in Water Solutions this year. And next year, we get a little bit less contribution from acquisitions, and we have a little bit less headwind from the business exits that we took on this year.

Operator^ Our final question will come from Andrew Obin with Bank of America.

Sabrina Abrams^ You have Sabrina Abrams on for Andrew Obin. Just wanted to ask, I know there has been a couple of questions about Manitowic, but are you guys still committed to the \$370 million full year guidance?

Robert Fishman^ It would be an easy commit. Now we had talked at the beginning of the year of that \$370 million, but the business has done significantly better than that, and we'll grow roughly 20% this year.

Sabrina Abrams^ Got it. And then -- just going to ask another one about Pool and maybe if you could give some color on the pricing number. I know you're returning to the regular discounts in 4Q. Any color on what we should think about the pricing in 4Q '23, given that the past couple of years, you were not having normal prebuy?

John Stauch^ Yes. I don't know how to answer the question. I mean I think as a reminder, we put our price increases in for the season. Over the next year, we do that in Q3, and so the discounts usually take you to more flattish pricing year-over-year. So

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there the prebuys are term extensions, but they don't include a price increase necessarily because there's a discount to what the price increase would be.

So it's not like we're discounting product to sell it. We're just not having to -- we're just not getting the full raise prices in that early buy. Okay. Thank you. Okay. So thank you for joining the call today. In closing, I want to reiterate some key themes on Slide 22.

First, solid execution within our diversified portfolio and transformation initiatives continue to drive significant margin expansion in Q3. Second, we updated our 2023 guidance due to strong performance year-to-date and confidence in our strategy.

Third, our transformation initiatives have gained momentum in 2023, with benefits expected for the remainder of 2023 and beyond. And finally, we expect to continue to deliver long-term value creation. Thank you, everyone. And have a great day.

Operator^ The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.