

XYLEM INC.

Q1 2016 EARNINGS RELEASE

MAY 3, 2016



xylem
Let's Solve Water

FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Generally, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “forecast,” “believe,” “target,” “will,” “could,” “would,” “should” and similar expressions identify forward-looking statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. These forward-looking statements include any statements that are not historical in nature, including any statements about the capitalization of Xylem Inc. (the “Company”), the Company’s restructuring and realignment, future strategic plans and other statements that describe the Company’s business strategy, outlook, objectives, plans, intentions or goals. All statements that address operating or financial performance, events or developments that we expect or anticipate will occur in the future — including statements relating to orders, revenues, operating margins and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such forward-looking statements.

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions, our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

All forward-looking statements made herein are based on information currently available to the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

KEY MESSAGES

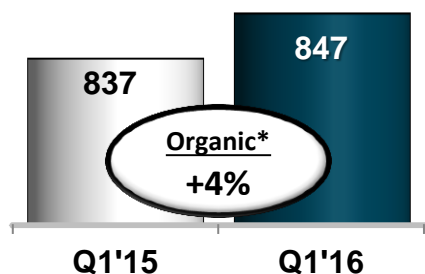
- **Solid 1Q start, on track to deliver on our financial commitments**
 - 4% Organic* Revenue growth ... Book-to-Bill 1.05
 - Adj. Op Margin* expands to 10.9%, up 40 bps (ex. acquisitions)
 - Adj. EPS* of \$0.35, up 9% year-over-year (ex. acquisitions)
 - Strong execution drives 130 bps working capital improvement (in constant currency)
- **Maintaining our fundamental outlook**
 - Public Utility strength continues to drive growth
 - Stable Industrial markets conditions
 - Emerging market growth in line w/ our expectations
- **Raising full year earnings guidance ... Adj. EPS \$1.98 to \$2.08**
 - No change in core performance or underlying FX assumptions
 - Reflects \$6 million of interest savings from well executed debt refinancing

SOLID 1Q PERFORMANCE

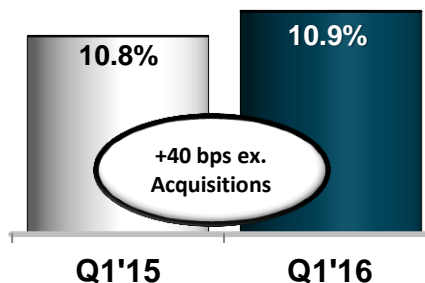
Q1'16 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

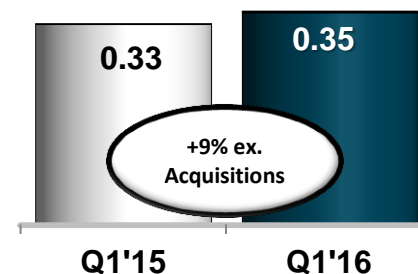
REVENUE



ADJ. OP MARGIN*



ADJ. EPS*



Key Organic Growth Drivers

+ Public Utility	+12%
+ Commercial	+5%
= Industrial	Flat
- Residential	-5%
- Agriculture	-1%

Organic Growth by Region

+ W. Europe	+5%
+ U.S.	+4%
+ Emerging	+2%

Key Performance Drivers

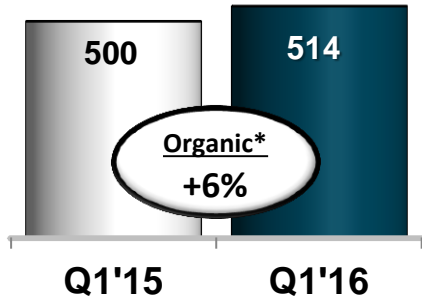
- Organic revenue growth driven by Public Utility market strength, project timing and favorable weather
- Growth and cost reductions fund investments and offset inflation
 - Vol/price/mix/other expand Op Margin by 100 bps (EPS +0.05)
 - Cost reductions drive 260 bps Op Margin expansion (EPS +\$0.10)
 - Cost inflation reduces Op Margin by 190 bps (EPS -\$0.07)
 - Strategic investments reduce Op Margin by 130 bps (EPS -\$0.05)
- Hypack and Tideland acquisitions tracking to plan
- Other: Tax Rate 20.5% Share Count 179.3M

DRIVING PRODUCTIVITY TO ENABLE STRATEGIC GROWTH INVESTMENTS

Q1'16 WATER INFRASTRUCTURE PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Transport +5%
- + Treatment +18%
- = Test Flat

By Regions

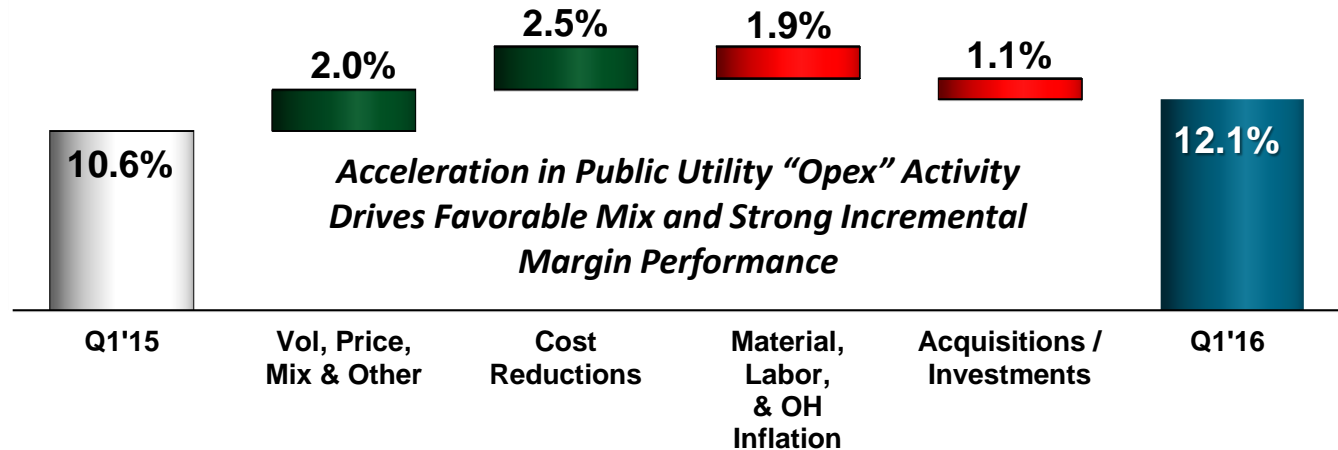
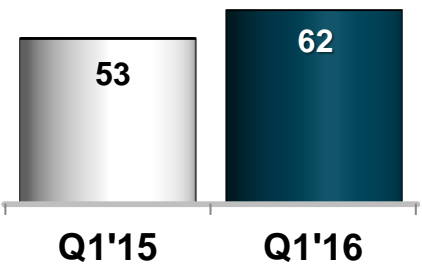
- + U.S. +10%
- + W. Europe +5%
- + Emerging +4%

Highlights

- + Global Public Utility strength, incl. 22% increase in U.S. driven by market recovery, share gains, project timing (Treatment) and favorable weather conditions
- = Industrial flat ... mid single digit growth in general industrial offset by O&G and Mining headwinds (in line w/ expectations)

ADJ. OP INCOME*

(Dollars, In Millions)

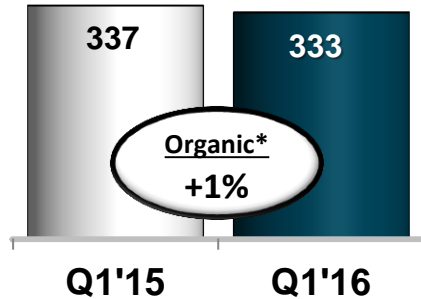


STRONG PERFORMANCE DRIVEN BY GROWTH & EXECUTION

Q1'16 APPLIED WATER PERFORMANCE

REVENUE

(Dollars, In Millions)



Organic Growth

By Application

- + Bldg Svcs +1%
- = Ind'l Water Flat
- Irrigation -1%

By Regions

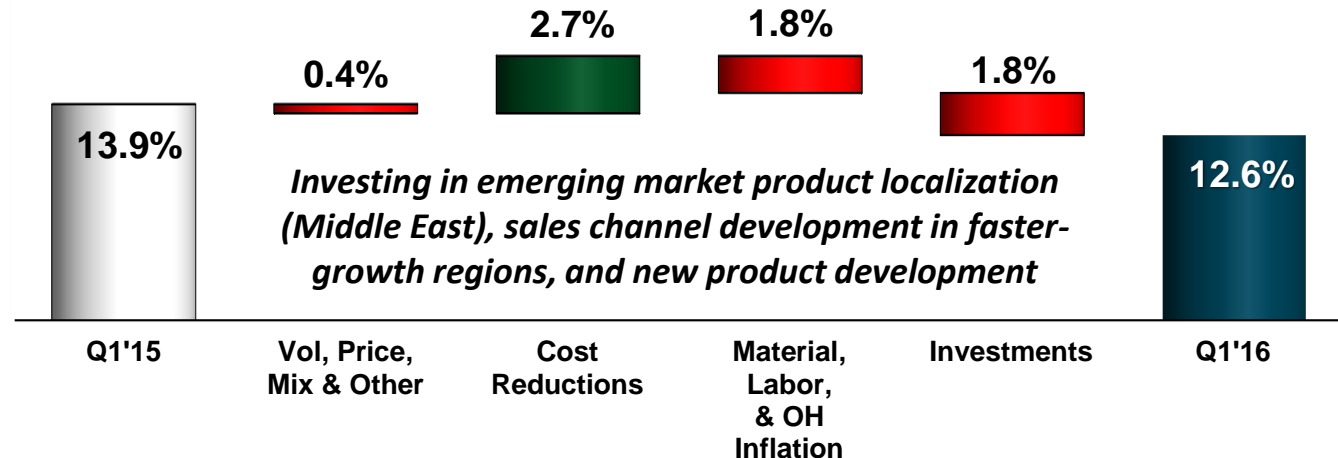
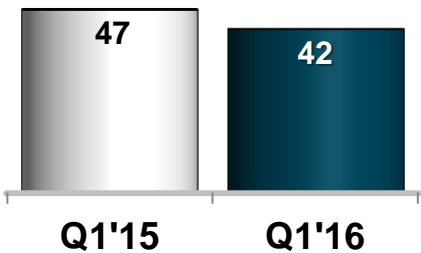
- + W. Europe +5%
- U.S. -1%
- Emerging -3%

Highlights

- + Commercial and Industrial market strength and share gains drive growth in Western Europe
- Weaker than expected Industrial market conditions drive slight decline in U.S.; Commercial & Resi up LSD
- Emerging market decline driven entirely by weakness in China (down 37%); Eastern Europe & Middle East up double-digits

ADJ. OP INCOME*

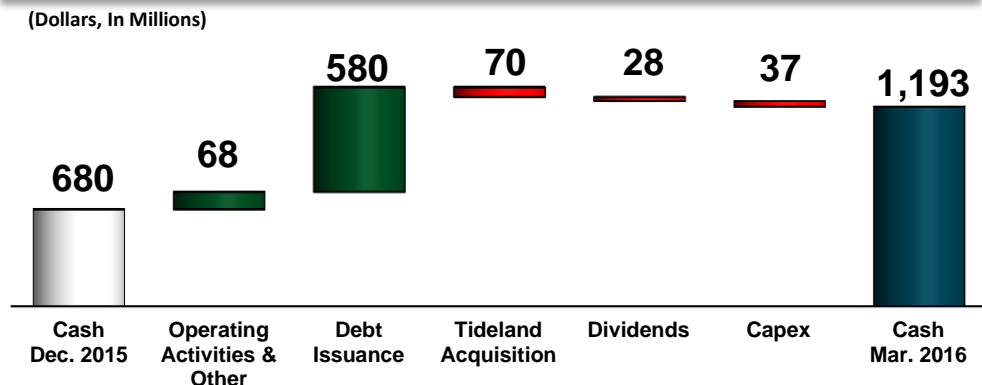
(Dollars, In Millions)



EXECUTING GROWTH STRATEGY AMIDST MIXED MARKET CONDITIONS

XYLEM FINANCIAL POSITION

CASH DRIVERS

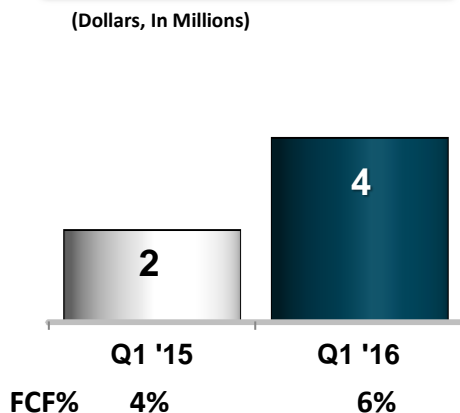


CAPITAL SUMMARY

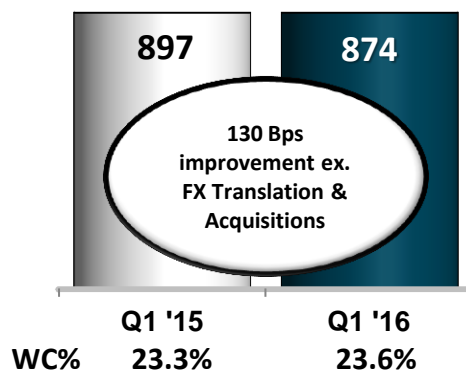
March 31, 2016 (Dollars, In Millions)

Cash	1,193
Debt	1,873
Net Debt	680
Shareholders' Equity	2,159
Net Capital	2,839
Net Debt to Net Capital	24.0%

FREE CASH FLOW *



WORKING CAPITAL

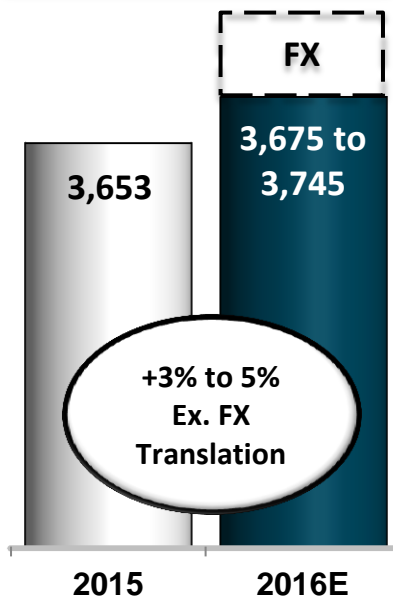


- Investment grade credit (BBB / Baa2)
- Cash position at 3/31 includes Euro Debt issuance (March) used to redeem \$600M Sr. Notes due in Sept. 2016
- Debt as of 3/31 includes:
 - \$600M 3.55% Sr. Notes redeemed 4/11
 - €500M 2.25% Sr. Notes due 2023
 - \$600M 4.875% Sr. Notes due 2021

2016 OUTLOOK

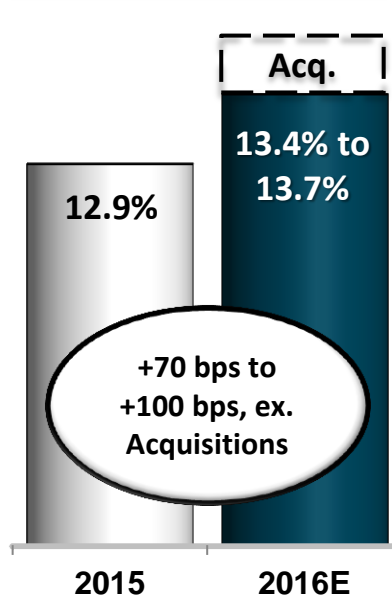
(Dollars, In Millions, except EPS)

REVENUE



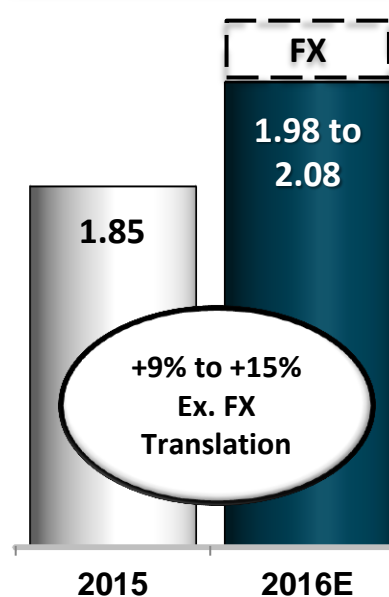
- Organic +2% to 4%
- Acquisitions + 1%
- FX Translation - 3%

ADJ. OP MARGIN*



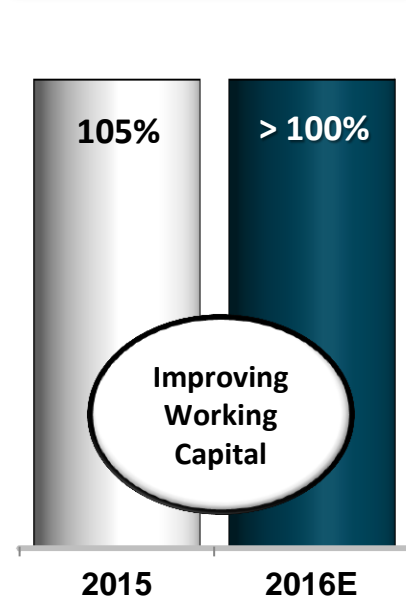
- Acquisitions - 20 bps
- Corp. Expense ~\$50, in-line with 4Q'15 run-rate
- Ex. ~\$25 for Restructuring & Realignment costs

ADJ. EPS*



- Interest Expense ~\$48M
- Tax Rate ~20%
- Share Count ~180M
- FX Translation - \$0.04






FCF CONVERSION*



- Capex \$120 to \$130
- Dividends ~120
- Min. Share Buyback ~\$30

MAINTAINING REVENUE & MARGIN OUTLOOK; RAISING EPS GUIDANCE

2016 OUTLOOK

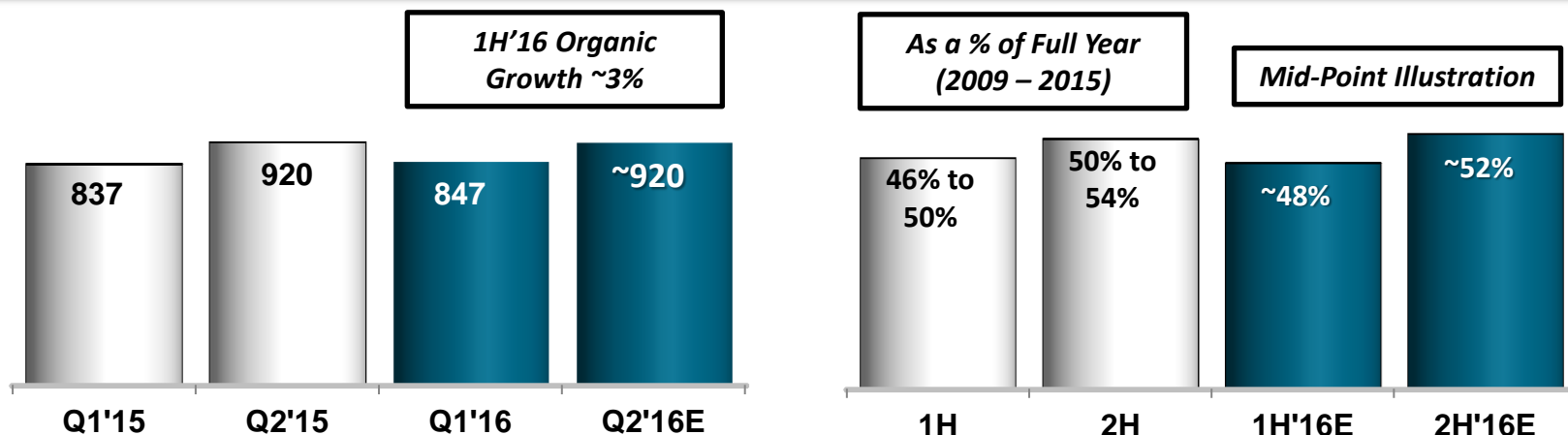
			Vs. Previous Outlook	Xylem 2016 Organic Growth
 <p>Industrial (44% of '15 Revenue)</p>	<ul style="list-style-type: none"> • Heavy Industry offsetting Gen'l Industrial growth <ul style="list-style-type: none"> • General industrial up low-single digits • Mining (~5% of Revenue) as expected • O&G decline (~3% Revenue) as expected 		No Change	Flat to Up Low Single Digits
 <p>Public Utility (33% of '15 Revenue)</p>	<ul style="list-style-type: none"> • Public Utility market growth strengthening <ul style="list-style-type: none"> • U.S. recovery continues; strong 1Q start • Improving European outlook • Emerging Market growth continues 		↑	Up Mid to High Single Digits
 <p>Commercial (14% of '15 Revenue)</p>	<ul style="list-style-type: none"> • No change in outlook; Mixed geographic trends <ul style="list-style-type: none"> • U.S. expected to moderate; Europe stable • Investments driving double-digit ME growth • China headwinds persist as expected 		No Change	Up Mid Single Digits
 <p>Residential (7% of '15 Revenue)</p>	<ul style="list-style-type: none"> • Weaker than expected 1Q; reducing outlook <ul style="list-style-type: none"> • U.S. slow 1Q start; soft heating season (weather) • Low single digit growth in Europe • Tougher macro conditions in Oceania 		↓	Flat
 <p>Agriculture (2% of '15 Revenue)</p>	<ul style="list-style-type: none"> • No change in outlook <ul style="list-style-type: none"> • Mixed geographic trends • Easier 2H PY Comps ('15 U.S. Flooding) 		No Change	Up Low Single Digits

PUBLIC UTILITY STRENGTH DRIVING SIGNIFICANT ORGANIC GROWTH

PLANNING ASSUMPTIONS

(Dollars, In Millions)

REVENUE PROFILE



2Q'16 Highlights

- 2Q'16 Organic Growth of ~2%
 - *Sequential growth reflecting impact of 1Q projects and Public Utility maintenance acceleration (1Q weather)*
- Acquisitions add Revenue ~\$12
- FX Translation Revenue headwind of ~\$28
- Adj. Op Margin* up 40 to 60 bps (YOY)

2H'16 Highlights YOY (Mid-Point Illustration)

- 2H'16 Organic Growth: ~3%
- Acquisitions add Revenue ~\$32
- FX Translation Revenue headwind of ~\$44
- Adj. Op Margin* up 80 to 130 bps
 - *Productivity/cost reductions fund increased investment in R&D*
 - *Favorable mix (lapping O&G headwinds)*
 - *2H Restructuring savings of \$8*

2Q OUTLOOK: ~2% ORGANIC GROWTH ... ADJ. OP MARGIN UP 40 to 60 BPS

SUMMARY

- **Solid 1Q start, on track to deliver on our financial commitments**
- **Maintaining our fundamental outlook**
- **Raising full year earnings guidance to reflect interest savings**
- **Remain focused on executing long-term strategy**

APPENDIX

2016 OUTLOOK

Foreign Exchange Transaction

- Hedge up to 75% of net cash flows for 7 largest currency exposures
- Hedge balance sheet mark-to-market on a monthly basis with currency forward instruments
- Include foreign currency transaction impacts as part of “Operational Performance”

Foreign Exchange Translation

- No update to full-year guidance for FX movements
- Q1’16 FX Translation Impacts: Revenue -\$29 million; No impact to Adj. Earnings Per Share

Currency Exchange	2015 Average Rate	Guidance Rate	1Q’16 Average Rate	Rates As of 4/28/16	Q2 – Q4 Revenue Impact (vs. Guide)	Q2 – Q4 Op Income Impact (vs. Guide)
Euro	1.11	1.10	1.10	1.13	~ \$15	~ \$8
SEK	0.119	0.117	0.118	0.124	~ \$4	~ \$(2)
GBP	1.53	1.45	1.43	1.46	~ \$0	~ \$1
AUD	0.787	0.704	0.721	0.760	~ \$8	
CAD	0.755	0.704	0.727	0.796	~ \$11	
All Others	N/A	N/A	N/A	N/A	~ \$11	
Total					~ \$50	~ \$7

General “rule of thumb” (at the end of the 1Q), for every one cent movement in Euro = one cent movement in Xylem’s full year Adj. EPS

NO CHANGE IN GUIDANCE ASSUMPTIONS; POTENTIAL \$0.03

Xylem Inc. Non-GAAP Measures

Management views key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, working capital, and backlog, among others. In addition, we consider certain measures to be useful to management and investors evaluating our operating performance for the periods presented, and provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operations as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

“Organic revenue” and “Organic orders” defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for classification as a discontinued operation or insignificant portions of our business that we did not classify as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations assumes no change in exchange rates from the prior period.

“Constant currency” defined as financial results adjusted for currency translation impacts by translating current period and prior period activity using the same currency conversion rate. This approach is used for countries whose functional currency is not the U.S. dollar.

“EBITDA” defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **“Adjusted EBITDA”** reflects the adjustment to EBITDA to exclude restructuring and realignment costs, gain on sale of business and special charges.

“Adjusted Operating Income”, “Adjusted Segment Operating Income”, and “Adjusted EPS” defined as operating income, segment operating income and earnings per share, adjusted to exclude restructuring and realignment costs, gain on sale of businesses, special charges and tax-related special items, as applicable.

“Free Cash Flow” defined as net cash from operating activities, as reported in the Statement of Cash Flow, less capital expenditures as well as adjustments for other significant items that impact current results which management believes are not related to our ongoing operations and performance. Our definition of free cash flows does not consider non-discretionary cash payments, such as debt.

“Realignment costs” defined as costs not included in restructuring costs that are incurred as part of actions taken to reposition our business, including items such as professional fees, severance, relocation, travel, facility set-up and other costs.

“Special charges” defined as costs incurred by the Company, such as initial acquisition related costs, costs incurred for the contractual indemnification of tax obligations to ITT and other special non-operating items.

“Tax-related special items” defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, significant reserves for cash repatriation and other discrete tax adjustments.

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders 2016	Orders 2015	Change 2016 v. 2015	% Change 2016 v. 2015	Acquisitions / Divestitures	FX Contribution	Change Adj. 2016 v. 2015	% Change Adj. 2016 v. 2015			
Quarter Ended March 31											
Xylem Inc.	888	915	(27)	-3%	(5)	31	(1)	0%	0%		
Water Infrastructure	534	562	(28)	-5%	(5)	24	(9)	-2%	-1%		
Applied Water	354	353	1	0%	-	7	8	2%	2%		

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue 2016	Revenue 2015	Change 2016 v. 2015	% Change 2016 v. 2015	Acquisitions / Divestitures	FX Contribution	Change Adj. 2016 v. 2015	% Change Adj. 2016 v. 2015			
Quarter Ended March 31											
Xylem Inc.	847	837	10	1%	(6)	27	31	4%	4%		
Water Infrastructure	514	500	14	3%	(6)	21	29	6%	7%		
Applied Water	333	337	(4)	-1%	-	6	2	1%	1%		

Xylem Inc. Non-GAAP Reconciliation
Adjusted Operating Income
(\$ Millions)

	Q1	
	2016	2015
Total Revenue		
• Total Xylem	847	837
• Water Infrastructure	514	500
• Applied Water	333	337
Operating Income		
• Total Xylem	79	83
• Water Infrastructure	54	47
• Applied Water	39	46
• Total Segments	93	93
Operating Margin		
• Total Xylem	9.3%	9.9%
• Water Infrastructure	10.5%	9.4%
• Applied Water	11.7%	13.6%
• Total Segments	11.0%	11.1%
Special Charges		
• Total Xylem	4	1
• Water Infrastructure	4	1
• Applied Water	-	-
• Total Segments	4	1
Restructuring & Realignment Costs		
• Total Xylem	9	6
• Water Infrastructure	4	5
• Applied Water	3	1
• Total Segments	7	6
Adjusted Operating Income*		
• Total Xylem	92	90
• Water Infrastructure	62	53
• Applied Water	42	47
• Total Segments	104	100
Adjusted Operating Margin*		
• Total Xylem	10.9%	10.8%
• Water Infrastructure	12.1%	10.6%
• Applied Water	12.6%	13.9%
• Total Segments	12.3%	11.9%

*Adjusted Operating Income excludes restructuring & realignment costs and special charges.

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

	Q1 2015			Q1 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	837		837	847		847
Operating Income	83	7 a	90	79	13 a	92
Operating Margin	9.9%		10.8%	9.3%		10.9%
Interest Expense	(14)		(14)	(14)		(14)
Other Non-Operating Income (Expense)	(1)	1 b	-	-		-
Gain from sale of business	9	(9)	-	-		-
Income before Taxes	77	(1)	76	65	13	78
Provision for Income Taxes	(13)	(3) c	(16)	1	(17) c	(16)
Net Income	64	(4)	60	66	(4)	62
Diluted Shares	183.1		183.1	179.3		179.3
Diluted EPS	\$ 0.35	\$ (0.02)	\$ 0.33	\$ 0.37	\$ (0.02)	\$ 0.35

a Restructuring & realignment costs and special charges

b Special charges

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

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

	Q1	
	2016	2015
Net Cash - Operating Activities	\$ 41	\$ 39
Capital Expenditures	(37)	(37)
Free Cash Flow	<u>\$ 4</u>	<u>\$ 2</u>
Net Income	66	64
Gain from sale of businesses	-	9
Net Income, excluding gain on sale of businesses	<u>\$ 66</u>	<u>\$ 55</u>
Free Cash Flow Conversion	<u>6%</u>	<u>4%</u>

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

	2016	
	Q1	
Pre-Tax Income	65	
Interest Expense (Income), net	14	
Depreciation	20	
Amortization	12	
Stock Compensation	5	
EBITDA	<u>116</u>	
Restructuring & Realignment	9	
Special Charges	4	
Adjusted EBITDA	<u>129</u>	
Revenue	<u>847</u>	
Adjusted EBITDA Margin	<u>15.2%</u>	
	2015	
	Q1	
Pre-Tax Income	77	
Interest Expense (Income), net	13	
Depreciation	24	
Amortization	11	
Stock Compensation	4	
EBITDA	<u>129</u>	
Restructuring & Realignment	6	
Gain on sale of business	(9)	
Special Charges	2	
Adjusted EBITDA	<u>128</u>	
Revenue	<u>837</u>	
Adjusted EBITDA Margin	<u>15.3%</u>	

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

	2016	
	Q1	
Pre-Tax Income	54	
Interest Expense (Income), net	-	
Depreciation	12	
Amortization	10	
Stock Compensation	1	
EBITDA	<u>77</u>	
Restructuring & Realignment	4	
Special Charges	4	
Adjusted EBITDA	<u>85</u>	
Revenue	<u>514</u>	
Adjusted EBITDA Margin	<u>16.5%</u>	
	2015	
	Q1	
Pre-Tax Income	55	
Interest Expense (Income), net	-	
Depreciation	16	
Amortization	9	
Stock Compensation	1	
EBITDA	<u>81</u>	
Restructuring & Realignment	5	
Gain on sale of business	(8)	
Special Charges	1	
Adjusted EBITDA	<u>79</u>	
Revenue	<u>500</u>	
Adjusted EBITDA Margin	<u>15.8%</u>	

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

	2016	
	Q1	
Pre-Tax Income	38	
Interest, net	-	
Depreciation	5	
Amortization	1	
Stock Compensation	-	
EBITDA	<u>44</u>	
Restructuring & Realignment	3	
Adjusted EBITDA	<u>47</u>	
Revenue	<u>333</u>	
Adjusted EBITDA Margin	<u>14.1%</u>	
	2015	
	Q1	
Pre-Tax Income	46	
Interest, net	-	
Depreciation	5	
Amortization	1	
Stock Compensation	1	
EBITDA	<u>53</u>	
Restructuring & Realignment	1	
Gain on sale of business	(1)	
Adjusted EBITDA	<u>53</u>	
Revenue	<u>337</u>	
Adjusted EBITDA Margin	<u>15.7%</u>	

xylem

Let's Solve Water

NYSE: XYL

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