

# XYLEM INC.

## Q3 2018 EARNINGS RELEASE

OCTOBER 30, 2018



**xylem**  
Let's Solve Water

# FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements.” within the meaning of the Private Securities Litigation Act of 1995. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “forecast,” “believe,” “target,” “will,” “could,” “would,” “should” and similar expressions identify forward-looking statements. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include any statements that are not historical in nature, including any statements about the capitalization of Xylem Inc. (the “Company”), the Company’s restructuring and realignment, future strategic plans and other statements that describe the Company’s business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade barriers and embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract talent and key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in “Item 1A Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

All forward-looking statements made herein are based on information currently available to the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

# Q3'18 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q3 2018	Adjusted* Q3 2018	GAAP YTD Q3 2018	Adjusted* YTD Q3 2018
<b>Xylem Consolidated</b>				
Revenue	1,287	1,287	3,821	3,821
Overall Growth	+8%	+8%	+11%	+11%
Constant Currency Growth		+10%		+10%
Organic Growth		+8%		+8%
Operating Income	176	188	460	505
Operating Margin	13.7%	14.6%	12.0%	13.2%
Earnings per Share	0.72	0.77	1.79	2.00
<b>Segment Results</b>				
<b>Water Infrastructure</b>				
Revenue	541	541	1,567	1,567
Overall Growth	+4%	+4%	+10%	+10%
Constant Currency Growth		+8%		+9%
Organic Growth		+8%		+9%
Operating Income	99	104	240	255
Operating Margin	18.3%	19.2%	15.3%	16.3%
<b>Applied Water</b>				
Revenue	378	378	1,132	1,132
Overall Growth	+7%	+7%	+8%	+8%
Constant Currency Growth		+8%		+6%
Organic Growth		+8%		+7%
Operating Income	59	61	170	177
Operating Margin	15.6%	16.1%	15.0%	15.6%
<b>Measurement &amp; Control Solutions</b>				
Revenue	368	368	1,122	1,122
Overall Growth	+15%	+15%	+17%	+17%
Constant Currency Growth		+15%		+15%
Organic Growth		+8%		+7%
Operating Income	31	35	95	113
Operating Margin	8.4%	9.5%	8.5%	10.1%

## Earnings Call Notes:

- All references today will be on an adjusted basis unless otherwise indicated.
- Non-GAAP financials are reconciled in the appendix section of the presentation.

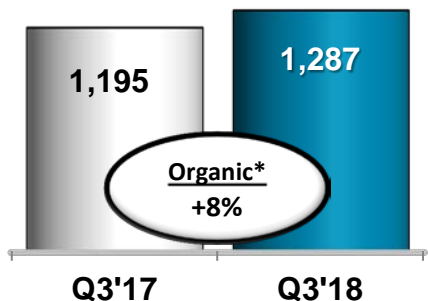
# KEY MESSAGES

- **Robust Growth and Strong Execution in the 3<sup>rd</sup> Quarter**
  - *Organic Orders and Revenue Growth of 8%*
  - *Adj. Op. Margin of 14.6%, up 50 bps (up 70 bps ex. purchase accounting)*
  - *Adj. EBITDA of 20.3% (up 110 bps)*
  - *Free Cash Flow Conversion of 99% & on-track for >115% FY Guide*
  - *Adj. EPS of \$0.77, up 18%*
- **Achieving Traction on Pricing Actions & Strong Operational Execution ... Managing Incremental Headwinds from Inflation, FX, and Mix**
- **Strategic Investments Yield Additional Revenue Synergy Wins**
- **Tightening the FY 2018 Outlook; Adjusting for FX Headwinds**

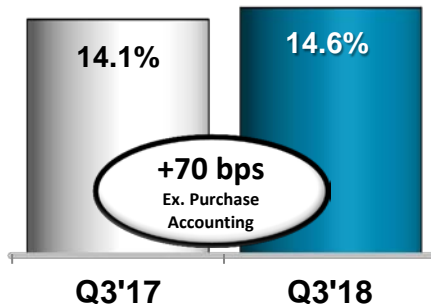
# Q3'18 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

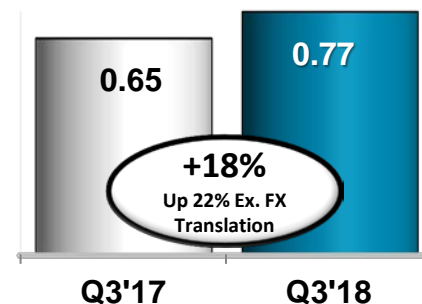
## REVENUE



## ADJ. OP MARGIN\*



## ADJ. EPS\*



Adj. EBITDA\* 19.2% 20.3%

### Organic Growth by End Market

+ Utilities	+9%
+ Industrial	+5%
+ Commercial	+13%
+ Residential	+4%

### Organic Growth by Region

+ U.S.	+8%
+ Emerging Mkts	+13%
+ W. Europe	+3%

### Key Performance Drivers

- Broad based growth in all end markets led by Utilities
- Healthy U.S. combined with strong Emerging Markets driven by China (+23%) and Latin America (+20%)
- Volume leverage, productivity & price offset inflation, FX and mix headwinds
  - Cost reductions drive 300 bps Op Margin expansion (EPS +\$0.17)
  - Volume adds 150 bps to Op Margin (EPS +\$0.14)
  - Price adds 100 bps to Op Margin (EPS +\$0.07)
  - Cost inflation reduces Op Margin by 300 bps (EPS -\$0.17)
  - Mix/FX/other reduce Op Margin by 100 bps (EPS -\$0.05); Other non op (EPS+\$0.01)
  - Purchase Accounting impact reduces Op Margin by 20 bps (EPS -\$0.01)
  - Strategic investments reduce Op Margin by 80 bps (EPS -\$0.04)

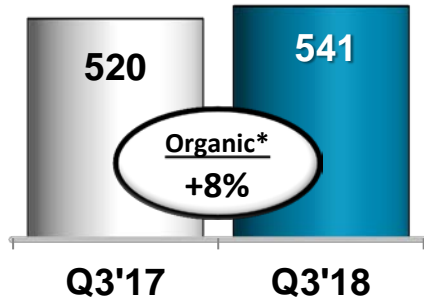
Other: Tax Rate\* 18.7% Share Count 181.1M

## STRONG EXECUTION IN THIRD QUARTER

# Q3'18 WATER INFRASTRUCTURE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Transport + 8%
- + Treatment + 6%

#### By Regions

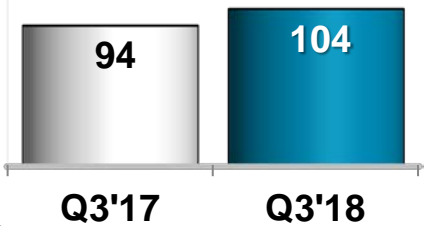
- + Em. Mkts + 23%
- + Canada +24%
- + W. Europe + 2%
- = U.S. Flat

### Highlights

- + Strength in Treatment driven by project deliveries in Emerging Markets despite tough PY comp
- + Industrial up mid-single digits from global demand for Dewatering pumps in construction, mining and Oil & Gas
- + Transport Utility growth in the Emerging Markets, Western Europe & Canada; U.S. market remains solid with orders up mid-single digits and backlog up 14%
- + Segment Backlog up 10% organically & Treatment project bid pipeline up 11% reinforce market health & outlook

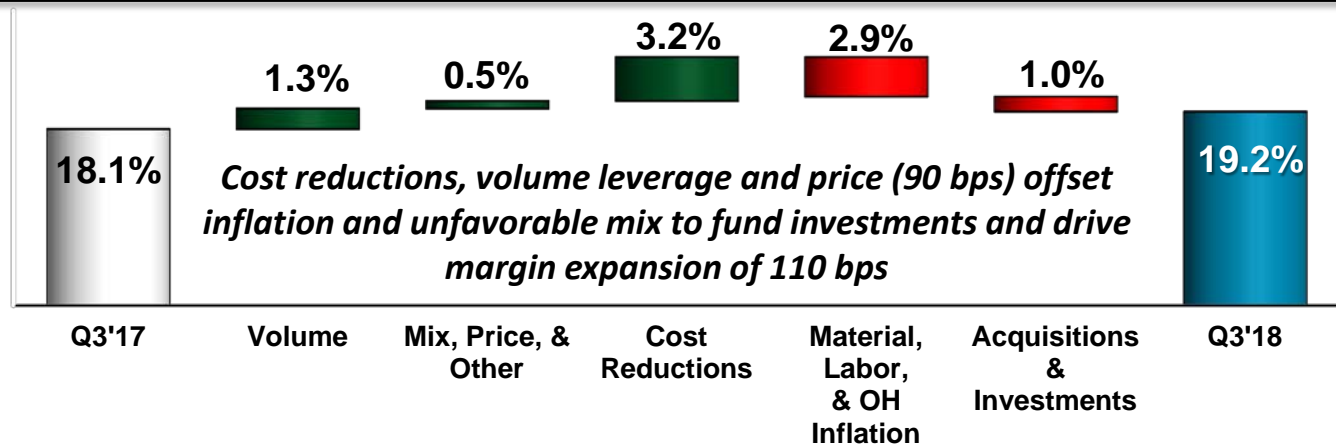
## ADJ. OP INCOME\*

(Dollars, In Millions)



Adj. EBITDA\* 21.0%

22.2%

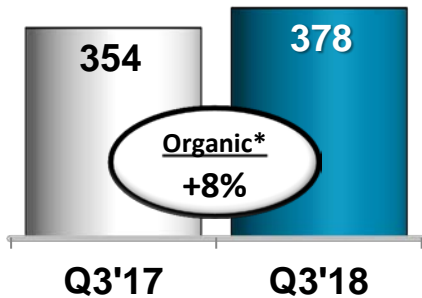


**STRONG GROWTH AND COMMERCIAL EXECUTION ENABLES MARGIN EXPANSION**

# Q3'18 APPLIED WATER

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Ind'l Water + 6%
- + Commercial + 13%
- + Residential + 4%

#### By Regions

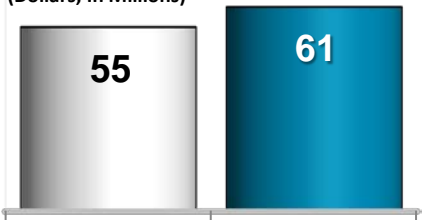
- + U.S. + 9%
- + W. Europe + 7%
- + Em. Mkts + 8%

### Highlights

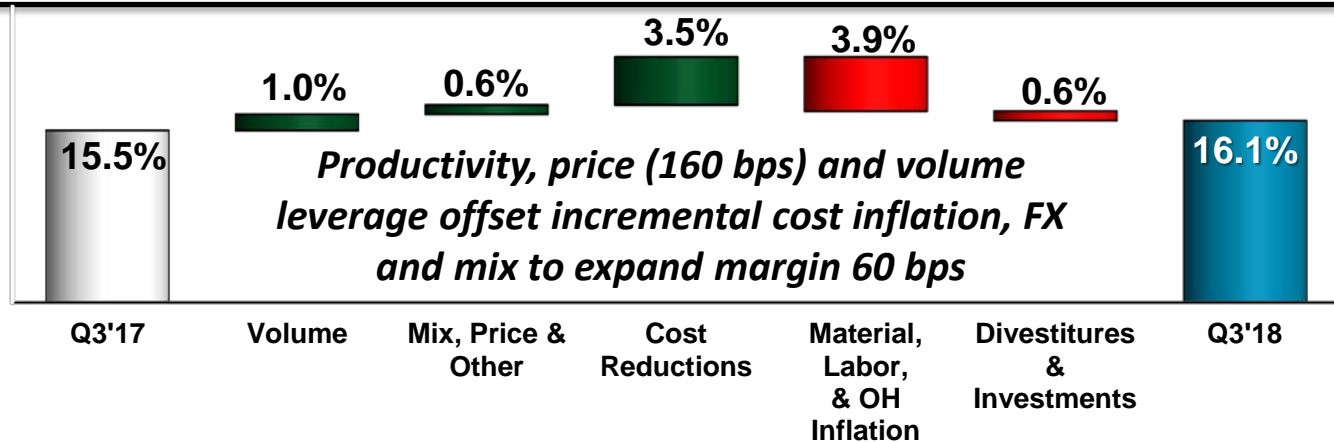
- + Commercial strength driven by project activity and market share gains in U.S. and Europe; China growth from key customer accounts
- + Industrial market strength primarily in the U.S. from continued healthy project business; General industrial & specialty flow business up mid single digits
- + Residential growth in Western Europe from housing market strength and the U.S. from promotional activity

## ADJ. OP INCOME\*

(Dollars, In Millions)



Adj. EBITDA\* 17.5%  
18%

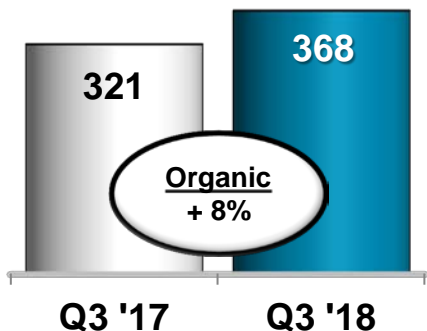


**STRONG PERFORMANCE & EXECUTION DRIVE ABOVE MARKET GROWTH AND MARGIN EXPANSION**

# Q3'18 MEASUREMENT & CONTROL SOLUTIONS

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

+ Smart Gas	+ 50%
+ Smart Water	+ 7%
+ Test	+ 5%
= SaaS/Other	Flat
- Smart Electric	- 7%

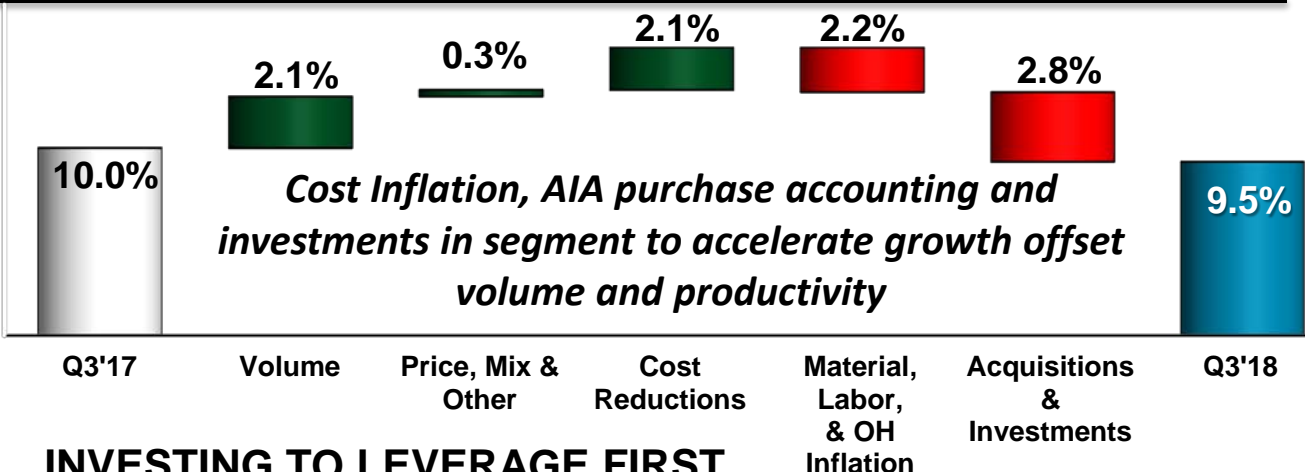
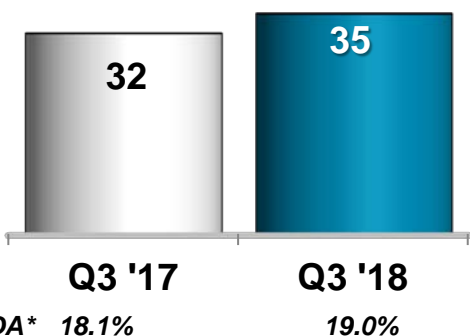
#### By Regions

+ U.S.	+14%
- W. Europe	- 1%
- Em. Mkts	- 2%

### Highlights

- + Strength in Gas from Nicor project deployment in the U.S.
- + Double-digit growth in U.S. core water business partly offset by lapping of European project deployments in prior year
- + Test strength in U.S. and Europe from outdoor water & wastewater projects
- Softness in Electric due to prior year deployment of large Alliant contract

## ADJ. OP MARGIN\*



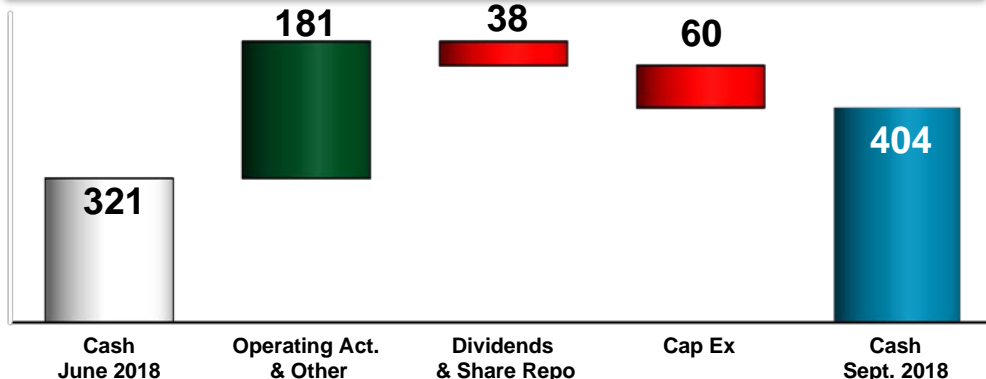
**INVESTING TO LEVERAGE FIRST  
MOVER ADVANTAGE AND DRIVE PROFITABLE GROWTH**



# XYLEM FINANCIAL POSITION

(Dollars, In Millions)

## CASH DRIVERS

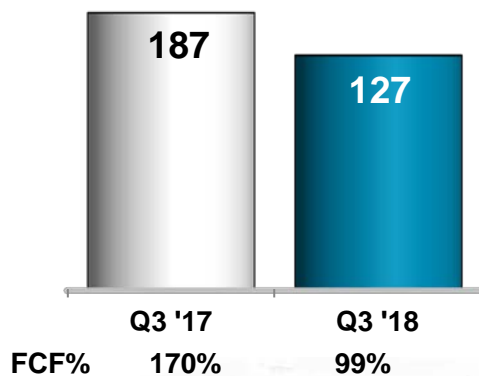


## CAPITAL SUMMARY

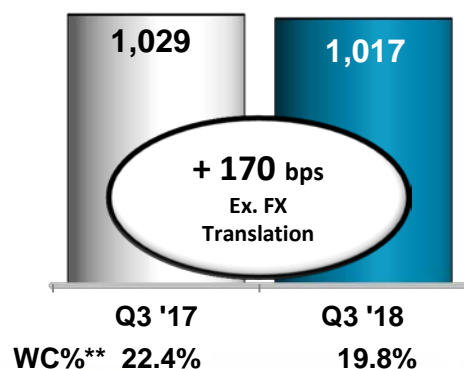
September 30, 2018

Cash	404
Debt	2,531
Net Debt	2,127
Shareholders' Equity	2,617
Capital	4,744
Net Debt to Capital	44.8%

## FREE CASH FLOW \*



## WORKING CAPITAL



## Financial Highlights

- On track for FY FCF conversion target of >115%; Decrease in 3Q conversion due to investment timing
- Continued improvement in working capital through execution
- Committed to maintaining Investment Grade Credit (BBB/Baa2)

# 2018 END MARKET OUTLOOK



## Utilities (~50% of 2017 Revenue)

- **2018 Organic Growth: Up High-Single Digits** (No change from 2Q)
- Stable growth in U.S. from water and wastewater spending
- Mixed but stable low single digit growth in Europe
- High single digit growth from smart meter market and infrastructure analytics
- Healthy infrastructure investment and focus in Emerging Markets continues with projects in China, India and Latin America



## Industrial (~35% of 2017 Revenue)

- **2018 Organic Growth: Up Mid-Single Digits** (No change from 2Q)
- Solid general/light industrial conditions in U.S./Europe
- Continued recovery in O&G in North America
- Mixed emerging market conditions with strength in China, India & Latin America with softness in parts of Middle East



## Commercial (~10% of 2017 Revenue)

- **2018 Organic Growth: Up High-Single Digits** (from Low-to-Mid)
- Strong U.S. position; Architecture Billings Index above 50 suggests stable low-growth market
- Europe growth moderates after 2+ years of strong performance
- Em. Market strength continues with India Smart Cities initiative & China building mkts; Large project wins in ME from localization

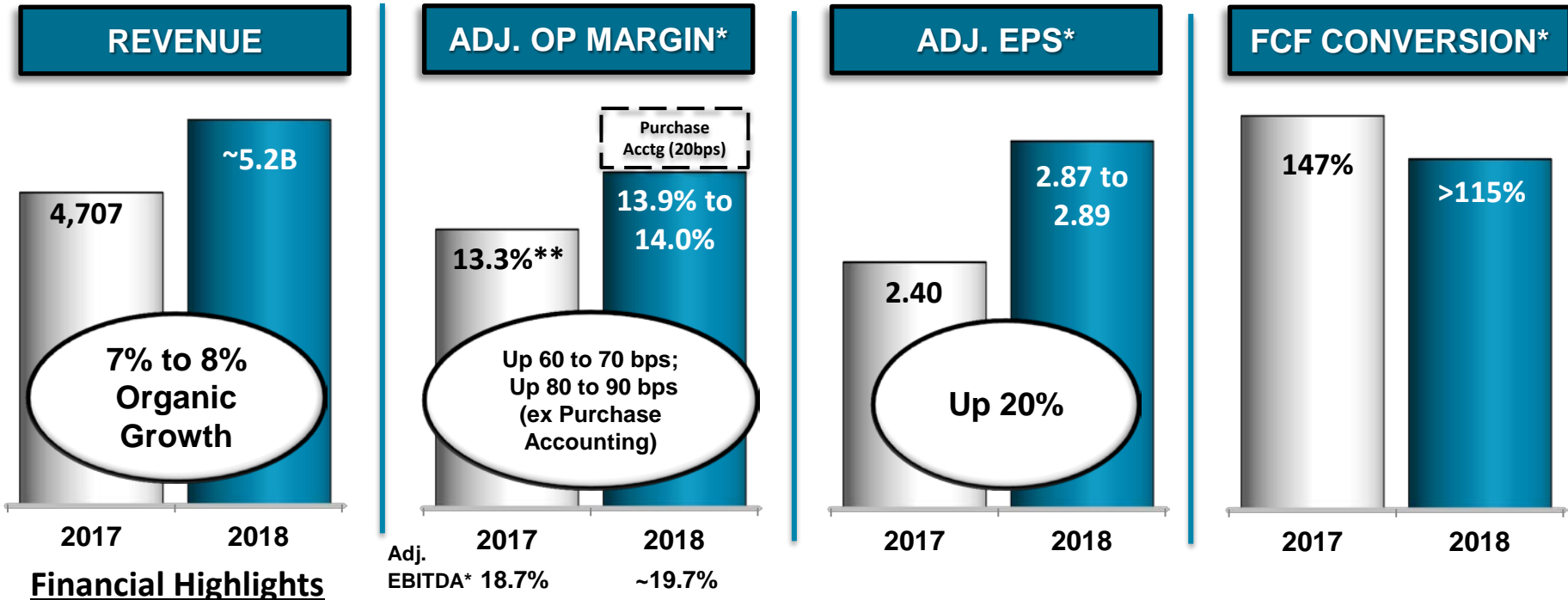


## Residential (~5% of 2017 Revenue)

- **2018 Organic Growth: Up Low Single Digits** (No change from 2Q)
- Competitive U.S. market dynamics continue; replacement driven demand
- Market share gains from increased selling focus in Europe
- Increased demand in China and other Asia Pacific countries for secondary clean water source

# 2018 OUTLOOK

(Dollars, In Millions, except EPS)



- Raising organic growth to 7% to 8%; Raising from previous guidance of 6% to 7%
- Narrowing Operating Margin expansion; On-track to deliver on long-term targets
- Adjusted EPS expected in the range of \$2.87 to \$2.89 (Raising low end & narrowing range from \$2.85 to \$2.95)
- Expecting Free Cash Flow conversion of >115% driven by execution and working capital improvement

**DRIVING ABOVE MARKET GROWTH IN KEY END MARKETS ...**

**STRONG OPERATIONAL EXECUTION & PRICE REALIZATION MORE THAN OFFSET COST HEADWINDS**

# 2018 ASSUMPTIONS & OUTLOOK

## FY 2018 PLANNING ASSUMPTIONS

<b>Xylem Organic* Growth</b>	<b>+7% to 8%</b>
Water Infrastructure	+7% to 8%
Applied Water	+7% to 8%
Measurement & Control Solutions	+7% to 8%
<b>FX Euro Rate</b>	<b>1.15</b>
<b>Adjusted Operating Margin*</b>	<b>13.9% to 14.0%</b>
<b>AIA Purchase Accounting Impact</b>	<b>-20 bps</b>
<b>Corporate Expense</b>	<b>~\$55M</b>
<b>Restructuring, Realignment &amp; Integration Costs</b>	<b>~\$45M</b>
<b>Dividends</b>	<b>~\$150M</b>
<b>Capex</b>	<b>~\$200M</b>
<b>Interest Expense</b>	<b>~\$82M</b>
<b>Other Income**</b>	<b>~\$9M</b>
<b>Estimated Tax Rate:</b>	<b>~19.5%</b>
<b>Share Count:</b>	<b>~181M</b>
<b>Adjusted EPS*</b>	<b>\$2.87 to \$2.89</b>

## Q4 2018 PLANNING ASSUMPTIONS

<b>Xylem Organic Growth</b>	<b>+7% to 8%</b>
<b>FX Euro Rate</b>	<b>1.15</b>
<b>Adjusted Operating Margin*</b>	<b>15.9% to 16.0%</b>
<b>Adjusted EBITDA*</b>	<b>21.3% to 21.4%</b>
<b>AIA Purchase Accounting Impact</b>	<b>-20 bps Op Margin</b>
<b>Adjusted EPS</b>	<b>\$0.87 to \$0.89</b>

<b>FY 2018 Mid-Point Update Illustration</b>	<b>ADJ. EPS*</b>
<b>Previous Mid-Point Guidance</b>	<b>\$2.90</b>
2H Euro FX Translation	- \$0.02
2H EM Currency Declines (Argentina, China, etc.)	- \$0.01
2H Est. Tax Rate Adjustment (vs. Prior expectation)	+\$0.01
<b>New Mid-Point Guidance</b>	<b>\$2.88</b>

**MANAGING NEAR TERM HEADWINDS TO  
DELIVER ON OUR ORIGINAL 2018 FINANCIAL COMMITMENTS**

# SUMMARY

- **Momentum in business remains strong with 8% organic growth in revenue and orders for second consecutive quarter**
- **Further traction on pricing and productivity to mitigate global headwinds**
- **Investments are yielding additional revenue synergies and market share gains ... pipeline continues to grow with broader offering**
- **Narrowing the FY 2018 Outlook; Adjusting for FX Headwinds**

# APPENDIX

# FOREIGN EXCHANGE TRANSLATION SENSITIVITY

## *Foreign Exchange Translation*

The table below illustrates the impact of FX fluctuations on Xylem's reported results

Currency	2018 Guidance Rate	Rates assuming 5% decrease in Guidance Rate	Revenue Impact on Remainder of 2018 of 5% Decrease in Rate	EPS Impact on Remainder of 2018 of 5% Decrease in Rate
Euro	1.15	1.09	(\$12M)	(\$0.02)
GBP	1.30	1.23	(\$3M)	\$0
SEK	0.11	0.10	(\$2M)	\$0
RMB	0.14	0.13	(\$3M)	(\$0)
CAD	0.76	0.72	(\$3M)	(\$0)
ARS	0.03	0.03	(\$1M)	(\$0)
All Other			(\$11M)	(\$0.01)
<b>Total</b>			<b>(\$35M)</b>	<b>(\$0.03)</b>

\* Increase in rate would have inverse impact on results

**RULE OF THUMB: 1 PENNY MOVEMENT IN EUR/USD RATE, EQUATES TO ONE PENNY MOVEMENT IN EPS FOR THE FULL YEAR**

# Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, working capital and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and to provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including but not limited to, dividends acquisitions, share repurchases and debt repayment. Excluding revenue, Xylem provides guidance only on a non-GAAP basis due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as discrete tax items, without unreasonable effort. These adjusted metrics are consistent with how management views our business and are used to make financial, operating and planning decisions. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operating activities as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

**"Organic revenue" and "Organic orders"** defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency translation impacts is determined by translating current period and prior period activity using the same currency conversion rate.

**"Constant currency"** defined as financial results adjusted for foreign currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.

**"EBITDA"** defined as earnings before interest, taxes, depreciation and amortization expense. "Adjusted EBITDA" reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, Sensus acquisition related costs, gain or loss from sale of businesses and special charges.

**"Adjusted Operating Income", "Adjusted Segment Operating Income", "Adjusted Net Income" and "Adjusted EPS"** defined as operating income, segment operating income, adjusted net income and earnings per share, adjusted to exclude restructuring and realignment costs, Sensus acquisition related costs, gain or loss from sale of businesses, special charges and tax-related special items, as applicable. For Sensus historical adjustments, see Sensus Historical - Adjusted Operating Income table.

**"Free Cash Flow"** defined as net cash from operating activities, as reported in the Statement of Cash Flow, less capital expenditures as well as adjustments for other significant items that impact current results which management believes are not related to our ongoing operations and performance. Our definition of free cash flow does not consider certain non-discretionary cash payments, such as debt.

**"Realignment costs"** defined as costs not included in restructuring costs that are incurred as part of actions taken to reposition our business, including items such as professional fees, severance, relocation, travel, facility set-up and other costs.

**"Sensus Acquisition Related Costs"** defined as costs incurred by the Company associated with the acquisition of Sensus that are being reported within operating income. These costs include integration costs, acquisition costs, costs related to the recognition of the backlog intangible asset amortization recorded in purchase accounting.

**"Special charges"** defined as costs incurred by the Company, such as non-cash impairment charges, due diligence costs, acquisition and integration related costs not related to Sensus and other special non-operating items.

**"Tax-related special items"** defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, significant reserves for cash repatriation, excess tax benefits/losses and other discrete tax adjustments.



**Xylem Inc. Non-GAAP Reconciliation  
Reported vs. Organic & Constant Currency Orders**

(\$ Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	2018 Orders	2017 Orders	2018 v. 2017	% Change	Acq./Div.	FX Impact	Change Adj. 2018 v. 2017	% Change Adj. 2018 v. 2017	
<b>Nine Months Ended September 30</b>									
<b>Xylem Inc.</b>	<b>4,054</b>	<b>3,598</b>	<b>456</b>	<b>13%</b>	<b>(69)</b>	<b>(62)</b>	<b>325</b>	<b>9%</b>	<b>11%</b>
Water Infrastructure	1,671	1,546	125	8%	-	(25)	100	6%	6%
Applied Water	1,162	1,103	59	5%	12	(18)	53	5%	4%
Measurement & Control Solutions	1,221	949	272	29%	(81)	(19)	172	18%	27%
<b>Quarter Ended September 30</b>									
<b>Xylem Inc.</b>	<b>1,356</b>	<b>1,249</b>	<b>107</b>	<b>9%</b>	<b>(27)</b>	<b>24</b>	<b>104</b>	<b>8%</b>	<b>10%</b>
Water Infrastructure	537	558	(21)	-4%	-	17	(4)	-1%	-1%
Applied Water	377	374	3	1%	2	5	10	3%	2%
Measurement & Control Solutions	442	317	125	39%	(29)	2	98	31%	40%
<b>Quarter Ended June 30</b>									
<b>Xylem Inc.</b>	<b>1,378</b>	<b>1,212</b>	<b>166</b>	<b>14%</b>	<b>(34)</b>	<b>(30)</b>	<b>102</b>	<b>8%</b>	<b>11%</b>
Water Infrastructure	580	521	59	11%	-	(14)	45	9%	9%
Applied Water	401	375	26	7%	4	(9)	21	6%	5%
Measurement & Control Solutions	397	316	81	26%	(38)	(7)	36	11%	23%
<b>Quarter Ended March 31</b>									
<b>Xylem Inc.</b>	<b>1,320</b>	<b>1,137</b>	<b>183</b>	<b>16%</b>	<b>(8)</b>	<b>(56)</b>	<b>119</b>	<b>10%</b>	<b>11%</b>
Water Infrastructure	554	467	87	19%	-	(28)	59	13%	13%
Applied Water	384	354	30	8%	6	(14)	22	6%	5%
Measurement & Control Solutions	382	316	66	21%	(14)	(14)	38	12%	16%

**Xylem Inc. Non-GAAP Reconciliation  
Reported vs. Organic & Constant Currency Revenue**

(\$ Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	2018 Revenue	2017 Revenue	2018 v. 2017	% Change	Acq./Div.	FX Impact	Change Adj. 2018 v. 2017	% Change Adj. 2018 v. 2017	
<b>Nine Months Ended September 30</b>									
<b>Xylem Inc.</b>	<b>3,821</b>	<b>3,430</b>	<b>391</b>	<b>11%</b>	<b>(63)</b>	<b>(59)</b>	<b>269</b>	<b>8%</b>	<b>10%</b>
Water Infrastructure	1,567	1,421	146	10%	-	(20)	126	9%	9%
Applied Water	1,132	1,048	84	8%	10	(18)	76	7%	6%
Measurement & Control Solutions	1,122	961	161	17%	(73)	(21)	67	7%	15%
<b>Quarter Ended September 30</b>									
<b>Xylem Inc.</b>	<b>1,287</b>	<b>1,195</b>	<b>92</b>	<b>8%</b>	<b>(22)</b>	<b>24</b>	<b>94</b>	<b>8%</b>	<b>10%</b>
Water Infrastructure	541	520	21	4%	-	18	39	8%	8%
Applied Water	378	354	24	7%	2	4	30	8%	8%
Measurement & Control Solutions	368	321	47	15%	(24)	2	25	8%	15%
<b>Quarter Ended June 30</b>									
<b>Xylem Inc.</b>	<b>1,317</b>	<b>1,164</b>	<b>153</b>	<b>13%</b>	<b>(26)</b>	<b>(29)</b>	<b>98</b>	<b>8%</b>	<b>11%</b>
Water Infrastructure	546	482	64	13%	-	(13)	51	11%	11%
Applied Water	388	361	27	7%	3	(8)	22	6%	5%
Measurement & Control Solutions	383	321	62	19%	(29)	(8)	25	8%	17%
<b>Quarter Ended March 31</b>									
<b>Xylem Inc.</b>	<b>1,217</b>	<b>1,071</b>	<b>146</b>	<b>14%</b>	<b>(15)</b>	<b>(54)</b>	<b>77</b>	<b>7%</b>	<b>9%</b>
Water Infrastructure	480	419	61	15%	-	(25)	36	9%	9%
Applied Water	366	333	33	10%	5	(14)	24	7%	6%
Measurement & Control Solutions	371	319	52	16%	(20)	(15)	17	5%	12%

## Xylem Inc. Non-GAAP Reconciliation

### Adjusted Operating Income

	Q1		Q2		Q3		YTD	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Total Revenue</b>								
• Total Xylem	1,217	1,071	1,317	1,164	1,287	1,195	3,821	3,430
• Water Infrastructure	480	419	546	482	541	520	1,567	1,421
• Applied Water	366	333	388	361	378	354	1,132	1,048
• Measurement & Control Solutions	371	319	383	321	368	321	1,122	961
<b>Operating Income</b>								
• Total Xylem	113	86	171	137	176	152	460	375
• Water Infrastructure	49	41	92	74	99	91	240	206
• Applied Water	50	36	61	48	59	50	170	134
• Measurement & Control Solutions	33	25	31	29	31	27	95	81
• Total Segments	132	102	184	151	189	168	505	421
<b>Operating Margin</b>								
• Total Xylem	9.3%	8.0%	13.0%	11.8%	13.7%	12.7%	12.0%	10.9%
• Water Infrastructure	10.2%	9.8%	16.8%	15.4%	18.3%	17.5%	15.3%	14.5%
• Applied Water	13.7%	10.8%	15.7%	13.3%	15.6%	14.1%	15.0%	12.8%
• Measurement & Control Solutions	8.9%	7.8%	8.1%	9.0%	8.4%	8.4%	8.5%	8.4%
• Total Segments	10.8%	9.5%	14.0%	13.0%	14.7%	14.1%	13.2%	12.3%
<b>Sensus Acquisition Related Costs</b>								
• Total Xylem	-	10	-	4	-	5	-	19
• Water Infrastructure	-	-	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-	-	-
• Measurement & Control Solutions	-	6	-	3	-	4	-	13
• Total Segments	-	6	-	3	-	4	-	13
<b>Special Charges</b>								
• Total Xylem	6	5	1	-	1	3	8	8
• Water Infrastructure	-	-	-	-	-	-	-	-
• Applied Water	-	5	-	-	-	-	-	5
• Measurement & Control Solutions	2	-	1	-	-	-	3	-
• Total Segments	2	5	1	-	-	-	3	5
<b>Restructuring &amp; Realignment Costs</b>								
• Total Xylem	16	11	10	12	11	9	37	32
• Water Infrastructure	5	4	5	5	5	3	15	12
• Applied Water	3	4	2	5	2	5	7	14
• Measurement & Control Solutions	8	3	3	2	4	1	15	6
• Total Segments	16	11	10	12	11	9	37	32
<b>Adjusted Operating Income</b>								
• Total Xylem	135	112	182	153	188	169	505	434
• Water Infrastructure	54	45	97	79	104	94	255	218
• Applied Water	53	45	63	53	61	55	177	153
• Measurement & Control Solutions	43	34	35	34	35	32	113	100
• Total Segments	150	124	195	166	200	181	545	471
<b>Adjusted Operating Margin</b>								
• Total Xylem	11.1%	10.5%	13.8%	13.1%	14.6%	14.1%	13.2%	12.7%
• Water Infrastructure	11.3%	10.7%	17.8%	16.4%	19.2%	18.1%	16.3%	15.3%
• Applied Water	14.5%	13.5%	16.2%	14.7%	16.1%	15.5%	15.6%	14.6%
• Measurement & Control Solutions	11.6%	10.7%	9.1%	10.6%	9.5%	10.0%	10.1%	10.4%
• Total Segments	12.3%	11.6%	14.8%	14.3%	15.5%	15.1%	14.3%	13.7%

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

**Xylem Inc. Non-GAAP Reconciliation**  
**Adjusted Diluted EPS**  
(\$ Millions, except per share amounts)

	Q3 2018			Q3 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,287		1,287	1,195		1,195
Operating Income	176	12 a	188	152	17 a	169
Operating Margin	13.7%		14.6%	12.7%		14.1%
Interest Expense	(21)		(21)	(21)		(21)
Other Non-Operating Income (Expense)	4		4	1		1
Gain/(Loss) From Sale of Businesses	2	(2)	-	(1)	1	-
Income before Taxes	161	10	171	131	18	149
Provision for Income Taxes	(31)	(1) b	(32)	(27)	(4) b	(31)
Income Attributable to Minority Interest			-	1		1
Net Income Attributable to Xylem	130	9	139	105	14	119
Diluted Shares	181.1		181.1	180.9		180.9
<b>Diluted EPS</b>	<b>\$ 0.72</b>	<b>\$ 0.05</b>	<b>\$ 0.77</b>	<b>\$ 0.58</b>	<b>\$ 0.07</b>	<b>\$ 0.65</b>
Year-over-year currency translation impact on current year diluted EPS	\$ (0.01)	\$ (0.01)	\$ (0.02)			
<b>Diluted EPS at Constant Currency</b>	<b>\$ 0.73</b>	<b>\$ 0.06</b>	<b>\$ 0.79</b>			

	Q3 YTD 2018			Q3 YTD 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,821		3,821	3,430		3,430
Operating Income	460	45 a	505	375	59 a	434
Operating Margin	12.0%		13.2%	11.0%		12.7%
Interest Expense	(63)		(63)	(62)		(62)
Other Non-Operating Income (Expense)	9		9	5		5
Gain/(Loss) From Sale of Businesses	-	-	-	4	(4)	-
Income before Taxes	406	45	451	322	55	377
Provision for Income Taxes	(82)	(6) b	(88)	(62)	(19) b	(81)
Income Attributable to Minority Interest	-		-	-		-
Net Income Attributable to Xylem	324	39	363	260	36	296
Diluted Shares	181.2		181.2	180.7		180.7
<b>Diluted EPS</b>	<b>\$ 1.79</b>	<b>\$ 0.21</b>	<b>\$ 2.00</b>	<b>\$ 1.44</b>	<b>\$ 0.20</b>	<b>\$ 1.64</b>
Year-over-year currency translation impact on current year diluted EPS	\$ 0.07	\$ -	\$ 0.07			
<b>Diluted EPS at Constant Currency</b>	<b>\$ 1.72</b>	<b>\$ 0.21</b>	<b>\$ 1.93</b>			

**Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.**

a QTD: Restructuring & realignment costs of \$11 million and \$9 million in 2018 and 2017, respectively; special charges of \$1 million of acquisition related costs in 2018 and \$3 million of due diligence costs in 2017; and \$5 million of Sensus acquisition related costs in 2017.  
YTD: Restructuring & realignment costs of \$37 million and \$32 million in 2018 and 2017, respectively; special charges of \$8 million of acquisition related costs in 2018 and \$5 million of asset impairment and \$3 million of due diligence costs in 2017; and 2017 Sensus acquisition related costs of \$19 million.

b QTD: Net tax impact on restructuring & realignment costs of \$3 million and \$4 million in 2018 and 2017, respectively; net tax impact on 2017 Sensus acquisition related costs of \$2 million and special charges of \$1 million; and tax-related special items of \$2 million of benefit and \$3 million of benefit in 2018 and 2017, respectively.

YTD: Net tax impact on restructuring & realignment costs of \$10 million and \$11 million in 2018 and 2017, respectively; net tax impact on special charges of \$1 million and \$3 million in 2018 and 2017, respectively; net tax impact of \$7 million on 2017 Sensus acquisition related costs; net tax impact of \$2 million on the gain from sale of business in 2017; and tax-related special items of \$5 million of benefit and \$0 million in 2018 and 2017, respectively.

**Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter  
(\$ Millions)**

	2018				
	Q1	Q2	Q3	Q4	Total
Net Income	79	115	130		324
Income Tax Expense	16	35	31		82
Interest Expense (Income), net	20	20	20		60
Depreciation	29	29	29		87
Amortization	38	36	34		108
EBITDA	182	235	244	-	661
Share-based Compensation	9	7	7		23
Restructuring & Realignment	16	9	11		36
Loss/(Gain) from sale of business	-	2	(2)		-
Special Charges	6	1	1		8
Adjusted EBITDA	213	254	261	-	728
Revenue	1,217	1,317	1,287		3,821
Adjusted EBITDA Margin	17.5%	19.3%	20.3%		19.1%

	2017				
	Q1	Q2	Q3	Q4	Total
Net Income	56	100	104	70	330
Income Tax Expense	14	21	27	74	136
Interest Expense (Income), net	20	20	20	19	79
Depreciation	28	27	28	26	109
Amortization	31	30	30	34	125
EBITDA	149	198	209	223	779
Share-based Compensation	6	5	5	5	21
Restructuring & Realignment	11	12	9	9	41
Loss/(Gain) from sale of business	(5)	-	1	14	10
Sensus Acquisition Related Costs	7	2	3	2	14
Special Charges	5	-	3	5	13
Adjusted EBITDA	173	217	230	258	878
Revenue	1,071	1,164	1,195	1,277	4,707
Adjusted EBITDA Margin	16.2%	18.6%	19.2%	20.2%	18.7%

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

**Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter  
Water Infrastructure  
(\$ Millions)**

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	47	90	98		235
Interest Expense (Income), net	-	(1)	(1)		(2)
Depreciation	12	11	12		35
Amortization	5	5	5		15
EBITDA	64	105	114	-	283
Share-based Compensation	1	-	1		2
Restructuring & Realignment	5	5	5		15
Adjusted EBITDA	70	110	120	-	300
Revenue	480	546	541		1,567
Adjusted EBITDA Margin	14.6%	20.1%	22.2%		19.1%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	39	73	90	105	307
Interest Expense (Income), net	-	-	(1)	(1)	(2)
Depreciation	11	11	12	11	45
Amortization	5	4	5	5	19
EBITDA	55	88	106	120	369
Share-based Compensation	1	-	-	1	2
Restructuring & Realignment	4	5	3	4	16
Adjusted EBITDA	60	93	109	125	387
Revenue	419	482	520	583	2,004
Adjusted EBITDA Margin	14.3%	19.3%	21.0%	21.4%	19.3%

**Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter  
Applied Water  
(\$ Millions)**

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	50	61	60		171
Interest, net	-	-	-		-
Depreciation	5	5	5		15
Amortization	-	1	1		2
EBITDA	55	67	66		188
Share-based Compensation	1	1	-		2
Restructuring & Realignment	3	2	2		7
Adjusted EBITDA	59	70	68		197
Revenue	366	388	378		1,132
Adjusted EBITDA Margin	16.1%	18.0%	18.0%		17.4%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	40	49	49	62	200
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	-	3
EBITDA	46	55	55	67	223
Share-based Compensation	-	1	1	-	2
Restructuring & Realignment	4	5	5	3	17
Loss/(Gain) from sale of business	-5	-	1	-2	-6
Special Charges	5	-	-	-	5
Adjusted EBITDA	50	61	62	68	241
Revenue	333	361	354	373	1,421
Adjusted EBITDA Margin	15.0%	16.9%	17.5%	18.2%	17.0%

**Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter  
Measurement & Control Solutions  
(\$ Millions)**

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	33	28	33		94
Interest Expense (Income), net	-	-	-		-
Depreciation	8	9	8		25
Amortization	29	27	26		82
EBITDA	70	64	67		201
Share-based Compensation	1	1	1		3
Restructuring & Realignment	8	3	4		15
Loss/(Gain) from sale of business	-	2	-2		-
Special Charges	2	1	-		3
Adjusted EBITDA	81	71	70		222
Revenue	371	383	368		1,122
Adjusted EBITDA Margin	21.8%	18.5%	19.0%		19.8%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	24	30	26	11	91
Interest Expense (Income), net	-	-	-	-1	-1
Depreciation	8	8	7	7	30
Amortization	23	22	22	25	92
EBITDA	55	60	55	42	212
Share-based Compensation	-	1	-	1	2
Restructuring & Realignment	3	2	1	2	8
Loss from sale of business	-	-	-	16	16
Sensus Acquisition Related Costs	3	1	2	1	7
Special Charges	-	-	-	2	2
Adjusted EBITDA	61	64	58	64	247
Revenue	319	321	321	321	1,282
Adjusted EBITDA Margin	19.1%	19.9%	18.1%	19.9%	19.3%

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

**Xylem Inc. Non-GAAP Reconciliation**  
**Net Cash - Operating Activities vs. Free Cash Flow**  
(\$ Millions)

	Q1		Q2		Q3		Nine Months Ended	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Net Cash - Operating Activities</b>	<b>\$63</b>	<b>\$52</b>	<b>\$138</b>	<b>\$99</b>	<b>\$187</b>	<b>\$228</b>	<b>\$388</b>	<b>\$379</b>
Capital Expenditures	(61)	(43)	(50)	(34)	(60)	(42)	(171)	(119)
<b>Free Cash Flow</b>	<b>\$2</b>	<b>\$9</b>	<b>\$88</b>	<b>\$65</b>	<b>\$127</b>	<b>\$186</b>	<b>\$217</b>	<b>\$260</b>
Cash paid for Sensus acquisition related costs	(1)	(17)	-	(5)	-	(1)	(1)	(23)
<b>Free Cash Flow, excluding Sensus Acquisition Related Costs</b>	<b>\$3</b>	<b>\$26</b>	<b>\$88</b>	<b>\$70</b>	<b>\$127</b>	<b>\$187</b>	<b>\$218</b>	<b>\$283</b>
Net Income	79	56	115	100	130	104	324	260
Gain/(Loss) from sale of businesses	-	5	(2)	-	2	(1)	-	4
Special Charges - non-cash impairment	-	(5)	-	-	-	-	-	(5)
Sensus acquisition related costs	-	(10)	-	(4)	-	(5)	-	(19)
<b>Net Income, excluding gain on sale of businesses, non-cash impairment charges and Sensus Acquisition Related Costs</b>	<b>\$79</b>	<b>\$66</b>	<b>\$117</b>	<b>\$104</b>	<b>\$128</b>	<b>\$110</b>	<b>\$324</b>	<b>\$280</b>
<b>Free Cash Flow Conversion</b>	<b>4%</b>	<b>39%</b>	<b>75%</b>	<b>67%</b>	<b>99%</b>	<b>170%</b>	<b>67%</b>	<b>101%</b>

# xylem

Let's Solve Water

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