

A dynamic graphic of water splashing, with a large, dark, circular splash in the center and several smaller droplets scattered around it. The background is a gradient of blue and teal. A large, curved teal shape overlaps the bottom left of the splash.

**xylem**  
Let's Solve Water

ROBERT W. BAIRD 2016  
INDUSTRIAL CONFERENCE  
Patrick Decker, President & CEO  
November 9, 2016

# FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements.” 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 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 key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions, including the integration of Sensus; 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 of our Annual Report on Form 10-K for the year ended December 31, 2015, 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.

# KEY NOTES FOR TODAY'S PRESENTATION

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- **As noted in our forward-looking statements, 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.**
  - **Full year 2016 references are based on disclosures during our 3rd Quarter Earnings Call on November 1, 2016.**
  - **All 2018 and 2020 references are based on disclosures made at our 2015 Investor Day held on September 24, 2015.**
- **All references today will be on an adjusted basis unless otherwise indicated. Refer to the appendix section of our Investor Briefing available in the Investors section of the Xylem website ([www.xylem.com](http://www.xylem.com)) for non-GAAP reconciliations of historical financial periods.**

# XYLEM OVERVIEW

2015 Revenue  
**\$3.7B**

2015 Adj.  
EBITDA  
**\$620M**

2015 Adj.  
EBITDA%  
**17%**  
Recurring  
Revenue  
**~40%**



**Global Scale**

**Fortress Brands**

**World Class  
Distribution**

**Large Installed Base**

**Strong Cash Flow &  
Financial Position**

**UNIQUELY POSITIONED TO OUTPERFORM**

# INVESTMENT THESIS

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## WE WILL BENEFIT FROM A FAVORABLE MACRO OUTLOOK

Well positioned in key end markets with sustainable growth profiles for the next 5 years

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## MARKET-PLUS GROWTH DRIVEN BY FOCUSED STRATEGIES

Increased investment in faster-growth regions and innovation

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## RUNWAY FOR FURTHER MARGIN EXPANSION

Multi-year plan continues to create value → 300 to 400 bps over next 5 years

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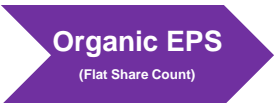
## ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE

Strong cash flow generation and capital structure enables significant value creation

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# VALUE CREATION ROADMAP

			2015 BASELINE*	TO 2018*	TO 2020*
	<b>Accelerate Profitable Growth</b>	 <b>Revenue / CAGR</b>	\$3.65B	3 to 4%	3 to 5%
		 <b>Op Margin</b>	12.9%	14% to 15%	16% to 17%
	<b>Drive Continuous Improvement</b>	 <b>Organic EPS</b> <small>(Flat Share Count)</small>	\$1.85	8% to 10%	8% to 12%



**Mergers & Acquisitions**

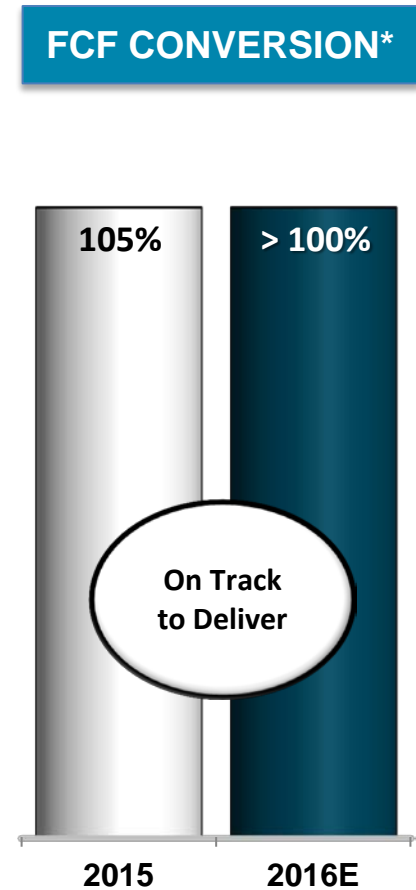
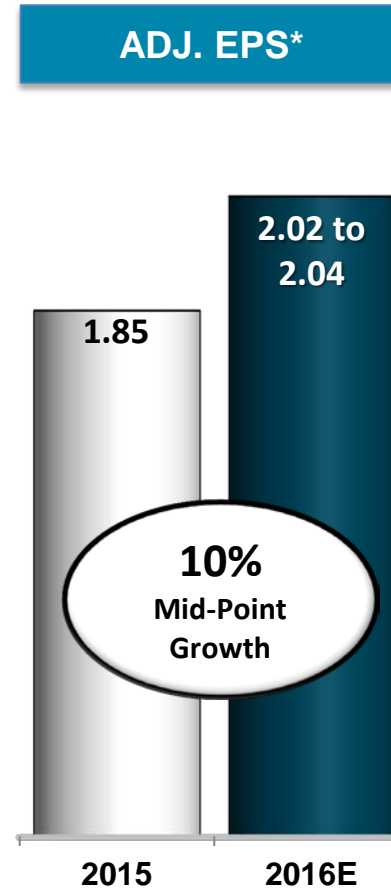
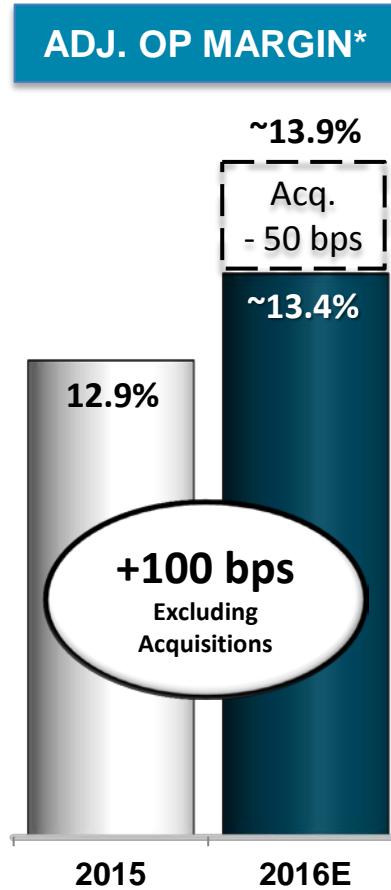
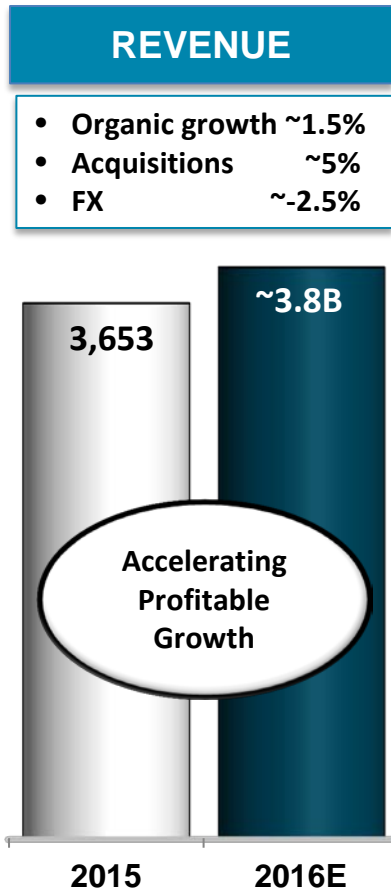


**Return of Capital to Shareholders**

**HIGH-TEENS EPS GROWTH  
DRIVEN BY ACCELERATED  
CAPITAL DEPLOYMENT**

# 2016 OUTLOOK

(Dollars, In Millions, except EPS)



**DELIVERING ON OUR INVESTMENT THESIS**

# RESHAPING PORTFOLIO WITH HIGHER GROWTH & HIGHER MARGIN SYSTEMS INTELLIGENCE SOLUTIONS



2016 Adj.  
Revenue\*  
**\$837M**

2016 Adj. EBITDA\*  
**\$159M**

2016 Adj.  
EBITDA Margin\*  
**19%**

Sensus 2016 financial information is representative of the March 31, 2016 fiscal year-end period

- Acquisition completed on Oct. 31<sup>st</sup> for \$1.7B
- Provides leadership position in attractive markets, and a new growth platform for Xylem
- A leading developer of advanced technology solutions enabling intelligent use and conservation of critical water and energy resources
- Differentiated communication systems, metering technologies, and data analytics
- Expected to add \$0.10 to \$0.12 EPS in 2017
- Expected synergies by 2020: cost savings of \$50M / Revenue >\$100M



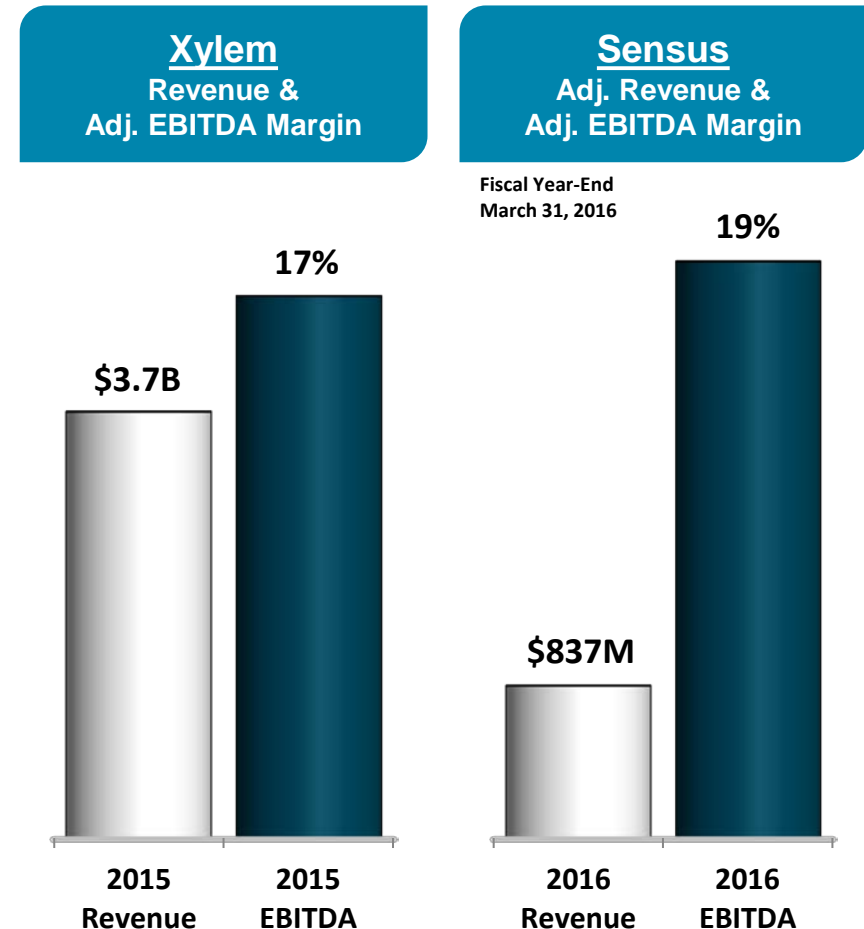
- Further accelerates Xylem's development of systems intelligence
- Attractive deal representative of "M&A as proxy for R&D"

**ACCELERATED CAPITAL DEPLOYMENT TO CREATE SHAREHOLDER VALUE**



# RESHAPING PORTFOLIO WITH HIGHER GROWTH & HIGHER MARGIN SYSTEMS INTELLIGENCE SOLUTIONS

- **Accelerates profitable growth for XYL**
  - Global meter market growth CAGR of 5.5%
  - Ability to drive market-plus growth
  - Revenue synergies expected
- **Enhances XYL's margin & cash profile**
  - Sensus pre-acquisition Adj. EBITDA Margin ~150 bps > XYL
  - Provides significant source of U.S. Free Cash Flow
- **Provides meaningful operating efficiency opportunities**
  - G&A consolidation
  - Footprint rationalization
  - Procurement savings
  - Substantially completed by 2019



**SENSUS ENHANCES XYLEM'S GROWTH, MARGIN & CASH PROFILE**

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Let's Solve Water

# APPENDIX

## Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, 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 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. However, other than with respect to total revenue, we only provide guidance on a non-GAAP basis and do not provide reconciliations of such forward-looking measures to GAAP due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as, integration and acquisition-related costs, special charges and tax related special items. 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 assumes no change in exchange rates from the prior period.

**"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, amortization expense, and share-based compensation. **"Adjusted EBITDA"** reflects the adjustment to EBITDA to exclude restructuring and realignment costs, gain on sale of business and special charges.

**"Adjusted Operating Income", "Adjusted Segment Operating Income", and "Adjusted EPS"** defined as operating income, segment operating income and earnings per share, adjusted to exclude restructuring and realignment costs, gain on 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 flows 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.

**"Special charges"** defined as costs incurred by the Company, such as interest expense related to the early extinguishment of debt during Q2 2016, initial acquisition and integration related costs (including financing costs related to the bridge loan entered into in Q3 2016 for the Sensus acquisition), costs incurred for the contractual indemnification of tax obligations to ITT 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  
Adjusted Operating Income  
(\$ Millions)

	YTD 2015
Total Revenue	
• Total Xylem	3,653
• Water Infrastructure	2,231
• Applied Water	1,422
Operating Income	
• Total Xylem	449
• Water Infrastructure	303
• Applied Water	190
• Total Segments	493
Operating Margin	
• Total Xylem	12.3%
• Water Infrastructure	13.6%
• Applied Water	13.4%
• Total Segments	13.5%
Special Charges	
• Total Xylem	1
• Water Infrastructure	1
• Applied Water	-
• Total Segments	1
Restructuring & Realignment Costs	
• Total Xylem	20
• Water Infrastructure	13
• Applied Water	7
• Total Segments	20
Adjusted Operating Income	
• Total Xylem	470
• Water Infrastructure	317
• Applied Water	197
• Total Segments	514
Adjusted Operating Margin	
• Total Xylem	12.9%
• Water Infrastructure	14.2%
• Applied Water	13.9%
• Total Segments	14.1%

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

	Q4 YTD 2015		
	As Reported	Adjustments	Adjusted
Total Revenue	3,653		3,653
Operating Income	449	21 a	470
Operating Margin	12.3%		12.9%
Interest Expense	(55)		(55)
Other Non-Operating Income (Expense)	-	4 b	4
Gain from sale of businesses	9	(9)	0
Income before Taxes	403	16	419
Provision for Income Taxes	(63)	(20) c	(83)
Net Income	340	(4)	336
Diluted Shares	181.7		181.7
<b>Diluted EPS</b>	<b>\$ 1.87</b>	<b>\$ (0.02)</b>	<b>\$ 1.85</b>
Year-over-year currency translation impact on current year diluted EPS	\$ (0.22)	\$ -	\$ (0.22)
<b>Diluted EPS at Constant Currency</b>	<b>\$ 2.09</b>	<b>\$ (0.02)</b>	<b>\$ 2.07</b>

a Restructuring, realignment costs and special charges in 2015

b Special charges

c Net tax impact of restructuring & realignment costs and special charges, and tax-related special items

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

	Year Ended 2015
<b>Net Cash - Operating Activities</b>	\$ 464
Capital Expenditures	(117)
<b>Free Cash Flow</b>	<b>\$ 347</b>
Net Income	340
Gain from sale of businesses	9
<b>Net Income, excluding gain on sale of businesses</b>	<b>\$ 331</b>
<b>Free Cash Flow Conversion</b>	<b>105%</b>

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

	<b>2016</b>				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	65	90	95		250
Interest Expense (Income), net	14	19	16		49
Depreciation	20	21	20		61
Amortization	12	12	12		36
Stock Compensation	5	5	5		15
EBITDA	<u>116</u>	<u>147</u>	<u>148</u>	-	<u>411</u>
Restructuring & Realignment	9	11	12		32
Special Charges	4	1	10		15
Adjusted EBITDA	<u>129</u>	<u>159</u>	<u>170</u>	-	<u>458</u>
Revenue	<u>847</u>	<u>932</u>	<u>897</u>		<u>2,676</u>
Adjusted EBITDA Margin	<u>15.2%</u>	<u>17.1%</u>	<u>19.0%</u>		<u>17.1%</u>
	<b>2015</b>				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Pre-Tax Income	77	91	107	128	403
Interest Expense (Income), net	13	13	13	14	53
Depreciation	24	23	22	19	88
Amortization	11	11	11	12	45
Stock Compensation	4	4	3	4	15
EBITDA	<u>129</u>	<u>142</u>	<u>156</u>	<u>177</u>	<u>604</u>
Restructuring & Realignment	6	6	4	4	20
Gain on sale of business	(9)	-	-	-	(9)
Special Charges	2	1	2	-	5
Adjusted EBITDA	<u>128</u>	<u>149</u>	<u>162</u>	<u>181</u>	<u>620</u>
Revenue	<u>837</u>	<u>920</u>	<u>902</u>	<u>994</u>	<u>3,653</u>
Adjusted EBITDA Margin	<u>15.3%</u>	<u>16.2%</u>	<u>18.0%</u>	<u>18.2%</u>	<u>17.0%</u>

Sensus Worldwide Limited Non-GAAP Reconciliation\*  
 Adjusted Revenue, EBITDA and Adjusted EBITDA  
 (\$ Millions)

**Year-ended 3/31/2016**

**Reconciliation of Adjusted Revenue:**

<b>GAAP Revenue</b>	861
Non-cash deferred revenue	(24)
<b>Adjusted Revenue</b>	<u>837</u>

**Reconciliation EBITDA and Adjusted EBITDA:**

<b>GAAP Pre-Tax Income</b>	99
Interest Expense (Income), net	37
Depreciation	22
Amortization	34
<b>EBITDA</b>	<u>192</u>
Non-cash deferred revenue	(24)
Reversal of product warranty reserve	(27)
Restructuring & realignment costs	7
Management fees	6
Other non-recurring charges	5
<b>Adjusted EBITDA</b>	<u>159</u>
Adjusted EBITDA Margin	<u>19.0%</u>

\* GAAP revenue and income amounts from Sensus audited 3/31/2016 Financial Statement

“Adjusted revenue” defined as revenue, adjusted to exclude the impact of non-cash deferred revenue recognized.

“EBITDA” defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. “Adjusted EBITDA” reflects the adjustments to EBITDA to exclude the impact of non-cash revenue as well as the reversal of a product warranty reserve, restructuring and realignment charges, management fees and other non-recurring charges.

# xylem

## Let's Solve Water

NYSE: XYL

**Phil De Sousa, VP, Investor Relations**  
**(914) 323-5930**

**Matt Latino, Manager, Investor Relations**  
**(914) 323-5821**

**Dawn Powell, Investor Relations Coordinator**  
**(914) 323-5931**

<http://investors.xylem.com>

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