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PRESENTATION

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

Good morning, everyone. I am Patrick Decker, the President and CEO of Xylem. I'm joined today by Phil De Sousa, who is Head of Investor Relations, as well as Mike Speetzen, our Chief Financial Officer. We have about a half an hour or so of prepared comments, and then we want to spend the rest of our time today addressing your questions.

Before we get started here, I would ask that you read the forward-looking statements in your pack, and let's go ahead and turn to slide three.

Certainly it's an honor for me to be able to be a part of this great Company. I've always had a passion for the water business. I've known Xylem and its brands as both a customer and a competitor for many years. And while certainly me being new to the Company, I think it's important that I take a brief moment to tell you a little bit about myself.

Most recently, I was the CEO at Harsco Incorporated, a global industrial services company, where I helped lead the Company through a strategic turnaround. Prior to that, I lead Tyco International's Flow Control business, a global leader in industrial Flow Control solutions, almost identical in size, scale and structure to Xylem. And prior to that, I held a number of finance leadership positions with Bristol-Myers Squibb.

At various times in my career, I've had the opportunity to live and work around the globe, including ex-pat posts spanning more than 10 years in Latin America and Asia. That experience gives me a real appreciation for what it takes to build a truly global business, to drive major initiatives across the globe and to appreciate the strength that comes from a diverse set of customers, businesses and workforce.

Immediately after joining the Company in mid-March, I embarked on an active listening tour to meet with many of our business leaders and their teams, to visit many of our key locations around the world and to interface with customers and our channel partners. So far I've visited more than a dozen key facilities in five countries, mainly in Europe and the US, and these are locations that represent more than 20% of our workforce. And then again over the coming weeks and months, I will be visiting many more locations with a particular emphasis on the emerging markets in Asia, Latin America, India and the Middle East.

During these visits, I have been able to meet thousands of our colleagues and see how they serve our customers every day. But, also, I have been able to come to understand firsthand the opportunities and challenges facing our business. At the end of the day, I do believe that we have many of the necessary elements in place to drive growth in this Company.

So what have I observed thus far? I've seen that our people are passionate about what they do, and they want to be part of a winning team that solves the world's toughest water challenges. They are very proud of what they do every day to stay close to and serve our customers, and they are very hard-working and deeply committed. We have market-leading brands with long rich histories, and it's important that we invest more in innovation to secure our leadership position because we perhaps have fallen behind in some areas.

It's also important that we leverage our entire portfolio with customers where possible, whereas today that happens only in pockets.

It's also important that we use our financial strength and disciplined M&A capability to further build out our offering to customers. On the cost side, we have opportunities remaining to further streamline our G&A costs, given the number of different operating systems and handoffs that we have across the Company.

We also have significant global sourcing savings to capture and deeper and broader lean Six Sigma deployment that represents a very rich opportunity for us. Again, all of this really excites me about the extraordinary potential for this Company, and again I'm looking forward to working with my leadership team to achieve our goals for the year but also to fulfill our aspiration to be the world's trusted leader in solving water issues.

With that, let's turn to slide four. So investing in the water industry, I'd like to take a minute here to provide our perspective on what that means.

First, let me outline the compelling secular drivers that are going to drive the long-term growth and returns in the industry. There are very favorable macro trends that are driving growth, including population growth, urbanization, water scarcity, as well as increasing environmental regulation. Infrastructure needs both in the developed and emerging markets. And, again, it's important to note that this is a multi-year, multi-cycle play.

But you also have to appreciate the fragmented competitive landscape in which we operate. There's a wide range of technologies and profitability from over 20,000 equipment and service providers. There are very few publicly traded global players with any size and scale, and the key to success here is local presence, as well as local understanding of the markets.

Also, consider the diversified and cyclical end markets that we serve, whether it be public utility, industrial, commercial, residential and agriculture. Again, there is some volatility in the market, but we do believe that if you are planning a Xylem investment, you're looking at a diversified story within the water space. And, again, there is the opportunity to create significant economic value by addressing our customers' biggest water challenges.

Next is slide five. So why invest in Xylem? Well, if you're looking to invest in water and you believe it is one of our planet's greatest challenges, then we are the closest thing to a pure-play water solutions company in the market. Over 90% of our revenue is in water, we have a complete understanding of the vital role of water, and we provide advanced technologies and services to ensure that we all have safe and sustainable water supplies.

We also have a unique set of global assets, including leading market positions, Fortress brands with world-class distribution, as well as a diversified geographic and end market portfolio.

Our brands go back to over 100 years. We also have distribution channels in more than 150 markets around the world, which gives us a very large installed base, and when our products wear out, our customers very often come back to us for aftermarket service or for repair and parts replacement, and that gives us a very nice stable recurring revenue base over time.

We also have a strong balance sheet, and we generate consistent cash flow. This allows us to invest both organic, as well as inorganic, as well as consistently returning capital to our shareholders.

So in summary, why invest in Xylem? Because we believe we have strong foundation and fundamentals, and again we've turned the page of change over the last year, and we are very much focusing now on improving our operational performance.

So let's turn to slide six and discuss our business in a little bit more detail. The global water industry is big. It's about $500 billion in totality. We currently focus on about $35 billion segment of the industry, which includes technology intensive and higher value equipment as well as critical applications and knowledge-based services. We specialize in providing premium performance equipment and services, the true sweet spot of the water industry.

We are also a leading equipment and service provider in transport, treatment and test applications used throughout the entire cycle of water. Again, our products and services are found everywhere you go within the global water infrastructure.

We also provide critical applications across a broad and diverse customer set, whether it be residential homeowners, commercial and industrial operators, as well as farmers. And, again, thanks to our product portfolio and our proven ability to innovate, we are uniquely positioned to solve the world's growing water challenges.

So next is slide seven. Again, as the saying goes, a picture says 1000 words, and I think this picture says a lot. Our legacy as a company predates our spinoff from ITT in 2011. Decades of acquisitions make up the Company's base today, and this slide only include some of the largest and some of the most recent.

Another quick observation that I've had since I've been here is that there's still much more work to be done to integrate these businesses together, a task that is not near as easy as this slide suggests. Again, it's important to note the title of the slide. This is a journey from a portfolio of businesses to a solution portfolio. Despite these businesses having been around for a long time, only modest progress has been made to organize and integrate around the Xylem strategy. We certainly have a vision of where we can take the Company, but we know that we won't get there overnight. But I do believe that we have a very solid foundation and a strong conviction to get there.

Over the last two to three years before my joining, the team at the Company has been very much focused first on standing itself up as a public company; secondly, realigning the organization; and third, reducing the cost structure in the face of some challenging market conditions over the past couple of years.

So our opportunity moving forward -- and, again, please appreciate that it is always easier said than done -- is to operate truly as an integrated company where we leverage our broad portfolio of products, our global footprint and distribution channels and optimize our cost structure.

I'm not going to go through this slide in detail on slide eight, but I would rather state that while each of the markets that we play in have very compelling growth opportunities, we are driving a differentiated growth strategy. And we see the largest opportunity to accelerate growth in the industrial, public utility and commercial building markets.

Within industrial, we see opportunities to grow in both underserved and adjacent areas. The public utility market does have quite a bit of pent-up demand due to the spend reductions that we've seen in the US and Europe the last few years. We do know the market is going to return, the pipeline of projects is very strong, and we think it's only a matter of time before our customers move forward with the projects.

We also in the space have the largest installed base of pumps in the market, and that inherently positions us well for future growth.

And then lastly, the commercial building sector. We believe that we are well-positioned with some of the new products that we've recently launched and the technology that we are investing in today. Success in this market will be driven by our ability to innovate and provide our customers with energy-efficient technologies to meet new regulatory standards, as well as reducing their operating cost.

Next is slide nine. Our tagline is, Less Salt Water. So now I am going to spend a couple minutes describing what we mean by that.

We focus on solving customer problems to create economic value in three distinct areas: water productivity, water quality, and water resilience. In each of these areas, we target significant water challenges faced by our customers who have the willingness and the ability to invest in our solutions.

So let's start with water productivity. The challenge here is that the delivery and use of water as a factor of production is highly inefficient. The solution? We are able to cut energy consumption with highly efficient pumps to move water from oceans, rivers and lakes to water treatment plants. We lower costs and improve the effectiveness of drinking water treatment with water quality sensors, filtration and ozone ultraviolet disinfection. We also lower the cost of water systems in commercial buildings with high-efficiency circulators that cut energy consumption and ensure operational reliability.

The next key challenge for our customers is water quality. The management of wastewater is highly inefficient today. Clog pumps, energy intensive aeration, and expensive chemical treatments waste scarce resources, causing utilities and consumers enormous amounts of money. The solution? We minimize costs and ensure effective wastewater treatment with technologies such as highly efficient wastewater pumps, intelligent and optimized wastewater treatment processes, advanced disinfection technologies and real-time environmental sensors. All of these help reduce the cost of energy, labor and chemicals while guaranteeing us sustainable outcomes.

And lastly, water resilience. Communities are experiencing rising economic risk associated with water variability. Whether it be flooding in New York City, Calgary, Thailand and Germany, to severe water scarcity in California, India and the Middle East, technologies to manage water resources are increasingly important. Our solution? To increase flood resilience, we can increase situational awareness with still deployed sensors, improved drainage and large-scale water movement and respond with emergency dewatering services.

To increase drought resilience, we can also optimize water supplies with groundwater, water reuse, desalination and water resources monitoring.

Now let's turn to slide 10 and talk about our financial position. We have a very strong financial position to build upon and leverage. We maintain a strong cash position with a balance of $466 million at the end of Q1, and our net debt to net capital ratio is a healthy 26%. We remain committed to our balanced capital deployment strategy, which is to grow the business both organically and inorganically, as well as enhancing our shareholder returns through dividends and share repurchases.

A topic of interest since I joined the Company has been capital deployment and when we might lift our self-imposed ban, or pause, on M&A. So my initial thoughts are that a disciplined M&A strategy will always be important to xylem for years to come. We have the financial health and the capacity to be active in this regard, and the team also has a proven track record.

We have a very healthy set of potential targets that have been cultivated over time, and I will be spending more time with the team over the coming weeks to better understand the pipeline. But I am confident that our performance has improved to the point that we no longer have to put smart M&A on the back burner.

Turning now to page 11. So the question is, how will we continue to improve performance? We are redoubling our efforts around a focused set of priorities and driving execution against those. Under the umbrella of advancing and institutionalizing a high-performing organization and culture, we are relaunching the Xylem management system. I want to drive this disciplined approach even further into the organization, carving out and standardizing our key business processes, ensuring accountability and alignment. This helps ensure that we move seamlessly from strategy to execution. And as you can see on the right side of the slide, our top priorities include, first, accelerating revenue growth. A primary key to doing this is leveraging what we call our integrated front end and improving our sales force effectiveness. It's a very big lever for us. It's going to help us present a more informed, more focused and a single face to our customers and cross-sell our portfolio of products and solutions to them. And we also put in place a new operating model at the beginning of this year that's going to help drive that.

Next is rebalancing our portfolio and our product investments to ensure that we allocate resources to those opportunities that are expected to generate the best returns on capital. This does include reinvigorating our new product development pipeline and introducing new technologies. And, again, we have an opportunity and a need like most companies to be much more disciplined in how we allocate our financial and human resources.

Equally as important, we are focusing on improving our operating cost position. There are significant benefits that we can realize by developing stronger global sourcing and lean Six Sigma capabilities. We do have pockets of excellence in lean today around the Company, but it's not consistently applied nearly enough. And driving this as a centerpiece of our culture will go a long way to ensuring we are constantly identifying ways to free up costs and resources that can be reinvested to drive growth and improve financial returns.

But the bottom line is it all comes down to reinforcing a culture of execution and continuously improving what we do every day. We are getting started, I should say I am getting started, and I'm sure there are going to be a lot more details I'm able to share with you over the coming weeks and months. But for now, let me leave you with one simple commitment, and that is that I believe that there is enormous potential for this Company, and I'm committed to turning that potential into reality.

Let's turn to slide 12 now for a quick business update. Some of our potential is reflected in the first-quarter financial results that we released on April 29. Following a miserable and cold winter and the business impact that that had for us especially here in North America, our teams rallied in March, and we finished the quarter with revenue and orders up 3% with our emerging market businesses continuing their very strong growth trend. And better still our first-quarter ending shippable backlog was up 6% over the first quarter of last year.

We also delivered strong operational performance. Our operating margins increased 150 basis points to 10.4%, earnings-per-share grew 26%, and we also saw a much better free cash flow conversion. So overall a solid first quarter and another proof point that we are improving our overall execution. But we do still have a long way to go for this year, but I am encouraged and committed that we will deliver on our 2014 commitments.

Our strong balance sheet enables us to continue investing in those areas that have the most promising return potential, and I'll cover off on this in a moment in our capital deployment plans. But in summary, we are off to a good start in 2014, and we reaffirmed our full-year guidance with expectations of revenue growth in the low single digits and earnings-per-share growth of between 11% and 20%.

Again, we understand some of the challenges that we continue to face in market conditions and execution, and we do have much work to do to further improve our operational execution. But I do feel good about where we are headed.

Now let's turn to slide 13, and I'll give a little more perspective on what we are seeing in our end markets and how we think about those markets over the longer term.

Starting off with emerging markets, we continue to see very strong and solid growth in the emerging markets. We also see stable conditions emerging in the US and Europe, and overall we expect low single-digit growth across all of our end markets.

First, in industrial. The US and European markets are slowly improving, but global mining conditions continue to be a headwind for us. In the public utility markets, we see continued investment in emerging market infrastructure, and in the developed regions, we do benefit from a large installed base where we are seeing strength in our repair and maintenance activity, and we are seeing some signs of improvement in CapEx, but we do remain cautious.

On the commercial side, things continue to be mixed. While we see growth in emerging markets, some areas are showing some signs of slowing, and we have continued soft conditions in the US, especially in the institutional building market. We also have a slow recovery in Europe, but again we are keeping a close eye on the commercial end market because we are seeing softness there.

On the residential side, in the US, Q1 benefited from a cold winter, but we do see housing starts moderating over the course of the rest of the year so we may have some difficult comparisons there. But Europe seems to have stabilized, and we continue to monitor that part of the world very closely.

The only thing I would say about agriculture is that we do have a niche presence in this area. We have some tough comps given the strength in those markets in both 2012 and 2013, but again it is a small but growing business for us.

So with that, I'm going to turn it over now to our CFO, Mike Speetzen, to go through some more detail on the financial side.

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

Thanks, Patrick, and good morning. I'm going to spend just a couple of minutes going through our historical financial performance, and then I'll talk through the guidance that we are reaffirmed on April 29 and then give a brief update on where we stand in the second quarter.

As you can see from this slide, the annual growth that we've had since 2008 has averaged about 3%. This has been driven by new product introduction, strength in emerging markets, as well as the development of our analytics and dewatering platforms that we essentially put in place back in the 2010 timeframe.

During the same time period, operating margins expanded 100 basis points. I think it's important to note that within that, that is included the cost of becoming a standalone public company, which was about $30 million in terms of corporate overhead. When we adjust for that, our operating margins were actually up about 200 basis points on a pure operational basis, and the key drivers behind that really are threefold.

First is around price, although we've run into headwind in the more recent time period, historically we've been driving anywhere from 100 basis points to 150 basis points worth of improved pricing in the marketplace. And that's obviously had a favorable impact on margins.

From a productivity standpoint, although we have just scratched the surface, the lean and global sourcing initiatives that we've had underway have yielded benefits in the organization, as has the restructuring activities that we've had to essentially right-size the business given the current market conditions.

And then the last area is really around the portfolio. With the addition of the analytics and the dewatering businesses, we have essentially put ourselves in a better position that leverages volume growth. I think it's important to note that compared to many of our peers, our gross margin is much higher. If you were to look at us four or five years ago, our gross margin is in the low 30s. We are now approaching 40%, and we believe that gives us a good lever and differentiator as we look to expand profitability.

And I guess the way I would summarize this is that I think we've done an okay job in the past, we've got ample opportunities, we look forward, and I think you will see with what we are starting in 2014 and leveraging on from there that we've got ample room to continue to see significant margin expansion.

If you turn to slide 16, using EBITDA as a proxy for free cash flow, you can see that we are a strong cash generating company. And what this does is this allows us to focus in on that first area of capital deployment that Patrick mentioned, which is around organic investment. And specifically for us, it's around capital and R&D. And this is not only to facilitate maintaining world-class facilities, but it's also about the new product development. And when you look at the two components of investment that we have here, CapEx has averaged about 3% of revenue. It was slightly higher in the more recent past give the spinout of ITT from ITT. We needed to invest in IT systems to separate as well as move our corporate headquarters as part of a condition of spend.

From a R&D standpoint, you can see that we are spending about 3% of revenue, which is up from where we have been historically. I guess there would be 2 points that I would make here. First, we don't spend 3% in all parts of the business. We differentiate based on growth opportunity and incremental return on invested capital. So we have some elements of our business where we are spending a third of this, and we have some elements where we are spending 2 or 3 times this depending on the product payback and technology intensiveness of that particular business.

The second point I would make is at 3% of revenue, this gives us over $100 million to invest in keeping our products refreshed and on the leading edge. And when you look at us relative to many of our much smaller peers, that's a significant competitive advantage for us.

So if you turn to slide 17, I'd like to switch gears and talk a little bit about 2014, and what I'm going to talk about is the guidance that we reaffirmed on April 29 during our Q1 earnings call. And then I'll make a couple comments relative to where we stand in Q2.

We are expecting for 2014 revenue somewhere between $3.9 billion and $4 billion. That represents 1% to 3% organic growth. We are projecting our operating margins to be in the range of 12.6% to 13.2%. That reflects 80 to 140 basis points worth of margin improvement. And it's really not just driven by volume leverage, but it's also leveraging the cost actions that we initiated in 2013 and the carryover benefit of that, plus the additional actions that we have underway in 2014.

We are anticipating EPS of $1.85 to $2.00, which represents 11% to 20% year-over-year improvement, and free cash flow in the range of $310 million to $345 million, which represents 100% free cash flow conversion. I think it's important to note that's significantly above what we had last year, not only driven by the improved volume in the business but also an assumed improvement in our working capital performance, as well as lower capital expenditures. As I mentioned, we had to digest some of the post-spend investments that we needed to make, and we see that ramping down in 2014.

We anticipate a 46% improvement in the return of capital to shareholders. This is really driven by two elements. The first is the 10% increase in the dividend we made earlier in the year, as well as $130 million worth of share repurchases that we have targeted. During Q1, we actually executed $50 million of that.

And then lastly, we are targeting 100 basis point improvement in ROIC moving back up to about 11%.

So let me provide a brief update on where we stand in Q2 as I know it's probably on the top of your mind. If you look back at what we talked about in our Q1 guidance call on April 29, we obviously don't provide quarterly guidance, but we do provide some perspective to help calibrate expectations, as well as help with your modeling. And what I said at that time was we are expecting organic growth, year-over-year growth of 1% to 3% and sequential growth of 8% to 10%. As of results coming in as of April, we were at the low-end of that range, and our preliminary review may suggest a similar performance.

I'd say there's really three areas that are impacting the business. The first is we continue to see strength coming out of emerging markets. Markets like China continue to perform very well for us. Where we are seeing a little bit more headwind is in markets like the non-residential US commercial business where we continue to see the pause or a delay in the recovery that's been anticipated in that market for some time now, as well as we continue to see pricing pressure.

So with that, I'll wrap up my section, and Patrick and I would be more than happy to take any questions you may have.

QUESTIONS AND ANSWERS

Unidentified Audience Member

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

I'd say there's a couple things. We started to see this occurring about midway through last year, and I'd say there's a couple different factors. One is we've obviously seen inflation coming down, which has been a benefit. So we are picking that up from a cost perspective. And given the sensitivity in the low volume environment, the ability to pass on ends up getting quickly reflected. So we've seen there is some downward pricing pressure from that perspective.

The other thing I would say is it's been three or four years now of continued softness in the market. So there's many of our competitors that are in the same position as us where we are looking at factor utilization that's sub-80%. And nobody has done anything that is dangerous from a pricing standpoint. So we are not seeing anything that is not just off our premium performance position. We're just not seeing as much opportunity to get that incremental step improvement.

What I will say is given the programs we have internally around lean and global sourcing, we have been continuing to more than offset any of the inflation pressures that we see in the business. So although price isn't contributing as much, we have been able to use productivity as another lever to provide an offset and not impact margins.

Unidentified Audience Member

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

It's a bit of all of the above. Regulation tends to be, as Patrick mentioned, think long-term, think multi-year. Regulation tends to play over that period of time. We were just talking as we came in that we look at regulatory updates on a frequent basis, and nothing really ever changes. And it's because it's slow moving, and even when it's enacted on, it takes years for it to move through the system.

For us, it is going to be more that global macro. I do think as you look here in the US, for example, many of the state and local budgets are improving in terms of tax receipts, property taxes or backup. That's providing a much higher stream of revenue. And with the general economic improvement, that's going to provide confidence in the system.

I'd say for us a big part of what we're trying to do is diversify not completely away from municipal, but take advantage of the industrial market where they tend to behave more with an economic mindset. So they value things like payback and energy efficiency far more than a municipal procurement person who is based on just today's budget. Even though it's got a two- or three-year payback, they are not necessarily going to be keen to buy into that.

And so that's been a big part of what we do, and you've seen it reflected over the past couple of years with the municipal part of our business. It's down about 36%. We view it as a critical part of our Company and a big part of our legacy. But we think the industrial space is going to really afford us a great growth opportunity, and then emerging markets is clearly the next frontier.

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

For those of you listening on the webcast, the question being what we need to do to drive topline growth. I would say -- I would summarize for Mike a couple things.

One, certainly emerging markets and solidifying our position there, making sure we have the right cost point and offering to drive that growth is key. The industrial expansion that Mike alluded to is critically important for us, and we do have some offerings right now. We do have some gaps in the portfolio that we need to address both organically and inorganically to accelerate that. And then third I would say that one of the things we are focusing on right now is reorganized around an integrated front end to where we really do more cross-selling of our portfolio to existing customers across each one of the end markets. And that really, I think, all of us would agree, given that we've got the broadest portfolio of our competitive set in the market, we really have not taken full advantage of that over the years as a Company.

Unidentified Audience Member

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

Sure. The question being, again, we talked about the fact that the focus on lean Six Sigma deployment in the company has waned over the past few years, and where do we stand in reigniting that?

I would say twofold. One, it's been the importance of the messaging that certainly I and Mike and leadership team have been driving now since I joined around the importance of ramping up resources and focus in that area. So it starts with messaging for me and the leadership team and the importance of this. We are going to be organizing differently around how we go after the actual certification of belts, but also the deployment of them across the company Because our utilization right now of the existing belts is very, very low by any kind of benchmark. So we need to ramp that up.

Also, we are deploying the Xylem management system, which lean Six Sigma is going to be a fundamental component of that. And we are going to be rolling that out over the course of the balance of this year.

Unidentified Audience Member

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

Again, the question being where are we from an M&A standpoint and the readiness there, and what kind of key capabilities do I think need to be put in place before we would let that pause?

I would say that there already are businesses within Xylem today that I think have earned the right to get back into the acquisition path. Again, small bolt-on strategic acquisitions are what we're talking about here. I would say across the broader company I certainly do want to see us getting even tighter on operational execution. I would like to see lean Six Sigma further deployed in certain businesses before we would necessarily be looking at M&A across the board.

The good news and really what I am signaling here is the fact that even though we've been on pause for a while, the teams have done a good job in keeping the pipeline cultivated and using that as market intelligence. And so certainly once we decide that we want to get back into smart M&A, there's not a lack of opportunities that are out there for us to pursue. We just want to make sure we are balanced in that approach.

Unidentified Audience Member

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

Sure. The question being what due diligence did I do in the Company before going to accept the position? I would say, first of all, my diligence goes back a number of years. Because whenever I was leading the Flow Control business at Tyco International, we competed in small parts with Xylem. Probably more often we were customers in some of the treatment plants that we had around the world where we actually used the legacy Xylem products.

So I have been familiar with the Company and its businesses for quite a number of years and certainly watched with great interest as the Company was spinning out of ITT because we were just getting ready to embark upon the same event there at Tyco.

In terms of dialing ahead a few years, I've certainly known a number of people that have worked for the Company or have worked closely with the Company. So I knew a fair amount about the management team. I obviously had met with each of the board members along the way and had some very open and candid conversations with them as to what the mandate would be. As you can appreciate, making the decision to leave one public company as the CEO to join another is no small feat. And so you do go through a tremendous amount of deliberation before you make that decision.

In terms of what excited me the most about it was I do truly have a passion for the water industry. And certainly when I look at Xylem and its assets and its people, I felt like it's got such tremendous potential. I knew and I had heard that there were execution challenges since the spin out of ITT. And, quite frankly, that is almost to be expected given the enormity of getting a public company stood up as such.

And so to me, I thought what a great starting point for me to come in and really rally the team and the organization to get focused back on the basics and the operations while driving growth.

I would say no real surprises since I have been here. I think there's a great similarity between Xylem and the business that I was leading at Flow Control: highly distributed, legacy brands, a lot of footprint around the world, and the opportunity to get the team better aligned and organized around the customer for growth.

We also went through operating model changes there to accelerate our topline growth, getting more organized around customers. When I heard that was an opportunity here, that was also something that I was quite excited about.

Unidentified Audience Member

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

Yes. So the question was, what's the biggest difference between Xylem and the Flow Control business at Tyco that I was leading? I would say the similarities are quite amazing, moreso than the differences. But I would say that the few differences that are there, first of all, that was a broader fluid handling business in that first we were involved in valves, controls, actuation, large pipelines, etc. But we served a multitude of industries. We were not solely focused on the water industry. So we were more heavily tied to energy, the process industries, etc. So that's different.

But having said that, even within Xylem, we've got a great level of diversification within the water industry. So, again, that comes back probably more as a similarity rather than a difference. Both businesses, very global, similar profiles.

I would say that when I first arrived at Flow Control, we were doing about 15% of our revenue in emerging markets. By the time I left the Company, we were doing about a third of our revenue in emerging markets. Right now our starting point here is about 18%. I haven't put a marker out there in terms of specifically saying what I think it can be, but I do believe, again, increasing and solidifying our emerging market footprint is a differentiating opportunity here.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

I think part of what we saw in the month of March -- and Mike can certainly help me out here if I miss any of the key points -- is, if you will recall, January and February got off to quite a slow start because of the heavy kind of winter aspect here in North America. So, one example, our dewatering business was off to a very slow start because things were frozen, effectively.

So we pulled some of that back in March because of the pent-up demand coming through with flooding, etc. in the month of March. So that was part of the driver that helped there that we simply haven't seen that continue into the month of April as much. And again, as we said earlier, we have seen some slowing down in the month of April and into May on the non-residential construction activity or nonresident activity here in North America.

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

I think it's also a question of trajectory. We are still seeing so much improvement, albeit probably on the lower end of the 8% to 10% range that we talked about. But we are still seeing continued improvement as we progress forward.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

We certainly have given indication before as to what our overall goals were over time, and I believe we've talked about kind of mid-single-digit kind of growth if you look at both organic as well as inorganic. And if you look at the CAGR since 2008, the business has driven about 3% to 4% growth over that timeframe.

So I certainly think that that's reasonable. I do think there are opportunities for us to drive that even more aggressively over time, once we get the right portfolio together to broaden out into industrial and the emerging markets, but that will take some time.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

That's a very clean number. It's got goodwill, it's got the intangibles and cash.

Unidentified Participant

Any other questions before we end the session?

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

The question is, do I stand behind the midteen profitability targets that have been put out there in terms of the previous team?

The way to answer that is, certainly as I looked at that, that was also part of my diligence coming into the Company was to understand what kind of markers have been put out there. And certainly when I look at the broader flow industry and my experience in it, when I look at where we are today and the levers that we have to pull, I certainly see nothing that would lead me to believe that those targets and goals were unreasonable. Certainly, as we go through later in the year and as we have gone through this year as an update in our strategy, I will certainly be prepared later in the year to come back out and kind of give some views on what our goals are going to be and how we're going to get there kind of year by year.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

Just for those on the webcast, the question was around how do we think about acquisitions in terms of the financial criteria, strategic fit, as well as the opportunity set.

I'd say from an opportunity set it can be challenging. Although when we look at certain of our businesses, like the dewatering and the analytics, albeit some of the acquisitions are smaller, call it $50 million to $100 million, you are typically dealing with acquisition opportunities that aren't in an auction. In a lot of these cases, we've cultivated relationships with these owners for a decade. And they like to see their business being carried forward, and quite frankly, they are at that point where they don't have the investment or the channels to continue to grow it. And they are probably at a point where they need to hand off the business anyway. So that does give us an opportunity to avoid having to get into lofty premiums and inflated prices.

From a criteria standpoint, we outlined this in our March Investor Day. But we look at a number of different factors, we look at how fast it's going to be cash accretive, we typically target somewhere between seven and nine years. Definitely it's got to be better than our weighted average cost of capital, and we've got a good track record around being able to execute consistent with that.

You know, we look at EPS accretion within a year. That won't necessarily always be the governor to the deal because as we did with our multi-trove acquisition, it tends to be if something is more technology-focused, we know that we may have to pay a little bit more, but there's a longer term payoff. And then obviously it's got to have a strategic fit.

And then one thing we always talked about was, before we get to any of that, we got to make sure the business is ready for the acquisition, and that's why you saw us last year say, you know what, we're going to take a pause because we don't want to bring business in and disrupt what has been a good track record of acquisition integration when we still got issues within the business. And that's a little bit what Patrick was talking about.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

The question being, has the Board set my short- and long-term incentives? Yes, they have. And that's all included in the proxy that's out there, so rather than me boring anybody here.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

On the metrics? Yes, certainly. Again, the metrics here in the near term, so short-term incentive is very much focused on profitability and those targets. And then certainly in terms of the long-term incentive plans --

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Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

EPS, yes.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

Long-term is a combination focused on return on invested capital, obviously relative to TSR.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

A lot of it is more on what I will call the book and turn business, which loosely could be business that is shipping within 30 days, but it can also be business that's shipping in, call it, 60 to 90 days. And again, the question on the phone is the pricing pressure and the nature relative to the products.

I'd say on the longer-term products -- projects that we have, that's been an area where we have been down for the last couple of years, and we have now more recently started to see the backlog picking up on that. It's tough to do a point-to-point price comparison on that, because typically the nature of the products and projects are very different, because they're going into different applications. We do a lot to make sure that we are putting ourselves in a profitable position on those projects, but also recognizing that when you start looking at things like the emerging market, that's about seeding that market. So we are still making good money, but nowhere near what we do on the aftermarket where we got to build up that installed base to make sure we got that platform for the future.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

So the question is around free cash flow conversion, 100% in 2014, is that a good way to think about it for the future. I think the short answer is yes. And if you looked at us historically, we've averaged around 100%. The last couple of years we've dipped below 100%, and I think it's really been driven by the economic downturn and some decisions that we made specifically around areas like inventory to make sure that given what had happened in terms of a change in the buying pattern of our customers, including our distributors, they were much more short order leadtime. We made some conscious decisions to carry more inventory, to make sure that we were in a position to meet the demand when it came through.

I think on a long-term basis, 100% on average is probably where we need to be. We did not have a lot of sophistication around our working capital practices coming out of ITT. A quick example would be we are paying our suppliers at about twice the time -- twice as fast as we get paid by our customers.

So when you look at a company like a GE or a Honeywell, they tend to have a supplier finance program, they have a standard set of supplier terms; that is something that we have initiated. We are now getting through implementation in the US and we are going to move into Europe, and that will obviously give us a benefit. And I'd say that our practice is around Accounts Receivable, but then challenged just by the greater macro environment. And so we have got a much stronger focus there. And I think as the economy improves, our position on inventory should tighten up because we will be able to have a better predictor around what the demand profile is going to be.

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

Okay. With that, we will wrap up Q&A. Again, I want to take the opportunity each time I am in public to thank all of our colleagues around the world for getting us to this juncture. I also want to thank our investors and shareowners for your ongoing commitment and interest in the Company. I do believe that this Company has tremendous potential in front of it, and I couldn't be more honored to have a chance to lead your Company.

So with that, we will wrap up today's session and look forward to connecting with you again. Thanks.