



**xylem**  
Let's Solve Water

2017 Electrical Products Group  
Conference

May 22, 2017

# Forward-Looking Statements

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

Factors that could cause results to differ materially from those anticipated include: overall economic and business conditions, political and other risks associated with our international operations, including military actions, economic sanctions or trade embargoes that could affect customer markets, and non-compliance with laws, including foreign corrupt practice laws, export and import laws and competition laws; potential for unexpected cancellations or delays of customer orders in our reported backlog; our exposure to fluctuations in foreign currency exchange rates; competition and pricing pressures in the markets we serve; the strength of housing and related markets; ability to retain and attract key members of management; our relationship with and the performance of our channel partners; our ability to successfully identify, complete and integrate acquisitions, including the integration of Sensus; our ability to borrow or to refinance our existing indebtedness and availability of liquidity sufficient to meet our needs; changes in the value of goodwill or intangible assets; risks relating to product defects, product liability and recalls; governmental investigations; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, and those described from time to time in subsequent reports filed with the Securities and Exchange Commission.

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

# Key Notes for Today's Presentation

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

# Xylem at a Glance

## Company Stats

<b>Founded</b>	<b>2011 (Spin)</b>
<b>Country Locations</b>	<b>80</b>
<b>Employees</b>	<b>~16,000</b>
<b>Market Cap<sup>1</sup></b>	<b>~\$9B</b>



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

<b>Revenue</b>	<b>\$4.5B</b>
<b>EBITDA   Margin</b>	<b>\$833M   18.4%</b>
<b>Operating Margin</b>	<b>13.7%</b>

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

<b>Water Infrastructure</b>	<b>\$2.2B   49%</b>
<b>Applied Water</b>	<b>\$1.4B   31%</b>
<b>Sensus</b>	<b>\$0.9B   20%</b>

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

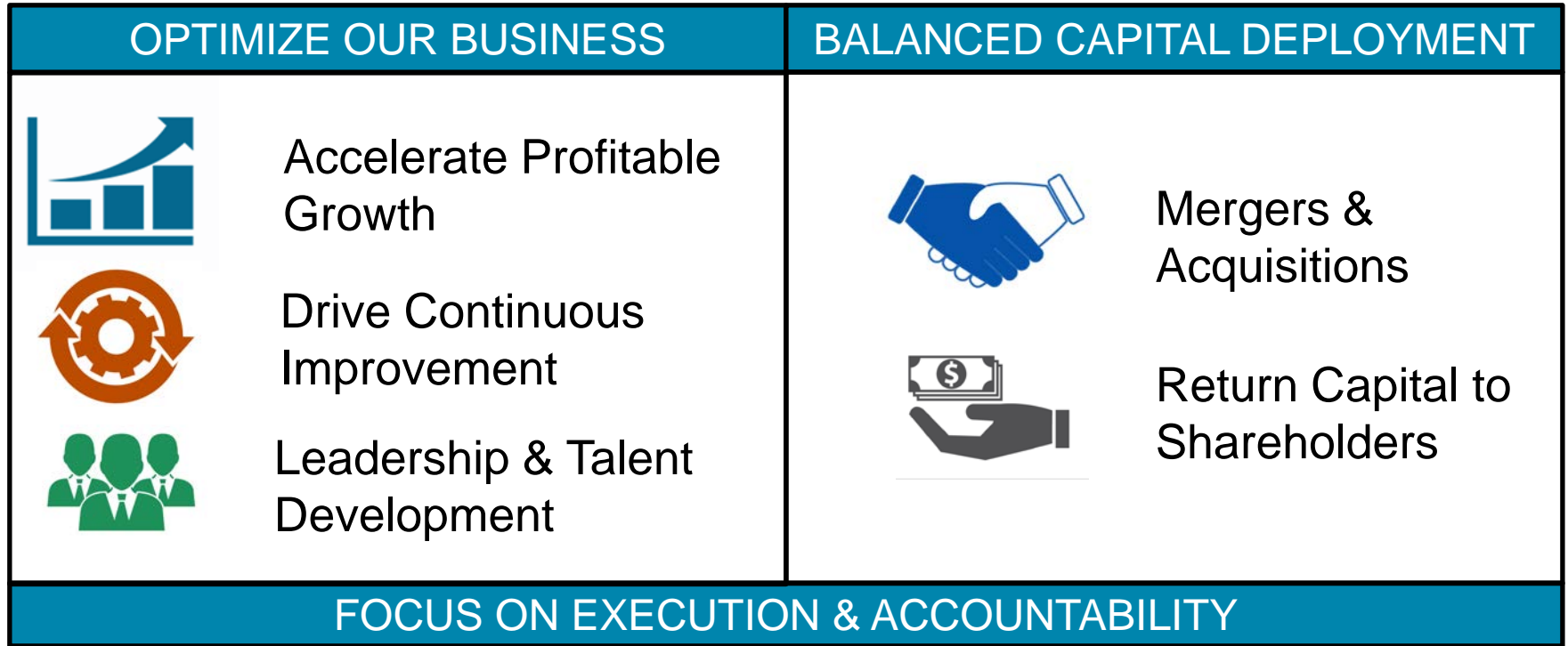
<sup>2</sup> Pro forma to include Sensus; See Appendix for non-GAAP reconciliations

# Our Vision:

## Be the Distinctive Market Leader in the Water Sector

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

# Xylem's Value Creation Roadmap



# Four Pillars of Accelerating Profitable Growth

**Commercial  
Leadership**

**Emerging  
Markets**

**M&A**

**Innovation &  
Technology**

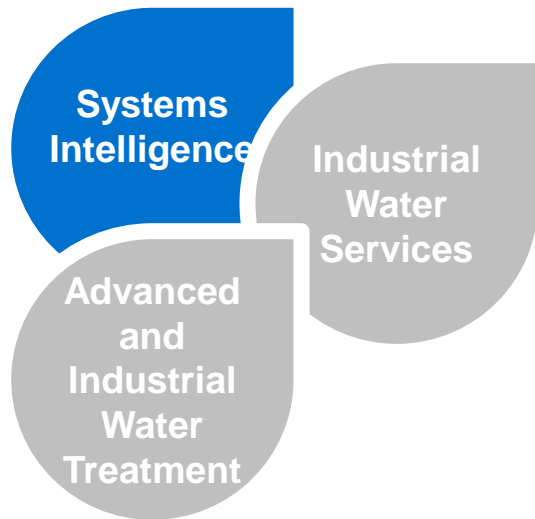
# Executed Strategic Transactions in Smart Infrastructure



- Differentiated communication systems, metering technologies & data analytics
- \$891M in 2016 Revenue; 20.3% Adj. EBITDA
- Purchase Price: \$1.7B (10.7x Adj. EBITDA)
- Expected 2020 Run Rate Revenue Synergies of \$150 - \$175M
- Cost Savings of \$50M+ by 2020



- Provides solution and data analytics capability for real time leak detection & water pressure monitoring
- Strengthens technology DNA; pivoting to leading-edge innovator
- Purchase Price: \$8M; 2015 Revenue: \$3M; Expected high single digit CAGR



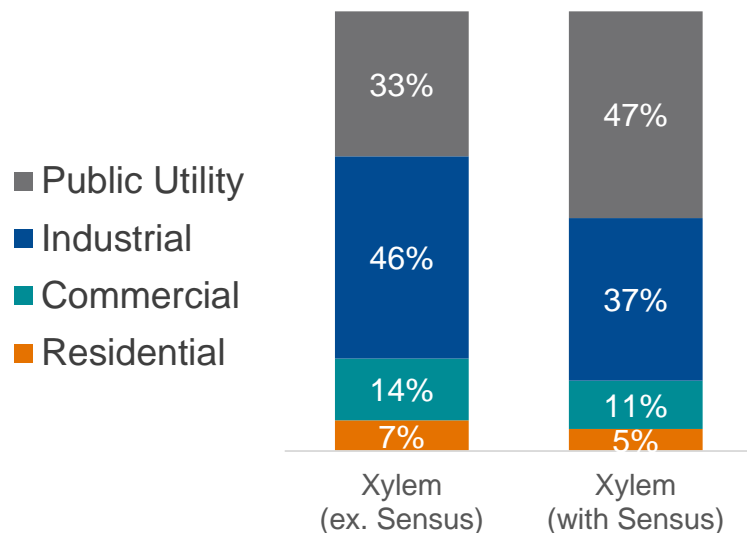
**Opportunities in Faster Growing Markets Made More Scalable by Xylem**



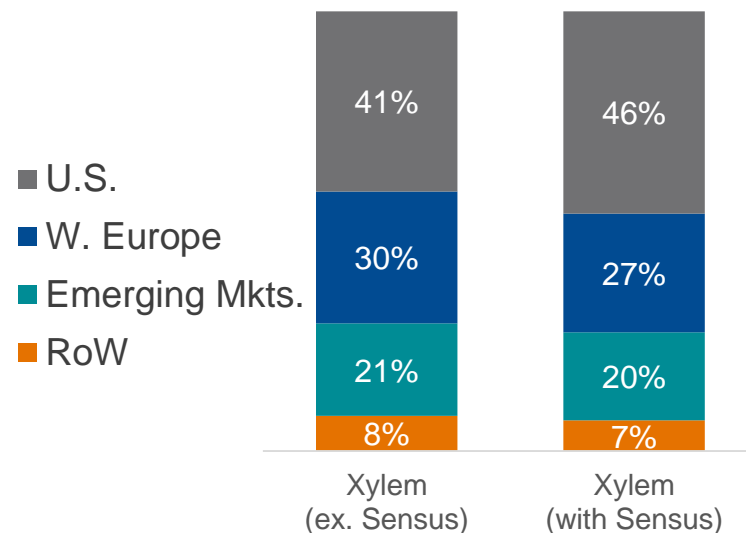
# Expanded, More Diverse Business Profile

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

### End Markets



### Geography



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

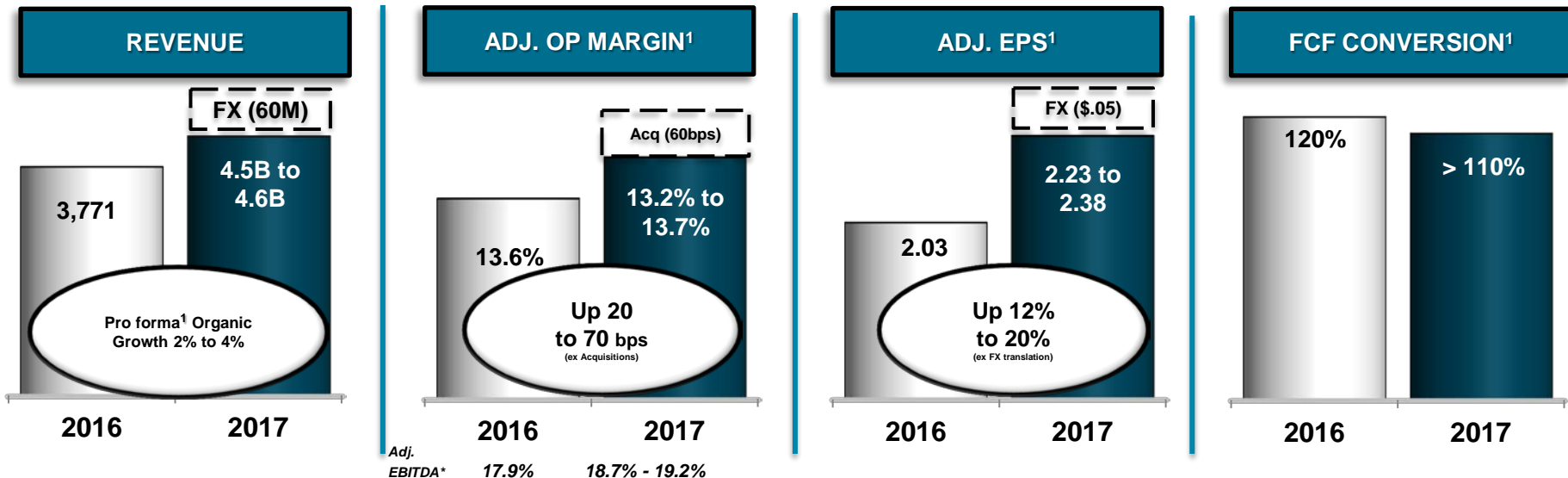
# Updated 2020 Financial Targets

	Original Targets <i>(2015 Investor Day)</i>	Current Outlook <i>(2020)</i>	
<b>Organic Growth</b>	3% to 5%	4% to 6%	Sensus and synergies drive higher growth profile
<b>Operating Margin</b>	16% to 17%	17% to 18%	
<b>EBITDA Margin</b>	20% to 21%	21.5% to 22.5%	
<b>EPS<sup>1</sup> Growth</b>	8% to 12%	Mid-teens	Capital deployment drives high-teens+ EPS growth
<b>Capital Available for Deployment</b>	3.5B	\$5B+	

**Further Strengthening the Investment Thesis**

# 2017 Outlook

(Dollars, In Millions, except EPS)



## Financial Highlights

- Xylem Pro Forma Organic growth of 2% to 4%
  - Xylem's base Organic Revenue growth of 1% to 3%; Sensus Pro Forma Organic Growth of 6% to 7%
- Expecting strong underlying Op Margin expansion; On-track to deliver long-term targets (ex. acquisitions)
- Sensus acquisition accelerates Revenue, EBITDA margin and earnings growth profile

# 2017 End Market Outlook



## Public Utility (47% of 2016 Pro Forma Revenue)

- 2017 Pro Forma Organic Growth: Up Low to Mid Single Digits
- Base Xylem Org. Growth: +LSD; Sensus Org. Growth: +6% to 7%
- Tough '16 compare mutes U.S. growth
- Project activity fuels growth in China and India
- Continued growth in the UK (3<sup>rd</sup> Year of Amp 6 Cycle)



## Industrial (37% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: Flat to Up Low Single Digits
- Soft U.S. market conditions; modest 2H improvement
- O&G weakness in 1H; stabilizing over the 2H; Mining moderating
- Mixed emerging market conditions



## Commercial (11% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: Up Low Single Digits
- Strong U.S. position; Architecture Billings Index above 50 suggests stable low-growth market
- Flat EU construction market



## Residential (5% of 2016 Pro Forma Revenue)

- 2017 Organic Growth: Up Low to Mid Single Digits
- Competitive U.S. market; replacement driven demand
- Improving EU market outlook based on increased residential building permitting

# Xylem's Investment Thesis

## WE WILL BENEFIT FROM A FAVORABLE MACRO OUTLOOK

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

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## MARKET-PLUS GROWTH DRIVEN BY FOCUSED STRATEGIES

Increased investment in faster-growth regions and innovation

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## RUNWAY FOR FURTHER MARGIN EXPANSION

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

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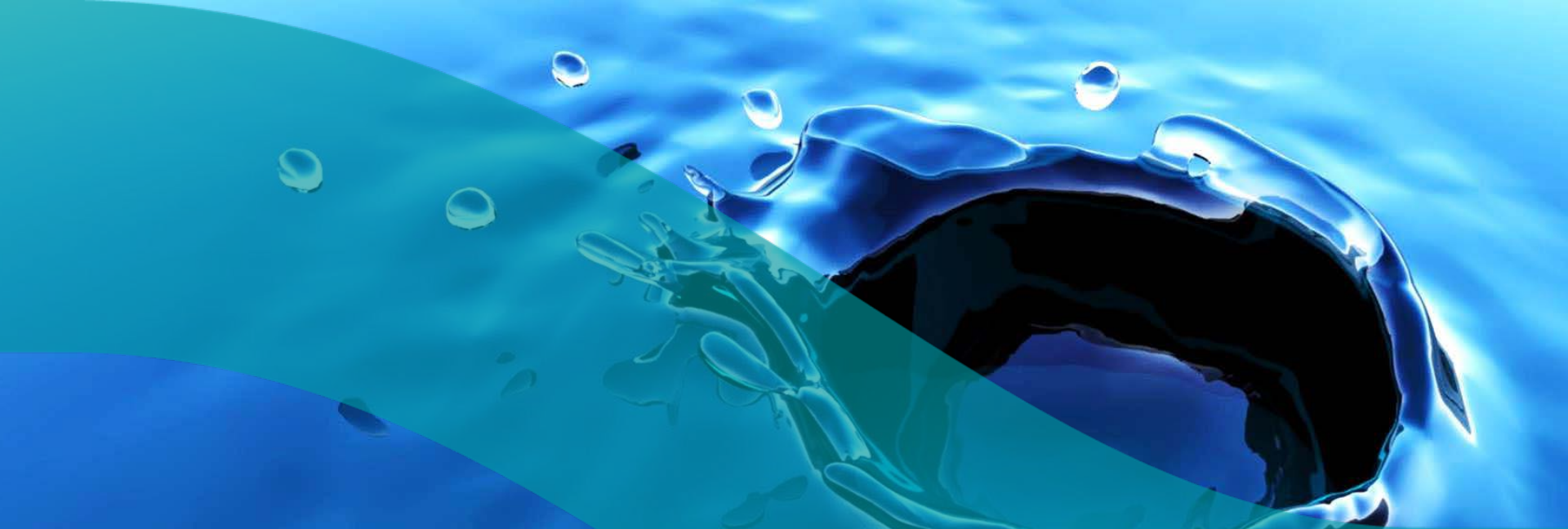


## ACCELERATING CAPITAL DEPLOYMENT TO CREATE VALUE

Strong cash flow generation and capital structure enables significant value creation

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Thank You



# Appendix

## Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, free cash flow, working capital, and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including but not limited to, dividends acquisitions, share repurchases and debt repayment. However, other than with respect to total revenue, we only provide guidance on a non-GAAP basis and do not provide reconciliations of such forward-looking measures to GAAP due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as integration and acquisition-related costs, special charges and tax related special items. These adjusted metrics are consistent with how management views our business and are used to make financial, operating and planning decisions. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operating activities as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

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

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

**"EBITDA"** defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **"Adjusted EBITDA"** for Xylem reflects the adjustment to EBITDA to exclude restructuring and realignment costs, Sensus acquisition related costs, gain on sale of business and special charges. For Sensus adjustments, see Adjusted EBITDA - Sensus & Pro forma with Sensus table.

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

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

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

**"Sensus Acquisition Related Costs"** defined as costs incurred by the Company associated with the acquisition of Sensus that are being reported within operating income. These costs include transaction costs, integration costs, costs related to the recognition of the inventory step up and amortization of the backlog intangible asset recorded in purchase accounting.

**"Special charges"** defined as costs incurred by the Company, such as interest expense related to the early extinguishment of debt during Q2 2016, financing costs related to the bridge loan entered into in Q3 2016 for the Sensus acquisition, initial acquisition costs not related to Sensus, costs incurred for the contractual indemnification of tax obligations to ITT and other special non-operating items.

**"Tax-related special items"** defined as tax items, such as tax return versus tax provision adjustments, tax exam impacts, tax law change impacts, significant reserves for cash repatriation, excess tax benefits/losses and other discrete tax adjustments.

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



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

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

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

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

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

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

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

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

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

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

	YTD	
	2016	2015
Total Revenue		
• Total Xylem	3,771	3,653
• Water Infrastructure	2,246	2,231
• Applied Water	1,393	1,422
• Sensus	132	-
Operating Income		
• Total Xylem	406	449
• Water Infrastructure	308	303
• Applied Water	188	190
• Sensus	(17)	-
• Total Segments	479	493
Operating Margin		
• Total Xylem	10.8%	12.3%
• Water Infrastructure	13.7%	13.6%
• Applied Water	13.5%	13.4%
• Sensus	-12.9%	N/A
• Total Segments	12.7%	13.5%
Sensus Acquisition Related Costs		
• Total Xylem	53	-
• Water Infrastructure	-	-
• Applied Water	-	-
• Sensus	25	-
• Total Segments	25	-
Special Charges		
• Total Xylem	5	1
• Water Infrastructure	5	1
• Applied Water	-	-
• Sensus	-	-
• Total Segments	5	1
Restructuring & Realignment Costs		
• Total Xylem	47	20
• Water Infrastructure	28	13
• Applied Water	16	7
• Sensus	1	-
• Total Segments	45	20
Adjusted Operating Income		
• Total Xylem	511	470
• Water Infrastructure	341	317
• Applied Water	204	197
• Sensus	9	-
• Total Segments	554	514
Adjusted Operating Margin		
• Total Xylem	13.6%	12.9%
• Water Infrastructure	15.2%	14.2%
• Applied Water	14.6%	13.9%
• Sensus	6.8%	N/A
• Total Segments	14.7%	14.1%

	2016	Total
	Pre-Tax Income	
Interest Expense (Income), net		68
Depreciation		87
Amortization		64
Stock Compensation		18
EBITDA		577
Restructuring & Realignment		47
Sensus Acquisition Related Costs		46
Special Charges		5
Adjusted EBITDA		675
Revenue		3,771
Adjusted EBITDA Margin		17.9%
	<b>2015</b>	<b>Total</b>
Pre-Tax Income		403
Interest Expense (Income), net		53
Depreciation		88
Amortization		45
Stock Compensation		15
EBITDA		604
Restructuring & Realignment		20
Gain on sale of businesses		(9)
Special Charges		5
Adjusted EBITDA		620
Revenue		3,653
Adjusted EBITDA Margin		17.0%

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

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

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

	Q1		Q2		Q3		Q4		Year Ended	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	<b>Net Cash - Operating Activities</b>	\$ 41	\$ 39	\$ 84	\$ 84	\$ 149	\$ 137	\$ 223	\$ 204	\$ 497
Capital Expenditures	(37)	(37)	(25)	(20)	(28)	(21)	(34)	(39)	(124)	(117)
<b>Free Cash Flow</b>	\$ 4	\$ 2	\$ 59	\$ 64	\$ 121	\$ 116	\$ 189	\$ 165	\$ 373	\$ 347
Cash paid for Sensus Acquisition Related Costs	-	-	-	-	(3)	-	(10)	-	(13)	-
<b>Free Cash Flow, excluding Sensus Acquisition Related Costs</b>	\$ 4	\$ 2	\$ 59	\$ 64	\$ 124	\$ 116	\$ 199	\$ 165	\$ 386	\$ 347
<b>Net Income</b>	66	64	71	74	73	88	50	114	260	340
Gain from sale of businesses	-	9	-	-	-	-	-	-	-	9
Special Charges - Interest on debt extinguishment	-	-	(8)	-	-	-	-	-	(8)	-
Sensus Acquisition Related Costs	-	-	-	-	(10)	-	(43)	-	(53)	-
<b>Net Income, excluding gain on sale of businesses, Interest on debt extinguishment and Sensus Acquisition Related Costs</b>	\$ 66	\$ 55	\$ 79	\$ 74	\$ 83	\$ 88	\$ 93	\$ 114	\$ 321	\$ 331
<b>Free Cash Flow Conversion</b>	6%	4%	75%	86%	149%	132%	214%	145%	120%	105%

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

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

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

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

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

# xylem

## Let's Solve Water

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