Pentair

Q1 2010 Earnings Release

April 27, 2010

Any statements made about the company's anticipated financial results are forward-looking statements subject to risks and uncertainties such as the magnitude, timing and scope of recovery from the global economic downturn; the strength of housing and related markets; the risk that expected benefits from our recent restructuring and other cost reduction plans may not be fully realized, or may take longer to realize than expected; foreign currency effects; material inflation outpacing our productivity and pricing actions; retail, commercial and industrial demand; product introductions; and pricing and other competitive pressures, as well as other risk factors set forth in our SEC filings. Forward-looking statements included herein are made as of the date hereof, and the company undertakes no obligation to update publicly such statements to reflect subsequent events or circumstances. Actual results could differ materially from anticipated results.

▶▶▶ Q1'10 Pentair Results*

	Q1'10	Q1'09
Sales	**$707M**	**$634M**
Op Income (Reported)	**$64M**	**$37M**
Op Income (Adjusted)	**$64M**	**$40M**
ROS (Adjusted)	*9.0%*	*6.3%*
EPS (Reported)	**$0.35**	**$0.18**
EPS (Adjusted)	**$0.35**	**$0.20**

Business Highlights

- **Nice Growth In Many Key Markets**
- **Solid Start To 2010 With Financial Results**
  - **Operating Margins Up 270 Bps**
  - **EPS Improved 75% Year Over Year**
- **Margins Include "Final" Plant Moves and Costs Associated with Reinstating Certain Employee Benefits and Incentives**

Financial Highlights

Sales Up 12%

- **Water Up 13%**
- **Technical Products Up 9%**

Operating Income Up ~ 60%

Operating Margins 9.0% … Up 270 bps

- **Volume / Mix** 2.1 pts.
- **Price** (0.5) pts.
- **Inflation** (0.1) pts.
- **Net Productivity** 1.2 pts.

EPS of $0.35 Up 75%

- **Q1'10 Tax Rate 33.5% … ~ 1pt. Higher Than Outlook**
- **Q1'10 Interest Expense Better by $2M**

Q1 Free Cash Flow ($22M)

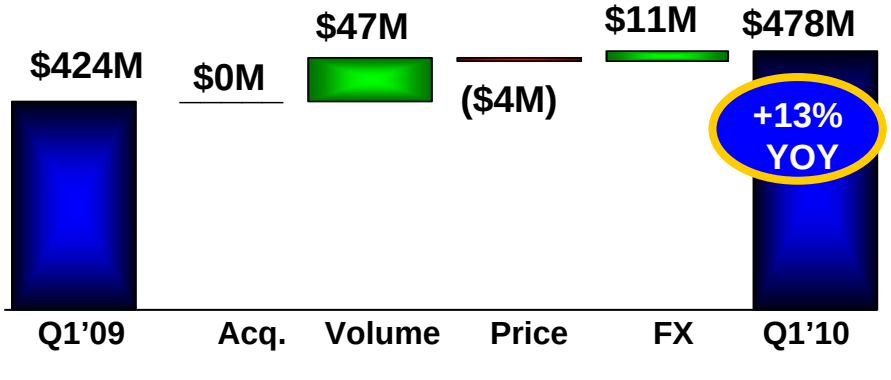
- **$11M Better Than Q1'09**
- **On Track to Achieve $225M for Year**

A Strong Start To 2010 … Solid Sales and EPS Growth

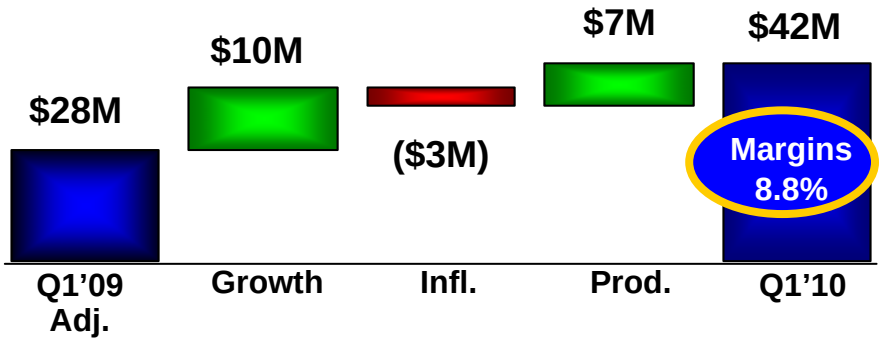
**2010 & 2009 Results From Continuing Operations; All Year over Year Comparisons Against 2009 Adjusted Results*

▶▶▶Q1'10 Water Performance*

Q1 Sales



Q1 Operating Income



Sales Highlights

- **Sales Up 13% … 11% Organic, ex-FX**
  - **Residential Flow GBU: Up 12%**
  - **Residential Filtration GBU: Up 14%**
  - **Pool GBU: Up 25%**
  - **Engineered Flow GBU: Up 10%**
  - **Filtration Solutions GBU: Up 8%**

Operating Margins / Productivity

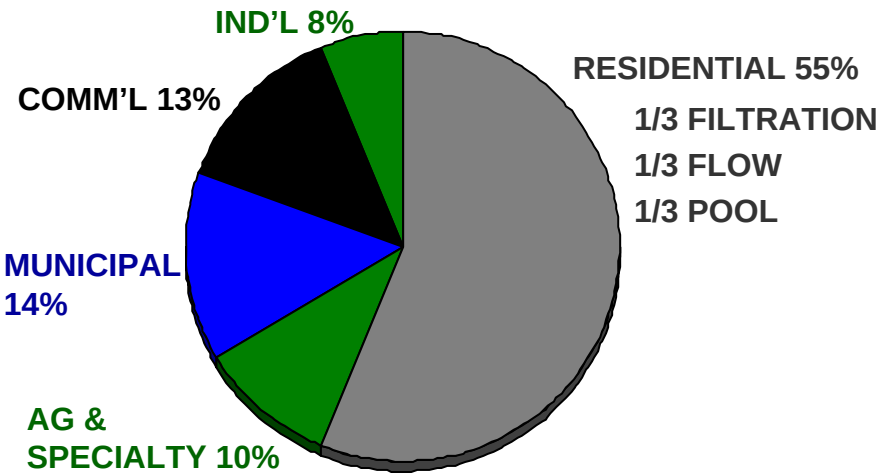
- **Operating Margins 8.8% … Up 210 bps**
  - **Solid Growth Yields Margin Expansion**
  - **Material / Plant Performance In line with Expectations**
  - **Q1'10 Includes ~100 basis points of "Final" Pay-as-you-go (PAYG) Plant Move Costs**
  - **Solid Order Trends Continuing In April**

Double Digit Sales Growth … Plant Moves Finished

**2010 & 2009 Results From Continuing Operations; All Year over Year Comparisons Against 2009 Adjusted Results*

▶▶▶Market Analysis – Water

Major Market Sales Split (2009)



Geographic Split (2009)

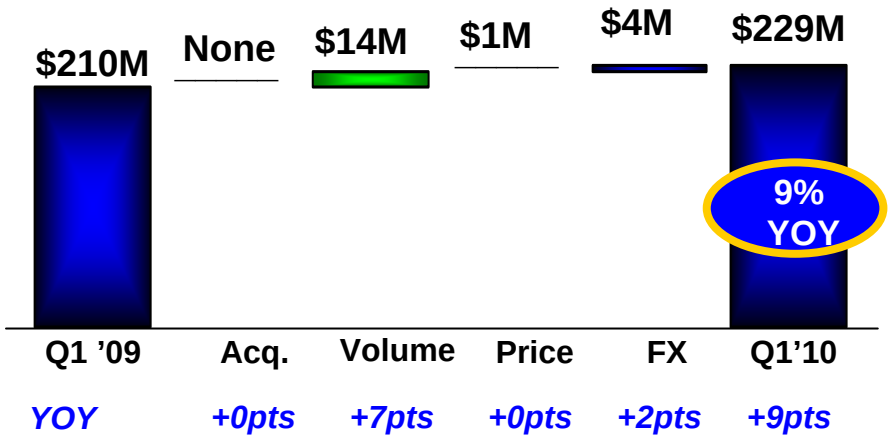
		'10 Growth Est.
U.S.	**65%**	**5 to 10%**
W. Europe	**17%**	**~ 5%**
Developed Asia	**4%**	**~ 15%**
Fast Growth	**14%**	**~ 20%**

- **Global Residential:** Double Digit Growth Continues in 2010 … Q2 Season Will Inform View for FY 2010
- **Global Commercial:** Down (10%+) for FY'10 As Commercial Construction Down >(20%) … Food Service Up 10%+ Partially Offsets
- **Global Industrial:** Up Double Digits On Smaller Base … New Systems & Industrial Products Help Gain Share
- **Global Municipal:** Market Strength Continues and Pentair Grows ~ 20% With GIWW Job Contributing Over 10pts of Growth in 2010
- **Developed Non-US:** Growing … But Remain Cautious As European Economy Uncertain
- **Fast Growth Regions:** Q1 Strong Double Digits and Expect ~ 20% For Full Year

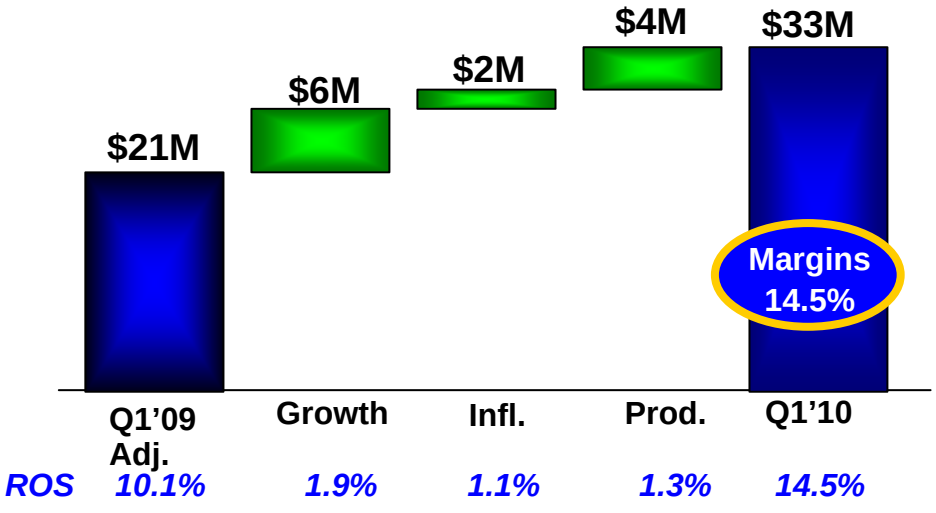
Positive View of Most Markets … Supports ~ 10% Growth

▶▶▶Q1'10 Technical Products Performance*

Q1 Sales



Q1 Operating Income



Sales Highlights

- **Sales Up 9% … 7% ex-FX**

Key Vertical Market Revenue Growth:

- General Electronics +26%
- Industrial +18%
- Infrastructure +15%
- Energy +4%
- Communications (1%)
- Commercial (2%)

Operating Margins / Productivity

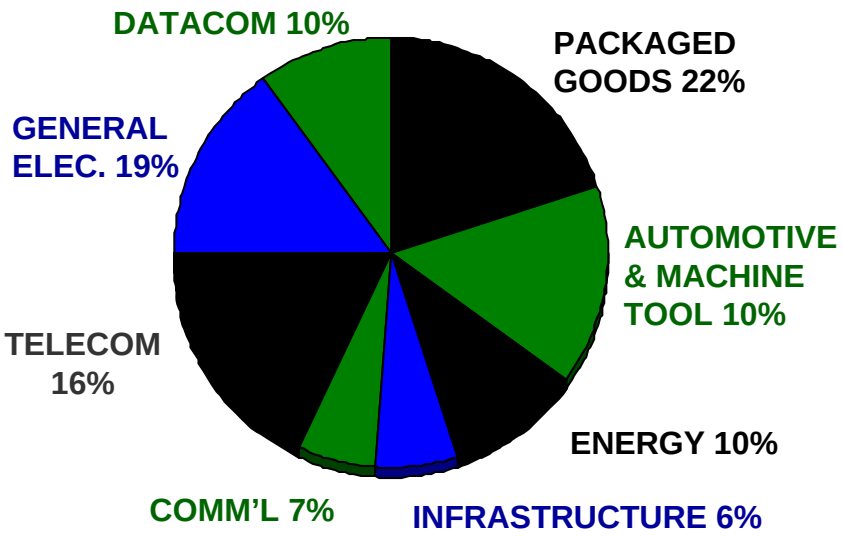
- **Operating Margins 14.5%, Up 440bps**
  - Growth and Solid Productivity
  - Continue To Make Great Progress With Material Productivity
- **Key Restructuring Actions**
  - Results include ~50 basis points of PAYG Plant Move Costs (Complete by Early May)

Revenue Growth and Margin Expansion Sets up the Year

**2010 & 2009 Results From Continuing Operations; All Year over Year Comparisons Against 2009 Adjusted Results*

▶▶▶Market Analysis – Tech Products

Major Market Sales Split (2009)



Geographic Split (2009)

		'10 Growth Est.
U.S.	**64%**	**~ 5%**
W. Europe	**22%**	**~ 5%**
Developed Asia	**2%**	**~ 20%**
Fast Growth	**12%**	**~ 30%**

- **Datacom / Telecom:** Overall Expect ~ 5% Growth As Orders / Backlog and Markets Stabilizing
- **General Electronics:** Up Low Double-Digits as Test & Measurement and Medical Remain Strong
- **Industrial / Automotive / Pkg'd Goods:** Up Low Double Digits For Full Year As Overall Market Recovery Gaining Momentum
- **Energy & Infrastructure:** Energy Markets Improving and Municipal / Infrastructure Remains Strong Throughout 2010 … Expect 8% to 10% Growth
- **Developed Non-US:** Growing … But At Mid Single Digits Given Uncertain W. Europe
- **Fast Growth Regions:** Q1 Strong Double Digits and Expect ~30% For Full Year

Positive View of Markets … Supports High-Single Digit Growth

▶▶▶Balance Sheet & Cash Flow

Cash Flow

($M)	Q1 2010	Q1 2009	YOY Chg
Net Income	**$ 35.3**	**$ 17.3**	**$ 18.0**
Non-Cash Items	$ 28.1	$ 27.1	$ 1.0
Subtotal	**$ 63.4**	**$ 44.4**	**$ 19.0**
Working Capital	$ (82.1)	$ (44.0)	$ (38.1)
Capital Expenditures	$ (12.1)	$ (16.0)	$ 3.9
Asset Sales	$ 0.1	$ 0.3	$ (0.2)
Other Accruals/Other	$ 8.5	$ (17.5)	$ 26.0
Free Cash Flow	**$ (22.2)**	**$ (32.8)**	**$ 10.6**

Use of Cash:	Q1 2010	Q1 2009	YOY Chg
Beginning Debt	**$ 806**	**$ 954**	**$ 148**
Generated Cash	$ 22	$ 33	$ 11
Divestitures	$ -	$ -	$ -
Share Repurchase	$ -	$ -	$ -
Dividends	$ 19	$ 18	$ (1)
Other	$ 19	$ (5)	$ (24)
Ending Debt	**$ 866**	**$ 1,000**	**$ 134**

Debt Summary

$0.87B		Maturity	Rate
$605M	Private Placement	'12 – '17	5.5%
$261M	Revolver / Other	2012	0.9%
Q1'10	*~70% Fixed …*		*Avg. Rate 4.1%*

Key Ratios

	Q1'10	YE'09
ROIC (After-tax)	**6.7%**	**6.2%**
Return on Equity	**7.0%**	**5.9%**
Debt / Total Cap.	**30.2%**	**28.6%**

Key Ratios Exclude Non-controlling Interest from Equity

Q1'10 Cash Flow > Q1'09 … On Track For $225M FY'10

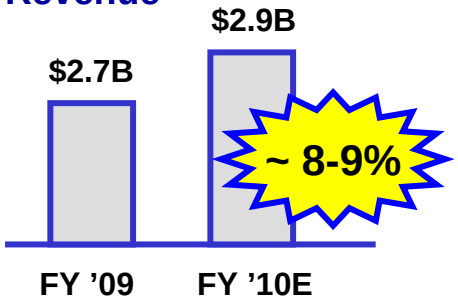
▶▶▶Q1 2010 Summary

- **Growth:** Solid start to year in both Water and Technical Products
- **Markets:** Pentair well-positioned to leverage investments as markets stabilize and grow. Customer wins encouraging
- **Globalization/New Products:** New Products and New / Expanding Geographies are yielding results
- **Margins:** Plant move costs now behind us … Even better margin leverage on Growth in Q2–Q4
- **Investments:** Reinstated merit increases, 401K match, bonus accruals and adding growth resources in Selling, Marketing and R&D
- **Cash:** Great start to year. Q1 always a use of cash but $11M better than Q1 2009 and we expect Q2 to maintain momentum
- **Outlook:** Maintaining strong growth and EPS outlook for Full Year

Q1 Modestly Better than Expected … Solid Start to Year

▶▶▶ Key Revenue / Cost Structure Update

Revenue



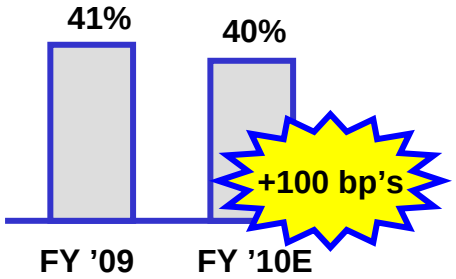
Q1 Performance/Comments

- Up 12% YOY
- NA Residential Recovering
- Global Industrial Recovering
- Global Commercial Declining

Full Year Expectations

- Up > $200M YOY
- 30-40% Op Income Conversion
- Q2 Season a "Check Point"
- GIWW Deliveries 2H'10 (~$45M)

Material/Sales



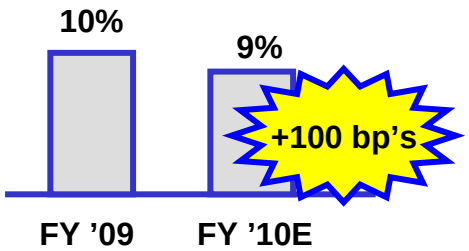
Q1 Performance/Comments

- Q1 at 40% of Sales
- Price ($3M) … Materials still Low
- Unfavorable Mix Improves in Q2-Q4
- New Products have Better Cost Position

Full Year Expectations

- $30M YOY Improvement
- Price offsets Inflation
- Pipeline for 2011 Productivity
- Localization Efforts Helping

Hourly Labor/Sales



Q1 Performance/Comments

- Slightly Above 10% for Q1
- Unfavorable Q1 Mix Improves Sequentially

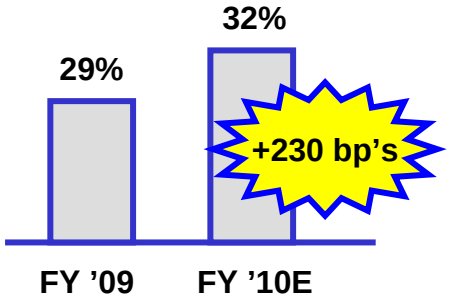
Full Year Expectations

- $20M of Improvement
- '09 Restructuring + Lean
- Merit/401K Headwinds Included
- Reynosa/Suzhou Plants Making Solid Improvements Post Mfg Consolidation

Q1 Performance in Line with Full Year Expectations

▶▶▶ Key Revenue / Cost Structure Update

Gross Margin



Q1 Performance/Comments

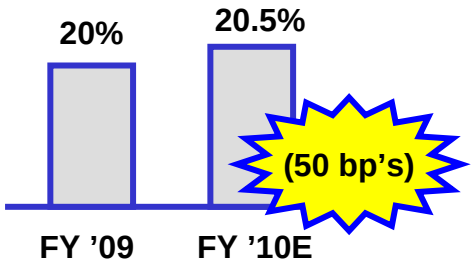
- 30.2% Q1 Gross Margin
- Q1 is Seasonally Worst Quarter of Year
- Q1 Inclusive of Plant Move Costs
- Suzhou/Reynosa have Doubled vs. '09

Full Year Expectations

Positive Benefits:

- $30M YOY of Material
- $20M YOY of Hourly Labor
- ~$30M + of Volume/OH Leverage
- +~$80M YOY Performance

Op Expenses



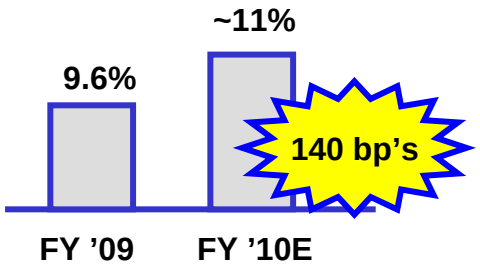
Q1 Performance/Comments

- Q1 was 21.2%
- Over $15M YOY of Employee Costs and Sales Incentive Accruals (YOY Comps Ease in 2H'10)
- Volume Leverage Expected on Flattish Q1 Run-Rate (~$150M/Quarter)

Full Year Expectations

- Full Year Target of 20.5%
- Long-term Target of 20%
- Restart Employee Costs + Accelerating Investments in R&D and Selling and Marketing

Op Margin



Q1 Performance/Comments

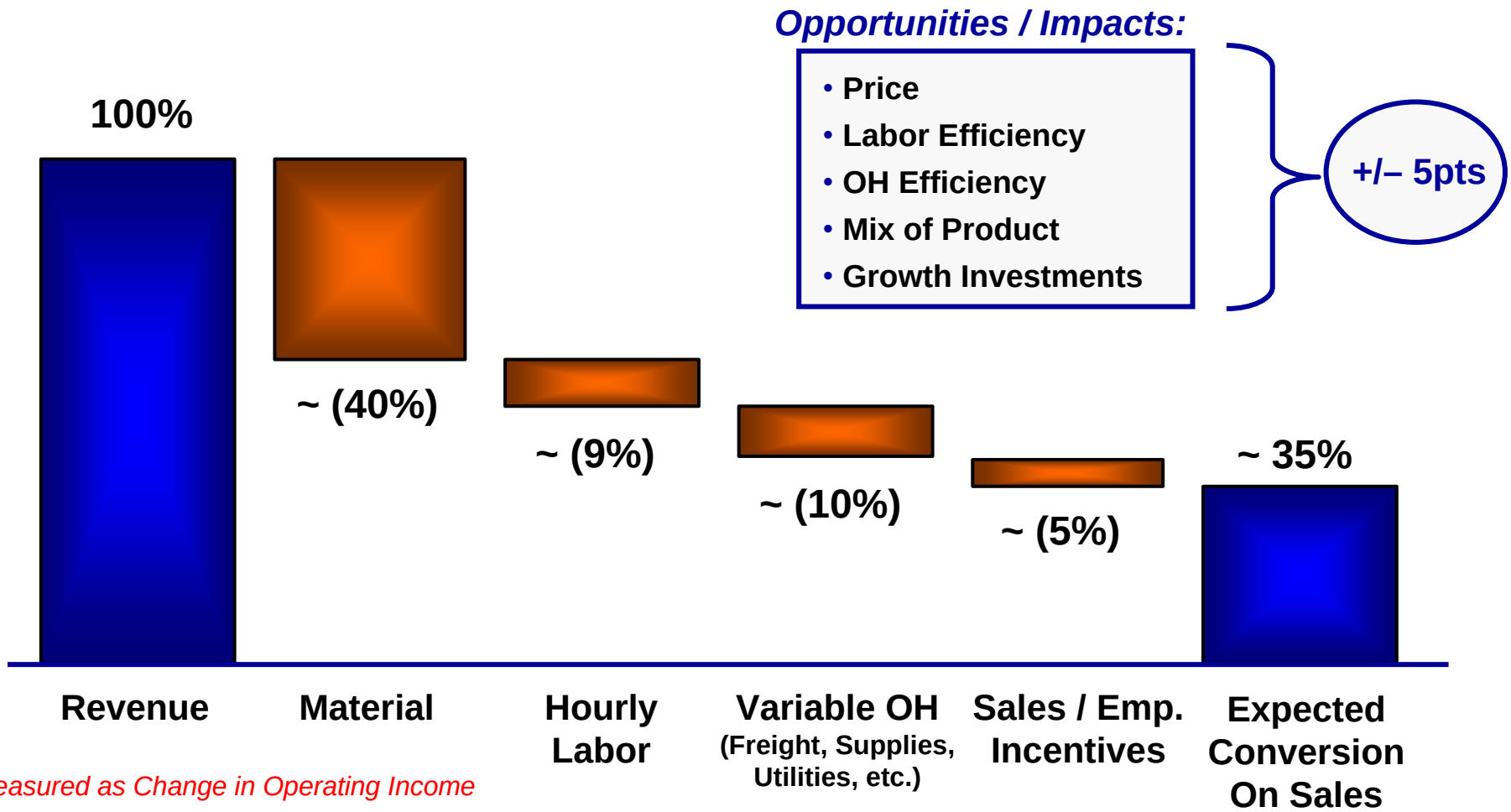
- 9.0% … +270 bp's YOY
- Plant Move Costs Behind Us
- Growth Investments Appropriately Funded
- Solid Orders Trend

Full Year Expectations

- Deliver 11% Op Margins
- Convert Growth at 30-40%
- Near term Goal: Getting Back to '08 Sales ($3.4B) & Capturing $0.80 of Add'l EPS-Power on New Cost Structure

Business Model Refined … Growth will Yield Earnings/ROIC

▶▶▶ PNR Organic Sales Conversion* Goals



** Measured as Change in Operating Income (less FX and Acq./Divest impact) divided by Organic Revenue Growth*

Expect to Convert Op. Income at 30-40% of Sales Growth

▶▶▶ Q2'10 Pentair Forecast*

	Q2'10	Q2'09
Sales	**$780-$795M**	**$694M**
Op Income (Reported)	**$90–95M**	**$64M**
Op Income (Adjusted)	**$90–95M**	**$67M**
ROS (Adjusted)	*~ 12%*	*9.6%*
EPS (Reported)	**$0.52–$0.55**	**$0.33**
EPS (Adjusted)	**$0.52–$0.55**	**$0.38**

Business Outlook

+ **Order Rates and Market Recovery Positive**
+ **Key Emerging Markets Showing Strength**
+ **Carryover Productivity Is Reliable**
– **Commercial Markets Remain Down**
– **Continuing to Fund Global Growth and Key New Product Technologies**

Financial Outlook

Sales Up Low Double Digits

- **Water Up ~ 10 to 13%**
- **Tech. Products Up ~ 10 to 13%**

Operating Inc. Up ~40% YOY

- **Pentair Margins ~12%**
- **Water Margins ~ 13%**
- **Tech Products Margins ~ 15%**

Q2 EPS Expected Up > 35% YOY

- **Q2'10 Tax Rate ~ 33–34%**
- **Q2'10 Interest ~ Flat YOY**

Free Cash Flow Expected > $100M

Expecting Another Strong Quarter

**2010 & 2009 Results From Continuing Operations; All Year over Year Comparisons Against 2009 Adjusted Results*

▶▶▶ FY'10 Pentair Outlook*

	FY'10	FY'09
Sales	~$2.9B	$2.7B
Op Income (Reported)	~$320M	$220M
Op Income (Adjusted)	~$320M	$258M
ROS (Adjusted)	*11-12%*	*9.6%*
EPS (Reported)	$1.75–$1.90	$1.17
EPS (Adjusted)	$1.75–$1.90	$1.47

Business Outlook

+ Growth Strategies in Place for Market Recovery and Global Expansion
+ Maintaining Investment in Fast Growth Regions and Innovation
+ Reinvigorating Lean Now That Major Restructuring Completed

Financial Outlook

Sales Up 7 – 9%

- Water Up ~ 10%
- Tech. Products Up High Single Digits

Operating Inc. Up ~24% YOY

- Pentair Margins ~11%
- Water Margins ~12%
- Tech Products Margins ~ 15%

FY EPS Expected Up 19-29%

- FY'10 Tax Rate ~ 33–34%
- FY'10 Interest Down ~$4M YOY

Free Cash Flow: $225M for FY

- Cash Generation Drives Less Debt and Additional Flexibility

Maintaining Full Year Outlook

**2010 & 2009 Results From Continuing Operations; All Year over Year Comparisons Against 2009 Adjusted Results*

▶▶▶ Summary

Q1 Performance

+ **Growth: Up 12% YOY**
+ **Material / Price:** As Expected … Better by 300 basis points YOY
+ **Manufacturing Cost Structure:** Plant Moves Behind Us … Margins impacted in Q1, 2010
− **Op Expenses:** Q1 impacted by ~ $15M of YOY Employee Costs and Sales Incentive Accruals
+ **Conversion:** 30% Op Inc / Sales
+ **Free Cash Flow:** +$11M YOY

FY Expectation

+ **Growth: Up >7% YOY**
+ **Material / Price:** Expecting Raw Material Cost to Rise ... 100 bp's better than 2009 for Full Year
+ **Manufacturing Cost Structure:** Volume Leverage Improves on Leaner Cost Structure
+ **Op Expenses:** YOY Comparisons ease in 2nd Half, 2010 and Shift from G&A to Growth Spending
+ **Conversion:** 30%-40% Op Inc / Sales
+ **Free Cash Flow:** $225M for 2010

Good Start to 2010 … On Track to Deliver Commitments

Appendix

GAAP to Non GAAP Measurements & Reconciliations

▶▶▶GAAP to Non-GAAP Reconciliations

($ Thousands)	Q408	Q109	Q209	Q309	Q409	Q110
Reported Operating Income	$ 45,197	$ 37,214	$ 63,560	$ 66,682	$ 52,492	$ 63,601
Adjustments	27,412	2,824	2,944	7,295	16,881	-
Adjustment - Other	964	-	-	-	8,000	-
Adjusted Operating Income	$ 73,573	$ 40,038	$ 66,504	$ 73,977	$ 77,373	$ 63,601
Reported Effective Tax Rate	30.1%	29.5%	33.3%	32.0%	34.8%	33.5%
NOPAT	$ 51,427	$ 28,227	$ 44,358	$ 50,305	$ 50,447	$ 42,295
Trailing four quarter NOPAT	$ 264,262	$ 228,837	$ 192,167	$ 174,317	$ 173,336	$ 187,405
Ending Invested Capital (excluding noncontrolling interest)	$ 2,813,430	$ 2,848,645	$ 2,793,615	$ 2,765,570	$ 2,784,328	$ 2,817,852
Trailing five quarter average invested capital	$ 2,962,123	$ 2,951,720	$ 2,901,792	$ 2,844,570	$ 2,801,118	$ 2,802,002
After Tax Return on Invested Capital	8.9%	7.8%	6.6%	6.1%	6.2%	6.7%

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

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

Ending Working Capital	$ 442,402	$ 501,881	$ 418,632	$ 366,766	$ 418,492	$ 483,669
Trailing five quarter average working capital	$ 434,334	$ 467,276	$ 452,217	$ 436,650	$ 429,635	$ 437,888
Reported Net Sales	$ 767,637	$ 633,840	$ 693,712	$ 662,665	$ 702,251	$ 707,013
Trailing four quarter Net Sales	$ 3,351,976	$ 3,155,671	$ 2,951,005	$ 2,757,854	$ 2,692,468	$ 2,765,640
Trailing five quarter average working capital % of last four quarter sales	13.0%	14.8%	15.3%	15.8%	16.0%	15.8%

Ending Working Capital is [(Total Current Assets - Deferred Tax Assets - Cash and Cash Equivalents - Notes Receivable) - (Total Current Liabilities - Current Maturities of Long-term Debt - Short-term borrowings - Current Liabilities of Discontinued Operations)]

Total Company: 2009 Reconciliation

Pentair, Inc. and Subsidiaries
Reconciliation of the GAAP "As Reported" year ending December 31, 2009 to the "Adjusted" non-GAAP excluding the effect of 2009 adjustments (Unaudited)

In thousands, except per-share data	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	Year 2009
Net sales	$ 633,840	$ 693,712	$ 662,665	$ 702,251	$ 2,692,468
Operating income - as reported	37,214	63,560	66,682	52,492	219,948
% of net sales	*5.9%*	*9.2%*	*10.1%*	*7.5%*	*8.2%*
Adjustments:					
Restructuring and asset impairment	2,824	2,944	7,295	24,881	37,944
Operating income - as adjusted	40,038	66,504	73,977	77,373	257,892
% of net sales	*6.3%*	*9.6%*	*11.2%*	*11.0%*	*9.6%*
Net income from continuing operations attributable to Pentair, Inc. - as reported	17,255	32,006	37,033	29,218	115,512
Adjustments - tax affected					
Restructuring and asset impairment, net of minority interest	1,864	1,943	4,815	17,549	26,171
Bond tender	—	3,171	—	—	3,171
Net income from continuing operations attributable to Pentair, Inc. - as adjusted	19,119	37,120	41,848	46,767	144,854
Continuing earnings per common share attributable to Pentair, Inc. - diluted					
Diluted earnings per common share - as reported	$ 0.18	$ 0.33	$ 0.38	$ 0.29	$ 1.17
Adjustments	0.02	0.05	0.04	0.18	0.30
Diluted earnings per common share - as adjusted	$ 0.20	$ 0.38	$ 0.42	$ 0.47	$ 1.47
Weighted average common shares outstanding - Diluted	97,966	98,422	98,641	99,226	98,522

Business Segment: 2009 Reconciliation

Pentair, Inc. and Subsidiaries
Reconciliation of the GAAP "As Reported" year ending December 31, 2009 to the "Adjusted" non-GAAP excluding the effect of 2009 adjustments (Unaudited)

In thousands	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	Year 2009
Water					
Net sales	$ 423,932	$ 486,990	$ 461,570	$ 475,272	$ 1,847,764
Operating income - as reported	26,976	49,781	53,085	33,903	163,745
% of net sales	*6.4%*	*10.2%*	*11.5%*	*7.1%*	*8.9%*
Adjustments - restructuring and asset impairment	1,464	1,460	2,639	21,336	26,899
Operating income - as adjusted	28,440	51,241	55,724	55,239	190,644
% of net sales	*6.7%*	*10.5%*	*12.1%*	*11.6%*	*10.3%*
Technical Products					
Net sales	$ 209,908	$ 206,722	$ 201,095	$ 226,979	$ 844,704
Operating income - as reported	20,462	23,578	24,356	31,959	100,355
% of net sales	*9.7%*	*11.4%*	*12.1%*	*14.1%*	*11.9%*
Adjustments - restructuring and asset impairment	792	1,139	4,557	2,729	9,217
Operating income - as adjusted	21,254	24,717	28,913	34,688	109,572
% of net sales	*10.1%*	*12.0%*	*14.4%*	*15.3%*	*13.0%*