THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

XYL - Q2 2014 Xylem Inc. Earnings Conference Call

EVENT DATE/TIME: JULY 29, 2014 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Phil De Sousa *Xylem Inc. - IR*

Patrick Decker *Xylem Inc. - President & CEO*

Michael Speetzen *Xylem Inc. - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Scott Davis *Barclays Capital - Analyst*

Deane Dray *Citi Investment Research - Analyst*

Ryan Connors *Janney Montgomery Scott - Analyst*

Mike Halloran *Robert W. Baird & Co. - Analyst*

Matt Summerville *KeyBanc Capital Markets - Analyst*

Joe Giordano *Cowen & Company - Analyst*

Nathan Jones *Stifel Nicolaus - Analyst*

Kevin Maczka *BB&T Capital Markets - Analyst*

Brian Konigsberg *Vertical Research Partners - Analyst*

David Rose *Wedbush Securities - Analyst*

PRESENTATION

Operator

Welcome to the Xylem second-quarter 2014 earnings conference call. (Operator Instructions). I would now like to turn the call over to Phil De Sousa, Vice President of Investor Relations.

Phil De Sousa - *Xylem Inc. - IR*

Thank you, Jackie. Good morning, everyone, and welcome to Xylem's second-quarter 2014 earnings conference call. With me today are Chief Executive Officer Patrick Decker and Chief Financial Officer Michael Speetzen. They will provide their perspective on Xylem's quarterly results and discuss the full-year outlook for 2014.

Following our prepared remarks, we will address questions related to the information covered on the call. At that time, I will ask that you please keep to one question and a follow-up and then return to the queue so we will have enough time to address everyone on the call today. We anticipate that the call will last approximately one hour.

As a reminder, this call and our webcast are accompanied by a slide presentation available on the Investors section of our website at www.xyleminc.com.

A replay of today's call will be available until midnight on August 13. Please note that the replay number is 404-537-3406, and the confirmation code is 66840967.

Additionally the call will be available for playback via the Investors section of our website under the heading Presentations. All references today will be on an adjusted basis unless otherwise indicated, and the non-GAAP financials are reconciled for you in the Appendix section of the presentation.

With that said, please turn to slide 2.

We will make some forward-looking statements on today's call, including references to future events or developments that we anticipate will or may occur in the future. These statements are subject to future risks and uncertainties such as those factors described in Xylem's most annual report on Form 10-K and 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.

Now please turn to slide 3, and I will turn the call over to our CEO, Patrick Decker.

Patrick Decker - *Xylem Inc. - President & CEO*

Thanks, Bill, and thank you all for joining us this morning.

Today we announced our second-quarter 2014 results. In a moment, I'll give you some headline comments and share my perspective. I will then provide an update on our 2014 goals and some additional color on my observations since our last call.

I will then turn it over to Mike to share more details on this quarter's performance before I cover our full-year outlook. So let's get started.

I'm proud of our teams and encouraged with what we achieved this quarter. Despite mixed levels of recovery in our key end-markets, revenue growth was up 4% organically and coupled with the execution of cost savings initiatives drove an operating margin expansion of 220 basis points and a 33% improvement in earnings per share. This marks the fourth consecutive quarter of revenue and earnings growth as well as margin expansion.

Second-quarter orders were just over $1 billion. Now, while the headline organic growth registers 1% in orders, the overall total is a new record, passing the previous mark set during last year's second quarter. As a result, we also exit the quarter with record backlog of just over $800 million, up approximately 8% versus the prior year.

Just a few additional comments. Relative to last year, we have a 5% increase in backlog that is shippable in the second half of this year and a more impressive 18% increase for next year. I'm encouraged by these results, but I also must point out that some of our end-markets remain challenged and are still slow to recover, and our business remains predominately short cycle. All of this adds up to the fact that we still have a lot of work to do to deliver 2014.

Beyond the short cycle business, we are continuing to focus on building our longer cycle backlog. As an example, we recently won a bid for a $9 million water filtration system, which will address the critical water shortage in Sao Paulo, Brazil. This is exciting because it's the largest award we had have ever won in the region, and it's a referential win with an important key account for us.

We believe we will be able to do more to help address the significant water crisis Brazil is facing, and we expect there will be more opportunities in the country for Xylem.

In the Middle East, we had another referential win. A $7 million order to expand and upgrade existing ozone systems at the Tubli wastewater treatment plant in Bahrain. These are just two examples of the opportunities that we think are plentiful in emerging markets. We intend to find and pursue these opportunities and expect that the breadth of our product line, the service proposition we offer, and the skills in support of the Xylem teams will help us to bring in many more of these types of significant project wins.

I'm generally pleased with the performance we are seeing in emerging markets, but I firmly believe the opportunity is greater. During the quarter, I spent two weeks visiting several customers and our facilities and management teams in Asia. I left very encouraged by the prospects of our businesses there.

It's clear to me that there is far more opportunity to grow our business and more opportunity to localize manufacturing and research and development, which will ultimately drive innovation which can support the local markets but can also be leveraged globally. The experience tells me this does not happen overnight. It's a multiyear process, but I am excited by what I see and by what I believe lies ahead for us.

Tonight I leave for South America where I will spend the next week or so meeting with customers and will be assessing and evaluating new opportunities in that region. With that said, let me get back to the quarter.

Second-quarter revenue was just over $1 billion and includes favorable contributions across most regions, including 11% organic growth in emerging markets. Now let me give you some color as to how the quarter progressed. We started with flat year-over-year revenue in April, which was short of our expectations. As a result, the team focused on ensuring we would deliver every scheduled order we had on hand, working hard to reduce delinquent shipments. And as the quarter progressed, we did see some market improvement and also ended up seeing some business shift into the second quarter that we originally expected to deliver in the third quarter. No heroics or big projects to note specifically, but rather strong focus and execution by the teams.

Operating income increased 28% year over year, and operating margin expanded 220 basis points, reflecting strong incremental margin performance and the significant impact of cost reduction actions. We generated free cash flow of $50 million, primarily reflecting higher income and typical seasonality.

Finally, on the capital employment front, we opportunistically repurchased an additional $50 million in common stock, bringing our full-year repurchases up to $200 million and our total return to shareholders up to $147 million, including dividends.

To wrap up the second-quarter results, volume growth and improved operating performance drove earnings per share of $0.48, up 33% over the prior year. And, as you already read this morning, we are raising the lower end of our EPS guidance, reflecting both our first-half performance and our outlook for the second half. We will cover this in more detail on the call.

Now turning to slide 4, before Mike covers off more details in the quarter, I'm going to take a few minutes and talk about how we're doing on the 2014 goals we outlined, as well as some strategic priorities that will ultimately improve our business over the long-term. Our results continue to show we are moving the Company in the right direction. Based on our first-half performance and outlook over the balance of the year, we are on track to deliver our 2014 financial commitments. We expect to achieve nearly $4 billion in revenues. In terms of operating income, we expect margin to improve to the 13% range and expect EPS in the range of $1.90 to $2.00, which would represent 14% to 20% growth. We continue to make progress around integrating our commercial front end, and while we still have much work to do to optimize our structure, I am confident that over the long term this investment will help us accelerate and achieve above market growth.

We also continue to make progress on our portfolio and capital deployment processes. Creating shareholder value requires a balanced and disciplined capital deployment strategy. Earlier this month, we announced the divestiture of our UK-based oil and gas valve business for approximately $30 million. This transaction resulted from a continuous portfolio review process. I think it is well understood that this is a good business, but it was not scalable within our portfolio, and over the long term, it would compete for valuable capital and human resources with other parts of our business that are more aligned with our core strategies. So it made sense to sell the business. And given where we are in the cycle, the timing of this transaction maximizes shareholder value and allows us to invest even more in organic and inorganic growth opportunities that are more attractive and strategic to Xylem.

We continue to focus on optimizing our cost structure. I believe we can realize more benefits and will increase our productivity by developing stronger global strategic sourcing and Lean Six Sigma capabilities. We are working to build a mindset and a culture centered on continuous improvement. This is not just about the opportunity inside the four walls of our factories, but across all aspects of our value chain and business.

But that's easier said than done. It will take considerable time to make this a cornerstone of our business. We are already making progress, beginning with global sourcing. I believe that by centralizing this function we'll be able to move faster and drive more savings. So, as a first step, we've just hired a global strategic sourcing leader whose sole focus will be to optimize the savings we can achieve by leveraging the consolidated global purchasing power of the entire Company.

As I've said, this is a first step. We will also be further centralizing our continuous improvement efforts and leadership to ensure that we have the right people, processes and tools in place to drive productivity to new levels and to help facilitate the change in management programs that are required to accelerate this and make it sustainable.

We need to be consistent and confident in our decisions and focused on our execution. So I'll wrap up with the same message that I delivered to you last quarter. It is not lost on me or any of my team that we faced and continue to face significant challenges, but I am convinced that we are well on our way to overcoming them. I don't expect that road ahead will be entirely smooth, nor should you, but I am excited about the direction we are heading, confident in the future, and very excited to be leading this team.

So with that, let me turn the call over to our CFO, Mike Speetzen, to walk you through the results and the Company's financial position in more detail. Mike?

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

Thanks, Patrick. Please turn to slide 5.

We generated just over $1 billion in revenues, up 5% from the prior year and up 4% on an organic basis. From an end-market perspective, we saw strength in public utility and industrial, partially offset by commercial. The public utility end market was up 7%, driven primarily by continued infrastructure investment in emerging markets. Europe was also up, thanks to a healthy northern region, coupled with a relatively easy prior year comp. The US was flat year over year. Industrial was up 5% with growth across most regions. It's worth reminding everyone that we serve a wide variety of industrial customers and that we supply this market with applications from both of our segments.

As expected, the largest contribution from this segment was attributable to growth in the US and emerging markets. While we are excited to see solid growth posted in our two largest end-markets, we were, however, disappointed with the 3% decline in commercial. The trend here remains the same given our overweight position in the US institutional building market. Here we continue to see pressure as construction and the recovery continue to lag the broader commercial market. I'll cover off more specifics by segment, but generally speaking we saw strong growth from emerging markets, up 11% and modest growth of 3% and 1% in Europe and the US respectively.

Operating income of $125 million was up $27 million or 28% over last year, and operating margins increased 220 basis points to 12.4%. The second quarter's performance was driven by the increase in organic volume and savings from cost reduction initiatives across our businesses. Cost reductions totaled $39 million and including approximately $12 million of restructuring savings with the balance coming from sourcing and Lean initiatives.

Partially offsetting these tailwinds was inflation of approximately 2% and unfavorable price and mix within our water infrastructure segment. Incremental margins were 60%, including the benefit from restructuring on unfavorable foreign exchange. Excluding these items, incremental margins were still strong at roughly 40%.

Solid topline and operational performance, coupled with strong execution against our cost reduction initiatives, resulted in EPS of $0.48, up 33% versus the prior year and slightly better than we originally anticipated. Core operations drove the year-over-year EPS improvement contributing $0.13, driven by organic volume growth combined with execution on productivity and cost management, including restructuring savings of $0.05.

Now let me provide more detail on each of our reporting segments. Please turn to slide 6.

Water infrastructure reported revenue of $636 million, up 7%. We experienced organic growth in all of our applications. Regionally we saw the most significant growth come from emerging markets, which were up 16%. We also posted mid single-digit growth in both Europe and the US. I'd summarize our revenue performance as follows. Transport revenue was up 6% driven by public utility infrastructure investment across most regions and dewatering strength in the US. This was driven by an increase in hydraulic fracturing rental and related services and an increase in general demand for dewatering equipment. Treatment revenue was up 15% due to emerging market strength and timing of project deliveries.

Europe was also up driven by demand for biogas mixers ahead of the expiration of certain German government incentives.

Finally, test was up 5% driven by growth in both the US and Europe.

Operating income of $82 million was up $19 million or 30% over last year, and operating margins increased 230 basis points to 12.9%. Performance was driven by the increase in organic volume and savings from cost reductions which totaled $26 million and included approximately $9 million of restructuring savings with the balance coming from sourcing and Lean initiatives. Partially offsetting these tailwinds was inflation of approximately 2% and an unfavorable price in mix. Mix was a considerable headwind driven by lower dewatering rental for disaster recovery activities like Superstorm Sandy and increased project deliveries in emerging and developed regions.

Finally, I would note that foreign exchange also negatively impacted operating margin by 40 basis points.

Let me now turn to slide 7 and talk to our Applied Water segment.

While revenue was up 2% overall, organically we were down 1%. Regionally we saw growth in emerging markets more than offset low single-digit declines in the US and Europe. I'd summarize our revenue performance as follows. Building service applications declined 2% due to continued weakness in the commercial building market, specifically within the institutional building sector, as I mentioned earlier. Our European residential business declined double digits due to continued market softness in the South. The weakness in Europe was only partially offset by growth in the US residential market, which was against double digit growth last year.

Finally, I would highlight that continued strength in China drove modest emerging market growth against what was also a tough comp last year. Operating margin expanded 100 basis points to 14.4% year over year. We were able to offset volume declines through disciplined cost management and restructuring savings.

Now let's turn to slide 8 where I'll cover the Company's financial position.

Xylem maintains a strong cash position with a balance of $450 million at the end of Q2 with approximately 80% held outside of the US, consistent with our geographic business mix. Our net debt to net capital ratio is a healthy 26%, and our commercial paper and revolving credit facilities remain in place and continue to be unutilized. We remain committed to our balanced capital deployment strategy, which is to maintain and grow the business while enhancing shareholder returns through dividends and share repurchases.

Over the first half of the year, we invested $48 million in capital expenditures, and we returned $147 million to shareholders, which reflects a 10% increase in dividends per share and $100 million under our share repurchase program. Over the first six months of the year, we generated $50 million of free cash flow. This reflects typical seasonality and working capital dynamics, which include an increase on receivables due to the timing of Q2 sales and certain projects, and increased inventory ahead of the second half ramp in revenue.

Relative to the prior year, our free cash flow performance improved by $48 million.

Please turn to slide 9, and I'll turn it back over to Patrick to cover our 2014 guidance.

Patrick Decker - *Xylem Inc. - President & CEO*

Thanks, Mike. Let's start with the top line. We still anticipate 2014 revenues of nearly $4 billion, which reflects organic growth of 2% to 4%. We've increased our organic growth range at both the low and high end by a percentage point of growth. For water infrastructure, we expect organic revenue growth of 3% to 4%, higher than our previous expectations and primarily reflecting higher project revenue in emerging markets. And for Applied Water, we expect revenues to be flat to up 1% organically, reflecting our first-half performance and soft in market outlooks. This reflects a slight downward revision to our previous guidance.

I will also note that the revenue range already reflects the reduction in revenue attributable to the UK valve business we divested. After posting 3% organic growth through the first six months we expect second half organic revenue to be flat to up approximately 2%. This range takes into consideration relatively short cycle nature of our business and mixed strength in our end-markets.

It is important to note that our second-half performance will be against tougher year-over-year comps. Segment margins are anticipated to be in the range of 14.2% to 14.6%, and operating margins are projected to be in the range of 12.8% to 13.2%, and we anticipate earnings per share of $1.90 to $2.00, excluding 2014 restructuring and realignment costs of approximately $40 million to $50 million. This reflects a $0.05 increase to the lower end of our range.

So let me provide you with some perspective on this. We feel good about the execution of our broad-based restructuring action this year, from which we now expect to achieve savings of $17 million. This is in addition to the carryover savings of $25 million from the actions executed in 2013, bringing total savings to $42 million.

We also feel good about our first-half performance and have reflected our outlook for the second half, which includes some mixed end market dynamics, lower benefits from FX, and the UK valve divestiture.

Now let me provide some additional highlights around are in market outlook. Please turn to slide 10.

This slide summarizes our expected 2014 organic revenue performance by end-market. Let me spend a few minutes providing some perspective on our first-half performance, our expectations over the second half, and what that all means from a full-year perspective. Beginning with industrial, our largest end-market representing 45% of total revenues. Through the first half, we saw organic revenue up 3% and expect second-half performance to be up low single digits. Full-year organic revenue growth is expected to be in the range of 1% to 3%. Included in our second-half expectation is sequential growth acceleration in the US and continued growth from emerging markets.

We are also assuming that Europe remains stable. Public utility at 34% of total revenue is our second-largest market. Through the first half, we saw organic revenue up 6%, but expect second-half organic performance to moderate considerably. This reflects tougher year-over-year comps and the timing of project deliveries.

With that said, we expect second-half revenue to be flat to up low single digits, and therefore, our full-year expectation is in the range of 2% to 5%. This outlook is approved relative to our original expectations and reflects the positive performance realized over the first half and our project backlog over the balance of the year. As a reminder, due to the considerable lead time for most CapEx projects, the majority of project orders received over the second half of the year will deliver in 2015 and beyond.

I would highlight that leading indicators and market commentary suggest improving market conditions, which is supported by our growing pipeline of projects.

Moving to commercial, which represents approximately 11% of our revenue, we are revising our full-year outlook for commercial downward. While we originally expected low single-digit growth, we now anticipate flat organic revenue performance. The revision downward reflects our first-half organic revenue decline of 1% and only a modest improvement in the back half. Our overall performance reflects our overweight position to the weak US institutional building market. We no longer accept this sector to recover meaningfully in 2014. We do expect new product launches and strengthened emerging markets to drive low single-digit growth over the second half.

There is no change to our residential market outlook. We still expect low single-digit growth driven by the US housing recovery. However, we do expect that growth in the US will moderate over the second half, and that continued weakness in Europe will at least offset second-half growth.

And lastly, while it's only 3% of our business, we expect full-year ag revenue to be flat year over year. This is down slightly from our previous expectations.

Please turn to slide 11, and I'll turn it back over to Mike to cover some additional details on the guidance.

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

Thanks, Patrick. I'd like to spend a minute calibrating everyone on the call around what we expect our revenue and operating income profile to be over the balance of 2014. I'll begin with some comments around our shippable backlog.

Of the total $816 million of backlog, $643 million is shippable in the second half, and the remaining $173 million is expected to ship in 2015. Third-quarter shippable backlog is approximately $445 million and represents around 45% of our expected third-quarter revenue. So we still have a lot of book and term business to deliver in a quarter when Europe is on holiday. For revenue, we see the second-half profile more similar to 2011 and 2012, down sequentially in the third quarter with a ramp-up in the fourth quarter.

More specifically, we expect revenue to decline in Q3 2% to 3% sequentially from the second quarter, reflecting the impact of European shutdowns in July and August and the typical second-quarter peak within our Applied Water segment.

By segment for Q3, we expect water infrastructure to be flat sequentially, and Applied Water is expected to decline sequentially, approximately $30 million, again, reflecting its typical seasonal profile and the impact of the valves divestiture.

Operating income performance over the second half will be driven by volume and incremental cost improvements in areas such as global sourcing and Lean, but will also be negatively impacted by mix and price. We see third-quarter margins improving sequentially from the second quarter by 80 to 130 basis points, despite the expected volume decline. This performance reflects the savings we expect from the restructuring actions executed earlier this year.

We are now on track to deliver $42 million in restructuring savings, which includes approximately $20 million of savings in the second half. By segment, we expect the sequential margin improvement to be more pronounced in water infrastructure than within Applied Water. We expect full-year corporate expense of approximately $55 million, and our full-year operating tax rate is expected to be approximately 21%.

Lastly, our fully diluted share count is expected to be approximately $185 million.

With that said, please turn to slide 12, and let me hand the call back over to Patrick for some final comments. Patrick?

Patrick Decker - *Xylem Inc. - President & CEO*

Thanks again, Mike. Just a few comments before we get to Q&A.

As you know, this year is a critical one for Xylem. We have begun to establish a track record of financial performance while also focusing on prospects for long-term growth. While we still have a lot of work to do, I am encouraged by our performance to date. We are making progress and are improving our productivity and efficiency. We have many growth opportunities to pursue, and we are doing the hard work now to be able to take advantage of the best ones to grow our leadership position in the world of water.

Operator, we can now begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Scott Davis, Barclays.

Scott Davis - *Barclays Capital - Analyst*

Hi. Good morning, guys. Off to a good start, Patrick, so congrats on that.

Patrick Decker - *Xylem Inc. - President & CEO*

Thank you.

Scott Davis - *Barclays Capital - Analyst*

I wanted to -- I mean there's a few things I want to dig into, and I'm guessing that there's enough questions in the queue that you'll get to it. But can you talk a little bit about public utility in the US? I mean it is still flat against pretty easy comps, and is there an outlook there? When I talked to some of the local guys, they say there's pent-up demand for projects and such. But are you seeing anything that's tangible that would lead you to believe that that business gets better?

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

Yes, Scott, this is Mike. You know, there's a couple of things going on. If you remember from some of the commentary we had last year, we actually saw a decline in the what I'll call the longer-term bookings for our treatment business -- project business in the US last year. Essentially we see that carrying through in the current year shipping results. The good news is we are seeing the project activity picking up. So we're starting to build backlog in that business. Less about just the US, but overall if you think about that backlog headed into 2015, we are up 18%, and we look specifically at water infrastructure, we're actually up 22%. So that's a very good indicator that things are at least starting to move in the right direction. The pipeline of bid and quote activity is at an all-time high, so it's clear that there is definitely activity starting to move from a US standpoint.

Patrick Decker - *Xylem Inc. - President & CEO*

And I would just add to that, Scott, that what I'm also seeing and what we're seeing is that as we integrated our front end of the business, I would say our treatment business is one of the businesses that's probably benefiting the most in terms of getting more at-bats through the visibility that our transport and other businesses provide to them by now having an integrated front end. So our bidding activity on the pipeline is also improving.

Scott Davis - *Barclays Capital - Analyst*

Okay. And I wanted to ask you guys about M&A. When I think about legacy -- well, over the years, this business when it was within ITT, you always talked about M&A. But M&A was always a little disappointing, I think, and there hasn't been a lot -- I think the volume of transactions overall on this side of the business has been pretty light. How do you reinvigorate it? And how do you -- when you say reactivating a M&A pipeline, I mean how do you do it when you are limited really to the concept of water? I'll just leave it there.

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. No problem. I mean I've spent considerable amount of time with the team reviewing the pipeline. It is a pretty healthy pipeline from my perspective and based on what I've seen.

As you know, Scott, it is a fairly fragmented industry. I think we've said that certainly we are not going to be dogmatic on water. I mean obviously we want to make sure that we don't stray from our identity here. And so now that we've defined our three fields of play -- that being water productivity, water quality, and the resiliency of water infrastructure, those are three pretty broad spectrums in the space of water, and that also opens up the opportunity to fill the pipeline.

I do expect that certainly early on here the acquisitions that we do are going to be bolt-on. They are going to be close to the core, and then obviously over time, as we continue to expand, that brings into play more meaningful acquisitions.

Scott Davis - *Barclays Capital - Analyst*

Okay. I'll pass it on. Thank you, guys.

Operator

Deane Dray, Citi Investment Research.

Deane Dray - *Citi Investment Research - Analyst*

Thank you. Good morning, everyone. I was hoping to get some additional color on what I would call your high quality problem of explaining how organic revenue growth coming in at the low range that you said back in May came in at the high end. And, Patrick, you did give some good specifics, but just give us in context -- you've got shorter cycle business, a little more limited visibility. So through April, maybe that's 30% of the quarter you made the announcement. So what are the other dynamics in terms of, did you look at -- can you quantify how much business got pulled in from July? Did you just convert more orders at the time into revenues? What does this say about your forecasting on a go forward basis?

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

Deane, this is Mike. Let me provide some comments, and then Patrick can certainly weigh in. You know, I think there's a couple of things. One, we were providing perspective on what we were seeing, and at the time April was coming in essentially flat with where we were last year. And I say that the short cycle nature of the business obviously does create a bit of a challenging dynamic from that standpoint. And I think we hit some of the points in the prepared comments that as we progress through the quarter, we started to see the market improve. Not substantially, but just enough to move us into that higher end of the range that we've been talking about.

But more importantly, I think what you saw from us is the same thing you've seen for the past several quarters, which is we have much deeper visibility into the business now. The change that we made organizationally we are now dealing directly down, say, at the dewatering level or the treatment level, and we are able to react more quickly.

So Patrick and I came back from seeing the April results and really pushed the team around, making sure that we were cleaning up any of the delinquent shipments that we had, making sure that we were converting on all the orders that were to be shipped within the quarter. There wasn't anything large notable that we pulled in per say, but I would say that the team worked hard to make sure that we met the commitments that we had laid out.

Deane Dray - *Citi Investment Research - Analyst*

Is this the calibration that book and ship is about 70% of your business, 30% project? Is that a fair split?

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

Yes, I'd say right now, Deane, it's probably 70% to 80%, and obviously as we see the longer-term orders improving, that that dynamic is going to start to shift probably closer to that 70% mark over time. But, you know, I'd say the short cycle nature of things like our rental dewatering business, those still weigh pretty heavy on the results and are areas where we tried to stay as close as we can. We've developed some new processes for monitoring what we would term backlog in those businesses to give us better indicators around what the trajectory looks to be, but they are still short cycle in nature.

Deane Dray - *Citi Investment Research - Analyst*

Great. And then just in terms of the businesses, what I thought was very interesting in your release you talked about this win in Brazil -- and it's noteworthy on a number of points. Importantly and maybe give us some context, are these types of whole system high-end project bidding that you would like to do more of? And I'm pretty sure I heard Patrick call it a referential win. Does this qualify as a reference site? Maybe some of the economics when you are putting in one of these reference sites because it becomes a showcase for the ability to do similar projects elsewhere. So a little color there would be helpful.

Patrick Decker - *Xylem Inc. - President & CEO*

Sure, Deane. These absolutely are the kind of things that we would like to be involved in. You find and from my background and experience certainly in the developing markets, our customers and clients do tend to look at -- I wouldn't call it complete turnkey solutions but certainly looking at bundling services and technologies. And I think that's where we've already seen some of the biggest impact on the integration of our front end. I would say that in a number of those markets, the front end of our commercial organization has long been integrated. So they've been working together for quite some time. These are long processes, you can appreciate, to come to closure and win a victory.

We call it referential because these are key accounts. We don't share too much on the customer specifics and economics for obvious competitive reasons, but these are healthy projects. They bring with them a very attractive aftermarket service component to it, as well. But more importantly, it demonstrates that we've got the capability in these emerging markets when we focus on them.

Secondly, it helps build the Xylem brand-name. Not that we are always leading with that brand-name in all cases, but it certainly increases our recognition of our brand in those developing markets.

Deane Dray - *Citi Investment Research - Analyst*

Right. And the Membranes, is that part of the joint venture with GE?

Patrick Decker - *Xylem Inc. - President & CEO*

Yes, it is.

Deane Dray - *Citi Investment Research - Analyst*

Terrific. Thank you.

Operator

Ryan Connors, Janney Montgomery.

Ryan Connors - *Janney Montgomery Scott - Analyst*

Great. Thank you. I had a question for you, Patrick, on kind of the portfolio review in the US. I guess the fact that you are moving on to South America kind of suggests that some of your initial tour in the US is done. Can you kind of give us your comments and perspective on how you believe the

Company's positioned in terms of the US manufacturing footprint and whether you are satisfied with where you are at there or whether you believe there's consolidation opportunities, domestically?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. I think that over time -- this is a multiyear journey where we are trying to integrate a number of legacy stand-alone businesses, and I would say that we've historically probably not had a comprehensive manufacturing strategy across the various businesses that we've got, whether that be in the US or whether that be globally. That is an area that will be a focus for me and the team is to better understand what these opportunities are from our supply chain globally, but certainly specifically here in the US as well.

And I think as I talk a lot about the emerging market opportunity, which I think is large and real, at the same time, that's not to suggest that we don't also have meaningful growth opportunities in the more mature established markets. I think there's an opportunity for us to drive more improvement on the aftermarket piece of our business. It's not as applicable to all of our businesses, but certainly some of them have a very attractive aftermarket opportunity that I don't believe that we fully mind. And then I would say something that I've spoke a lot about and that is I see consistently across the company, there are further opportunities for Lean deployment certainly here in the US across not only our factories but the entire value chain.

Ryan Connors - *Janney Montgomery Scott - Analyst*

Okay. Great. And then another kind of more tactical question on pricing environment. I'm hearing less about it in your prepared remarks than we were 12 months ago, and I guess we can read that as a positive that the pricing environment has improved a little bit or at least isn't negative. Can you kind of give us an update on the pricing environment out there and the outlook?

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

Yes, Ryan, this is Mike. We are still seeing what I would say is a negative bias from a pricing standpoint, more particularly in our Water Infrastructure business. Applied Water still is in the positive territory, although not at the same levels, and I'd say a good portion of that is really more commodity pricing driven.

But I would say that the dynamics really haven't changed a lot. I mean I think you can hear it with many of our competitors that the markets are improving, but we are all still in a much more slow growth environment than we have historically been in. So the competitive dynamics are such that you know it is still putting a negative bias on pricing. You are not hearing a lot of it in our prepared remarks because it is in line with expectations we had of somewhere in the 25 to 50 basis points of pressure coming out of that particular segment.

Ryan Connors - *Janney Montgomery Scott - Analyst*

Okay. Great. Well, that's very helpful, and congrats on the great quarter, and safe travels, Patrick.

Patrick Decker - *Xylem Inc. - President & CEO*

Thank you very much.

Operator

Mike Halloran, Robert W. Baird.

Mike Halloran - *Robert W. Baird & Co. - Analyst*

Good morning, everyone. So could you help frame the sourcing opportunity today? Where it stands on a percentage basis? What kind of targets you might be putting out there, or maybe better put, who are you looking at from a pure group perspective? What kind of ranges do they have from a guidance perspective so we can see kind of where you think you guys can go over time?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. Well, I think it's probably too early to tell right now exactly to put a number out there as to what I think the global sourcing opportunity is. I think it's probably better to talk about the journey as to where we are coming from and where we are going. I certainly I want to suggest that there has never been any kind of leverage gained across the businesses, but each one of the value centers and the businesses in them have historically operated on a standalone basis in terms of having their own procurement functions. And we have a number of categories that clearly if we leverage our global spend here, there's meaningful upside to be gained in doing that.

Secondly, it's not just about the cost takeout, but it's also about getting better quality, better service, better delivery from our suppliers. So really getting the whole value chain from a sourcing standpoint. You know, I think there are a number of companies that are out there obviously that we model against and put ourselves up against as a benchmark. Certainly the Danahers of the world, the Ropers of the world, a few others that are out there that I think have been on that journey and really have delivered quite a value by standardizing their processes across areas including procurement.

Mike Halloran - *Robert W. Baird & Co. - Analyst*

That's fair. On the dewatering side, a couple of things there. Just one, what kind of rental utilization levels are you guys seeing now or at least how have those tracked as you look through the quarter? It sounds like the oil and gas piece in particular is starting to strengthen up here. What does the customer cadence sound like, and what's the trajectory look like as you look out a little bit further?

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

Yes, Mike, the cadence has been improving, pretty much starting back in late February, and we see that continue now through the second quarter and obviously continue to monitor that. You know, utilization rates, they are not at the what I would call the peak yet, and that's a broad comment because we have obviously modeled mix within that that we continue to watch. But you know I would say we are getting up around that 50% mark, which is pretty close to getting to optimal. So we'll be moving into the decision around what additional assets do we need to contemplate, which would be a good thing to start talking about.

Mike Halloran - *Robert W. Baird & Co. - Analyst*

Thanks for the time, gentlemen.

Operator

Matt Summerville, KeyBanc.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Good morning. Just a follow-up on the dewatering business. Can you talk about how much that was up in Q2 and whether June in particular was stronger than you would of thought and then what your expectations are for the back half?

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

Yes. So, Matt, we saw dewatering kind of on a sequential improvement, like I mentioned when I was answering Mike's question. We've seen that kind of improving month to month. In the second quarter, we were up 4%, and that brought our first half up, call it mid-single digits. That's a vast improvement over the anemic growth that we had in the first quarter, and we see that trend continuing. We are optimistic given the strength we've seen in hydraulic fracturing and just overall what looks to be a rebound in construction and use in a public utility market should support that continued growth through the balance of the year.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

And then with respect to the Applied Water business, I guess whether you talk industrial, commercial, residential, maybe just sticking with those three buckets, you have been sort of down here in this business for a little while organically, and it doesn't sound like your construction-oriented business is picking up yet. I guess what can you say to sort of give us confidence that you're not losing market share in these businesses?

Patrick Decker - *Xylem Inc. - President & CEO*

Yes, well, as you know, in these businesses, market share data is not always easy to get. But certainly all of the indications that we've got right now and we've been asking ourselves that question with the team is that actually when you look at some of our other companies that report in the space, if anything we probably certainly held, if not even possibly gained some ground, especially in areas like groundwater, etc. So we don't really comment on share positions and really comment on our competitors, but we certainly don't have any reason right now to believe that we've lost any share.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

And then, Patrick, just one final one, similar to how you had talked about your US-based footprint, what's your initial reprisal of the manufacturing footprint you guys have in Western and Northern Europe?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. Well, again, I think it's early assessments -- I think that one of the areas that is fairly apparent to me, and that is certainly when I think about the needs that we have to be able to accelerate our growth in a number of the developing markets, there is only so far that we are able to go by relying upon in some areas an import model. And so we already have some footprint in some of our developing markets, but I would say we will expand that footprint over time. And then obviously over time, we will evaluate what our needs are from a global supply chain and make the changes necessary at that point.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Thanks, guys.

Operator

Joe Giordano, Cowen.

Joe Giordano - *Cowen & Company - Analyst*

Hi, guys. Thanks for taking the questions. On the quoting activity on the muni side, I guess you are focused on US and Europe. Just curious as to how competitive that's been? I know in water infrastructure you say price has been a headwind. So when you are saying quoting activity is picking up, does the level of competitiveness there seem to be exacerbating pricing pressure?

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

I would say it's a fair characterization on market. You know I wouldn't put the pricing pressure as a huge dynamic at this stage. I think the competitive environment is certainly there, but I think folks are being smart about the pricing dynamics. I think when that coupled with the fact that commodity prices have been relatively tame over the past year really has lowered our ability to get additional price.

But I think the important thing to remember is we are still priced at a premium relative to the competition. So we are getting the growth. We may be losing a little bit on the pricing side, but overall it's still a pretty positive equation for us.

Joe Giordano - *Cowen & Company - Analyst*

Okay. And then on the restructuring side, you mentioned the savings you expect for the full year on top of what you got last year. So where are we at as of one half, and I'm not trying to pin you down for next year kind of guidance. But this year you are saying we are talking about 20% or so EPS growth on around 4% of revenue -- a lot of restructuring savings. How would you characterize broadly what your expectation is? Would next year be characterized more of a revenue-driven year or more of a restructuring cost out type of year?

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

Yes, so let me answer the more tactical side, and then I will let Patrick provide a perspective as we look forward.

Through the first half, we have incurred about $18 million worth of restructuring costs, and the savings that we've racked up is about $22 million. And a big portion of that $22 million is actually the activity we had underway last year.

For the second half, we are guiding around $20 million in savings, and that's largely due to the actions that we've taken through the first half relative to that $18 million of cost. I would think about that going into next year as probably about an $18 million to $20 million tailwind as we lap and pick up favorability essentially in the first half of next year from the actions that we will have executed.

And then just to remind you, we are guiding 30% to 35% of total restructuring costs this year. So you can still see that we still have a ways to go in the second half -- [$17] million. But, with that, I'll turn it over to Patrick with any comments relative to as we look out to next year.

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. Obviously staying well short of giving any kind of guidance or signal on 2015, I think certainly we are very much focused on how do we accelerate the growth of the business? Obviously that will not be at the expense of margins. We are looking at healthy profitable growth, and so certainly we are making sure we are making the investments there to drive the top line.

Secondly, we will continue to maintain the focus on the cost side and margin side. While I would never rule out restructuring, our focus right now really again is on ramping up again the continuous improvement opportunities and global sourcing and Lean. So we certainly would expect margin expansion to continue from those areas. But it's going to be a balanced look as we go forward from 2015 onward.

Joe Giordano - *Cowen & Company - Analyst*

Okay. Great. And if I can sneak just one fast one in, if M&A -- if you don't find anything attractive in the second half, would that imply potentially more repurchases at the levels we have seen in the first half?

Patrick Decker - *Xylem Inc. - President & CEO*

I think it's premature right now for me to comment on that. I mean certainly we feel good about the return to shareholders that we have already committed to, and we will have more to comment on that as we get further along on the M&A assessment.

Obviously M&A opportunities, as you can fully appreciate, take time to cultivate. And so us having kind of reignited that, it may take a little bit of time, but we feel good about the prospects, and we will have more to comment.

Joe Giordano - *Cowen & Company - Analyst*

Great. Thanks, guys.

Operator

Nathan Jones, Stifel.

Nathan Jones - *Stifel Nicolaus - Analyst*

Good morning, Patrick, Mike, Phil. So, Patrick, we've been talking about several things here that are probably going to take some investments. Ramping up on Lean and Six Sigma, we talked about 200 basis points potentially of SG&A coming out. You talked today about localizing manufacturing global sourcing investments. Can you talk about whether we should be expecting some increased CapEx over the next year or two and what impact might be seen on the margin line as well?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. I think that one of the things that we are very much driving here in the Company right now is kind of what I call a productivity for growth mindset. And that is again given where we are in our Lean deployment, global sourcing, some of the other restructuring benefits we are getting from the actions taken, these are all intended not only to expand margins, which you are seeing obviously here in 2014 and will continue to 2015, but part of those savings go to fund some of these investments that we are talking about.

So I don't think that we should be looking at any kind of dilution in market margin. As we go forward, we will continue to expand margins, as well as continue to accelerate the top-line growth, assuming the market is cooperating.

Nathan Jones - *Stifel Nicolaus - Analyst*

And if we could just take a look back specifically on Lean Six Sigma, with what you've seen since you've been at the Company, can you talk about where we are in terms of Lean deployment and how long you think it's going to take until you are at a reasonable level?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. I think that the way I would characterize it is we've got pockets of excellence right now across the Company, and I think that's clearly a reflection of the fact that these businesses historically have been early adopters of Lean Six Sigma and other continuous improvement tools, in my assessment.

And I think the assessment of many of the people in the Company is that during the transition of the spend, other things going on, some of those things began to fade. I think historically the focus had predominantly been on inside the four walls of the factory, so very much focused on cost take-out, etc. in the factories themselves. I think the opportunities here are not only to now reignite that in the factories, but more importantly to apply these tools across the entire value chain. So speed to market, efficiency, transactions, back office, but also using these tools to help us get at what our overall global manufacturing strategy is going to be.

So I look at this in a bigger picture rather than just applying Lean within any given factory, and that to me is where the big opportunities lie.

Nathan Jones - *Stifel Nicolaus - Analyst*

Makes sense. Could you possibly quantify -- you said pockets of excellence -- kind of what percentage of the portfolio you describe as excellent and what percentage of the portfolio you think needs a significant amount of work?

Patrick Decker - *Xylem Inc. - President & CEO*

Yes, that's a tough one to say because we've got such a distributed footprint across the board. But I'd say -- the way I would characterize it, I would say probably at about a third of the locations that I've been to, I've seen a pretty heavy adoption of classic tools being deployed. I think the whole point of continuous improvement in Lean is that it is a journey. So it never ends, and you are always kind of revitalizing and refreshing things. So there's opportunities all over the place, but I think that there's probably still two-thirds of the organization that I think are still fairly early on in the whole process.

Nathan Jones - *Stifel Nicolaus - Analyst*

That's helpful. Thanks very much.

Operator

Kevin Maczka, BB&T Capital Markets.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Thanks. Good morning. Just to follow up on that last question, so even with some additional spending that you may be planning for productivity and footprint and other things, it is still the way we should be thinking about this in terms of incremental margins that we ought to normalize into something in the low 30s as we get out beyond the second half of this year?

Patrick Decker - *Xylem Inc. - President & CEO*

Yes, I think so, Kevin. I mean I think largely speaking we want to hold to the guidelines that we provide around the incrementals, as well as when you think about our capital expenditures, we post 2.5% to 3% of revenue, and we may have one-off investments that we have to make, and we would obviously provide clarity around that. But we think we can largely handle it within those guideposts. And I think it's back to Patrick's comments around productivity for growth and making sure that we've got an engine that can produce the room to make the investments to keep the growth going.

Kevin Maczka - *BB&T Capital Markets - Analyst*

And the first half was, of course, very strong, up around 60%, and we all know that will normalize. But can you just give a little more color on the incremental margin guide for Q3? It looks like that's actually doing more than normalizing. It's quite a bit below the normal range.

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

Yes, so I think when you think about the third quarter, sequentially we are going to be down 2% to 3% from a revenue standpoint, and we are actually expanding margins 80 to 130 basis points. And that's largely due to the fact that we've got the incremental restructuring kicking in in the back half, but we are also driving additional sourcing and Lean initiatives to try and improve the gross margins as we head into the back half.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. So there's some additional spend that is happening on things like sourcing in Lean that wasn't happening at the same magnitude in the first half?

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

You know, there's a little bit. I mean -- I'll use the corporate line as an example. We've guided to a $55 million full-year corporate number, which is slightly above the run rate coming out of the first half. Given the weakness we saw coming out of January and February with the weather, we obviously -- like we did last year -- we took some actions to move things around within the year. Given where we are at, we feel confident that we can move forward those initiatives in the back half.

I think, Kevin, the important thing to note when you compare whether you are looking to Q3 versus last year or the second half versus last year, you have to really look back at 2013 first and second half as they were really a tale of two different halves. That first half of last year we were looking at a negative 5% growth rate and pretty heavy detrimental margins in areas like Europe and dewatering. The second half of 2013, not only did we have positive organic growth which we got volume leverage out of in areas like Europe and dewatering, but on top of that, we got the positive benefits of all the things we had done in terms of the restructuring actions that improved us incrementally from first half to second half.

So there is a bit of that compare that plays into it, and then you have the challenge that we are facing in the back half of 2014, which is primarily around things like pricing and then the timing of the investments throughout the year.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. And then just finally, Mike, since you mentioned the corporate line, that's tracking in the first half well below that guide, is it still a $55 million to $60 million outlook you have there on that line?

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

$55 million.

Kevin Maczka - *BB&T Capital Markets - Analyst*

$55 million. Okay. Thank you.

Operator

Brian Konigsberg, Vertical Research.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Good morning. Actually just coming back a little bit to your Applied Water line, you talked about the markets just being generally difficult, but you don't feel like you are losing share. Just on residential, I mean it doesn't seem like that ever really got off the ground much or very significantly at all, and now you are saying that it's still going to be fairly flat. I mean is it just the nature of business that it's more a replacement that never really went away, or why is that not stronger? Maybe you can give a little bit more color on why it just never saw many benefits through kind of the upturn of that cycle?

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

Yes, Brian, I guess I would point back to some of the stats. I mean, first and foremost, we actually saw 6% growth last quarter in the residential market. And then if you look at last year, the second quarter, we actually posted 6% growth. So some of it is compares and timing in the cycle, but I'd also say we are not as exposed to all the new construction and some of the things that are driving the improvement in the residential market. The majority of our business is really focused around groundswell and circulator pumps that go on boilers. So it's a bit of a more nichey play, but we have seen some of the positive effects of the residential recovery overall. And I think you've seen that play out in different quarters throughout the course of the last couple of years.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Okay. And then just on the commercial side, so it's weak kind of in the near term, but do you anticipate you will participate if that starts to gain traction, or is it a similar type of dynamic?

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

I think we will participate, but again it's going to be driven by a couple of different things. One, the institutional market specifically in places like the US, and we think we are aligning well in the emerging markets, China in particular, to take advantage of what could be the resumption of the commercial buildout?

Brian Konigsberg - *Vertical Research Partners - Analyst*

I got you. And I just wanted to clarify, did you quantify the revenue pull forward from the project shipments this quarter? I know you talked to it -- I didn't hear a specific number, unless I missed it.

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

No, there wasn't anything notable or material that we would point to.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Okay. All right. Great. Thank you very much.

Operator

David Rose, Wedbush Securities.

David Rose - *Wedbush Securities - Analyst*

Good morning. Thanks, again, for taking the call. A couple of final ones. Going back to some of the metrics on Lean and maybe on time delivery, in the last quarter, you improved it. Does this mean that this isn't sort of a -- your on-time delivery numbers have improved moving forward. Is this something structural that you did, or was this sort of an urgent effort to ship out everything? That's one.

And then, two, is, if you can talk about some of the Lean metrics about which we should measure outside of the four walls, particularly on the SG&A side going forward? I mean what sort of productivity measures should we be looking at?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. On the first one, I would say this is right now pretty much brute force in terms of just people focusing on making sure the delinquencies are managed and handled. And so I wouldn't suggest there was any kind of big enhancement of Lean deployment that drove that. That's certainly a long-term activity. Although against some of the businesses that were experiencing this are fairly far along in the Lean journey. So I wouldn't suggest it was all brute force, but largely so.

In terms of metrics that are out there, I'm not prepared to disclose any just yet. Certainly a little bit further down the road here, I will speak more openly and candidly around what are those big metrics that we are going to be measuring against? There will be some classic ones in there, and obviously certainly as we go after further improvements in the area of SG&A and particularly G&A, that will certainly be one of those metrics that we are focused on. The others are very much focusing on what our penetration in terms of our certification rates are, as well as the deployment of resources on active projects. So we are fairly far behind in that as a starting point.

But again, as I mentioned before, the good news on this from a company standpoint is that this is not a foreign language for many people in the company. It's just a matter of reinvigorating the focus and deploying it beyond the four walls of the factory.

David Rose - *Wedbush Securities - Analyst*

Okay. That's helpful. And then lastly, Patrick, given your background of highly engineered products in the aftermarket side -- you hit upon it -- what do you need to do? Maybe, first of all, what is the number today with which you are working in terms of aftermarket as a percentage of total sales? What number do you want to get to, and what do you have to do to get there from an investment standpoint? Do you have to invest in some of those emerging markets (inaudible) and setting up the infrastructure there?

Patrick Decker - *Xylem Inc. - President & CEO*

Sure. It's a great question, and I'll have more to say here in future calls on exactly again what these goals and metrics are, and some of these structural moves that we would be considering making here in the organization to get after that.

I mean today we do just below 40% in aftermarket if you consider the parts, the service, the replacement piece. That number, in my view, certainly needs to be higher than that. It's not just about the percentage itself and the profitability that you get in that business relative to the OEM. But it's also just the intimacy that you get with the customer by being in there with them and getting visibility of what's happening from a competitive standpoint as well. And so I think that what we need to do in the area is obviously set some big goals and metrics, make sure that we're organized effectively to get at that.

Right now, again, we do it very well in pockets, depending upon which value center that we are talking about. And then secondly, I would say a big piece of it is just making sure that as we go into ramping up our presence in some of the key emerging markets, you want to make sure -- we want to make sure that we really maintain control of our installed base and that we are also selling aftermarket as part of the initial sale, rather than trying to chase it afterwards.

David Rose - *Wedbush Securities - Analyst*

Okay. Well, that's helpful. Thank you very much.

Operator

That was our final question. I'd like to turn the floor back over to Patrick Decker for any additional or closing remarks.

Patrick Decker - *Xylem Inc. - President & CEO*

Well, I just want to thank everybody for taking the time to join us this morning. We very much appreciate your support and interest, and I look forward to catching up with you and updating you on our progress in our next call.

So between now and then, safe travels, and we'll talk soon.

Operator

Thank you. This does conclude today's Xylem second-quarter 2014 earnings conference call. Please disconnect your lines at this time, and have a wonderful day.
