

PENTAIR INC
Form 425
April 24, 2012

PENTAIR
Q1 2012 EARNINGS RELEASE
April 24, 2012
Filed by Pentair, Inc.
pursuant to Rule 425 under the Securities Act of 1933
and deemed filed pursuant to Rule 14a-12
of the Securities Exchange Act of 1934

Edgar Filing: PENTAIR INC - Form 425

Subject Company: Pentair, Inc.
Commission File Number: 000-04689

PENTAIR

2

FORWARD-LOOKING STATEMENTS

Caution Concerning Forward-Looking Statements

This communication may contain certain statements about Pentair, Inc. (Pentair), Tyco Flow Control International Ltd. (Tyco Flow) and Tyco Flow Control International Ltd. (Tyco) that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements about the expected effects on Pentair, Tyco Flow and Tyco of the proposed merger of Pentair and Tyco Flow Control International Ltd. of the Merger, Pentair's and Tyco Flow's anticipated standalone or combined financial results and all other statements in this communication. In addition, to the extent that any statements preceded or followed by or that include the words targets , plans , believes , expects , intends , anticipates , projects , should , would , expect , positioned , strategy , future or words, phrases or terms of similar substance are included in this communication, such statements are forward-looking statements. These statements are based on the current expectations of the management of Pentair, Tyco Flow and Tyco (as the case may be) and are subject to changes in circumstances and involve risks and uncertainties that could cause actual results to differ materially from those expected.

PENTAIR

3

Well-Positioned

to

Serve

the

New

New

World

-

Growing Population and Wealth of Developing Economies

A World-Leading ~\$7.7B

*

Industrial Growth Company

-

A Global Leader in Flow, Filtration and Equipment Protection

PENDING PENTAIR & TYCO FLOW MERGER, **Previously Announced**

A Great Industrial Combination

Strong from the Start

-

More Global, More Diverse and More Scale

Stronger in the Future

-

Projected ~\$0.40 Accretive to 2013 EPS; Expect 2015 EPS of >\$5.00

-

Expect ~\$200M annual operational cost synergies with full realization by Yr 3

1

2

3

4

* Combined projected 2012 pro forma revenues. Tyco Flow financials calendarized to December.

PENTAIR

4

Adj. Op Income Up 10%

Adj. Op Margins 11.3%

Up 20 bps

Volume/Acq.

(0.8 pts.)

Price/Productivity

+3.0 pts.

Inflation
(2.0 pts.)
Adj. EPS Up 23%

Adj. Effective Tax Rate ~20%
(ETR ~29% excl. discrete tax item benefit)

Adj. Interest Up ~\$7M
Q1 Free Cash Flow of (\$82M)

Normal Seasonality and Timing

On Track to Deliver FY FCF >100% of NI

* All year-over-year comparisons against 2011 adjusted results.

** CPT refers to the acquisition of Norit's Clean Process Technologies Business; Closed May 12, 2011

FINANCIAL HIGHLIGHTS

SUMMARY

Sales Up 9%
(Incl. +9 pts from CPT
**
& (1 pt) from FX)

Water & Fluid Up 14%

Technical Products Down (1%)

Western Europe Plus Lower Flood-Related Pump
Sales Negatively Impacted Top-Line

Double Digit Growth in Industrial, Energy,
Agriculture and Pool

Pricing, Lean & Repositioning Drove Margins
up YoY, Despite Acquisition Impact

Below the Op Line, Lower Taxes YoY More than
Offset Higher Interest and Diluted Shares
Strong Execution Drove Double Digit Adj. Op Income Growth

Q1 '12 PENTAIR RESULTS

*

Q1 '12
Q1 '11
Sales
\$858M
\$790M
Op Income
(Rpt.)
\$85M
\$86M
Op Income

(Adj.)
\$97M
\$88M
ROS
(Adj.)
11.3%
11.1%
EPS
(Rpt.)
\$0.61
\$0.51
EPS
(Adj.)
\$0.64
\$0.52

PENTAIR

5

Operating Margins / Productivity Highlights

Sales Up 14%

Up 1% ex-CPT

Flow (3%)

-

Lower Flood-Related Pump, W. Europe & Muni Sales

Treatment/Process +34%

-

Strong Industrial, Energy Offsetting W. Europe Headwinds

Aquatic +18%

-

Strong Eco-Select Product Sales and Dealer Expansion

Fast Growth Regions Up 41%, including CPT

Sales Highlights

(by Platform)

Operating Margins 10.8%, incl. CPT impact

Solid Pricing and Productivity Execution, Along

with Repositioning Actions Benefited Margins;

More to Come Balance of Year

CPT Acquisition Seasonality Weighed on Margins

(~100bps negative impact), As Anticipated

Continued Investments in New Product

Development to Fuel Future Growth

Solid Pricing and Productivity ... Positive Secular Trends

SALES

OPERATING INCOME

Q1 12 WATER & FLUID SOLUTIONS PERFORMANCE

*

YoY

Q1 11

Prod./

Price

Infl.

Growth

Q1 12

\$1M

\$64M

\$17M

\$57M

\$515M

\$587M

(\$4M)

Q1 11

Volume

Price

FX

Q1 12

\$10M

(\$2M)

(\$11M)

\$68M

CPT Acq.

+14%

YoY

+12%

YoY

(0pts)

13pts

2pts

(1pt)

14pts

ROS

(2.1%)

(1.0%)

2.9%

10.8%

11.0%

ROS

* All year-over-year comparisons against 2011 adjusted results.

PENTAIR

6

Sales Down 1%

Flat ex-FX

Fast Growth Regions Up 1%

Industrial

+10%

Energy

+10%

Commercial
+5%

Infrastructure
+6%

General Electronics
(5%)

Communications
(23%)

Sec/Def, Medical
(10%)

Q1 12 TECHNICAL PRODUCTS PERFORMANCE

*

Industrial & Energy Strong
>100 bps Margin Expansion

SALES

OPERATING INCOME

Operating Margins / Productivity Highlights

Sales Highlights

(by End-Market Served)

Operating Margins 18.6%, Up 110bps

End of Life Telecom Project & W. Europe Headwinds
Impacted Top-Line; Minimal Op Margin Impact

Strong Gross Margin Performance, with Continued
Investments in Global Selling & Marketing

Pricing Initiated in Early March; Repositioning
Benefits Ramping through Year

YoY

\$275M

\$271M

(\$3M)

Q1 11

Volume

Price

FX

Q1 12

\$2M

(\$3M)

\$0M

Acq.

(1%)

YoY

(1pt)

0pts

1pt
(1pt)
(1pt)
Q1 11
Prod./
Price
Infl.
Growth
Q1 12
(\$2M)
\$50M
\$8M
\$48M
(\$4M)
+5%
YoY
ROS
(1.6%)
(0.3%)
3.0%
18.6%
17.5%
ROS

* All year-over-year comparisons against 2011 adjusted results.

PENTAIR

7

ROIC (After-tax)

9.4%

9.0%

Debt / Total Cap.

41.1%

40.4%

Q1 12

Maturity

Rate

Variable

2016

2.1%

Fixed

12

21

5.4%

\$1.4B

Q1 12

Avg. Rate ~4.9%

~78% Fixed

YE 11

\$1.1B

\$0.3B

Key Ratios Exclude Non-controlling Interest from Equity

BALANCE SHEET AND CASH FLOW

Good ROIC Progress

FY Free Cash Flow on Track

KEY RATIOS

CASH FLOW

DEBT SUMMARY

Q1

Q1

(\$M)

2012

2011

YOY Chg

Net Income attributable to

Pentair, Inc.

61

\$

51

\$

10

\$

Non-Cash Items

31

\$

27

\$

4

\$

Subtotal

92

\$

78

\$

14

\$

Working Capital

(124)

\$
(114)
\$
(10)
\$
Capital Expenditures
(16)
\$
(13)
\$
(3)
\$
Asset Sales
2
\$
-
\$
2
\$
Other Accruals/Other
(36)
\$
(12)
\$
(24)
\$
Free Cash Flow
(82)
\$
(61)
\$
(21)
\$
Q1
Q1
Use of Cash:
2012
2011
YOY Chg
Beginning Debt
1,309
\$
707
\$
(602)
\$
Cash Usage
82
\$
61

\$
(21)
\$
Divestitures
-
\$
-
\$
-
\$
Share Repurchase
-
\$
-
\$
-
\$
Dividends
22
\$
20
\$
(2)
\$
Borrowings
-
\$
-
\$
-
\$
Other
2
\$
20
\$
18
\$
Ending Debt
1,415
\$
808
\$
(607)
\$

PENTAIR

8

Top-Line Challenges Largely As Expected

-

Anticipated Sluggish Municipal Business, End of Life Telecom Project and Foreign Exchange

-

Flood-Related Pump Sales & Western Europe Worse than Expected

Strong Growth Continued in Many End-Markets We Serve

Including US Industrial +18%, Pool +18%, Energy +17% and Agriculture +22%

Adj. Op Income Grew 10% in Q1, Great PIMS Execution

-
- Operating Excellence, Solid Pricing & Repositioning Actions Yielding Results
-
- Targeted Investments in Global Marketing Capabilities and New Product Development

On-Track to Deliver Full Year Adj. Operating Income Targets

Q1 12 SUMMARY

Strong Execution Across Businesses

Solid Start to 2012

PENTAIR

9

Flow (~40% of Water & Fluid Solutions Sales Mix)

-

Expect W. Europe & Municipal Headwinds to Continue
in 1H; Easier Comparisons in 2H

Treatment/Process (~38% of Sales Mix)

-

Expect Industrial/Energy to Remain Strong;
Stabilized US Residential with Easier 2H Comparisons

-
Expect W. Europe Headwinds to Continue; Expect Fast
Growth Regions Sales to Improve

Aquatic (~22% of Sales Mix)

-
Significant Pool Installed Base; Expect Good Demand
with Eco-Select Products Growing Beyond Market

-
Brazil Acquisition Expected to Benefit Sales >\$10M

SALES

GROWTH

EXPECTATIONS

(FY

2012)

Nice Growth in Many Verticals

Mitigating W. Europe & Muni Headwinds

Water &

Fluid

Solutions,

69%

Technical

Products,

31%

Industrial

37%

Communications

20%

Energy

11%

General Electronics

11%

Commercial

7%

Infrastructure

6%

Other

8%

WATER & FLUID SOLUTIONS (FY 12)

TECHNICAL PRODUCTS (FY 12)

SALES MIX BY SEGMENT

Strength in [Breadth of Portfolio](#)

&

Alignment with [Global Mega Trends](#)

Expect Attractive Growth in
Industrial and Energy

Softness in

Electronics and Communications

Expected to Continue

Lumpy Telecom Program Impact 1H ~\$15M YOY

Solid Growth in
Commercial and Infrastructure

Expected to Continue

Residential

52%

US

68%

Non-US

32%

Industrial

18%

Commercial

13%

Municipal

11%

Agriculture

6%

PENTAIR

10

FY'11

FY'12e

Q1'11

Q1'12

11.7%

Prioritization of Investments,
Accelerating Productivity &
Anniversary of CPT to Help
Margins Balance of Year

11.1%

~12.3%
11.3%
+20 bps
incl. CPT
acq. impact

More Productivity

Robust Productivity Programs + Lean Discipline

Benefit from Q4 Repositioning Actions, Expect
~\$20M for Full Year

Lapping CPT Acquisition Impact Mid Q2; YoY Improvements
on Track for CPT Business

Better Price/Cost

Q1 Pricing of 1.3%
Expect Full Year Pricing >1.5% with
Most Pricing in Effect by Early March

Modest Easing of Material Inflation with Good Visibility on
Most Key Inputs, Significant Inflation of ~4.8% in 2011

Sustaining, Strategic Investments

Continued Investments in New Product Development
and Global Selling & Marketing

Slower Pace
(at midpoint)

OPERATING

MARGIN

EXPECTATIONS

(Q1/FY
2012)

Good Start

More Pricing, Productivity + Paced
Investments

ADJ. OP MARGIN*

OPERATING MARGIN EXPECTATIONS

+50 bps

to

80 bps

PENTAIR

11

Op Income Up 7% -
12%

Op Margins 13.5% -
14.0%, up 20 to 70 bps

Water & Fluid Margins
~14.5%

Technical Products Margins
~18.5%

EPS Up 5% -
9%

Adj. Tax Rate 28% -
29%

Interest Up ~\$3M

Q2 12 FINANCIAL OUTLOOK

KEY HIGHLIGHTS

Sales Up 6% -
8%

(incl. ~4pts from CPT Acq.)

Water & Fluid Up 9% -
11%

Technical Products Flat to Down (2%)

Q2 12

Q2 11

Sales

\$965M -

\$980M

\$910M

Op Income

(Rpt.)

\$130M -

\$135M

\$109M

Op Income

(Adj.)

\$130M -

\$135M

\$121M

ROS

(Adj.)

13.5% -

14.0%

13.3%

EPS

(Rpt.)

\$0.79 -

\$0.82

\$0.67

EPS

(Adj.)

\$0.79 -

\$0.82

\$0.75

Expanded Coverage & Penetration, New Products

and Fast Growth Region Sales to Fuel Top-line

Expect Good Growth in Industrial, Pool, Energy &
Agriculture to Continue
Slower Decline in Muni

Repositioning Benefits and Pricing Realization
Ramping from Q1, Plus Productivity to Drive
Margin Expansion
Expanded Penetration, New Products & Margin Expansion Driving Growth

Q2 12 PENTAIR OUTLOOK

*

Q2 Free Cash Flow of ~\$180M

Expect FCF >100% of Net Income

* 2012 Q2 outlook excludes all impacts of the Tyco Flow Deal; All year-over-year comparisons against 2011 adjusted results

PENTAIR

12

FY 12 FINANCIAL OUTLOOK

KEY HIGHLIGHTS

New Products, Expanded Distribution and Fast
Growth Regions Expected to Fuel Growth

Expect Better Price/Cost, More Productivity
and Prioritized Investments to Expand Margins

Expect to Generate FCF > Net Income, with

Disciplined Allocation

Integration Planning & Leadership is Critical

Tyco Flow Deal Not Reflected in this Outlook

Growth and Productivity Strategies In Place

Well Positioned in 2012

FULL YEAR 2012 PENTAIR OUTLOOK

*

FY 12

FY 11

Sales

~\$3.7B

\$3.46B

Op Income

(Rpt.)

\$433M -

\$458M

\$169M

Op Income

(Adj.)

\$445M -

\$470M

\$404M

ROS

(Adj.)

up 50 bps -

80 bps

11.7%

EPS

(Rpt.)

\$2.62 -

\$2.77

\$0.34

EPS

(Adj.)

\$2.65 -

\$2.80

\$2.41

Adj. Op Income Up 10% -

16%

Adj. Op Margins Up 50 bps -

80 bps

Water & Fluid Margins, Up ~50 bps

Technical Products Margins, Up ~100 bps

Adj. FY EPS Up 10% -

16%

Adj. Tax Rate 26% -
27%

Adj. Interest Up ~\$8M YoY
Sales Up 6% -
8%
(incl. ~3pts from CPT Acq.)

Water & Fluid Up 8% -
10%

Technical Products Up 2% -
4%

FY 12 Free Cash Flow ~\$270M

Expect >100% Net Income Conversion

* 2012 full year outlook does not include any future impact from Tyco Flow Deal; All year-over-year comparisons against 2011

PENTAIR

13

Consistent Strategy, Aligned with Demands of the New
New World

-

Good Execution on Growth Initiatives; Agriculture, Energy and Industrial Process All Up
Double Digits in Q1

Pentair Integrated Management System Driving Growth and
Margin Expansion

-

Lean Discipline, Productivity Rigor and Cost Containment Programs In Place

-

Pricing and Repositioning Benefits Ramping Throughout the Year

Leverage Investments in Fast Growth Regions and Innovation

-

Good Growth Plans and Growing Scale in Fast Growth Regions

-

Exciting Product Launches Planned for 2H of 2012; Focus on Sustainability, Efficiency, Automation and Control

ROIC Improvements on Track

Approaching Double Digits

SUMMARY

Consistent Strategy

Great Progress

PENTAIR
14
APPENDIX
GAAP to Non-GAAP Measurements & Reconciliations

PENTAIR

15

GAAP TO NON-GAAP RECONCILIATIONS

\$ in thousands

Q111

Q211

Q311

Q411

Q112

Reported Operating Income

86,177

\$

109,422

\$

92,903

\$

(119,985)

\$

84,952

\$

Adjustments

1,906

11,392

7,877

214,010

11,831

Adjusted Operating Income

88,083

\$

120,814

\$

100,780

\$

94,025

\$

96,783

\$

Reported Provision for Income Taxes

25,053

\$

27,344

\$

24,050

\$

(3,388)

\$

9,079

\$

Effect of Adjustments on Provision for Income Taxes

618

2,589

1,315

24,187

7,451

Adjusted Provision for Income Taxes

25,671

\$

29,933

\$

25,365

\$

20,799

\$

16,530

\$

Reported Effective Tax Rate

32.5%

28.6%

31.6%

2.5%

12.7%

Adjusted Effective Tax Rate

32.5%

28.0%

30.2%

27.0%

20.0%

NOPAT

59,456

\$

86,977

\$

70,341

\$

68,601

\$

84,492

\$

Trailing four quarter NOPAT

243,141

\$

263,734

\$

272,497

\$

285,374

\$

310,410

\$

Ending Invested Capital (excluding noncontrolling interest)

2,918,453

\$

3,587,289

\$

3,478,386

\$

3,192,339

\$

3,387,353

\$

Trailing five quarter average invested capital

2,777,584

\$

2,931,471

\$

3,091,372

\$

3,186,207

\$

3,312,764

\$

After Tax Return on Invested Capital

8.8%

9.0%

8.8%

9.0%

9.4%

NOPAT (Net Operating Profit After Tax) is Defined as [(Adjusted OI) X (1 - Adjusted Effective Tax Rate)]

Ending Invested Capital is Defined as [Total Shareholders' Equity - Noncontrolling interest + Long-term Debt + Current Maturities - Cash and Cash Equivalents]

Free Cash Flow

Net cash provided by (used for) operating activities

(48,180)

\$

200,791

\$

87,948

\$

79,666

\$

(67,509)

\$

Capital expenditures

(13,268)

(21,953)

(17,842)

(20,285)

(15,621)

Proceeds from sale of property and equipment

42

47

50

1,171

1,528

Free cash flow

(61,406)

\$

178,885

\$

70,156

\$

60,552

\$

(81,602)

\$

Free Cash Flow is Defined as [Net cash provided by (used for) continuing operations - Capital Expenditures + Proceeds from s

PENTAIR

16

REPORTED TO ADJUSTED 2012 RECONCILIATION

Pentair, Inc. and Subsidiaries

Reconciliation of the GAAP "As Reported" year ending December 31, 2012 to the "Adjusted" non-GAAP
excluding the effect of 2012 adjustments (Unaudited)

Total Pentair

First Quarter

Year

In millions, except per-share data

2012

2012

Net sales
858.2
\$
approx \$3.700
Operating income -
as reported
85.0
approx 433 -
458
% of net sales
9.9%
approx. 12%
Adjustments:
Deal related costs
11.8
11.8
Operating income -
as adjusted
96.8
approx 445 -
470
% of net sales
11.3%
approx. 12%+
Net income attributable to Pentair, Inc. -
as reported
60.8
approx 265 -
281
Interest expense
(1.2)
(1.2)
Adjustments net of tax
4.4
4.4
Net income from continuing operations attributable
to Pentair, Inc. -
as adjusted
64.0
approx 268 -
284
Continuing earnings per common share attributable to Pentair, Inc. -
diluted
Diluted earnings per common share -
as reported
0.61
\$
\$2.62 -
\$2.77
Adjustments

0.03

0.03

Diluted earnings per common share -
as adjusted

0.64

\$

\$2.65 -

\$2.80

PENTAIR

17

Note: Inventory step-up and customer backlog reflect amortization of fair market value step-up associated with inventory and
REPORTED TO ADJUSTED 2011 RECONCILIATION

Pentair, Inc. and Subsidiaries

Reconciliation of the GAAP "As Reported" year ending December 31, 2011 to the "Adjusted" non-GAAP
excluding the effect of 2011 adjustments (Unaudited)

Total Pentair

First Quarter

Second Quarter

Third Quarter

Fourth Quarter

Year

In millions, except per-share data

2011

2011

2011

2011

2011

Net sales

790.3

\$

910.2

\$

890.5

\$

865.7

\$

3,456.7

\$

Operating income - as reported

86.2

109.4

92.9

(120.0)

168.5

% of net sales

10.9%

12.0%

10.4%

(13.9%)

4.9%

Adjustments:

CPT deal related costs

1.7

6.1

0.5

8.3

Restructuring

2.1

10.8

12.9

Inventory step-up and customer backlog

0.2

5.3

5.8

2.2

13.5

Goodwill impairment

200.5

200.5

Operating income - as adjusted

88.1

120.8

100.8

94.0

403.7

% of net sales

11.1%

13.3%

11.3%

10.9%

11.7%

Net income attributable to Pentair, Inc. - as reported

50.5

66.7

51.1

(134.1)

34.2

Adjustments net of tax

1.3

8.8

6.6

189.8

206.5

Net income from continuing operations attributable
to Pentair, Inc. - as adjusted

51.8

75.5

57.7

55.7

240.7

Continuing earnings per common share attributable to Pentair, Inc. - diluted

Diluted earnings per common share - as reported

0.51

\$

0.67

\$

0.51

\$

(1.36)

\$

0.34

\$

Adjustments

0.01

0.08

0.07

1.92

2.07

Diluted earnings per common share - as adjusted

0.52

\$

0.75

\$

0.58

\$

0.56

\$

2.41

\$

PENTAIR

18

Note: Inventory step-up and customer backlog reflect amortization of fair market value step-up associated with inventory and
REPORTED TO ADJUSTED 2011 RECONCILIATION

Pentair, Inc. and Subsidiaries

Reconciliation of the GAAP "As Reported" year ending December 31, 2011 to the "Adjusted" non-GAAP
excluding the effect of 2011 adjustments (Unaudited)

Water

First Quarter

Second Quarter

Third Quarter

Fourth Quarter

Year

In millions

2011

2011

2011

2011

2011

Net sales

515.4

\$

632.0

\$

614.6

\$

607.9

\$

2,369.8

\$

Operating income - as reported

56.5

\$

84.5

\$

59.6

\$

(142.3)

\$

58.3

\$

% of net sales

11.0%

13.4%

9.7%

(23.4%)

2.5%

Adjustments:

Restructuring

2.0

7.8

9.8

Inventory step-up and customer backlog

0.2

5.3

5.8

2.2

13.5

Goodwill impairment

200.5

200.5

Operating income - as adjusted

56.7

89.8

67.4

68.2

282.1

% of net sales

11.0%

14.2%

11.0%

11.2%

11.9%

Technical Products

Net sales

274.9

\$

278.2

\$

276.0

\$

257.8

\$

1,086.9

\$

Operating income - as reported

48.1

\$

48.3

\$

48.6

\$

40.3

\$

185.3

\$

% of net sales

17.5%

17.3%

17.6%

15.6%

17.0%

Adjustments - Restructuring

0.1

2.0

2.1

Operating income - as adjusted

48.1

48.3

48.7

42.3

187.4

% of net sales

17.5%

17.3%

17.7%

16.4%

17.2%