

Pentair plc(PNR)

\$46.02 (As of 08/21/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

Pentair's earnings estimates for the current quarter and current year have undergone upward revisions lately. The company expects adjusted earnings per share (EPS) between \$2.00 and \$2.20 for the current year aided by its strong pool performance. However, Industrial & Flow Technologies (IFT) and water solutions business will likely face turbulent market conditions. Moreover, inflated material costs are likely to hurt margins. Nevertheless, Pentair is likely to benefit from restructuring initiatives, innovations, productivity improvement, price hikes and efforts to reduce debt level. Plans to expand in the areas of pool and residential and commercial water treatment through investments and acquisitions will act as a catalyst. Cost-reduction initiatives, introduction of products and investments in technology upgrades will also drive growth.

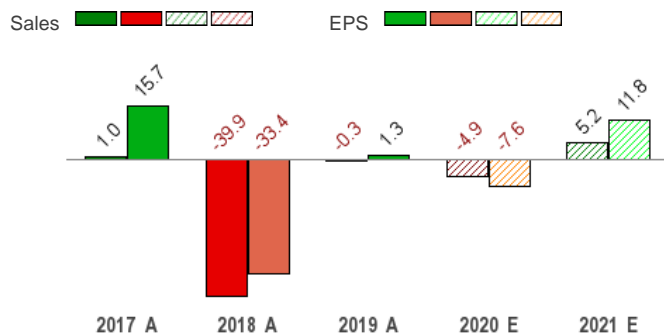
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.43 - \$22.01
20 Day Average Volume (sh)	1,109,149
Market Cap	\$7.6 B
YTD Price Change	0.3%
Beta	1.41
Dividend / Div Yld	\$0.76 / 1.7%
Industry	Manufacturing - Thermal Products
Zacks Industry Rank	Top 12% (31 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.3%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	6.4%
Expected Report Date	NA
Earnings ESP	0.5%
P/E TTM	20.0
P/E F1	20.9
PEG F1	3.5
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	746 E	749 E	710 E	779 E	2,958 E
2020	710 A	713 A	670 E	721 E	2,811 E
2019	689 A	800 A	714 A	755 A	2,957 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.68 E	\$0.55 E	\$0.63 E	\$2.46 E
2020	\$0.52 A	\$0.52 A	\$0.49 E	\$0.59 E	\$2.20 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 08/21/2020. The reports text is as of 08/24/2020.

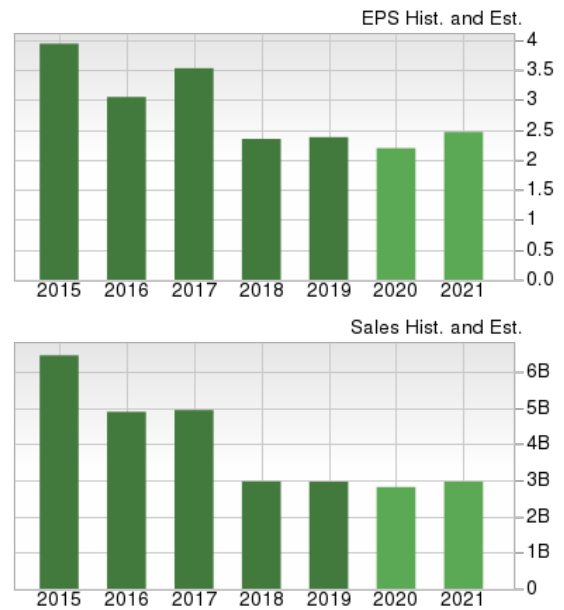
Overview

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:

- ▲ The company has implemented actions to reduce its cost structure in the wake of the current demand environment and economic uncertainty on account of the coronavirus outbreak. The company is taking necessary actions to mitigate the expected top-line decline. 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 IFT. The segment restructuring is focused on better alignment of customer products and service offerings to boost customer experience while also driving growth.
- ▲ Pentair is focused on optimizing free cash flow and liquidity. The company has taken measures to enhance liquidity, including implementing cost-saving initiatives and temporarily suspending share repurchases. Its strong balance sheet places it well to navigate through the current turbulent situation. Pentair intends to reduce debt levels and expects to generate strong free cash flow in the current year. The company generated free cash flow of \$417 million in the June-end quarter compared with the \$343 million witnessed in the year-earlier quarter. The company also had \$764 million available under revolving credit facility of \$900 million. Its total debt to total capital ratio stands at 0.34 at the end of second-quarter, lower than prior quarter's 0.43. Further, Pentair's times interest earned ratio is pegged at 15.4X. This further underscores Pentair's potential to meet debt obligations.
- ▲ Pentair is focused on expanding digital transformation, innovation, technology and brand building. In Water Solutions business, Pentair is investing in innovative components, such as flat connected valve for water softeners. The company continues to invest in new areas around commercial office water and total water management within its commercial systems business. Pentair is well poised to gain from these investments over the long term. The company is focused on leveraging solid product and technology offerings to help customers deliver smart, sustainable solutions. 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 expects capital expenditures between \$60 million and \$70 million for the current year.
- ▲ Pentair continues to witness strong improvement in its Residential facing businesses. The company's pool business has benefited from increased demand for swimming pools amid the shelter-in-place restrictions, in turn, boosting demand for Pentair's equipment. Consequently, the company's Consumer Solutions segment will gain from solid pool demand and improvement in orders this year. The company expects Residential businesses will continue to benefit from improved demand in the near term, considering this business comprises roughly 60% of its portfolio. Pentair is focused on expanding particularly in the areas of pool and residential and commercial water treatment through acquisitions. During the June-end quarter, Pentair acquired an in-floor pool cleaner company that expands its product offerings. Previously, 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, 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:

- ▼ Pentair has initiated current-year guidance driven by its strong pool performance, while the IFT and water solutions business will continue to face challenging market conditions. Pentair now expects adjusted EPS between \$2.00 and \$2.20 for the current year. Uncertainty related to the coronavirus pandemic is likely to hurt the company's performance in the near term.
- ▼ Pentair's Consumer Solutions segment is made up of pool and water solutions. The segment's 75% of revenues are generated from the residential business and 25% from commercial business. Pentair's commercial systems business has large exposure to restaurants and hospitality, which is likely to be impacted by muted demand due to temporary shutdowns across hospitality and restaurant industries for the remainder of the current year. Pentair's Water Solutions business is expected to witness slow recovery in the second half as hospitality and commercial offices are likely to remain impacted by the COVID-19 pandemic. Moreover, infection rates increased in key water quality states, such as Florida, Texas and California. If tighter shelter-in-place restrictions are introduced, this might have an impact on Residential Water Solutions business.
- ▼ Pentair's IFT segment comprises residential and irrigation flow, commercial and infrastructure flow and industrial filtration businesses. Pentair's commercial and industrial business will likely remain challenged for the current year. Therefore, the segment's top line in the current year will continue to be impacted by reduction in capital spending and aftermarket sales orders by commercial and industrial customers. The backlog-driven Commercial & Infrastructure Flow business manufactures larger engineered pumps for fire suppression and flood control. This business has been affected by slowing orders due to the coronavirus pandemic-related delays.
- ▼ 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 water solutions and IFT business will be affected by unfavorable impacts of the coronavirus pandemic. Weak demand and material cost inflation are other concerns.

Last Earnings Report

Pentair Beats on Q2 Earnings & Sales, Initiates Guidance

Pentair reported second-quarter 2020 adjusted earnings per share (EPS) of 52 cents, beating the Zacks Consensus Estimate of 48 cents. The company had reported earnings of 69 cents per share in the prior-year quarter.

Including one-time items, earnings came in at 44 cents compared with the prior-year quarter's 68 cents.

Net sales declined 10.8% year over year to \$713 million. The top-line figure, however, surpassed the Zacks Consensus Estimate of \$678 million. Excluding the impact of acquisitions, divestitures and currency translation, core sales decreased 10% in the reported quarter.

Cost of sales dropped 8.8% year over year to \$468 million. Gross profit in the reported quarter came in at \$245 million, down 14.6% from the prior-year quarter. Gross margin came in at 34.4% compared with the year-ago quarter's 35.9%.

Selling, general and administrative expenses totaled \$117 million compared with the prior-year quarter's \$132 million. Research and development expenses declined 19% year over year to \$17.3 million. Adjusted segmental operating income fell 19% year over year to \$125 million.

Segmental Performance

Net sales in the Consumer Solutions segment slid 8.2% year over year to \$401 million. Operating earnings fell 11% year over year to \$97 million.

Net sales in the Industrial and Flow Technologies segment totaled \$312 million, down 13.8% from the prior-year quarter. Operating earnings decreased 26% year over year to \$44 million.

Financial Update

Pentair had cash and cash equivalents of \$90.6 million as of Jun 30, 2020, up from \$82.5 million as of Dec 31, 2019. Net cash from operating activities was \$429 million during second-quarter 2020 compared with the \$356 million reported in the prior-year quarter. The company generated free cash flow of \$417 million in the June-end quarter compared with the \$343 million witnessed in the year-earlier quarter. The company had long-term debt of \$1.01 billion as of Jun 30, 2020, down from \$1.02 billion as of Dec 31, 2019. Pentair has a borrowing capacity of \$764 million under its credit facility.

Guidance

For the current year, Pentair now expects adjusted EPS between \$2.00 and \$2.20. The company expects revenues of \$2.8 billion.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	5.18%
EPS Surprise	8.33%
Quarterly EPS	0.52
Annual EPS (TTM)	2.30

Valuation

Pentair's shares are up 0.3% in the year-to-date period and 30.7% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Thermal Products industry and the Industrial Products sector are up 2.8% and down 2.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 30% and 15.2%, respectively.

The S&P 500 index is up 5.4% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 19.42X forward 12-month earnings, which compares with 20.68X for the Zacks sub-industry, 21.90X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.53X and as low as 8.90X, with a 5-year median of 16.57X.

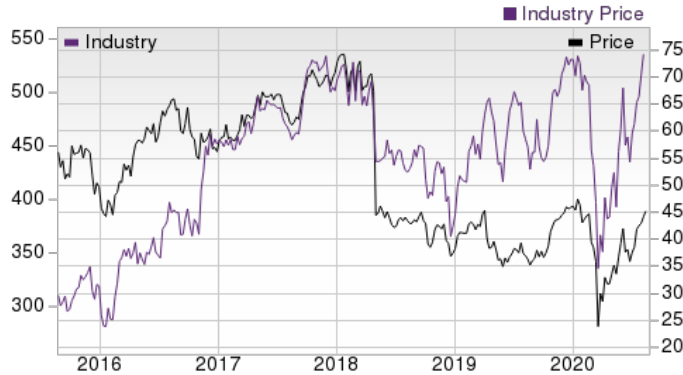
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$48 price target reflects 20.25X Forward 12-month earnings.

The table below shows summary valuation data for PNR:

Valuation Multiples - PNR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.42	20.68	21.90	22.85
	5-Year High	20.53	21.44	21.90	22.85
	5-Year Low	8.9	11.11	12.55	15.25
	5-Year Median	16.57	16.34	17.48	17.58
P/S F12M	Current	2.63	3.7	2.94	3.71
	5-Year High	2.76	3.7	2.94	3.71
	5-Year Low	1.17	1.13	1.52	2.53
	5-Year Median	2.25	2.41	2.04	3.05
EV/EBITDA TTM	Current	15.1	21.59	19.79	12.89
	5-Year High	17.72	22	20.14	12.89
	5-Year Low	8.29	10.03	10.74	8.25
	5-Year Median	13.04	13.77	14.96	10.91

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 12% (31 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Flowserve Corporation (FLS)	Outperform	3
Timken Company The (TKR)	Outperform	1
Crane Company (CR)	Neutral	3
Carlisle Companies Incorporated (CSL)	Neutral	3
Dover Corporation (DOV)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Lennox International, Inc. (LII)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3

Industry Comparison Industry: Manufacturing - Thermal Products				Industry Peers		
	PNR	X Industry	S&P 500	FLS	IEX	ROP
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	B	-	-	A	C	D
Market Cap	7.64 B	3.16 B	23.62 B	3.80 B	13.50 B	45.23 B
# of Analysts	11	6	14	8	7	6
Dividend Yield	1.65%	0.00%	1.65%	2.74%	1.12%	0.47%
Value Score	C	-	-	B	D	D
Cash/Price	0.01	0.02	0.07	0.13	0.06	0.04
EV/EBITDA	16.53	15.72	13.29	9.47	21.06	17.14
PEG Ratio	3.54	4.42	3.03	3.55	3.73	3.28
Price/Book (P/B)	3.92	4.61	3.11	2.25	5.97	4.58
Price/Cash Flow (P/CF)	15.97	15.91	12.69	9.71	26.04	25.04
P/E (F1)	20.92	22.82	21.51	17.87	37.32	34.46
Price/Sales (P/S)	2.64	2.54	2.43	0.98	5.66	8.37
Earnings Yield	4.78%	4.42%	4.46%	5.58%	2.68%	2.90%
Debt/Equity	0.52	0.56	0.76	0.89	0.46	0.53
Cash Flow (\$/share)	2.88	2.88	6.93	3.01	6.87	17.25
Growth Score	B	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	-11.49%	27.35%	10.44%	-9.02%	13.05%	20.23%
Proj. EPS Growth (F1/F0)	-7.71%	-17.21%	-5.53%	-25.68%	-17.36%	-3.93%
Curr. Cash Flow Growth	-3.19%	4.67%	5.20%	15.12%	4.80%	11.79%
Hist. Cash Flow Growth (3-5 yrs)	-11.06%	23.62%	8.52%	-8.93%	7.29%	16.15%
Current Ratio	1.33	1.44	1.33	2.23	3.48	1.27
Debt/Capital	34.19%	35.95%	44.50%	47.12%	31.60%	34.76%
Net Margin	11.58%	9.67%	10.13%	3.77%	15.71%	29.75%
Return on Equity	20.25%	23.96%	14.67%	14.96%	18.15%	14.20%
Sales/Assets	0.69	0.81	0.51	0.81	0.61	0.30
Proj. Sales Growth (F1/F0)	-4.94%	-5.78%	-1.54%	-7.70%	-9.11%	2.15%
Momentum Score	D	-	-	A	C	A
Daily Price Chg	0.07%	-0.29%	-0.15%	-1.05%	1.46%	-0.65%
1 Week Price Chg	2.41%	1.06%	1.09%	6.74%	5.47%	0.92%
4 Week Price Chg	8.44%	7.52%	1.64%	-4.04%	4.65%	2.79%
12 Week Price Chg	17.04%	15.29%	6.72%	8.95%	13.58%	13.17%
52 Week Price Chg	26.57%	13.89%	1.00%	-30.10%	8.49%	21.64%
20 Day Average Volume	1,109,149	169,871	1,873,576	1,025,475	360,175	460,816
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	1.42%
(F1) EPS Est 4 week change	6.43%	7.14%	1.79%	13.05%	0.21%	3.11%
(F1) EPS Est 12 week change	6.86%	8.36%	3.35%	15.65%	2.82%	3.30%
(Q1) EPS Est Mthly Chg	8.39%	2.14%	0.42%	2.33%	-4.55%	-2.65%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	B
Momentum Score	D
VGM Score	B

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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