



Xylem Agrees to Acquire Sensus to Broaden
Portfolio and Enhance Growth Platform
AUGUST 15, 2016

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 statements about the capitalization of Xylem Inc. (the “Company”), the Company’s restructuring and realignment, future strategic plans and/or acquisitions 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, statements relating to potential or anticipated acquisitions of assets or stock of a target company 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. The consummation of any transaction described herein is subject to certain conditions that must be satisfied pursuant to the relevant transaction documents. There can be no assurances that such conditions will be satisfied.

Factors that could cause results to differ materially from those anticipated include: economic, 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; adverse or unanticipated actions or omissions taken by any regulatory or other governmental authority, including, but not limited to, the refusal by the FTC, the DOJ, the SEC or the FCC to approve, in whole or in part, certain of our planned transactions or 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.

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.

Presentation Notes

- All references today will be on an adjusted basis unless otherwise indicated.
- Non-GAAP financial metrics are reconciled in the Appendix section of the presentation.
- Sensus 2016 financial information provided by Sensus management and is representative of the March 31, 2016 fiscal year-end.

Enhancing Xylem's Portfolio and Accelerating Innovation



Transaction Summary

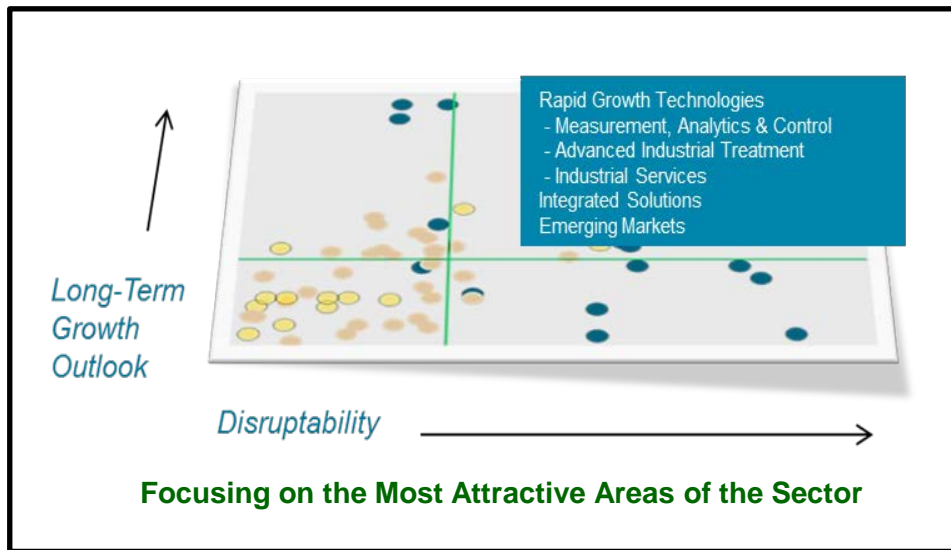
- Xylem announced definitive agreement to acquire Sensus, a leading provider of smart meters, network technologies and advanced data analytics for \$1.7B in cash
- New growth platform for Xylem provides significant value creation opportunity for Xylem shareholders
- A leading position in attractive growth markets broadens and enhances Xylem's water technology and solutions portfolio
- Sensus reported Adj. Revenue of \$837M and EBITDA of \$159M for its fiscal year ended March 31, 2016; Deal represents attractive valuation at 10.7X Adj. EBITDA (8.1X including expected cost synergies)
- Expected to be ~\$0.10 to \$0.12 accretive in 2017 to Adj. EPS

Acquisition Advances Long-Term Strategy

- Sensus operates in markets aligned with the results of our extensive value mapping review of the water sector
- Acquisition is consistent with the M&A priorities covered at 2015 Investor Day:
 - ✓ Strategic fit
 - ✓ Rapid growth technologies
 - ✓ Integrated solutions

2015 Investor Day Financial Criteria

- ✓ ROIC > cost of capital in 3 to 5 yrs
- ✓ IRR > cost of capital
- ✓ Adj. EPS accretive after 1st year
 - ✓ Sensus is expected to be \$0.10 to \$0.12 accretive to Adj. Earnings in 2017



Strong Strategic Fit

EXPANDS PRESENCE TO ATTRACTIVE AREAS IN AN INDUSTRY IN WHICH XYLEM HAS STRONG EXPERIENCE

Sensus is a leading provider of smart metering, network technologies and advanced data analytics to water, gas and electric utilities

NEW PLATFORM AND TECHNOLOGY BROADEN XYLEM'S LEADING WATER SOLUTIONS PORTFOLIO

Combination creates a compelling global offering to accelerate both organic and inorganic growth

ADVANCES XYLEM'S STRATEGY TO BE A LEADING PROVIDER OF SYSTEMS INTELLIGENCE SOLUTIONS

Sensus technology and business model enhances Xylem's leading wastewater and outdoor water portfolio

Sensus Overview

- A leading developer of advanced technology solutions enabling intelligent use and conservation of critical water and energy resources
- Differentiated communication systems, metering technologies, applications, and data analytics that improve utility operations worldwide
 - A global leader in smart water network technologies
 - Comprehensive portfolio of sensor technology products and services across growing segments
 - Distinctive communications technology (FlexNet®) provides a competitive advantage
 - Software solutions and advanced data analytics
- Strong team with deep application expertise
 - 3,300 employees and facilities across 28 locations on 6 continents
 - Headquartered in Raleigh, North Carolina

2016 Adj.
Revenue

\$837M

2016 Adj. EBITDA

\$159M



2016 Adj.
EBITDA Margin

19%

Global
Customers

14,000

Global Meter
Installed Base

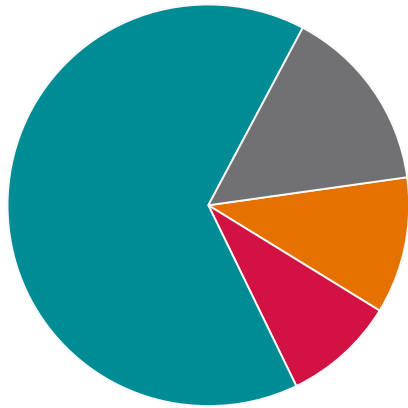
>80M

Notes:

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Sensus Serves Loyal Blue Chip Customers in Industries with Attractive Growth Fundamentals

2016 Revenue Profile

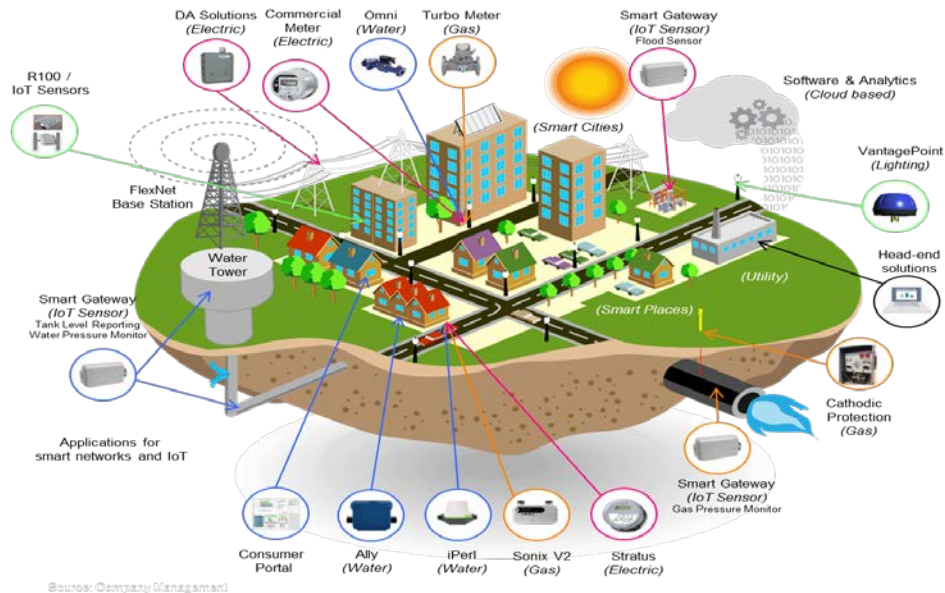


■ Water	65%
■ Gas	15%
■ Electric	9%
■ Software & Other	11%

- 14,000 global customers including major cities, governments and utilities
- Strong relationship with diverse “multi-utilities” customer base ranging from global players to small and medium local utilities
- Sticky customer relationships due to high switching costs and mission critical applications
- Strong recurring revenue potential from replacement, upgrades and expanding software, services and data analytics solutions



Sensus' Solutions Enable Customers to Enhance Efficiency, Improve Safety and Conserve Resources



Full Suite of End-to-End Solutions

Growth Drivers

1

Macro Trends

Urbanization, aging infrastructure and resiliency

2

Increasing Adoption

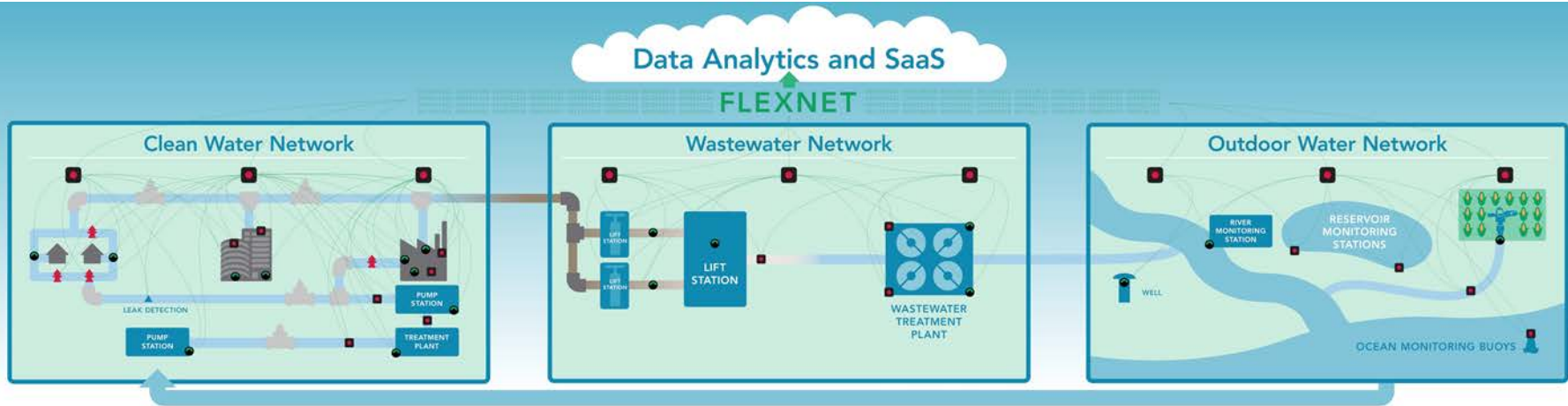
Driven by regulation, movement towards smart grids, and need to capture productivity gains, energy efficiency and water conservation

3

New Housing Starts

8% of U.S. new meter sales driven by new housing starts; 12% internationally

Transaction Advances Xylem's Smart Water Strategy



Smart Clean Water Network

- Sensus provides an immediate **leadership position**
- Sensus has a large installed base of metering devices providing **upgrade opportunities**
- Strong **Data Analytics** and **“Software as a Service”** capabilities

Smart Wastewater and Outdoor Water Networks

- Xylem has attractive and meaningful positions within the wastewater and outdoor water networks
- Sensus' distinctive technology and communications platforms provide Xylem the **opportunity to bring the “Internet of Things” to a large installed base**

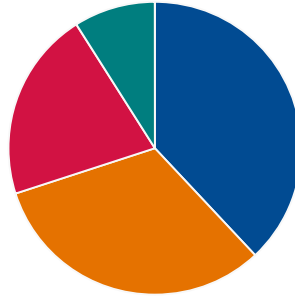
Transaction Will Create a Powerful Common Platform and Accelerate Xylem Up the Technology Curve

Significant Opportunity to Accelerate Revenue Growth

Geographic Profile

- Opportunity to bring the “IoT” to a large installed base of flow equipment
- Global footprint & world-class distribution channel serving customers in >150 countries
- Established leading positions in U.S. and Europe
- Growing presence in emerging markets

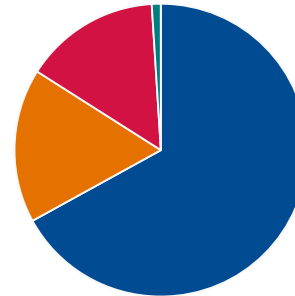
Xylem



■ United States	41%
■ Western Europe	30%
■ Emerging Markets	21%
■ Rest of World	8%

(Base: 2015 Revenue)

Sensus



■ United States	67%
■ Western Europe	17%
■ Emerging Markets	15%
■ Rest of World	1%

(Base: Fiscal Year-End March 31, 2016)

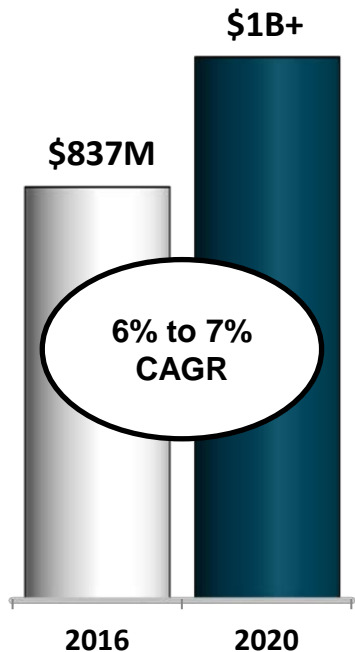
- A leading market position in the U.S.
- Demonstrated capability to win large international contracts
- Dedicated international sales team focused on key accounts
- International jurisdictions provide growth opportunity

Significant Domestic Cross Selling and International Sales Opportunities

Sensus Financial Highlights

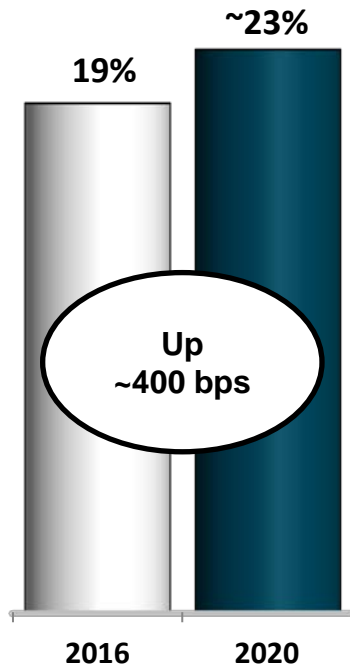
ADJ. REVENUE

Fiscal Year-End
March 31, 2016



ADJ. EBITDA

Fiscal Year-End
March 31, 2016



Highlights

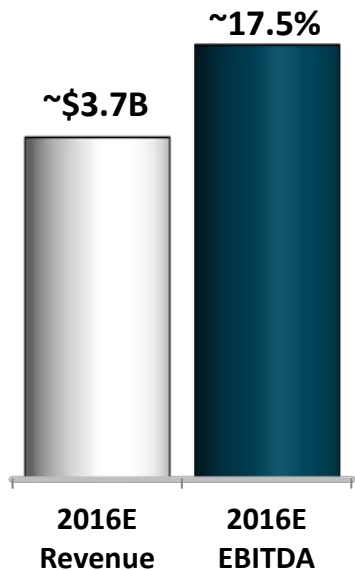
- **Expected annual run-rate cost synergies of ~\$50M**
 - G&A consolidation
 - Footprint rationalization
 - Procurement savings
 - Substantially completed by 2019
- **Attractive growth opportunities**
 - Global meter market growth CAGR of 5.5%
 - Ability to drive market-plus growth
 - Revenue synergies expected (but not included in estimates)
- **Significantly accretive to Xylem:**
 - Adds ~\$0.10 to \$0.12 to 2017 Adjusted EPS
 - ~\$0.28 to \$0.30 excl. non-cash amortization
 - No significant impact to 2016 Adjusted EPS

Notes:

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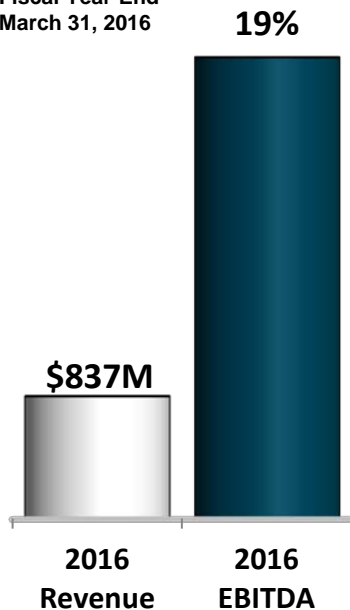
Sensus Enhances Xylem's Growth and Margin Profile

Xylem Revenue & Adj. EBITDA Margin



Sensus Adj. Revenue & Adj. EBITDA Margin

Fiscal Year-End
March 31, 2016



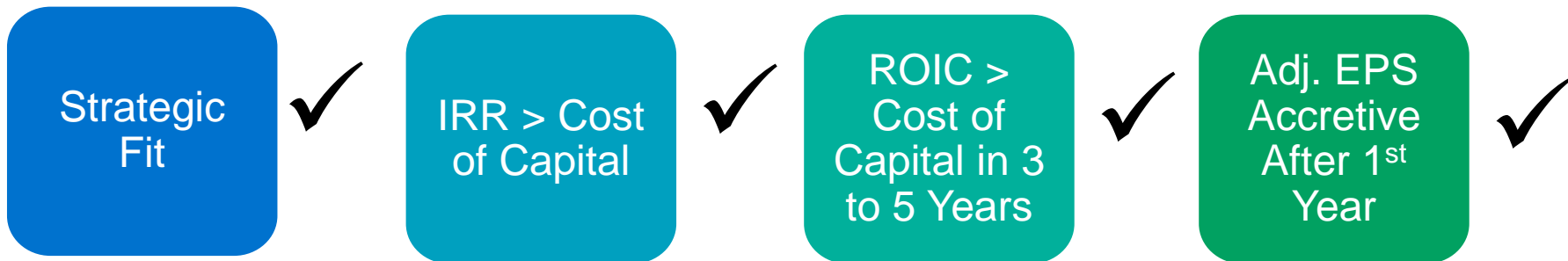
Highlights

- **Acquisition will accelerate profitable growth for XYL**
 - Expected Sensus long-term organic growth ~6% to ~7%
 - vs. Xylem expected organic growth of 3% to 5%
 - New platform with inorganic growth opportunities
- **Sensus will enhance XYL's margin and cash profile**
 - Sensus pre-acquisition Adj. EBITDA Margin ~150 bps > XYL
 - Provides significant source of U.S. Free Cash Flow
- **Highly attractive financial deal metrics**
 - Xylem currently trades at ~14X 2016 EV/EBITDA
 - Acquisition multiple of 10.7X Sensus 2016 Adj. EBITDA
 - 8.1X Sensus 2016 Adj. EBITDA incl. cost synergies

Notes:

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- Sensus 2016 financial information is representative of the March 31, 2016 fiscal year-end period

Transaction Fits M&A Framework



TRANSACTION DETAILS

- Purchase Price: \$1.7 billion in cash
- 10.7X Sensus' 2016 Adj. EBITDA
 - 8.1X 2016 Adj. EBITDA (incl. cost synergies)
- Effective use of >\$400 million of non-U.S. cash
- Obtain investment grade financing prior to close

FINANCIAL METRICS

- ROIC > WACC in 3 to 5 years
- IRR >10%
- Expect to add ~\$0.10 to \$0.12 to 2017 Adj. EPS
 - ~\$0.28 to \$0.30 excl. non-cash amortization
- No significant impact to 2016 Adj. EPS outlook

Provides for Significant Value Creation Opportunities

Maintains Financial Flexibility to Pursue Disciplined Growth Strategy and Enhance Return of Capital to Shareholders

LEVERAGE

- Expect to maintain **investment grade** credit rating
- Leverage⁽¹⁾:
 - Target: 2.5 – 3.0x EBITDA
 - Pre-Acquisition: 2.6x
 - Post-Acquisition: ~3.6x
- **Expect to return to target range within 12 to 18 months**

(1) Xylem estimate of credit rating agency multiple

INVEST IN GROWTH

- **High ROI organic investments** to support growth and productivity
- **Disciplined M&A to accelerate** growth
 - Expect to **continue to cultivate pipeline**
 - Capacity to **continue bolt-on acquisition strategy** in the mid-term

RETURN CASH TO SHAREHOLDERS

- Expect to **continue to grow dividends** in-line with earnings
- Sensus provides a **strong source of U.S. Free Cash Flow**
- Will **opportunistically repurchase shares after returning to target leverage**

Roadmap to Completion

- **The Acquisition is subject to customary closing conditions, including regulatory approvals**
 - Antitrust approvals in U.S., Germany and Austria
 - FCC regulatory approval for transfer of certain wireless licenses
 - No financing conditions
- **Transaction expected to be completed during the 4th Quarter of 2016**

In Summary



- **Xylem announced definitive agreement to acquire Sensus for \$1.7 billion in cash**
 - Acquisition represents an attractive valuation and smart use of trapped cash
 - Sensus is expected to be ~\$0.10 to \$0.12 accretive to Xylem's 2017 Adjusted EPS
 - Expected to close in 4Q of 2016; No significant impact to Xylem's 2016 Adjusted EPS outlook
 - **Sensus provides leadership position in attractive markets, and a new growth platform for Xylem**
 - A leading provider of smart metering, network technologies and advanced data analytics with state-of-the-art technology and R&D capabilities
 - Provides financial flexibility to pursue additional opportunities
 - **Will broaden and enhance Xylem's leading water technology and solutions portfolio**
 - Strengthens Xylem's industry position – from equipment to systems to digital solutions
 - Provides ability to deliver “systems intelligence” solutions across the entire water sector
 - Sensus technology and business model enhances Xylem's leading wastewater and outdoor offering
 - **Expected to create significant shareholder value**
 - Creates new platform for organic and inorganic growth
 - Substantial synergy potential; expecting ~\$50M in annual run-rate cost synergies (substantially completed by 2018)
 - Substantial revenue synergies are expected but not in estimates
 - Effective deployment of non-U.S. cash
-

Appendix

Non-GAAP Reconciliations

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:

"Adjusted revenue" defined as revenue, adjusted to exclude the impact of non-cash deferred revenue recognized.

"EBITDA" defined as earnings before interest, taxes, depreciation, amortization expense, and share-based compensation. **"Adjusted EBITDA"** reflects the adjustments to EBITDA to exclude the impact of non-cash revenue as well as the reversal of a product warranty reserve, restructuring and realignment charges, management fees and other non-recurring charges.

Sensus Worldwide Limited Non-GAAP Reconciliation*
 Adjusted Revenue, EBITDA and Adjusted EBITDA
 (\$ Millions)

Year-ended 3/31/2016

Reconciliation of Adjusted Revenue:

GAAP Revenue	861
Non-cash deferred revenue	(24)
Adjusted Revenue	<u>837</u>

Reconciliation EBITDA and Adjusted EBITDA:

GAAP Pre-Tax Income	99
Interest Expense (Income), net	37
Depreciation	22
Amortization	34
EBITDA	<u>192</u>
Non-cash deferred revenue	(24)
Reversal of product warranty reserve	(27)
Restructuring & realignment costs	7
Management fees	6
Other non-recurring charges	5
Adjusted EBITDA	<u>159</u>
Adjusted EBITDA Margin	<u>19.0%</u>

* GAAP revenue and income amounts from Sensus audited 3/31/2016 Financial Statement

xylem

Let's Solve Water

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