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XYL - Q1 2018 Xylem Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 adjusted EPS of $0.51. Expects 2018 revenue to be approx. $5.1-5.2b and adjusted EPS to be $2.82-2.97.

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PRESENTATION

Operator

Welcome to the Xylem First Quarter 2018 Earnings Conference Call. (Operator Instructions)

I would now like to turn the call over to Mr. Matt Latino, Senior Director of Investor Relations.

Matthew Latino - *Xylem Inc. - Director of IR*

Thank you, Crystal, and good morning, everyone, and welcome to Xylem's First Quarter 2018 Earnings Conference Call. With me today are Chief Executive Officer, Patrick Decker; and Chief Financial Officer, Mark Rajkowski. They will provide their perspective on Xylem's first quarter 2018 results and discuss the full year outlook. Following our prepared remarks, we will address questions related to the information covered on the call. (Operator Instructions)

As a reminder, this call and our webcast are accompanied by a slide presentation available in the Investors section of our website at www.xylem.com. A replay of today's call will be available until midnight on June 2. Please note, the replay number is (800) 585-8367 and the confirmation code is 41774098. Additionally, the call will be available for playback via the Investors section of our website under the heading Investor Events.

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 factors described in Xylem's most recent annual report on Form 10-K and in subsequent events -- in subsequent reports filed with the SEC. Please note that the company undertakes no obligation to update any forward-looking statements publicly to reflect subsequent events or circumstances, and actual events or results could differ materially from those anticipated.

Please turn to Slide 3. We have provided you with a summary of our key performance metrics, including both GAAP and non-GAAP metrics. For purposes of today's call, all references will be on an adjusted basis, unless otherwise indicated, and non-GAAP financials have been reconciled for you and are included in the Appendix section of the presentation.

Now please turn to Slide 4, and I will turn the call over to our CEO, Patrick Decker.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Thanks, Matt, and good morning, everyone. Thanks for joining us today to discuss our first quarter results.

We had a strong start to 2018. And with a solid game plan in hand, our teams were focused in their execution and delivered strong results, going across all end markets and in nearly every geography. The momentum we began to build in the second half of last year strengthened in the first quarter and is continuing as we uncover new opportunities and healthy end markets.

As we look at our first quarter results, nearly every metric met or exceeded our expectations. So let me quickly review a few of the details.

In the first quarter, we delivered solid broad-based orders and revenue growth across all of our major markets. Orders increased 10% in the first quarter, the second consecutive quarter of double-digit orders growth. This was driven by a strong performance in our Water Infrastructure businesses, where treatment orders were up 27%. Many of those projects have longer lead times, so these orders will not ship until 2019.

In addition, we had very strong orders growth in the emerging markets, up more than 20% year-over-year. This reflects solid growth overall as well as a few large project orders that pushed that growth significantly higher. We also secured healthy order growth in our North American Sensus water business.

For the quarter, revenue grew 7% organically. From a regional perspective, the U.S. market generated strong growth with a 9% increase year-over-year. This reflects continued strength in utilities where we are capturing share gains as well as improved performance in industrials and the timing of certain projects in the quarter.

Emerging markets continue to deliver solid revenue growth, up 6% overall. Our investments in product localization and capacity are beginning to pay off in a significant way. The standouts once again were China and India. Both markets saw strong double-digit revenue growth, and they continue to benefit from increased government spending on infrastructure as well as growing regulatory requirements.

In India, among the infrastructure projects, we had a very healthy bidding pipeline on larger-scale treatment projects as well as growing analytics opportunities.

Growth across our key end markets was also broad based and solid. The utilities end market show continued strength across all regions. The double-digit growth we delivered in the Sensus electric and gas business was driven by some large project deployments in North America.

We were also encouraged by the continued improvement in the industrials end market, which grew 6% for the quarter. This reflects ongoing strengthening in both the heavy industrials, like oil and gas and mining as well as the light general industrial applications.

Finally, I want to mention ongoing progress we're making in identifying and realizing revenue synergies across our Sensus, Visenti and legacy Xylem businesses. We are encouraged by the progress of the pilots we have underway as well as the large deals that our teams are working. As I explained in our Investor Day last year, these major deals take longer to close, but given the current progress, we expect those efforts to manifest with orders later this year in revenue in 2019 and beyond.

In addition, our ongoing day-to-day collaboration across the businesses is increasingly creating new opportunities. While many of those wins are relatively small and therefore not highlighted, we also have visibility to deals and opportunities that have more meaningful scale, and I'm confident that we'll be able to announce some of these in the months ahead. This progress increases our enthusiasm for the commercial value created by the combination of these businesses.

During the quarter, our teams also focused on managing costs and driving productivity as we like many others see some signs of growing inflation on the horizon. In addition, we're managing some near-term mix headwinds as treatment project deliveries increase and certain project businesses in emerging market grows.

As a reminder, that work, which is largely for greenfield infrastructure installations, generally have modestly lower margins relative to the rest of our portfolio initially but carries higher margins with the aftermarket and replacement cycle.

One tactic for mitigating these issues is to continue to deliver continuous improvement savings. In the first quarter, we generated $36 million in cost savings, a 9% increase year-over-year, which have us on pace to meet our full year targets.

In addition, we've already announced some pricing actions to help offset these pressures. We saw very modest impact in those actions in the first quarter due to timing but expect to see more impact materialize over the coming quarters. And given the health of our end markets and the mission-critical nature of many of the businesses we serve, we are confident in the industry's ability and the willingness to absorb price in this environment.

We ended the quarter with adjusted EBITDA of 17.5%, an increase of 130 basis points year-over-year. This reflects volume leverage and the savings I just spoke about. Our operating margin for the quarter was 11.1%, up 60 basis points. Excluding the 40 basis point dilution from purchase accounting amortization, operating margins expanded 100 basis points. We delivered adjusted earnings per share of $0.51 for the quarter, an increase of 31% year-over-year.

We continue to improve our working capital management, which Mark will address shortly, and are on track for another year of strong cash generation to achieve our full year target of at least 115% conversion.

So all in, a very strong quarter. And I want to acknowledge the terrific efforts by all of our teams around the world who remain focused on deepening our customer relationships and developing the solutions that will address their challenges.

We have a lot of activity in the company right now as we continue to integrate new businesses and expand our portfolio. I've been very pleased with the increased collaborations occurring and just plain excitement about working together to create new opportunities and bring a broader set of solutions to our customers. This internally-driven momentum is fueling our success in the marketplace and over time, will enable us to create even more value for our shareholders.

Before I hand it over to Mark, I want to make a few comments on our most recent acquisitions and the formation of our advanced infrastructure analytics platform, which we refer to as our AIA platform. So let me start by revisiting why we brought these businesses together.

I spend a good deal of time out visiting with customers, listening to what their challenges are and better understanding the obstacles they face in trying to address them. While there are many, 3 large categories rise at the top: nonrevenue water, strong water management and the management of aging or overstressed infrastructure.

Now these are not new problems, but the need to address them is becoming acute, driven in part by regulatory edicts. That demand has coincided with that quantum leap in the generation of data and more importantly, the capability to analyze and draw insights from that data. Add to that the extraordinary advances in technology, which we're already leveraging in our legacy businesses, and this enables the development of applications that simply weren't possible a decade ago.

Now we all hear these huge numbers thrown around about the cost to meet the water infrastructure repair and replacement needs. These capital outlays put enormous pressure on cities and communities. But the new technology-enabled solutions that we're now bringing to the market can fundamentally change how a utility operator approaches those challenges, utilizing new data insights and tools to inform their decision-making in ways that can significantly reduce those costs and simply help make water more affordable.

So this is the backdrop against which we formed our new AIA platform. We've now brought together a collection of businesses with the capabilities to address these issues. The platform includes Pure Technologies, EmNet, Visenti, HYPACK, and we added one more in February, Valor Water Analytics. Valor brings another unique software-enabled solution to help utilities optimize their revenue potential. Each of these businesses is unique and has its own value proposition.

Clearly, the challenges our customers face manifest differently and require a solution that can be adapted to their distinct circumstances. With a portfolio of capabilities and technologies, we can best address these issues, and we're still building out this platform. We expect to add other capabilities to the platform through acquisitions that further expand our ability to help customers solve their challenges.

The platform is being led by Al Cho, who many of you have either met or had the opportunity to hear in industry events somewhere around the world. He brings the unique understanding of how technology can be applied in the water sector in disruptive ways that add value to our customers' operations. And as I mentioned at our last call, Jack Elliott, the former CEO of Pure, has agreed to stay on as an adviser to help us scale the new platform effectively.

It's early days in this process, but we're very encouraged by the response we received from customers. Our commercial teams who already have deep relationships with utility customers are opening up new opportunities for this portfolio. And working together across Xylem, our teams are having a different kind of conversation with the customer.

It's no longer just about a project or a new product. Now it's about how our portfolio, both our legacy businesses and the new platform, can help that customer deal with some of their toughest pain points differently, which ultimately can change the economics of their operations, increase the affordability of water and contribute to the sustainability of our communities.

We are, in effect, creating a new market with our unique set of capabilities. And while this will take time to develop, the opportunity is enormous. And our early experience gives us tremendous confidence in its long-term growth prospects.

In fact, we expect this relatively small platform to outpace the growth of our other businesses by at least 2x. So we look forward to sharing our progress in this exciting growth area over the months and years to come.

So now please turn to Slide 5, and I'll hand it over to Mark to review the quarter results in more detail.

E. Mark Rajkowski *- Xylem Inc. - Senior VP & CFO*

Thanks, Patrick. I'm very pleased with our strong start to the year.

Overall, revenues were up 14% in the quarter. This represents 7% organic growth, 4 points of growth from foreign exchange tailwind and 3 points of growth from acquisitions.

From an organic perspective, the strength in revenue was broad-based across all of our end markets in most geographies. Utilities end market led the way with 8% growth. This was above our expectations and was driven both by the timing of project deliveries and very strong performance in North America and emerging markets.

Most of the growth in emerging markets was from the outstanding performance from our China and India teams, which grew revenue by more than 40% and 30%, respectively, due in part to heightened regulatory focus and growing opportunities across all of our businesses that serve utilities.

Industrial revenue was also up nicely this quarter with 6% growth, which was at the higher end of our expectations. Market conditions remain healthy in our Applied Water business as well as dewatering. Here, the strength was primarily in the U.S., Canada and Western Europe. Rounding out the end markets, we continue to see solid performance in our commercial and residential end markets, which were up 6% and 4%, respectively.

Moving to operational performance. We increased our adjusted EBITDA by 130 basis points to 17.5% in the quarter. This improvement was primarily driven by increased productivity savings and volume leverage from strong organic growth, which was partially offset by cost inflation, unfavorable mix and foreign exchange impacts.

Adjusting operating margin -- adjusted operating margin increased 60 basis points to 11.1%, which includes 40 basis points of noncash amortization related to purchase accounting for the acquisitions in our new AIA platform.

Our teams continue to perform well, executing on our productivity programs where we delivered $36 million in cost savings in the quarter, a 9% increase from the prior year. This 300 basis point improvement offset inflation and enabled us to continue to fund strategic investments for growth.

Partially offsetting these investments was weaker mix from lower-margin treatment projects and foreign exchange impacts. Strong revenue performance drove earnings per share of $0.51, an increase of 31% year-over-year and at the high end of our expectations.

Please turn to Slide 6, and I'll provide additional details on our segment performance. I'll start with our Water Infrastructure segment, which recorded orders of $554 million in the quarter, up 13% organically year-over-year. This reflects growth in all applications within the segment. Treatment orders led the way, up 27%. This performance builds on the improving trajectory we have in our pipeline and the overall health of the utility market.

As Patrick mentioned, the majority of the treatment orders are for projects, which require longer lead times and will not ship until 2019. That said, we exited the quarter with total backlog for this segment of $673 million, up 18% organically year-over-year.

Water Infrastructure revenue of $480 million represents a 9% year-over-year increase on an organic basis. Foreign exchange was a $25 million tailwind. In the U.S., the segment grew 12%, reflecting double-digit growth in both the utility and industrial end markets.

On the utility side, we're continuing to see strong market performance across all of our businesses. Treatment benefited from the timing of several project deliveries and transport continued to generate strong growth and aftermarket sales and achieve modest share gains. Dewatering also generated mid-single-digit growth in this vertical.

The strong growth in our U.S. industrial end market was primarily driven by higher rentals for construction activity as well as double-digit growth in the oil and gas and mining markets of our dewatering business.

Outside the U.S., performance in the segment was also very good. Emerging markets were up 10%, and this included double-digit growth in our 3 focus regions: China, India and the Middle East. Government mandates and spending in China and India have driven significant activity in both transport and treatment.

Additionally, the focus of our commercial teams in driving locally engineered, sourced and manufactured products from across the Xylem portfolio has continued to gain traction and is delivering impressive results. The Middle East growth came from project deliveries in both transport and treatment.

We saw modestly improving market conditions in Western Europe, where our business grew 5% overall, primarily driven by solid growth in Germany, the Netherlands and Italy from treatment project execution and solid aftermarket sales within transport.

Operating margin for the segment increased 60 basis points to 11.3%, driven by cost savings from productivity programs and higher volumes. This more than offset inflation, foreign exchange and unfavorable mix from a higher portion of treatment project revenue this year versus last year.

Foreign exchange was a net 80 basis point headwind to margins. This reflects the fact that our transport business primarily manufactures in Europe, so a substantial year-over-year increase in European currencies against the dollar has resulted in higher costs of products exported from Europe for sale into the U.S. We expect this year-over-year impact will moderate in the second half of the year based on our current FX assumptions.

Please turn to Slide 7. Our Applied Water segment booked orders of $384 million in the quarter, which was up 6% organically. Our book-to-bill ratio was 1.05 in the quarter, which is in line with our historical performance. We exited the quarter with backlog of $217 million, which is up 20% organically compared to last year. While this is still predominantly a short-cycle business, the growth of our backlog gives us confidence in our ability to deliver mid-single-digit organic growth for the second quarter.

Revenue for Applied Water was $366 million, up 7% organically versus the prior year quarter. Foreign exchange was a $14 million tailwind. In Western Europe, revenue increased 10% with growth across all applications. Industrial performance was particularly strong with customers in Germany, France and the U.K., where we continue to benefit from our investments in building out both our sales capabilities and channel partners. Western Europe also drove most of the growth in residential for the segment through promotional activity resulting in some modest share gains.

In the U.S., segment revenue was up 5%. This increase was primarily driven by the segment's industrial vertical, which grew 10% as heavy industrial project demand continued to recover. We also benefited from the delivery of several fire pump and turbine projects.

Commercial was up mid-single digits from strong distributor restocking of heating and circulator pumps, and residential was down mid-single digits as we lap the mid-teens growth in the prior year. Emerging markets revenue grew 6%, reflecting strong growth in Asia, primarily driven by the improvement in the commercial building market in China.

Segment operating margin in the quarter increased 100 basis points to 14.5% year-over-year. Continued progress on our productivity programs drove a 340 basis point margin improvement, which more than offset 230 basis points of cost inflation and unfavorable mix.

Now let's turn to Slide 8 to discuss the performance of Measurement & Control Solutions. Our Measurement & Control Solutions segment booked orders of $382 million in the quarter, which was up 12% organically. Revenue for Measurement & Control Solutions was $371 million, up 5% on an organic basis year-over-year. Foreign exchange was a $15 million tailwind, and acquisitions added $20 million.

In the U.S., revenue increased 10%, with growth primarily attributable to the deployment of large electric and gas projects, specifically the Alliant deal we announced last year and the Nicor Gas deal that we announced earlier this year.

Services were up double digits as well due to networking contract upgrades made with existing customers in late 2017. Water was down low-single digits, primarily due to the timing of shipments. It is worth noting that our orders in North America water were up double digits versus last year, and we expect to deliver mid-single-digit growth for the full year.

Our Western Europe and emerging markets businesses were down mid-single digits due to timing of project deployments in the prior year. As a reminder, the rollout of large project deployments in the Sensus business can create some lumpiness in quarterly growth rates. We look at the business over the course of the full year, and we continue to expect growth in the high single-digit range.

Organic revenue in our new AIA platform grew 8% year-over-year on a pro forma basis and in line with our expectations. We're very encouraged with the significant momentum we're seeing in orders and pipeline growth.

Adjusted EBITDA margins increased 270 basis points to 21.8%. This margin expansion was driven by productivity improvements, volume and price, which were partially offset by inflation and the funding of strategic investments.

Adjusted segment operating margin in the quarter increased 90 basis points to 11.6% year-over-year. Our performance here was also impacted by the noncash impact of incremental purchase accounting amortization from the new AIA platform. Excluding these noncash items, operating margins expanded by 220 basis points.

Now let's turn to Slide 9 to discuss cash flows and the company's financial position. We closed the quarter with a cash balance of approximately $300 million. As you may recall, the first quarter is our seasonally weakest period for cash flow. We continue to expect to deliver our full year target of more than 115% free cash flow conversion. The year-over-year decline in first quarter cash flow reflects the timing of capital spend as operating cash flows increased 20% over the prior year quarter.

We had an unusually high level of investment in the quarter, including the strategic investment in purchasing a previously leased manufacturing facility as well as accelerated investment in rental fleet for our dewatering business to meet growing market demand.

We also returned $38 million to our shareholders through dividends and repurchased $25 million of shares to offset dilution. In February, we announced a 17% increase to our dividend payout, our sixth consecutive annual increase.

We continue to make solid progress on working capital, reducing it by 220 basis points as we continue to improve our processes and discipline. While there's still much to do, I'm very pleased with the focus and rigor the team is bringing to this key metric.

We remain committed to maintaining our investment-grade credit rating and plan to repay the short-term debt we used to fund the Pure acquisition by the end of this year.

Please turn to Slide 10, and Patrick will cover the update to our 2018 outlook.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Thanks, Mark. As we discussed this morning, we had a strong first quarter and we have solid momentum moving forward. We're well positioned to deliver on our full year commitments while continuing to invest in our longer-term growth initiatives.

At the top line, we continue to expect to deliver full year revenue of approximately $5.1 billion to $5.2 billion. This continues to represent an organic growth rate of 4% to 6%. And as we previously stated, we expect our new AIA platform to add about 2% to our total revenue.

Our continuous improvement efforts continue and are forecast to generate about $160 million in cost savings for the full year. This result will keep us all well on pace to meet our long-term target. These savings are expected to help fuel our operating margin expansion.

Our adjusted operating margin is forecast to expand 60 to 100 basis points to between 13.9% and 14.3%. This expansion excludes about 30 basis points of margin dilution from purchase accounting for acquisitions.

Adjusted EBITDA is expected to improve by 70 to 100 basis points, which will bring that to a range of 19.5% to 19.8%. At the bottom line, we continue to expect to generate adjusted full year earnings per share in the range of $2.82 to $2.97. This excludes integration, restructuring and realignment costs of about $35 million.

Adjusted EPS growth is projected to be in the range of 18% to 24% for the year. And as Mark discussed, we expect to continue to generate solid cash from operations, which will enable us to deliver free cash flow conversion of at least 115% in 2018. Anticipated capital expenditures are $190 million to $200 million.

Now please turn to Slide 11, and I'll walk you through our end market assumptions. Overall, our end market view for the full year has not changed materially from the guidance we provided on our last earnings call. While we did have a strong first quarter in certain end markets, we do expect that to moderate somewhat as we get into the second half of the year when we'll lap some tougher year-over-year comparisons.

So let me quickly walk through our projections. Our utility end market is one in which we've seen continued strength, particularly in the U.S. and key emerging markets. For full year 2018, we continue to expect revenue to grow in the mid-single-digit range overall, and the smart meter market is projected to generate slightly higher growth, likely in the high single-digit range.

We had a good first quarter in the industrial end market. Looking out for the full year, we expect a somewhat mixed environment, particularly in the emerging markets. There, we expect markets such as China and India to continue to benefit from governmental spending, but that will likely be somewhat offset by softness in parts of Latin America. We continue to project industrials to be up low to mid-single digits.

We expect 2018 organic growth in the commercial end market to be in the low to mid-single digit range. We see low but stable growth in the U.S. and some moderation from recent strength in Europe. Emerging markets should continue to enjoy solid growth due in part to increased government spending.

And finally, in residential, we anticipate full year 2018 revenue growth in the mid-single-digit range. We continue to see competitive dynamics in the U.S. market where demand tends to be replacement driven and we have some tough prior year compares. But we also anticipate solid demand to continue in China and other Asia Pacific countries as well as Western Europe.

Now please turn to Slide 12, and Mark will walk you through more details on the outlook.

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Consistent with what we disclosed last quarter, we're providing the seasonal profile of our business as well as highlights of our 2018 planning assumptions.

For the second quarter, we expect sustained growth in the utility market in the mid- to high single-digit range. We expect industrial markets to moderate sequentially and return to low single-digit growth. We expect the commercial and residential markets to both continue to grow in the low to mid-single digits. All in, we anticipate this will result in organic revenue growth in the range of 5% to 6%. We expect the contribution from the AIA platform to be about $30 million.

We expect second quarter operating margins to be up 50 to 80 basis points. This includes a 30 basis point negative impact due to purchase accounting for our recent AIA acquisitions.

Our outlook also reflects an uptick in direct material costs from increasing global demand for certain materials and electronic components. Our procurement and operational teams have done a great job securing adequate supply, and we expect they will continue to do so, but it is impacting costs.

To address the impact of rising material costs, our commercial teams are in the market with price actions. We expect to see some realization in the second quarter and higher price realization in the back half of the year.

Finally, please note the summary of our FX assumptions on this slide, which includes our euro guidance assumption, which remains at $1.21. In the second quarter, we expect year-over-year operating margins to be impacted by FX transaction headwinds similar to the first quarter and predominantly in our Water Infrastructure segment. We expect the year-over-year impact in the second half of the year will be minimal based on current FX rates.

With that, I'll now turn the call back over to Patrick for some closing comments.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Thanks, Mark. Again, we had a strong first quarter, and momentum is continuing, both in the end markets we serve and within our teams across the company. But it's only the first of 4 quarters and we take nothing for granted. We will remain vigilant in our execution and remain focused on best serving our customers. At the same time, we will continue to invest in our strategic initiatives to fuel our longer-term growth to drive greater value for our shareholders.

With that, operator, we'd be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Nathan Jones of Stifel.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

So unsurprisingly, I'm going to start on margins here. And I wanted to look at your full year guidance for margins because you actually, x purchase accounting, increased the margin expansion guidance by 10 basis points. You've got headwinds from mix, you've got headwinds from inflation, you've got headwinds from the stronger dollar, yet you've actually taken the guidance for core margins here up by 10 basis points for the year. Can you talk about how you get to a better number than you did before with certainly some increasing headwinds to margins here?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, I'll go first here, Nate. And I think the -- our read through on margins both in the quarter, which came in a little bit light because of mix of treatment. That subsides in the second half of the year, as does the impact of the FX transaction effect coming out of the year, that subsides in the second half of the year. And I think the fact that we're getting ahead of the emerging inflationary pressures that we're seeing on some of the components and others with price early in the year, we went out earlier this year with price increases in addition to what we'd already announced so we could get ahead of this. And so when you rack all that up together, that's what gives us the confidence around the margin expansion for the full year. So not concerned at all about margins.

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, and the guidance is essentially the same. The purchase accounting, the amortization ticked up 10 basis points. That might be what you're thinking about if you exclude that impact. But it's essentially the same.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Yes, it's the same, including that extra 10 basis points. But without the amortization, it actually went up 10 basis points. So there must be the anticipation of some pretty meaningful price realization in the back half of the year here, correct?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, that's right. We saw a little bit in Q1. We'll expect to see a bit more in Q2, and then we'll see the full effect of that in Q3 and Q4.

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

And we continue to ramp up productivity and cost savings as well. So we're very -- we've got good confidence in our ability to deliver those full year margin targets, Nate.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Okay. And then on the first quarter, you're about 30 basis points below what you forecast for the first quarter. Can you maybe break down the impact of what mix was? I mean, you obviously had a strong treatment shipment quarter. Can you break that down maybe between the mix impact, for the inflation impact?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. Really, I mean, the biggest piece of this, and Mark can go through the details, I mean, if there was one takeaway from the quarter, if you think about the higher revenue that we delivered above and beyond what we had guided to, that really was predominantly coming from some large treatment in emerging market, project deliveries that accelerated in the quarter from Q2. Those came with lower margin because they're greenfield, they have great aftermarket profiles. But in initial install, they're their lower margin, and that impacted us alone by about 70 bps in Q1. And so that gives you a feel of the magnitude of what we're talking about. That begins to subside. We have a little bit more of that in Q2, but we've got it reflected in our guide, and it really subsides in second half of the year.

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, I think -- I'd say, I guess, that comes in -- yes, that comes under the heading of no good deed goes unpunished, even though we got exactly what we're looking for in terms of growing our position in those end markets and as Patrick said, the project margin's a little bit lower, we're going to like the aftermarket margin a lot. The -- but the impact, that was probably 30, 40 basis points more because of that mix. In terms of the margin impact, inflation was -- ran a little bit hotter than we thought. But obviously, we got some nice benefit from volume leverage, which offset a lot of that. And also, we performed better than -- a little better than we were expecting on our productivity as well.

Nathan Hardie Jones - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

I get the project work has to see the aftermarket for the future, and that will drag into the quarter. So I think that's helpful color.

Operator

Our next question comes from the line of Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

I'd just like to stay on the topic of the emerging markets and these greenfield projects. Just a follow-on, what's your line of sight for additional infrastructure needs across the emerging markets? I mean, you don't see it in developed markets. We're not building new plants, but what inning are we for emerging markets and infrastructure build-out on the municipal side over the next couple of years?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. So Deane, I think the -- it's hard to predict exactly what inning we're in, but I would say it's the early innings based on what I've seen when I've been traveling there and we take a look at our bidding pipeline, particularly, I would say, in India. And certainly, I think the only thing that could ever change that trajectory would be if there was a change in political administration and we're not getting in reason to believe that's going to happen. So that's going to have a long tail to it because it's really being driven by the Smart Cities initiative as well as the Ganges River cleanup and as well as the -- connecting their population to treatment -- in treated water across the country. So we've got a very significant pipeline there. The same in China, we continue to see, especially in the second and third tier cities, tremendous investments in water treatment there. We wouldn't be expecting those to be 30%, 40% on a regular basis. I mean, we're guiding there through our long-range plan of certainly low double digit for those businesses. The Middle East, I think, is still very early in its recovery coming out of the energy downturn. And so we've seen that begin to recover quite nicely. That one in my mind is probably a little bit more predictable -- a little bit less predictable than China and India would be. And I just got back from South America. I spent a week there 2 weeks ago and was very encouraged by what I see, especially in Argentina, Chile, Colombia, maybe less so at Brazil. So I think we're in the early innings here, Deane, in terms of continued run for emerging markets.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Got it. And just one last point on these projects. What's the content, the Xylem content? How broadly are they taking your different products and services in these projects?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, it has broad -- I mean, it depends obviously on what the application is. But generally speaking, you're talking about projects that we're able to cross-sell. The team has done a great job there of getting in, for example, maybe on an ozone job and then being able to pull through our Flygt pumps, pulling through analytics on the water quality side, just to give you kind of one example. But we also -- that's one of the areas where we're seeing some of the best early activity on pilots for some of our new Sensus revenue synergies as well.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Great. And then I'd like to ask a few questions regarding the advanced infrastructure analytics, the new subsector platform. What are the growth expectations here? It -- this really feels like a tech incubation holding co for you. A lot of these are still in pilot programs in terms of different projects, you might even be pre-revenue. But just help us calibrate what the growth expectations over the next couple of years should be from this platform.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, I think it's -- what I would kind of reply would be my -- the comments I had in my script initial, and that was we're really making a new market here, Deane, as you can appreciate. You probably of anybody understands that the most in terms of we're kind of really addressing new unmet needs and sorting through what is the best way to optimize the revenue generation out of this given the significant disruption possibly. It's going to be having -- it's already adding to large CapEx spend. But certainly, the businesses, as we see them today, we would expect these businesses to be growing double digit consistently. And that's just with the business that we have today. I mean, it's small part of our portfolio. You're right, it's an incubator. We're doing probably about $120 million right now in revenue, but we're going to see that grow exponentially, and we're going to be adding to it in terms of new acquisitions.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

And I'm sorry, I just got one other one. We heard some rumblings that -- regarding the combined overflow that the EPA is like backing off on some of the enforcements and maybe this will result in some delays in orders. Are you seeing any of that showing up in like EmNet's business?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, I -- it's -- when you ask that question, Deane. I haven't been out with a number of these customers, whether it be the utilities or whether it be the works department because, in many cases, as you know, it's not always the same entity in any given city that manages this issue. But the conversations I had, they were not seeing the EPA alleviating pressure. They may not be getting fined right now in the immediate term, but the consent decrees still hold. And one of the opportunities that we have here is obviously EmNet connected service, one solution to helping significantly reduce what that capital burden would be and working with the EPA to actually allow that technology to be used as an alternative. Regulatory is also only one driver in this area. As I know you fully appreciate, it's also the public nuisance that utilities and works department have to deal with when there is a storm water overflow situation. So it is one of the biggest headaches that works departments have across the country. So our customers see this as a long-term issue, and I'm very confident that their needs are going to persist beyond one potential administrative change in policy.

Operator

Our next question comes from the line of Ryan Connors with Boenning and Scattergood.

Ryan Michael Connors - *Boenning and Scattergood, Inc., Research Division - MD & Senior Analyst of Water and Environment*

I want to talk about the project delays on the metering side that you talked about. And certainly, you're not alone there. Your peers have made similar comments. But at the same time, you're seeing the strength in treatment, which in theory is also a project-oriented business. So my question is, what is it about metering projects specifically that's different, that's leading to the delays there? And what's different about treatment where we're not seeing delays on those types of projects?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. Actually, I would say our issue was less of a project delay as much as it was just timing of project. I mean, our orders were up 10%, and that was coming from project orders coming in. We had a little bit of softness in the quarter. Some -- a little bit of that was weather. That certainly has some impact for them. You might say, "Well, why doesn't it have an impact on treatment?" But it just depends on what utility you're dealing with, what location it is. I wouldn't read too much into that. We still feel very confident about looking at a mid- to high single-digit growth in our water utility business for the full year. I don't know, Mark, if you want to...

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes. I mean, it's timing of deployment of existing projects. I don't -- we don't really -- the pipeline is very good. The order rates, we had 12% order growth in our water business in North America for Sensus. So I -- this is more of a quarterly phenomenon than it is anything that's long term.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. If you go back to the fourth quarter of last year, we had double-digit growth in that part of the business in terms of orders growth. So it really is -- it can be lumpy in terms of deployment for the quarter. It's not -- this is not a long-term trend that I'd be concerned about.

Ryan Michael Connors - *Boenning and Scattergood, Inc., Research Division - MD & Senior Analyst of Water and Environment*

Got it, okay. And then my other question had to do with, Patrick, you talked about a willingness on the part of customers in the utility space to accept price increases. And yet, if you look at their situation, those customers are actually having a harder time getting price themselves. We've seen tariff inflation recede, and it's now kind of -- they're barely running above CPI. So can you just talk about -- give us your take on that and why we're confident that we can push price when the customer base there is maybe not able to pass that through themselves as well as they have historically.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. I think firstly, part of that is just the, again, the critical nature. These are mission-critical applications. And so obviously, we want to be respectfully -- so we're not going to gouge them on price, but it's also more of the utility. We're talking about each one of our end markets here. So you also need to bring in the industrial part of the equation to this as well. When we go back and look at previous periods of time where we were in an inflationary period, back then, you're talking about kind of the 2011, 2012 time frame. We were realizing quite significant price at that point in time, well above what you've heard us talk about here in the last couple of years. And it was because there was an understanding that it is an inflationary environment. Secondly, what we're finding, especially in the pockets of business where we've been most successful to get price here most recently, it is where we brought much more innovative solutions to bear. So when we've embedded more intelligence and whether it be energy efficiency, whether it be cost of use, it's part of a broader value proposition here rather than just an across-the-board take a list price increase.

Ryan Michael Connors - *Boenning and Scattergood, Inc., Research Division - MD & Senior Analyst of Water and Environment*

Got it, okay. So now if I can paraphrase that, you think you can kind of take wallet share, so to speak?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

That's correct. And you take a look at the size of our installed base and the replacement nature of that. There's opportunity there that we're seeing on the repair and replacement side of the business to take some price.

Operator

The next question comes from Walter Liptak with Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Wanted to ask about the oil and gas business and if you could just refresh us now how big a percentage of revenue is that. And then the comments about dewatering, what inning are we there? Are you able to get pricing on the dewatering-related products?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes. Sure, Walt. We're -- it's about -- the scale is about 2% of our enterprise revenues. Dewatering had a very solid quarter. And just looking at oil and gas, they were up strong double digits. And in fact, I had remarked in earlier comments about accelerating some capital investment to build out our rental fleet to meet market demand. So it's relatively small in the overall scheme of things, but it is growing nicely, and we're investing to make sure we can meet market demand.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. All in -- to be clear, Walt, all in, our oil and gas and mining exposure booked together, roughly about 5% with mining in. But that's not the only piece of our dewatering business just to make sure that we don't confuse anyone there. I mean, dewatering is larger than that. It plays into also the other industrial markets, muni. And certainly, what's been driving growth in that business also was during the middle of the downturn, that team did a good job of diversifying beyond oil and gas and mining. Now we're getting the benefit of oil and gas and mining coming back. That's putting some pressure on our rental fleet. And there, we're making the capital investments to support it.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay, good. And on the pricing side there, I mean, you're probably -- it's probably a little bit easier getting price in this part of...

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, we had a little bit -- I'd say we had a little bit of a lag recovery. We began to see growth in order rates in oil and gas and mining second half of last year. We did not see the pricing realization early on. But now the market is absorbing that price as again, obviously, I think ours and our competitors' fleets are tightening in terms of utilization.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. All right, great. And if I could just do one more. You mentioned the Flygt business and the currency issue. I wondered about anything that you could do to mitigate that. Is there a way of manufacturing in a different location? Or if there isn't anything, is there demand disruption that happens because of the foreign currency at higher prices?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, there's a couple of things that we can do and are doing. One is we do hedge the cash flow impact of that. But as currencies continue to rise, it's not 100% coverage. So that is one thing. And with the rapid rise in euro-based currencies, that's -- we saw the impact of that. The other thing that we can do and are doing is make sure that in the markets where those products are coming into, we again go after price to offset some of that higher cost. So -- and the teams are out there, as we mentioned in our comments, taking price actions to address some of the uptick in cost inflation.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

But the good news for us, Walt, is that, at least in that part of the business, which is really the business that is most exposed to euro-based manufacturing, pretty much all of our competitors are as well. And so it does not create a market share challenge or a competitive dynamic. And so we tend to take a longer view here in terms of what we want to do strategically. We are and have been shifting some capacity to the U.S. That was just really to support the U.S. market growth anyway. It wasn't really being driven by currency movement.

Operator

Our next question comes from the line of Chip Moore with Canaccord.

Chip Moore - *Canaccord Genuity Limited, Research Division - Senior Associate*

Wonder maybe if you could provide a bit of an update on where we stand in terms of localization in emerging markets, potential for some more investments there, how you think about the benefits.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Sure. Yes, so our -- I think we're pretty well progressed on the localization efforts in China, India and the Middle East. I would say we're furthest in China. There, today, we do about 90 -- north of 90% of our revenue in the market actually comes from products that are localized, and we're obviously looking to get that as close to 100% as possible. That -- secondly is India, and I would say, India is just behind that at roughly about 80% localized, and we would expect that to continue to grow. Middle East, we have a local factory there. We had a greenfield that we opened up about 2 years ago. And I'd say, there, we're still moving things into that facility. And also, we're ramping up the actual design locally as opposed to just the manufacturing of it locally. Then I would say, there probably are opportunities as we look forward in a couple of areas. One is I do think we're going to have an opportunity to do some further localization on the metering side, leveraging some of our footprint in those locations as we look to grow those businesses. And then secondly would be in Latin America. Based on my visit down there, there clearly are some opportunities that we're going to be exploring in a couple of key markets. Just got to find the right timing and find the right channels to market to support that.

Operator

Our next question comes from the line of Jim Giannakouros with Oppenheimer.

James Giannakouros - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

A clarification point. That pop in treatment, I mean, you cited broad-based sales growth across Europe and North America, but that pop in orders, that 27%, is that a couple of large orders driving that or broad based as well?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

It's pretty -- I mean, we had a few large projects, but it was pretty broad based. I would say if it's skewed anywhere, it's skewed heavily towards the emerging market, and that was mainly again in China and India. But there was pretty broad-based growth in orders. I mean, we saw good growth in North America as well as in Europe. So yes, it was not a lumpy one-off. I mean, there were some big projects in there, but not a meaningful piece of the 27% we quoted.

James Giannakouros - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

Got it, okay. And then it seems like you're pacing well at least on -- an aggressive plan on it with internal initiatives on the cost side, productivity side. Can you -- I mean, this is more of a question for Mark -- refresh us on the areas that will accelerate into 2019 and '20 to kind of get you to that stated margin goal that you have out there, 17% to 18%?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, Jim, sure. Right now, what we're -- what we have seen and are continuing to see is significant procurement and savings around our continuous improvement Lean Six Sigma programs. What we have launched this year and are ramping up and we'll see some modest benefit at the end of this year but significant benefits into 2019 and '20 is our global business services program where we're looking to standardize our platforms and processes and tools across finance, HR, procurement and IT. So that is all in front of us, and those are substantial programs.

James Giannakouros - *Oppenheimer & Co. Inc., Research Division - Executive Director and Senior Analyst*

And one more, if I may. I recall the aftermarket sales, I mean, just pre-Sensus, pre-Pure, aftermarket was kind of dubbed at that 30%, 35% of Water Infrastructure and Applied Water. Is that still a good number? And can you kind of isolate your aftermarket sales, how much it grew in those 2 segments and what the obvious influence, I would think positive, on margins was?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, I -- listen, I -- it's -- I don't think it shifted that much. I mean, as we're looking at it, it's...

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

It's roughly about 40%. It ebbs and flows from quarter-to-quarter, but it's roughly about 40% all in. And that's if you throw in the impact obviously of the new Measurement & Control Solutions segment.

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, services is pumping that up a little bit.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

And the transport, Jim, the transport aftermarket was up double digits there, so that's where we saw some good health.

Operator

Our next question comes from the line of Joe Giordano with Cowen.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Patrick, can you talk about how, as you've added these platforms and you're having these discussions with these pilots, how has like the selling pitch changed? Like is it more you now doing a lot of this stuff going into big customers and doing like a pitch with the CEO whereas it, maybe a couple of years' ago, it was individual product, people talking to people like at lower levels of the utility?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

It's -- that's a good question, Jim. It's -- let me be clear, this is a team sport, so there's a lot of people and a lot of executives that are having these conversations. But what I would say to your point, the nature of the conversation very much has changed. So a lot of these are me going out with the teams and meeting with the CEOs, the Chief Technology Officer, the CFO, for example, of the utility. But there are many other executives that are off doing these meetings as well. What's most important is the nature of the conversation has evolved. Before, we would be selling in -- this is business before the Sensus acquisition and certainly before the new AIA platform. We would go in and quite frankly, it was more of a courtesy call. We were serving the wastewater side of the market, not very capital intensive other than large treatment plants, and they didn't have any headaches with their product. I'm not saying that (inaudible) but it was not their top of mind issue. They were happy with what they got. Or if they had issues, they would share with me. Now we're having conversations around their large capital plans, which is what gets the CEO's attention and the CFO's attention, and we get to talk about what are their biggest pain points, what are the big headaches for them both from an OpEx and CapEx perspective. And it really is those pain points that I talk about in the opening around nonrevenue water, the age and decay of their infrastructure as well as headaches like storm water overflow, outdoor water, smart watersheds, et cetera. So we leave them -- we try to lead them to a process of discovery to say, depending on what their pain point is, we're pretty confident we have a technology and a solution in the portfolio to then go do a pilot with them. And that's where we're really seeing the inflow of these pilots that I'm referring to, not just on the Sensus side, but really the new AIA platform. So it's early days, Joe. I mean, I think we are evolving. We are learning a lot as we go. But it's a great -- it's a very different and great set of conversations with the customer to really understand what their biggest challenges are.

Joseph Craig Giordano - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

And Mark, if we get another leg higher in cost inflation or if there's something that ramps on tariffs or anything, how much flex do you have on the cost side of things to be able to maybe bring forward some of the savings at a faster rate or flex spend somewhere to kind of keep offsetting inflation with productivity like you've done so far this year?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Well, yes. The -- I think we're going to continue to drive our productivity programs. We're actually -- performed a little bit better than what we had expected and planned in the first quarter, and the teams are doing very well there. But we're -- as inflation ticks up, we need to do a better job in getting price in the marketplace to cover that. So I think that's really what we need to be pushing on.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Joe, we also have flexibility in some of the planned investments in the back half of this year as well as into next year that obviously, we can throttle those as we need to. Obviously, we're not going to cut ourselves short in terms of investing in growth in the business, but we've got some other incremental discretionary investments that we've held back on thus far just until we get a better feel for what the environment is going to be in the second half.

Operator

(Operator Instructions) Our next question comes from the line of Robert Barry with Susquehanna.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Just a couple of follow-ups, I guess, at this point. On the emerging markets, I think in -- China and India are about 25% of the total. That implies, I think, the rest is down like mid-single digits. So just curious what's going on in those other pieces? Are there's some particular pockets of weakness, and what's the outlook for those?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, I'm not exactly sure how you did your math. I would say the...

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes, Middle East is up low single digits. And I would say we had a little bit of softness in Latin America that would have -- and a little bit Eastern Europe, but they're quite small. So maybe all those together, that gets you down maybe around flattish for the rest of the emerging markets. But I think our math would still show us with low single-digit growth in the rest.

Robert D. Barry - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Got it. I'll follow-up with Mark. And just a quick one on just setting the expectations for growth in MCS. I know it's lumpy, but with -- starting at 5%, I think that implies you need to do 8% to 9% in the remaining quarters and it's toughening comps in the back half. So just any level setting there on how we should model that.

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

Yes, I -- on that one, I think there's a bunch of components, right? The first is when you just think about Sensus, which is the biggest piece of that segment. In the first quarter, they grew at 6%, but we do expect that to ramp up in the second quarter and over the back half of the year to high single digits. The -- we've got pretty strong backlogs there. We also -- on the test side, we're a little bit like we're in low single digits and that ramps up as well. So the next 3 quarters are bigger than what we see in the first quarter, so we're confident that we'll get to that higher revenue.

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Yes. So Robert, we had a 16% increase in [shipment] backlog for that kind of whole segment. And we expect high single digits in Q2 through the end of the year, and that's based on some very specific project deployments, things that we've won previously that we announced before, so the Alliant deal, the Nicor deal, those kind of things that are out there. So we've got quite a high level of confidence on hitting those numbers.

Operator

Our next question comes from the line of Scott Graham with BMO Capital Markets.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Would you guys mind just -- I think I'm asking a question that maybe some people are trying to get to. If we look at your Page 5, your mix price, FX, other, that was a minus 80 basis points and in the fourth quarter, it was a plus 30 basis points. So that shift, I know that gap gets reduced in the coming quarters by pricing and the mix things that you've already talked about. But I think it would be really helpful to us if you could tell us specifically what pricing was in each of the 2 legacy segments. Is that possible?

E. Mark Rajkowski - *Xylem Inc. - Senior VP & CFO*

We'll take that offline. What -- I mean, we've, I think, laid out pretty clearly what the -- what that margin delta was year-over-year. The biggest driver was volume, okay? And that was 170, 180 basis points, and we also saw significant improvement from productivity. That was roughly 40 basis points. Then you had -- mix was roughly 70 basis point hit year-over-year. We've talked a lot about that. And obviously, inflation was 220 basis points. So those were the big drivers. The other that we've mentioned briefly was a little bit of a headwind relative to transactional FX. And obviously, we continue to invest in our business as well. So I mean, those are the components. There's -- I don't think there's anything that's changed in terms of the model.

Robert Scott Graham - *BMO Capital Markets Equity Research - Analyst*

Understood. And I just -- a follow-up would be, residential construction spending has been slowing. I mean, it's been such a great market for a long time, a lot of large numbers. Do you think that, that ultimately backs up into utility spending in '19?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

We're not seeing the signs at this point, Scott. I mean, based on all the indicators we see, in our bid pipeline, all the conversations we're having across the utility base. You are correct that over the long term of the cycle, depending upon where that -- it really depends on the pockets around the country that it's happening as to whether or not that resi expansion is impacting the need for greenfield expansion of treatment capabilities, so it really depends on where. We're not seeing it and we're not hearing any indications of that at all, certainly in terms of the bid and quotations coming into us.

Operator

Our next question comes from the line of Brian Lee with Goldman Sachs.

Brian K. Lee - *Goldman Sachs Group Inc., Research Division - VP & Senior Clean Energy Analyst*

I'll just squeeze one in here. I know we're nearing the end of the call. But on analytics in India, I think, Patrick, you made some specific comments around that. Can you speak to China and then maybe some other regions where you're seeing some revenue synergy opportunities? And also maybe speak to the scale of some of these opportunities given the commentary around being larger deals and now maybe being more 2019 versus 2018 impact on the P&L?

Patrick K. Decker - *Xylem Inc. - President, CEO & Director*

Sure. Yes, so we're seeing -- yes, we're seeing -- I would categorize it overall that especially in the emerging markets, I mean, they're -- I'll come back to North America in a moment and Europe. But certainly, in the emerging markets, that's where we're probably seeing the quickest uptake on some of the pilots that we've been talking about because there, you've heard me say before and I don't mean to be kind of facetious about it, but the emerging markets, in many cases, don't have the basic infrastructure in place. And therefore, they're not going to -- they're going to skip investing in dumb infrastructure. They're going to right to smart infrastructure, and they've got the money to pay for these things. And so there are a number of sizable opportunities there that we are very confident about. That's not to say that North America and Europe aren't great opportunities as well. Especially with the AIA platform, we're seeing a lot of uptake there. That's where Pure already had a strong base as well as these other small start-ups that we've brought into the fold. And we're bringing them channels to market that they didn't have before. So I want to hold short of talking about specific size of deals just from a competitive standpoint. And again, we'll have more to share on that as we secure a couple of these and convert from pilot to a larger project.

Operator

This does conclude today's Xylem First Quarter 2018 Earnings Conference Call. Please disconnect your lines at this time, and have a wonderful day.