



# Q4 2019 Earnings Release

February 6, 2020

# FORWARD-LOOKING STATEMENTS

This Report 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 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; geopolitical and other risks associated with our international operations, including military actions, protectionism, economic sanctions or trade barriers including tariffs and embargoes that could affect customer markets and our business, and non-compliance with laws, including foreign corrupt practice laws, data privacy, export and import laws and competition laws; actual or potential pandemics; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; disruption, competition and pricing pressures in the markets we serve; industrial, governmental and private sector spending; the strength of housing and related markets; weather conditions; ability to retain and attract talent and key members of management; our relationship with and the performance of our supply chain including 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; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; changes in the value of goodwill or intangible assets; risks relating to product defects, product security, product liability and recalls; claims or investigations by governmental or regulatory bodies; cybersecurity attacks, breaches or other disruptions of information technology systems on which we rely; litigation and contingent liabilities; and other factors set forth under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018 (“2018 Annual Report”) and with subsequent filings we make with the Securities and Exchange Commission (“SEC”).”

All forward-looking statements made herein are based on information currently available to the Company as of the date of this Report. 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.

# Q4 2019 Performance Summary

	GAAP Q4 2019	Adjusted* Q4 2019	GAAP YTD 2019	Adjusted* YTD 2019
<b>Xylem Consolidated</b>				
Revenue	1,371	1,371	5,249	5,249
Overall Growth	-1%	-1%	1%	1%
Constant Currency Growth		0%		3%
Organic Growth		0%		4%
Operating Income	195	206	486	727
Operating Margin	14.2%	15.0%	9.3%	13.9%
Earnings per Share	\$0.65	\$0.89	\$2.21	\$3.02
<b>Water Infrastructure</b>				
Revenue	603	603	2,177	2,177
Overall Growth	-1%	-1%	0%	0%
Constant Currency Growth		1%		3%
Organic Growth		1%		3%
Operating Income	119	125	365	396
Operating Margin	19.7%	20.7%	16.8%	18.2%
<b>Applied Water</b>				
Revenue	392	392	1,541	1,541
Overall Growth	-2%	-2%	0%	0%
Constant Currency Growth		-2%		2%
Organic Growth		-2%		2%
Operating Income	62	65	241	254
Operating Margin	15.8%	16.6%	15.6%	16.5%
<b>Measurement &amp; Control Solutions</b>				
Revenue	376	376	1,531	1,531
Overall Growth	0%	0%	2%	2%
Constant Currency Growth		1%		4%
Organic Growth		2%		5%
Operating Income	27	29	(67)	130
Operating Margin	7.2%	7.7%	-4.4%	8.5%

## 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.

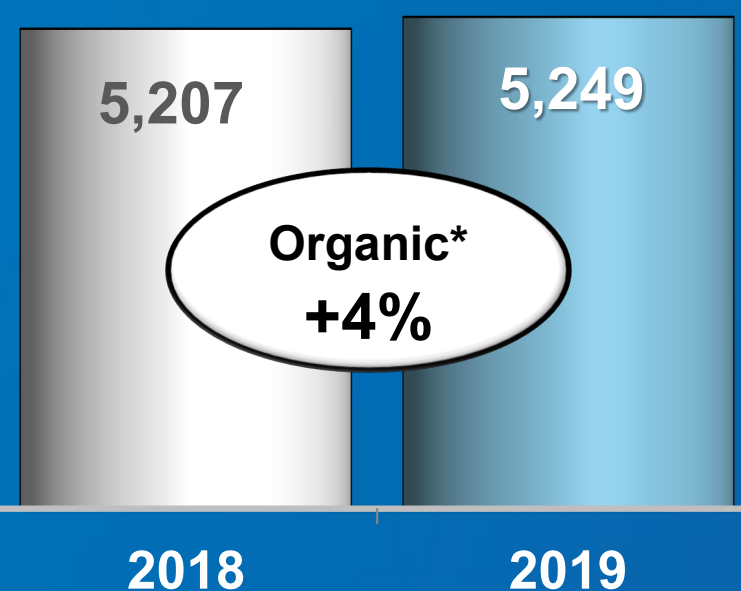
# Key Messages

- **Solid full year financial performance**
  - Organic\* revenue growth +4%
  - Adj. Op Margin\* of 13.9% (+20 bps)
  - Adj. EPS\* of \$3.02 (up 9% ex. FX)
  - Free Cash Flow\* Conversion of 124%
- **Delivered on 4Q earnings amid persistent softening in Industrial & Commercial markets**
- **2020 Guidance reflects balanced outlook ... modest growth while executing on productivity and funding growth investments**
- **Next update on strategic priorities in March at 2020 Investor Day in Atlanta**

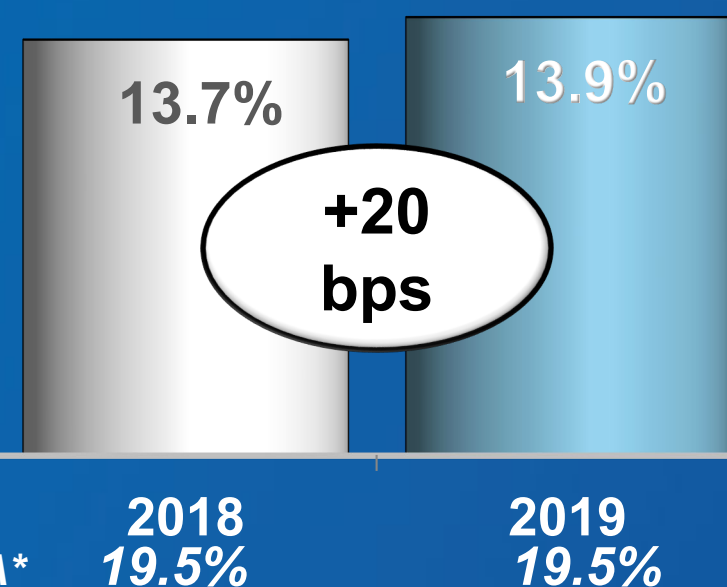
# 2019 Financial Summary

(Dollars, In Millions, except EPS)

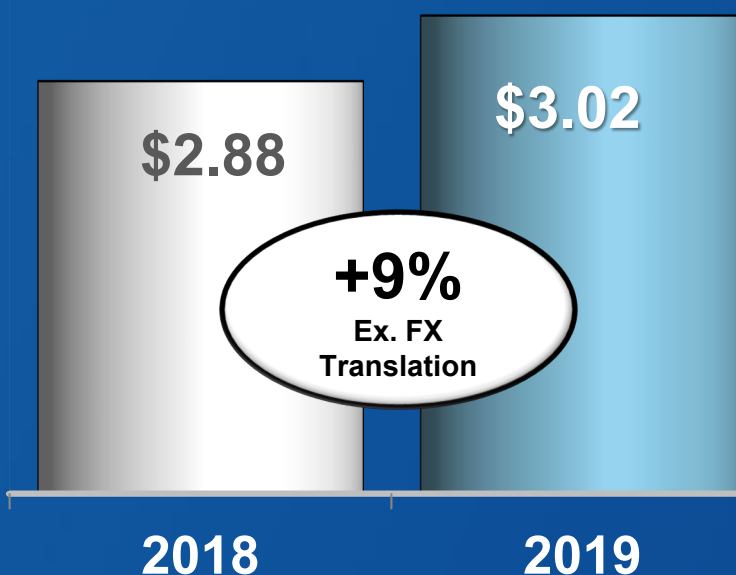
## Revenue



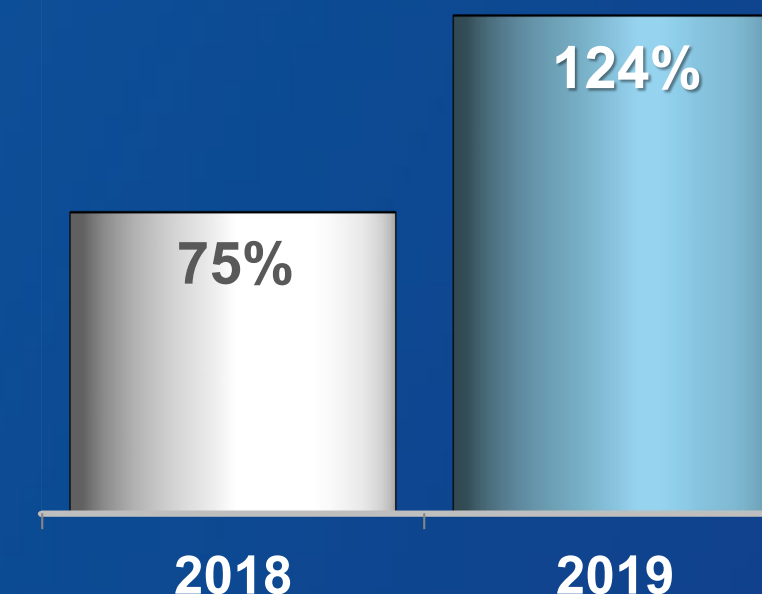
## Adj. Op Margin\*



## Adj. EPS\*



## FCF\* Conversion



Adj. EBITDA\*

2018  
19.5%

2019  
19.5%

### Key Organic Growth Drivers

+ Utilities	+6%
+ Industrial	+1%
+ Commercial	+3%
+ Residential	+2%

### Organic Growth by Region

+ Em. Mkts	+6%
+ U.S.	+5%
- Western Europe	-1%

### Key Performance Drivers

+ Productivity	+3.4%
+ Price	+1.6%
+ Volume	+0.5%
- Inflation	-3.0%
- Mix/FX/Other	-1.6%
- Investments	-0.6%
- Acq./Divest.	-0.1%

### Key Performance Drivers

+ Productivity	+ \$0.79
+ Price	+ \$0.43
+ Volume	+ \$0.16
+ Interest	+ \$0.06
- Inflation	- \$0.70
- Mix/FX/Other	- \$0.44
- Investments	- \$0.13
- Acq./Divest.	- \$0.03

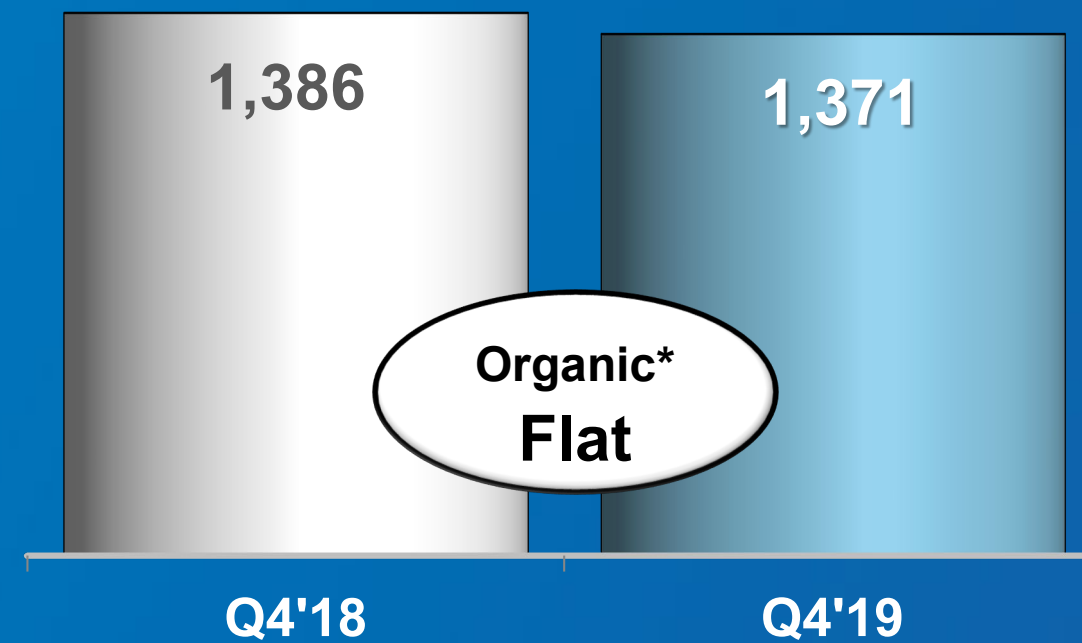
### Key Performance Drivers

- + Strong FCF of \$613M, up 75%
- + Working capital of 17.5% reflects improvement of 150 bps

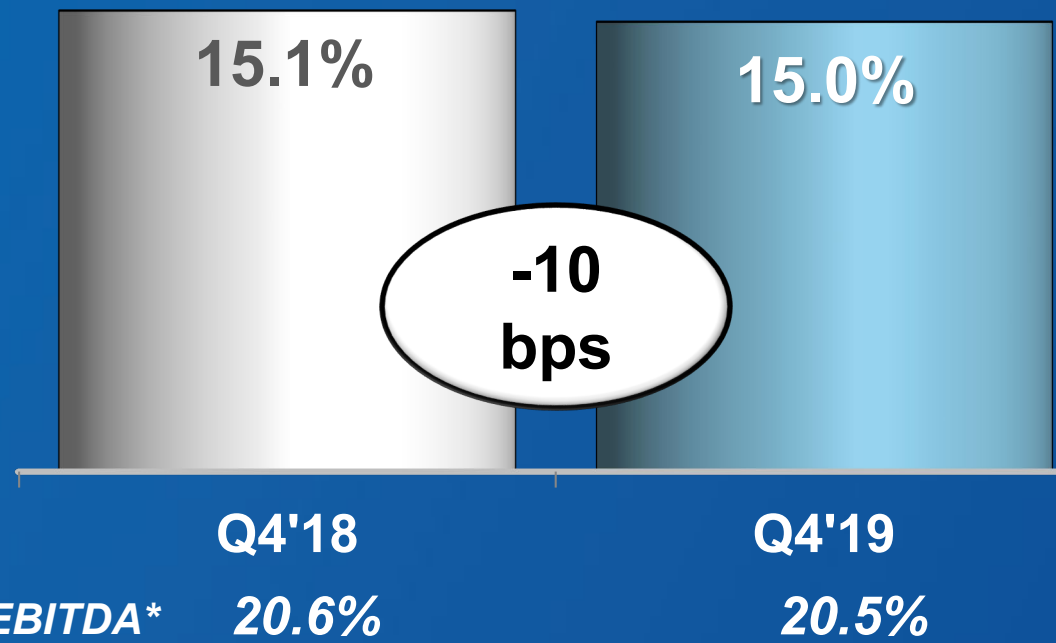
# Q4 2019 Xylem Performance

(Dollars, In Millions, except EPS)

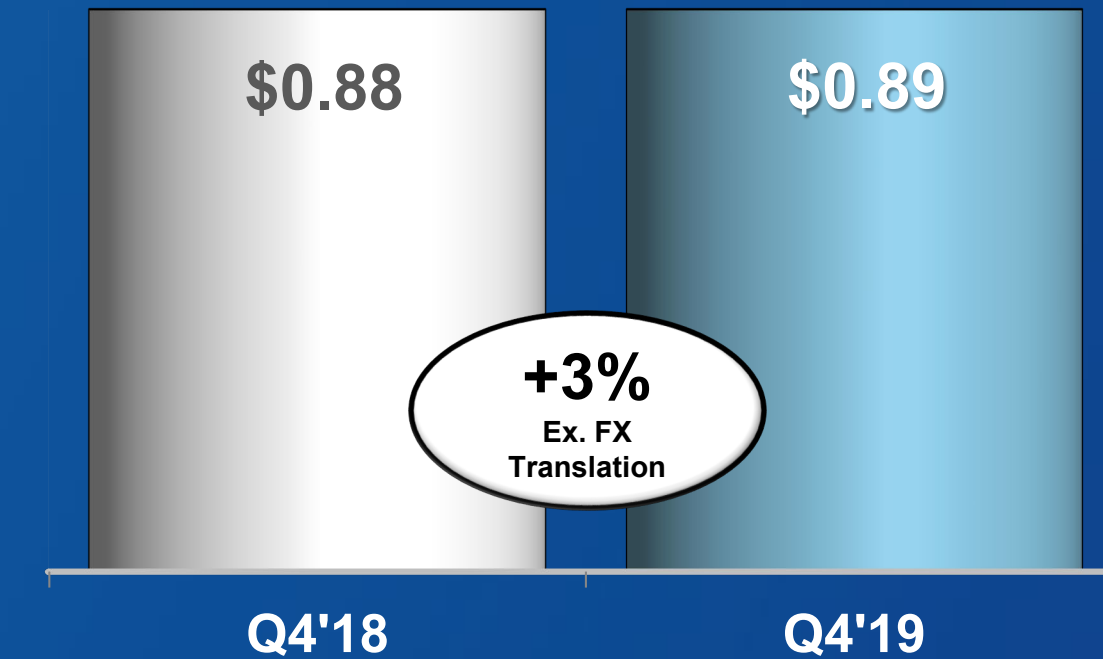
## Revenue



## Adj. Operating Margin\*



## Adj. EPS\*



### Organic Growth by End Market

+ Utilities	+4%
- Industrial	-3%
- Commercial	-5%
- Residential	-2%

### Organic Growth by Region

+ Em. Mkts	+6%
+ W. Europe	+1%
- U.S.	-2%

### Key Performance Drivers

- Flat organic\* revenue growth driven by weakness in end markets except Utilities
- Productivity and price realization mitigate margin shortfall from lower volume & unfavorable mix
  - Productivity drives 380 bps Op Margin expansion (EPS +\$0.24)
  - Price expands Op Margin 120 bps (EPS +0.09)
  - Cost inflation reduces Op Margin by 270 bps (EPS -\$0.16)
  - Vol/Mix/Investments/other reduce Op Margin by 240 bps (EPS -\$0.18)
  - Interest/Other Non-Op adds EPS \$0.02

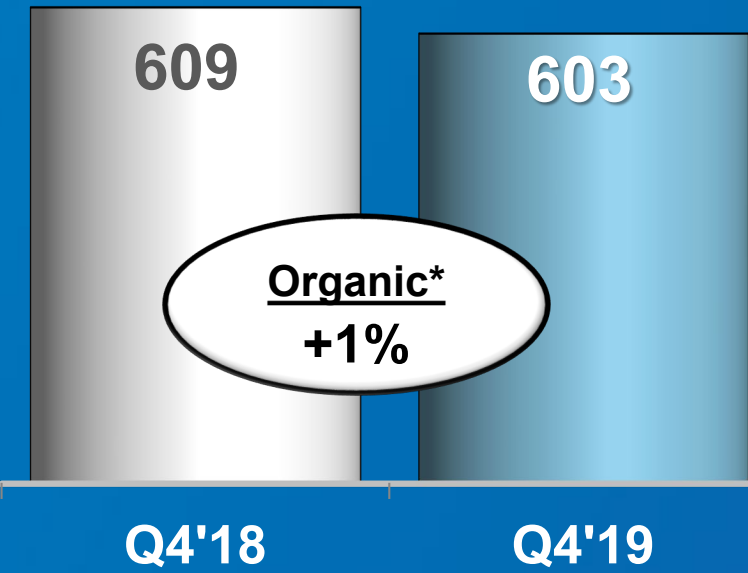
Other: Tax Rate\* 18.3%

Share Count 181.2

# 2019 Water Infrastructure

## 4Q Revenue

(Dollars, In Millions)



### Organic Growth By Application

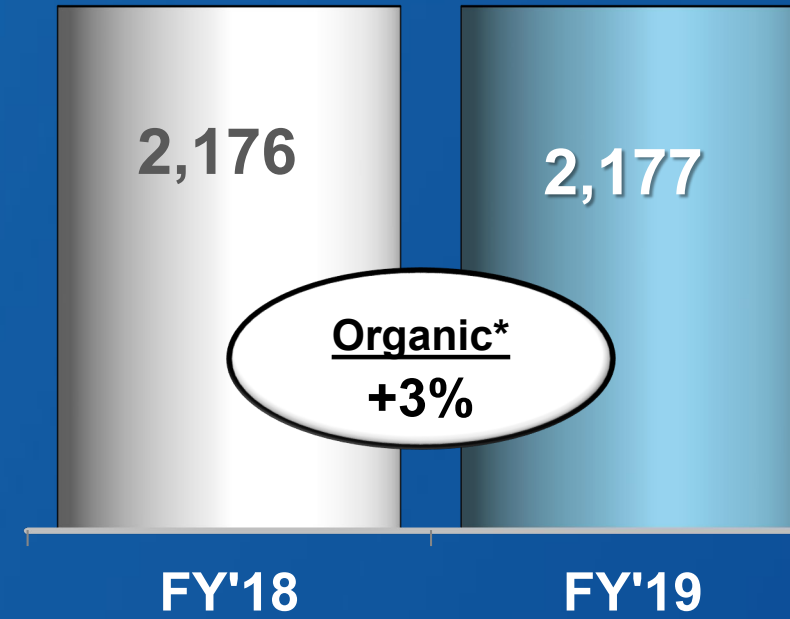
- + Treatment +2%
- + Transport +1%

### By Regions

- + W. Europe +2%
- + Em. Mkts +7%
- U.S. -1%

## FY Revenue

(Dollars, In Millions)



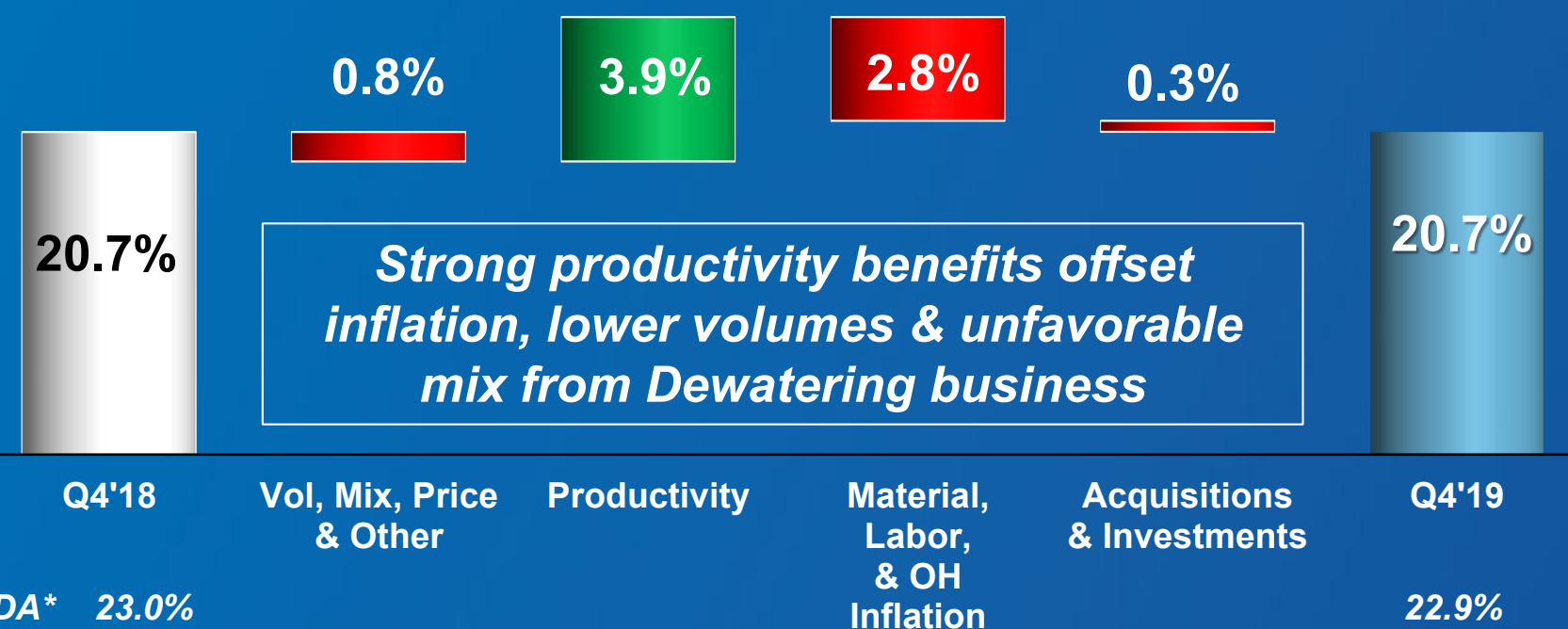
### Organic Growth By Application

- + Treatment +3%
- + Transport +3%

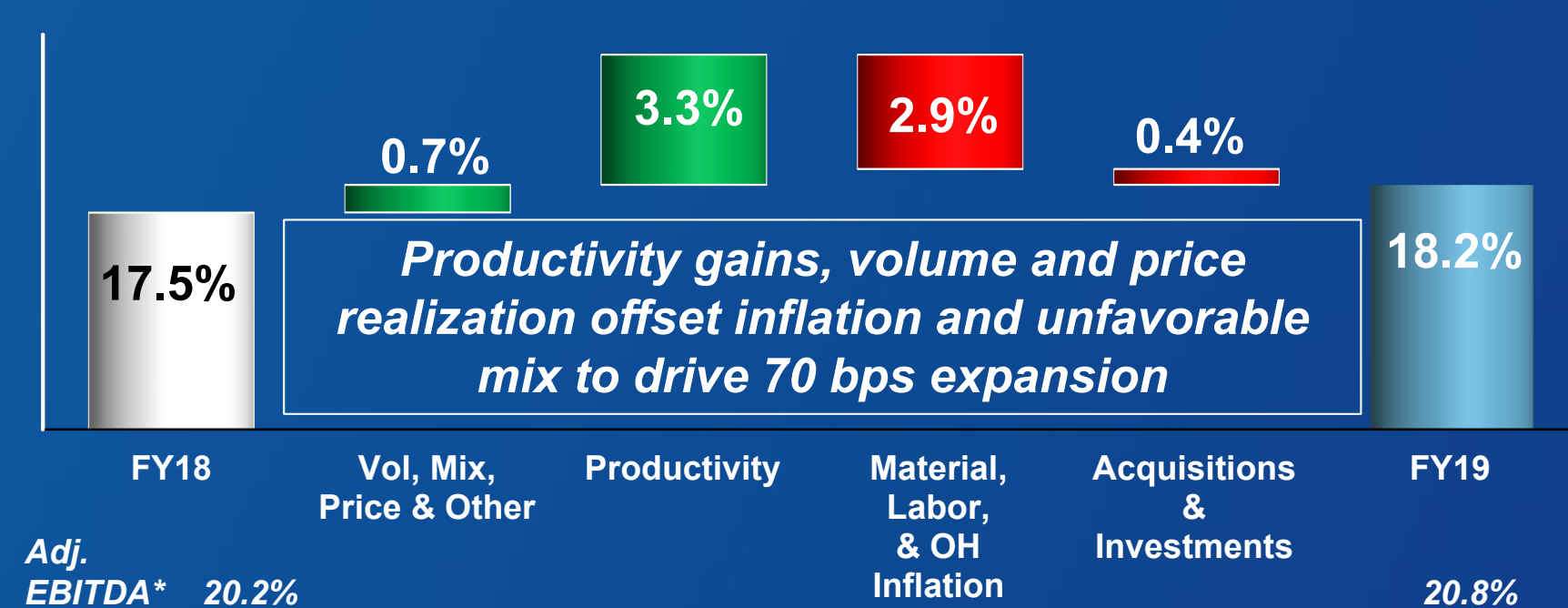
### By Regions

- + U.S. +7%
- + W. Europe +1%
- + Em. Mkts +4%

## 4Q Adj. Op Margin\*



## FY Adj. Op Margin\*



Adj. EBITDA\* 23.0%

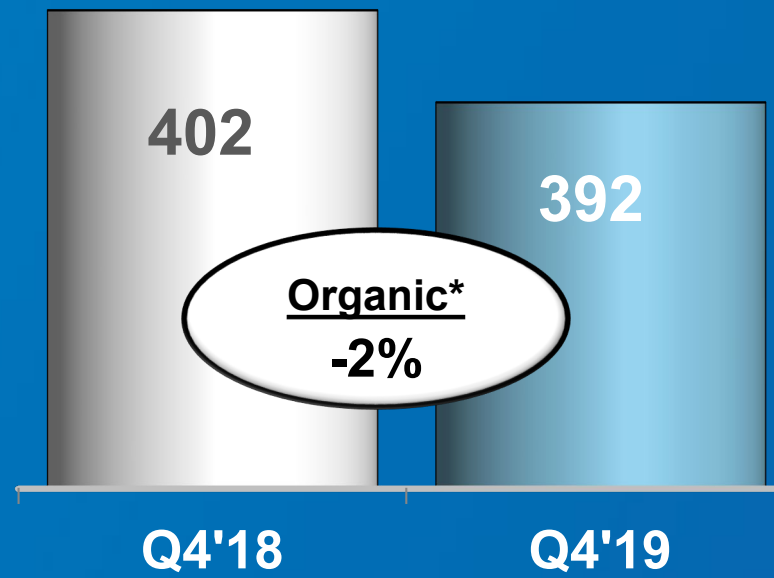
Adj. EBITDA\* 20.2%

20.8%

# 2019 Applied Water

## 4Q Revenue

(Dollars, In Millions)



### Organic Growth By Application

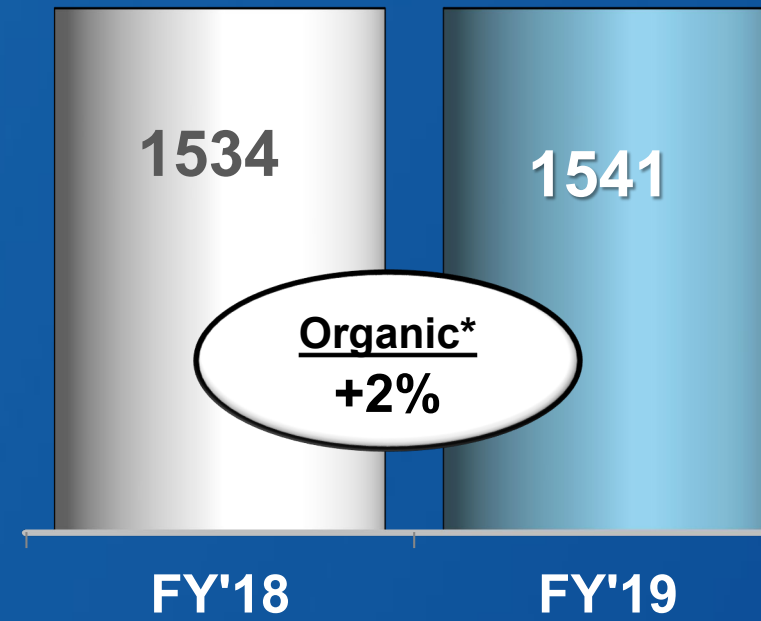
- Residential -2%
- Commercial -5%
- + Ind'l Water +1%

### By Regions

- U.S. -3%
- W. Europe -2%
- Em. Mkts -5%

## FY Revenue

(Dollars, In Millions)



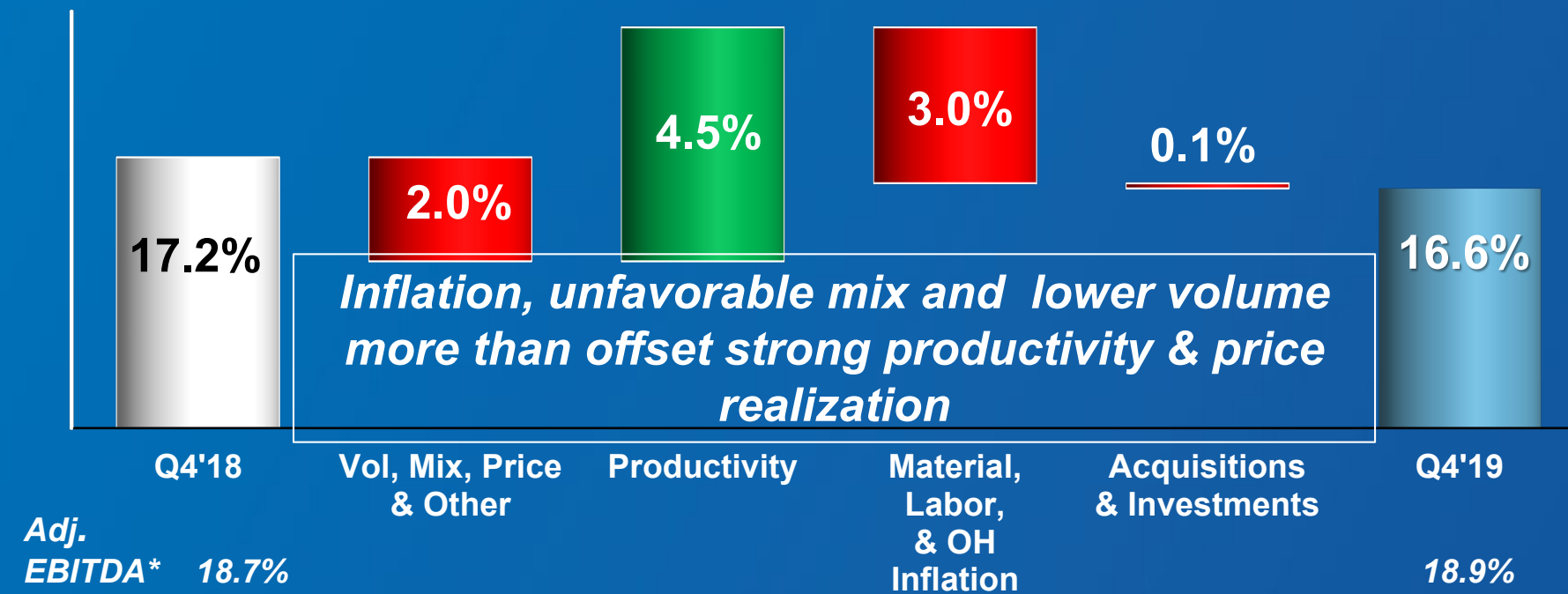
### Organic Growth By Application

- + Residential +2%
- + Commercial +3%
- + Ind'l Water +2%

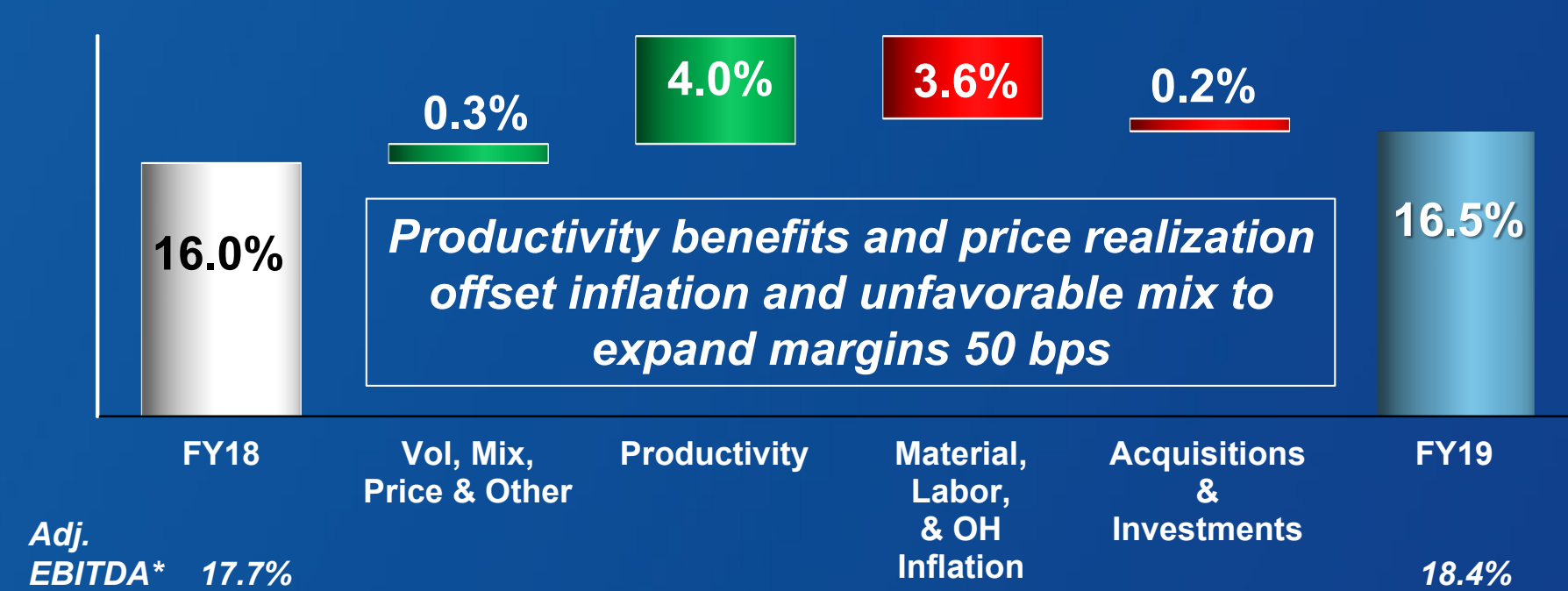
### By Regions

- + U.S. +2%
- W. Europe -2%
- + Em. Mkts +6%

## 4Q Adj. Op Margin\*



## FY Adj. Op Margin\*

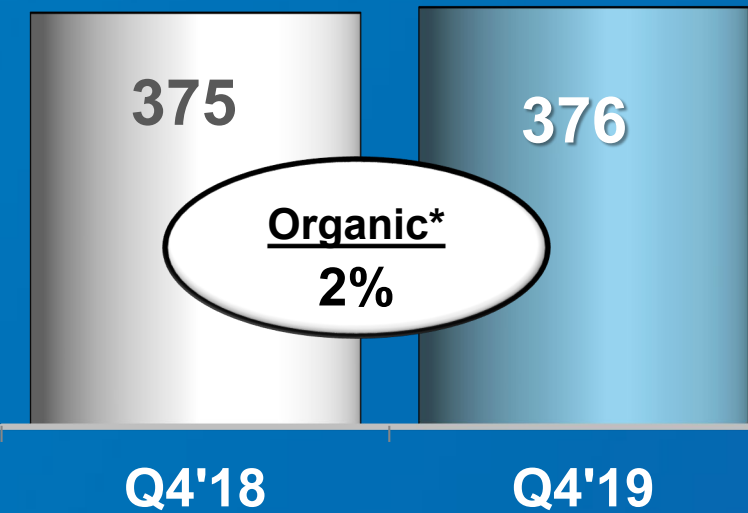




# 2019 Measurement and Control Solutions

## 4Q Revenue

(Dollars, In Millions)



### Organic Growth By Application

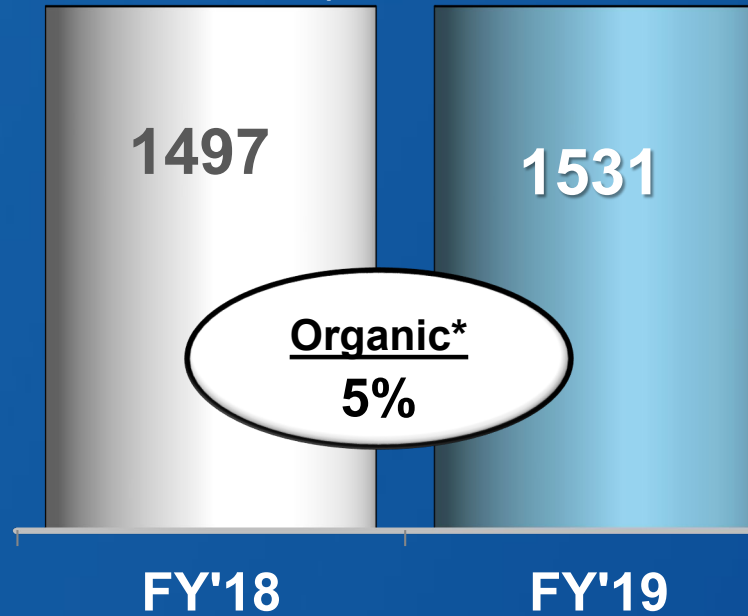
+ Water	+2%
+ Energy	+12%
- SaaS/Other	-14%
- Test	-1%

### By Regions

- U.S.	-3%
= W. Europe	Flat
+ Em. Mkts	+16%

## FY Revenue

(Dollars, In Millions)



### Organic Growth By Application

+ Water	+11%
+ Energy	+3%
- SaaS/Other	-6%
= Test	Flat

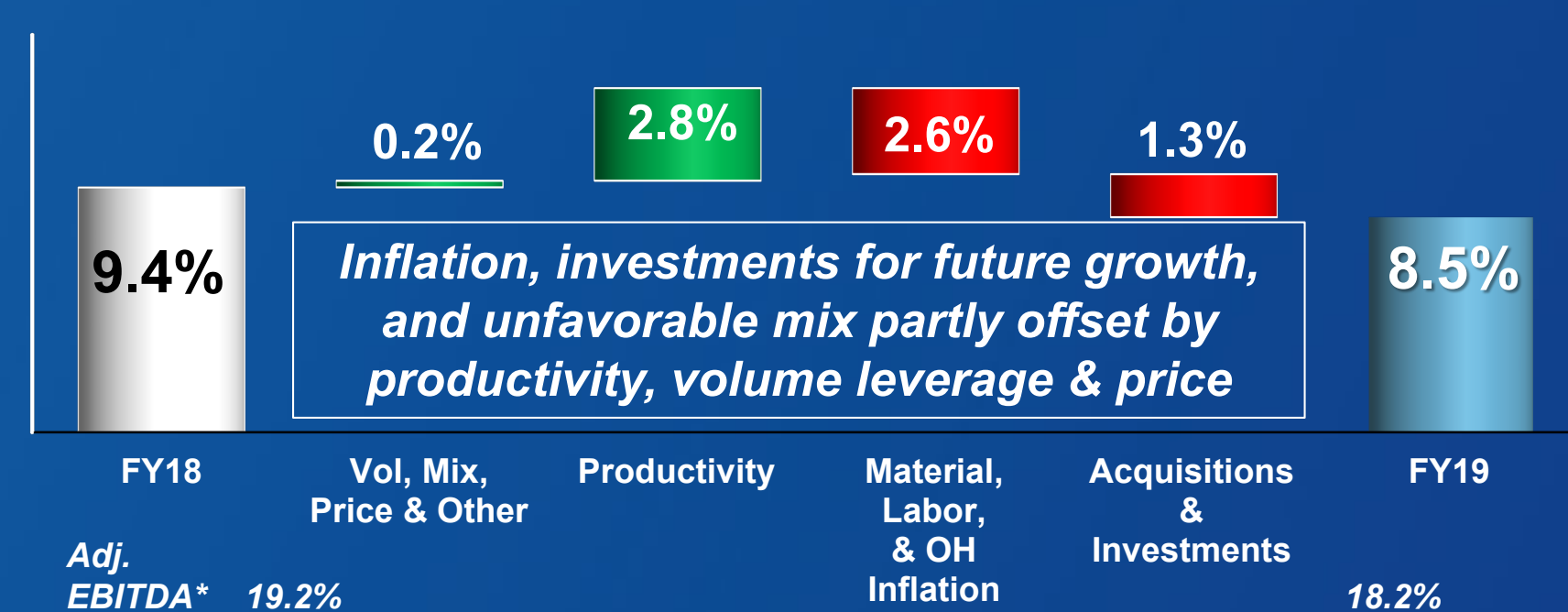
### By Regions

+ U.S.	+6%
- W. Europe	-2%
+ Em. Mkts	13%

## 4Q Adj. Op Margin\*



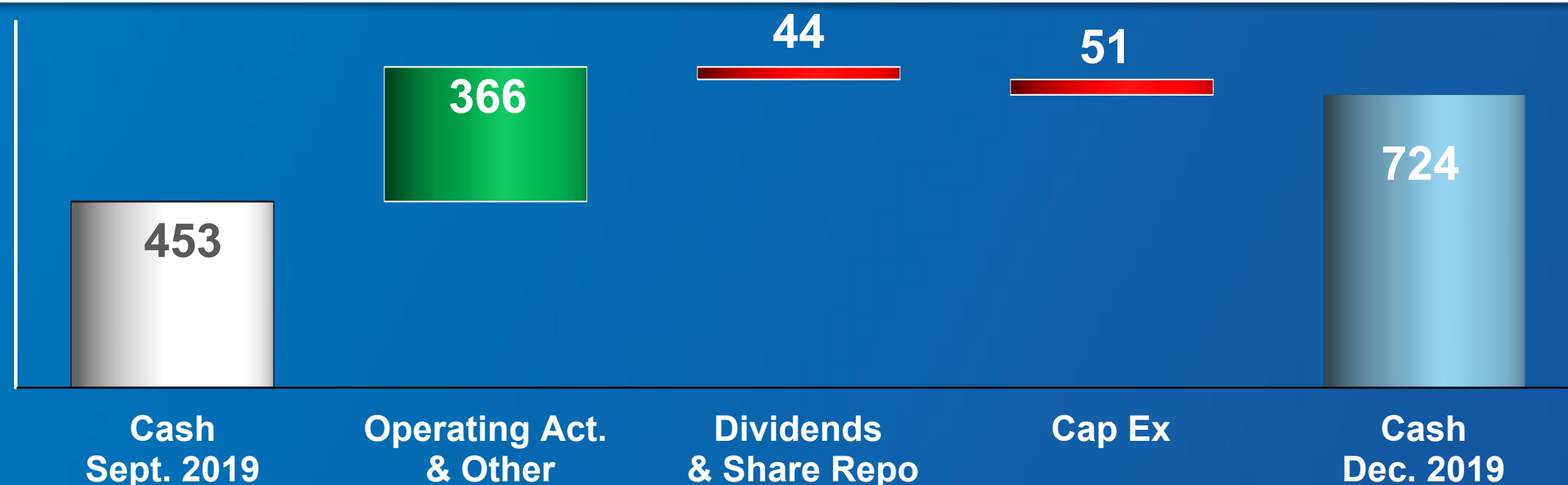
## FY Adj. Op Margin\*



# Xylem Financial Position

(Dollars, In Millions)

## Cash Drivers

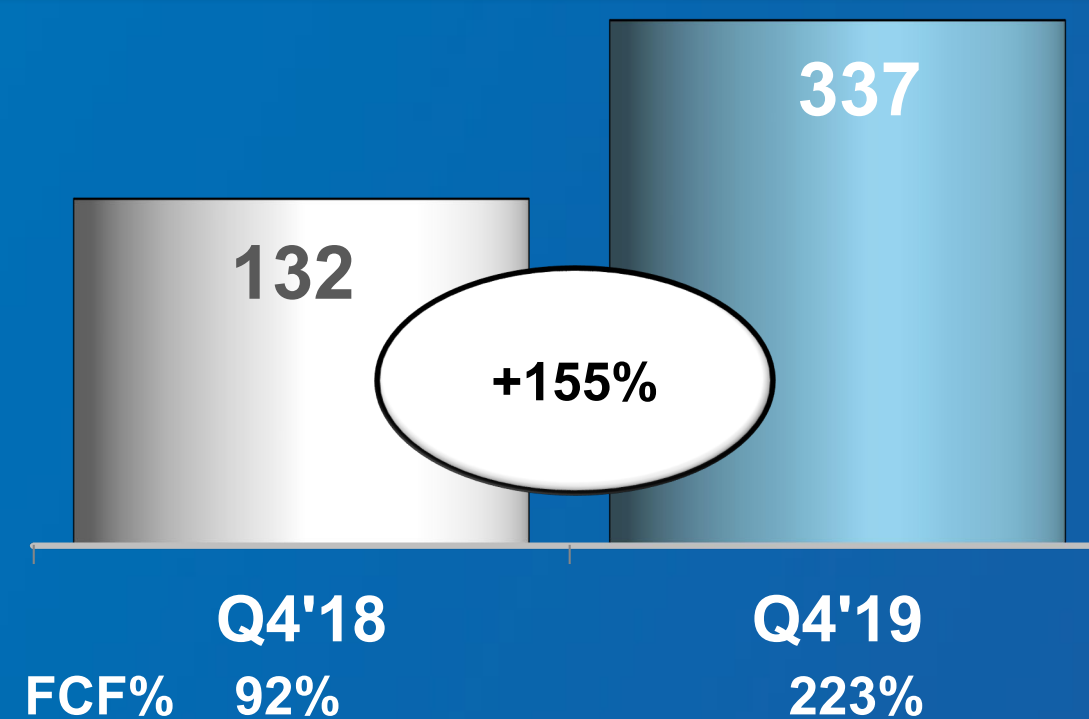


## Capital Summary

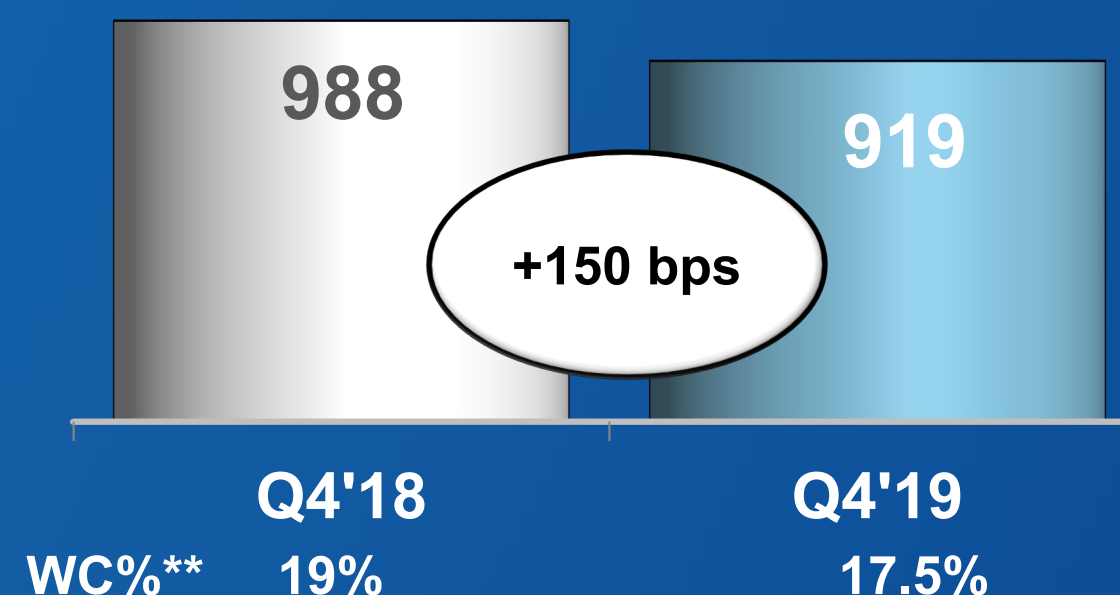
December 31, 2019

Cash	724
Debt	2,316
Net Debt	1,592
Shareholders' Equity	2,957
Net Capital	4,549
Net Debt to Net Capital	35%

## Free Cash Flow\*



## Working Capital\*\*



## Financial Highlights

- Strong Free Cash Flow\* conversion in 4Q helps deliver full year conversion of 124%
- Execution in all working capital accounts improves as a % of Revenue by 150 basis points
- Announced 8% increase in quarterly dividend (9<sup>th</sup> consecutive annual dividend increase)
- Committed to maintaining Investment Grade Credit (BBB/Baa2); within target leverage range for credit rating agencies (2.5-3x)

# 2020 End Market Outlook



Utilities



Industrial



Commercial



Residential

## Utilities (~50% of 2019 Rev.)

- 2019 Organic\* Growth: Up Low Single Digits
- U.S. wastewater business healthy but normalizing to LSD with steady opex activity and very difficult compare in capex (>20% growth in 2019)
- Smart meter and infrastructure analytics mkt growth ramps from large project deployments
- Europe steady in low single digits
- Healthy investment & projects in Emerging Markets led broadly by growth in China, India and Africa

## Industrial (~35% of 2019 Rev.)

- 2019 Organic\* Growth: Flattish
- Expect soft growth in the 1<sup>st</sup> half in North America short-cycle markets, particularly in our Dewatering business
- O&G/Mining markets soft
- Mixed Market conditions outside U.S. with Europe flattish and Asia modestly positive
- Expect softness in the Middle East from geopolitical and economic uncertainty

## Commercial (~10% of 2019 Rev.)

- 2019 Organic\* Growth: Up Low Single Digits
- Expect soft market conditions in the first half of 2020 down low-to-mid single digits before recovery in the second half up low-to-mid-single digits
- Strong project quoting activity and continued easing of labor market constraints in the U.S. expected in the second half
- Solid market conditions in Europe
- Emerging Market building construction solid driven by China & Smart City plans in India

## Residential (~5% of 2019 Rev.)

- 2019 Organic\* Growth: Up Low Single Digits
- U.S. housing market modestly positive; Competitive replacement market dynamics
- Strong outlook in Europe on easier comparison
- Mixed growth in Emerging Markets from modest share gains and continued opportunities in China and other Asia countries for second water supply

\* See appendix for definitions of non-GAAP measures and non-GAAP reconciliations

# 2020 Outlook

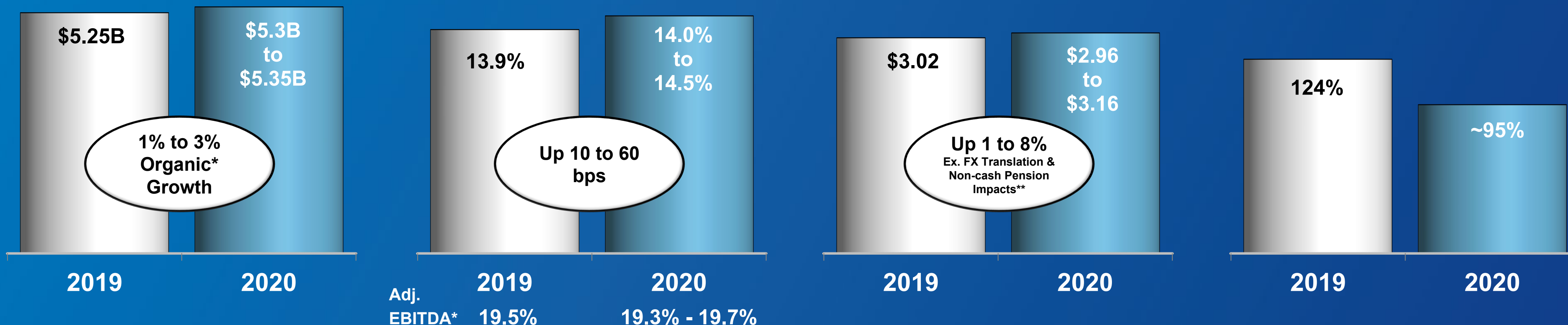
(Dollars, In Millions, except EPS)

## Revenue

## Adj. Op. Margin\*

## Adj. EPS\*

## FCF\* Conversion



## Financial Highlights

- Organic\* Growth of 1% to 3% reflecting a soft first half of 2020 and a return to modest growth in the second half
- Adjusted Operating Margin\* of 14.0% to 14.5% (up 10 to 60 bps) as productivity and modest volume leverage offsets growth investments, inflation and unfavorable mix
- Adjusted EPS\* of \$2.96 to \$3.16 (up 1 to 8% ex FX translation and non-cash pension impacts)
- Free Cash Flow\* conversion of ~95% from modest increase in capex investments and strength of 2019 Working Capital performance

\* See appendix for definitions of non-GAAP measures and non-GAAP reconciliations

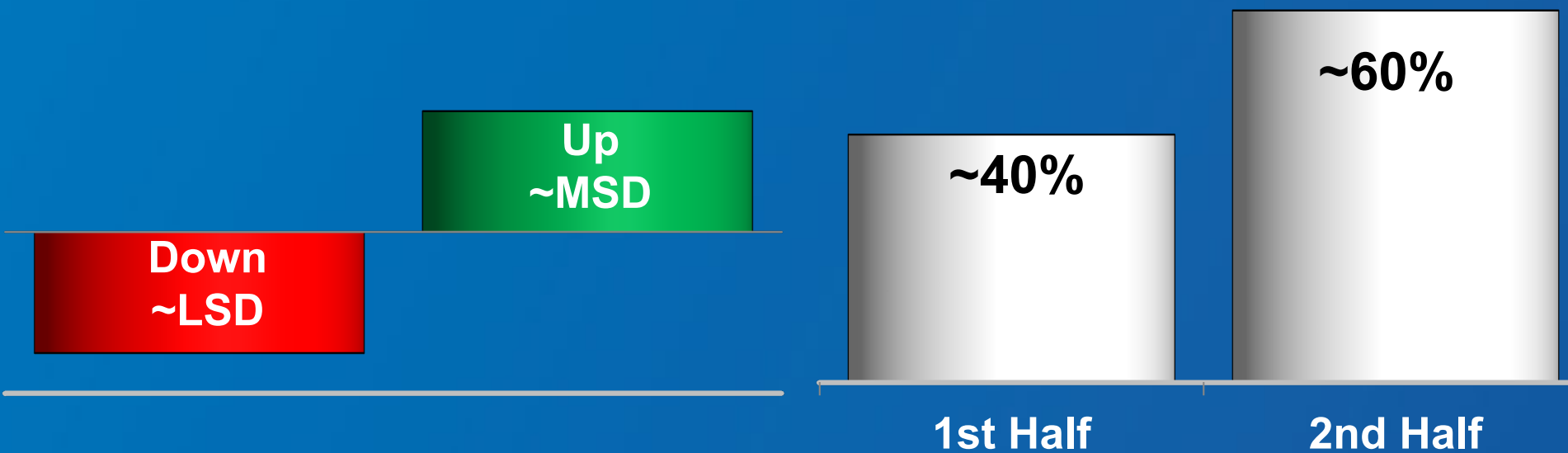
\*\* Excludes ~\$0.07 of Non-cash Pension Income reduction from the planned buyout of the UK Pension Plan & ~\$0.03 of negative FX Translation impact

# 2020 Outlook

## 2020 QUARTERLY PROFILE

**1<sup>st</sup> Half vs. 2<sup>nd</sup> Half Organic Revenue**

**1<sup>st</sup> Half vs. 2<sup>nd</sup> Half Adj. EPS (% of Total)**



### 1<sup>st</sup> Half Dynamics:

- Strong PY Comparisons (US and Em. Mkts grew double-digits)
- Soft Orders & Shippable Backlog exiting 4Q 2019
- China Uncertainty with Coronavirus

### 2<sup>nd</sup> Half Dynamics:

- Strong MCS project deployments from backlog
- Modest recovery of short-cycle industrial & commercial businesses

## FY 2020 PLANNING ASSUMPTIONS

Xylem Organic* Growth	+1% to +3%
Water Infrastructure	Flat to +2%
Applied Water	Flat to +2%
Measurement & Control Solutions	+4% to 6%
FX Euro Rate	1.11
Adjusted Operating Margin*	14.0% to 14.5%
Adjusted EBITDA Margin*	19.3% to 19.7%
Corporate Expense	~\$53M
Restructuring and Realignment Costs	~\$35 to 45M
Dividends	~\$185M
Capex	~\$235M to \$245M
Interest Expense	~\$60
Estimated Tax Rate:	~19.5%
Share Count:	~181.2M
Adjusted EPS*	\$2.96 to \$3.16

## Q1 2020 PLANNING ASSUMPTIONS

Xylem Organic* Growth	Down -3 to -5%
Adjusted Operating Margin*	8.0% to 9.0%
Adjusted EBITDA*	14.1% to 15%

# Summary

- **Solid FY 2019 performance amid challenging 2<sup>nd</sup> half market conditions**
- **Balanced 2020 outlook given continued near-term market softness with visibility to project deployments ramping in the 2<sup>nd</sup> half and beyond**
- **Continued progress in strategic priorities and evolution of portfolio and commercial capabilities**
- **Fundamentals of investment thesis firmly in-tact**

## **SAVE THE DATE!**

**2020 Investor & Analyst Day**

**Date: March 31<sup>st</sup>, 2020**

**Location: Xylem Data Analytics & Software Center, Atlanta, GA**

# Appendix

# FOREIGN EXCHANGE TRANSLATION SENSITIVITY

## *Foreign Exchange Translation*

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

Currency	2019 Guidance Rate	Rates assuming 5% decrease in Guidance Rate	Revenue Impact on FY 2020 of 5% Decrease in Rate	EPS Impact on 4Q 2019 of 5% Decrease in Rate
Euro	1.11	1.05	(\$47M)	(\$0.10)
GBP	1.29	1.23	(\$14M)	\$0.00
SEK	0.10	0.10	(\$5M)	\$0.01
RMB	0.14	0.14	(\$14M)	(\$0.01)
CAD	0.75	0.71	(\$9M)	\$0.00
All Other			(\$43M)	(\$0.01)
<b>Total</b>			<b>(\$132M)</b>	<b>(\$0.11)</b>

\* Increase in rate would have inverse impact on results

**RULE OF THUMB: 1 PENNY MOVEMENT IN EUR/USD RATE,  
EQUATES TO MORE THAN 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, 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, net income and earnings per share, adjusted to exclude restructuring and realignment costs, gain or loss from sale of businesses, special charges and tax-related special items, as applicable.

**"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 acquisition and integration related costs not included in "Sensus Acquisition Related Costs", non-cash impairment charges and other special non-operating items, such as pension adjustments.

**"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)**

	<b>(As Reported - GAAP)</b>				<b>(As Adjusted - Organic)</b>				<b>Constant Currency</b>
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	2019 Orders	2018 Orders	Change 2019 v. 2018	% Change 2019 v. 2018	Acquisitions / Divestitures	FX Impact	Change Adj. 2019 v. 2018	% Change Adj. 2019 v. 2018	
<b>Year Ended December 31</b>									
<b>Xylem Inc.</b>	<b>5,339</b>	<b>5,437</b>	<b>(98)</b>	<b>-2%</b>	<b>17</b>	<b>129</b>	<b>48</b>	<b>1%</b>	<b>1%</b>
Water Infrastructure	2,234	2,255	(21)	-1%	-	74	53	2%	2%
Applied Water	1,556	1,557	(1)	0%	-	29	28	2%	2%
Measurement & Control Solutions	1,549	1,625	(76)	-5%	17	26	(33)	-2%	-3%
<b>Quarter Ended December 31</b>									
<b>Xylem Inc.</b>	<b>1,286</b>	<b>1,383</b>	<b>(97)</b>	<b>-7%</b>	<b>4</b>	<b>16</b>	<b>(77)</b>	<b>-6%</b>	<b>-6%</b>
Water Infrastructure	530	584	(54)	-9%	-	10	(44)	-8%	-8%
Applied Water	387	395	(8)	-2%	-	3	(5)	-1%	-1%
Measurement & Control Solutions	369	404	(35)	-9%	4	3	(28)	-7%	-8%
<b>Quarter Ended September 30</b>									
<b>Xylem Inc.</b>	<b>1,346</b>	<b>1,356</b>	<b>(10)</b>	<b>-1%</b>	<b>4</b>	<b>24</b>	<b>18</b>	<b>1%</b>	<b>1%</b>
Water Infrastructure	586	537	49	9%	-	13	62	12%	12%
Applied Water	376	377	(1)	0%	-	6	5	1%	1%
Measurement & Control Solutions	384	442	(58)	-13%	4	5	(49)	-11%	-12%
<b>Quarter Ended June 30</b>									
<b>Xylem Inc.</b>	<b>1,392</b>	<b>1,378</b>	<b>14</b>	<b>1%</b>	<b>7</b>	<b>33</b>	<b>54</b>	<b>4%</b>	<b>3%</b>
Water Infrastructure	586	580	6	1%	-	16	22	4%	4%
Applied Water	399	401	(2)	0%	-	8	6	1%	1%
Measurement & Control Solutions	407	397	10	3%	7	9	26	7%	5%
<b>Quarter Ended March 31</b>									
<b>Xylem Inc.</b>	<b>1,315</b>	<b>1,320</b>	<b>(5)</b>	<b>0%</b>	<b>2</b>	<b>56</b>	<b>53</b>	<b>4%</b>	<b>4%</b>
Water Infrastructure	532	554	(22)	-4%	-	35	13	2%	2%
Applied Water	394	384	10	3%	-	12	22	6%	6%
Measurement & Control Solutions	389	382	7	2%	2	9	18	5%	4%

**Xylem Inc. Non-GAAP Reconciliation**  
**Reported vs. Organic & Constant Currency Revenue**  
**(\$ Millions)**

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency
	(A)	(B)	(B)	(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A	
	2019 Revenue	2018 Revenue	Change 2019 v. 2018	% Change 2019 v. 2018	Acquisitions / Divestitures	FX Impact	Change Adj. 2019 v. 2018	% Change Adj. 2019 v. 2018	
<b><u>Year Ended December 31</u></b>									
<b>Xylem Inc.</b>	<b>5,249</b>	<b>5,207</b>	<b>42</b>	<b>1%</b>	<b>22</b>	<b>124</b>	<b>188</b>	<b>4%</b>	<b>3%</b>
Water Infrastructure	2,177	2,176	1	0%	0	70	71	3%	3%
Applied Water	1,541	1,534	7	0%	0	29	36	2%	2%
Measurement & Control Solutions	1,531	1,497	34	2%	22	25	81	5%	4%
<b><u>Quarter Ended December 31</u></b>									
<b>Xylem Inc.</b>	<b>1,371</b>	<b>1,386</b>	<b>-15</b>	<b>-1%</b>	<b>4</b>	<b>17</b>	<b>6</b>	<b>0%</b>	<b>0%</b>
Water Infrastructure	603	609	-6	-1%	0	11	5	1%	1%
Applied Water	392	402	-10	-2%	0	3	-7	-2%	-2%
Measurement & Control Solutions	376	375	1	0%	4	3	8	2%	1%
<b><u>Quarter Ended September 30</u></b>									
<b>Xylem Inc.</b>	<b>1,296</b>	<b>1,287</b>	<b>9</b>	<b>1%</b>	<b>4</b>	<b>24</b>	<b>37</b>	<b>3%</b>	<b>3%</b>
Water Infrastructure	531	541	-10	-2%	0	13	3	1%	1%
Applied Water	376	378	-2	-1%	0	6	4	1%	1%
Measurement & Control Solutions	389	368	21	6%	4	5	30	8%	7%
<b><u>Quarter Ended June 30</u></b>									
<b>Xylem Inc.</b>	<b>1,345</b>	<b>1,317</b>	<b>28</b>	<b>2%</b>	<b>9</b>	<b>32</b>	<b>69</b>	<b>5%</b>	<b>5%</b>
Water Infrastructure	561	546	15	3%	0	16	31	6%	6%
Applied Water	394	388	6	2%	0	8	14	4%	4%
Measurement & Control Solutions	390	383	7	2%	9	8	24	6%	4%
<b><u>Quarter Ended March 31</u></b>									
<b>Xylem Inc.</b>	<b>1,237</b>	<b>1,217</b>	<b>20</b>	<b>2%</b>	<b>5</b>	<b>51</b>	<b>76</b>	<b>6%</b>	<b>6%</b>
Water Infrastructure	482	480	2	0%	0	30	32	7%	7%
Applied Water	379	366	13	4%	0	12	25	7%	7%
Measurement & Control Solutions	376	371	5	1%	5	9	19	5%	4%

## Xylem Inc. Non-GAAP Reconciliation

### Adjusted Operating Income

#### (\$ Millions)

	Q1		Q2		Q3		Q4		YTD	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total Revenue										
• Total Xylem	1237	1217	1345	1317	1296	1287	1371	1386	5249	5207
• Water Infrastructure	482	480	561	546	531	541	603	609	2177	2176
• Applied Water	379	366	394	388	376	378	392	402	1541	1534
• Measurement & Control Solutions	376	371	390	383	389	368	376	375	1531	1497
Operating Income										
• Total Xylem	109	113	171	171	11	176	195	194	486	654
• Water Infrastructure	51	49	98	92	97	99	119	119	365	359
• Applied Water	56	50	62	61	61	59	62	66	241	236
• Measurement & Control Solutions	16	33	26	31	-136	31	27	23	-67	118
• Total Segments	123	132	186	184	22	189	208	208	539	713
Operating Margin										
• Total Xylem	8.8%	9.3%	12.7%	13.0%	0.8%	13.7%	14.2%	14.0%	9.3%	12.6%
• Water Infrastructure	10.6%	10.2%	17.5%	16.8%	18.3%	18.3%	19.7%	19.5%	16.8%	16.5%
• Applied Water	14.8%	13.7%	15.7%	15.7%	16.2%	15.6%	15.8%	16.4%	15.6%	15.4%
• Measurement & Control Solutions	4.3%	8.9%	6.7%	8.1%	-35.0%	8.4%	7.2%	6.1%	-4.4%	7.9%
• Total Segments	9.9%	10.8%	13.8%	14.0%	1.7%	14.7%	15.2%	15.0%	10.3%	13.7%
Special Charges										
• Total Xylem	4	6	0	1	155	1	0	4	159	12
• Water Infrastructure	0	0	0	0	0	0	0	2	0	2
• Applied Water	0	0	0	0	0	0	0	0	0	0
• Measurement & Control Solutions	4	2	0	1	155	0	0	2	159	5
• Total Segments	4	2	0	1	155	0	0	4	159	7
Restructuring & Realignment Costs										
• Total Xylem	20	16	21	10	30	11	11	11	82	48
• Water Infrastructure	9	5	9	5	7	5	6	5	31	20
• Applied Water	3	3	4	2	3	2	3	3	13	10
• Measurement & Control Solutions	8	8	8	3	20	4	2	3	38	18
• Total Segments	20	16	21	10	30	11	11	11	82	48
Adjusted Operating Income										
• Total Xylem	133	135	192	182	196	188	206	209	727	714
• Water Infrastructure	60	54	107	97	104	104	125	126	396	381
• Applied Water	59	53	66	63	64	61	65	69	254	246
• Measurement & Control Solutions	28	43	34	35	39	35	29	28	130	141
• Total Segments	147	150	207	195	207	200	219	223	780	768
Adjusted Operating Margin										
• Total Xylem	10.8%	11.1%	14.3%	13.8%	15.1%	14.6%	15.0%	15.1%	13.9%	13.7%
• Water Infrastructure	12.4%	11.3%	19.1%	17.8%	19.6%	19.2%	20.7%	20.7%	18.2%	17.5%
• Applied Water	15.6%	14.5%	16.8%	16.2%	17.0%	16.1%	16.6%	17.2%	16.5%	16.0%
• Measurement & Control Solutions	7.4%	11.6%	8.7%	9.1%	10.0%	9.5%	7.7%	7.5%	8.5%	9.4%
• Total Segments	11.9%	12.3%	15.4%	14.8%	16.0%	15.5%	16.0%	16.1%	14.9%	14.7%

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

	Q1		Q2		Q3		Q4		Year-to-Date	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Net Cash - Operating Activities</b>	\$ 83	\$ 63	\$ 123	\$ 138	\$ 245	\$ 187	\$ 388	\$ 198	\$ 839	\$ 586
Capital Expenditures	(69)	(61)	(60)	(50)	(46)	(60)	(51)	(66)	(226)	(237)
<b>Free Cash Flow</b>	<u>\$ 14</u>	<u>\$ 2</u>	<u>\$ 63</u>	<u>\$ 88</u>	<u>\$ 199</u>	<u>\$ 127</u>	<u>\$ 337</u>	<u>\$ 132</u>	<u>\$ 613</u>	<u>\$ 349</u>
Cash paid for Sensus acquisition related costs	-	(1)	-	-	-	-	-	-	-	(1)
<b>Free Cash Flow, excluding Sensus Acquisition Related Costs</b>	<u>\$ 14</u>	<u>\$ 3</u>	<u>\$ 63</u>	<u>\$ 88</u>	<u>\$ 199</u>	<u>\$ 127</u>	<u>\$ 337</u>	<u>\$ 132</u>	<u>\$ 613</u>	<u>\$ 350</u>
Net Income	79	79	139	115	65	130	118	225	401	549
Gain/(Loss) from sale of businesses	1	-	-	(2)	-	2	-	-	1	-
Special Charges - non-cash impairment	(3)	-	-	-	(155)	-	-	(2)	(158)	(2)
Significant deferred tax benefit/(charge)	-	-	-	-	97	-	(33)	84	64	84
<b>Net Income, excluding gain on sale of businesses and non-cash impairment charges</b>	<u>\$ 81</u>	<u>\$ 79</u>	<u>\$ 139</u>	<u>\$ 117</u>	<u>\$ 123</u>	<u>\$ 128</u>	<u>\$ 151</u>	<u>\$ 143</u>	<u>\$ 494</u>	<u>\$ 467</u>
<b>Free Cash Flow Conversion</b>	<u>17%</u>	<u>4%</u>	<u>45%</u>	<u>75%</u>	<u>162%</u>	<u>99%</u>	<u>223%</u>	<u>92%</u>	<u>124%</u>	<u>75%</u>

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

	Q4 2019			Q4 2018		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,371	-	1,371	1,386	-	1,386
Operating Income	195	11 a	206	194	15 a	209
Operating Margin	14.2%		15.0%	14.0%		15.1%
Interest Expense	(15)	-	(15)	(19)	-	(19)
Other Non-Operating Income (Expense)	(2)	8 b	6	4	1	5
Gain/(Loss) From Sale of Businesses	-	-	-	-	-	-
Income before Taxes	178	19	197	179	16	195
Provision for Income Taxes	(60)	24 c	(36)	46	(82) c	(36)
Net Income Attributable to Xylem	118	43	161	225	(66)	159
Diluted Shares	181.2		181.2	181.0		181.0
<b>Diluted EPS</b>	<b>\$ 0.65</b>	<b>\$ 0.24</b>	<b>\$ 0.89</b>	<b>\$ 1.24</b>	<b>\$ (0.36)</b>	<b>\$ 0.88</b>
Year-over-year currency translation impact on current year diluted EPS	\$ (0.02)	\$ -	\$ (0.02)			
<b>Diluted EPS at Constant Currency</b>	<b>\$ 0.67</b>	<b>\$ 0.24</b>	<b>\$ 0.91</b>			

	Q4 YTD 2019			Q4 YTD 2018		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	5,249	-	5,249	5,207		5,207
Operating Income	486	241 a	727	654	60 a	714
Operating Margin	9.3%		13.9%	12.6%		13.7%
Interest Expense	(67)	-	(67)	(82)	-	(82)
Other Non-Operating Income (Expense)	(4)	19 b	15	13	1	14
Gain/(Loss) From Sale of Businesses	1	(1)	-	-	-	-
Income before Taxes	416	259	675	585	61	646
Provision for Income Taxes	(15)	(113) c	(128)	(36)	(88) c	(124)
Net Income Attributable to Xylem	401	146	547	549	(27)	522
Diluted Shares	181.2		181.2	181.1		181.1
<b>Diluted EPS</b>	<b>\$ 2.21</b>	<b>\$ 0.81</b>	<b>\$ 3.02</b>	<b>\$ 3.03</b>	<b>\$ (0.15)</b>	<b>\$ 2.88</b>
Year-over-year currency translation impact on current year diluted EPS	\$ (0.09)	\$ (0.02)	\$ (0.11)			
<b>Diluted EPS at Constant Currency</b>	<b>\$ 2.30</b>	<b>\$ 0.83</b>	<b>\$ 3.13</b>			

a Quarter: Restructuring & realignment costs of \$11 million in both 2019 and 2018 and special charges of \$4 million in 2018 (\$2 million of acquisition related costs and \$2 million of asset impairment).

Year-to-date: Restructuring & realignment costs of \$82 million and \$48 million in 2019 and 2018, respectively; special charges of \$155 million of intangible asset and goodwill impairment and \$4 million of acquisition related costs in 2019 and \$10 million of acquisition related costs and \$2 million of asset impairment costs in 2018.

b Special charges related to incremental pension costs as a result of the planned buyout of our UK pension plan of \$6 million for the fourth quarter and \$17 million year-to-date and \$2 million of other special charges.

c Quarter: Net tax impact on restructuring & realignment costs of \$2 million in both 2019 and 2018; \$4 million of tax impact on special charges in 2019 and tax-related special items of \$30 million positive impact from expense adjustments in 2019 and \$80 million negative impact from benefit adjustments in 2018.

Year-to-date: Net tax impact on restructuring & realignment costs of \$19 million and \$12 million in 2019 and 2018, respectively; \$6 million and \$1 million of tax impact on special charges in 2019 and 2018, respectively and tax-related special items of \$88 million and \$75 million negative impact from benefit adjustments in 2019 and 2018, respectively.

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

	2019				
	Q1	Q2	Q3	Q4	Total
Net Income	79	139	65	118	401
Income Tax Expense	15	17	(77)	60	15
Interest Expense (Income), net	17	18	14	13	62
Depreciation	29	29	30	29	117
Amortization	35	34	35	36	140
EBITDA	175	237	67	256	735
Share-based Compensation	9	7	7	6	29
Restructuring & Realignment	20	21	30	11	82
Loss/(Gain) from sale of business	(1)	-	-	-	(1)
Special Charges	4	-	166	8	178
Adjusted EBITDA	207	265	270	281	1,023
Revenue	1,237	1,345	1,296	1,371	5,249
Adjusted EBITDA Margin	16.7%	19.7%	20.8%	20.5%	19.5%

	2018				
	Q1	Q2	Q3	Q4	Total
Net Income	79	115	130	225	549
Income Tax Expense	16	35	31	(46)	36
Interest Expense (Income), net	20	20	20	18	78
Depreciation	29	29	29	30	117
Amortization	38	36	34	36	144
EBITDA	182	235	244	263	924
Share-based Compensation	9	7	7	7	30
Restructuring & Realignment	16	9	11	11	47
Loss/(Gain) from sale of business	-	2	(2)	-	-
Special Charges	6	1	1	4	12
Adjusted EBITDA	213	254	261	285	1,013
Revenue	1,217	1,317	1,287	1,386	5,207
Adjusted EBITDA Margin	17.5%	19.3%	20.3%	20.6%	19.5%

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

	2019				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	50	96	97	117	360
Interest Expense (Income), net	(1)	1	(1)	-	(1)
Depreciation	11	12	11	10	44
Amortization	4	4	4	5	17
EBITDA	64	113	111	132	420
Share-based Compensation	1	-	-	1	2
Restructuring & Realignment	9	9	7	5	30
Adjusted EBITDA	74	122	118	138	452
Revenue	482	561	531	603	2,177
Adjusted EBITDA Margin	15.4%	21.7%	22.2%	22.9%	20.8%

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	47	90	98	117	352
Interest Expense (Income), net	-	(1)	(1)	-	(2)
Depreciation	12	11	12	11	46
Amortization	5	5	5	5	20
EBITDA	64	105	114	133	416
Share-based Compensation	1	-	1	-	2
Restructuring & Realignment	5	5	5	5	20
Special Charges	-	-	-	2	2
Adjusted EBITDA	70	110	120	140	440
Revenue	480	546	541	609	2,176
Adjusted EBITDA Margin	14.6%	20.1%	22.2%	23.0%	20.2%

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

	<b>2019</b>				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	57	62	62	63	244
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	5	5	5	6	21
Amortization	1	1	-	1	3
EBITDA	63	68	67	69	267
Share-based Compensation	1	-	1	1	3
Restructuring & Realignment	3	4	3	4	14
Adjusted EBITDA	67	72	71	74	284
Revenue	379	394	376	392	1,541
Adjusted EBITDA Margin	17.7%	18.3%	18.9%	18.9%	18.4%
	<b>2018</b>				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	50	61	60	66	237
Interest Expense (Income), net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	-	1	1	-	2
EBITDA	55	67	66	71	259
Share-based Compensation	1	1	-	1	3
Restructuring & Realignment	3	2	2	3	10
Adjusted EBITDA	59	70	68	75	272
Revenue	366	388	378	402	1,534
Adjusted EBITDA Margin	16.1%	18.0%	18.0%	18.7%	17.7%

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

	<b>2019</b>				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	16	26	(137)	28	(67)
Interest Expense (Income), net	-	-	-	-	-
Depreciation	9	9	9	10	37
Amortization	27	26	27	27	107
EBITDA	52	61	(101)	65	77
Share-based Compensation	1	2	1	1	5
Restructuring & Realignment	8	8	20	2	38
Loss/(Gain) from sale of business	(1)	-	-	-	(1)
Special Charges	4	-	155	-	159
Adjusted EBITDA	64	71	75	68	278
Revenue	376	390	389	376	1,531
Adjusted EBITDA Margin	17.0%	18.2%	19.3%	18.1%	18.2%
	<b>2018</b>				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	33	28	33	23	117
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	8	9	8	10	35
Amortization	29	27	26	27	109
EBITDA	70	64	67	59	260
Share-based Compensation	1	1	1	1	4
Restructuring & Realignment	8	3	4	3	18
Loss/(Gain) from sale of business	-	2	(2)	-	-
Special Charges	2	1	-	2	5
Adjusted EBITDA	81	71	70	65	287
Revenue	371	383	368	375	1,497
Adjusted EBITDA Margin	21.8%	18.5%	19.0%	17.3%	19.2%





# Let's Solve Water

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