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PRESENTATION

Operator

Welcome to the Xylem fourth-quarter 2013 earnings conference call. At this time, all participants have been placed on a listen-only mode and the floor will be open for your questions following the presentation. (Operator Instructions)

I would now like to turn the call over to Phil De Sousa, Head of Investor Relations.

Phil De Sousa - *Xylem Inc. - IR Officer*

Thank you, Lori. Good morning, everyone, and welcome to Xylem's fourth-quarter 2013 earnings conference call. With me today is Chief Financial Officer, Michael Speetzen; and joining us on the call from California is our Chief Executive Officer, Steve Loranger. They will provide their perspective on Xylem's fourth-quarter results and discuss the full-year outlook for 2014. Following their prepared remarks, they will address questions related to the information covered on the call.

I'll ask that you please keep to one question and a follow-up, and then return to the queue, so that we will have enough time to address everyone on the call. We anticipate that today's call will last approximately one hour. As a reminder, this call and our webcast are accompanied by a slide presentation available in the Investors section of our website at www.xyleminc.com.

All references today will be on an adjusted basis unless otherwise indicated, and non-GAAP financials are reconciled for you in the Appendix section of the presentation. A replay of today's call will be available until Tuesday, February 18th at 6 p.m. Please note the replay number is 404-537-3406 and the confirmation code is 30139459. Additionally, the call will be available for playback via the Investors section of our website under the heading Presentations.

With that said, please turn to slide 2. We will make some forward-looking statements on today's call, including references to future events or developments that we anticipate will or may occur in the future. These statements are subject to future risks and uncertainties, such as those outlined in Xylem's Annual Report on Form 10-K and those described in subsequent reports as filed with the SEC. These remarks constitute forward-looking statements for purposes of the Safe Harbor provision. Please note that the Company undertakes no obligation to update such statements publicly to reflect subsequent events or circumstances, and actual results could differ materially from those anticipated.

Now please turn to slide 3. And I'll turn the call over to our CEO, Steve Loranger.

Steve Loranger - *Xylem Inc. - President and CEO*

Thank you, Phil. In my entire career, I've never missed an earnings call, and hopefully, this one's going to work without any glitches. As Phil mentioned, I'm not in the New York office with the team, but I'm rather with my wife Betsy, who just had an unplanned appendectomy a couple of days ago. The good news is that Betsy is fine, and I'm settling in my new role as chief caregiving officer.

I am very pleased with our Q4 performance. Thanks to the team's hard work, we executed well on our revised business goals, which was the number one goal that we set last September. While we certainly have execution challenges in front of us, I feel confident that we've turned the corner on our recovery and business improvement plans. We've positioned Xylem to perform at a higher level. Just as we saw orders and execution in the third quarter, I believe our fourth quarter was a continuation of that trend.

We're proud to report that even in a less than robust market environment, we achieved record revenue -- our first billion-dollar quarter. Overall, revenue increased 7%, with the core up 5% over the prior year. We booked orders of $986 million, up 6% overall, and up 5% organically over 2012. Although the market conditions were slightly more positive, our team stepped up to the challenge and delivered another solid quarter of revenue growth.

We also achieved operational improvements, resulting in $145 million of operating income, which was a 12% increase over the prior year. Operating margin of 14% was up 60 basis points over the prior year, and up 50 basis points for the third quarter. Our renewed focus on business accountability and cost actions also had a positive effect, and you can see that in our incremental margin drop of 38%, excluding FX and acquisitions.

Generally, we continue to see some market stabilization. And we've seen minor signs of improvement, including a slightly brighter outlook for industrial and public utility. But we continue to be cautious about these markets, and expect, at best, slow overall market growth; but at least we see it trending in the right direction. The bottom line -- we achieved 19% earnings per share growth over the prior year, and a 14% improvement on a sequential basis over the third quarter.

So as you think back over the full year, revenues were relatively flat, up just about 1%, coupled with an 8% operating income decline, and margins down 110 basis points. In retrospect, there's no question that we had some tough market conditions coupled with some execution issues. But we feel like our second half performance is more representative of a proper trajectory -- building a solid base to begin 2014. For the full year, we also generated free cash flow of $198 million, a bit disappointing on the conversion, but that was mostly a buildup of working capital due to unforeseen sales declines. And this year, as you will imagine, we have put aggressive recovery plans in place to address this issue.

In addition to our solid operating results, we also executed several important milestones last year. We put a new operating model in place, one that emphasizes speed, accountability and simplicity, and enables the entire organization to drive for higher performance. Every growth center and region contributed significantly to our overall performance, and each plans to accelerate their performance this year. We've worked to aggressively take costs out of the business, and this will continue.

During the fourth quarter, we continued our disciplined capital deployment with another $25 million in share repurchases matching our third-quarter investment, and increasing our total return of capital to shareholders by 83%, including dividends. And as you saw, we are increasing this amount again in 2014. Throughout the year, we continued to increase organic growth investments. These investments brought forth a number of new products, particularly in the areas of energy-efficient pumps, like the new Goulds Water Technology industrial pumps and the Bell & Gossett E-1510 and Ecocirc HVAC pumps we just launched a few weeks ago. These are substantial additions to our portfolio and precisely what our customers are seeking -- smarter solutions to their most critical water issues.

The achievements at London's Heathrow airport, where our flight pump systems cut the airport's wastewater pumping energy use by 50%, demonstrates the meaningful results we are providing our customers. And another example was our $2.7 million wind-to-supply high-technology equipment for New Jersey's stormwater drainage system after Superstorm Sandy. These are just a number of examples of the size and impacts of the wins that we are achieving.

I remain confident in the potential of this Company. We've got a strong and comprehensive portfolio to meet compelling market fundamentals around water, and our product brands are the most respected in the industry. I'm very pleased with our team's second-half response to the first-half challenges, and I expect our businesses to continue this execution and performance as we move forward into 2014.

And now let me turn it over to Mike Speetzen to review the balance of our performance in Q4.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Thanks, Steve. Please go to slide 4. We generated revenues in excess of $1 billion, up 7% from the prior year, primarily driven by 5% organic growth and an additional 2% from acquisitions. It's worth noting that we are comparing to a prior-year fourth-quarter where we experienced negative growth. The industrial and public utility end markets showed strength relative to poor performance last year. We have seen the positive effects of rebounding industrial production in the US and Europe, and we see public utility markets stabilizing, with customers focused on OpEx and small project activities; but we have not seen a meaningful recovery in larger CapEx projects.

The commercial end market was down 5%, driven by a tough compare to the prior year, where we first saw the channel start to restock product, and we had some benefit from Superstorm Sandy. I'll cover off more specifics by segment, but generally speaking, we saw growth across our key geographic regions, up mid-single digits in both the US and Europe, and continue to see growth in emerging markets, driven by timing of project business.

Turning to operating income, we delivered strong operational performance. Operating income of $145 million was up $15 million or 12% over last year, and margins reached 14%. Operating margins increased 60 basis points, despite headwinds from foreign exchange, continued price erosion, and acquisitions, which are in their early stages of integration and slightly dilutive to margins. These headwinds were more than offset by strong incremental margins, coupled with the favorable impact of cost actions initiated in 2012 and early 2013.

Core incremental margins were approximately 38%, after excluding the impact of foreign exchange and acquisitions. Strong performance, considering this includes absorbing the impacts of setting up our European headquarters and remaining one-time spend-related costs. Price pressure has become a bigger challenge. And, in the quarter, it was a 40 basis point headwind against the overall operating margin improvement. Offsetting the price pressure were cost reduction activities, which drove 410 basis points of margin improvement, including $11 million of restructuring savings from actions executed in 2012 and 2013. Inflation had a 210 basis point negative impact on operating margin.

In summary, operating margins increased 60 basis points over the prior year. EPS expanded 19% to $0.56, exceeding our guidance midpoint of $0.51 and the high end of our range of $0.53. Favorability was primarily driven by volume and additional productivity savings from lean activities. Core operations drove strong operating margin improvement, contributing $0.09, driven primarily by organic volume growth, combined with execution on productivity and cost management. Included in this performance was restructuring savings of $0.05.

Our European realignment actions, including sustainable tax benefits, provide an additional $0.01 benefit in the quarter. I should note these benefits more than offset a $0.04 unfavorable impact of price and mix in the quarter. Now let me provide more detail in each of our reporting segments. Please turn to slide 5.

Water infrastructure reported revenue of $691 million, up 8% over the prior year and up 6% organically. Acquisitions contributed 2 points to topline growth. Transport grew 9%; test was up 3%; and revenue from treatment applications were flat year-over-year. Regionally, we saw growth across key regions like the US and Europe, which were up 10% and 5%, respectively, and emerging markets were up 6%.

I would summarize our revenue performance as follows. Growth was driven by strength in industrial applications, including water, and wastewater transport and dewatering, the latter up slightly despite continued headwinds from a challenged mining market and a tough prior-year compare resulting from Superstorm Sandy. Supporting this growth, we generally saw improved market conditions in Europe and the US, and increased project activity in emerging markets such as Latin America and Asia-Pacific.

I would also add that our focus on growing our industrial market share is also gaining traction. For example, as part of our sustainable water infrastructure initiative, we focused on packaging products from across the Xylem portfolio, and promoting automated systems and services for the aquaculture market. By presenting Xylem's full portfolio of solutions to customers, we are accelerating our growth in this market. For example, we landed a $1.4 million order that included both flight pumps, and WEDECO UV, and ozone systems.

In addition to industrial growth, we also saw strong performance from our water and wastewater transport business. Specifically, we saw our flagship brand Flygt drive double-digit growth in the US and mid-single digit growth in Europe. Test applications were up 3%, driven by strength in Europe, specifically growth in Germany and neighboring countries.

And lastly, I would highlight that the year-over-year treatment revenues were flat, following four consecutive quarters of being down. The reality of this long cycle business is that capital projects have declined due to the Recession. While today, confidence appears to be building, we expect to continue to face some headwinds into 2014. I'll address this in more detail later in the call.

Operating margin contracted 30 basis points from 16.5% to 16.2%. Margin performance was impacted by foreign exchange, as we saw the euro strengthen against the US dollar, and we experienced continued price erosion, given overcapacity in the market in a highly competitive environment. Our overall performance was also impacted by increased investment in growth initiatives and higher costs associated with the relatively new European organization.

Let me now turn to slide number 6 and talk through our applied water segment. Revenue was up 3% overall, with organic growth at 2%. It's worth noting that this performance is against a strong comp in the fourth quarter of last year, where we posted 4% organic (technical difficulty). As you can see, industrial water applications grew 8%. Irrigation, while relatively small, was up 14%, and building service applications declined 4% year-over-year on a tough compare. Regionally, we saw growth across key regions like the US and Europe, which were up 2% and 4%, respectively, and emerging markets were up 1%.

I would summarize our revenue performance as follows. Growth was driven primarily by project strength for industrial water applications in Europe and Asia-Pacific regions. Specifically, we delivered on several northern European projects, including strong multistage pump sales, and we continued to see increased demand for industrial fire pump systems in China. While we saw double-digit growth in the US residential applications, global residential and commercial end markets continue to exhibit volatility and weakness, particularly in southern Europe. Our US commercial business was down year-over-year on a tough compare. And, as you may recall, Superstorm Sandy drove an increase in shipments last year.

Currently, we see a commercial channel that has restocked inventory levels in advance of a market recovery. However, we see the timing of this recovery as uncertain. Operating margin expanded a healthy 120 basis points from 11.6% to 12.8% year-over-year. Margin improvement was driven by volume leverage, coupled with the favorable impact of cost reduction initiatives. Although price was positive, we have continued to see a downward pressure, given current market conditions.

Now let me turn to slide 7 and review our full-year performance. Orders for 2013 were over $3.9 billion, representing total growth of 3% over the prior year, up 1% organically. Orders slightly outpaced shipments, resulting in a book-to-bill ratio of 1.02. We ended 2013 with $697 million of backlog shippable in 2014, up 16% versus where we were last year, and a solid indicator of an improving market. For the full year, revenues came in slightly above $3.8 billion, up 1% versus 2012, including 2 points from acquisitions. As Steve mentioned, we faced significant market headwinds in the first half of the year. And, despite posting organic growth in the third and fourth quarters, full-year organic revenue declined by 1%.

From an end market perspective, we saw the largest revenue declines in our two largest markets -- industrial and public utility -- down 2% and 1%, respectively. First-half revenue was down 7% in both those markets. We saw growth accelerate to 4% for both in the second-half. Since they represent approximately 80% of total revenue, we are cautiously optimistic as we look forward into 2014.

We saw revenues flat in commercial and down overall in residential, driven primarily by weakness in Europe, which was down double-digits in these markets. In the US, we posted 6% growth in residential. On the commercial side, full-year revenues were down 1%, as weakness in large institutional building projects were only partially offset by revenues from new products and restocking activities. On a full-year basis, revenues in the agriculture market have grown 8%, another strong year for this niche business. Overall, on a regional basis, the US and emerging markets were flat year-over-year, and Europe was down 2%.

Operating income decreased 8% in 2013. Full-year operating margins came in at 11.8%, down 110 basis points. The second-half leverage on revenue growth, coupled with cost reduction execution, partially offset first-half margin declines, which were heavily impacted by our first-half organic revenue decline of 5%, and is a nice set-up of the European headquarters. I would note that European realignment we started in the first quarter resulted in a pickup of $0.04 of EPS after absorbing the additional European headquarter costs, and lowered our tax rate 300 basis points to 21%.

The last point -- and it's an important one, as we look out into the first quarter -- is that price drove margins favorably by only 10 basis points, approximately 90 basis points short of what we thought coming into the year. While price was positive for the Company as a whole, we saw the overall contribution decline through the first-half and turn negative in the second-half. We expect that overcapacity in the market will drive very competitive dynamics and that pricing will remain challenged.

To wrap up on 2013, I'll make one final point. The results for the full year do not reflect the drastic dynamics between the first and second-half of the year. You can see from the fourth-quarter, we have gained traction on the top-line, and have continued to drive significant cost reductions in the business to impact the bottom-line. Our efforts and recent performance provide for a solid base to drive growth from, and continue to improve operational performance.

Turning to slide 8, I'll cover the Company's financial position as of year-end. Xylem maintains a strong cash position with a balance of $533 million at year-end, with approximately 80% held outside of the US, consistent with our geographic business mix. Our net debt to net capital ratio is a healthy 24%, and our commercial paper and revolving credit facilities remain in place, and continue to be unutilized.

We remain committed to our balanced capital deployment strategy, which is to maintain and grow the business while enhancing shareholder returns through dividends and share repurchases. We have invested $207 million in acquisitions and CapEx, and we have returned $154 million to shareholders through dividends and share repurchases, which is up substantially from $84 million in 2012. Key drivers were a 15% increase in dividends announced earlier this year and the ramp-up of share repurchase activity, which we continued through the end of the year, spending an additional $25 million in the fourth quarter, bringing repurchases to a total of $67 million.

Free cash flow was $198 million. The decline in free cash flow versus 2012 was driven by lower growth, unfavorable working capital, and higher restructuring payments. As a percentage of revenue, operating working capital increased 170 basis points, driven by timing of customer collections, given linearity of sales and slightly elongated customer payment patterns, as well is an inventory buildup to support shorter order lead-times. I will note that we've not experienced any significant bad debts associated with these lengthened payment durations. While we are not pleased with our working capital performance, fourth-quarter reflects an improved trend, returning to below Q2 levels, and we remain committed to further improve our performance in this area.

Before we turn to the guidance details, let me turn the call back over to Steve to provide you with the framework we are working with in 2014. Steve?

Steve Loranger - *Xylem Inc. - President and CEO*

Yes, thank you, Mike. Let me start by saying that we are beginning 2014 well-positioned to accelerate our performance. You know, as Mike mentioned, some of the 2013 headwinds have dissipated a bit, and we are entering 2014 with encouraging signs for more consistency in top-line growth. We also expect to deliver improved operating performance across all of our businesses, positioning ourselves for strong earnings growth.

Let me highlight our top strategic initiatives for 2014. First, we are going to build our business execution. We will deliver on our 2014 targets, and we are going to be using a robust management process to accomplish that. We expect to deliver revenue growth in the range of 2% to 4%, while improving operating margins between 12.6% and 13.2%. And at the bottom line, EPS will be in the range of $1.85 to $2.00, up 11% to 20%. Free cash flow conversion will be 100%, along with a nice improvement in ROIC.

These are aggressive but achievable goals, which will -- which we are going to meet by strengthening our sales capabilities and increasing our operating efficiency. To help us achieve our number one priority, first, we're going to look to accelerate growth by optimizing our integrated front-end strategy. This entails leadership appointments, new customer relationship technology, digital marketing, more robust sales force metrics, and aligned compensation plans.

Second, to improve our productivity, we are reinvigorating our Lean Six Sigma capabilities, and creating a new global strategic sourcing organization. Lean Six Sigma already contributes several-million-dollars annually to our bottom-line results, and we are actively extending its impact. Likewise, we are rolling out a new global strategic sourcing organization with a single leader. This is going to supercharge our already strong sourcing capabilities with the goal of doubling our net productivity in 2014.

Next, we're going to be focused on capital deployment, including rebalancing our portfolio and investment decisions. We're going to provide advanced technology equipment and solutions to resolve our customers' most critical water challenges. And finally, as I mentioned, we are institutionalizing the Xylem management system, which synchronizes our key business processes in an accountable way. Those of you that know me know how much I believe in a disciplined management process, and this is a vital need at Xylem. This is going to help us translate strategy to execution with linked standardize processes, all aligned to execute our vision.

So that's the set of our priorities for 2014 and our top-level targets. Let me turn it back over to Mike to go over the details of our 2014 plan.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Thanks, Steve. Turn to slide 10. We anticipate 2014 revenues of approximately $4 billion, which reflects total growth of 2% to 4%, and organic growth in the range of 1% to 3%. For water infrastructure, we expect revenues of approximately $2.5 billion, reflecting total growth of 2% to 3%. And for applied water, we expect revenues of approximately $1.5 billion, reflecting total growth of 2% to 3%, and organic growth of 1% to 2%, with a 1-point benefit from foreign exchange.

Segment margins are anticipated to be in the range of 14.1% to 14.6%, and operating margins are projected to be in the range of 12.6% to 13.2%. At the bottom-line, we anticipate earnings per share of $1.85 to $2.00, excluding 2014 restructuring and realignment costs of approximately $40 million to $50 million. Of the $40 million to $50 million, we plan to execute restructuring actions with costs ranging $30 million to $35 million with an expected payback of approximately one year.

We expect approximately $10 million of savings to be realized in 2014 from these actions. This is in addition to the carryover savings of $25 million from the actions executed in 2013. If you'll recall, we originally expected $15 million of carryover savings in 2014. The increase reflects accelerated savings, and should provide a higher degree of confidence in our expected 2014 performance. Our operating tax rate is expected to be 21%, and fully diluted share count is expected to be approximately 185 million, which takes into account expected share repurchases of approximately 130 million in 2014.

Please turn to slide 11. This slide summarizes our expected 2014 organic revenue performance by end market. Beginning with industrial, our largest end market, representing 43% of total revenues, we expect low-single digit organic growth. In the US, the industrial market continues to slowly recover, and market reports suggest that demand conditions are generally improving; whereas in Europe, macro indicators suggest that the market may be near the bottom, and sentiment is cautiously optimistic. However, partially offsetting growth in these regions is continued weak global mining market conditions. And while our business is sensitive to these market conditions, we believe we have the opportunity to increase our market share through new product introductions and a broad portfolio of technologies, which can be further levered into providing a complete industrial solution to customers.

Public utility at 35% of total revenues is our second-largest market and is expected to grow in the range of 1% to 3%. We continue to expect stability in required operations and maintenance activities, as spend is largely nondiscretionary and funded by tariffs to end-users. As we've discussed during previous quarters, the portion of public utility revenue that is derived from CapEx project spending continues to be constrained by project delays and funding constraints. In the US, we expect to see intense price competition and funding concerns to continue, this having a more pronounced effect on our long cycle treatment business.

Given the longer lead-times for treatment projects, our forecast does not reflect any recovery in 2014. We could see market conditions improve through the year, resulting in higher bookings, which could lead to a better set-up for 2015.

In Europe, continued strength in the Nordic region and a promising outlook for Eastern Europe is partially offset by the expected slowdown in the UK, as a result of the end of the Amp 5 cycle. We expect building service applications in the commercial and residential markets to be up low-single digits in 2014. While we sell to a wide range of customers, our largest commercial building concentration is in the institutional market -- hospitals and schools -- which have continued to struggle with spending pressures. In the US, leading indicators have been mixed. And while there remains a potential for growth acceleration, our order bookings have continued to be sluggish.

In Europe, we generally anticipate a slow recovery in the construction markets. Residential markets support low-single digit growth, as strength in the US market is partially offset by continued weakness in Europe. And agriculture remains a small market for us, and revenues are likely to be flat to up slightly, given the benefit we received from drought conditions in the US in 2012 and 2013. Taken together, the low-growth economic environment, along with the relative stability of demand for the critical types of products we sell across a variety of end markets, we expect flat to up low-single digit market growth with Xylem in the range of up 1% to 3% organically.

Turning to slide 12, I'd like to spend a minute calibrating everyone on the call around what we expect our revenue profile to be in 2014. While we do not provide quarterly guidance, we recognize that it is helpful to highlight irregularities to the extent reasonably possible. So as we looked over our 2014 revenue profile, we recognized that it would likely deviate from historical seasonal patterns. As you can see from the slide, we expect first-quarter revenue will be approximately 22% to 23% of our total 2014 guidance. This is approximately 1 to 2 points below prior periods, but in line with what we saw in 2009 and 2010.

Given the level of volume we're expecting in the first quarter, the pricing dynamics in the market today, and the benefits from cost actions, we would expect operating margin to be approximately 100 basis points higher than the prior year. You can also see from the slide we expect approximately 28% of our revenue to come in the fourth quarter, at the higher end of the 26% to 29% range we've experienced in the past.

Let me make a couple of points, which will help you better understand this profile. First, the first quarter of 2012 stood out as an exceptionally strong contributor, driven in part by the peak of natural gas fracking activity for our dewatering business. Second, this year, we will wrap up our first quarter with one last business day, which gets picked up in the fourth quarter. I won't spend any more time on this, as there are more important areas I want to cover, but I did think it would be helpful to highlight that we are expecting a slightly overweight second-half, reflecting both normal seasonal patterns and a couple of specific 2014 dynamics.

Turning to slide 13, while we don't expect flat year-over-year revenues, the chart on this slide reflects the cost profile as if we did. The purpose here is to simply illustrate some of the cost reduction impacts without the added complexity of volume in the equation. Starting on the left side of the slide, with our 2013 cost base, we expect inflation for material labor and overhead, coupled with increased investments, and some level of discretionary cost returning to the business, to be approximately $100 million or a 3% increase over the prior year. More than offsetting that and driving margin improvements are targeted cost reductions of $140 million.

This represents a 4% reduction to our cost base, driven by essentially three components. First, we expect that global sourcing and Lean Six Sigma actions will drive $100 million in savings, essentially offsetting the cost of inflation, and providing for incremental investments in new product development, sales force initiatives, and new information technology infrastructure.

Secondly, we expect to deliver $35 million of incremental restructuring savings in 2014. As you can see from the chart, approximately $25 million is attributable to carryover savings from our 2013 actions. Again, you should note this is $10 million higher than we had originally anticipated. In addition to the carryover savings, we expect to realize $10 million in restructuring savings attributable to new 2014 restructuring actions, most of which are planned over the first half of the year, with related savings kicking in, in the second half of 2014. Finally, we incurred $4 million of one-time spend costs in 2013, and we do not expect these costs to recur in 2014, and therefore, will also drive year-over-year savings.

Turning to slide 14. We have a fair amount of information to lay out here, so I'm only going to highlight a few key points, and then turn the call back over to Steve. Let me begin by first summarizing our top 2014 capital deployment plans.

Our first priority remains organic investment, as this is the highest returning investment we can make. To this end, we see investing $110 million to $120 million in CapEx, which represents 3% of revenue -- approximately 3% of revenue into R&D, and approximately $40 million to $50 million into restructuring realignment to enhance our competitive position. Second, we plan to enhance shareholder returns by an expected 10% annual dividend increase, and approximately $130 million from our share repurchase programs.

Lastly, inorganic growth remains a key element of our long-term strategy. We expect to continue to cultivate and potentially acquire bolt-on acquisitions later this year. Free cash flow conversion is forecasted to be in the range of $310 million to $345 million in 2014, up in the range of 57% to 74% year-over-year, and 100% of expected GAAP net income. The year-over-year increase is driven by higher income, working capital improvements, and overall lower CapEx spend.

To wrap up, I would highlight that we are targeting 100 basis point improvement in our return on invested capital, up to approximately 11% by year-end.

That said, let me turn to slide 15 and turn the call back over to Steve.

Steve Loranger - *Xylem Inc. - President and CEO*

Yes, thanks again, Mike. Just to wrap this up before questions, we clearly delivered a solid fourth-quarter and a very strong finish to the year. But more importantly, I'm really pleased with the direction that Xylem is headed. Building on long-term market fundamentals and aiming for the best possible business performance, we are acting on several fronts to advance our ability to execute as a high-performing organization.

I've been here now for just under five months, and I really am pleased with our top leadership team and the trajectory that we're on. To be sure, we do have plenty of operational challenges ahead of us, coupled with improving but still overall slow markets. What I'm really excited about is our collective leadership attitude and ambition. Our salespeople want to win and they want to satisfy customers. Our growth center leaders want to lean out the efficiency of their operation, and get our SG&A and material costs where they need to be, so that we can afford the vital investments for our future. Our teams accept the execution challenges of the past year. and using this as a basis to springboard our competitiveness.

So, given this, as Mike outlined on charts 11, 12, and 13, we have constructed for you an appropriate advance in our operating metrics for 2014, with measured and balanced execution conservatism. This gives us great confidence, as we internally aspire to even higher performance. We have a new operating model with terrific leadership at the top, fueled to drive organizational speed, simplicity, and accountability. We are building our sales and marketing capability to better leverage our leading brands and technology. Our investments in digital capability and product technology have been increased for 2014, a very positive reward for our teams as they eliminate unnecessary overheads.

I'm quite encouraged by where we are. It's true, I do toss and turn at night, given the execution challenges ahead of us, but I have the confidence that our global team is aligned and aspiring to achieve our vision.

I'd like to now ask our operator to turn it over to the folks on the call for any questions that may be on your mind.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

Can -- Steve, you mentioned, several occasions, price and -- in somewhat negative context. You did last quarter as well. But do you have a sense that price is getting -- can you give us a sense whether price is getting incrementally worse? Or do you see things kind of flatlining here?

Steve Loranger - *Xylem Inc. - President and CEO*

Yes, Scott, if anything, it's probably more in the flatline. You know the issue is, the entire industry is slightly overcapacity, as you know. And so, all the competitors are duking it out on an incremental basis. And so while we do have a number of -- while we have already executed a number of price increases on the catalog basis, these get competed pretty intensely. And as a consequence, we're not realizing as much price as we'd like to the bottom-line. So I would call it more or less flat at this situation. It is, obviously, a concern, but it's one that we're shoring up with our material cost take-out to make sure we balance our operating margin.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

You know, Scott, I think we're -- Scott, we're trying to be conservative in the view we have for next year, so we plan for it being down about a half-a-point. Obviously, internally, we are driving higher expectations for that. And the other thing I'd add is one other headwind relative to pricing is we have seen inflation come down, which is a good thing. We have been averaging just over 3% in the prior years. And this past year, we've gotten down to just over 2%. And we are anticipating core inflation in the business in that same area as well.

Scott Davis - *Barclays Capital - Analyst*

Okay, that's really helpful. And then you guys talked -- you spent more time this quarter also talking about cash reinvestment, buybacks, and M&A. This has always been a tough industry to do deals. There's just not a lot of great assets that are available out there. I mean, what gives you the confidence that there are deals to do? And I guess the natural side part of this question is, would you consider going outside of water to other flow-type businesses?

Steve Loranger - *Xylem Inc. - President and CEO*

So, let me take a shot at that. Remember that the water industry is highly fragmented. And so there are opportunities. And while we have taken a respite, as we mentioned, to make sure that we get back into a solid operating rhythm, we have kept our pipeline open. And I wouldn't conclude that you can't do deals right now, although we have taken a bit of a rest.

With respect to outside of water, I would say not as a strategy. I mean, clearly, we have the ability, because of the breadth of our technology and the capability of our selling/marketing distribution, is to be a very, very strong provider of this technology that resolve customers' water challenges. The water market is sufficiently large to play in and it's fragmented, and it's equally as profitable as other industrial segments.

So because we are a pure play water company, we feel very committed to continue to drive water solutions to our customer needs. You know in order to do that, we're going to have to do some of the things I mentioned, which is strengthen the distribution and marketing organization so we can flow more product through the front-end, continue to invest in innovation, and to rebalance into probably the most attractive segment of water, which is really the industrial and the international side.

So, Scott, we want to stay in water. We are extremely well-positioned there. And it's what we do, and we think we can do it well to achieve our vision.

Scott Davis - *Barclays Capital - Analyst*

Great. Well, good luck, guys, and congrats on turning the Company around and such. Good luck in 2014.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Thanks.

Operator

Deane Dray, Citi Research.

Deane Dray - *Citi Research - Analyst*

I do have some questions on the guidance, but the first topic is a bit more sensitive -- for you, Steve. And you're now in this interim role for five months. And, from our perspective, that process -- the search has taken a bit longer. But if you listen to everything on the call and the outlook for 2014, you certainly don't sound like an interim CEO at all. And this is the Steve Loranger we knew of old managing with intensity. So it begs the question whether the Board might be considering you as, let's call it, the medium-term solution for Xylem? And how should we be thinking about that?

Steve Loranger - *Xylem Inc. - President and CEO*

Yes. Thanks, Deane. I appreciate the view on my attitude and you've got it exactly right -- I only know one speed, and that's full-speed-ahead. And whether I'm here a day or much, much longer, I'm going to be doing my very best to provide leadership and direction for the Company on the basis of creating long-term value. So, that's my approach.

The CEO search is underway. We have -- we're probably at a point where I would say we are just concluding the Phase I, which is the broader interview of a number of terrific and qualified candidates. And as we turn into our first quarter, the Board certainly wants to focus and narrow and definitize the search down to a couple of qualified candidates.

So, the search is well underway. There's nothing really to report. The good news is that I am here serving at the Board's pleasure as long as it takes. And I have also committed to the Board to provide whatever appropriate or needed transitional leadership in such a fashion. But I really can't be any more specific than that. That simply is where we are. And, in the meantime, I've got my head down with the team to focus on executing this long-term strategy.

Deane Dray - *Citi Research - Analyst*

Great. Thanks for that update. And then for the guidance, two of the metrics you've provided that I'd like to get some more color on is the $100 million in sourcing savings, as well as the $35 million restructuring savings. And maybe share with us what sort of upside there are to those numbers, your confidence. You've got every project identified; is there an internal stretch goal? And maybe just walk us through those, please.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. So, Deane, let me start and then Steve can add any color. On the core sourcing and Lean Six Sigma savings of $100 million, that's pretty consistent with what we have executed in the past. We've looked over the past several years, and our teams have been pretty effective at going out and doing everything they can to essentially offset inflation, and provide some room for reinvesting in the Company.

On the restructuring, $25 million of that you can count on is hard savings, in the sense that we locked it in by executing more aggressively in the fourth quarter than we had originally provided externally, to get a jumpstart on 2014. And then the additional $10 million that we're counting on from restructuring -- we've got a high degree of confidence. We've got the areas identified. We have dampened the number a bit for any potential slide in execution timing. But it feels good from a lock perspective.

You know, we are driving more aggressive plans internally (technical difficulty) -- and I think a safe way to think about it is, we aren't counting on the revenue growth to get us home in terms of making the EPS range that we've put out there. Similar to what we did in the latter part of 2013, we are driving internal assurance plans that are more aggressive from a cost perspective. And we feel we've got a good line of sight and a good trajectory on them, and at this stage, feel very good about what we've got lined up, in terms of the cost reduction.

Deane Dray - *Citi Research - Analyst*

So are there internal stretch goals higher for both of those two metrics?

Steve Loranger - *Xylem Inc. - President and CEO*

(multiple speakers) Yes. Yes, Deane, of course, there are. And these stretch goals are hardwired into our growth center plans, so the teams actually are working to numbers that are higher. The challenge is obviously bringing the ball home to score. You mentioned projects. Take the sourcing, for example.

We have identified the areas of all $100 million. But I would say, safely, probably only 70% or 80% of that $100 million is detailed in terms of clear execution plans. That's where businesses normally are at this time in the year. But at the end of the day, I think it outlines the point that there's a bit of execution ahead of us. So I'm not concerned at all about whether or not the opportunity is there; but my interest and our interest is to make sure that we stay very, very focused on the execution. And yes, as you would expect, our internal plans that the teams have committed, provide some conservatism.

Deane Dray - *Citi Research - Analyst*

Great. Thank you. And then, Steve, we wish your wife a speedy recovery.

Steve Loranger - *Xylem Inc. - President and CEO*

Thank you very much, Deane.

Operator

Mike Halloran, Robert W. Baird.

Mike Halloran - *Robert W. Baird & Company, Inc. - Analyst*

Just want to ask a couple of questions -- well, a question on the dewatering side of the platform. If you strip out the mining side of that, what do the core trends look like there? And then also specifically, how is the rental component of that business tracking here?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes, Mike. It's -- if you pull out mining, I would characterize it as improving. We certainly -- coming out of the 2011/2012 time-frame, the natural gas fracking bubble that essentially created a bit of a distortion there, I'd say we're returning back to more normal patterns. We've seen a little bit of an uptick here and there from construction. Public utilities seems like it's relatively stable. At this stage, the only area we've seen any downward movement in is primarily around the mining segments.

So, we're not anticipating dewatering accelerating at rates that we saw back in 2011. I think the nature of the fracking industry has changed, in terms of the way they look for water services. And so we see a little bit more moderated growth trend there. But all the other indicators look promising at this stage.

Mike Halloran - *Robert W. Baird & Company, Inc. - Analyst*

And on the commercial construction side, maybe you could frame the commentary from the folks you're selling to here -- what they're seeing when they're starting to stack a little inventory, as well as maybe when you're looking through the year here, where's the incremental caution coming, from your perspective, on the timing of the recovery? And what are the some of the things you're seeing out there?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. So, I think, one, the caution is we've seen this gameplay before. Two, I think when we look at the commercial market and where we're exposed in terms of the institutional, I mean, we sell into all the different markets; but institutional, we're a little bit more overweight to. We really haven't seen much move in terms of project orders.

I think the channel is encouraged because they are seeing more design activity being done, more quotation activity being put into the marketplace. So they've obviously moved forward and taken a position on that. We were just being cautious with a low-single digit growth expectation that that market could be a little bit slower to ramp up. And certainly, some of the trends coming out of the end of 2013, with the architectural building index coming down a couple of months in a row, and just some of the external commentary says that there is still enough apprehension around the market, that counting on it being at a high rate of growth is probably not the right thing to do right now.

Mike Halloran - *Robert W. Baird & Company, Inc. - Analyst*

And appreciate the time.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Thanks, Mike.

Operator

Matt Summerville, KeyBanc.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

A couple of questions. First, can you just provide a little more specificity around the $40 million to $50 million in restructuring spend for 2014? In the slides, you talked about, over the course of 2012 and 2013, there was a riff of about 8%. You closed 24 facilities. What's sort of this next wave entail, if you will? And will this be the conclusion of it in 2014?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes, so I think our expectation, Matt, is that we will substantially get through the majority of the work. I think if I look back a couple of years ago, we were expecting a market that was going to grow 4% to 6%, and it's actually contracted. And so, we've been very aggressive about going in and really surgically addressing the cost structure.

I think in light of the performance over the past couple of years, and a new structure that we put in place in the latter part of 2013, we feel like these actions, which gets that total workforce reduction, are going to essentially conclude the majority of what we would need to do. Now, we're always going to be looking for opportunities to go in and surgically get at the cost base; but in terms of the large programs, I definitely think this is going to be some of the bigger areas that will go.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

And then just a follow-up question. If you look at the free cash flow improvement from roughly $200 million to upwards of $310 million to $345 million, I think, how much of that change is coming from working capital? And I guess working capital as a percent of sales around 24%. What should that be longer-term?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. I mean, I think, longer-term, we would expect to have that in terms of what the industry operates at, probably in the 22% range. And if you look two or three years ago, that's where we essentially were. It's been this really over the past year or so that we've seen the working capital bubble up a bit. So there's going to be a substantial portion of the improvement in 2014 that comes from that. We're talking about taking our working capital from just over 24% down to about 23%. And that equates for basically about $40 million, about a turn of revenue.

You know, we've got pretty detailed plans behind what we're doing there. Steve and I are engaging more deeply with the businesses on a monthly and quarterly basis. But we've got plans identified around the inventory side and the receivable side, and we're going after the payable side in terms of getting more robust around our supplier payment term management process.

Long-term, we'd like to see working capital get down into the high-teens. We think that's the hallmark of a very well-run company, but we clearly have a ways to go. So right now, our sights are setting on reversing the trajectory which we saw in the fourth quarter. We saw ourselves get back down to levels that we had earlier in the year on improving revenue trends, which was a good thing. And we are going to continue to drive that into 2014.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Thanks, Mike.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Thanks, Matt.

Operator

Nathan Jones, Stifel.

Nathan Jones - *Stifel Nicolaus - Analyst*

Just starting off on the lean and sourcing side of that, you've been taking about $100 million out of that a year. You're talking about, I think, approaching that a little different and a little more aggressive way. Can you continue to take $100 million of cost out through lean and sourcing in the medium to long-term? Or have we picked some of the low-hanging fruit there and that number needs to come down over time?

Steve Loranger - *Xylem Inc. - President and CEO*

Yes, Nathan. Obviously, the answer of that is yes. We're not at any asymptotic point on lean. The better you get, the better you can get. So, clearly, there may be a point of diminishing returns at some point, but not for the near future.

You know, when you think about it, if you look at our material savings s a percent of spend, you look at our total net productivity and you look at our SG&A, and even working capital, as Mike mentioned -- we've got opportunity. So, I would say I would love to entertain that question in a couple of years from now, but for right now, I don't think that there's a limit on our opportunity. There's obviously limits on your organizational capacity to execute in a given amount of time. But if you take a look at the operating metrics we're turning in for full-year 2014, we've certainly got opportunity for further improvement.

Nathan Jones - *Stifel Nicolaus - Analyst*

I think you partially addressed it there. You're talking about a new targeted global sourcing organization. How is the talent level there? Are you able to fill everything you need internally there? Or do you need to bring in some talent to round that out?

Steve Loranger - *Xylem Inc. - President and CEO*

It's a bit of both. We've got some awfully good talent in our sourcing organization throughout the world. We will probably bring in some selective people. We've recently hired a gentleman that comes out of Mercedes-Benz, and a couple of other folks that come out of the automotive industry as well. So we'll probably be selectively looking for some help on the outside, but we've got a lot to work with. The biggest challenge we have is to integrate our sourcing activity, so that we can take advantage of commodity purchasing and long-term contracting across the diversity of our businesses. We know the opportunity is there. We do some of that today, of course, and we've got some selected sourcing and commodity groups. We just believe we can do so much more.

Nathan Jones - *Stifel Nicolaus - Analyst*

That's helpful. And my last question, 3% into R&D, which is, I guess, percentagewise, a fair decline from 2013. Was 2013 overspent on growth investments, R&D investments? And 2014 is more rightsizing it? Or are you cutting back just in soft markets and you would intend to grow that? And kind of what's the right level long-term for the Company?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

(multiple speakers) Yes, Nathan, we're actually spending a little bit more on a dollar basis in 2014 -- call it $115 million versus just over $100 million in 2013. So, I think more than anything, it's more a factor of the revenue growth dampening the percentage. Our plan is to continue to invest. And we're obviously doing a lot more to prioritize the investment. The area that you do see our investment coming down is around CapEx, coming down to about 3% of revenue. And that is (multiple speakers) --

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Nathan Jones - *Stifel Nicolaus - Analyst*

(multiple speakers) Sorry, it was CapEx that I meant.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. So, for CapEx, CapEx is coming down -- you know really reflects some of the one-time items that we had to deal with in 2012 and 2013 coming out as a new company, primarily getting into a new headquarters per the spin agreement, as well as disconnecting from several systems that we were leveraging from ITT. I feel like we're through that. 3% still feels a little high to me. We're still doing a lot around our dewatering, rental bank globally. And so, over the next year or two, I would anticipate it continuing to come down a bit. We're still at a positive reinvestment ratio, so we're still in a positive trajectory from that standpoint.

Nathan Jones - *Stifel Nicolaus - Analyst*

That's very helpful. Thank you.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

You bet.

Operator

Brian Konigsberg, Vertical Research.

Brian Konigsberg - *Vertical Research Partners - Analyst*

A couple of questions. Maybe just starting with Q1 guidance. And I know, Mike, you want to stay away from this a little bit. But just thinking about kind of modest organic growth in Q1 -- I mean, you kind of highlighted there were some tough comps from Superstorm Sandy and dewatering. And there's an extra -- or one less day of selling. But, at the same time, I mean, you're looking at a negative comparison -- I mean, you were down 7% -- over 7% in Q1 of 2013. And obviously, you did a good job exiting the year at fairly decent rates. I'm just curious, maybe there's some other items that you could just kind of provide color on, that kind of support the notion that 1% to 3% is where it should be.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

You bet. Yes, you know, I made some comments in my prepared remarks about our ending backlog being up 16% versus where we were last year, which is certainly encouraging from a full-year perspective. One stat that I didn't provide was our Q1 shippable backlog is essentially flat to where we were last year. And I think when you think about the overall revenue guidance, it is a bit conservative, given the volatility we've seen in the market. And I think you see that playing out from quarter-to-quarter.

Our January performance has essentially lined up consistent with that, in terms of that flat year-over-year performance -- although we are comparing against last year, which was down substantially, the initial indications for what we anticipate seeing in the first quarter were pretty consistent with some of the comments that I had made. I think it's important to also think about price as a headwind as we go into the first quarter, relative to where we were in the first quarter of 2013. Despite all that, we do anticipate seeing our margins expand. And I think in my prepared remarks, I talked about margins being up around 100 basis points.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Got it. And then just, secondly, just thinking about the full-year guidance, I mean if I remove the expected savings from restructuring that you highlighted -- the $35 million, you talked about higher R&D, I think in prices, you're saying about a 50 basis point headwind; productivity is offsetting inflation. You know if I kind of just dial down to what your core -- what you're suggesting for core volume, you're looking at conversion of well over -- or easily over 40%.

Actually, I mean, if I look at Q1, it looks like the conversion on your volumes were probably less -- maybe around the 10% area, if I exclude some of the investments and the European headquartered investments as well. I'm just curious, why is the incremental on the core volume -- maybe can you comment on maybe why Q4 was fairly weak and why 2014, the core volume conversions get that much better?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. So, I guess there was a lot in there, so let me kind of step back. Let me talk about 2014 versus 2013, and then I'll come back. And I think when you strip out the restructuring, and you get to the core underlying incrementals that we're anticipating in 2014 -- so, the core operations of the business -- it's around 30%, which is quite strong, given the fact that we're actually facing what we anticipate as negative price contribution.

And again, a lot of that has to do with the mix. We're anticipating a higher growth rate coming out of our water infrastructure business, and we're building off of the cost base that we've worked on over the past couple of years. So we get that nice volume leverage off of the fixed cost position that we're in.

If you look at our fourth-quarter, we were about 20% on the face from a incremental standpoint. There were a couple of items that we had to contend with within the quarter. They were small, but when you add them in, they make a difference. We had some cost issues on a project coming out of India that was worth a couple-million-dollars. And then, coming out of Europe, we had low-margin project shipments in the fourth quarter that were overweight relative to what they typically are. And so that diluted the margins down. All in, we still had over 20% incremental, so we still feel pretty good about that, excluding restructuring and all the favorable benefits that we had built in the quarter.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Am I interpreting wrong, though? I mean, if I'm looking, for instance, at your water infrastructure, you're saying that the volume mix in other was a 50 basis point headwind. Your headquarters was 30 basis point headwind, and this whole investment was 10 basis points. So obviously, there's a 20 basis points relative headwind on your volume. So, I mean, I guess that would suggest that your margin is probably less than 16.5% on that segment. Is that the wrong way to interpret it? I guess I just want to get a little clarity on how to read that. (multiple speakers)

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. No, like I said, there were two things that gave us a bit of a headwind. It's the additional cost on our India project, which shows open water infrastructure, as well as the projects that shipped out of Europe at a low margin rate, which, again, is water infrastructure. So I think that's what's contributing to the dynamic you're pointing out.

Operator

Our final question comes from the line of Joseph Giordano of Cowen.

Joseph Giordano - *Cowen & Company - Analyst*

Just maybe anecdotally, can you talk about how you're seeing the size incrementally and the municipal budgets in US and Europe 2014 versus 2013? And then how your margins tend to be levered to the size change year-on-year? Because I mean we talk here, your operating margins, you say 80 to 140 bps improvement. And the restructuring alone looks like, on a $4 billion revenue basis, somewhere around 90. So I just want to see how that relationship kind of -- how you see that playing out.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

Yes. So I guess just backing up and talking about the muni market overall. We're not anticipating a significant change in the overall budgets. I think if we start to see that movement, it will more than likely occur in the middle of 2014. And given the long order lead nature of our business, it will typically result in something that's more favorable in 2014 -- or 2015, I'm sorry.

So, there is a leverage component. And I would say when you think about the margin performance between our segments, you've got to remember that water infrastructure obviously is heavily weighted to public utilities. Within water infrastructure, it's a tale of two different developed markets. You have the US, which goes through more distribution, and Europe, which goes through more of a direct channel. So you end up with a little bit different margin leverage equation when you look at it from that perspective.

I think the other thing to take into consideration when you think about that basis point improvement year-over-year is, price as a headwind. So, we're flipping to a negative 50 basis point impact from pricing versus what we have historically seen, anywhere from 10 basis points this past year to as much as almost 200 basis points in years past. So, we're offsetting that, as Steve mentioned earlier in the call, with aggressive cost actions, but some of that is getting diluted by the pricing pressure we're seeing in the market.

Joseph Giordano - *Cowen & Company - Analyst*

Do you think if you start seeing some of that budgetary positivity towards the second-half of the year, does that -- how do you see that impacting that price dynamic?

Michael Speetzen - *Xylem Inc. - SVP and CFO*

You know, it really depends. I think, first of all, it's probably not going to have an overly dramatic effect on our business initially, meaning most of that would probably get booked as business that has anywhere from a six, nine, to 12-month lead-time. Certainly, an improving market is going to help on the price side. As the capacity utilization starts to improve in the industry, the competitive dynamics take on a different shape. And so, we should start to see pricing move in the right trajectory. But again, we've been conservative, assuming that we're not going to see that type of dynamic play out. And that's why we've essentially built-in, assuming that we're going to have price pressure through 2014.

Joseph Giordano - *Cowen & Company - Analyst*

Great. Thanks, guys.

Michael Speetzen - *Xylem Inc. - SVP and CFO*

You bet.

Steve Loranger - *Xylem Inc. - President and CEO*

Yes. Okay, so, let me just close the call out. We've gone a couple minutes long here. I just want to thank all of you for your interest in the Company and for your support, as we transition from a challenging 2013 to what we believe is going to be a very, very solid and attractive 2014.

We've got a good plan in place. We've got, more importantly, a very, very -- an excellent team that's going to execute it. But we have a lot of work ahead of us. So we'll be in touch throughout the season on this, and looking forward to talking to you at our next earnings call. But in the meantime, we're going to have our heads down. We're going to stay busy on executing this plan, and hopefully, continue to drive the kind of performance that we know we're capable of.

So, I want to thank you all and wish you well. We'll talk to you next. Bye.

Operator

Thank you. This does conclude today's Xylem fourth-quarter 2013 earnings conference call. Please disconnect your lines at this time and have a wonderful day.
