



**xylem**  
Let's Solve Water

2017 Investor Day  
Raleigh, NC  
April 4, 2017

# Today's Agenda

Opening Remarks	<b>Matt Latino</b>   Manager, Investor Relations	9:00 AM
Xylem Business Update	<b>Patrick Decker</b>   President & Chief Executive Officer	9:05 AM
Innovation & Technology	<b>Jay Iyengar</b>   SVP, Chief Information & Technology Officer	9:30 AM
Continuous Improvement	<b>Tony Milando</b>   SVP, Cont. Improvement & Bus. Transformation	9:50 AM
Financial Update	<b>Mark Rajkowski</b>   SVP, Chief Financial Officer	10:05 AM
<b>Q&amp;A</b>		<b>10:20 AM</b>
Break		10:40 AM
Commercial Excellence: Customer	<b>Patrick Decker &amp; David Stanton</b> , SUEZ N.A. Utilities	10:50 AM
Sensus Business Overview	<b>Randy Bays</b>   SVP and President, Sensus	11:15 AM
Sales & Marketing	<b>Dale Harber</b>   EVP, Marketing & International Programs, Sensus	11:30 AM
Data Analytics	<b>Brian Crow</b>   VP, Data Analytics & Software Solutions, Sensus	11:45 AM
<b>Final Remarks and Q&amp;A</b>	<b>Patrick Decker</b>	<b>11:55 AM</b>
Leadership Luncheon		12:15 PM
Site Tour		1:00 PM

# 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, 2016, 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

- All 2017 references represent our 2017 full-year expected results
- All 2020 references represent our longer-term targets
- Unless otherwise noted, all market size and growth estimates are based on our internal analysis
- All references to financial performance metrics are on an adjusted basis to exclude restructuring & realignment costs, other special non-recurring items, non-recurring transaction and integration costs, and the impacts of foreign currency fluctuations. See appendix for non-GAAP reconciliations



# Xylem Business Update

Patrick Decker | President & CEO

# Xylem Key Messages

- Significant portfolio enhancements made through effective capital deployment; moving up the technology curve to enhance customer value proposition
- Solid progress made on executing communicated strategy despite market headwinds
- Experienced and passionate global leadership team in place; squarely focused on execution and achieving sustainable market leadership
- Acute focus on profitable growth with continued emphasis on operational excellence initiatives
- Strong financial position bolstered by healthy, recurring cash flow and smart capital deployment
- Still in early stages of significant value creation upside for key stakeholders

# Xylem at a Glance

## Company Stats

**Founded** 2011 (Spin)

**Country Locations** 80

**Employees** ~16,000

**Market Cap<sup>1</sup>** ~\$9B



## 2016 Financial Stats<sup>2</sup>

**Revenue** \$4.5B

**EBITDA | Margin** \$833M | 18.4%

**Operating Margin** 13.7%

## 2016 Segment Revenue<sup>2</sup> | (% of total)

**Water Infrastructure** \$2.2B | 49%

**Applied Water** \$1.4B | 31%

**Sensus** \$0.9B | 20%

<sup>1</sup> As of 3/31/17

<sup>2</sup> Pro forma to include Sensus; See Appendix for non-GAAP reconciliations

# Experienced, Global Leadership Team



**President & CEO**  
Patrick Decker

▲ New to Xylem within the last 3 years

## Senior Leadership Team



**Americas Commercial Team & AWS**  
Ken Napolitano



**Analytics**  
Colin Sabol



**Dewatering**  
David Flinton



**Transport & Treatment**  
Tomas Brannemo



**Sensus**  
Randy Bays



**EM Commercial Team**  
Steve Leung



**Europe Commercial Team**  
Christian Blanc



**Finance**  
Mark Rajkowski



**Innovation & Technology**  
Jay Iyengar



**Continuous Improvement**  
Tony Milando



**Marketing**  
Joe Vesey



**Legal, EHS & Sustainability**  
Claudia Toussaint



**HR**  
Kairus Tarapore



**IT**  
Nick Colisto

# Our Vision:

## Be the Distinctive Market Leader in the Water Sector

- Maintain industry-leading product portfolio bolstered by leading-edge technology and value-added solutions
- Achieve global scale with local expertise
- Top-quartile performance driven by faster-than-market growth and operational excellence
- Cultivate a high-performance culture
- Be recognized as a thought leader in the water sector

# Fostering a Culture of Sustainability

## Improved Safety Record

Recordable Injury Rate

↓ 46%

1.68 to 0.9 (2013 to 2016)

## Environmental Footprint

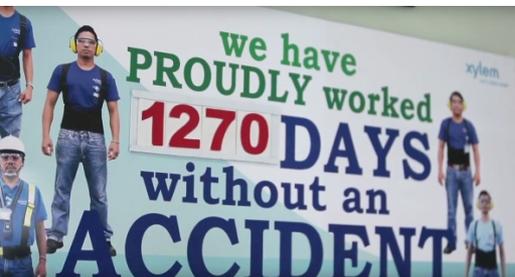
- 25% reduction in water use
- 20% reduction in GHG emissions and waste
- Leverage our **product ecosystem** to advance sustainability from suppliers to customers

## Thought Leadership

*Wastewater Renaissance* Report | Bipartisan Policy Center's Executive Council on Infrastructure | Value of Water | UN Global Compact | Ceres

## Employee Engagement

**Xylem Watermark:** Bringing safe water resources to the most vulnerable communities | Employee volunteer goal of 100K hours 2016 – 2018 in water-related activities



# Update on Segment Structure

## WATER INFRASTRUCTURE

2016  
REVENUE **\$2.2B**

2016  
OP MARGIN<sup>2</sup> **15.2%**

Leading Global Provider  
of Water and Wastewater  
Equipment Technologies  
and Specialty Services

## APPLIED WATER

2016  
REVENUE **\$1.4B**

2016  
OP MARGIN<sup>2</sup> **14.6%**

Leading Global Provider of  
Building Services and  
Industrial Water  
Technologies

## SENSUS<sup>1</sup>

2016  
REVENUE **\$0.9B**

2016  
OP MARGIN<sup>2</sup> **13.1%**

Leading Provider of  
Advanced Technology  
Solutions for Intelligent Use  
of Water and Resources

Analytics

Effective Q2 2017, Xylem Analytics folded Into Sensus segment

# More Favorable Regulatory and Macro Conditions

## Regulatory



- Environmental focus
- Quality standards
- Energy efficiency

## Demographics



- Population growth
- Urbanization
- Increasing middle class in Emerging Markets

## Infrastructure Needs



- Aging infrastructure
- Water scarcity
- Resilience to extreme weather

Positioned to Capture Opportunities Beyond Long-Term Secular Drivers

# Macro Trends Elevate Three Central Customer Needs

The diagram features three horizontal arrows pointing from left to right. The top arrow is grey and labeled 'Productivity'. The middle arrow is blue and labeled 'Quality'. The bottom arrow is green and labeled 'Resilience'. All three arrows point towards the text 'Customer Needs Driving Commercial Opportunities' on the right side of the slide.

**Productivity**

**Quality**

**Resilience**

Customer  
Needs Driving  
**Commercial  
Opportunities**

# Scorecard for Value Creation Roadmap; More to Come

## Progress to Date

### Business Optimization



Accelerate Profitable Growth



- Gains in public utility share more than offset by industrial weakness (oil & gas, mining)
- Sensus and bolt-on acquisitions add meaningful top-line growth



Drive Continuous Improvement



- Reduced annual costs by ~\$130M; tracking ahead of prior targets
- Significantly advanced foundational work on Lean
- Delivering on “productivity for growth” promise



Leadership & Talent Development



- Rounded out leadership team with key CFO hire
- Initiated multiple executive development programs

### Balanced Deployment



M&A



- Invested \$1.8B in smart infrastructure acquisitions: Hypack, Tideland, Visenti and Sensus



Return Capital to Shareholders



- Annual dividend increases since spin; 10% increase in 2016, 16% increase in 2017

# Four Pillars of Accelerating Profitable Growth

**Commercial  
Leadership**

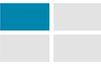
**Emerging  
Markets**

**M&A**

**Innovation &  
Technology**

# Accelerate Profitable Growth

## Commercial Leadership



- Combining Xylem Analytics with Sensus and Visenti to accelerate realization of smart infrastructure opportunity
- Reorganizing commercial teams in the Americas into an integrated front-end organization
  - Enhanced customer experience
  - Opportunity exists for greater cross-selling / solutions selling
- Driving commercial excellence initiatives
  - Ongoing maturity assessment and extensive training
  - Implementing effectiveness and measurement tools: Salesforce, Net Promoter Score and Sales Barometer
  - Strengthening key account management approach and focus



# Accelerate Profitable Growth

## Emerging Market Dynamics



### China

- Capturing government-supported water infrastructure build out; 19% order growth in 2016
- Expanding penetration into industrial market
- Driving increased localization of products and service offerings



### Middle East

- Opened state-of-the-art Dubai facility (engineering and assembly)
- Established new Dewatering rental and services branch
- Formed research partnership with Masdar Institute in Abu Dhabi



### India

- Expanding India Technology Center to support global and local market engineering
- Building out local sales team and supply chain in support of local demand
- ~\$80M in recent project wins (late 2015 – 2016)

2016  
Revenue

**\$175M**

Xylem  
5-year CAGR

**Mid-to-High  
Single Digit**

**\$120M**

**Low-to-Mid  
Single Digit**

**\$55M**

**Low  
Double Digit**

# Accelerate Profitable Growth

## Innovation & Technology

- Significantly increasing investment in R&D as a % of revenue: going from 2.6% in 2015 to 5.0% in 2020
- Leveraging R&D Centers of Excellence to increase effectiveness and efficiency of spend
  - Systems Intelligence – IoT (Raleigh Durham, NC)
  - Data Analytics (Atlanta, GA)
  - India Technology Center (Vadodara, Bangalore)
- Adopting Sensus rapid-prototype approach
- Investing in open innovation ecosystem
- Established Technology Council and Central Innovation group



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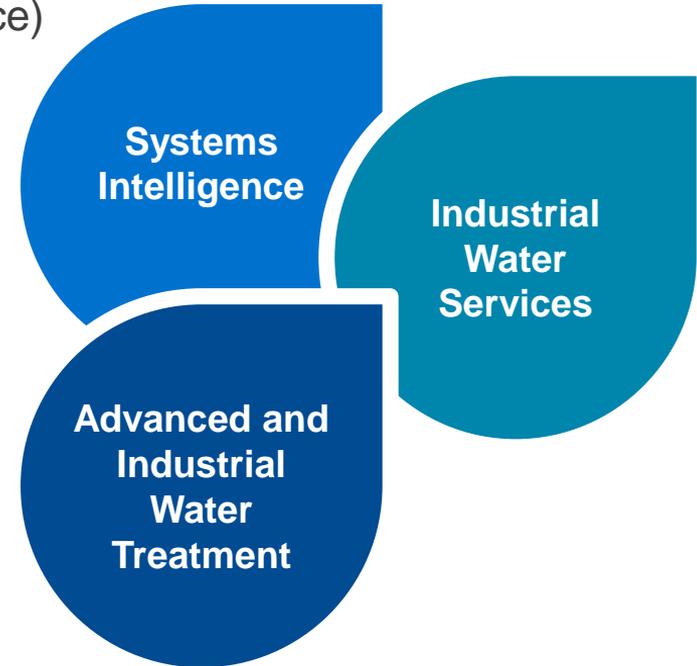
# Accelerate Profitable Growth

## M&A



- Leverage highly synergistic Sensus platform to integrate future bolt-ons in smart infrastructure (systems intelligence)
- Fragmented industry; attractive and robust pipeline of complementary assets
- Continuing to develop M&A as a competitive advantage
- Financial strength and capacity for ongoing, smart M&A

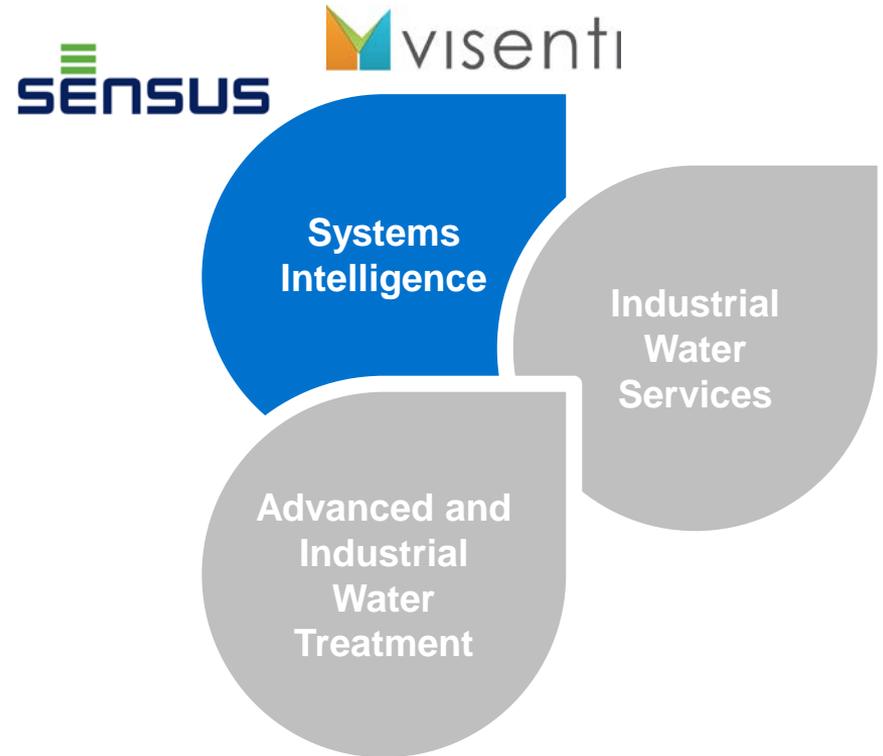
### M&A Prioritized Areas



**Maintaining Disciplined Decision Criteria and Execution**

# Executed Strategic Transactions in Smart Infrastructure

- Sensus and Visenti are transformative
- Bring best-in-class telemetry, data analytics and software development capabilities
- Strengthen technology DNA; pivoting to leading-edge innovator
- Accelerate smart monitoring & control deployment across Xylem's large installed base
  - Cultivating near-term opportunities

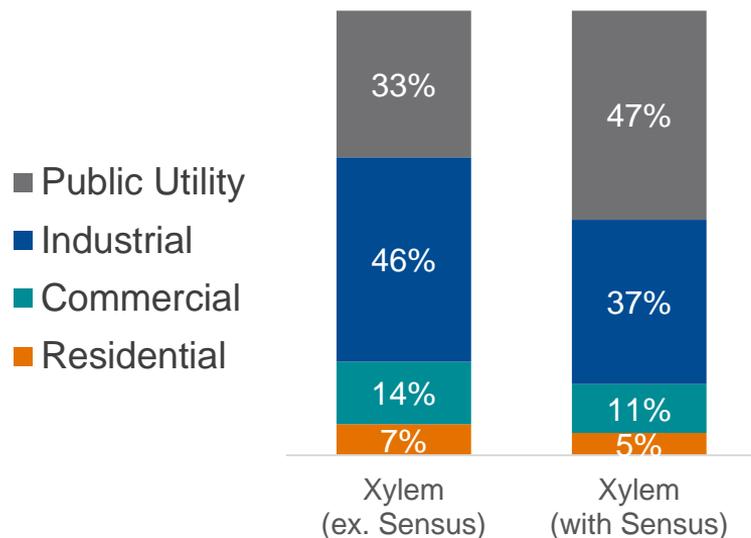


**Opportunities in Faster Growing Markets Made More Scalable by Xylem**

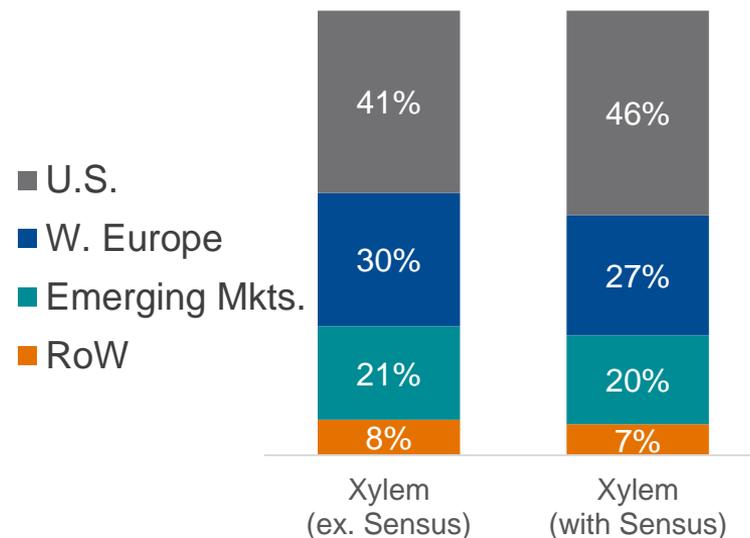
# Expanded, More Diverse Business Profile

## 2016 Revenue<sup>1</sup> Overview

### End Markets



### Geography



**With Sensus, Exposure to Faster Market Growth**

# Focused on Significant Revenue Synergies

## International Deals

- Leverage Xylem relationships to capture large global deals
- 20+ deal opportunities in various phases ranging from ~\$20M to \$500M

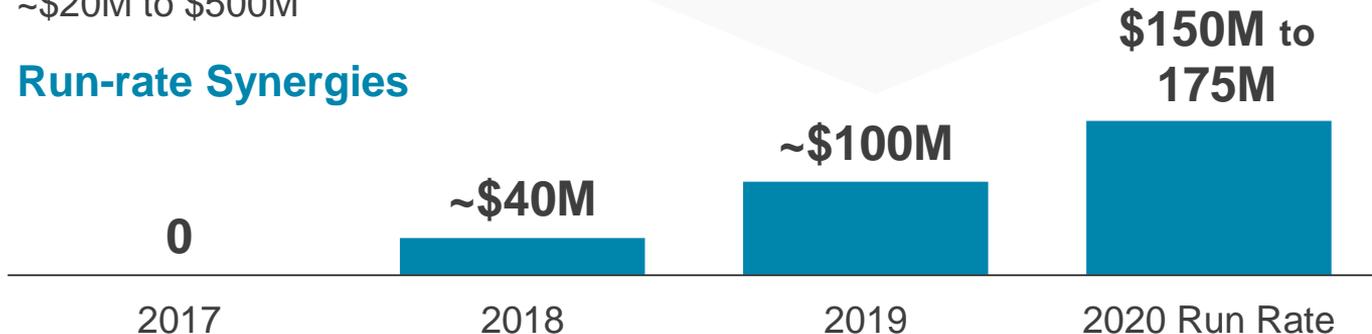
## Wastewater and Outdoor Water

- Phase I: Engage customers on co-development and pilots
- Phase II: Rollout commercial “go-to-market” strategy

## Lead Sharing

- Leverage strength of channel and geographic presence to cross-sell products and solutions

## Run-rate Synergies



*Update*

**Increasing synergies by \$50M to \$75M through 2020**

**Early Stage Work Underway to Realize Substantial Long-Term Growth**

# Our Unique Business Model Positions Us to Win

## Core Strengths

- Global product portfolio of fortress brands
- Strong applications engineering and service expertise
- Experienced, global and passionate management team
- Focus on operational excellence culture
- Attractive balance sheet bolstered by strong free cash flow generation

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## Differentiation

- Long-proven track record and deep partnerships with customers
- Large, loyal installed base (40% recurring revenue)
- Global scale and world-class distribution
- Leading market positions
- Proprietary communications platform and advanced data analytics
- Disciplined portfolio management and capital allocation

# Updating 2020 Financial Targets

	Original Targets <i>(2015 Investor Day)</i>	Current Outlook <i>(2020)</i>
Organic Growth	3% to 5%	4% to 6% Base 2% to 4% Sensus 6% to 7% Synergies 1%
Operating Margin	16% to 17%	17% to 18%
Core EPS <sup>1</sup> Growth	8% to 12%	Mid-teens

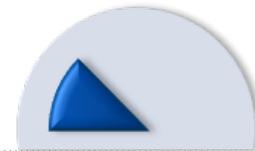
**EPS Growth Can be Further Accelerated by Smart Capital Deployment**

# Xylem's Investment Thesis

## WE WILL BENEFIT FROM A FAVORABLE MACRO OUTLOOK

Well positioned in key end markets with sustainable growth profiles through 2020

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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 → 400 to 500 bps by 2020

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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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# Innovation & Technology

Jay Iyengar | SVP, Chief Innovation & Technology Officer

# Innovation & Technology Key Messages

Long history of innovation; evolving into a technology-focused industrial company to further enhance our customer value proposition

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Rapidly embracing new approaches to innovation;  
more targeted, higher ROI spend profile

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Early stages of transformation; recent results are promising

# Our Holistic Approach to Innovation

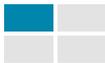
**Collaborating More  
Closely with  
Customers**

**Embracing Disruptive  
Technology and New  
Business Models**

**Optimizing R&D  
Spend  
for Enhanced ROI**

**Accelerating Impact  
through Open  
Innovation**

# What Matters Most to our Customers?



## Public Utility



- Avoiding failures
- Meeting regulatory mandates
- Increasing efficiency – both energy and people
- Reducing non-revenue water

## Industrial



- Minimizing downtime
- Reducing energy cost
- Meeting consumer expectations and new regulatory mandates

## Commercial



- Reducing energy and maintenance costs
- Addressing consumer interest in “green buildings”
- Meeting emerging regulatory standards

Smarter Infrastructure is Vital to Solving Our Customers' Core Challenges

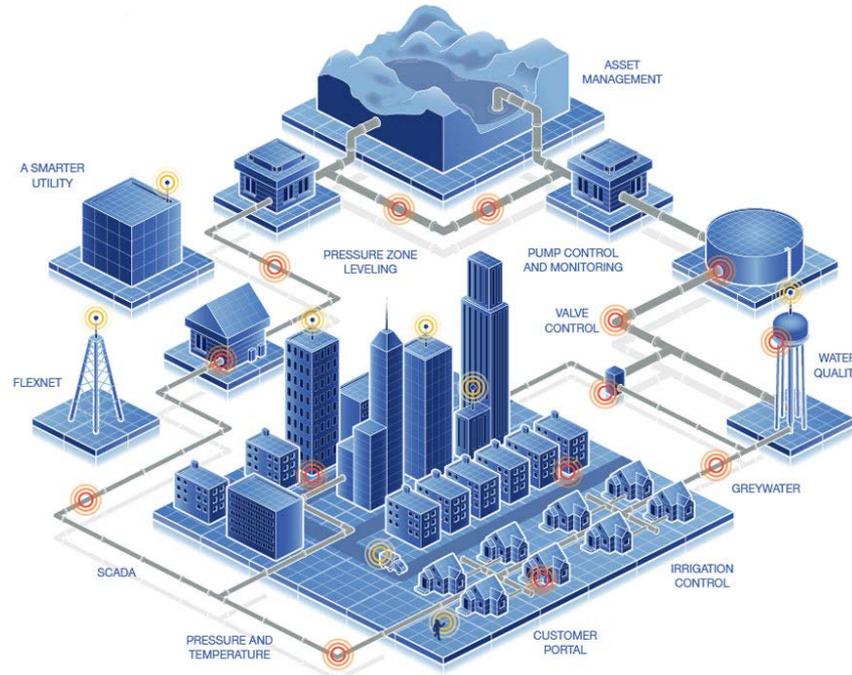
# Smarter Infrastructure is Enabled by Intelligent Connected Products



## Today's Infrastructure



## Smart Infrastructure



### Reduces

- Non-revenue water
- Energy consumption
- Service interruptions

### Manages

- Water demand

### Maintains

- Consistent water quality

# Driving Organic Growth with Product Innovation and Disruptive Technology



## Strong New Product Portfolio to Drive Growth

- Launched ~40 new products since 2015 Investor Day; focus areas include energy efficiency and intelligence
- Increased focus on intelligence: ~50 next-gen products with more digital capability in various stages of development
- Focusing on product localization for growth in Emerging Markets
- Strong IP: > 2000 global patents driving differentiation

## Investments in Advanced Technology & Disruptive Innovation

- ~10% R&D investments allocated towards advanced technology and new business models
- Dedicated across Xylem: core advanced technology resources executing on new innovations
- Gaining momentum with enhanced innovation framework; ideation, prioritization and execution – agile processes for quick project turnaround

# Examples of Breakthrough Products Launched



**Flygt Concertor: World's first intelligent wastewater pumping system**



Energy Efficiency



Operational Efficiency



Asset Management

**Sensus ally: First water meter with integrated three-state valve**



Energy Efficiency

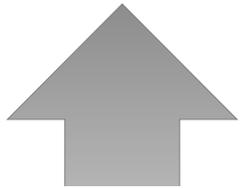


Operational Efficiency



Accuracy

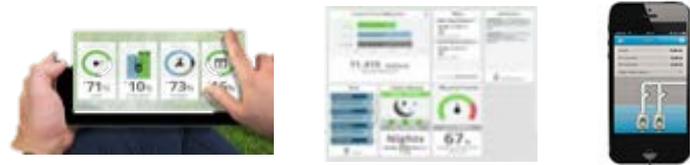
# Moving Up Technology Curve; Our Solutions Portfolio Evolution is Designed to Differentiate



Leveraging  
Sensus & Visenti  
Technology



Data Analytics and  
Predictive Capability



Data Infrastructure and  
Communications Network



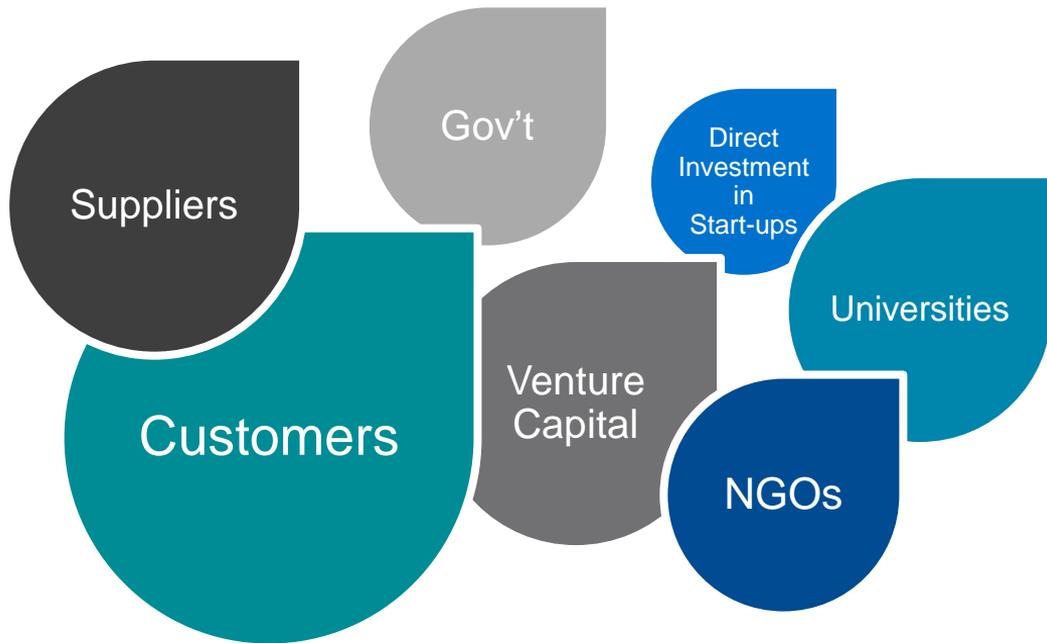
Device Controllers  
and Integrated Systems



Core Products  
& Solutions



# Our Open Approach Creates Ecosystem for Accelerating Innovation



## Select Partnerships



Extends Our R&D Reach, Leverages Outside Strengths & Increases Our Speed

# Optimizing R&D Spend for Enhanced ROI



## Driving Focus and Discipline In New Product Development

- Portfolio optimization focusing resources on bigger, better bets
- Increasing company-wide rigor and consistency in product development
- Metrics-based approach

## Increasing R&D Productivity and Efficiency Through Collaboration

- Global Technology Council: Enterprise-wide approach with shared goals
- Centers of Excellence: Focus on systems intelligence, software and data analytics
- Expanding global engineering – India Technology Center

## Renewed Emphasis on Product Life-Cycle Management

- Enterprise-wide program launched in 2016 with dedicated leader
- Using Voice of Customer to drive product updates for further margin expansion

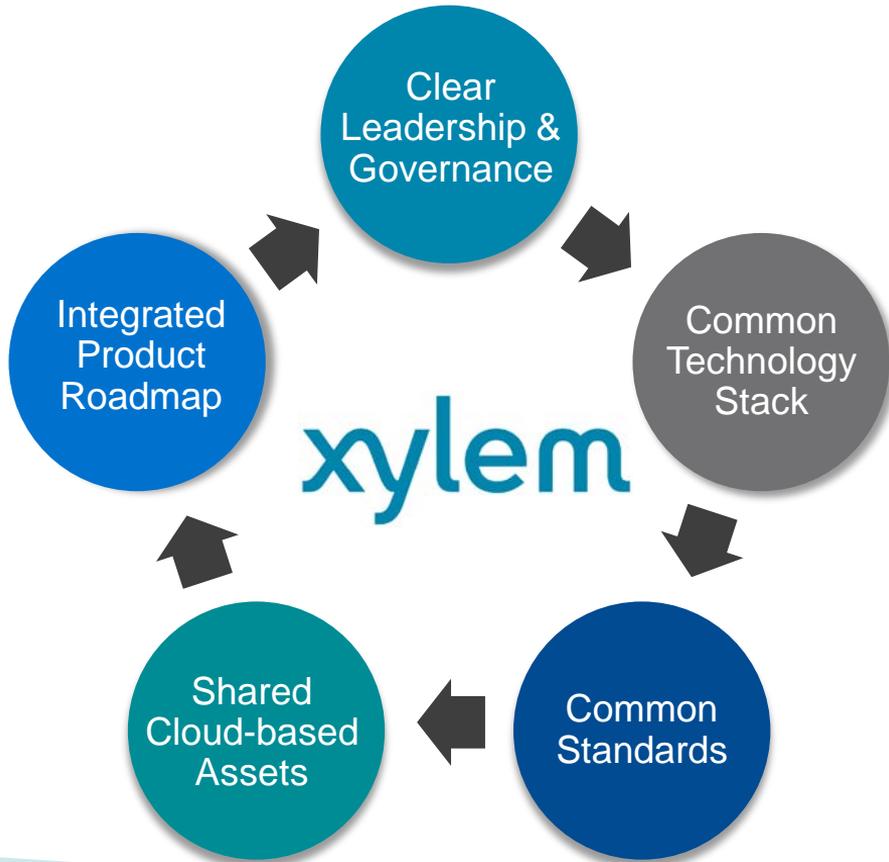
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## Update to New Product Development since 2015 Investor Day

**Focused Approach:** 20% reduction in number of projects in the pipeline

**Bigger Impact:** ~20% increase in forecast 5-year revenue from new products

# Productivity + Efficiency through Centers of Excellence

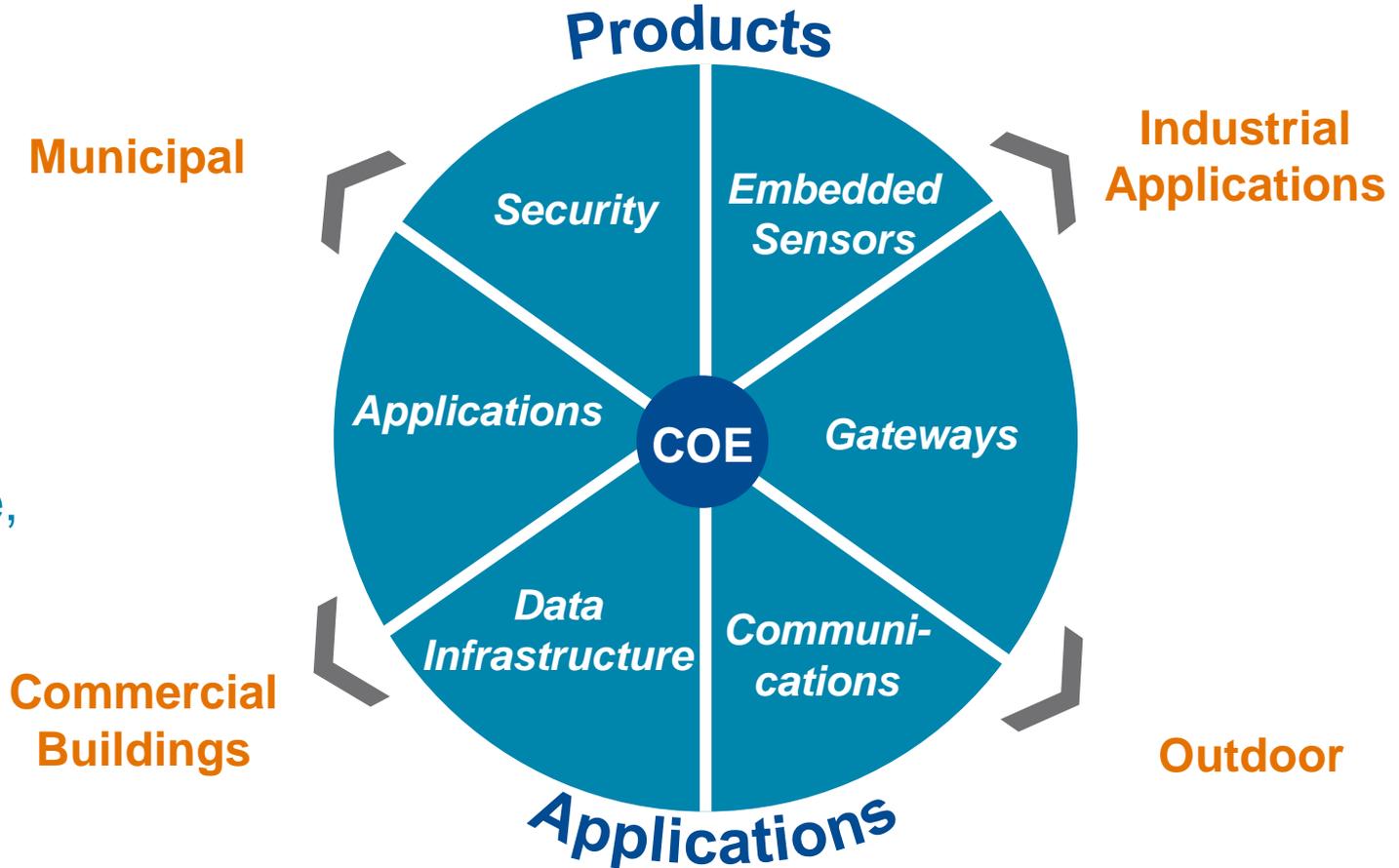


## Clear Advantages

- ✓ Creates focal point with resources and accountability to win
- ✓ Eliminates duplication and complexity
- ✓ Standardizes on 'best in class'
- ✓ Incentivizes collaboration and accelerates innovation
- ✓ Increases R&D productivity

# Example: Systems Intelligence Center of Excellence

Provides common technology platforms across Xylem applications to enable scalable, intelligent and connected solutions



# Building Capability and Expanding Emerging Market Technology Center



Established in Vadodara...

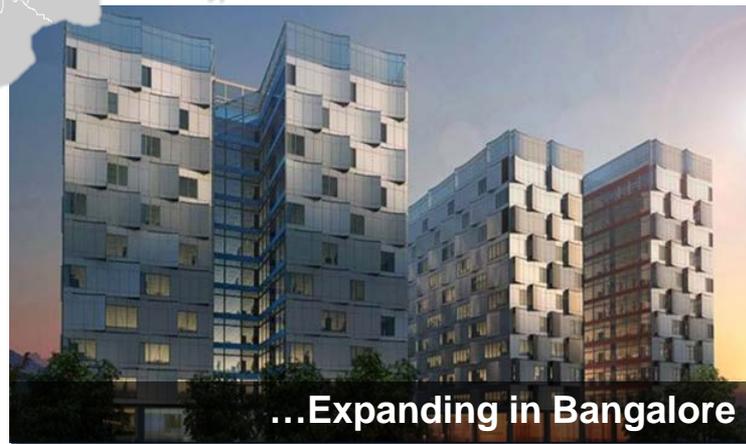


Vadodara

Bangalore

- **Mechanical Engineering Disciplines**
- **100+ Engineers**

- **Electronics, Software and Data Analytics disciplines**
- **Strengthening capabilities**
- **Planned for Q2 2017**



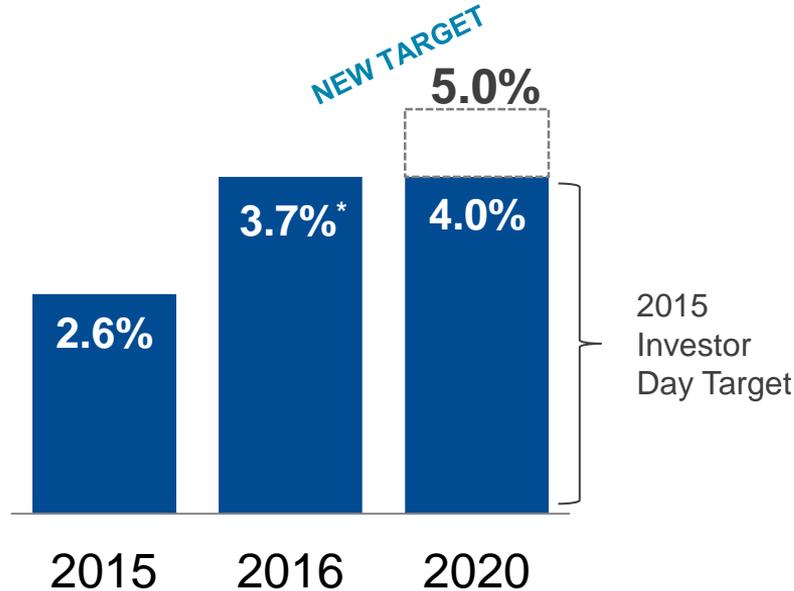
...Expanding in Bangalore

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# Accelerating Our Results By...

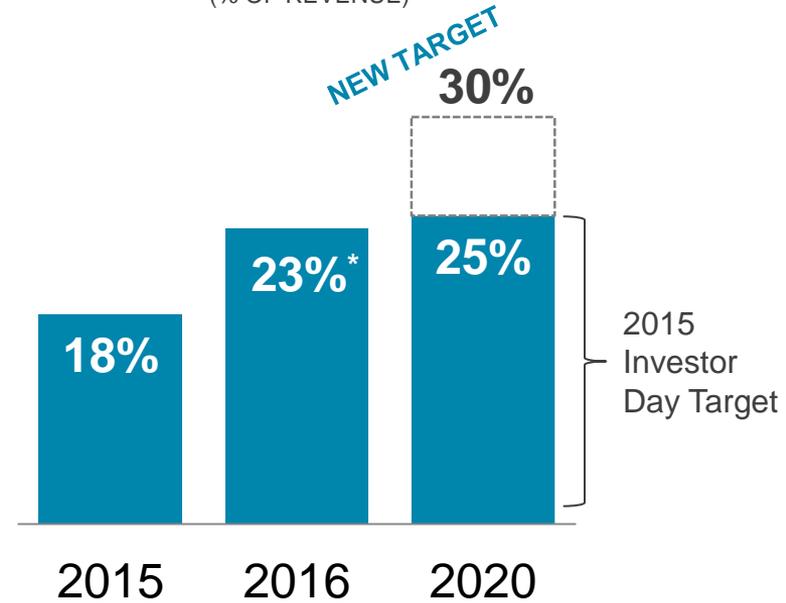
## R&D Investment

(% OF REVENUE)



## Vitality Index

(% OF REVENUE)



...Evolving Our Approach: Enterprise-wide Discipline, Capability & Collaboration

# Innovation & Technology Key Takeaways

Long history of innovation; evolving into a technology-focused industrial company to further enhance our customer value proposition

---

Rapidly embracing new approaches to innovation;  
more targeted, higher ROI spend profile

---

Early stages of transformation; recent results are promising



# Continuous Improvement

Tony Milando | SVP, Continuous Improvement & Business Simplification

# Continuous Improvement Key Messages

Executing strategy as planned...significant progress on key priorities

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Continuous improvement culture gaining momentum

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Larger, structural simplification programs planned to deliver through 2020

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Still early in operational improvement journey

# Continuous Improvement Initiatives – Update

(\$M)	Prior Savings Targets	Updated Savings Targets	
		Base Xylem	Including Sensus
<b>Global Procurement</b>	<b>\$125 to \$145M</b> Annual Rate Savings	<b>\$130 to \$150M</b> Annual Rate Savings	<b>\$150 to \$170M<sup>1</sup></b> Annual Rate Savings
<b>Lean &amp; Six Sigma</b>			
<b>Business Simplification</b>	<b>\$60 to \$75M</b> 1x Cost Reduction	<b>\$75 to \$90M<sup>1</sup></b> 1x Cost Reduction	

Increasing Targets from 2015 Investor Day

# We Have Made Significant Progress Since 2015

## Key Focus Areas

### Breakthrough Procurement

Expanding capabilities and leveraging scale to drive “top quartile” productivity

### Elevating Our Lean Game

Further penetrate training and expand our focus beyond the “4 walls” of manufacturing

### Business Simplification

Eliminating structural, process and product complexity that customers don't value

## Progress

**Scale:** Payment terms | Commodity scale

**Capability:** Digitized data | Strategic sourcing

**Training:** Trained 300 exec leaders | CEO webex

**Focus:** Intensified Kaizen | Transactional focus

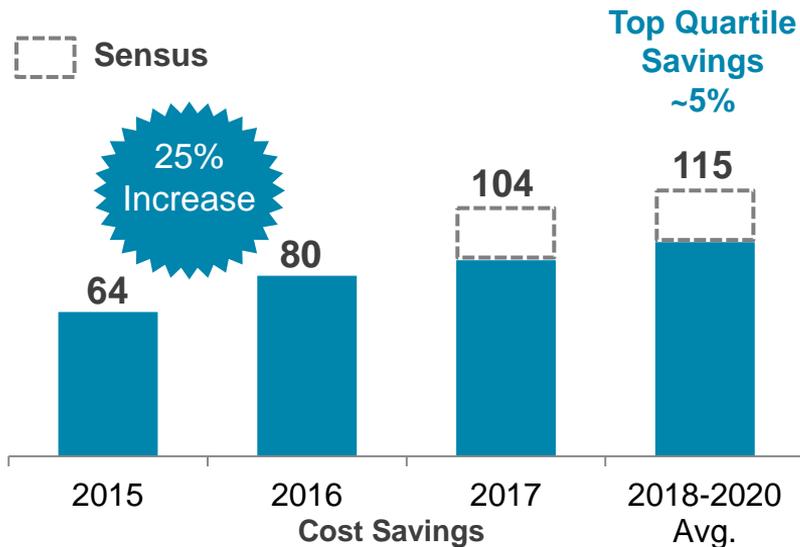
**Structure:** Consolidated locations by 10% (400k Sq. Ft.)

**Process:** Opened European Financial Shared Services

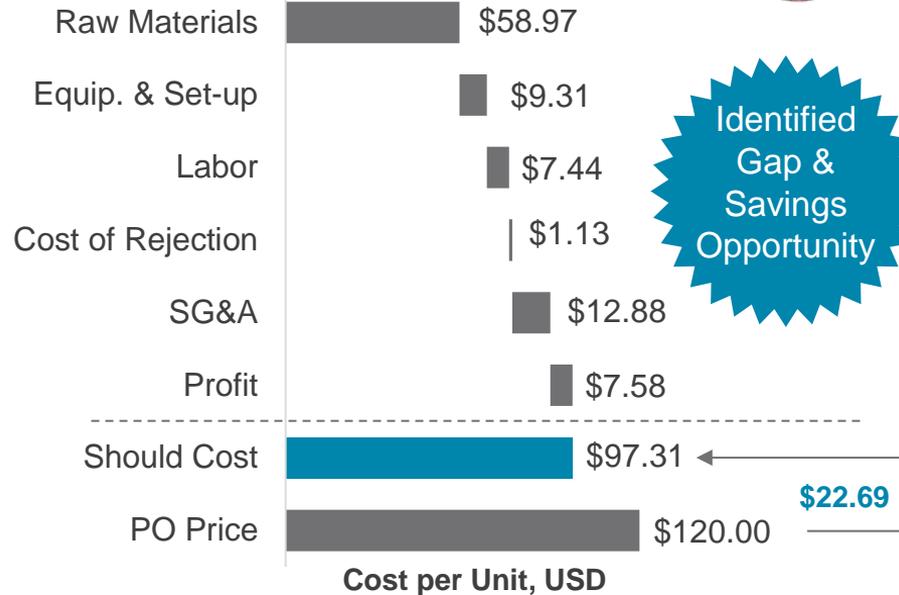
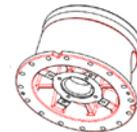
## The Culture is Changing

# Breakthrough Procurement – Going Forward

Strategy	Critical Next Steps
Scale	Bid out \$700M spend 2017/2018
Capability	“Should Costing” Target* \$150M



## “Should Cost” Analysis Example: Xylem Cover Plate



**Maturing Procurement has Substantial Potential Going Forward**

# Breakthrough Procurement – The Journey

Average Performing

High Performing

## Level of the Journey

\$ Savings | % of Material Cost

**Low Maturity**

~\$55M | ~3%

Poor Visibility  
Decentralized

**Basic Leverage**

\$64M | 3.9%

Organization  
Training

**Strategic Spend**

\$80M | 4.5%

Category Strategies  
Digitization

**Total Cost of Ownership**

~\$104M | 5%

Indirect Spend  
“Should Cost”  
Tools

**Value Expansion**

~5%

Value Optimized Design  
Preferred Supplier

2014

2015

2016

2017

2018+

Procurement Maturity Drives Multi-Year Benefits

# Elevating Our Lean Game – Looking Forward

## Strategy

## Critical Next Steps

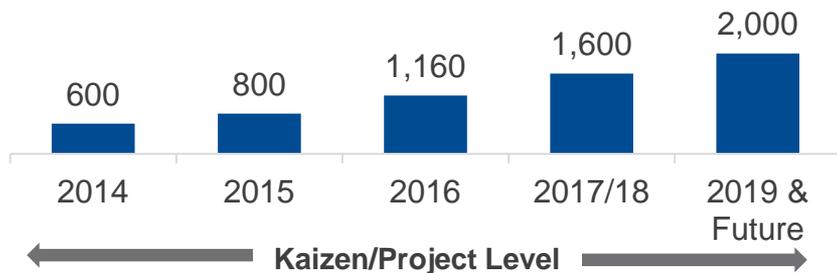
### Training

Continue investment in “teachers”

	2015	2016	2017	2020
Dedicated	53	71	77	90

### Expanded Focus

Grow Kaizen to 2,000 projects/year  
Lean outside the “4 walls”



**Foundation-Setting Work Complete**

## Lean Outside the 4 Walls

Example: Morton Grove Vendor Lean Motor Summit

**Problem:** Declining sales / poor motor “attach rate”

**Target:** Reduce Quote-to-acknowledge lead time

**Benefits:** 60% reduction in order acknowledgement lead

**Tools Used:** Voice of Customer  
Value Stream Mapping  
Standard Work



**Capability:** Expanded Lean beyond the “4 walls”

2-Month  
Revenue  
Improvement  
\$120K

# Elevating Our Lean Game – The Journey

Average Performing

High Performing

## Level of the Journey

\$ Savings | % of Addressable Cost

**Low Maturity**

~\$35M | ~3.5%

Average Talent  
Decentralized

**Leadership Development**

\$34M | 3.2%

Executive Training

Living Lean  
Webcast

**Management Awareness**

\$38M | 4.5%

Talent Upgrade /  
Investment

Kaizen Emphasis

**Institutionalize**

~4%

Redeploy Talent

Strategically  
Aligned Projects

Organization  
Baseline

**Value Added**

~4%

Revenue-  
Generating  
Projects

Rapid Deployment

2014

2015

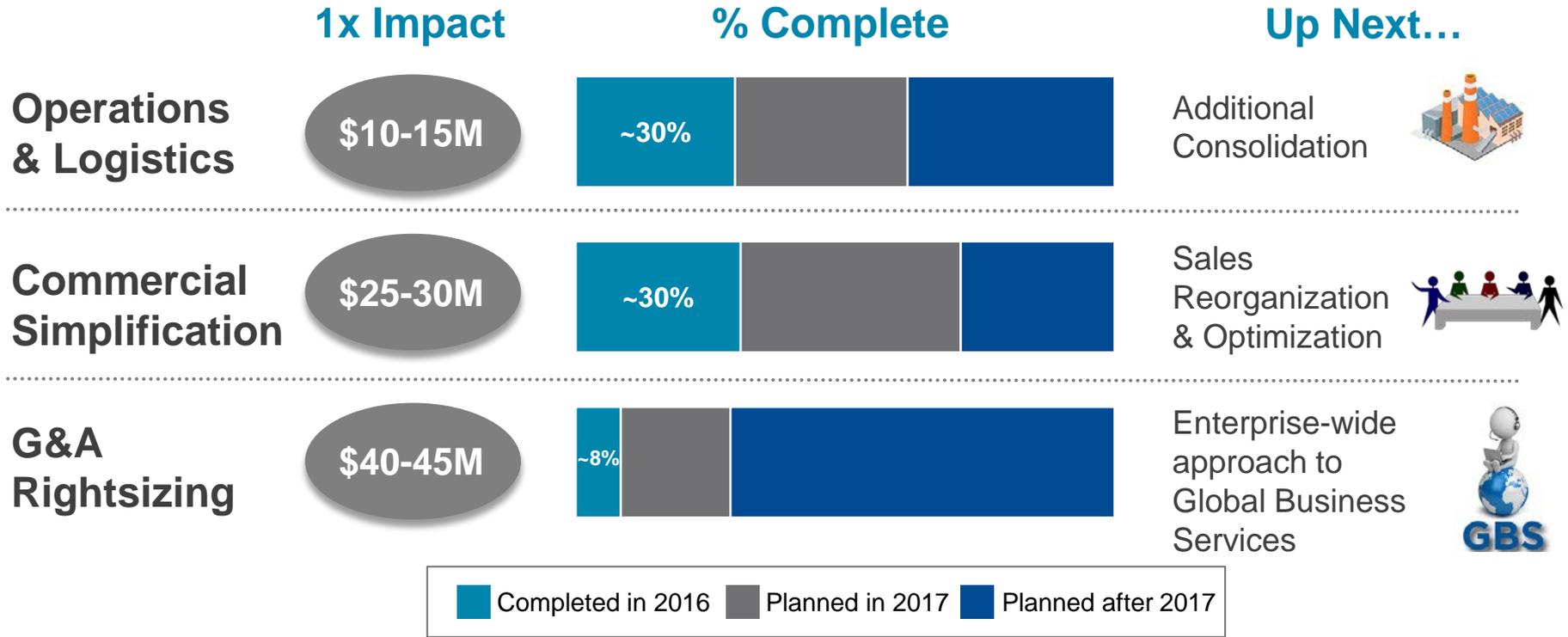
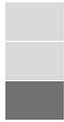
2016

2017/2018

2019+

Building Continuous Improvement Capability

# Business Simplification Roadmap – Progress



**Simplifying Our Business and Driving \$75M to \$90M of Savings by 2020**

# Business Simplification *Global Business Services (GBS)*

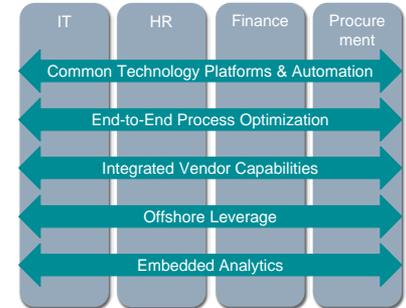


## The PROBLEM: Complex, Inefficient Processes

- ~100 ERP versions across 28 systems
- Inefficient and diverse business processes
- No centralized master data management
- Limited enterprise performance transparency
- No global HR system

## The SOLUTION: Global Business Services

- Establishes enterprise technology standards
- Customer focused organization accountable to the business
- Better control environment and standardized information
- Roadmap to capture savings through:
  - Robotic Process Automation (RPA)
  - Process improvements
  - Standard technology platforms



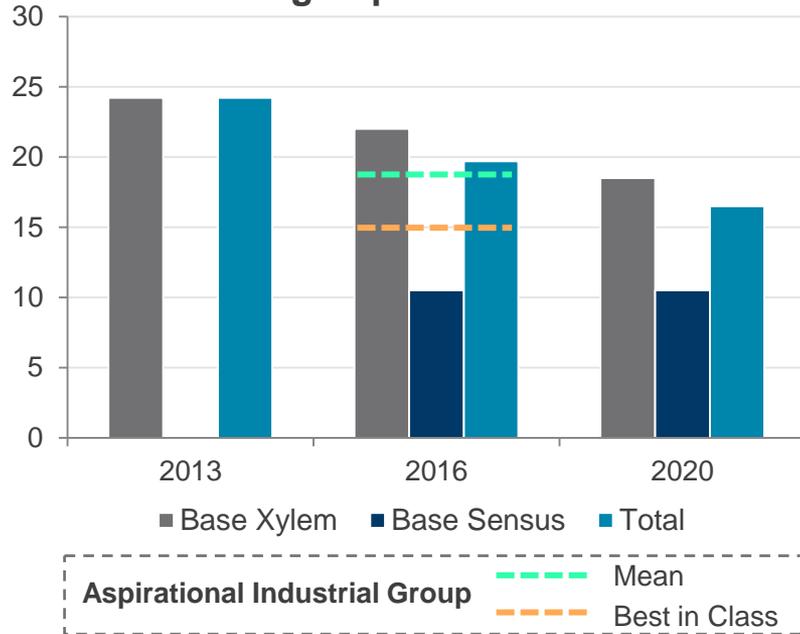
**\$40M**  
Savings

**GBS Creates an Agile, Scalable, Best-in-Class Service Delivery Model**

# Business Simplification *Working Capital*

## Current State

### Working Capital % of Sales



## Drivers of Performance Since 2013

- Improved “blocking & tackling”
  - Past due receivables from 7.2% to 2.9%
  - Focus on delivery rates from 79% to 85%
  - Standard 75 EOM payment terms: \$50M+ increase in Free Cash Flow
- Intense focus on training and tools
- Working capital part of incentive plan

## Drivers of Future Improvement

- Sensus’ existing strong working capital discipline
- Create working capital Center of Excellence
- Build on organizational changes

**Confident in Our Ability to Achieve Best-in-Class Performance**

# Sensus Cost Synergies 2017 to 2020

## Procurement Savings

- Material savings
- Leveraging scale to drive direct and indirect savings

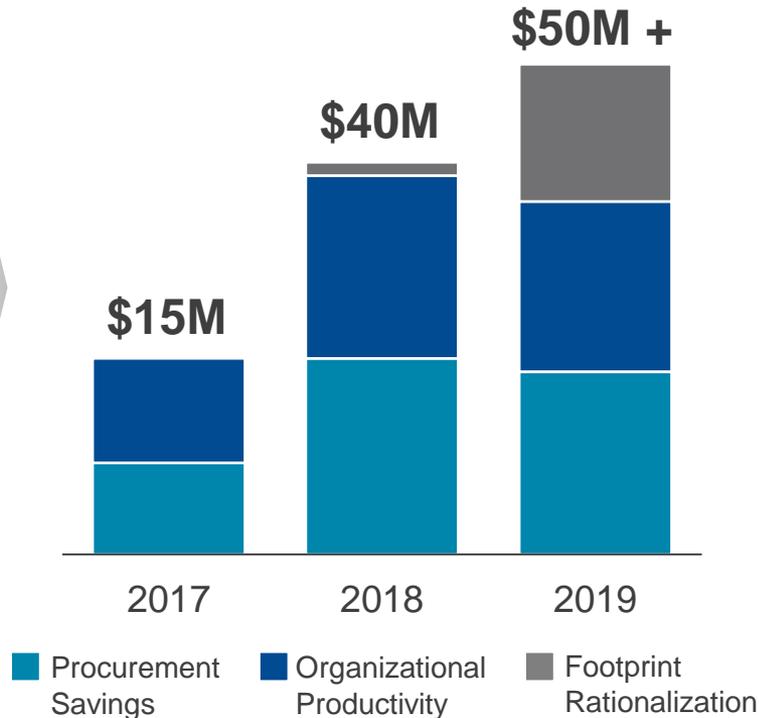
## Organizational Productivity

- Headcount rationalization
- Functional cost reductions

## Footprint Rationalization

- Operations and manufacturing footprint optimization
- Targeting Xylem and Sensus footprint / regional overlaps

## Net Savings



## Synergy Actions Tracking to Plan

# Continuous Improvement Key Takeaways

Strategy on track...expect continued progress

---

Sensus adds focused capability and incremental spend

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Building scalable competencies for future growth

---

Everybody, everyday



# Financial Update

Mark Rajkowski | SVP, Chief Financial Officer

# Financial Key Messages

Strong execution - well positioned to deliver on our financial commitments

---

Addition of Sensus accelerates growth, earnings and cash flow profile

---

Increasing our long-term financial outlook

---

\$3B+ in operating cash flow generation through 2020 enables further value creation through disciplined capital deployment

# A New Outlook – Updates to Prior 2020 Targets



Higher Organic Revenue growth profile

---



Increasing 2020 Operating Margin target by 100 bps

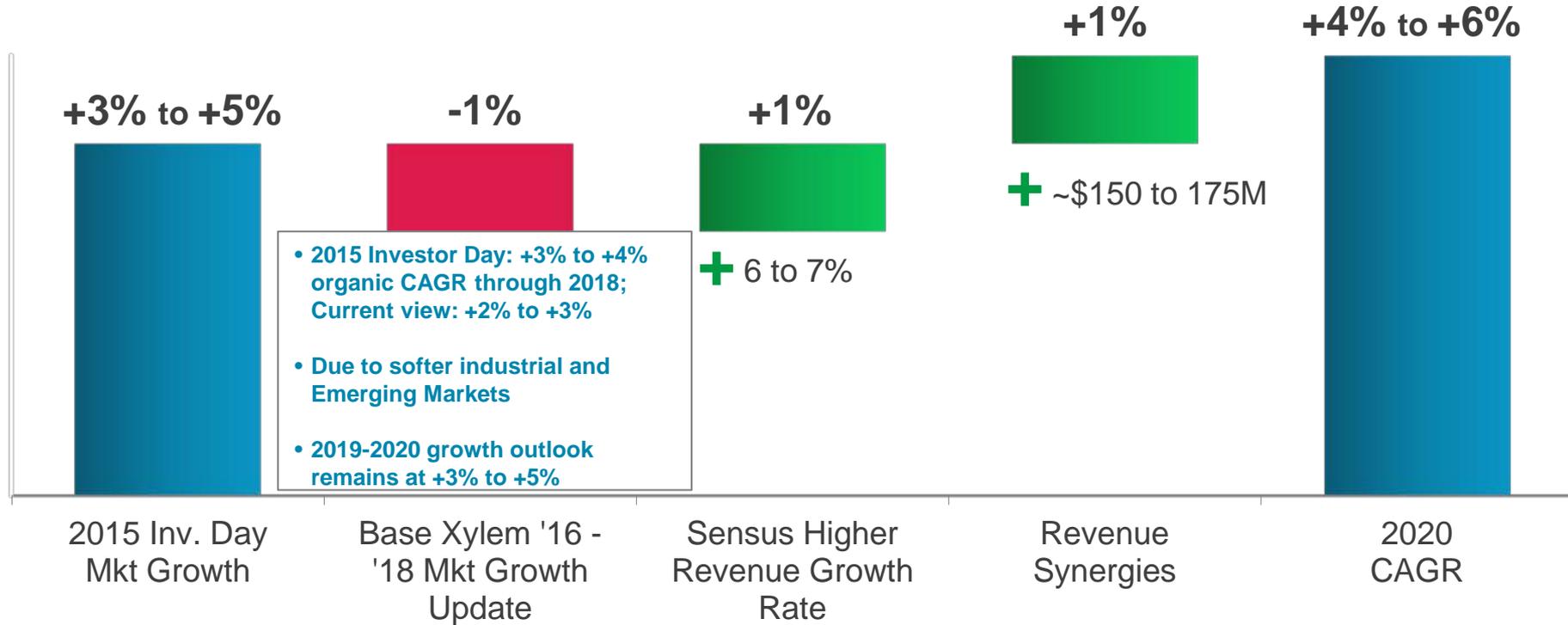
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Increased cash generation: \$3.5B available capital for deployment through 2020 in addition to \$1.8B deployed in 2016

**Higher Growth, Profitability and Cash Generation than Prior Plan**

# 2020 Organic CAGR Bridge from Prior 2020 Target



**Sensus Adds 2% Organic Growth CAGR**

# End Market Revenue Growth Rates

	End Market	2016 Revenue % <sup>1</sup>	Outlook	2017-2020 Growth
	<b>Public Utility</b>	<b>47%</b>	<ul style="list-style-type: none"> <li>• U.S. strength plus Sensus exposure to higher growth smart metering sub sector</li> <li>• Base Sensus + synergy revenue drives growth</li> </ul>	MKT: 3% - 5% <b>XYL: 6% - 8%</b>
	<b>Industrial</b>	<b>37%</b>	<ul style="list-style-type: none"> <li>• Slow oil &amp; gas and mining recovery impacts growth through 2018; light industrial forecast to stabilize</li> <li>• Expect 3% to 5% growth beyond 2018</li> </ul>	MKT: 1% - 3% <b>XYL: 2% - 4%</b>
	<b>Commercial</b>	<b>11%</b>	<ul style="list-style-type: none"> <li>• Near-term low single-digit growth in U.S.; modest acceleration beyond 2017 partially driven by increasing regulation</li> </ul>	MKT: 1% - 3% <b>XYL: 2% - 4%</b>
	<b>Residential</b>	<b>5%</b>	<ul style="list-style-type: none"> <li>• Low single-digit growth driven by increasing efficiency regulation</li> </ul>	MKT: 2% - 3% <b>XYL: 2% - 3%</b>

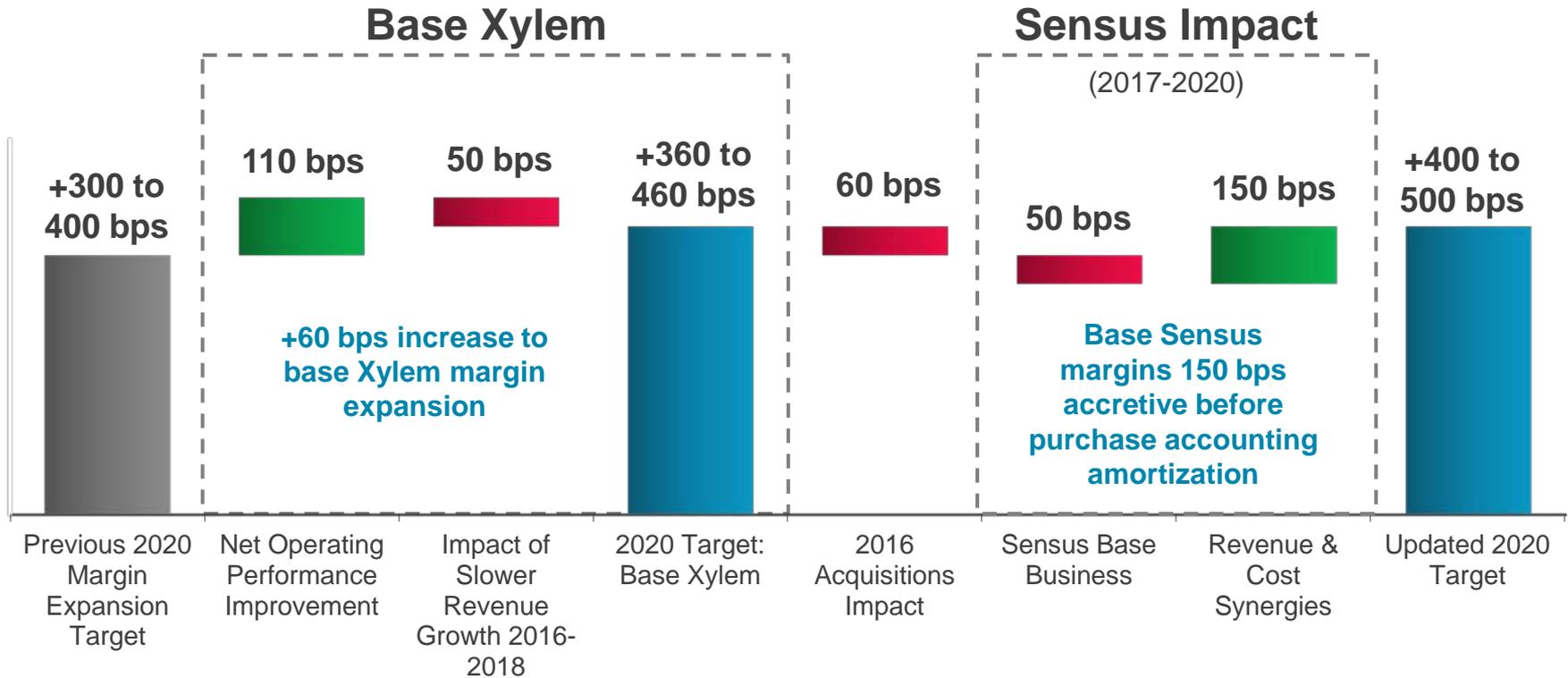
**Positioned to Deliver 4% to 6% Revenue Growth**

# Revenue Growth Rates by Geography

Geography	2016 Revenue % <sup>1</sup>	Outlook	2017-2020 Growth
 U.S.	46%	<ul style="list-style-type: none"> <li>• Healthy public utility market driven by increased infrastructure investment</li> <li>• Sensus exposed to faster growing meter market</li> </ul>	MKT: 2% - 4% <b>XYL: 4% - 6%</b>
 Western Europe	27%	<ul style="list-style-type: none"> <li>• Maintaining growth expectations as Europe continues modest recovery and improving public utility</li> </ul>	MKT: 1% - 3% <b>XYL: 2% - 4%</b>
 Emerging Markets	20%	<ul style="list-style-type: none"> <li>• Growing infrastructure investment in India combined with modestly recovering China market</li> <li>• Ongoing weakness in Middle East</li> </ul>	MKT: 4% - 7% <b>XYL: 5% - 8%</b>
 Rest of World	7%	<ul style="list-style-type: none"> <li>• Growth muted by continued commodity pressures</li> </ul>	MKT: 1% - 2% <b>XYL: 1% - 2%</b>

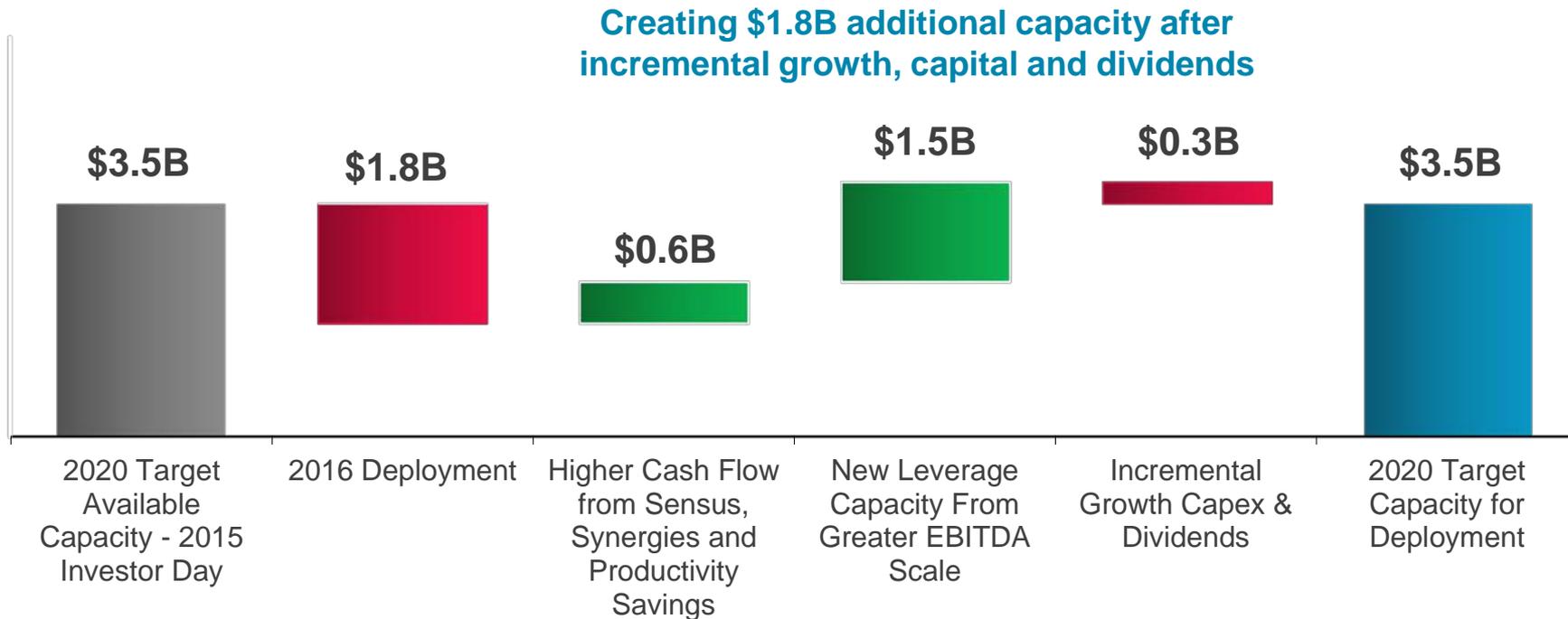
**Positioned to Deliver 4% to 6% Revenue Growth**

# Productivity and Sensus Drive Increased Operating Margin Expansion Target



**Targeting Operating Margin Up to 18% in 2020; 100 bps Increase from Prior Target**

# Quickly Rebuilding Capital Deployment Firepower



**Maintaining \$3.5B Capacity in Addition to Value-Creating 2016 Deployment**

# Xylem Financial Framework through 2020

## Improving Growth & Margin Expansion

- +4% to 6% revenue growth CAGR fueled by Sensus acquisition
- Productivity programs driving 400 to 500 bps operating margin expansion

## \$3B+ Operating Cash Generation

- Free cash flow conversion ~110%
- Working capital as a % of revenue improves 400 bps from 22%

## Disciplined Capital Deployment

- Continued investments in capex and R&D with high ROI
- Dividend growth in line with earnings (~15% per year)
- \$3.5B available capacity for strategic M&A and share repurchases
- \$430M share repurchase authority remains under existing plans

## Strengthening the Balance Sheet

- Targeting 2.5 to 3.0x leverage
- Maintain investment grade credit ratings

**Capital Capacity to Drive Significant Shareholder Value**

# Capital Deployment Strategy

## 1 INVEST IN CORE Business Strategy

- New products/technology
- Emerging Markets
- Sensus cost and revenue synergies

## 2 RETURN TO SHAREHOLDERS Consistent Dividend Growth

- 16% increase for 2017
- Target % increase with earnings growth

## 3 INVEST IN INORGANIC GROWTH M&A

- Strict strategic and financial criteria/metrics
- Aligned with value mapping review/strong pipeline
- Focused on amplifying R&D/technology position

## 4 RETURN TO SHAREHOLDERS Share Repurchases

- Primarily dilution management
- Default option for excess capital

# Sensus Acquisition Fits M&A Framework

**Strategic  
Fit**

**ROIC >  
Cost of  
Capital in  
3 to 5 Years**

**IRR > Cost  
of Capital**

**Adj. EPS  
Accretive  
After Year 1**

## Transaction Details

---

- Purchase Price: \$1.7B in cash
- 10.7x Sensus' 2016 Adj. EBITDA<sup>1</sup>
  - 8.1x Fiscal 2016 Adj. EBITDA<sup>1</sup> (including cost synergies)
- Effective use of >\$400M of non-U.S. cash
- Obtained investment grade financing

## Financial Metrics

---

- ROIC > WACC in 3 - 5 years
- IRR >10%
- Expect to add ~\$0.19 to \$0.21 to 2017 Adj. EPS<sup>1</sup>

**Disciplined Blueprint for Future M&A**

# Combination of Sensus & Analytics – Key Facts



## Timing and Reporting Impacts

---

- Transition to combined organization during Q2 2017
- Reporting under new combined segment in Q2 10-Q and earnings materials
- Restated historical data to be provided in advance of Q2 earnings release
- Continue to provide visibility to Sensus standalone performance to track progress vs. targets established at time of acquisition

# Reaffirming 2017 Guidance

<b>Revenue</b>	<b>\$4.5B to \$4.6B</b>	2% to 4% Pro Forma organic growth
<b>Adj. Operating Margin</b>	<b>13.2% to 13.7%</b>	+20 to 60 bps excl. acquisitions
<b>Adj. EBITDA Margin</b>	<b>18.7% to 19.2%</b>	
<b>Adj. EPS</b>	<b>\$2.20 to \$2.35</b>	+12% to 20% excl. FX translation
<b>FCF Conversion</b>	<b>&gt;110%</b>	

## Key Assumptions

- FY Interest/Other Expense: ~\$80M
- Tax rate: 22%
- Share count: 182M
- Excluding Integration, Restructuring & Realignment: \$30M

# Updating 2020 Financial Targets

<b>Organic Growth</b>	<b>4% to 6%</b>	Sensus and synergies drive higher growth profile
<b>Operating Margin</b>	<b>17% to 18%</b>	
<b>EBITDA Margin</b>	<b>21.5% to 22.5%</b>	
<b>EPS Growth</b>	<b>Mid-teens</b>	
<b>Capital Available for Deployment</b>	<b>\$3.5B</b>	Capital deployment drives high-teens+ EPS growth

## Key Assumptions

- Tax rate: 22%
- Share count: 182M
- Excluding Integration, Restructuring & Realignment: ~\$130M (Total 2016 to 2020)
- FX rates consistent with 2017 guidance

**Further Strengthening the Investment Thesis**



**xylem**  
Let's Solve Water

2017 Investor Day  
Raleigh, NC  
April 4, 2017



# Q&A



**xylem**  
Let's Solve Water

2017 Investor Day  
Raleigh, NC  
April 4, 2017



# Commercial Excellence

Customer Perspective

# David Stanton | President, SUEZ N.A. Utilities



- Oversees the operations and management of regulated water and wastewater businesses across the U.S.
- 25 years of experience in water industry (U.S. and Global)
- Former CEO and Director of APTwater
- Former COO of SouthWest Water
- Former EVP at Tyco International's EarthTech division





# Sensus Business Overview

Randy Bays | SVP and President, Sensus

# Sensus Key Messages

Solving customer challenges with a comprehensive portfolio of sensor technology and end-to-end solutions

---

Accelerating growth potential in several areas

---

Differentiated business model that will enable us to continue to win

---

Significant revenue synergies to be realized

# Sensus Overview

## Business Overview

**Employees:** ~3,500 | **Customers:** ~14,000

- Only licensed spectrum communication platform supporting water, gas, electric and lighting solutions
- Positioned to capitalize on long-term trends
  - Connected devices
  - Global smart technology adoption
  - Data utilization
- 2016 Financial Highlights
  - Pro Forma Revenue: \$891M
  - EBITDA<sup>1</sup>: 20.3%
- Forecasting 6 to 7% Revenue Growth CAGR 2017 to 2020

**Leading Provider to Utility and Public Service Entities Globally**

## Select Key Customer Accounts



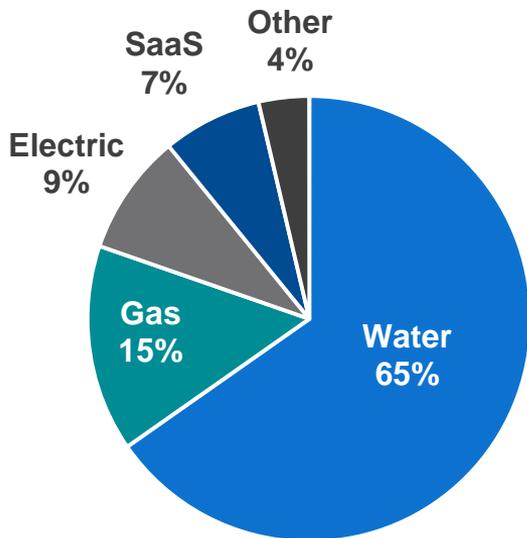
United Water



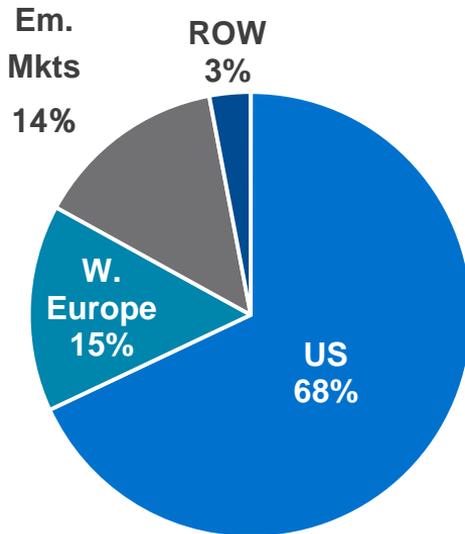
# 2016 Revenue Profile

## Pro Forma Sensus Revenue \$891M

### By Application



### By Geography



## Sales Strategy

- Expanding global footprint, leveraging DECC and Thames wins
- Significant expansion of large international deal sales teams
- Product partnerships to serve global requirements
  - Electric metering
  - Gas metering
  - Lighting modules
- Increasing share in all segments

# Our Technology and R&D Platform Is A Differentiator

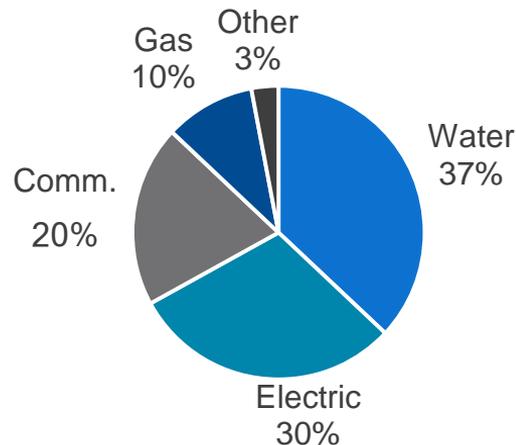
## Highlights

- R&D investment: 10% of revenue
- Personnel: ~600 software and hardware engineers and technical support staff
- Key R&D facilities and design centers
  - Raleigh / Morrisville (NC); Covington (LA); Boise (ID); Atlanta (GA); Cambridge (UK); Hannover / Ludwigshafen (Germany)
- Recent acquisitions have strengthened R&D capabilities
  - **Verdeco**: Integrated analytics that provide for proactive network control for utilities and end users
  - **Sentec**: Strong IP portfolio including metrology, sensors and systems
  - **Visenti**: Real-time leak detection, identification of pipe network assets at risk of failure, operational simulations, meter data analytics and water quality monitoring

## Patent Portfolio

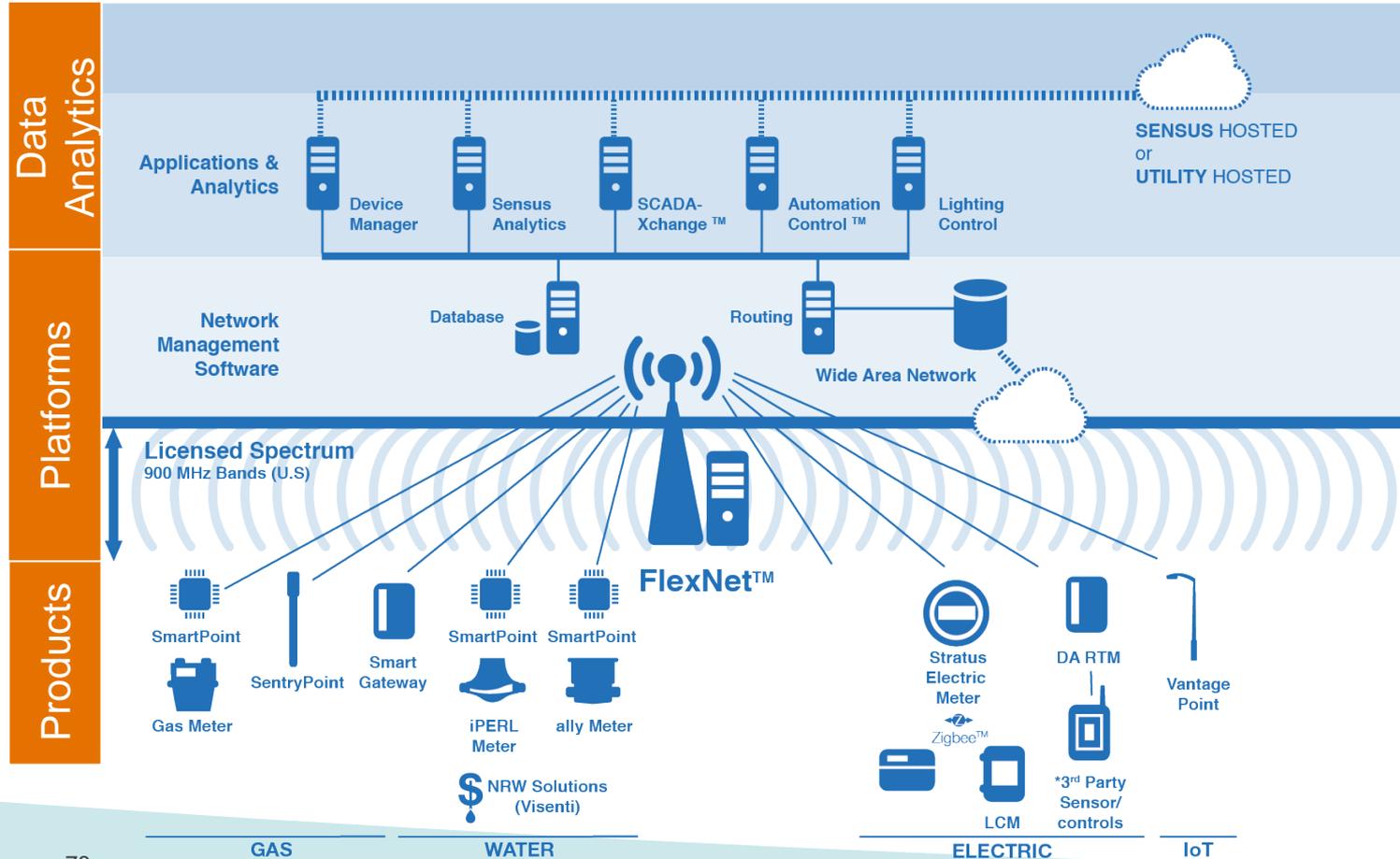
400+ Patents

250+ Applications



Executing Global Product Roadmap to Create Customer Value

# Providing Comprehensive End-to-End Solutions



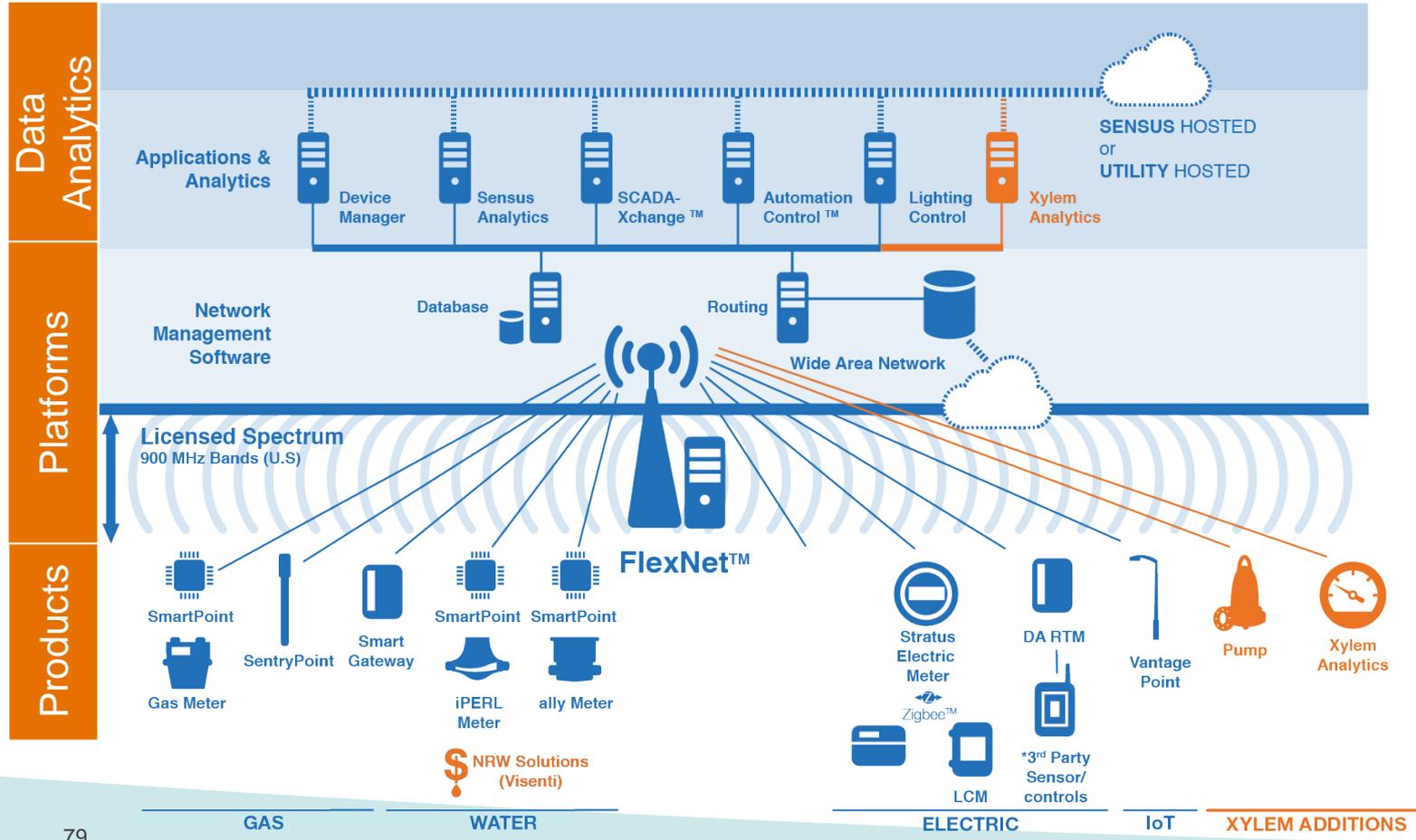
**80M**  
Meters

**6 3 3**  
SaaS Customers

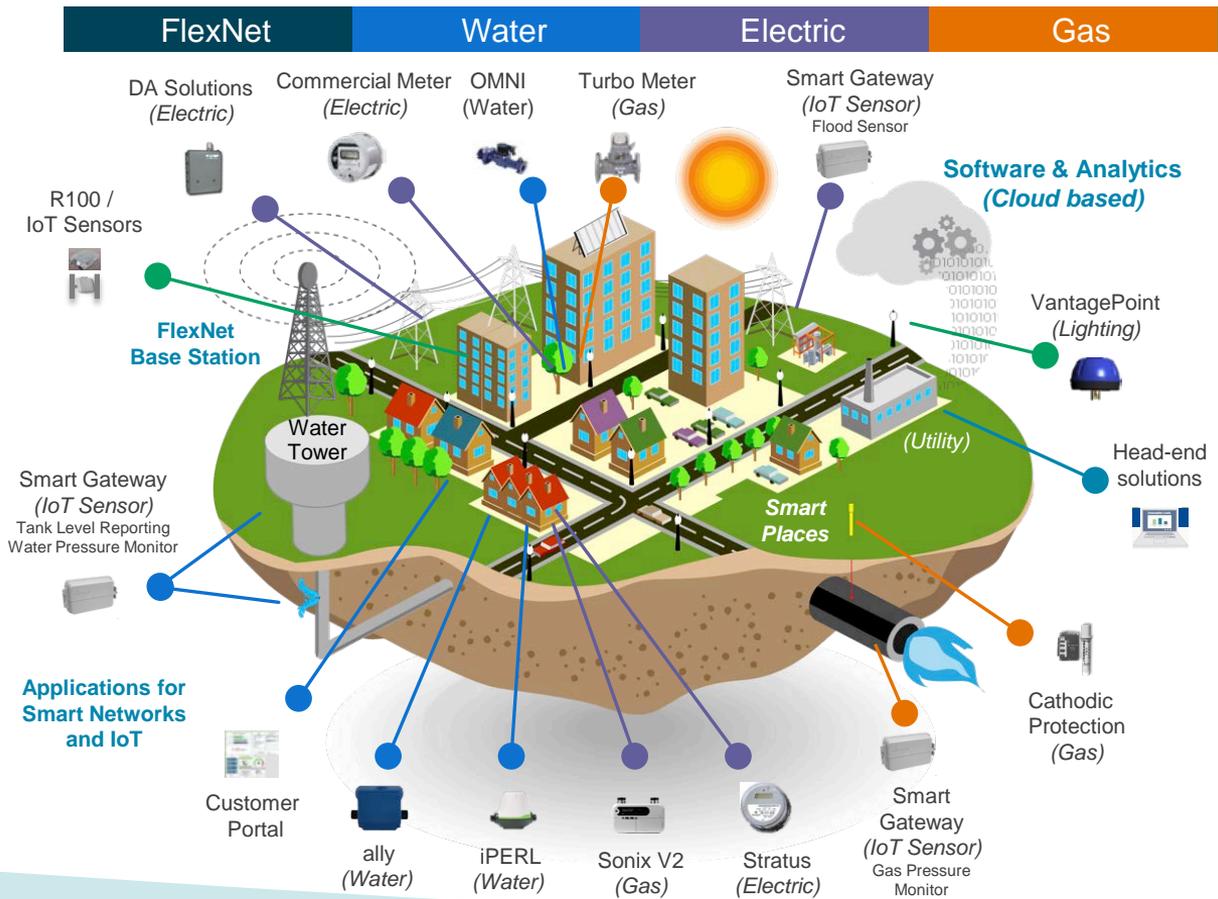
**37M**  
SmartPoints

**400M**  
Messages Delivered Daily

# Providing Comprehensive End-to-End Solutions



# Sensus Solutions – Powering a City



## Superior Communications and Infrastructure Technology

- Private, purpose-built advanced infrastructure, dedicated secure communication
- Highly reliable outage management and network resiliency
- Flexible platform extendable to new rapidly growing segments
- SaaS offerings
- Deployment services

## Why We Win

- FlexNet provides superior communications and infrastructure technology
- One network compatible with multiple applications
- Broad product portfolio
- Differentiated suite of software and data analytics

# Leveraging Our Core Strengths To Win

## Innovation & Technology

- ✓ World-class products and solutions
- ✓ Connected devices and data
- ✓ R&D capabilities

- Smart metering
- Network technologies
- Advanced data analytics

## Passionate, Energized Management Team

- ✓ Seasoned experience
- ✓ Helping utilities and cities do more with their infrastructure

- Proven track record
- Focused on revenue and cost synergies

## Customer-First Culture

- ✓ Trusted partner offering
- ✓ Increasing operational efficiencies

- User-friendly platform
- Data-driven quality
- Continuous improvement

## Diversification

- ✓ Strong credibility, quality and reliability
- ✓ FlexNet – distinctive communication network

- Water, gas, electric and lighting solutions
- International growth

# Sensus Growth Strategy

## Further Penetrate Core Markets

- Investing in new products and software solutions

## Accelerate International Business

- 20+ targeted deal opportunities
- Long-lead, multi-year deals; several opportunities with existing Xylem customers

## Capture Revenue Synergies with Xylem Base Portfolio

- Broad cross-selling opportunities
- Wastewater and outdoor water

## Scale Visenti

- Focusing on N.A. growth opportunities
- International deal cross-selling

**Leveraging Communications Network Position to Capture Long-term IoT Opportunity**

# Operational Excellence Will Continue to Drive Results

## Six Sigma

- Driving cultural change throughout organization with continuous improvement and data-driven mindset

## Systems Testing

- Investments to drive end-to-end solutions testing of New Product Introduction (NPI) and existing products

## Returned Materials Analysis

- Close quality data loop through collaboration with design and manufacturing
- 100% triage of field returns



## Quality Control

- Aggressive focus on manufacturing quality through Rolled Throughput Yield (RTY) activities
- Driving quality requirements through NPI process

## Supplier Quality

- Pushing quality forward in supply chain through new supplier qualification / approval process

## SaaS Analytics

- Monitoring to enable proactive field population review

**Significant Opportunity to Continue to Drive Customer Satisfaction and Reduce Costs**

# Sensus Key Takeaways

Solving customer challenges with a comprehensive portfolio of sensor technology products and end-to-end solutions

---

In early stages of accelerating growth potential in several areas

---

Differentiated business model that will enable us to continue to win

---

Significant revenue synergies to be realized

---



# Sensus Sales & Marketing

Dale Harber | EVP, Marketing & International Programs, Sensus

# Sensus Sales & Marketing Key Messages

Large global market potential and positive long-term trends

---

Broad product portfolio with investment to expand market leadership

---

Xylem acquisition strengthens market position

# Macro Drivers Underpinning Smart Metering Growth



**Increasing Compliance  
and Regulation**



**Aging Infrastructure**



**Housing Starts**

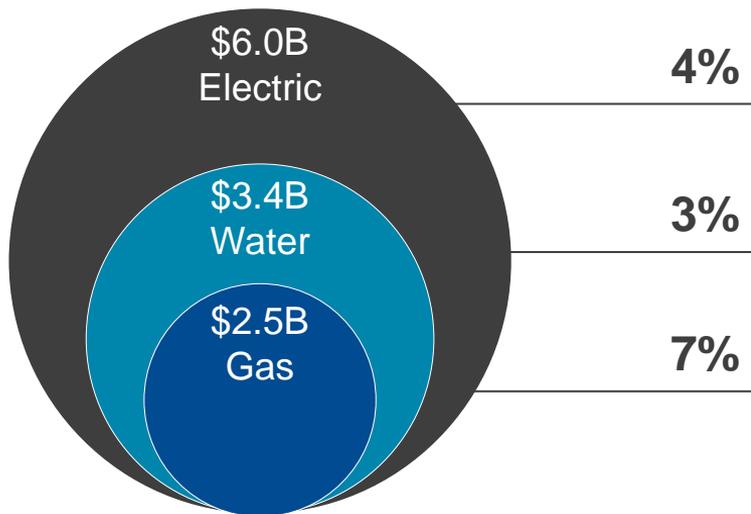


**Technology-driven Adoption**

# GLOBAL Metering Market

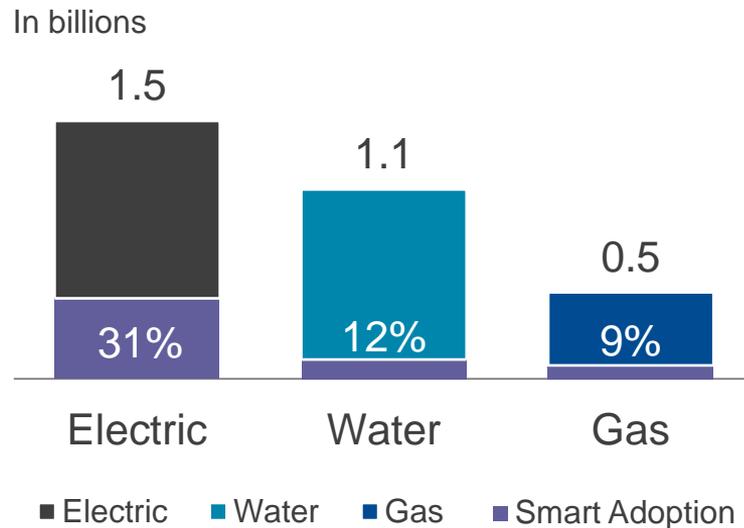
~\$12 billion annually

## 2017-2020 CAGR



<25%

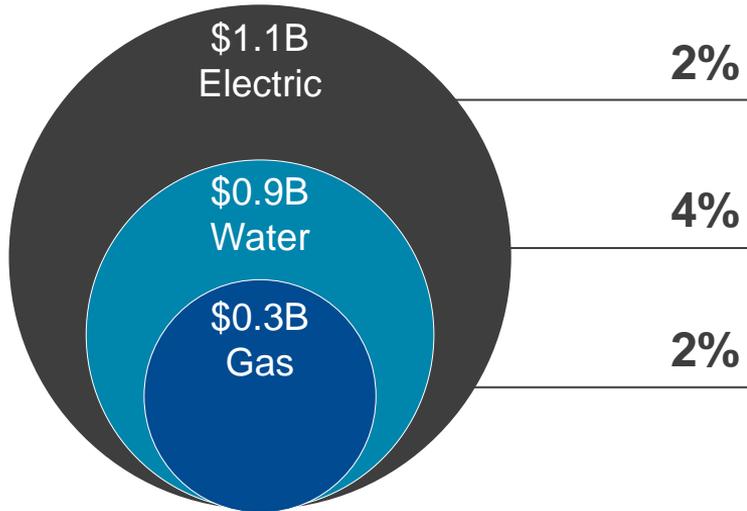
of the ~3B meters are smart



# NORTH AMERICA Metering Market

~\$2 billion annually

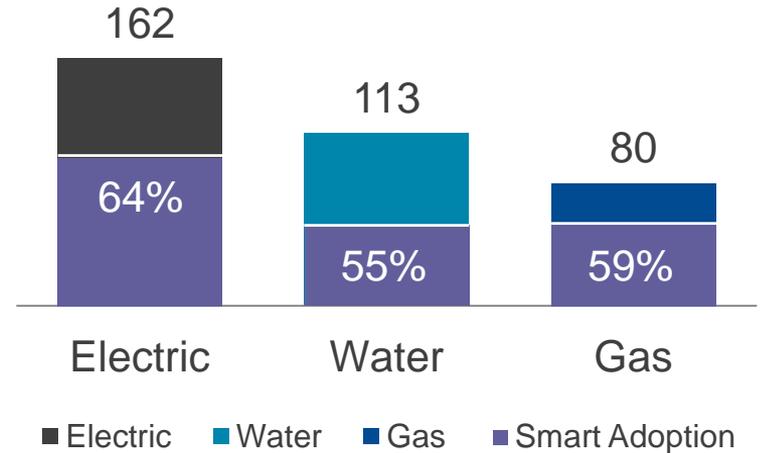
## 2017-2020 CAGR



<60%

of the ~350M meters are smart

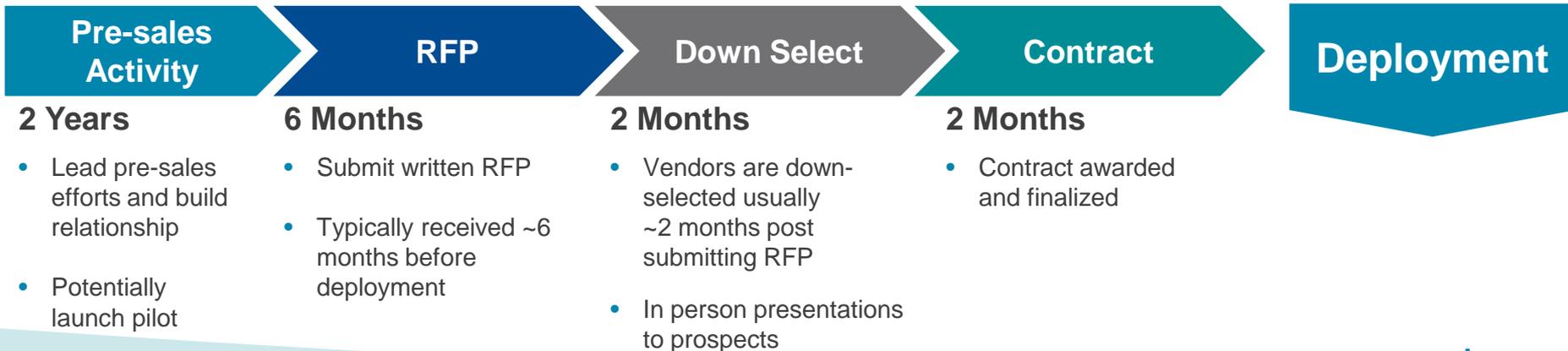
In millions



# Go-to-Market Strategy

## Key Data Points

- Sales Associates: ~300
- Utilize a combination of key account strategy with a regional coverage model
- 70% of sales through distribution
- > 40% recurring revenue



# Sensus Reach Conference

## 2016 Highlights

- Attendees: ~1,000
- Sessions: 170
- 46% of sessions had customer participation
- 50%+ attended Day 3 Technical Training



## 2017 Plans

- October 22 – 25, in Dallas
- Attendees: ~1,100
- Sessions: 190



# Case Study: Global Win

## Demonstrated Success

### PROJECT OVERVIEW

- Provision of end-to-end smart water solution
- Contract won in March 2015 and expected to continue for next 16 years

### SIZE

- Projected revenue of \$300M (with \$87M being recognized between 2016 and 2019)
- 3M water meters, SmartPoints and network infrastructure

### TECHNOLOGY

- Dept. of Energy & Climate Change communication products
- N.A. SmartPoints
- European water meters
- Android based tool platform
- Sensus RF (wireless) meter to SmartPoints connection

### UPSIDE SOLUTIONS

- Integrated radio in iPERL
- Adjacent water utilities watching progress
- Lighting solution



“...This is an industry first, for the Thames **technology will surpass in functionality** both traditional “dumb” manual-read meters and automated meter read (AMR) units.” -*Utility Week, 2-Jul-2014*

**Technological Capabilities are a Differentiator**

# Case Study: North America Win

## Demonstrated Success

### PROJECT OVERVIEW

- Provide over 450K Remote Disconnect and Reconnect (RCD) per year across Pennsylvania to both electric and gas customers

### SIZE

- 1.8M electric customers and 0.5M gas customers across the region
- Coverage achieved with only 170 base stations

### TECHNOLOGY

- Application growth with Distribution Automation and Demand Response
- Network refresh in discussion

### UPSIDE SOLUTIONS

- Lighting controls in pilot
- Tilt Sensor (IoT) in pilot
- Expanded deployment of existing DA



“...Selection of the **Sensus FlexNet** technology will enable PECO to provide clear and reliable communications in a dense urban environment via FCC-licensed spectrum and support future smart grid applications.” - *Water & Wastes Digest*

**Technological Capabilities are a Differentiator**

# Sensus Sales & Marketing Key Takeaways

Large global market potential and positive long-term trends

---

Broad product portfolio with investment to expand market leadership

---

Xylem acquisition strengthens market position

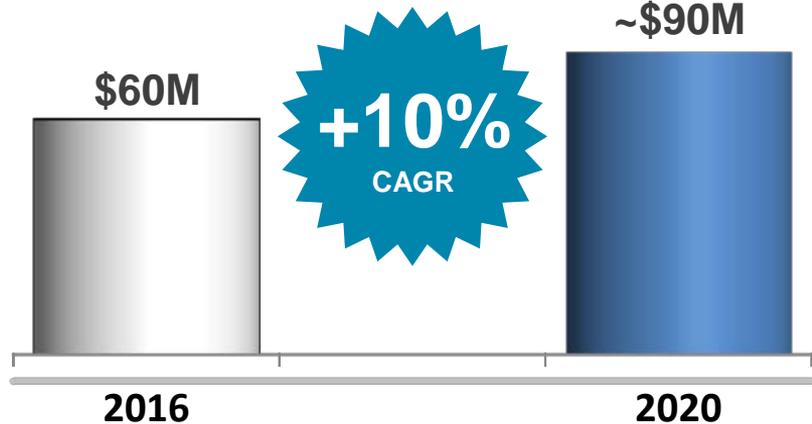


# Data Analytics

Brian Crow | EVP, Data Analytics & Software Solutions, Sensus

# Sensus Software as a Service

## Sensus Software as a Service (SaaS) Revenue



## Data Analytics Strategy

- Leverage data analytics to move product offerings to solution offerings
- Pull through product sales by increasing visibility and value of data
- Drive recurring revenue model through insight and applications



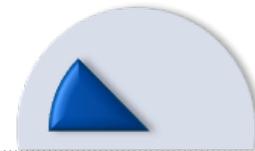
# Closing Remarks

# Xylem's Investment Thesis

## WE WILL BENEFIT FROM A FAVORABLE MACRO OUTLOOK

Well positioned in key end markets with sustainable growth profiles through 2020

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## MARKET-PLUS GROWTH DRIVEN BY FOCUSED STRATEGIES

Increased investment in faster-growth regions and innovation

---



## RUNWAY FOR FURTHER MARGIN EXPANSION

Multi-year plan continues to create value → 400 to 500 bps by 2020

---



## ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE

Strong cash flow generation and capital structure enables significant value creation

---





**xylem**  
Let's Solve Water

2017 Investor Day  
Raleigh, NC  
April 4, 2017



# Q&A



Thank You



# Appendix

# Delivering Improved Financial Performance Across Key Metrics

	2015 <sup>1</sup>	2020 Targets Issued at 2015 Investor Day	2016 <sup>1</sup> Performance	2016 Scorecard	2020 Target	Vs Prior Target
<b>Organic Revenue Growth</b>	+2%	+3 to 5% annual	+1%	—	+4 to 6%	+
<b>Operating Margin</b>	12.9%	16 to 17% (+60 to 80 bps/Year)	13.6% +70 bps (+130 bps excl. M&A)	✓	17 to 18%	+
<b>EBITDA Margin</b>	17%	20 to 21%	17.9%	✓	21.5 to 22.5%	+
<b>EPS</b>	\$1.85	+8-10% thru 2018 +8-12% thru 2020	+10%	✓	Mid-teens growth	+
<b>Available Capital for Deployment in 2020</b>	N/A	\$3.5B capacity	Deployment of \$1.8B	✓	\$3.5B capacity	+
						Total \$5.3B of capital deployed including new capacity

## 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"** for Xylem reflects the adjustment to EBITDA to exclude restructuring and realignment costs, Sensus acquisition related costs, gain on sale of business and special charges. For Sensus adjustments, see Adjusted EBITDA - Sensus & Pro forma with Sensus table.

**"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, Sensus acquisition related 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.

**"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 transaction costs, integration costs, costs related to the recognition of the inventory step up and amortization of the backlog intangible asset recorded in purchase accounting.

**"Special charges"** defined as costs incurred by the Company, such as interest expense related to the early extinguishment of debt during Q2 2016, financing costs related to the bridge loan entered into in Q3 2016 for the Sensus acquisition, initial acquisition costs not related to Sensus, 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.

**"Pro forma"** defined as including the results of Sensus for the calendar period prior to the acquisition of Sensus by Xylem Inc. on October 31, 2016

**Xylem Non\_GAAP Reconciliation**  
**Adjusted Operating Income - Sensus & Pro forma with Sensus**  
(\$ Millions)

	Sensus YTD 12/31/16	Xylem, excluding Sensus YTD 12/31/16	Xylem Pro forma YTD 12/31/16
Revenue	891	3,639	4,530
Operating Income	69	423	492
Operating Margin	7.7%	11.6%	10.9%
Reversal of product warranty reserve	(27)	-	(27)
Restructuring & realignment costs	5	46	51
Sensus transaction related charges (a)	64	28	92
Management fees	5	-	5
Special/Other non-recurring charges	1	5	6
Adjusted Operating Income	117	502	619
Adjusted Operating Margin	13.1%	13.8%	13.7%

(a) Includes Sensus seller transaction expenses and change in control retention compensation charges for the period prior to acquisition of \$39 million.

**Non\_GAAP Reconciliation**  
**Adjusted EBITDA - Sensus & Pro forma with Sensus**  
(\$ Millions)

	Sensus Fiscal YE 3/31/16	Sensus YTD 12/31/16	Xylem, excluding Sensus YTD 12/31/16	Xylem Pro forma YTD 12/31/16
Pre-Tax Income	99	(9)	357	348
Interest Expense (Income), Net	37	66	68	134
Depreciation and Amortization	56	71	130	201
Stock Compensation	0	-	18	18
EBITDA	192	128	573	701
Reversal of product warranty reserve	(27)	(27)	-	(27)
Restructuring & realignment costs	7	5	46	51
Sensus transaction related charges (a)	-	57	28	85
Management fees	6	5	-	5
Other non-recurring charges (b)	5	13	5	18
Non-cash deferred revenue (c)	(24)	-	-	-
Adjusted EBITDA	159	181	652	833
Revenue	861	891	3,639	4,530
Non-cash deferred revenue (c)	(24)	-	-	-
Adjusted revenue	837	891	3,639	4,530
Adjusted EBITDA Margin	19.0%	20.3%	17.9%	18.4%

(a) Includes Sensus seller transaction expenses and change in control retention compensation charges for the period prior to acquisition of \$39 million.

(b) Includes a write-down on a minority owned joint venture in October 2016

(c) Impact of non-cash revenue recognized for fiscal year ended 3/31/2016



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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Impact	Change	% Change			
2016	2015	2016 v. 2015	2016 v. 2015	Divestitures		Adj. 2016 v. 2015	Adj. 2016 v. 2015				
<b>Year Ended December 31</b>											
<b>Xylem Inc.</b>	3,771	3,653	118	3%	(163)	74	29	1%	5%		
Water Infrastructure	2,246	2,231	15	1%	(32)	55	38	2%	3%		
Applied Water	1,393	1,422	(29)	-2%	-	20	(9)	-1%	-1%		
Sensus	132	-	132	N/A	(131)	(1)	-	N/A	N/A		

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Contribution	Change	% Change			
2015	2014	2015 v. 2014	2015 v. 2014	Divestitures		Adj. 2015 v. 2014	Adj. 2015 v. 2014				
<b>Year Ended December 31</b>											
<b>Xylem Inc.</b>	3,653	3,916	(263)	-7%	10	313	60	2%	1%		
Water Infrastructure	2,231	2,442	(211)	-9%	(1)	234	22	1%	1%		
Applied Water	1,422	1,474	(52)	-4%	11	79	38	3%	2%		

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

	Q4 YTD 2016			Q4 YTD 2015		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	3,771		3,771	3,653		3,653
Operating Income	406	105 a	511	449	21 a	470
Operating Margin	10.8%		13.6%	12.3%		12.9%
Interest Expense	(70)	13 b	(57)	(55)		(55)
Other Non-Operating Income (Expense)	4		4	-	4 b	4
Gain from sale of businesses	-		-	9	(9)	-
Income before Taxes	340	118	458	403	16	419
Provision for Income Taxes	(80)	(14) c	(94)	(63)	(20) c	(83)
Net Income	260	104	364	340	(4)	336
Diluted Shares	180.0		180.0	181.7		181.7
<b>Diluted EPS</b>	<b>\$ 1.45</b>	<b>\$ 0.58</b>	<b>\$ 2.03</b>	<b>\$ 1.87</b>	<b>\$ (0.02)</b>	<b>\$ 1.85</b>

a Restructuring & realignment costs of \$47 million and \$20 million in 2016 and 2015, respectively, special charges of \$5 million and \$1 million in 2016 and 2015, respectively and Sensus acquisition related costs of \$53 million in 2016.

b Special charges of \$5 million of financing costs related to the bridge loan entered into for the Sensus acquisition and \$8 million of costs related to the early extinguishment of debt in 2016 and \$4 million of other special charges in 2015.

c Net tax impact on restructuring & realignment costs of \$13 million and \$5 million and on special charges of \$7 million and \$0 million in 2016 and 2015, respectively, net tax impact on Sensus acquisition related costs of \$15 million in 2016 and tax-related special items of \$21 million of benefit and \$15 million of expense for 2016 and 2015, respectively.



# Presenter Biographies

# Patrick K. Decker

## President and Chief Executive Officer



Mr. Decker was named President and Chief Executive Officer of Xylem in March 2014. He also serves as a Director on the Board.

He joined Xylem from Harsco Corporation, a global industrial services company where he was President and Chief Executive Officer since 2012. Prior to that, he served in a number of leadership roles at Tyco International's Flow Control business, ultimately serving as President of Tyco Flow Control, a \$4 billion leader in industrial flow control solutions. At Tyco, he led the effort that resulted in the separation of the Flow Control business from the parent company.

Earlier in his career, Decker held a number of progressively responsible financial leadership positions at Bristol-Myers Squibb Company, including nine years of service in Latin America and Asia. He started his career as an auditor for Price Waterhouse LLP, now PricewaterhouseCoopers, LLP.

He currently serves on the advisory council for the Dean of the Kelley School of Business at Indiana University. He earned a Bachelor of Science degree in accounting and finance from Indiana University in Bloomington, Indiana

# Randy Bays

## Sensus President



Randy Bays is President of Sensus and is responsible for all areas of the business. Sensus helps public service providers, including utilities, cities, industrial complexes and campuses, respond to evolving business needs with innovation in sensing and communications technologies, data analytics and services. In November 2016, Sensus was acquired by Xylem.

Mr. Bays' background includes a blend of strong executive leadership, operational and international business experience. Prior to joining Sensus, he was President and CEO of Kinetek, a leader in the development of custom engineered control, motor and drive system solutions. During his tenure there, he led the company through significant technology expansion and global growth, while establishing the culture within the organization. Previously, Mr. Bays spent more than 10 years at GE in various leadership, engineering and operational posts.

He received a bachelor's degree in electrical engineering and a master's degree in industrial engineering from Purdue University.

# Dale Harber

## Sensus Executive Vice President – Sales & Marketing



Mr. Harber is the Executive Vice President of Global Marketing and International Programs. He joined Sensus, now a part of Xylem, a leading global water technology company, after working at Kinetek, where he was Vice President of Sales and Marketing. During that time he led the company through significant technology expansion and strong international growth. He brings 30 years of engineering, marketing and sales experience to the Sensus management team, including leadership roles at General Electric, ITT Aerospace and Western Digital. He has a bachelor's degree in mechanical engineering from the Indiana Institute of Technology and an MBA from Indiana University.

# Jayanthi Iyengar

## Xylem – Senior Vice President and Chief Innovation and Technology Officer



Jayanthi (Jay) Iyengar joined Xylem in 2015 and is responsible for leading the Company's global R&D, technology and innovation activities as well as evaluating the technological landscape and accelerating the Company's customer-driven innovation agenda.

Prior to her current role, Ms. Iyengar served as Group Vice President, Engineering and Technology and Chief Technology Officer for the Eaton Corporations' Aerospace Group. Previously, she held a series of increasingly responsible leadership roles over 15 years at Chrysler Group, including Global Director, Electrified Powertrain and Senior Manager and Chief Engineer, Hybrid Development Center.

Ms. Iyengar received a Bachelor's degree in Mechanical Engineering from Mysore University in Karnataka, India, a Master of Science in Mechanical Engineering from Indian Institute of Technology in Mumbai, and a Master of Science in Mechanical Engineering from Wayne State University in Detroit, Michigan. She has also served on the board of the IEEE (Institute of Electrical & Electronics Engineers) Vehicular Technology Society.

# Brian Crow

## Sensus – Vice President, Analytics and Software Solutions



Brian Crow joined Sensus in 2014 with the acquisition of Verdeeco

Mr. Crow was appointed Executive Vice President, Analytic Solutions in 2014 after Sensus' successful acquisition of Verdeeco. In addition he took over global software strategy in February 2017. He has more than 20 years of utility industry experience, most recently as the CEO and previously the COO of Verdeeco. Prior to the most recent role, Mr. Crow held numerous engineering and business development roles with analytics and utility-based companies.

Brian is a licensed professional Engineer in the state of Georgia and holds a B.S. in Engineering from the University of Georgia.

# Anthony Milando

## Senior Vice President of Continuous Process Improvement and Business Transformation



Tony Milando joined Xylem in 2015 and is responsible for driving operational excellence and process simplification across the organization. His key focus areas include building the vision and roadmap for the Company's continuous improvement initiatives, implementing robust tools and measurement methodologies such as Lean and Six Sigma, and leading the Company toward best-in-class status in operations, procurement and supply chain.

Prior to his current role Mr. Milando held several senior executive roles at the Stanley Black & Decker Corporation, including Vice President Corporate Growth and Vice President, Global Operations. Prior to that, he served in a series of increasingly responsible leadership roles in the consumer and industrial businesses for the Black & Decker Corporation prior to its merger with Stanley Works, including Vice President, Worldwide Operations and Vice President, Global Sourcing.

Mr. Milando earned a Bachelor of Science in Accounting and Business Administration from Towson University in Maryland and a Master of Business Administration with a concentration in finance from Loyola University Maryland.

# Mark Rajkowski

## Xylem Senior Vice President & Chief Financial Officer



Mark Rajkowski was named Senior Vice President and Chief Financial Officer of Xylem in March 2016. Reporting to Xylem President and Chief Executive Officer Patrick Decker, he will lead the Company's global finance organization.

Prior to joining Xylem, he served as a strategic advisor to WestRock Company, a global packaging and specialty chemicals company that was formed last year following the merger of MeadWestvaco and RockTenn. He previously served as CFO for MeadWestvaco, a global packaging and specialty chemicals producer, where he led all areas of finance, strategy, corporate development, IT and shared services, and played a key role in executing the company's 2015 merger with RockTenn and the subsequent formation of WestRock.

Earlier in his career, Rajkowski held several senior financial and operating roles for Eastman Kodak Company, including General Manager, Worldwide Operations for the Digital and Film Imaging Systems Group. He began his career at PriceWaterhouseCoopers LLP, where he last served as Managing Partner for the Upstate New York Technology Group and Partner, Audit and Business Advisory Services.

Rajkowski also serves as a member of the board of directors of ACCO Brands, one of the world's largest suppliers of branded school and office products. He earned his Bachelor of Science degree in accounting from Lehigh University in Bethlehem, Pennsylvania

# xylem

## Let's Solve Water

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