

# XYLEM INC.

## Q4 2018 EARNINGS RELEASE

JANUARY 31, 2019



**xylem**  
Let's Solve Water

# FORWARD-LOOKING STATEMENTS

This presentation contains information that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Act of 1995. 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 barriers including tariffs and 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; weather conditions; ability to retain and attract talent and 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; claims or investigations by governmental or regulatory bodies; security breaches or other disruptions of our information technology systems; litigation and contingent liabilities; and other factors set forth under Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2017 and in subsequent filings we make with the Securities and Exchange Commission (“SEC”).

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.

# Q4'18 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q4 2018	Adjusted* Q4 2018	GAAP FY 2018	Adjusted* FY 2018
<b>Xylem Consolidated</b>				
Revenue	\$1,386	\$1,386	\$5,207	\$5,207
Overall Growth	+9%	+9%	+11%	+11%
Constant Currency Growth		+11%		+10%
Organic Growth		+9%		+8%
Operating Income	\$194	\$209	\$654	\$714
Operating Margin	14.0%	15.1%	12.6%	13.7%
Earnings per Share	\$1.24	\$0.88	\$3.03	\$2.88
<b>Segment Results</b>				
<b>Water Infrastructure</b>				
Revenue	\$609	\$609	\$2,176	\$2,176
Overall Growth	+4%	+4%	+9%	+9%
Constant Currency Growth		+9%		+9%
Organic Growth		+9%		+9%
Operating Income	119	126	359	381
Operating Margin	19.5%	20.7%	16.5%	17.5%
<b>Applied Water</b>				
Revenue	\$402	\$402	\$1,534	\$1,534
Overall Growth	+8%	+8%	+8%	+8%
Constant Currency Growth		+10%		+7%
Organic Growth		+10%		+8%
Operating Income	66	69	236	246
Operating Margin	16.4%	17.2%	15.4%	16.0%
<b>Measurement &amp; Control Solutions</b>				
Revenue	\$375	\$375	\$1,497	\$1,497
Overall Growth	+17%	+17%	+17%	+17%
Constant Currency Growth		+18%		+15%
Organic Growth		+11%		+8%
Operating Income	23	28	118	141
Operating Margin	6.1%	7.5%	7.9%	9.4%

## Earnings Call Notes:

- All references today will be on an adjusted basis unless otherwise indicated.
- Non-GAAP financials are reconciled in the appendix section of the presentation.

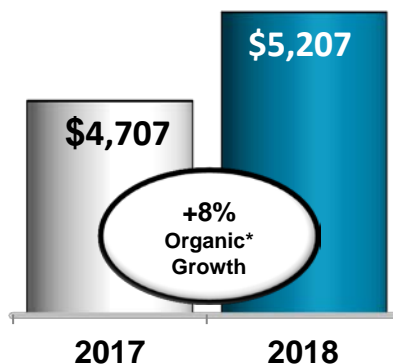
# KEY MESSAGES

- **Delivered solid full-year financial results\***
  - Organic revenue growth 8%
  - Adj. EBITDA of 19.5% (up 80 bps)
  - Adj. Op. Margin of 13.7% (up 60 bps ex. purchase accounting)
  - Adj. EPS of \$2.88 (up 20%)
  - FCF conversion of 64% impacted by non-cash tax impacts and higher working capital from timing of sales, material inflation and inventory pre-buys
- **4Q18 results reflect continued organic revenue and orders momentum**
- **Expect significant margin expansion in 2019 and momentum beyond**
- **Good progress on strategic priorities including achievement of long-term sustainability goals\*\***
- **Strong financial position to further deploy capital to address expanding customer challenges and create value for shareholders**

# 2018 FINANCIAL SUMMARY

(Dollars, In Millions, except EPS)

## REVENUE



<i>Acquisitions</i>	+ 2%
<i>Organic growth</i>	+8%
<i>FX Translation</i>	+ 1%

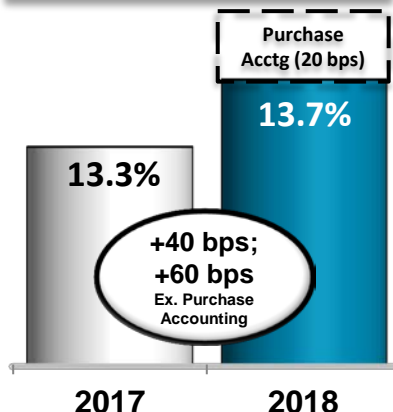
### Key Organic Growth Drivers

+ Public Utility	+ 10%
+ Industrial	+ 6%
+ Commercial	+ 11%
+ Residential	+2%

### Organic Growth by Region

+ Emerging Markets	+11%
+ U.S.	+9%
+ W. Europe	+5%

## ADJ. OP MARGIN\*

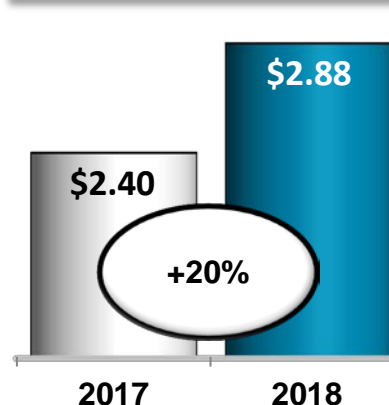


Adj. EBITDA*	2017	2018
	18.7%	19.5%

### Key Performance Drivers

+ Cost Reductions	+ 3.0%
+ Volume	+ 1.6%
+ Price	+ 0.8%
- Cost Inflation	- 2.7%
- Mix/FX/Other	- 1.0%
- Investments	- 0.9%
- Acquisitions/Divest.	- 0.4%

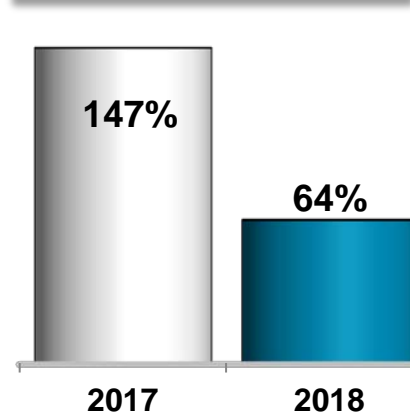
## ADJ. EPS\*



### Key Performance Drivers

+ Cost Reductions	+ \$0.70
+ Volume	+ \$0.56
+ Price	+ \$0.22
+ Tax/Other Non-Op.	+\$0.09
- Cost Inflation	- \$0.61
- Mix/FX/Other	- \$0.25
- Investments	- \$0.20
- Acquisitions/Divest.	-\$0.03

## FCF\* CONVERSION



### Key Performance Drivers

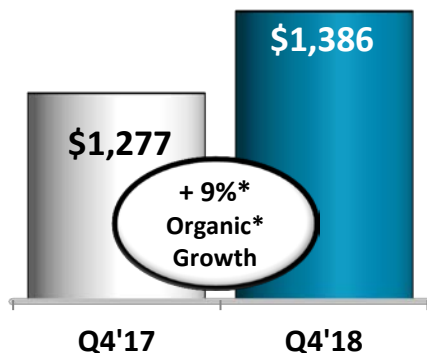
- FCF down primarily due to timing of 4Q sales, higher material inflation & strategic pre-buying of inventory to manage tariffs impact and component shortages



# Q4'18 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)

## REVENUE



<b>Acquisitions</b>	+ 2%
<b>Organic growth</b>	+ 9%
<b>FX Translation</b>	- 3%

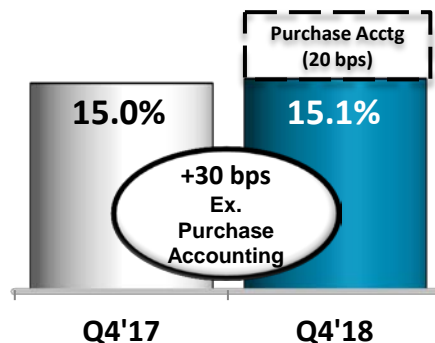
### Key Organic Growth Drivers

+ Public Utility	+ 10%
+ Industrial	+ 8%
+ Commercial	+ 17%
+ Residential	Flat

### Organic Growth by Region

+ U.S.	+ 10%
+ Emerging	+ 13%
+ W. Europe	+ 6%

## ADJ. OP MARGIN\*



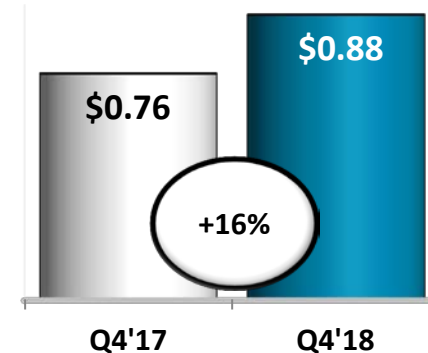
Adj. EBITDA*	Q4'17	Q4'18
	20.2%	20.6%

### Key Performance Drivers

- Strong Organic Revenue Growth +9%; Organic Orders +10%
- Strong Growth in largest end markets of Public Utility, Industrial and Commercial; Growth across all key geographic regions
- Productivity benefits, volume leverage and price realization offset inflation and fund investments to drive modest Adj. Op Margin expansion
 

• Vol/price/mix/Other:	Op Margin: + 160 bps	EPS: + \$0.21
• Cost reductions:	Op Margin: + 310 bps	EPS: + \$0.18
• Cost inflation:	Op Margin: - 320 bps	EPS: - \$0.20
• Investments:	Op Margin: - 120 bps	EPS: - \$0.08
• Other Non-Op.		EPS: + \$0.02
• AIA Purchase Accounting	Op Margin: -20 bps	EPS: - \$0.01
- Other: Tax Rate 18.5%      Share Count 181.0M

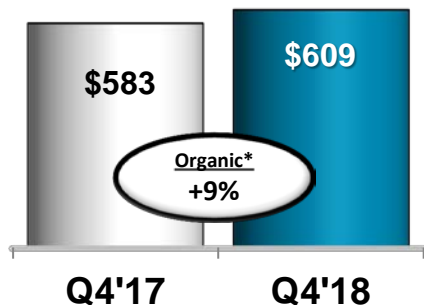
## ADJ. EPS\*



# 2018 WATER INFRASTRUCTURE PERFORMANCE

## 4Q REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application:

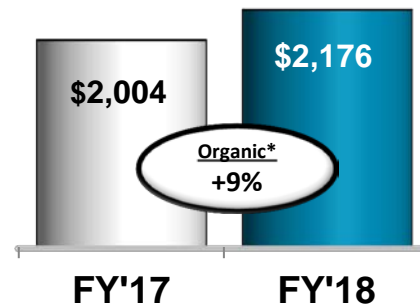
- + Treatment + 14%
- + Transport + 7%

#### By Region:

- + U.S. + 4%
- + Emerging + 18%
- + W. Europe + 7%
- + Canada + 14%

## FY REVENUE

(Dollars, In Millions)



### Organic Growth

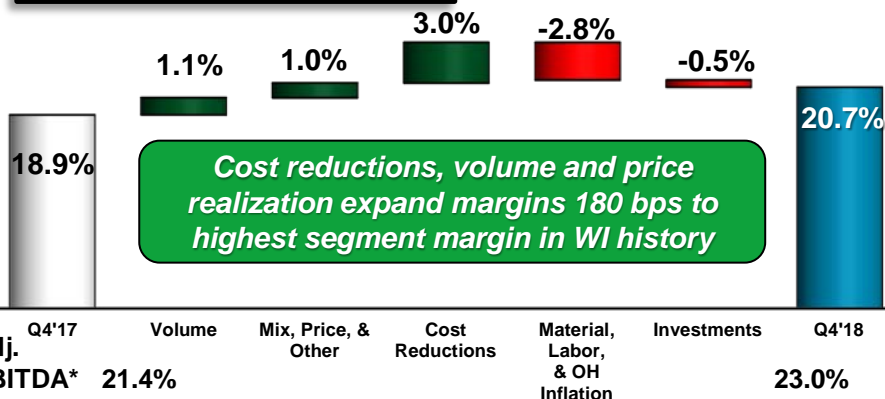
#### By Application:

- + Treatment + 15%
- + Transport + 7%

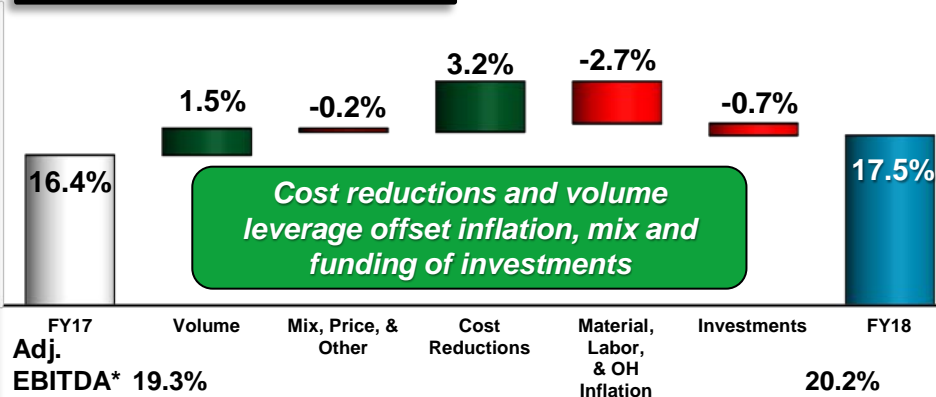
#### By Region:

- + U.S. + 6%
- + Emerging + 17%
- + W. Europe + 5%
- + Canada + 15%

## 4Q ADJ. OP MARGIN\*



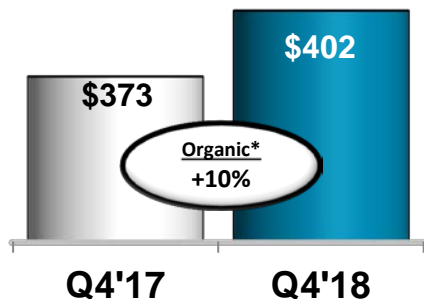
## FY ADJ. OP MARGIN\*



# 2018 APPLIED WATER PERFORMANCE

## 4Q REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application:

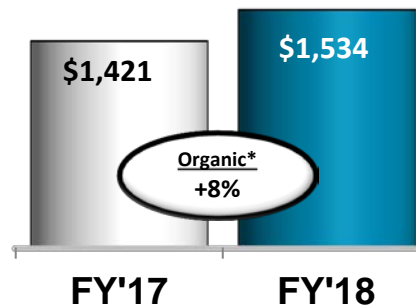
+ Residential	Flat
+ Commercial	+17%
+ Ind'l Water	+7%

#### By Region:

- W. Europe	-1%
+ U.S.	+14%
+ Emerging	+13%

## FY REVENUE

(Dollars, In Millions)



### Organic Growth

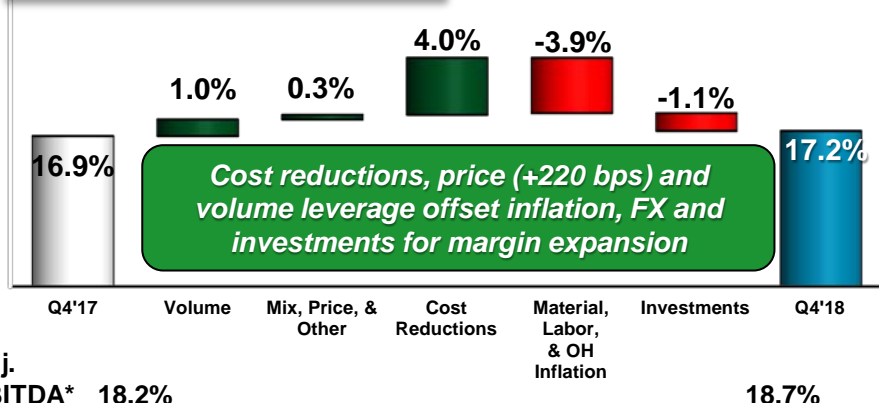
#### By Application:

+ Residential	+2%
+ Commercial	+11%
+ Ind'l Water	+8%

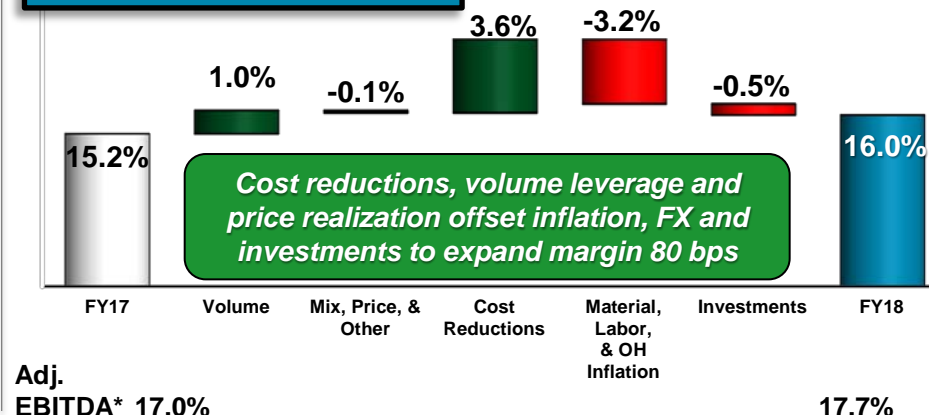
#### By Region:

+ W. Europe	+4%
+ Emerging	+11%
+ U.S.	+9%

## 4Q ADJ. OP MARGIN\*



## FY ADJ. OP MARGIN\*

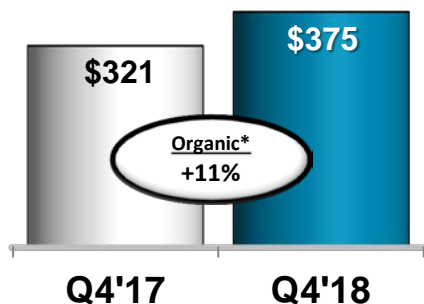




# 2018 MEASUREMENT & CONTROL SOLUTIONS

## 4Q REVENUE

(Dollars, In Millions)



### Organic Growth By Application

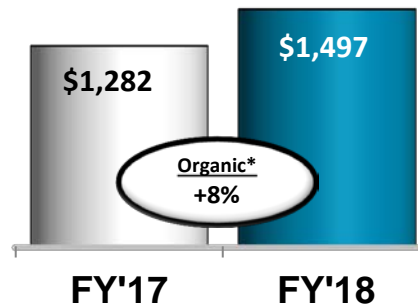
Smart Water	+16%
Smart Gas	+23%
Smart Electric	-5%
SaaS/Other	+17%
Test	+2%

### By Regions

U.S.	+13%
Emerging	+3%
W. Europe	+12%

## FY REVENUE

(Dollars, In Millions)



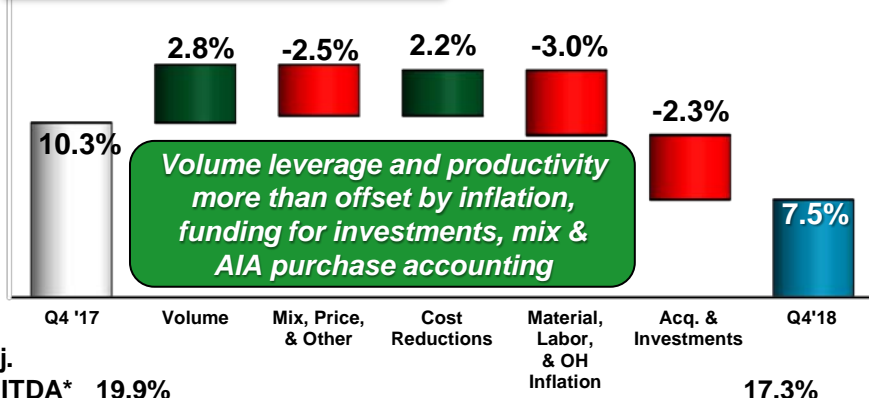
### Organic Growth By Application

Smart Electric	+3%
Smart Water	+4%
Smart Gas	+28%
SaaS/Other	+20%
Test	+4%

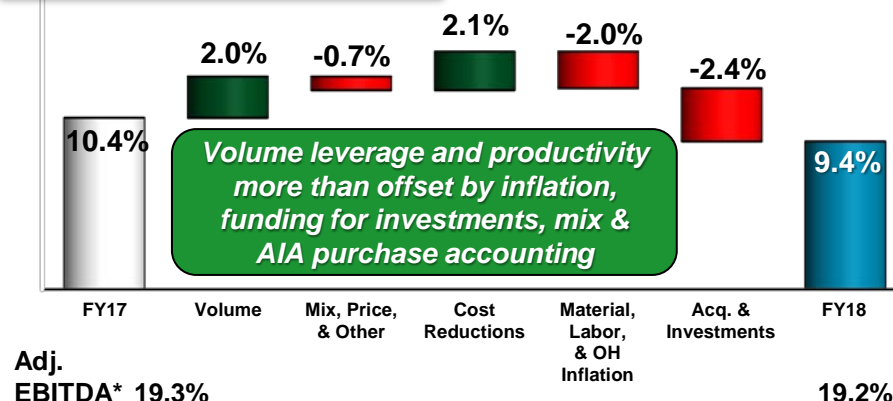
### By Regions

U.S.	+12%
Emerging	Flat
W. Europe	+2%

## 4Q ADJ. OP MARGIN\*



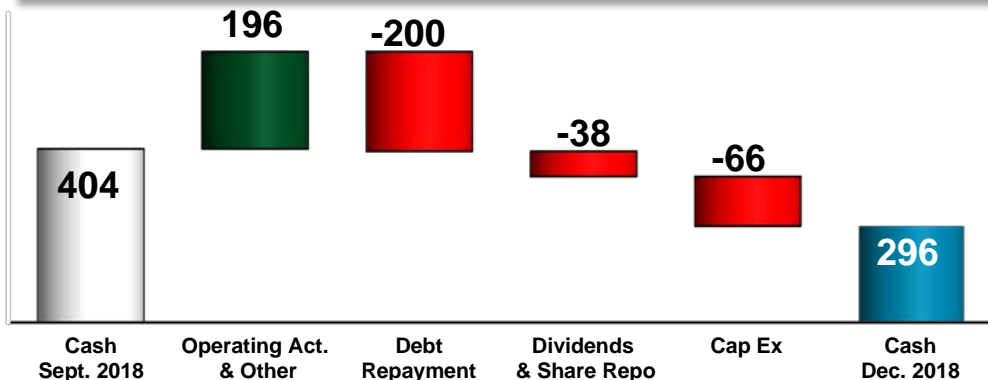
## FY ADJ. OP MARGIN\*



# XYLEM FINANCIAL POSITION

(Dollars, In Millions)

## CASH DRIVERS

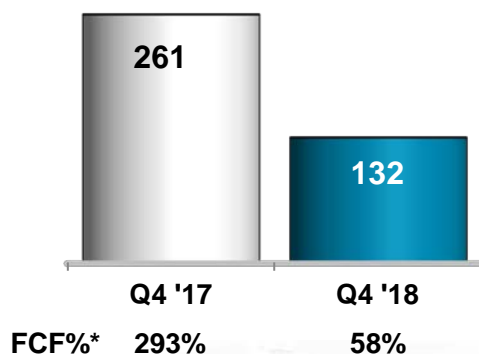


## CAPITAL SUMMARY

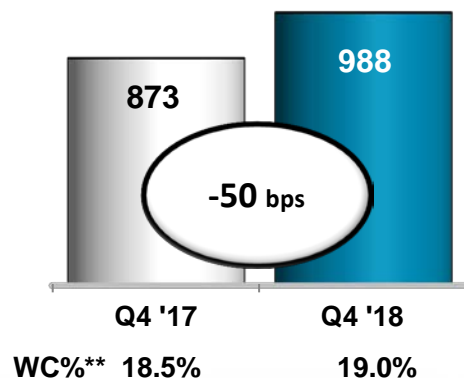
DECEMBER 31, 2018

Cash	296
Debt	2,308
Net Debt	2,012
Shareholders' Equity	2,768
Net Capital	4,780
Net Debt to Net Capital	42%

## FREE CASH FLOW\*



## WORKING CAPITAL

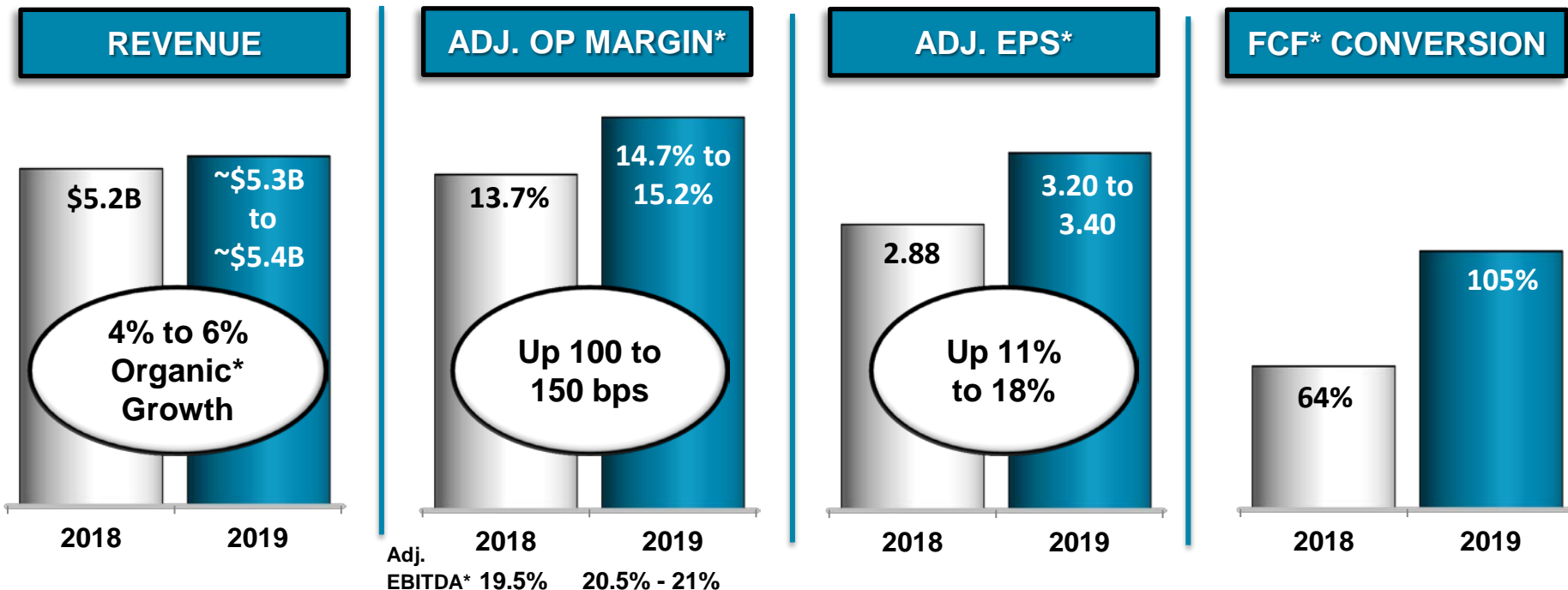


## Financial Highlights

- Repaid \$200M of Debt; Returned to target leverage range
- Committed to maintaining Investment Grade Credit (BBB/Baa2)
- 4Q FCF and Working Capital challenged by timing of 4Q sales, material inflation and inventory pre-buys; Expect return to normal levels in 2019

# 2019 OUTLOOK

(Dollars, In Millions, except EPS)



## Financial Highlights

- Expecting solid Organic\* Growth of 4% to 6% from growth in all end markets
- Expecting strong Adjusted Operating Margin\* expansion in the range of 100 to 150 basis points driven by higher pricing, cost reductions through productivity and moderating investment
- Adjusted EPS\* expected in the range of \$3.20 to \$3.40 (increase of 11% to 18% versus 2018)
- Expecting return to Free Cash Flow\* conversion of 105%

# 2019 END MARKET OUTLOOK



## Utilities (~50% of 2018 Revenue)

- **2019 Organic\* Growth: Up Mid-Single Digits**
- US water and wastewater spending expected to be healthy; Smart meter and infrastructure analytics mkt growth opportunities but tough comps/proj. timing
- Mixed but stable low single digit growth in Europe; AMP 7 begins in UK
- Healthy investment & projects in Emerging Markets led by Treatment broadly; Strength in India; slowing, but still double-digit growth in China



## Industrial (~35% of 2018 Revenue)

- **2019 Organic\* Growth: Up Low to Mid-Single Digits**
- Expect moderating, but continued solid growth in U.S. general/light industry
- O&G/Mining markets expected to be flat to up low single digits after strong recovery in 2018
- Mixed Emerging Market conditions with strength in India/Latin America offset by soft Middle East and slowing growth in China



## Commercial (~10% of 2018 Revenue)

- **2019 Organic\* Growth: Up Low to Mid-Single Digits**
- Expect market overall to moderate after very strong 2017 & 2018
- Expect healthy US market, but will moderate in second half of 2019 against tough 2018 compare; December ABI (>50) down from Nov. but positive
- Emerging Market building construction solid driven by China (recent infrastructure stimulus plan) and Smart City initiatives in India



## Residential (~5% of 2018 Revenue)

- **2019 Organic\* Growth: Up Low Single Digits**
- US housing market flattening; Competitive replacement market dynamics
- European growth flat to up low single digits
- Mixed growth in Emerging Markets from modest share gains and continued opportunities in China and other Asia countries for secondary clean water



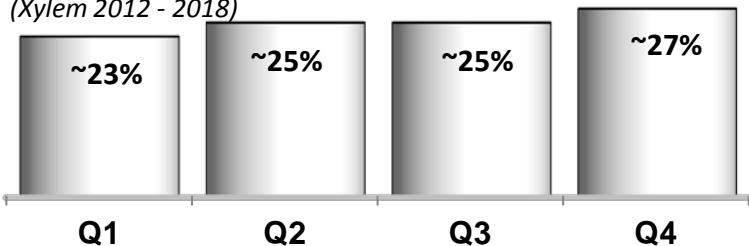
# 2019 OUTLOOK

(Dollars, In Millions)

## HISTORIC QUARTERLY PROFILE

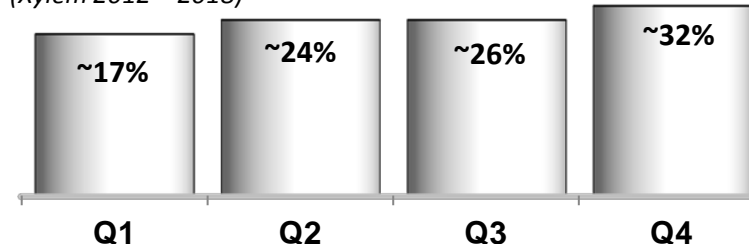
Revenue As a % of Full Year

(Xylem 2012 - 2018)



Adj. EPS As a % of Full Year

(Xylem 2012 - 2018)



## FY 2019 PLANNING ASSUMPTIONS

<b>Xylem Organic* Growth</b>	+4% to 6%
Water Infrastructure	+5% to 7%
Applied Water	+3% to 5%
Measurement & Control Solutions	+4% to 6%
<b>FX Euro Rate</b>	1.14
<b>Adjusted Operating Margin*</b>	14.7% to 15.2%
<b>Corporate Expense</b>	~\$55M
<b>Restructuring and Realignment Costs</b>	~\$30M
<b>Dividends</b>	~\$175M
<b>Capex</b>	~\$230M to \$240M
<b>Interest Expense</b>	~\$72
<b>Estimated Tax Rate:</b>	~19.5%
<b>Share Count:</b>	~181M
<b>Adjusted EPS*</b>	\$3.20 to \$3.40

## Q1 2019 PLANNING ASSUMPTIONS

<b>Xylem 1Q Organic* Growth</b>	+5% to 6%	<b>Xylem 1Q Adjusted Operating Margin*</b>	11.3% to 11.6%
Water Infrastructure	+5% to 7%	Water Infrastructure	12.7% to 13.0%
Applied Water	+3% to 5%	Applied Water	16.5% to 16.8%
Measurement & Control Solutions	+4% to 6%	Measurement & Control Solutions	7.8% to 8.0%
		<b>Xylem Adjusted 1Q EBITDA*</b>	17.4% to 17.7%



# SUMMARY

- **Delivered solid full-year 2018 financial results**
- **Organic revenue and orders momentum position us well for strong performance in 2019**
- **Executing on actions to continue to improve our business and accelerate margin expansion**
- **Strong financial position to further deploy capital to address expanding customer challenges and create value for shareholders**
- **On-track to improve performance in 2019 and deliver on our 2020 targets**

# APPENDIX

# FOREIGN EXCHANGE TRANSLATION SENSITIVITY

## *Foreign Exchange Translation*

- The table below illustrates the impact of FX fluctuations on Xylem's reported results

Currency	2019 Guidance Rate	Rates assuming 5% decrease in Guidance Rate	Revenue Impact on 2019 of 5% Decrease in Rate	EPS Impact on 2019 of 5% Decrease in Rate
Euro	1.14	1.08	(\$47M)	(\$0.09)
GBP	1.28	1.22	(\$13M)	\$0
SEK	0.11	0.10	(\$7M)	\$0.01
RMB	0.14	0.13	(\$14M)	(\$0.01)
CAD	0.76	0.72	(\$10M)	(\$0)
All Other			(\$42M)	(\$0.01)
<b>Total</b>			<b>(\$133M)</b>	<b>(\$0.10)</b>

\* Increase in rate would have inverse impact on results

**RULE OF THUMB: 1 PENNY MOVEMENT IN EUR/USD RATE, EQUATES TO MORE THAN ONE PENNY MOVEMENT IN EPS FOR THE FULL YEAR**

## Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, 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 to 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. Excluding revenue, Xylem provides guidance only on a non-GAAP basis due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as discrete tax items, without unreasonable effort. 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 impacts is determined by translating current period and prior period activity using the same currency conversion rate.

**"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 and amortization expense. **"Adjusted EBITDA"** reflects the adjustment to EBITDA to exclude share-based compensation charges, restructuring and realignment costs, Sensus acquisition related costs, gain or loss from sale of businesses and special charges.

**"Adjusted Operating Income", "Adjusted Segment Operating Income", "Adjusted Net Income" and "Adjusted EPS"** defined as operating income, segment operating income, adjusted net income and earnings per share, adjusted to exclude restructuring and realignment costs, Sensus acquisition related costs, gain or loss from 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 flow 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 integration costs, acquisition costs, costs related to the recognition of the backlog intangible asset amortization recorded in purchase accounting.

**"Special charges"** defined as costs incurred by the Company, such as acquisition and integration related costs not included in "Sensus Acquisition Related Costs", non-cash impairment charges, due diligence costs 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.

**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 Change Adj. 2018 v. 2017	(F) = E/A % Change Adj. 2018 v. 2017	(G) = (E - C) / A
	2018 Orders	2017 Orders	2018 v. 2017	% Change					
<b>Year Ended December 31</b>									
<b>Xylem Inc.</b>	5,428	4,868	560	12%	(78)	(27)	455	9%	11%
Water Infrastructure	2,256	2,112	144	7%	-	(3)	141	7%	7%
Applied Water	1,557	1,476	81	5%	12	(10)	83	6%	5%
Measurement & Control Solutions	1,615	1,280	335	26%	(90)	(14)	231	18%	25%
<b>Quarter Ended December 31</b>									
<b>Xylem Inc.</b>	1,374	1,270	104	8%	(9)	35	130	10%	11%
Water Infrastructure	585	566	19	3%	-	22	41	7%	7%
Applied Water	395	373	22	6%	-	8	30	8%	8%
Measurement & Control Solutions	394	331	63	19%	(9)	5	59	18%	21%
<b>Quarter Ended September 30</b>									
<b>Xylem Inc.</b>	1,356	1,249	107	9%	(27)	24	104	8%	10%
Water Infrastructure	537	558	(21)	-4%	-	17	(4)	-1%	-1%
Applied Water	377	374	3	1%	2	5	10	3%	2%
Measurement & Control Solutions	442	317	125	39%	(29)	2	98	31%	40%
<b>Quarter Ended June 30</b>									
<b>Xylem Inc.</b>	1,378	1,212	166	14%	(34)	(30)	102	8%	11%
Water Infrastructure	580	521	59	11%	-	(14)	45	9%	9%
Applied Water	401	375	26	7%	4	(9)	21	6%	5%
Measurement & Control Solutions	397	316	81	26%	(38)	(7)	36	11%	23%
<b>Quarter Ended March 31</b>									
<b>Xylem Inc.</b>	1,320	1,137	183	16%	(8)	(56)	119	10%	11%
Water Infrastructure	554	467	87	19%	-	(28)	59	13%	13%
Applied Water	384	354	30	8%	6	(14)	22	6%	5%
Measurement & Control Solutions	382	316	66	21%	(14)	(14)	38	12%	16%



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

	<b>(As Reported - GAAP)</b>				<b>(As Adjusted - Organic)</b>				<b>Constant Currency</b>
	(A)		(B)		(C)	(D)	(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	<b>2018 Revenue</b>	<b>2017 Revenue</b>	<b>Change</b>	<b>% Change</b>			<b>Change</b>	<b>% Change</b>	
			<b>2018 v. 2017</b>	<b>2018 v. 2017</b>	<b>Acq./Div.</b>	<b>FX Impact</b>	<b>Adj. 2018 v. 2017</b>	<b>Adj. 2018 v. 2017</b>	
<b>Year Ended December 31</b>									
Xylem Inc.	5,207	4,707	500	11%	(87)	(23)	390	8%	10%
Water Infrastructure	2,176	2,004	172	9%	-	4	176	9%	9%
Applied Water	1,534	1,421	113	8%	10	(10)	113	8%	7%
Measurement & Control Solutions	1,497	1,282	215	17%	(97)	(17)	101	8%	15%
<b>Quarter Ended December 31</b>									
Xylem Inc.	1,386	1,277	109	9%	(24)	36	121	9%	11%
Water Infrastructure	609	583	26	4%	-	24	50	9%	9%
Applied Water	402	373	29	8%	-	8	37	10%	10%
Measurement & Control Solutions	375	321	54	17%	(24)	2	25	8%	15%
<b>Quarter Ended September 30</b>									
Xylem Inc.	1,287	1,195	92	8%	(22)	24	94	8%	10%
Water Infrastructure	541	520	21	4%	-	18	39	8%	8%
Applied Water	378	354	24	7%	2	4	30	8%	8%
Measurement & Control Solutions	368	321	47	15%	(24)	2	25	8%	15%
<b>Quarter Ended June 30</b>									
Xylem Inc.	1,317	1,164	153	13%	(26)	(29)	98	8%	11%
Water Infrastructure	546	482	64	13%	-	(13)	51	11%	11%
Applied Water	388	361	27	7%	3	(8)	22	6%	5%
Measurement & Control Solutions	383	321	62	19%	(29)	(8)	25	8%	17%
<b>Quarter Ended March 31</b>									
Xylem Inc.	1,217	1,071	146	14%	(15)	(54)	77	7%	9%
Water Infrastructure	480	419	61	15%	-	(25)	36	9%	9%
Applied Water	366	333	33	10%	5	(14)	24	7%	6%
Measurement & Control Solutions	371	319	52	16%	(20)	(15)	17	5%	12%

## Xylem Inc. Non-GAAP Reconciliation

### Adjusted Operating Income

	Q1		Q2		Q3		Q4		YTD	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Total Revenue</b>										
• Total Xylem	1,217	1,071	1,317	1,164	1,287	1,195	1,386	1,277	5,207	4,707
• Water Infrastructure	480	419	546	482	541	520	609	583	2,176	2,004
• Applied Water	366	333	388	361	378	354	402	373	1,534	1,421
• Measurement & Control Solutions	371	319	383	321	368	321	375	321	1,497	1,282
<b>Operating Income</b>										
• Total Xylem	113	86	171	137	176	152	194	177	654	552
• Water Infrastructure	49	41	92	74	99	91	119	106	359	312
• Applied Water	50	36	61	48	59	50	66	60	236	194
• Measurement & Control Solutions	33	25	31	29	31	27	23	29	118	110
• Total Segments	132	102	184	151	189	168	208	195	713	616
<b>Operating Margin</b>										
• Total Xylem	9.3%	8.0%	13.0%	11.8%	13.7%	12.7%	14.0%	13.9%	12.6%	11.7%
• Water Infrastructure	10.2%	9.8%	16.8%	15.4%	18.3%	17.5%	19.5%	18.2%	16.5%	15.6%
• Applied Water	13.7%	10.8%	15.7%	13.3%	15.6%	14.1%	16.4%	16.1%	15.4%	13.7%
• Measurement & Control Solutions	8.9%	7.8%	8.1%	9.0%	8.4%	8.4%	6.1%	9.0%	7.9%	8.6%
• Total Segments	10.8%	9.5%	14.0%	13.0%	14.7%	14.1%	15.0%	15.3%	13.7%	13.1%
<b>Sensus Acquisition Related Costs</b>										
• Total Xylem	-	10	-	4	-	5	-	3	-	22
• Water Infrastructure	-	-	-	-	-	-	-	-	-	-
• Applied Water	-	-	-	-	-	-	-	-	-	-
• Measurement & Control Solutions	-	6	-	3	-	4	-	2	-	15
• Total Segments	-	6	-	3	-	4	-	2	-	15
<b>Special Charges</b>										
• Total Xylem	6	5	1	-	1	3	4	3	12	11
• Water Infrastructure	-	-	-	-	-	-	2	-	2	-
• Applied Water	-	5	-	-	-	-	-	-	-	5
• Measurement & Control Solutions	2	-	1	-	-	-	2	-	5	-
• Total Segments	2	5	1	-	-	-	4	-	7	5
<b>Restructuring &amp; Realignment Costs</b>										
• Total Xylem	16	11	10	12	11	9	11	9	48	41
• Water Infrastructure	5	4	5	5	5	3	5	4	20	16
• Applied Water	3	4	2	5	2	5	3	3	10	17
• Measurement & Control Solutions	8	3	3	2	4	1	3	2	18	8
• Total Segments	16	11	10	12	11	9	11	9	48	41
<b>Adjusted Operating Income</b>										
• Total Xylem	135	112	182	153	188	169	209	192	714	626
• Water Infrastructure	54	45	97	79	104	94	126	110	381	328
• Applied Water	53	45	63	53	61	55	69	63	246	216
• Measurement & Control Solutions	43	34	35	34	35	32	28	33	141	133
• Total Segments	150	124	195	166	200	181	223	206	768	677
<b>Adjusted Operating Margin</b>										
• Total Xylem	11.1%	10.5%	13.8%	13.1%	14.6%	14.1%	15.1%	15.0%	13.7%	13.3%
• Water Infrastructure	11.3%	10.7%	17.8%	16.4%	19.2%	18.1%	20.7%	18.9%	17.5%	16.4%
• Applied Water	14.5%	13.5%	16.2%	14.7%	16.1%	15.5%	17.2%	16.9%	16.0%	15.2%
• Measurement & Control Solutions	11.6%	10.7%	9.1%	10.6%	9.5%	10.0%	7.5%	10.3%	9.4%	10.4%
• Total Segments	12.3%	11.6%	14.8%	14.3%	15.5%	15.1%	16.1%	16.1%	14.7%	14.4%

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

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

	Q4 2018			Q4 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,386	-	1,386	1,277	-	1,277
Operating Income	194	15	a 209	177	15	a 192
Operating Margin	14.0%		15.0%	14.0%		15.0%
Interest Expense	(19)	-	(19)	(20)	-	(20)
Other Non-Operating Income (Expense)	4	1	5	-1	2	c 1
Gain/(Loss) From Sale of Businesses	-	-	-	-14	14	-
Income before Taxes	179	16	195	142	31	173
Provision for Income Taxes	46	(82)	b (36)	-72	36	b -36
Income Attributable to Minority Interest	-	-	-	1	(1)	d -
Net Income Attributable to Xylem	225	(66)	159	71	66	137
Diluted Shares	181.0		181.0	181.3		181.3
<b>Diluted EPS</b>	<b>\$1.24</b>	<b>\$(0.36)</b>	<b>\$0.88</b>	<b>\$0.38</b>	<b>\$0.38</b>	<b>\$0.76</b>
Year-over-year currency translation impact on current year diluted EPS	\$(0.02)	\$-	\$(0.02)			
<b>Diluted EPS at Constant Currency</b>	<b>\$1.26</b>	<b>\$(0.36)</b>	<b>\$0.9</b>			

	Q4 2018			Q4 2017		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	5,207	-	5,207	4,707	-	4,707
Operating Income	654	60	a 714	552	74	a 626
Operating Margin	12.6%		13.7%	11.7%		13.3%
Interest Expense	(82)	-	(82)	(82)	-	(82)
Other Non-Operating Income (Expense)	13	1	14	6	2	c 8
Gain/(Loss) From Sale of Businesses	-	-	-	-10	10	-
Income before Taxes	585	61	646	466	86	552
Provision for Income Taxes	(36)	(88)	b (124)	(136)	17	b (119)
Income Attributable to Minority Interest	-	-	-	1	(1)	d -
Net Income Attributable to Xylem	549	(27)	522	331	102	433
Diluted Shares	181.1		181.1	180.9		180.9
<b>Diluted EPS</b>	<b>\$3.03</b>	<b>\$(0.15)</b>	<b>\$2.88</b>	<b>\$1.83</b>	<b>\$0.57</b>	<b>\$2.40</b>
Year-over-year currency translation impact on current year diluted EPS	\$0.05	\$ -	\$0.05			
<b>Diluted EPS at Constant Currency</b>	<b>\$2.98</b>	<b>\$(0.15)</b>	<b>\$2.83</b>			

**Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.**

a QTD: Restructuring & realignment costs of \$11 million and \$9 million in 2018 and 2017, respectively; special charges of \$4 million in 2018 (\$2 million of acquisition related costs and \$2 million of asset impairment) and \$3 million of acquisition related costs in 2017; and \$3 million of Sensus acquisition related costs in 2017.

YTD: Restructuring & realignment costs of \$48 million and \$41 million in 2018 and 2017, respectively; special charges of \$12 million in 2018 (\$10 million acquisition of related costs and \$2 million of asset impairment) and \$11 million in 2017 (\$5 million of asset impairment, \$3 million of due diligence costs and \$3 of other acquisition costs); and 2017 Sensus acquisition related costs of \$22 million.

b QTD: Net tax impact on restructuring & realignment costs of \$2 million in both 2018 and 2017; net tax impact on special charges of \$0 million and \$1 million in 2018 and 2017, respectively; net tax impact on 2017 Sensus acquisition related costs of \$1 million; and tax-related special items of \$80 million of expense and \$40 million of benefit in 2018 and 2017, respectively.

YTD: Net tax impact on restructuring & realignment costs of \$12 million and \$13 million in 2018 and 2017, respectively; net tax impact on special charges of \$1 million and \$4 million in 2018 and 2017, respectively; net tax impact of \$8 million on 2017 Sensus acquisition related costs; net tax impact of \$2 million benefit on the gain from sale of business in 2017; and tax-related special items of \$75 million of expense and \$40 million of benefit in 2018 and 2017, respectively.

c Special charges of a write-down of investment in joint venture of \$2 million in the fourth quarter of 2017.

d Special item consisting of minority interest income attributable to the loss on a joint venture held for sale in the fourth quarter of 2017.

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

	2018				
	Q1	Q2	Q3	Q4	Total
Net Income	79	115	130	225	549
Income Tax Expense	16	35	31	(46)	36
Interest Expense (Income), net	20	20	20	18	78
Depreciation	29	29	29	30	117
Amortization	38	36	34	36	144
EBITDA	182	235	244	263	924
Share-based Compensation	9	7	7	7	30
Restructuring & Realignment	16	9	11	11	47
Loss/(Gain) from sale of business	-	2	(2)	-	-
Special Charges	6	1	1	4	12
Adjusted EBITDA	<u>213</u>	<u>254</u>	<u>261</u>	<u>285</u>	<u>1,013</u>
Revenue	1,217	1,317	1,287	1,386	5,207
Adjusted EBITDA Margin	<u>17.5%</u>	<u>19.3%</u>	<u>20.3%</u>	<u>20.6%</u>	<u>19.5%</u>

	2017				
	Q1	Q2	Q3	Q4	Total
Net Income	56	100	104	70	330
Income Tax Expense	14	21	27	74	136
Interest Expense (Income), net	20	20	20	19	79
Depreciation	28	27	28	26	109
Amortization	31	30	30	34	125
EBITDA	149	198	209	223	779
Share-based Compensation	6	5	5	5	21
Restructuring & Realignment	11	12	9	9	41
Loss/(Gain) from sale of business	-5	-	1	14	10
Sensus Acquisition Related Costs	7	2	3	2	14
Special Charges	5	-	3	5	13
Adjusted EBITDA	<u>173</u>	<u>217</u>	<u>230</u>	<u>258</u>	<u>878</u>
Revenue	1,071	1,164	1,195	1,277	4,707
Adjusted EBITDA Margin	<u>16.2%</u>	<u>18.6%</u>	<u>19.2%</u>	<u>20.2%</u>	<u>18.7%</u>

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

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	47	90	98	117	352
Interest Expense (Income), net	-	(1)	(1)	-	(2)
Depreciation	12	11	12	11	46
Amortization	5	5	5	5	20
EBITDA	64	105	114	133	416
Share-based Compensation	1	-	1	-	2
Restructuring & Realignment	5	5	5	5	20
Special Charges	-	-	-	2	2
Adjusted EBITDA	<u>70</u>	<u>110</u>	<u>120</u>	<u>140</u>	<u>440</u>
Revenue	480	546	541	609	2,176
Adjusted EBITDA Margin	<u>14.6%</u>	<u>20.1%</u>	<u>22.2%</u>	<u>23.0%</u>	<u>20.2%</u>

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	39	73	90	105	307
Interest Expense (Income), net	-	-	(1)	(1)	(2)
Depreciation	11	11	12	11	45
Amortization	5	4	5	5	19
EBITDA	55	88	106	120	369
Share-based Compensation	1	-	-	1	2
Restructuring & Realignment	4	5	3	4	16
Special Charges	-	-	-	-	-
Adjusted EBITDA	<u>60</u>	<u>93</u>	<u>109</u>	<u>125</u>	<u>387</u>
Revenue	419	482	520	583	2,004
Adjusted EBITDA Margin	<u>14.3%</u>	<u>19.3%</u>	<u>21.0%</u>	<u>21.4%</u>	<u>19.3%</u>

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.

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

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	50	61	60	66	237
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	-	1	1	-	2
EBITDA	55	67	66	71	259
Share-based Compensation	1	1	-	1	3
Restructuring & Realignment	3	2	2	3	10
Adjusted EBITDA	59	70	68	75	272
Revenue	366	388	378	402	1,534
Adjusted EBITDA Margin	16.1%	18.0%	18.0%	18.7%	17.7%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	40	49	49	62	200
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	-	3
EBITDA	46	55	55	67	223
Share-based Compensation	-	1	1	-	2
Restructuring & Realignment	4	5	5	3	17
Loss/(Gain) from sale of business	-5	-	1	-2	-6
Special Charges	5	-	-	-	5
Adjusted EBITDA	50	61	62	68	241
Revenue	333	361	354	373	1421
Adjusted EBITDA Margin	15.0%	16.9%	17.5%	18.2%	17.0%

**Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter  
Measurement & Control Solutions  
(\$ Millions)**

	2018				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	33	28	33	23	117
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	8	9	8	10	35
Amortization	29	27	26	27	109
EBITDA	70	64	67	59	260
Share-based Compensation	1	1	1	1	4
Restructuring & Realignment	8	3	4	3	18
Loss/(Gain) from sale of business	-	2	-2	-	-
Special Charges	2	1	-	2	5
Adjusted EBITDA	81	71	70	65	287
Revenue	371	383	368	375	1,497
Adjusted EBITDA Margin	21.8%	18.5%	19.0%	17.3%	19.2%

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	24	30	26	11	91
Interest Expense (Income), net	-	-	-	-1	-1
Depreciation	8	8	7	7	30
Amortization	23	22	22	25	92
EBITDA	55	60	55	42	212
Share-based Compensation	-	1	-	1	2
Restructuring & Realignment	3	2	1	2	8
Loss from sale of business	-	-	-	16	16
Sensus Acquisition Related Costs	3	1	2	1	7
Special Charges	-	-	-	2	2
Adjusted EBITDA	61	64	58	64	247
Revenue	319	321	321	321	1282
Adjusted EBITDA Margin	19.1%	19.9%	18.1%	19.9%	19.3%

Note: 2017 amounts have been restated in accordance with the adoption of the new guidance on presentation of net periodic benefit costs.



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

	Q1		Q2		Q3		Q4		Year Ended	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Net Cash - Operating Activities</b>	<b>\$63</b>	<b>\$52</b>	<b>\$138</b>	<b>\$99</b>	<b>\$187</b>	<b>\$228</b>	<b>\$198</b>	<b>\$307</b>	<b>\$586</b>	<b>\$686</b>
Capital Expenditures	(61)	(43)	(50)	(34)	(60)	(42)	(66)	(51)	(237)	(170)
<b>Free Cash Flow</b>	<b>\$2</b>	<b>\$9</b>	<b>\$88</b>	<b>\$65</b>	<b>\$127</b>	<b>\$186</b>	<b>\$132</b>	<b>\$256</b>	<b>\$349</b>	<b>\$516</b>
Cash paid for Sensus acquisition related costs	(1)	(17)	-	(5)	-	(1)	-	(5)	(1)	(28)
<b>Free Cash Flow, excluding Sensus Acquisition Related Costs</b>	<b>\$3</b>	<b>\$26</b>	<b>\$88</b>	<b>\$70</b>	<b>\$127</b>	<b>\$187</b>	<b>\$132</b>	<b>\$261</b>	<b>\$350</b>	<b>\$544</b>
Net Income	79	56	115	100	130	104	225	70	549	330
Gain/(Loss) from sale of businesses	-	5	(2)	-	2	(1)	-	(14)	-	(10)
Special Charges - non-cash impairment	-	-5	-	-	-	-	(2)	(2)	(2)	(7)
Sensus acquisition related costs	-	(10)	-	(4)	-	(5)	-	(3)	-	(22)
<b>Net Income, excluding gain on sale of businesses, non-cash impairment charges and Sensus Acquisition Related Costs</b>	<b>\$79</b>	<b>\$66</b>	<b>\$117</b>	<b>\$104</b>	<b>\$128</b>	<b>\$110</b>	<b>\$227</b>	<b>\$89</b>	<b>\$551</b>	<b>\$369</b>
<b>Free Cash Flow Conversion</b>	<b>4%</b>	<b>39%</b>	<b>75%</b>	<b>67%</b>	<b>99%</b>	<b>170%</b>	<b>58%</b>	<b>293%</b>	<b>64%</b>	<b>147%</b>

# xylem

## Let's Solve Water

NYSE: XYL

**Matt Latino, Senior Director, Investor Relations**  
**(914) 323-5821**

**Austin Alexander, Manager, Investor Relations**  
**(914) 323-5891**

**Dawn Powell, Investor Relations Coordinator**  
**(914) 323-5931**

<http://www.xylem.com/en-us/investors/>