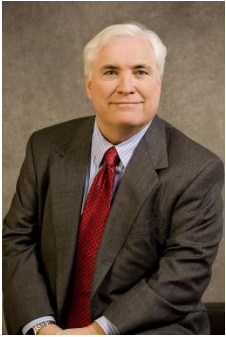


Pentair buys Erico, maker of fasteners and electrical equipment, for \$1.8 billion

Purchase of fastener maker helps Pentair expand outside of struggling oil and gas market.

By **Dee DePass** Star Tribune

AUGUST 17, 2015 — 9:35PM



Pentair PLC will pay \$1.8 billion for Ohio electrical and fastener maker Erico Global Co. in a deal that greatly expands its electrical offerings and diversifies an income stream that some worried was too dependent on the ailing oil and gas sector.

“This is a bolt-on acquisition — granted a big bolt-on,” Pentair CEO Randy Hogan said about the Erico acquisition, expected to close later this year, in an interview Monday with the Star Tribune.

Erico, which makes electrical and fastening products, will become part of Pentair’s technical solutions division. The unit is the second-smallest of Pentair’s four divisions but is one that has been consistently profitable, Hogan said.

The deal announced Monday broadens Pentair, a \$6.7 billion conglomerate best known for making industrial pumps, valves, water and filtration equipment. Its technical solutions division now makes up about 25 percent of Pentair’s total revenue and 35 percent of its profits. It makes electrical enclosures and thermal heating and cooling systems for factories and for products transported by rail.

Erico will add electrical construction offerings to that mix, Hogan said. Erico is well known in commercial and industrial settings for its electrical panels, cable and HVAC fasteners and for its support devices that route electrical currents and lighting through buildings, stadiums and bridges.

Investors responded positively to the acquisition. Pentair shares rose 93 cents a share to close at \$62.60 Monday.

Robert W. Baird research analyst Michael Halloran praised the deal in a note to investors, saying he was “encouraged” by Erico’s strategic fit, high growth potential and that the deal was outside of the struggling energy sector.

“We view the acquisition positively and believe expected accretion can support the stock at current levels,” Halloran said. “The deal makes strategic sense. Erico expands Pentair’s current equipment protection offerings further into niche electrical products.” New York-based activist investor firm Trian Fund Management, after buying more than 7 percent of Pentair’s stock, last month strongly encouraged the “undervalued” Pentair to pursue “prudent industry consolidation through accretive mergers and acquisitions.”

Hogan said he had been eyeing Erico for more than 10 years and that the company is expected to “become a key growth platform” within Pentair’s technical solutions division.

Erico generates about \$570 million in annual sales, \$150 million in profits and has 1,200 employees across 30 countries.

It is well-known for its Caddy brand of fixing and fastening products, its Erico electrical grounding and connective products and its Lenton line of coupling systems for construction rebar. Erico has factories in the United States, Netherlands, China and France.

About 60 percent of its sales stem from North America, which is seen as a plus, given that construction sales are booming across the region, Hogan said. About 25 percent of sales stem from Europe.

The addition “will add balance” to Pentair, which grew significantly in the oil and gas sector with the 2012 merger with Tyco Flow Control, he said.

“Energy has provided a challenge,” Hogan said.

Sagging oil prices over the past 15 months have clipped growth for many equipment suppliers, including Pentair, which makes valves for oil and gas drillers, refineries and pipelines.

Pentair, which is based in England but has its operational headquarters in Golden Valley, will pay for Erico mostly through debt and the repayment of some Erico debt.

Erico is expected to add about 40 cents per share to Pentair earnings in 2016, a year when analysts had been estimating the company would make around \$4.20 a share.

Once integrated, Pentair expects to save about \$18 million a year in synergies by 2018 after eliminating duplicative back office operations. But the main thrust of this deal is “growth, not cost cutting,” Hogan said. Erico’s sales have grown 4 percent and profits (before taxes) grew 10 percent a year for the past 10 years.

“We have similar cultures and serve similar industries with complementary products, which will create a broader and stronger offering for our end users,” Hogan said. “Erico has a strong global business and valued brands, making it a perfect fit for Pentair.”

The large acquisition is the latest transition for Pentair, which under Hogan’s tenure has taken several twists and turns.

In 2003, Pentair had \$2.7 billion in revenue. A year later, Pentair exited its massive power-tools business, selling it to Black and Decker for \$775 million. It changed direction, investing in more than a dozen water equipment and filtration companies.

In 2011, Pentair paid \$705 million for Netherlands-based Clean Process Technologies, a beverage, industrial purification and desalination filtration systems company with 1,200 workers.

In 2012, Pentair doubled in size with the \$5.5 billion Tyco Flow Control deal.