

Pentair plc

4Q23: Balancing cyclical concerns with better execution yields an in-line '24 guide

Reiterate Rating: NEUTRAL | PO: 76.00 USD | Price: 72.90 USD

4Q23 adj. EPS comes in a penny above consensus

Pentair reported adjusted EPS of \$0.87, which came in above our \$0.86 estimate and at the high end of the range. Management introduced adjusted EPS guidance of \$4.15-\$4.25, +12% y/y. and bracketing \$4.21 BofAe/\$4.19 Street. 1Q24 guidance came in below expectations. This largely reflects a lack of benefit from pool destock in 1Q24, which is a tailwind in the rest of the year – we estimate ~\$0.08/quarter. The guide assumes the current macro situation continues through the balance of the year. Execution continues to be strong; we are still cautious on the cycle. Productivity guidance for \$75mn in profit comes broadly in line with our \$73mn prior forecast. Reiterate Neutral.

Pool likely worse than expectations; but better than ours

The company is guiding for 7% pool growth next year. This compares to our 5% estimate and 8% consensus. We think investor expectations had been even higher. The guide assumes destock recovery, 2pts of price, and implies (4)% y/y decline in demand. “Modest” y/y declines in new pool construction sounds better than what we had heard at the Pool & Spa Show last week.

Transformation initiatives not just a one-off

Pentair is undergoing a transformation program to achieve 23% margins in 2025. This includes rooftop consolidation, sourcing, and moving from cost-plus to value-based pricing. We view the company as well on its way to achieving this target. The company reported \$29mn in net productivity in 4Q23, or ~300bp contribution to margin. Our model incorporates ~\$73mn in net productivity in 2024. Our model incorporates lower incremental volumes than the \$40mn midpoint, but we assume more volume growth in higher-incremental segments (largely Pool).

Maintaining our \$4.21 estimate, lower 1Q24E

We maintain our \$4.21 adj. EPS estimate for 2024. Our organic growth forecast is 80bp lower at 2.1% given weakness in Water Solutions. Our 2024E segment EBITA margin is 10bp lower at 22.3%, slightly above the company's ~22% guide., given ~\$75mn in net productivity (balancing \$10-20mn of reinvestment), pricing, and strong volume incrementals as pool returns to growth in 2Q-4Q. We lower our 1Q forecast to \$0.91, the high end of guide and raise the rest of the year.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.40	3.68	3.75	4.21	4.59
GAAP EPS	3.34	2.72	3.75	3.94	4.31
EPS Change (YoY)	36.0%	8.2%	1.9%	12.3%	9.0%
Consensus EPS (Bloomberg)			3.75	4.19	4.69
DPS	0.80	0.84	0.88	0.93	0.98
Valuation (Dec)					
P/E	21.4x	19.8x	19.4x	17.3x	15.9x
GAAP P/E	21.8x	26.8x	19.4x	18.5x	16.9x
Dividend Yield	1.1%	1.2%	1.2%	1.3%	1.3%
EV / EBITDA*	21.3x	19.1x	17.3x	15.7x	14.6x
Free Cash Flow Yield*	4.3%	2.1%	5.2%	5.4%	5.7%

* For full definitions of *IQmethod*SM measures, see page 12.

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Timestamp: 31 January 2024 05:00AM EST

31 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	4,097.8	4,104.5
2024E Rev (m)	4,217.1	4,206.3
2025E Rev (m)	4,377.6	4,366.8
2023E EPS	3.74	3.75
2025E EPS	4.62	4.59

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Stock Data

Price	72.90 USD
Price Objective	76.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-2-7
52-Week Range	50.15 USD - 75.41 USD
Mrkt Val (mn) / Shares Out (mn)	13,020 USD / 178.6
Free Float	99.5%
Average Daily Value (mn)	110.40 USD
BofA Ticker / Exchange	PNR / NYS
Bloomberg / Reuters	PNR US / PNR.N
ROE (2023E)	21.4%
Net Dbt to Eqty (Dec-2022A)	81.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Pentair plc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.4%	14.5%	13.4%	13.8%	13.6%
Return on Equity	25.2%	23.8%	21.4%	20.6%	19.3%
Operating Margin	18.2%	18.6%	20.8%	22.3%	23.2%
Free Cash Flow	553	279	680	704	748

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.6x	1.2x	1.1x	1.1x
Asset Replacement Ratio	0.8x	0.8x	0.8x	0.8x	0.8x
Tax Rate	15.0%	14.5%	14.8%	16.5%	17.5%
Net Debt-to-Equity Ratio	33.0%	81.5%	55.8%	32.7%	14.5%
Interest Cover	NM	14.6x	7.2x	9.4x	11.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,765	4,122	4,105	4,206	4,367
% Change	24.8%	9.5%	-0.4%	2.5%	3.8%
Gross Profit	1,319	1,388	1,519	1,551	1,610
% Change	24.7%	5.2%	9.5%	2.1%	3.8%
EBITDA	735	820	906	997	1,069
% Change	30.8%	11.6%	10.5%	10.0%	7.2%
Net Interest & Other Income	(14)	(54)	(122)	(100)	(86)
Net Income (Adjusted)	571	610	624	701	764
% Change	36.1%	6.9%	2.3%	12.3%	8.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	571	610	624	701	764
Depreciation & Amortization	78	107	110	115	115
Change in Working Capital	(32)	(215)	4	(13)	(17)
Deferred Taxation Charge	(9)	(45)	0	0	0
Other Adjustments, Net	7	(93)	29	(11)	(22)
Capital Expenditure	(60)	(85)	(86)	(88)	(92)
Free Cash Flow	553	279	680	704	748
% Change	8.1%	-49.6%	143.8%	3.4%	6.2%
Share / Issue Repurchase	(150)	(50)	(86)	0	0
Cost of Dividends Paid	(133)	(139)	(147)	(155)	(162)
Change in Debt	55	1,412	(320)	(200)	(19)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	95	109	246	596	1,161
Trade Receivables	534	532	507	519	539
Other Current Assets	675	918	882	900	928
Property, Plant & Equipment	310	345	376	406	440
Other Non-Current Assets	3,140	4,545	4,545	4,488	4,431
Total Assets	4,754	6,448	6,556	6,909	7,500
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,052	1,063	1,036	1,051	1,079
Long-Term Debt	894	2,317	1,997	1,797	1,778
Other Non-Current Liabilities	386	359	385	386	389
Total Liabilities	2,332	3,739	3,418	3,235	3,246
Total Equity	2,422	2,708	3,138	3,674	4,254
Total Equity & Liabilities	4,754	6,448	6,556	6,909	7,500

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Industrials/Multi-Industry

Company Description

Pentair is a residential and commercial pure-play water treatment company. Pentair generated \$4.1bn of revenue in 2022 from its three segments, Pool (40% of revenue, residential pool), Water Solutions (24% of revenue, water filtration and ice), and Industrial and Flow Technologies (36% of revenue, industrial filtration, irrigation, and commercial pumps).

Investment Rationale

Pentair's execution outperformed our expectations in 2023 and we see strong visibility on margins in 2024, largely on the back of its Transformation Initiatives. Our Neutral rating balances upside to consensus on margins in 1H24 with our more bearish topline outlook.

Stock Data

Average Daily Volume 1,514,454

Quarterly Earnings Estimates

	2022	2023
Q1	0.85A	0.91A
Q2	1.02A	1.03A
Q3	0.99A	0.94A
Q4	0.82A	0.87E

Exhibit 1: 4Q23 earnings variance analysis

PNR 4Q23 adj. EPS of \$0.87 was \$0.86 above consensus

	Actual		Reported		BofA Estimate		Variation Versus BofA Est.		
	4Q:22A		4Q:23A	YOY % Chg.	4Q:23E	YOY % Chg.	Dollar	Percentage / b.p.	EPS
<i>(in US\$ mn, except per share data)</i>									
Revenue									
Pool	343		336	-2.1%	319	-7.0%	17	5%	
Water Solutions	284		270	-4.9%	279	-1.6%	(9)	-3%	
Industrial & Flow Technologies	376		379	0.7%	379	0.9%	(1)	0%	
Other	0		0	0.0%	0	33.3%	(0)	-25%	
TOTAL	1,003		985	-1.8%	978	-2.5%	7	1%	
Operating Income									
Pool	100		105	5.3%	94	-5.4%	11	11%	\$ 0.05
Water Solutions	45		52	14.7%	54	19.4%	(2)	-4%	\$ (0.01)
Industrial & Flow Technologies	65		65	-0.5%	70	6.7%	(5)	-7%	\$ (0.02)
Other	(27)		(24)	-12.5%	(18)	-34.1%	(6)	33%	\$ (0.03)
TOTAL	183		198	8.2%	200	9.3%	(2)	-1%	\$ (0.01)
Operating Margin									
Pool	29.1%		31.3%	220 bp	29.6%	50 bp	170 bp	--	
Water Solutions	13.1%		15.3%	220 bp	16.8%	370 bp	(150 bp)	--	
Industrial & Flow Technologies	17.4%		17.2%	(20 bp)	22.9%	550 bp	(570 bp)	--	
Other	NM		NM	NM	18.4%	NM	NM	--	
Operating Margin	18.2%		20.1%	190 bp	22.5%	430 bp	(240 bp)	--	
Total Net Sales	1,003		985	-1.8%	978	-2.5%	7	1%	
Cost of Products Sold	655		624	-4.7%	624	-4.7%	-	0%	
Gross Income	348		361	3.6%	354	1.7%	7	2%	\$ 0.03
Selling, General & Administrative	144		140	-2.8%	130	-9.8%	10	8%	\$ (0.05)
Research & Development	21		23	7.9%	24	14.2%	(1)	-6%	\$ 0.01
Operating Profit	183		198	8.2%	200	9.3%	(2)	-1%	\$ (0.01)
Equity income of unconsolidated subsidiaries & Gain on sale of investment	0		1	233.3%	-	NM	1	N/M	\$ (0.01)
Interest Expense, Net	28		27	-3.6%	32	15.4%	(5)	-16%	\$ 0.03
Earnings Before Taxes (EBT)	155		170	9.9%	168	8.5%	2	1%	\$ 0.01
Income Taxes	20		24	25.1%	25	29.3%	(1)	-3%	
Tax Rate	12.6%		14.3%	170 bp	15.0%	240 bp	(70 bp)	=	\$ 0.01
Net Income (Continuing Operations)	135		146	7.7%	143	5.5%	3	0	\$ 0.02
FULLY DILUTED EPS	\$0.82		\$0.87	6.7%	\$0.86	4.7%	\$0.02	2.0%	-
Diluted Shares Outstanding	165		167	0.9%	167	0.8%	0	0.1%	\$ (0.00)
Margin Analysis	Actual		Reported		Estimated		Variation (b.p.)		
	4Q:22A		4Q:23A		4Q:23E		BofA Est	4Q:22A	
Gross Margin	34.7%		36.6%		36.2%		40 bp	190 bp	
SG&A as % revenue	14.3%		14.2%		13.3%		90 bp	(10 bp)	
Operating Margin	18.2%		20.1%		20.4%		(30 bp)	190 bp	
Pretax Margin	15.4%		17.3%		17.2%		10 bp	180 bp	
Net Margin	13.5%		14.8%		14.6%		20 bp	130 bp	
Segment Incremental Margin	31.7%		-82.0%		-68.4%		(1360 bp)	(11360 bp)	

Source: BofA Global Research, company filings

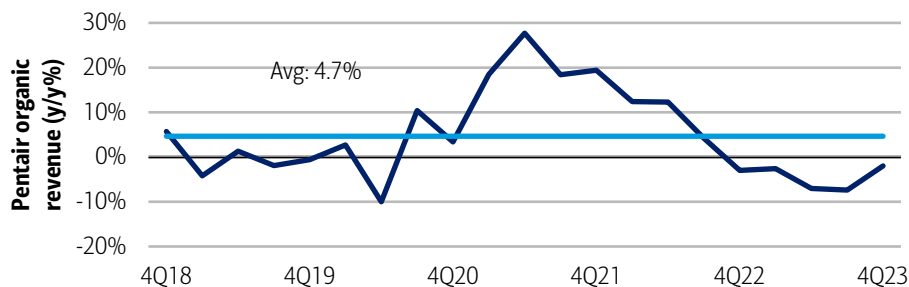
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Key takeaways from 4Q23 results

Total company organic revenue growth was (2.0)% y/y in the quarter. Volumes were down (5)% y/y, partially offset by 2% of pricing. Management introduced 2024 guidance of total revenue for ~2-3% y/y. This includes ~2pts of price. It introduced growth guide for 7% in Pool, flat in Water Solutions, and low-single digit growth for Industrial & Flow Technologies.

Exhibit 2: Pentair quarterly organic revenue growth %y/y

Quarterly organic growth has averaged 5% since 2018



Source: Company filings, BofA Global Research

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Pool (34% of sales, 45% of segment EBITA)

Pool sales were down (2)% y/y in 4Q. Volume declined 6%, partially offset by 4% pricing. Volumes were much less negative than our estimate for (12)% but pricing came in slightly softer than our 5% forecast.

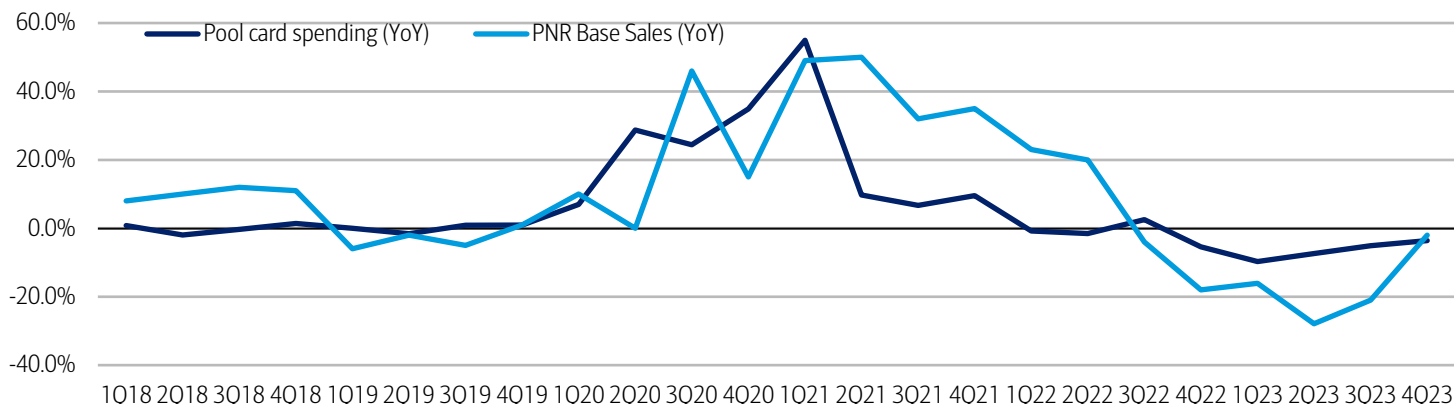
The company is guiding for 7% pool growth next year. This compares to our 5% estimate and 8% consensus. We think investor expectations had been even higher.

The guidance (for an incremental \$90mn in Pool sales) assumes that the company recovers the \$120mn destock headwind from 2Q23-4Q23. It assumes a net neutral impact of destock in 1Q24. It incorporates 2pts of price. This implies that volumes for pool are down 4% y/y in Pool. We think this includes high-single digit y/y declines in new pool, flat in remodel, and some growth in maintenance, repair & overhaul spending.

Below we show Pool retail spending and search trends that indicate pool spending and pool searches are falling y/y. We use BAC internal aggregated credit and debit card data and Google search trends. We note that PNR pool sales are finally outperformed pool card spending in 4Q23 by ~2%, in line with the narrative destock is ending. We expect this to normalize to the ~4% outperformance as destocking ends.

Exhibit 3: BAC aggregated card data for pool supplies vs. PNR pool base sales

PNR has underperformed pool card spending since 3Q22, a reflection of destock



Source: BAC internal data, company filings

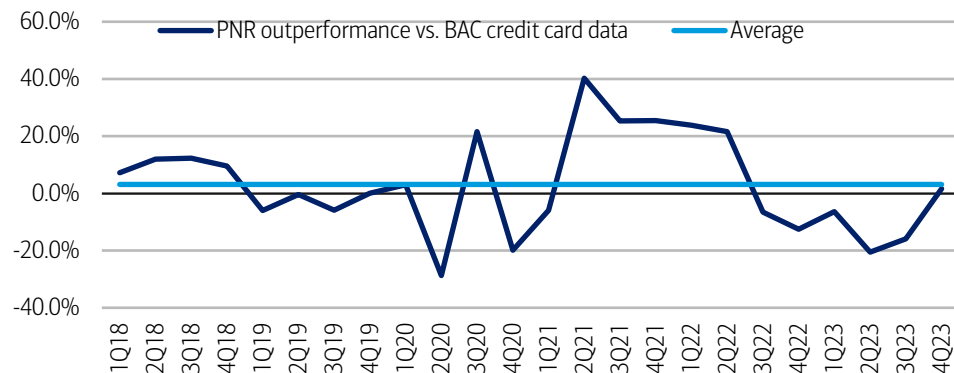
61% correlation

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Pentair's pool sales have underperformed pool card spending since 3Q22, a reflection of destocking. The pre-COVID average outperformance was 3.6%. The gap during heightened demand and supply chain constraints in 2021-2022 was 17.7%. Pentair has underperformed retail sales by 10.9% on average since the destock began in 3Q22. As destock comes to an end at some point in 2024, we would expect the gap to normalize back in line with the 3-4% outperformance.

Exhibit 4: PNR pool base sales outperformance vs. BAC credit card data

Average, 1Q18-4Q23

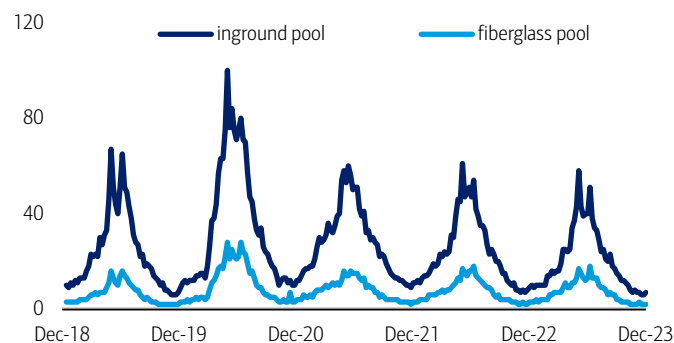


Source: BAC internal data, company filings

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Exhibit 5: Google trends: “inground pool” & “fiberglass pool”

December 2023 google searches for “inground pool” and “fiberglass pool” were both in-line with pre-COVID levels



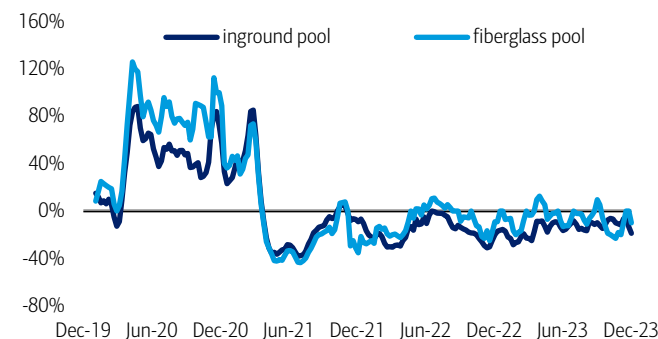
Source: BofA Global Research, Google Trends

Note: Data through week of December 24, 2023.

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Exhibit 6: “inground pool” & “fiberglass pool” change in trends (trailing 4-week avg)

Inground and fiberglass pool searches were down (18.8%) and (10.0%) YoY, respectively, in December



Source: BofA Global Research, Google Trends

Note: Data through week of December 24, 2023.

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Elevated channel inventories: POOL is not the issue

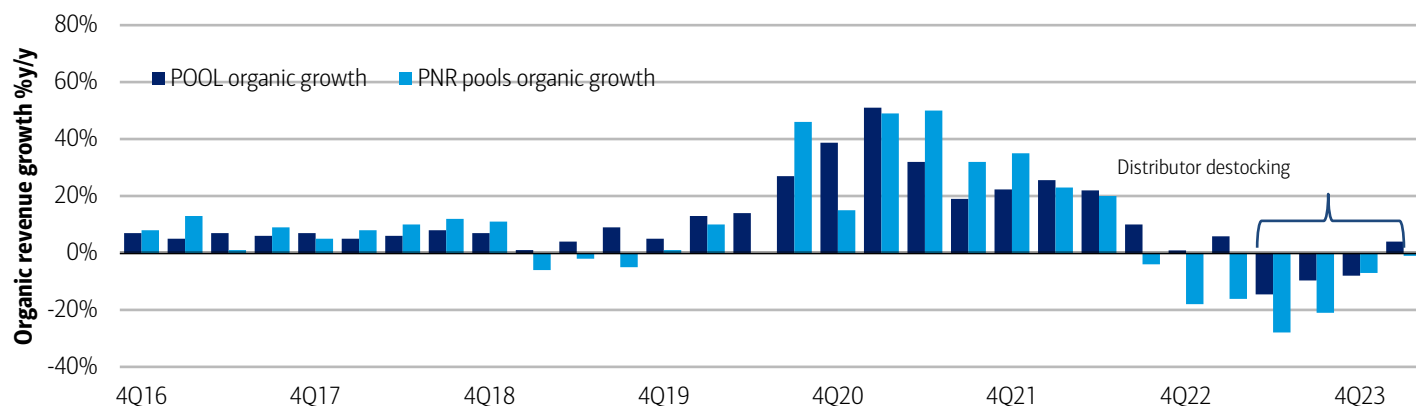
We compare PNR pools sales growth with distributor Pool Corp's (Ticker: POOL, covered by our colleague Shaun Calnan) organic sales. POOL is the world's largest distributor of pool products. POOL represents about 15% of PNR's total revenue.

Our sense is that while PNR has strong visibility into POOL's inventory levels, it has limited view on whether its other distributors had completed destock. That being said, we see the company benefitting from the \$120mn lapping destock from 2Q-4Q.

PNR and POOL quarterly organic pool sales are 84% correlated since 2016. In 4Q, Pentair pool sales declined (2%) y/y. POOL Corp has not yet reported 4Q23 earnings.

Exhibit 7: PNR pools revenue growth is 84% correlated with Pool Corp organic growth

PNR pools organic growth vs. POOL organic growth



Source: BofA Global Research, company filings

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Water Solutions (29% of sales, 24% of segment EBITA)

Water Solutions (24% of 2024E EBITA), business-to-consumer focused segment) core sales were down (4.0)% y/y, below our (2)% estimate. The company reported 54% growth in its commercial business (75% of sales, of which we estimate half is Manitowoc) and (17)% y/y declines in the residential business.

Management stated on the call that it expects mid-single digit declines in Manitowoc next year, low-single digit declines in residential, and low-single digit growth in Commercial all-in. This implies the core commercial business (Everpure) is growing 8% y/y next year at the midpoint. Everpure, similar to Manitowoc, is accretive to segment EBITA margins on our estimate.

PNR is unwilling to call the bottom on residential water solutions; however, it does think that the y/y declines in 2024 will be far more modest given the comps.

Per management, the Water Solutions business tracks well with quick-service restaurant (QSR) store growth (e.g., fast food and coffee chains) and restaurant traffic. We note that both net and gross new stores adds for companies such as Starbucks and McDonalds were positive in 3Q23 and outlook for 2024 from our restaurants team is for 3-4% store growth, which would broadly track with low-single digit commercial growth.

Flow (38% of sales, 31% of segment EBITA)

Flow (31% of 2024E EBITA; business-to-business focused segment; also includes the company's beer filtration business) core sales fell (1)% y/y, below our 0.0% forecast. This was a deceleration from +1.0% y/y core growth last quarter. Flow volumes were (5)% and pricing contributed 3%.

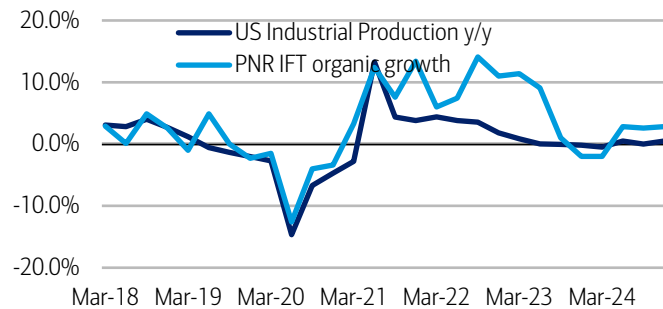
Residential sales were down 4%, commercial flow grew 13%, and industrial solutions was up 12% y/y.

The company continues to move towards standardized solutions, away from project-led businesses. The company also plans to expand to more infrastructure markets, including hospitals and municipal infrastructure. Pentair cited a \$1bn TAM from expanding into these new markets with its existing products.

From 1Q18-1Q20, Pentair IFT grew in line with Industrial Production. Since COVID, we see a stronger correlation between IFT and PNR IFT volumes given a renewed focus on pricing. We believe volume undergrowth versus IP reflects the company's emphasis on culling lower-margin projects in order to drive profitable growth. We note Pentair's business is more seasonal than underlying IP, reflecting its residential and agricultural exposure. Our volume forecasts are underpinned by the BofA Economic Team's forecast for industrial production.

Exhibit 8: US Industrial Production y/y vs. PNR IFT organic growth

78% correlation

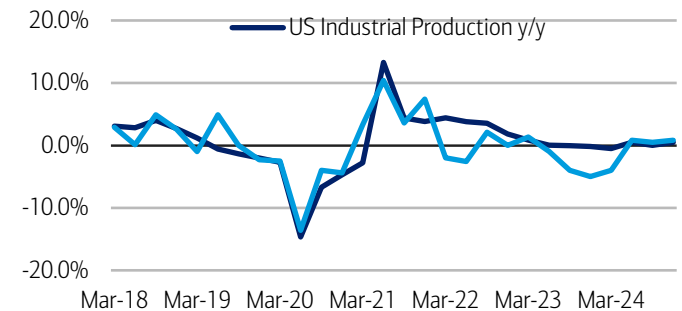


Source: BofA Global Research, Bloomberg

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Exhibit 9: US Industrial Production y/y vs. PNR IFT organic volumes

81% correlation



Source: BofA Global Research, Bloomberg

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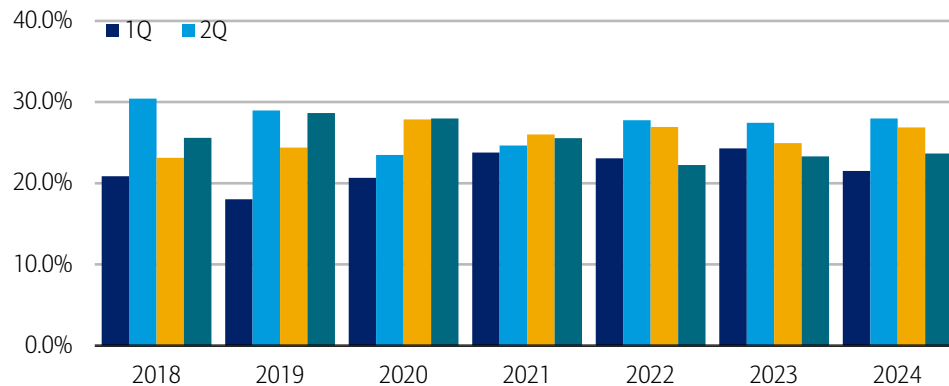
2024 adj. EPS guide introduced to bracket consensus

Management introduced 2024 EPS guidance of \$4.15-\$4.25. The 1Q24 guidance of \$0.88-\$0.91 comes in well below our prior \$1.03 estimate and \$0.99 consensus. We maintain our full year 2024 EPS estimate at \$4.21, but tweak the seasonality in order to reflect a weaker 1Q.

The weaker 1Q vs. our estimates reflects: 1) higher interest expense in 1Q; 2) higher corporate expense, 3) the company has walked down its messaging around Pool for 1Q, in our view. While we forecast decent growth in 2Q-4Q as the company laps destocking headwinds, it seems that there is still some inventory in the channel as well as less easy comps in 1Q.

Exhibit 10: Quarterly seasonality, 1Q18-4Q24E

Pre-COVID, PNR reported 19% of earnings in 1Q



Source: BofA Global Research

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As a result, we forecast a more normalized seasonality in 2024 than we have seen in COVID years. Our forecast slightly favors 2H with 21% of earnings in 1Q, in line with management commentary on the call.

Exhibit 11: Quarterly revenue and income bridge, 2024

We forecast 22.3% EBITA margins in 2024E

Implied quarterly revenue '24	1Q24E	2Q24E	3Q24E	4Q24E	2024E
<i>Revenue Seasonality</i>		25%	26%	25%	24%
Revenue BOP	1,029	1,083	1,009	985	4,105
Volume	(51)	10	30	27	16
Price	24	22	20	20	86
Acq/Divestiture	-	-	-	-	-
FX	(0)	(0)	(0)	1	0
Revenue EOP	1,002	1,114	1,059	1,032	4,206
Revenue EOP from model	1,002	1,114	1,059	1,032	4,206
Difference	0.1	-	-	(0)	-
<i>Revenue growth</i>	-2.6%	2.9%	4.9%	4.8%	2.5%
Implied quarterly segment income '24	1Q24E	2Q24E	3Q24E	4Q24E	2024E
<i>EPS Seasonality</i>					
Segment Income BOP	211	234	212	198	855
Growth/price/Acq.	9	25	31	30	95
FX	(0)	(0)	(0)	0	0
Inflation	(24)	(21)	(20)	(19)	(84)
Productivity	14	23	25	11	73
Segment Income EOP	210	261	249	220	940
Segment Income EOP from model	210	261	249	220	940
Difference	-	-	-	-	-
<i>Segment Income growth</i>	0%	11%	17%	11%	10%
<i>Margin</i>	21.0%	23.4%	23.5%	21.3%	22.3%

Source: BofA Global Research, company filings

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Valuation

We base our \$76 price objective on a 13x multiple on our 2025E estimates. This is at a discount to the peer average at 14x 2024E. We think a slight discount is warranted given better EBITDA margins, offset by more cyclical businesses.

Exhibit 12: Pentair comparable valuation analysis

Our \$76 price objective is based on 13x 2025E

Company	Ticker	Stock Price 1/30/2024	P/E		EV/EBITDA		EBITDA Margin		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Dover	DOV	\$151.48	16.7 x	15.1 x	13.0 x	12.0 x	21.6%	22.1%	2.8%	10.7%
Hayward Holdings	HAYW	\$12.85	1.3 x	1.2 x	19.5 x	18.5 x	27.7%	27.9%	2.9%	7.7%
Mueller Water*	MWA	\$14.02	24.2 x	19.7 x	12.4 x	10.0 x	16.8%	18.5%	8.7%	19.6%
Thermon*	THR	\$33.57	17.7 x	15.8 x	11.9 x	10.1 x	21.7%	22.5%	13.9%	2.7%
Watts Water*	WTS	\$204.55	24.5 x	22.7 x	15.2 x	14.3 x	19.8%	20.2%	3.9%	8.0%
Xylem*	XYL	\$113.75	27.9 x	25.4 x	12.9 x	11.3 x	19.6%	20.7%	9.0%	10.1%
Zurn Water Solutions*	ZWS	\$30.45	<u>28.0 x</u>	<u>25.3 x</u>	<u>15.2 x</u>	<u>12.0 x</u>	<u>23.9%</u>	<u>24.4%</u>	<u>14.6%</u>	<u>10.7%</u>
AVERAGE			20.0 x	17.9 x	14.3 x	12.6 x	21.6%	22.3%	8.0%	9.9%
Pentair	PNR	\$72.90	17.3 x	15.9 x	13.3 x	12.4 x	23.7%	24.5%	12.4%	8.9%
Pentair at PO	PNR	\$76.00	18.0 x	16.5 x	13.9 x	12.9 x				

Source: BofA Global Research, Bloomberg

*Estimates from Bloomberg consensus

BofA GLOBAL RESEARCH

Exhibit 13: Data category and description

Merchants are categorized based on products/services they provide

Data category	Description
Pool supplies	Merchants that serve residential, professional and commercial consumers and provide chemicals, equipment, parts for in/above-ground pools and water testing/pool cleaning services

Source: BofA Global Research

BofA GLOBAL RESEARCH

Disclaimer and Methodology regarding BAC internal data

Selected Bank of America ("BAC") transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of BAC data and may reflect a degree of selection bias and limitations on the data available.

Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Additional information about the methodology used to aggregate the data is available upon request



Price objective basis & risk

Pentair plc (PNR)

We base our \$76 price objective on a 13x EV/EBITDA multiple of our 2025 estimates. This slightly below the peer group trading at 14x on 2024 estimates. We think the below-peer valuation is fair given above average EBITDA margins offset by more cyclical topline.

Upside risks are: 1) better-than-expected revenue growth in pools, 2) success on incremental productivity actions. Downside risks are: 1) Reinvestment in most profitable (Pool) segment, 2) execution risk on sourcing & consolidation activities.

Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmos Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

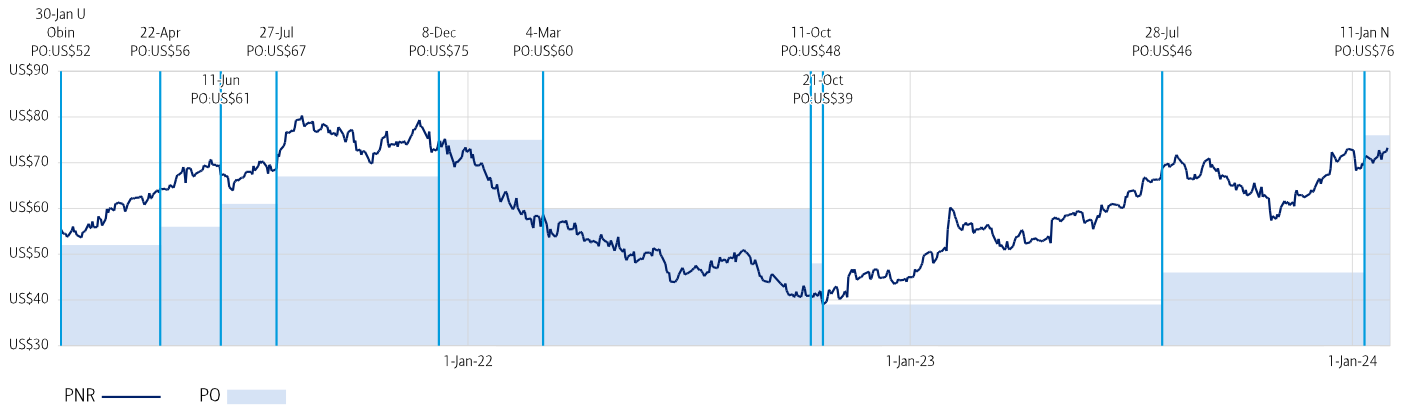
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Important Disclosures

Pentair plc (PNR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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