

Pentair plc

Margin expansion is a positive; Pool returns to growth; upgrade to Neutral

Rating Change: NEUTRAL | PO: 76.00 USD | Price: 70.74 USD

Great visibility on margin expansion; still cycle headwinds

We are upgrading Pentair to Neutral from Underperform. We see earnings upside relative to the Street from margin expansion. Residential pools, a key earnings and sentiment driver, should return to growth in 2024. However, other cyclical concerns and restructuring risks keep us at Neutral. We raise our PO by \$30 to \$76, based on 13x our 2025E EV/EBITDA estimate, at a slight discount to the peer average at 14x 2024E.

Further margin expansion ahead; raising estimates

Pentair EBITA margins have expanded from 17.2% in 2020 to 20.9% in 2023 (midpoint of guide). Pentair has a multi-year transformation program targeting pricing, sourcing, and operations. We see pricing as driving most progress-to-date. We see upside to 1H24 consensus estimates as Pentair realizes benefits from already completed actions. We raise our 2023E adj. EPS to \$3.74, 2024E to \$4.21, and 2025E to \$4.62 to reflect higher productivity. We are 5% above consensus in 1H24.

Restructuring and reinvestment risk keep us at Neutral

Pentair's transformation program involves re-evaluating its supplier base and supply chain. The company plans to reduce costs within ~75% of its material spending. So far, it has addressed ~12% of material spending. It is also optimizing its footprint, which may result in temporarily higher costs. We see execution as a risk as the company continues to reorganize its supply chain. We note some cost actions in 2023 are likely to reverse as volumes return to growth (e.g., rightsizing direct labor; halting reinvestment in Pool). We forecast total PNR and Pool volumes returning to growth in 2Q24.

Pool to grow, but unfavorable exposure in other segments

We are optimistic that the Pool segment (43% of EBITA) will return to revenue growth in 2024 after 7 quarters of y/y declines (3Q23-1Q24) & \$150mn of destocking headwinds. Pentair's other two segments, Water Solutions & Industrial & Flow Technologies (IFT), have lagged on growth and profitability. In 2023, Water Solutions benefitted from the Manitowoc acquisition and IFT was aided by transformation initiatives. Looking into 2024, Water Solutions has ~75% and IFT has 1/3 commercial construction exposure. Commercial construction typically follows residential, and we expect this cycle to be similar. [Our recent channel checks](#) were more conservative on the end market.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.40	3.68	3.74	4.21	4.62
GAAP EPS	3.34	2.72	3.28	3.93	4.35
EPS Change (YoY)	36.0%	8.2%	1.6%	12.6%	9.7%
Consensus EPS (Bloomberg)			3.75	4.18	4.67
DPS	0.80	0.84	0.88	0.93	0.98
Valuation (Dec)					
P/E	20.8x	19.2x	18.9x	16.8x	15.3x
GAAP P/E	21.2x	26.0x	21.6x	18.0x	16.3x
Dividend Yield	1.1%	1.2%	1.2%	1.3%	1.4%
EV / EBITDA*	20.8x	18.6x	16.8x	15.3x	14.3x
Free Cash Flow Yield*	4.4%	2.2%	4.8%	5.4%	5.9%

* For full definitions of *IQmethod*SM measures, see page 13.

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12644386

Timestamp: 11 January 2024 06:00AM EST

11 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-3-7	B-2-7
Inv. Rating	UNDERPERFORM	NEUTRAL
Price Obj.	46.00	76.00
2023E Rev (m)	4,086.9	4,097.8
2024E Rev (m)	4,195.2	4,217.1
2025E Rev (m)	4,347.9	4,377.6
2023E EPS	3.73	3.74
2024E EPS	3.98	4.21
2025E EPS	4.27	4.62

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Stock Data

Price	70.74 USD
Price Objective	76.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-2-7
52-Week Range	47.14 USD - 73.27 USD
Mkt Val (mn) / Shares Out (mn)	12,634 USD / 178.6
Free Float	99.5%
Average Daily Value (mn)	100.54 USD
BofA Ticker / Exchange	PNR / NYS
Bloomberg / Reuters	PNR US / PNR.N
ROE (2023E)	21.6%
Net Dbt to Eqty (Dec-2022A)	81.5%
ESGMeter TM	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%	13.5%	14.1%	13.8%
Return on Equity	25.2%	23.8%	21.6%	21.0%	19.8%
Operating Margin	18.2%	18.6%	20.9%	22.4%	23.2%
Free Cash Flow	553	279	602	686	748

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.1x	0.6x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.8x	0.8x	0.8x	0.8x	0.8x
Tax Rate	15.0%	14.5%	15.0%	16.5%	17.5%
Net Debt-to-Equity Ratio	33.0%	81.5%	59.7%	36.2%	17.1%
Interest Cover	NM	14.6x	6.9x	8.8x	11.9x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,765	4,122	4,098	4,217	4,378
% Change	24.8%	9.5%	-0.6%	2.9%	3.8%
Gross Profit	1,319	1,388	1,507	1,551	1,610
% Change	24.7%	5.2%	8.6%	2.9%	3.8%
EBITDA	735	820	911	1,000	1,071
% Change	30.8%	11.6%	11.1%	9.7%	7.1%
Net Interest & Other Income	(14)	(54)	(125)	(107)	(86)
Net Income (Adjusted)	571	610	622	700	768
% Change	36.1%	6.9%	2.0%	12.4%	9.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	571	610	622	700	768
Depreciation & Amortization	78	107	110	109	109
Change in Working Capital	(32)	(215)	3	(14)	(17)
Deferred Taxation Charge	(9)	(45)	0	0	0
Other Adjustments, Net	7	(93)	(46)	(21)	(20)
Capital Expenditure	(60)	(85)	(86)	(89)	(92)
Free Cash Flow	553	279	602	686	748
% Change	8.1%	-49.6%	115.9%	13.8%	9.1%
Share / Issue Repurchase	(150)	(50)	(86)	0	0
Cost of Dividends Paid	(133)	(139)	(147)	(154)	(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	169	500	1,067
Trade Receivables	534	532	506	521	540
Other Current Assets	675	918	884	903	931
Property, Plant & Equipment	310	345	375	409	446
Other Non-Current Assets	3,140	4,545	4,545	4,491	4,437
Total Assets	4,754	6,448	6,479	6,824	7,421
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,052	1,063	1,036	1,054	1,083
Long-Term Debt	894	2,317	1,997	1,797	1,778
Other Non-Current Liabilities	386	359	384	386	389
Total Liabilities	2,332	3,739	3,418	3,238	3,250
Total Equity	2,422	2,708	3,061	3,586	4,172
Total Equity & Liabilities	4,754	6,448	6,479	6,824	7,421

* For full definitions of iQmethodSM measures, see page 13.

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

1,421,233

Quarterly Earnings Estimates

	2022	2023
Q1	0.85A	0.91A
Q2	1.02A	1.03A
Q3	0.99A	0.94A
Q4	0.82A	0.86E

Raising 2024E on margin upside

Pentair EBITA margins have expanded from 17.2% in 2020 to 20.9% in 2023 (midpoint of guide). Pentair has a multi-year transformation program targeting pricing, sourcing, and operations. We see pricing as driving most progress-to-date. We see upside to 1H24 consensus estimates as Pentair realizes benefits from already completed actions. In particular, we highlight 3Q23 margin performance as showing a ~240bp y/y benefit from sourcing initiatives.

Our 2024E estimate raise largely reflects the benefit of actions already taken. We see execution risk as the company continues to reorganize its supply chain. It is also optimizing its footprint, which may result in temporarily higher costs. Our sense is management's message for ~100bps of y/y margin expansion in both 2024E and 2025E is conservative for 2024.

Exhibit 1: BofAe new vs. old vs. consensus

We raise our 2024E and 2025E on productivity strength

	BofA 2024E			BofA 2025E			PNR LT targets
	New	Old	Consensus	New	Old	Consensus	
Core Sales Growth							
Pool	4.8%	5.0%	7.7%	5.0%	4.5%	5.6%	MSD+
Water Solutions	4.3%	4.3%	5.5%	3.5%	3.5%	5.1%	MSD
Industrial & Flow Technologies	0.5%	0.5%	1.8%	3.0%	3.0%	2.6%	LSD
Organic sales growth	3.0%	3.1%	4.1%	3.8%	3.6%	4.2%	
Total sales growth	2.9%	2.7%	4.1%	3.8%	3.6%	4.3%	
Sales (\$mns)	4,217mn	4,195mn	4,261mn	4,378mn	4,348mn	4,440mn	
Segment Income	945mn	918mn	930mn	1,016mn	986mn	1,002mn	
Segment Margin	22.4%	21.9%	21.8%	23.2%	22.7%	22.6%	23%
y/y expansion	148bps	98bps	90bps	81bps	80bps	72bps	100bps annually, 2023-2025E
Corporate Expense	-81mn	-96mn		-83mn	-98mn		
Tax Rate	16.5%	16.5%	15.2%	17.5%	17.5%	15.3%	
Interest Expense	107mn	125mn	108mn	86mn	125mn	87mn	
Adj. EPS	\$4.21	\$3.98	\$4.18	\$4.62	\$4.27	\$4.67	
Share Count (mn)	166	166	166	166	166	165	

Source: BofA Global Research, Visible Alpha, Bloomberg, company filings

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Our 2024E estimate is more 1H24 weighted vs. historical seasonality given better visibility on execution in 1H24 (e.g., carrying forward the same transformation benefits that the company reported in 3Q23). We are 4% above consensus EPS in 1Q24 and 5% above consensus EPS in 2Q24. Our estimates in 2H24 are below consensus but we see upside opportunity if incremental productivity initiatives yield further benefits. We note some cost actions in 2023 were temporary and are likely to reverse as volumes return to growth (e.g., rightsizing direct labor; halting reinvestment in Pool).

Exhibit 2: BofAe quarterly estimates vs. consensus

We raise our 2024 estimates on productivity, but see more upside vs. the Street in 1H24

4Q23E				1Q24E				2Q24E				3Q24E				4Q24E				
			Variance vs. Street				Variance vs. Street				Variance vs. Street				Variance vs. Street				Variance vs. Street	
Old	New	Consensus		Old	New	Consensus		Old	New	Consensus		Old	New	Consensus		Old	New	Consensus		
Adj.																				
EPS	\$0.84	\$0.86	\$0.86	0.0%	\$0.98	\$1.03	\$0.99	3.9%	\$1.12	\$1.21	\$1.15	5.3%	\$1.03	\$1.06	\$1.06	-0.5%	\$0.90	\$0.91	\$1.00	-9.4%

Source: BofA Global Research, Visible Alpha, Bloomberg, company filings

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Breaking down the different margin components

Pentair provides a margin bridge each quarter, which investors track closely. The key components are growth/price/acquisitions, foreign exchange, inflation, and productivity. While the company does not explicitly report price/cost, it does disclose pricing and inflation, which we use to approximate price/cost. We note that the inflation metric reflects all-in cost inflation, not just COGS.



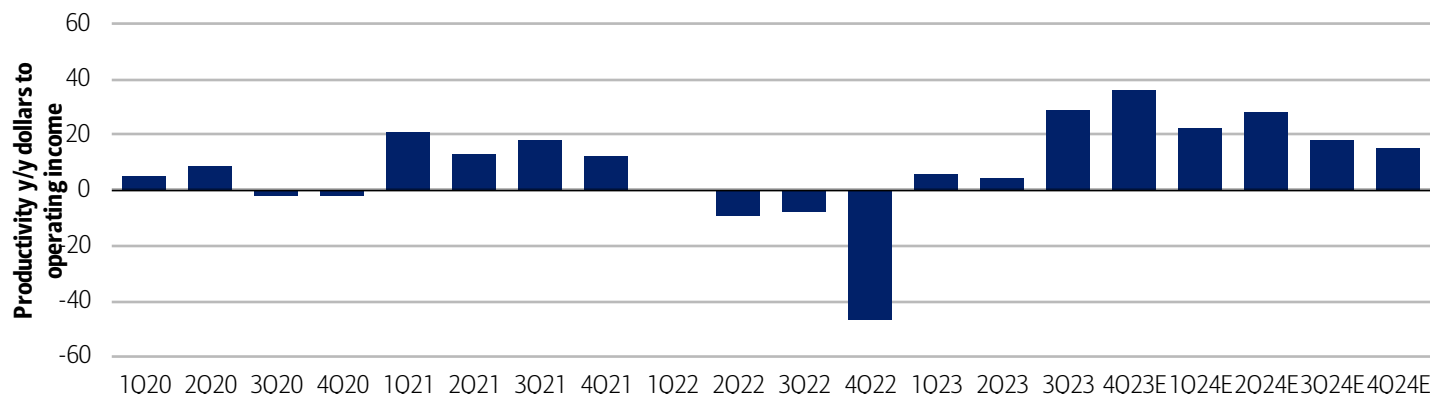
The key driver of 2024 upside: Productivity

Historically, Productivity has been a mid-single digit y/y benefit or even a drag in 2022. We think the strong y/y Productivity reading reflects: 1) recovering inefficiencies around supply chain in 3Q22, and 2) realizing benefits from the transformation initiatives around sourcing and consolidation.

Productivity largely describes actions taken in the company's transformation initiatives around supply chain, sourcing, and operational excellence. In 3Q23, the company reported materially positive benefit of \$29mn y/y. We estimate ~240bp contribution to 140bp of y/y margin expansion in 3Q23, offset by lower volume leverage.

Exhibit 3: Productivity \$s contribution to operating income, y/y

We estimate that productivity peaks in y/y \$s in 4Q23E, helped by inefficiency recovery from 4Q22



Source: BofA Global Research, company filings

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We expect it to continue delivering strong productivity in 1H24E exclusively based around the actions it has already taken. We see productivity y/y taking a step down in 2H24E as we have less visibility into the impact and success of incremental actions. For FY24, we forecast 190bp y/y expansion from transformation benefits.

Exhibit 4: Productivity \$ contribution to operating income y/y, 1Q21A-4Q24E

We estimate productivity contribution materially improves in 1H24 on easier comparisons

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
Productivity y/y \$s	21	13	18	12	0	-9	-8	-47	6	4	29	36	22	28	18	15
Two-year stack basis	25.8	21.6	15.7	10.0	21.0	4.0	10.0	(35.0)	6.0	(5.0)	21.0	(10.7)	28.4	32.0	46.9	51.3

Source: BofA Global Research, company filings

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Modeling neutral price vs. inflation in 2024E

Pre-COVID but following the split from nVent (measured as 2Q18-1Q20), price/cost spread (approximated by pricing contribution minus inflation headwind) averaged a \$(4.5)mn y/y headwind to operating profit. We note that the inflation metric includes all inflation to operating costs, not just cost of goods sold.

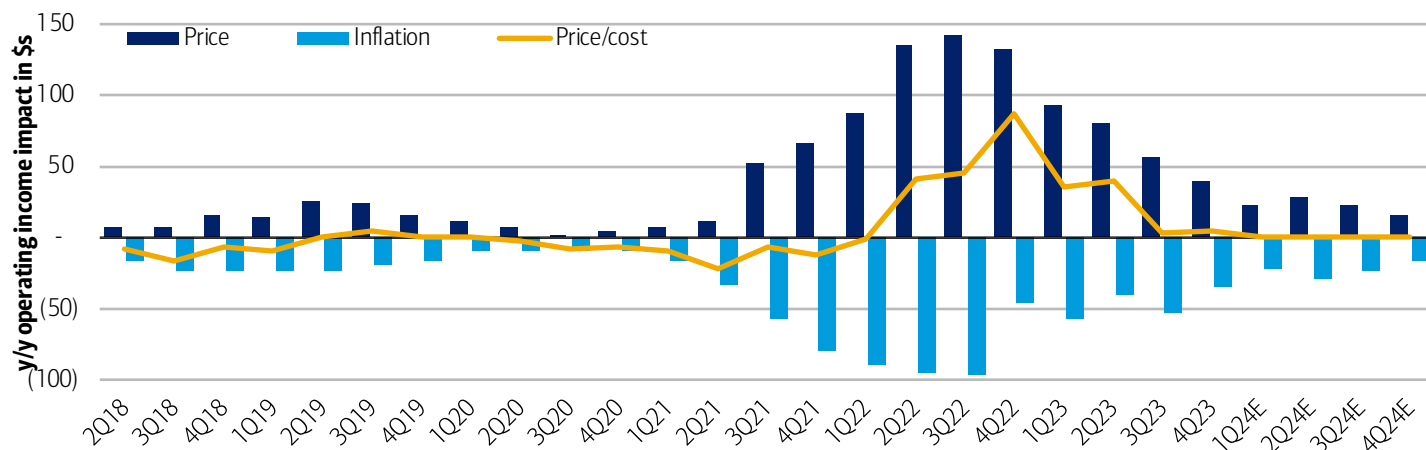
Price/inflation was largely positive during the supply chain-driven inflationary period, with the majority of the contribution coming from Pentair's pool segment. [Our Homebuilders colleagues Rafe Jadrosich and Shaun Calnan have estimated 30-35% inflation since 2019 in the pool industry](#); we would estimate Pentair had higher pricing given its premium product suite.

Management has consistently reiterated its dedication to improved pricing in its other two segments, Water Solutions and IFT, through its Transformation Initiatives. 3Q23 results provide an early indication of price/cost as the raw materials environment moderates. Price vs. inflation was negative in both Water Solutions and IFT. IFT price/cost had been positive since 4Q21 but was not able to fully offset the \$(24)mn of incremental inflation with its \$19mn of incremental price.

The company reported overall positive price/cost in 3Q23 on the strength of Pool pricing. Our concern into 2024 is that realized pricing in Pool will take a step down (2% vs. 8% in 2023E) as regular early buy discounts resume. We have received comments from investors that Pentair's commentary around 1-2% of realized price is likely conservative given more bullish indications from its distributor, Pool Corp, and competitor Hayward Holdings.

Exhibit 5: Price vs. inflation vs. price/cost, 2Q18-4Q24E

We forecast neutral price vs. inflation in 2024E on a dollar basis



Source: BofA Global Research, company filings

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As a result, we model PNR price/cost neutral on a dollar basis in 2024E. This reflects our lack of visibility on whether the pricing strategies in Water Solutions and IFT can yield positive price/cost going forward. More visibility on the ability to keep price/cost positive in these two segments or on a lack of discount in Pool would make us more bullish.

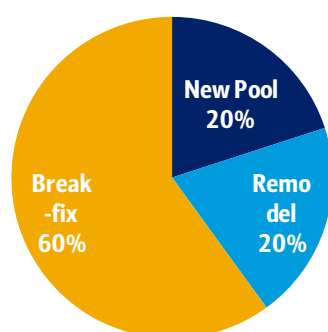
Pool returns to growth in 2024E

After 7 quarters of y/y declines (3Q22-1Q24; with 1Q24 only down 1%) and \$150mn destocking impact (9% headwind to 2023 Pool revenue), the Pool segment has bottomed and we forecast a positive inflection in 2Q24. The company expects that 3Q23 sales were the bottom and we should see sequential improvement from here in 4Q23/1Q24, which is different than typical seasonality to reflect end of destock

Pentair's pool business is largely comprised of break-fix and maintenance, repair and overhaul (MRO, ~60%). We estimate that this part of the business correlates more strongly with pool retail credit card spending (discussed below). Management has suggested that new pool and remodel could be flat y/y in 2024 based on the current rate environment. We lack conviction on MRO spending recovery next year, and higher rates will continue to pressure the new pool market.

Exhibit 6: Pentair's \$1.39bn Pool business, revenue breakout

The largest portion of the business is break-fix/MRO spending



Source: BofA Global Research estimates, company filings

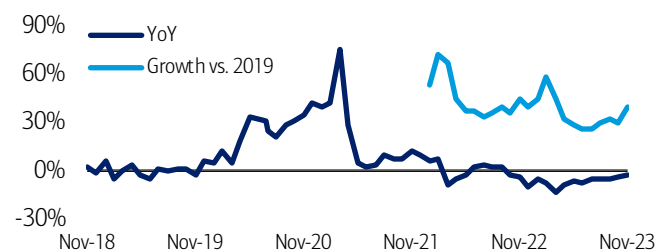
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Pool retail spending declines (2.9%) YoY in November

For the month of November 2023, spending at pool supplies merchants was (2.9%) lower YoY, the 14th consecutive month of YoY decline, per BAC aggregated credit and debit card spending data (BAC card data). On a month-over-month basis, spending was down (17.2%) in November, outperforming normal seasonality. Compared to November 2019, retail spending on pool supplies increased 40.1% in November 2023. Pool spending improved on a YoY basis and outperformed historical MoM seasonality in November (vs. the pre-COVID trend). We remain cautious on the outlook for the pool industry given spending continues to decline YoY against easier comparisons and we see risk to discretionary spending in a weaker macroeconomics / high interest rate environment. See the latest [BofA on USA](#) note for an explanation of the methodology, disclaimers and limitations related to BAC card data.

Exhibit 7: Monthly BAC aggregated credit and debit card data for pool supplies

Nov 2023 spending fell 2.9% YoY, the 14th straight month of YoY decline

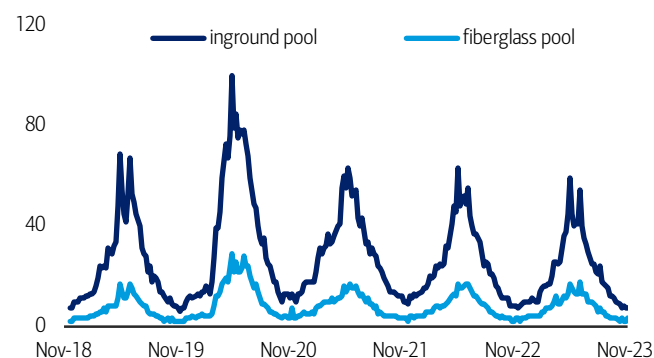


Source: BAC internal data

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Exhibit 9: Google trends: “inground pool” & “fiberglass pool”

November 2023 google searches inground pool were in-line with pre-COVID levels, while Fiberglass pool searches were above 2019 levels

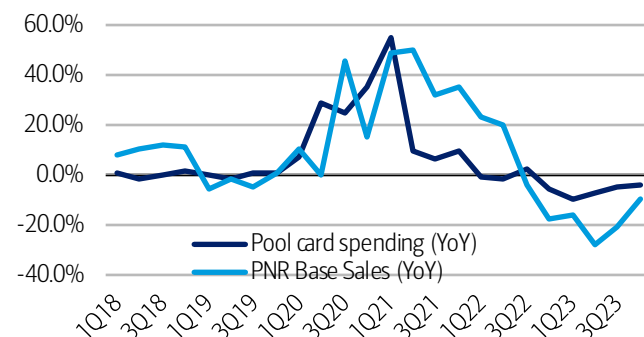


Source: BofA Global Research, Google Trends
Note: Data through week of December 3, 2023.

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Exhibit 8: Quarterly BAC aggregated credit and debit card data for pool supplies vs. PNR Pool sales

We forecast PNR sales down 10% y/y in 4Q23 vs. Pool card spending in October & November of (3.8)% y/y declines

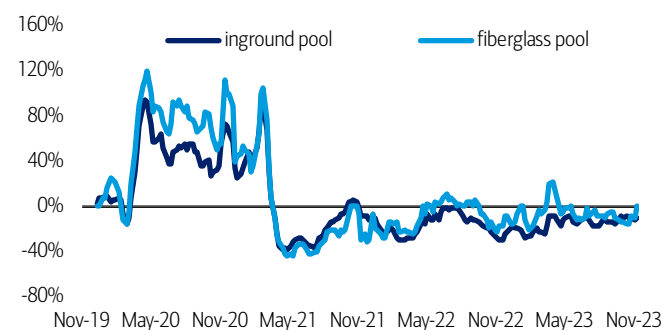


Source: BAC internal data, company reports

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Exhibit 10: “inground pool” & “fiberglass pool” change in trends (trailing 4-week avg)

Inground and fiberglass pool searches were down (9.4%) and flat YoY, respectively, in November



Source: BofA Global Research, Google Trends
Note: Data through week of December 3, 2023.

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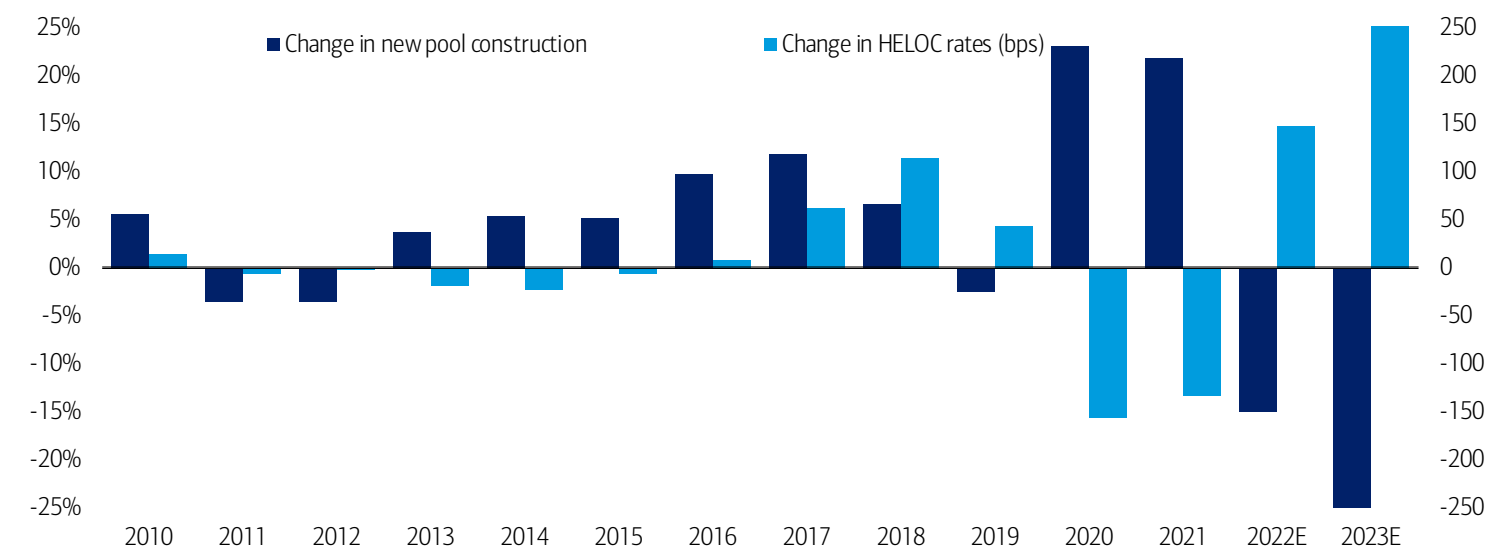
Destocking: still some inventory stuck in the channel

Investors have grown more constructive on Pentair given commentary from distributor POOL Corp on clearing out its excess inventory. We estimate 15% of total PNR sales go through POOL. Management commentary has indicated that while PNR feels its inventory has been cleared out of POOL, there are certain distributors that are still carrying excess inventory, which could have an incremental impact on sell-in rates in 2024.

Higher rates still weighing on pool outlook in 1H24

The “bull” case on Pool growth in 2024E is that the company is lapping a \$150mn destocking headwind (~11% to Pool growth) and should be able to realize 3-4% price. We conservatively model 2.5% price given the company anticipates the discounting pre-buy behavior to return in 1Q24. High HELOC rates will put pressure on new pool construction (20% of the Pool segment) given a strong negative correlation. We acknowledge that PNR is likely to outperform the market given a mix of higher-income customers and high-performance products.

Exhibit 11: Change in new pool construction vs. HELOC rates
New pool construction has an (85)% negative correlation with HELOC rates



Source: BofA Global Research, company files, Hayward Holdings, P.K. Data

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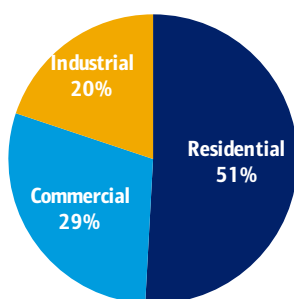
Sizable commercial construction exposure likely facing a downturn

Across its three segments, 29% of Pentair sells into commercial sales. While residential seemingly has bottomed, commercial construction typically follows residential construction. Our channel checks into 4Q-end were more conservative on the commercial construction end market.

Historically, commercial construction tends to lag residential construction by ~18 months. Given we have been in a residential downcycle for ~6 quarters so far (including 4Q23), we would expect commercial to follow.

Exhibit 12: PNR breakout by end market, 3Q23A

Residential end markets make up 51% of the business

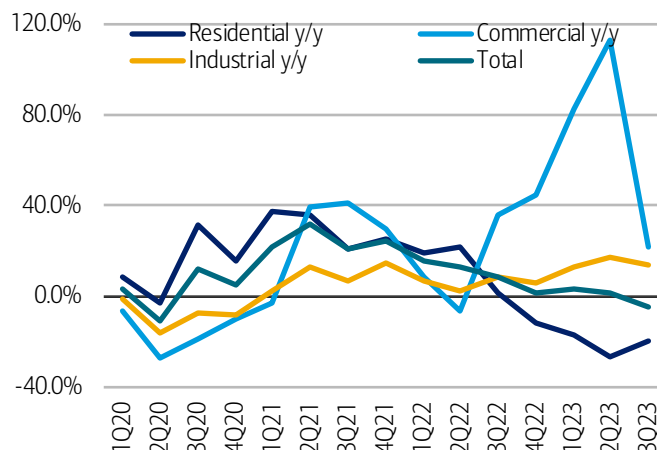


Source: BofA Global Research estimates, company filings

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Exhibit 13: Residential vs. industrial vs. commercial y/y growth

Industrial end market growth has been the least cyclical



Source: BofA Global Research, company filings

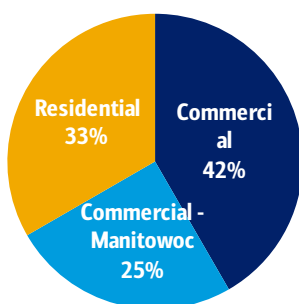
**Note: all-in revenue (not organic)

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We estimate ~75% of Water Solutions and ~1/3 of IFT sell into commercial end markets. We note that the Manitowoc business within Water Solutions (half of the commercial construction market or 1/3 of the total segment) is likely less cyclical. We estimate 18% of the IFT business is the company's beer filtration business. We consider "beer filtration" to be a subset of the commercial filtration exposure.

Exhibit 14: Water Solutions by end market, 2023E

Commercial end markets make up 75% of the business

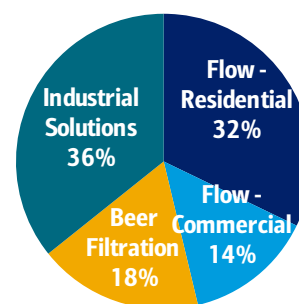


Source: BofA Global Research, company filings

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Exhibit 15: Industrial & Flow Technologies by end market, 2023E

Commercial end markets make up 32% of the business



Source: BofA Global Research, company filings

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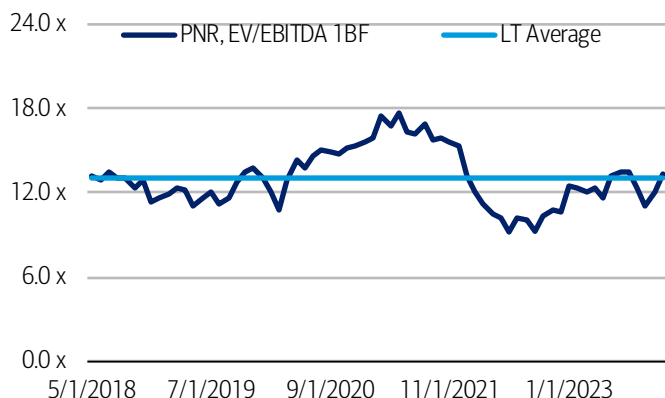
Valuation

Trading in line with the long-term average

Since the 2018 spin of nVent, PNR has traded at an average of 13.1x blended-forward 12 months EV/EBITDA (1BF) and 12.0x blended-forward 24 months EV/EBITDA (2BF). Currently, PNR is trading at a 2% premium to its average 1BF multiple and in line with its average 2BF multiple.

Exhibit 16: PNR 1BF EV/EBITDA vs. LT average

PNR is trading at a 2% premium to its long-term 1BF average

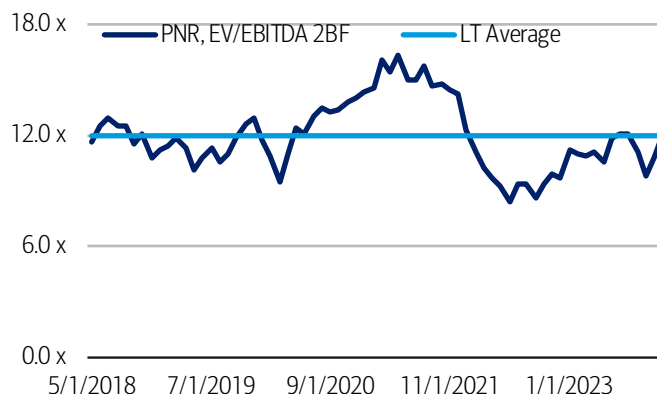


Source: BofA Global Research, Bloomberg

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Exhibit 17: PNR 2BF EV/EBITDA vs. LT average

PNR is trading in line with its long-term 2BF average



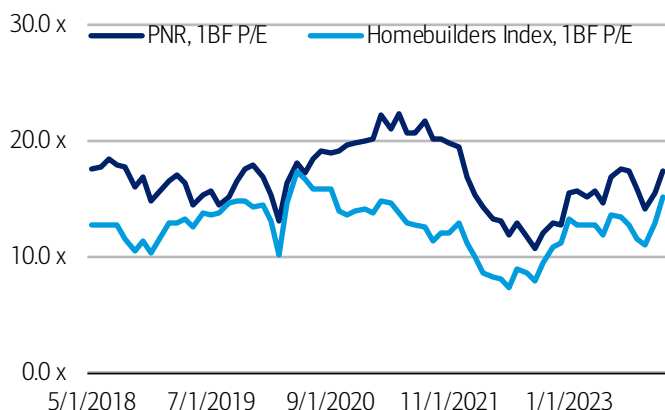
Source: BofA Global Research, Bloomberg

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Current Homebuilders share prices, while below COVID peaks, seem to reflect expectations for a robust cyclical recovery. PNR historically trades at a 135% premium to the Homebuilders index (SPSIHOTR Index) on a 1BF basis. It currently trades at a 115% premium. On a 2BF basis, it trades at a 111% premium vs. a 132% historical premium. We believe this reflects a desire for even more cyclical pure-play builders.

Exhibit 18: PNR 1BF P/E vs. Homebuilders Index 1BF P/E

PNR currently trades at a 115% premium to the Homebuilders Index on 1BF

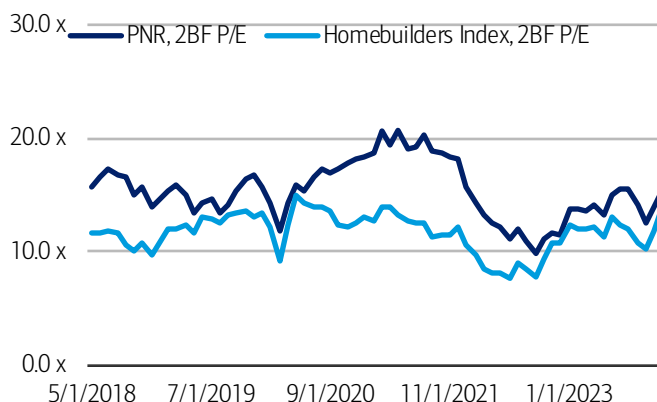


Source: BofA Global Research, Bloomberg

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Exhibit 19: PNR 2BF P/E vs. Homebuilders Index 2BF P/E

PNR currently trades at a 111% premium to the Homebuilders Index on 2BF



Source: BofA Global Research, Bloomberg

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Comparable company analysis

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 20: Pentair comparable valuation analysis

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

Company	Ticker	Stock Price 1/10/2024	P/E		EV/EBITDA		EBITDA Margin		EPS growth	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Dover	DOV	\$147.17	16.3 x	14.7 x	12.7 x	11.7 x	21.6%	22.1%	2.8%	10.7%
Hayward Holdings	HAYW	\$13.09	1.3 x	1.2 x	18.7 x	17.7 x	27.7%	27.9%	2.9%	7.7%
Mueller Water*	MWA	\$13.85	24.0 x	19.7 x	12.2 x	10.1 x	16.7%	18.4%	8.0%	19.7%
Thermon*	THR	\$30.92	16.3 x	14.6 x	11.0 x	9.3 x	21.7%	22.5%	13.9%	2.7%
Watts Water*	WTS	\$197.81	23.7 x	22.0 x	14.8 x	13.9 x	19.8%	20.2%	3.8%	7.9%
Xylem*	XYL	\$112.24	27.6 x	25.1 x	12.8 x	11.2 x	19.6%	20.6%	9.1%	9.9%
Zurn Water Solutions*	ZWS	\$28.13	<u>25.8 x</u>	<u>23.4 x</u>	<u>14.2 x</u>	<u>11.1 x</u>	<u>23.9%</u>	<u>24.4%</u>	<u>14.7%</u>	<u>10.4%</u>
AVERAGE			19.3 x	17.2 x	13.8 x	12.1 x	21.6%	22.3%	7.9%	9.9%
Pentair	PNR	\$70.74	16.8 x	15.3 x	13.0 x	12.2 x	23.7%	24.5%	12.3%	10.1%
Pentair at PO	PNR	\$76.00	18.1 x	16.4 x	13.9 x	13.0 x				

Source: BofA Global Research, Bloomberg

*Estimates from Bloomberg consensus

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Exhibit 21: 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

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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
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
	Vontier	VNT	VNT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Ansys, Inc.	ANSS	ANSS 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

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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Disclosures

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%

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