

Pentair plc(PNR)

\$39.39 (As of 03/02/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: C

Summary

Pentair's adjusted EPS guidance for the current year is pegged at \$2.50-\$2.55, up from the prior estimate of \$2.35. Sales are projected to be up 2-4% on a core basis mainly driven by Consumer Solutions business. Pentair expects strong pool performance in the first half of the current year, boosting Consumer Solutions by 9-11%. Going forward, Pentair is likely to benefit from restructuring initiatives, productivity improvement, price hikes and efforts to lower debt level. Introduction of new products, investments in technology upgrades, and digital marketing campaigns will also drive growth. Plans to expand in the areas of pool and residential and commercial water treatment through acquisitions also remain a catalyst. However, inflated material costs are likely to hurt margins in the forthcoming quarters.

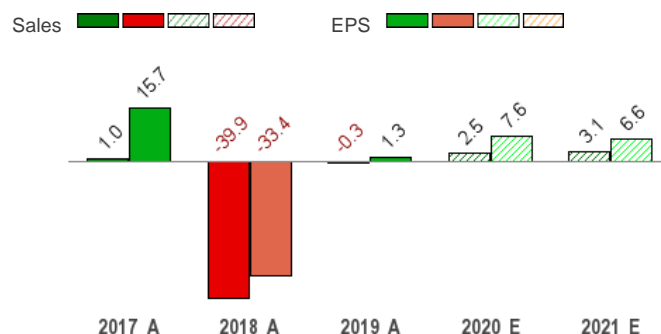
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.43 - \$34.50
20 Day Average Volume (sh)	1,133,103
Market Cap	\$6.9 B
YTD Price Change	-10.4%
Beta	1.19
Dividend / Div Yld	\$0.76 / 1.9%
Industry	Manufacturing - Thermal Products
Zacks Industry Rank	Top 21% (54 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	04/15/2020
Earnings ESP	-3.2%
P/E TTM	17.3
P/E F1	15.4
PEG F1	2.6
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,123 E
2020	719 E	816 E	728 E	765 E	3,030 E
2019	689 A	800 A	714 A	755 A	2,957 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.79 E	\$0.65 E	\$0.74 E	\$2.73 E
2020	\$0.50 E	\$0.75 E	\$0.60 E	\$0.68 E	\$2.56 E
2019	\$0.43 A	\$0.69 A	\$0.58 A	\$0.68 A	\$2.38 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/02/2020. The reports text is as of 03/03/2020.

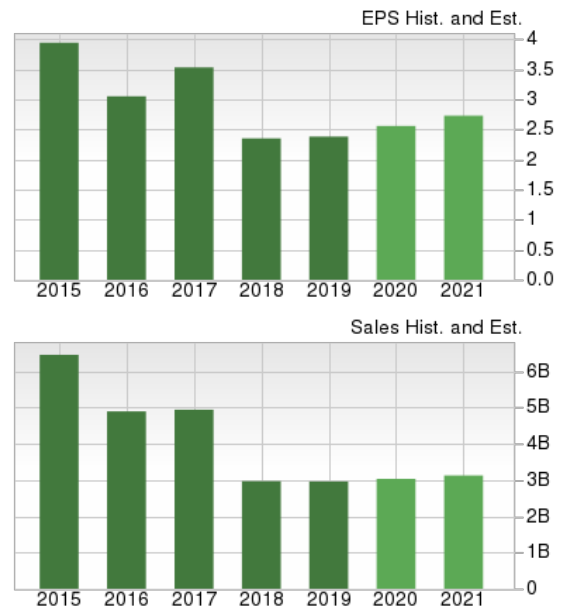
Overview

Manchester, U.K.-based Pentair delivers a comprehensive range of smart, sustainable water solutions to homes, business and industry globally. Its portfolio of solutions enables customers to access clean, safe water, reduce water consumption, as well as recovering and reusing it. In order to better position its portfolio to align with strategies and customer base, Pentair has reorganized its business segments.

Consumer Solutions: The segment is made up of pool and water solutions. Historically, pool comprised the majority of prior aquatic solutions segment, while water solutions is comprised of residential and commercial filtration that was part of the Filtration Solutions segment. Water solutions consists of components, systems, end-to-end services and focus on the China, Southeast Asia region. The objectives for the Consumer Solutions team are to accelerate revenue growth and income, enhance consumer branding and experiences, and build an expanded services capability.

Industrial & Flow Technologies (IFT): The segment is made up of three businesses. The first piece of IFT is the remainder of previous Filtration Solutions segment. These businesses are focused on industrial filtration, including a strong niche in food and beverage filtration. The other two parts of IFT come from the previous Flow Technologies segment. The two businesses are residential irrigation flow, think small pumps, and commercial and infrastructure flow, which is primarily larger engineered pumps. This segment is primarily focused on B2B customers. Combining these businesses in this new structure can realize incremental value in the areas of engineering, solutions, sourcing, technology, IoT, innovation and regional support.

In February 2019, Pentair acquired Aquion and Pelican for \$160 million and \$120 million in cash, respectively. Aquion offers a diverse line of water conditioners, water filters, drinking-water purifiers and other products for the residential and commercial water treatment industry. Pelican provides residential whole home water treatment systems.



Reasons To Buy:

- ▲ For first-quarter 2020, Pentair expects core sales growth up to 4-6%. The company expects strong pool performance in the first half of the current year, boosting Consumer Solutions by 9-11%. Industrial & Flow Technologies is expected to reflect modest recovery in the residential irrigation business. Segment income is anticipated to be up approximately 9-13%, driven by solid volume growth and improved productivity. Considering these, adjusted earnings per share for the first quarter are expected in the band of 48 cents to 51 cents. For the current year, the company expects core sales growth of 2-4%, driven by an expected 5-7% increase in Consumer Solutions, and relatively flattish top-line performance from Industrial & Flow Technologies. Segment income is expected to grow 3-6%. The company now expects adjusted earnings per share for the current year between \$2.50 and \$2.55, up from the prior estimate of \$2.35.
- ▲ Pentair has undergone certain business restructuring initiatives aimed at reducing fixed cost structure and commenced business realignment. These actions will contribute to margin growth in near-term. Further, productivity improvement and price hikes implemented to combat higher input costs will continue to aid results. In order to improve customer's purchasing decision, the company has re-organized its business into two reporting segments, Consumer Solutions and Industrial & Flow Technologies. Consumer Solutions is made up of pool and water solutions. The segment restructuring is focused on better alignment of customer products and service offerings to boost customer experience while also driving growth.
- ▲ Pentair intends to reduce debt levels and expects to generate strong free cash flow in the current year. The company targets to deliver free cash flow to more than net income in 2020. With strong free cash flow and low-debt levels, the company is well positioned to invest in the business along with strategically exploring bolt-on acquisition targets, while also continuing to return cash to shareholders. The company anticipates capital expenditure of \$60 million in 2020.
- ▲ In order to improve growth rate, Pentair plans to make some incremental investments in the Aquatic Systems business. The company is focused on expanding digital transformation, innovation, technology and brand building. The launch of salesforce.com has enabled the company's businesses to better share information. Pentair expects to introduce ample water treatment solutions over the next year. Moreover, Pentair Home app and Pentair Pro app for consumers and dealers will connect an entire suite of soon-to-be-launched residential products, including a smart water softening valve, two pool automation systems, and a host of residential flow control products. These solutions will enable the company to generate higher revenues.
- ▲ Pentair continues to expand particularly in the areas of pool and residential and commercial water treatment through acquisitions, and focus on China and Southeast Asia. In sync with this, Pentair acquired Aquion, which will help Pentair expand scope and customer offerings in the residential and commercial water treatment arena. Pentair has also acquired Pelican Water Systems which provides residential whole home water treatment systems. Pelican Water Systems adds new and complementary products and services to the Pentair portfolio enabling it to meet its consumers' residential water needs. These investments bode well for attractive growth opportunities in the current year.

Pentair will gain from introduction of products, acquisitions and investments in sync with its growth initiatives in the areas of pool and residential and commercial water treatment.

Reasons To Sell:

- ▼ In fourth-quarter 2019, industrial business softened due to delay in shipment. Hence, slightly lower industry sales are expected to be a headwind for the Industrial & Flow Technologies segment for the ongoing quarter.
- ▼ The Flow Technologies segment manufactures and sells pumps used in agricultural irrigation and crop spray. The current weakness in the agricultural sector will continue to impact the Flow Technologies segment's revenues.
- ▼ Pentair continues to witness inflation in material and other costs which includes the impact of tariffs. This is likely to dent Pentair's margins in the near term. Though the company continues to implement price hikes to counter the impact of higher input costs, it might not always be feasible, considering the competitive environment.

Pentair's near-term results will be affected by material and other cost inflation, impact of inventory build-up, weather and fluctuations in foreign currency exchange rates.

Last Earnings Report

Pentair Q4 Earnings & Revenues Beat Estimates, Up Y/Y

Pentair delivered fourth-quarter 2019 adjusted earnings per share (EPS) of 68 cents, beating the Zacks Consensus Estimate of 65 cents. The reported figure also came in higher than the prior-year quarter's 60 cents and management's guidance of 64-66 cents.

Including one-time items, earnings came in at 61 cents compared with 54 cents in the prior-year quarter.

Net sales rose 2% year over year to \$755 million. The figure surpassed the Zacks Consensus Estimate of \$752 million. Excluding the impact of acquisitions, divestitures and currency translation, core sales declined 1% in the reported quarter.

Gross profit in the reported quarter came in at \$274 million, up 2% from the prior-year quarter.

Selling, general and administrative expenses totaled \$134 million compared with \$135 million in the year-earlier quarter. Research and development expenses declined 10% year over year to \$18 million. Adjusted segmental operating income increased 5% year on year to \$141 million.

Segmental Performance

Net sales in the Aquatic Systems segment declined around 1% year over year to \$276 million. Operating earnings improved 8.7% year over year to \$84.9 million.

Net sales in the Filtration Solutions segment totaled \$268.5 million, up 8.7% from the prior-year quarter. Operating earnings decreased 3.6% year over year to \$42.5 million.

Net sales in the Flow Technologies segment amounted to \$211 million, down 2.6% year over year. Segmental operating earnings climbed 10% year over year to \$28.5 million.

Financial Update

Pentair had cash and cash equivalents of \$82.5 million as of Dec 31, 2019, up from \$74.3 million as of Dec 31, 2018. The company generated \$345 million of cash from operations during 2019 compared with the \$458 million reported in 2018.

On Dec 9, 2019, Pentair had announced that its board of directors approved a 6% hike in the company's regular quarterly cash dividend rate to 19 cents per share. The hiked dividend will be paid on Feb 7, 2020 to shareholders of record at the close of business on Jan 24, 2020. The year 2020 will mark the 44th consecutive year of dividend increase.

2019 Performance

Pentair reported adjusted EPS of \$2.38 in fiscal 2019, beating the Zacks Consensus Estimate of \$2.35. Earnings marked a 1% improvement from the prior year and also came in ahead of management's guidance of \$2.35. Including one-time items, fiscal 2019 earnings was \$2.12 compared with \$1.81 in the prior fiscal.

Net sales were down 0.3% year over year to \$2,957 million. The figure, however, surpassed the Zacks Consensus Estimate of \$2,955 million.

Fiscal 2020 Guidance

Pentair expects adjusted EPS to lie in the band of \$2.50 to \$2.55 in fiscal 2020. The mid-point of the guidance indicates year-over-year growth of 6%. Sales in the ongoing year are projected be up 1-3% on a reported basis and 2-4% on a core basis compared with 2019.

For first-quarter 2020, the company expects earnings per share to at 48-51 cents. First-quarter sales will likely be up approximately 3 to 5% on a reported basis and up around 4-6% on a core basis from the prior-year quarter.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	0.42%
EPS Surprise	4.62%
Quarterly EPS	0.68
Annual EPS (TTM)	2.38

Recent News

Pentair Declares Quarterly Dividend - Feb 25, 2020

Pentair's board has declared quarterly dividend of 19 cents per share. The dividend will be paid on May 1 to shareholders of record at the close of business on Apr 17, 2020.

Pentair Shuts Down Aquaculture Business, Divests Vaki Unit - Dec 18, 2019

Pentair has divested its Vaki business unit, a maker of fish farming and wild fish conservation monitoring equipment, to Merck's Animal Health division.

Vaki falls under Pentair's Aquatic Eco-Systems Division, which is specialized in aquaculture-related products and services. Vaki is the provider of fish handling, counting and grading solutions.

Following the divestiture, Vaki will be a leading brand under the Biomark business within Merck Animal Health, dedicated to provide equipment, technology and products for fish counting and size estimation from freshwater to saltwater rearing, while also collecting data for each stage of fish production. Vaki has significant potential for development in the aquaculture industry and partnering with Merck Animal Health will support its further growth.

In May, the water treatment company agreed to sell its Vaki unit, thus exiting the aquaculture business and selling related units in an effort to focus on the residential and commercial pool segments. The aquaculture business provides service, equipment and technology for the aquaculture industry. The company also stated that though its aquaculture business offers attractive long-term opportunities, the short-term business model does not meet the company's expectations.

Valuation

Pentair's shares are down 4.2% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Thermal Products industry are up 0.1% while the Zacks Industrial Products sector is down 5% over the past year.

The S&P 500 index has gained 4.9% in the past year.

The stock is currently trading at 15.91X forward 12-month earnings, which compares with 15.05X for the Zacks sub-industry, 16.27X for the Zacks sector and 16.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 10.45X, with a 5-year median of 16.43X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$44 price target reflects 17.04X Forward 12-month earnings.

The table below shows summary valuation data for PNR:

Valuation Multiples - PNR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.91	15.05	16.27	16.87
	5-Year High	20.53	18.17	19.89	19.34
	5-Year Low	10.45	11.11	12.6	15.18
	5-Year Median	16.43	16.28	16.52	17.44
P/S F12M	Current	2.27	2.91	2.46	3.12
	5-Year High	2.76	3.45	2.73	3.43
	5-Year Low	1.17	1.13	1.51	2.54
	5-Year Median	2.22	2.3	1.99	3.01
EV/EBITDA TTM	Current	13.63	18.12	15.36	10.93
	5-Year High	17.6	21.46	17.42	12.88
	5-Year Low	8.34	10.14	10.89	8.49
	5-Year Median	13	13.39	14.73	10.79

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Top 21% (54 out of 255)



Top Peers

Crane Company (CR)	Neutral
Carlisle Companies Incorporated (CSL)	Neutral
Dover Corporation (DOV)	Neutral
Flowserve Corporation (FLS)	Neutral
Lennox International, Inc. (LII)	Neutral
Rockwell Automation, Inc. (ROK)	Neutral
Timken Company (The) (TKR)	Neutral
IDEX Corporation (IEX)	Underperform

Industry Comparison Industry: Manufacturing - Thermal Products				Industry Peers		
	PNR Neutral	X Industry	S&P 500	FLS Neutral	IEX Underperform	ROP Neutral
VGM Score	C	-	-	B	C	C
Market Cap	6.91 B	3.17 B	22.14 B	5.45 B	11.66 B	38.31 B
# of Analysts	11	6	13	7	8	7
Dividend Yield	1.85%	0.00%	1.98%	1.82%	1.31%	0.57%
Value Score	C	-	-	B	F	D
Cash/Price	0.01	0.01	0.05	0.13	0.06	0.02
EV/EBITDA	15.19	15.15	12.79	12.56	18.12	14.90
PEG Ratio	2.71	2.64	1.92	1.74	2.67	2.43
Price/Book (P/B)	3.54	3.54	3.00	3.00	5.14	3.96
Price/Cash Flow (P/CF)	14.26	14.26	11.97	13.83	22.28	20.93
P/E (F1)	16.01	16.07	17.43	17.36	26.67	26.75
Price/Sales (P/S)	2.34	2.14	2.48	1.38	4.68	7.14
Earnings Yield	6.23%	6.21%	5.74%	5.76%	3.75%	3.74%
Debt/Equity	0.53	0.53	0.70	0.84	0.38	0.49
Cash Flow (\$/share)	2.88	2.88	6.94	3.01	6.87	17.25
Growth Score	D	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	-10.23%	28.31%	10.85%	-14.64%	13.39%	19.70%
Proj. EPS Growth (F1/F0)	7.45%	7.86%	6.48%	9.03%	-1.06%	3.43%
Curr. Cash Flow Growth	-3.19%	4.67%	6.03%	15.12%	4.80%	11.79%
Hist. Cash Flow Growth (3-5 yrs)	-11.06%	23.66%	8.52%	-8.93%	7.29%	16.15%
Current Ratio	1.42	1.42	1.23	2.25	3.52	0.83
Debt/Capital	34.50%	34.50%	42.57%	45.52%	27.28%	32.99%
Net Margin	12.03%	12.08%	11.57%	6.43%	17.06%	32.94%
Return on Equity	21.60%	26.71%	16.66%	16.44%	20.68%	15.85%
Sales/Assets	0.71	0.83	0.54	0.82	0.68	0.32
Proj. Sales Growth (F1/F0)	2.46%	3.69%	4.07%	3.09%	0.21%	7.41%
Momentum Score	C	-	-	F	B	B
Daily Price Chg	4.29%	3.30%	3.82%	3.63%	3.41%	2.65%
1 Week Price Chg	-11.60%	-11.60%	-12.06%	-12.61%	-14.62%	-9.18%
4 Week Price Chg	-5.26%	-8.59%	-6.43%	-10.28%	-7.28%	-4.92%
12 Week Price Chg	-8.81%	-8.81%	-5.15%	-12.96%	-6.01%	4.85%
52 Week Price Chg	-4.18%	4.93%	4.77%	-5.88%	5.15%	12.49%
20 Day Average Volume	1,133,103	136,562	2,363,047	1,053,619	441,101	458,785
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.05%	0.00%
(F1) EPS Est 4 week change	-0.20%	-0.21%	-0.04%	-3.52%	-0.05%	0.22%
(F1) EPS Est 12 week change	-0.16%	-0.29%	-0.33%	-3.57%	-4.33%	-0.26%
(Q1) EPS Est Mthly Chg	-1.39%	-1.39%	-0.38%	-4.42%	-0.13%	0.15%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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