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PRESENTATION

Phil De Sousa - *Xylem Inc. - VP IR*

Well, good morning, everyone. Welcome to Xylem's 2015 Investor and Analyst Day. For those here with us in New York City and those joining via webcast, I thank you for your time and your interest in our Company.

As I look out in the audience today, I see many familiar faces, a great number of investors and sell side analysts. It's also clear to me with the turnout today that there is growing interest in our story. And I know I speak for our team when I say that we are excited to be able to share it with you today.

I am certain that today's presentation will cater to this broad audience. And I also believe that you will leave today with a better understanding of our business, our industry and the strategy the team has set forth as we look forward to rewarding and promising days ahead.

With that said, I'd like to take a moment and highlight today's agenda on slide 2. We will have a series of speakers beginning with our CEO, Patrick Decker, who will provide you with an overview of Xylem. Following, we will turn to two of Xylem's newest leaders who will each provide a deeper perspective in two of our most critical strategic focus areas. Patrick will then return and wrap up the beginning session with our capital deployment plans, mid and long-term financial objectives.

Following his remarks, we will plan to host the first of two Q&A sessions. In order to keep the program on time, we will plan to keep this first session for about 20 minutes. We will then take a short break, following which we will begin a series of reviews led by our business presidents. Tomas

Brannemo will cover our transport business; Dave Flinton will cover our dewatering business; Colin Sabol will follow and provide a deep dive on our Xylem analytics and treatment businesses and then we will turn to Ken Napolitano, who will cover applied water systems. Finally, we will wrap up with some closing remarks from Patrick.

Please note that while the agenda in the presentation does not reflect this, we will host that second Q&A session following Patrick's closing remarks. We will also conclude this session and the webcast portion of today's investor day at approximately 1215.

Turning to slide 3, we will make some forward-looking statements today, including references to future events or developments that we anticipate will or may occur in the future. These statements are subject to risks and uncertainties such as those outlined in Xylem's Annual Report on Form 10-K and those described in subsequent reports as filed with the SEC. These remarks do constitute forward-looking statements for purposes of the Safe Harbor provision. And please note that the Company undertakes no obligation to update such statements publicly to reflect subsequent events or circumstances and actual results could differ materially from those anticipated.

With that out of the way, I will ask everyone to please turn your mobile devices to silent mode. So it's time to start the program. Please help me welcome to the podium Xylem's Chief Executive Officer, Patrick Decker.

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

Well, good morning, everyone and again, I welcome those of you here in person, but also those on the webcast, welcome to Xylem's Investor Day. As you all know, moving around Manhattan is never easy, but certainly with the city teeming with leaders from 150 different countries around the world as heads of state join for the UN General Assembly, coupled with the Pope's visit, it makes things even more challenging. The good news is, with the Pope here today on his historic visit, I'm certainly hoping and praying for some divine intervention in terms of the traffic situation here in the city as we look to depart here later today.

First, I want to thank you for your continued interest in Xylem. As most of you know, I have now been with the Company for about 18 months. Early on, I spent most of my time traveling the world doing an active listening tour, challenging our assumptions, engaging with our management teams around the world and aligning them and the Board around a data-driven strategy to drive growth for the Company. And that's what brings us here today.

So let me outline briefly what I plan to cover this morning. I'm going to first begin with a look at the water industry in general, but also where we specifically play today, but also where we don't play today. Next, I'm going to share with you some foundational work that we've done over the last several months called value mapping where we've really laid out the various parts of the water industry and understanding what their growth and their return profiles are and that really has informed our long-term strategic plan. And then we are going to get into the actual components of that plan.

I'm joined here today by my senior leadership team. You're going to hear from several of them formally in presentations, but I also encourage you to take the opportunity on the breaks and in the lunch session to engage with them and hear what they have to say about the Company. And then, finally, we will wrap up our formal remarks with a Q&A session, as Phil outlined. So let's go ahead and get started.

I believe that what you are going to hear from us today is a very succinct, but powerful investment thesis and that thesis is grounded on three basic things. First of all, I believe strongly that the combination of stabilizing and even improving end-market conditions of the markets that we serve, along with our own focused execution, is going to lead to faster-than-market organic revenue growth.

Secondly, we have a steady, multi-year, self-help plan here in terms of margin expansion that I believe is somewhat unique to Xylem. And you are going to hear more details about that plan this morning. Now I realize that some of the things that you are going to hear this morning you may have heard before and you may be thinking what's different. What's different this time is the degree and the detail and the diligence and the rigor of the analysis that we've put together in our strategy, but also the commitment and the focus and the execution of our strategy like you haven't heard before.

But, lastly, the third element of the thesis is you are going to hear about a much larger appetite for large-scale capital deployment. It will be disciplined and balanced between accelerated M&A, but also healthy return of capital to shareholders.

So again, to summarize, it's about faster-than-market organic revenue growth. It's about margin expansion and it's about a larger scale deployment of capital.

Now before I talk about where we are going to take the Company into the future, over the next few slides, I want to ground you in who we are as a company today. So I'm going to share some basic facts with you. We have a unique set of global assets around the world. First of all, we have fortress brands with leading market positions; some that go back more than 100 years and they served as pioneers in their industry.

Secondly, we have one of the farthest reaching distribution footprints around the world. Third, we have a very substantial install base that provides steady recurring revenue. That recurring revenue represents roughly 40% of our total sales today. And lastly, tremendous cash flow generation and a strong balance sheet. So in sum, all these together provide us a very powerful arsenal to fuel investments for growth, as well as return capital to shareholders.

Let me move next to our 2020 objectives. I believe these are very compelling. First, generating faster-than-market growth over the next five years. Likewise, we believe that we are going to be significantly increasing shareholder value over time, generating EPS growth in the high teens. That will be driven by the combination of our organic growth, as well as accelerated capital deployment. We are going to be more global as we grow our revenue in emerging markets. We are going to be more innovative. We are going to step up our activity in the areas of R&D and business model innovation so that we can provide more advanced solutions to our customers in the water sector. And lastly, we are going to be much more efficient and that's going to drive significant operating margin expansion.

We address our customers' challenges along the entire lifecycle of water from intake, to treatment, to transport and usage. But then we also take it from usage to wastewater treatment, back to reuse and/or returning it to the environment.

As we will discuss here in a moment, we have a very diverse customer base. It includes municipalities, a broad cross-section of industrials, building services, residential and agriculture. And our innovative technologies and premium solutions enable the sustainable use of water around the world.

Now as most of you are likely aware, we report our results in two segments -- water infrastructure and applied water. These segments are comprised of five businesses. The businesses in the water infrastructure segment, which are transport, dewatering, treatment and analytics, they focus in on what we call the dirty water side of the market. They serve two primary end markets, the biggest being public utility municipality and industrials.

The applied water segment focuses in on what we call the clean water part of the segment. They provide services for customers that need to use clean water in various processes in their plants, homes, buildings, etc. This also serves a diverse customer base, which includes commercial building services, residential, industrials and agriculture.

Now the global water industry is vast. It's more than $550 billion in size, so I do think it's helpful to spend a few minutes here defining where exactly we play and also where we don't play. So you will see on the left side of this slide, these are the owners and the builders of water infrastructure, that being the public utilities and that being the EPC firms.

On the far right side, you see the actual users of that infrastructure. All three of these segments of the market are customers of ours. You'll also see that the average EBIT margin on these businesses is quite low. And it really is for those reasons that we have no interest in playing in these sectors of the water market. Where we specialize is in a piece of the equipment and services segment serving both the infrastructure providers, as well as the users of the infrastructure.

Here you can see there's a wide range of profitability in this segment and it's also incredibly fragmented with roughly 20,000 companies participating in the space. Well, it is because of that fragmentation and the wide range of growth in financial returns that it was important for us to do some heavy value mapping work across several sectors of that part of the market to really understand the places that we wanted to play and build our strategy around that. I'm going to share some highlights of that in a moment because it does inform where we are going to focus our innovation and technology efforts, but also our M&A activities.

So the addressable market that we play in is roughly $40 billion. Now we've differentiated ourselves by focusing on advanced water solutions and specialty services to solve our customers' challenges. Higher value equipment, such as premium performance equipment and advanced treatment solutions to name one. Secondly, we have differentiated solutions such as smart pumps, as well as integrated treatment applications. And third, knowledge-based services such as environmental monitoring, as well as application engineering.

Today, we have strong leadership positions across each one of these sectors of the water industry. So now that I've described who we are today, I now want to turn our attention to where we go in the future. I realize that a meaningful part of the investment thesis for Xylem is that we have been building our credibility over the last few years since we spun out from ITT. Admittedly, as you all know, it has not been all smooth. But the last couple of years, we have really doubled down our focus on delivering our commitments, doing what we say we are going to do and make sure we meet our financial expectations of the investment community.

I've also spent a good deal of my time building out our leadership team, which I will speak more to in a few minutes, but I also spent time traveling around and really focusing in on what are the critical organization capabilities that we need to build to be able to drive our strategy forward.

Lastly, we've spent a number of months further clarifying and refining our strategic roadmap, getting alignment with the leadership team and probably most importantly making sure I have alignment with the Board that we can now move forward and execute on that plan.

The truth is, as many of you know, simply having a tagline that says Let's Solve Water is not a strategy. It may be a very compelling rallying cry and it is to our employees and partners around the world, but it does not provide the ample direction that a company needs to be able to really double down and know where we are going to play and how we are going to win and that's why we have used the value mapping work as we've done.

Now as I said in my opening comments around our investment thesis, we are participating in end markets that we believe are very attractive. We expect to see attractive trends over the next five years and we believe these are attractive end markets relative to other peers in our space.

I'm going to go through each one rather quickly and I do want to reinforce that these are five-year growth outlooks for the markets. Let me start with industrial. The industrial end market represents 44% of our total revenue and is expected to grow as a market by 2% to 3%. And while the oil and gas sector does continue to weigh on this part of the market, it's important to note here that oil and gas represents less than 5% of our total revenue as a Company.

We believe and expect that industrials growth is going to be driven by increasing regulations around the world around water quality, as well as the efficient use of water. We are also seeing public utilities shift the burden of investing in new infrastructure towards industrial clients as they continue to be budget-constrained.

The public utility sector, which is about a third of our total revenue, is expected to grow in the range of 3% to 5% and we do continue to see evidence of pent-up demand in this sector, whether that be in the US or in Europe, as well as the buildout in key emerging markets. Energy efficiency regulations, as well as a continued focus on sustainable practices such as smart buildings, we expect will drive growth in the commercial end market between 2% to 4%. And the resi end market appears to have stabilized and looking ahead, we expect growth there in the range of 2% to 3%.

Now, as you can see, in three out of the four markets that we serve, we've charted a path that we believe should enable us to deliver above-market growth. In total, we expect to deliver organic growth over the next five years of 3% to 5%.

Now given our global footprint, we are also very well-positioned to serve customers in the most critical markets in the world. In our two largest and most developed regions, that being the US and Western Europe, we expect modest, but continued improvement in the macroeconomic trends. We are seeing the signs of increasing infrastructure investment in the US and the public utility sector in Europe is showing signs of stronger growth ahead as well.

The most promising growth opportunities are in key emerging markets where investment to build out water and wastewater infrastructure and driving higher efficiency is driving spend. You are going to hear more about our plans in emerging markets from Steve Leung later this morning, but let me just say here that we are well-positioned in those critical markets to significantly grow and to take share from competitors.

Finally, in the other areas of the world, we expect modest, but stable growth given stable economies, but continued commodities pressure. Again, in each case here, you see that we expect that we will be outgrowing the market at Xylem.

Now I want to take a moment to discuss some of the macro trends that are impacting the water sector around the world. And we, at Xylem, are well-positioned to benefit from these trends given our capabilities in advanced water solutions and our global reach and presence.

First, the policy environment. The policy environment around the world is increasingly focused on water. This weekend, the UN is going to bring together 150 world leaders to actually adopt the sustainable development goals, which put water at the heart of the global policy agenda. And that's for good reason. The World Economic Forum, they recently identified water crisis as the single top global risk. Regulations, demographics and infrastructure needs are putting water at the very forefront of public awareness. It's driving new policies and regulations whether that be end-use restrictions in California or pollution control standards in China.

Demographics, again, are a key driver here. Over the next several decades, the world's cities will house 2.5 billion more people than we have today, especially in emerging markets and that's driving continued infrastructure investment and buildout.

A third trend involves new infrastructure needs, especially to adapt to the changing weather patterns and environment around us. Extreme weather events are one of the World Economic Forum's top 10 global risks. Scientists agree that climate change and urbanization are going to continue to increase the impact of disasters like floods. In the US alone, weather events that have caused damages of more than $1 billion have increased by fourfold in the last recent years.

Now these macro trends are manifesting themselves in real commercial needs for our customers. This is a message I hear consistently when I speak with customers and other stakeholders and travel around the world and these needs fall into three basic categories. The first is water productivity. This is where the customer challenge is to increase the efficiency of how clean water is produced, how it is distributed and how it's consumed. There is tremendous opportunity to improve the efficiency of water usage at various elements of the system.

The second area of need is water quality where the basic customer challenge is to improve the effectiveness and efficiency of wastewater management and we know there's a real opportunity here to improve environmental quality and reduce the total lifecycle cost of ownership for our customers in that space by bringing in much more efficient technologies and processes.

And finally, resilience. This is where the customer challenge is to improve the management of water-related natural risks such as those related to extreme weather patterns, as well as droughts, contamination, things of that nature and the costs that are associated with that. We continue as a company to develop new technologies and treatment solutions that have a key role to play in reducing the risk associated with these events.

Now I want to pause for a moment because I know many of you are quite familiar with the water industry and there's clearly been a lot of hype about the water sector over many years. But we all know that hype and broad generalizations don't necessarily manifest themselves into commercial realities and growth for a company and just because a business happens to touch water does not necessarily mean it's going to be a growth company or that it is going to be wildly profitable. That's why it's important that we double-click and dig deep into this value mapping work to really understand, based on data, where the real growth opportunities are, the real growth trends and those areas of the water sector that are going to be most disruptive and therefore have value associated with them.

But it's also just as important to confirm where we are not going to play. So we broke down the wastewater treatment and the water resource management systems across markets into more than 65 specific subprocesses to analyze each part of the water sector. And here's a few things of what we found.

First, many of our existing businesses already play in very solid segments of the water industry. We like those businesses. We are going to continue to invest in them and make sure that we defend them and grow them. Secondly, to my earlier point, there are big parts of the water sector that are not very attractive, either because there is not an opportunity to differentiate technology, they have very low growth rates and they are challenged from a cost to compete perspective. We have no interest in that part of the market.

But, finally, here is the good news, there are very attractive parts of the water sector that are growing already rapidly at very good margins and that's because they are disruptive technologies. And secondly, they really differentiate themselves in terms of meeting a critical customer need and they can be done cost-effectively. So in sum, our value mapping work identified several growth vectors in addition to further investment in our current core businesses. Let me speak more to that.

First of all, emerging markets. This, again, is where rapid growth and rapid spend in water infrastructure remains an opportunity for us in our core businesses; integrated solutions that are targeted at solving higher-order customer problems, especially by reducing the total cost of ownership; attractive technology areas, including measurement, analytics and control, which is all about directly supporting the transition of the water industry into smart infrastructure; advanced industrial treatment technologies that directly support water quality and resilience such as water reuse.

And industrial water services. Many of our customers in this space look to outsource the management of water. They don't consider it to be core to their operations and they don't have that capability in-house. They look to companies like ourselves to be able to manage that for them.

The good news here again is that we've got businesses that are already exposed to these trends. Our analytics businesses, as well as our intelligent pumping systems, are already helping digitize water and wastewater infrastructure, but there's also a significant opportunity ahead to further advance our efforts in innovation technology, as well as smart M&A to build out those capabilities.

Now while the benefits analysis we were able then to really define a much more robust strategic roadmap. On the left side of the slide here, this is really about the plans we are putting in place to optimize our base business and ultimately create a more valuable company. On the right side of the page though, we really show you here that we have a great opportunity to accelerate our capital deployment, again both through disciplined M&A, as well as through shareholder-friendly moves such as repurchases and dividend growth.

Earlier, I shared with you my objectives for the Company. So now I want to share the handful of key focus areas that we are driving as a company. We've got -- the first area I'm going to focus on here before I talk about accelerating profitable growth in CI is to talk about what we are doing on the leadership and talent development front. Now while my efforts have not been focused in on just limited to the leadership team, certainly, identifying the capabilities that we need as a company to execute our plans has been top, front and center for me. And so clearly taking the last several months to make sure that we identified the right capabilities, but also that we recruited and brought in the right people have been essential.

As you can see here, this is my leadership team. They are sitting here in the front today. As I mentioned earlier, you will have the opportunity here over the course of our breaks to mingle with them and also to feel their passion for what we are trying to do here as a company.

So the first area that I am going to talk about in accelerating profitable growth, I am actually today this morning going to be speaking to what we are doing in the innovation and technology area. I'm also going to be covering our plans as it relates to commercial leadership. I'm then going to ask Steve Leung to come up to address what we are doing in the emerging markets and then we will have Tony Milando come up and really double down into the three areas of CI that we are driving as a company. And then I am going to wrap up the first part of this morning's session talking about our capital deployment priorities.

So first, innovation and technology. This is a critical area of focus for us as we grow our business. Since I arrived at the Company, I've been working with our Technology Council, which is comprised of people from across each one of our businesses and in fact, a number of the things that they identified are driving the agenda and driving the priorities that I will be sharing with you here today.

It was actually the importance of that work that I did with the Tech Council that led me to the decision to appoint a Chief Innovation and Technology Officer for the Company. Somebody who can bring that daily focus and fresh thinking that we need to drive breakthrough innovation as a company. I'm very pleased to welcome Jay Iyengar, who is here in the front row with us this morning. She came to us a few months ago. She has a long impressive track record of managing global R&D functions, as well as bringing transformative R&D and innovation into various industries. She is already bringing an increased level of focus and execution and discipline and really helping us drive to work the teams going forward in a very concerted way.

But to begin, it's very important that you all understand that we already have a long history of innovation at the Company. We have brands with long rich histories of innovation. Many of you may know Flygt and Goulds and next year Bell & Gossett. They each go back more than 100 years. And WTW Analytics in Germany goes back almost 70 years. The list goes on in terms of the heritage that we have in the Company. But the more important point to make here is that almost every one of our businesses were actually founded on some form of transformative technology.

Now I am just going to give you one example here that I will go deeper on. Let's start with Flygt. Flygt's revolutionary submersible pump transformed the wastewater industry back in the 1950s. Completely changed the industry. In the 1990s, our Flygt in-pump technology was introduced. Lately, again, recently, we were the first to launch the industry's first smart pump. But more excitingly, even more recently, we've begun to integrate our monitoring and control technologies with our pumps and that allows us to help our customers maximize the efficiency of their pumps, but also we collect data for them that helps them drive more efficient use of their operations and management, but also helps them improve their profitability as an organization. This is just one simple example of how our brands and our leadership teams continue to capitalize on technological advances to solve our customers' challenges.

Most importantly though, we don't innovate for the sake of innovating. Our innovations have to be grounded in providing real customer value, whether it's energy efficiency, whether it be compliance with emerging regulations, whether it be easier installation or maintenance or whether it be optimizing their total lifecycle cost.

Now this all begins with a well-defined strategy, again, that is grounded in solving our customers' current and emerging needs. So we want to identify disruptive technologies that add value for our customers even if they are in spaces that we don't play in today.

First, in the area of product solutions, this is about encompassing the development of world-class products that really continue to up the ante on quality, reliability, performance and cost. Again, as our customers search for higher efficiency, higher performance products, we need to stay at least one step ahead of them capitalizing on technology and anticipating what their emerging needs are going to be so we can add the most value to their operations.

For example, our pump treatment and analytics products will continue to move up the technology curve as we create built-in digital control and diagnostic capabilities. In the area of system solutions, we will continue to leverage the breadth of the products and services that we have in our portfolio, the largest in the industry, and this is an example where one plus one definitely is far greater than two. Combining our sensors and pumps, our treatment and mixers or our monitoring and control products, we are beginning to create real integrated solutions for our customers.

Finally, we recognize that our customer base is changing and technology affords us an enormous opportunity to capitalize on the advantages of digital applications. So yes, the Internet of Things has found a home in the water sector. So we are going to use cloud-based services and the Internet of Things to develop valuable digital solutions. And we are already working on intelligent platforms that provide real-time monitoring and control to our customers.

We are increasing our technical capability in data sciences. It's going to help us predict the performance of systems based on trends and the data collected from our customers and this will allow us to build the tools our customers need, again, to more efficiently manage their operations, minimize downtime, minimize disruption. And over time, this innovation we actually believe will provide new revenue streams for us as a company as we monetize those capabilities.

One very effective way of accelerating our innovation continues to be through external partnerships. And we've got a number of these around the world today. But I just want to give you a couple of examples. In Sweden, we have a long-term partnership with our customer, Hammarby. It's a water utility, along with the Swedish Environmental Research Institute and the Royal Institute of Technology. Working together, we've developed and tested various wastewater treatment solutions, as well as reuse systems and we've been able to pilot them in their live environment so we can accelerate the actual commercial application of that in a real-time environment around the world. And this is allowing us to bring proven solutions to our customers more quickly than our competitors.

In Singapore, we have a long-standing relationship with the Public Utility Board. Here, we pursued several different research partnerships with them. Specifically, we've been focusing in on developing our own smart network optimization solutions using our sensors and our service capabilities. That research has actually provided us significant early insight into the area of measurement, analytics and control.

Innovation and technology in numbers. Of course, none of this is doable unless we have a solid investment plan behind it. Now we've already been elevating our investment in R&D over the last couple of years, but over the planning horizon, we plan to increase that rate of investment by at least 100 basis points and this increase is going to be funded through other cost-out activities across the Company.

Now to some of you, over a five-year timeframe, this increase may not seem so large to you, 100 basis points. But couple that increase with the fact that currently today almost all of our R&D and innovation spend is occurring in the high cost jurisdictions of the US and Europe. And as we focus on building out more and more capability and leveraging even what we have today in emerging markets, we are going to get increased purchasing power, bigger bang for the buck for the money that we do spend going forward.

Now we are going to monitor and track the succession of our innovation efforts by a classically used metric, which is our vitality index. This really speaks to how quickly we are refreshing the product and technology offerings within our portfolio. With our renewed focus here, this metric, which measures in our case the percentage of our current revenue that's coming from products and technologies developed and introduced in the last five years, we are aiming to take this metric up by 800 basis points over the course of the next five years.

What that means in numbers is ultimately by 2020 we expect that $1 billion of our revenue at that point in time will be coming from products and technologies generated over the next five years. So how are we going to do this? To begin, it starts in emerging markets. We are going to be accelerating both our R&D activity, as well as localizing our product designs to be more responsive to local customer needs. We are also going to be focusing in on smart technologies and systems intelligence.

Third, as you all know, the intellectual property, or IP, in the water sector is very fragmented and therefore, M&A will also serve as a proxy for R&D. We are also putting in place a much more streamlined and focused effort around identifying new breakthrough technologies, disruptive technologies and incubating them until such time as they reach critical mass and we can then commercialize those opportunities.

We also know that having the right partnerships can help fill technology gaps and we already work with a number of outside organizations. Whether it's working with academia or research institutes or forming partnerships with venture capital funds, from my experience in other industries, this is a cost-effective way to increase our bandwidth in terms of innovation technology, but also to open our eyes outside the four walls of the Company. Collectively, again, all of these initiatives are intended to move us up the technology curve.

Now I want to shift gears to the crucial plank of our growth strategy, which is commercial leadership. Commercial leadership in my mind is simply about understanding and proving every touch point that our Company has with our customers. To be honest, for many of you here in the room, you probably know companies in our industry, including ourselves, we have not historically been easy for our customers to deal with. We have a lot of complexity of our IT systems. We are fragmented, not easy to interact with and therefore creates frustration for our customers.

At the same time, customers are becoming much more sophisticated and much more demanding around the quality of interaction and services they get with anybody they interact with. So we are going to be investing across all of the touch points in our organization to change that experience for them. I'm going to share with you some details on what we are going to do.

The first step though was for us to fully understand each point of interaction customers have with us along their journey with our Company. It first begins, as you see on the slide here, with the discovery phase. This is where our customers first understand what solutions they even need to be able to meet their needs. Then they move to the product selection phase. This is where they interact with our commercial teams, as well as oftentimes go online to determine which products to select.

Next, they move to the purchasing phase and they move on, of course, to the support and service phase where we have an opportunity at that point of interaction to really capitalize more than a one-time product sale, but to really build an ongoing service opportunity with them.

Now as you can see on the slide here, we have way too many systems today that drive complexity and they sub-optimize the customer experience and at any point along that journey with the customer, unnecessary complexity can result in losing the opportunity. So we are looking to change that. We are focusing on simplifying our commercial processes, but also the back-end IT systems that actually support them because, again, we intend to provide our customers a much better experience than they've had historically.

What does this accomplish for us? First of all, it's going to make it easier for customers to interact with us as a company. Secondly, it's going to accelerate our order processing and leadtimes. And third, it's going to enable our sales teams around the world to better share lead opportunities across common customers and that gives us an opportunity to increase the number of at-bats and therefore increase our sales opportunities. Again, I'm going to give you some more detail on what we are doing here.

Today, we have more than 120 different systems that allow our customers to select and price products. Spreading our portfolio across this many systems, it dilutes our efforts, it confuses the customer at times and it makes it difficult for them to really understand the full solution that we can offer to them and what the opportunities are when they interact with us. So we are investing in a new system. This is essentially an online storefront that will contain all of our products, whether it be standard or configured. We are also redesigning that interface to where the user experience will be much more intuitive, again, making it easier for them to really drill down on their own choices and accelerate their inquiries.

So for example, if one of our customers was to go online searching for a dewatering pump, what this tool is going to do is not only help them understand what's the best pump to choose, but also will suggest the right flexible hose, the various other accessories that go around that, as well as what the service and support offerings are that are available to them depending upon the problem that we are trying to solve. So we feel strongly this tool is going to simplify the customer experience. Most importantly, it's going to give them access to a complete solution and as a result, we are going to have many more cross-selling opportunities within the Company.

Another pillar of our commercial leadership. Many of you have heard me talk often about what we are putting in place in terms of a customer relationship management system, or CRM tool. In our case, we chose salesforce.com. And over the past 18 months, we have been introducing this tool in North America, Latin America, Northern Europe, the Middle East, China and Australia. We already have a large database of our customers in the system and we are beginning to see the early benefits of the cross-selling opportunity within the Company.

Our system is open, including to all of our salespeople, of course, that's the priority and as a result of that, they are able to see and find these cross-selling opportunities that are out there for them with customers that we commonly serve. We are in the early phases, but I must say I'm very pleased with the progress that we've made, but I am also very pleased and excited about some of the opportunities that we have seen this really drive for us as an organization.

I'm going to share with you one example that illustrates the power of the tool. As I mentioned earlier, we are seeing a number of large-scale wastewater treatment facilities being broken ground on across the US. And as cities and communities are looking to accelerate, bringing them up operationally, they are moving more and more to what we call a design-and-build model. They are using EPC firms to do that.

The good news is we at Xylem have relationships both with the end-user, as well as with the EPCs. We also, because of our specifications, get early views on what the specifications are going to be in that project. Being able to leverage CRM, or our salesforce.com, what that allows our salespeople to do is get an early look at all the possible opportunities that they've got as lead generation on that project, whereas in the previous environment, they wouldn't necessarily know who to reach out to or who to share that lead with.

This now is about turning a single brand sell into a cross-Xylem sell. The power of this is that we've already seen a number of opportunities where the revenue quote opportunity has been increased by as much as 30% for us as a company. That's the power of a tool like this. And I believe strongly that given the relative breadth of our portfolio, vis-a-vis competitors, this kind of a tool and this kind of a weapon in our arsenal is critical for us to really differentiate and take full advantage of our breadth and diversity of portfolio. Because, at the end of the day, it is all about getting more at-bats with our customers so we can get better selling opportunities.

Now I'm going to turn to our emerging market strategy. Before I have Steve come up, I thought I would just spend a few minutes here talking about why again are emerging markets so important to us. First of all, 70% of the world's new water infrastructure over the next few decades is expected to be built in the emerging markets. It's the new installed base and all the service opportunities that come with that. We absolutely have to be in prime position to take advantage of that.

The good news is the key markets that we are focusing on we already have good position. It's about building it out and leveraging it even more so. So many of you here say, okay, fine, everybody talks about emerging markets. It's going to be big. We've heard Xylem talk about emerging markets before, but what are we doing differently because we are already seeing attractive growth rates in emerging markets for our Company.

To me, it comes down to a few key things. First of all, it's about focus. We cannot go after every emerging market around the world because it's sexy. We don't have the resources, we don't have the management bandwidth, we don't have the capability to do that. And likewise, not all emerging markets are the same or grow equally, as you all well know. So to me, it's focus and we are choosing to focus in on just a few key regions over the near term to make sure that we really differentiate our investments and resources.

Secondly, it's about leadership and experience. As you all know, getting access to strong leaders and talent in the emerging markets is one of the great challenges that most industrial companies face. So I thought it was critically important that I bring somebody onboard that has seasoned leadership experience like Steve Leung. Steve has been on board with us now for just a handful of months. He is already beginning to make a great positive impact.

Many of you know that I have known Steve for a long time. I worked with him in a former life. I've seen firsthand what Steve is able to do with his 20 years of experience globally in industrials, but also building out businesses in the emerging markets that we are focused on. And it's great to actually have him here on our team.

Third is we are committed to making the investments necessary and shifting existing resources into these markets because that kind of focus and commitment is absolutely required along with the patience that's required to be able to see these growth opportunities manifest.

Lastly, one of our biggest opportunities is localizing our product design and empowering our teams on the ground to serve their customers uniquely there in ways that they've not been empowered to do before because a lot of the control resided back in the developed countries where these products originated. We've got to be able to empower them and localize those designs in order to capture the most attractive parts of the emerging markets. So with that, I'm now going to as Steve Leung to come up and share a few words with us on emerging markets.

Steven Leung - *Xylem Inc. - SVP, President Emerging Markets*

Thank you, Patrick. Good morning, everyone. It is my pleasure to be here today. I'm very pleased to be part of the Xylem leadership team and have such a strong team to execute our plan every day around the world.

So let me begin with a few comments about our market, what we are seeing on the ground. So overall, we continue to see macro favorable macro environment in most of the emerging markets despite some recent deceleration. So the macro trends such as population growth, infrastructure buildup, urbanization is driving the demand for our business, for our services and products.

In many cases, we also see stronger regulation on water quality presenting opportunities for us in transport, in treatment and in the analytics business. And as we look ahead, we are prioritizing our investment in several key countries whereby we believe we have attractive growth opportunities.

We are seeing very nice growth in most of the emerging markets and our team on the ground should be very proud of their accomplishment. However, in the near term, we are going to focus on China, Middle East and India whereby the large market is investing a lot in their water.

And I'm going to spend the balance of the time for the day to highlight some of the key actions and also how we can expand our local presence in these markets. We are going to drive more product localization, expanding our sales coverage and building a very strong team, local team, to execute the strategy.

We see great potential in the emerging market growth. The chart shows that today we have about $800 million in all the emerging markets that we actively participate and we are seeing an overall 10% growth of the emerging market business up to $1.3 billion in the year 2020. All of today's businesses, $800 million, 41% of the business is coming from China, Middle East and India. We are seeing a greater growth rate in these markets and the $500 million incremental business that we see is going to -- 60% of them is going to come from these emerging markets focus area. So we are making strategic investment in these focused regions and expanding our global presence, as well as strengthening the Xylem brand in these regions.

Let me provide a brief snapshot about each of these focus areas that we are going to talk about because they are very different. The dynamic is very different as well. China, we already have a very strong presence. We have to continue to do the product localization faster and better, make it more cost-competitive and we are expanding our local product management and product development, as well as the innovation capability in this market.

Middle East is a little bit different. We are building a world-class factory in Middle East, bringing our manufacturing and assembly capability into this region to serve the market, to serve the customer better and with local expertise. We are expanding the sales coverage in this region as well.

Finally, in India, we already have a manufacturing facility in India and also a global technology center, R&D center in India. We see great growth potential with these assets. We are going to invest in these assets and then expanding the facility and capability to serve the market faster and better, as well as leveraging for global supply chain as well.

So let's go through China in a little bit more detail. China remains a very attractive market for us because of its size, despite the fact recently people concerned about the economic slowdown a little bit and also they are shifting their economy growth more from the original export foreign direct investment infrastructure buildup to driving more domestic consumption, but we still see the market is very attractive for us because the urban population is still growing. China, the business size of the economy grows (inaudible) and there is more regulation strengthening to handle the water pollution issue in China. We see great growth opportunities there.

We are creating a very strong team of value proposition to our customer. We are selling more valuable integrated solutions to our customer and to help them to handle their water challenges. We are accelerating the localization efforts to bring more product into the market to be more competitive.

We are also penetrating deeper into some of the market segments like OEM and aftermarkets. And then we are expanding our business into the second tier and third tier cities as well in China. So we believe the strategy is going to bring us an average CAGR of 12% in China in the next five years, roughly about 2 times of the market growth rate.

So let me go a little bit deeper into some of the perspective of the water situation in China. In China, you are familiar to some of the facts there on the screen and basically because of the urban population growth in China, they face a lot of challenge in the water infrastructure, as well as the treatment capability as well. And over 400 cities of China cities that they are facing challenge of water supply and then over 230 million people that they have drinking water, safety drinking water challenge as well.

But deep underneath these facts, there are some other trends. Number one, China's exceptional economy growth in the past decades come with a price of pollution and water quality issue; and secondly, this economy growth in the past creates a rising middle class in China. They are demanding better quality of life and also living environment. And more importantly, there are general public acknowledgement concern about water quality, food safety and also the living environment as well.

This puts a lot of pressure to the Chinese government to fix the issue to improve the situation. And in this spring, they have just issued a very ambitious plan of -- action plan of water pollution and prevention control in China. And in this plan, their specific target, their specific measure and timeline to achieve the target. And this is the official roadmap from the Chinese government to fix the water pollution and environmental issue.

The Ministry of Environmental Protection has stated that in order to reach these targets they have to start to invest in the coming years over $230 billion. We have a very strong brand in China. We are trusted customer leadership -- relation in China. We also have strong long manufacturing history in China with a world-class team, over 400 people who is serving our customers every day in China.

We are in a very good position to participate in this Chinese growth journey and also a strong partnership with the Chinese government to solve the water challenge. As an example, in the last April, we are just part of the 25 companies selected to participate in a US presidential trade mission to China, a very productive week to share our water expertise with the central government.

So we are also cultivating and also deepening our key account relationships because we see this as a good growth opportunity for us as well and this is just one of the examples that we put up on the screen. The Beijing Drainage Group Company, this is a utility -- this is a primary utility provider in Beijing for wastewater transport and treatment. And as you all know, Beijing is a very big city. They are managing about $2.6 billion in assets and because of the challenging increasing population in Beijing, there's a lot of challenge of the capability, the reliability about wastewater transport and treatment.

So we work very closely with the customer. We use our computer flow dynamic program to help the customer to diagnose their water network as well and also their system and also we plan with the customer on all the upgrades to improve their capability and reliability, as well as preventive maintenance services program. And today, our product is presented in 80% of the facility, treatment and pump stations of this group. And we have a great relationship with the group and this is one of the ways that we drive the value of key account management.

So to support the business growth in China, and also we talk about localization, we are also expanding our facility in the Shenyang factory. Shenyang is a city in the North Eastern province in China. We have our factory there produce our state-of-the-art Flygt products for the transport business. We are expanding our capability there and then with capacity over a 300% increase in the next year or two.

And we are also building out the design and assembly capability for solution products to provide solution -- package solution to the customers. And as I also mentioned, localizing product design is critically important. The example we saw on the slide, on the right-hand side, is a product we call TOP. This is a pre-integrated engineer pump station that we design and manufacture in China for the customer.

Compared with the conventional pump station, it is more easier, faster to build this pump station and it requires less space and more cost-effective and energy-efficient for the customer. Since its launch in 2013, we have over 100 installations in China and in particular, this is great for the second tier and first-tier cities in China. So we have enjoyed great success of this product local design, localization of the product and we see this as a roadmap for the growth in China as well.

So now let's turn to Middle East. Middle East, we see a very attractive long-term prospect in the water space. There is encouraging macroeconomic growth and also supporting infrastructure developments throughout the region with the local investment and also foreign investment in the oil and gas space, in power, in petrochemical and also the urban infrastructure buildup. And this represents a great opportunity for our transport and treatment business.

Infrastructure and construction also represent good opportunity for our dewatering and also the AWS business. Based on our investment plan, we see our business is going to grow at a 15% rate in the next couple of years.

We are focusing on four strategic areas. We are going to build a world-class manufacturing and assembly facility in the Middle East in Dubai to shorten the delivery time and service our customer better. We are expanding our channel to extend our coverage in the region. We are also deploying engineering resources to provide better services and also the aftermarket in the region. And of course, we continue to develop a very strong team to do the execution of the plan.

So today, roughly about 90% of our business goes through the direct channel and looking ahead, we are building a solid infrastructure to grow the business in the region and we are investing about $25 million to expand our presence and accelerate the growth to $250 million in 2020. We are in the process to acquire and building up a world-class facility and you can see the picture there. And we are expanding -- we are going to expand the channel and strengthen our salesforce to cover both the key account and also big projects in the region.

So we are forging partnerships with academia and other important local (inaudible) to help us accelerate our growth R&D initiative. For example, discussion aimed at establishing a research cooperation with [Massachusetts] Institute of Science and Technology is underway.

So this is an example we want to show how we capitalize on the growth opportunity in this region. So as I said before, water scarcity is one of the key issues in Middle East and Middle East is making this investment in water reuse as a big deal. We see growing interest in our comprehensive solution for advanced water treatment.

This is an example in Bahrain. The Ministry (inaudible) Ocean Technology from our highly reputable Wedeco brand for what will become the region's largest water reuse facility. So with this upgrade, the capability of what wastewater we use is going to raise 20% and the treated water will be used for irrigation.

So now let's turn to India. So in India, we see a promising trend in the market driven by the government funding and also the private investment. Our business in India faced favorable macro trends, population growth, urbanization, the economic growth by increasing pressure for the water infrastructure and the wastewater treatment. We also see notable government spending on water, including cleanup of the water resources like the Ganges River, building irrigation infrastructure and construct urban water and wastewater infrastructure.

So the market is very promising with the growth, about 10% we see and we believe with our strategy, with our investment put into India, we are able to grow the market in the range of 15% to 20% for Xylem in the next five years. So we are focusing on three areas in India. One, we are strengthening our local R&D capability to accelerate the localization effort. Two, we are leveraging our custom pump assembly and testing capability in India to pursue the large projects in India. Three, we are developing integrated solutions for pumping, treatment, monitoring of the major projects such as the Ganges River cleaning and also the Smart City initiative in the country.

So today, I am also announcing a big news. This is a substantial win that we had in India last month. The win, including two orders, totaling about $32 million for a major custom pump irrigation project. Our pumps will be used for the world's largest lift irrigation system, which will bring water to farms and serving thousands of rural villages.

It did not come easy. There's a lot of work on the ground by our engineers working with the customer, customer engineer, customizing our design and then eventually convince the customer this is the best choice and then we got the deal. So of course, our local pump, our local custom pump assembly and test capability is a crucial part of that win.

So this major project is a great reference (inaudible) for us. We feel that it is a good foundation for us to win similar projects in the near future and we believe we are well-positioned in India to pursue these kind of big projects in the next three to five years.

So in summary, we are very confident about our emerging market focus and strategy for growth. The region holds strong growth potential for our business and also the macro drivers are increasing demand for our products and services. So I want to leave three messages to the group this morning. One is we really need to stay focused. We have continued to focus to execute our strategy in China, Middle East and India.

Two, we need to continue the localization journey. We are engaging the customer to localize more of our product, to customize more of our product to make them more competitive in the market. Three, it is absolutely critical in the emerging market that we develop talent. So develop talent is my personal priority because it is so critical to have the right leadership, strong team and we empower them to execute the plan in the market. So thank you very much for your attention this morning. With that, I turn it back to Patrick.

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

Thanks, Steve. So before I bring Tony Milando up on stage, I want to just share a few perspectives that I've had as I dug into the continuous improvement opportunities as a company. Clearly, the Company has made quite a bit of progress in this area in various areas of cost takeout since the spinout from ITT a few years ago, but there is absolutely loads of opportunity in front of us.

Again, I really believe that the combination of business simplification and continuous improvement is going to be a significant lever for value creation for us and Xylem and that I think is a unique opportunity that we have versus other investment opportunities for you.

This is the fundamental thread and what I refer to as a productivity for growth mindset that we are beginning to build into our daily operations of the Company. As I dug into the CI area, it was clear to me that while we had made some good progress, this was all happening in pockets across the Company and I really felt the need to bring in seasoned strong leadership into a role that could again provide that daily focus just like innovation and technology in emerging markets to drive that forward.

Obviously, leadership is everything and we found that in Tony. Having somebody who has navigated complex organization structures before, and has actually worked to simplify them, is a real asset for us as a company. Tony joined the Company earlier this year and he certainly has been heavily involved in refining and targeting our efforts in this area and we've already seen the early benefits of accelerated roadmap around lead deployment, but also global procurement and we are now in the early stages of executing on the broader simplification opportunities as a company.

It is important though to note here that as we talk about the steady, multi-year self-help opportunity here around margin expansion as a company, it's not just to get it for four to five years. This is really about embedding this as a cultural mindset in this Company to where we really become much more of a lean mindset. And so with that, I now want to turn it over to Tony to say a few words on CI.

Tony Milando - *Xylem Inc. - SVP Continuous Improvement & Business Transformation*

So good morning, everyone. Thanks, Patrick; I appreciate the introduction. And thanks to everyone here for setting aside part of your day to hear the Xylem story. As Patrick mentioned, I just started with the Company earlier this year. My background is split evenly between finance and operations and spent 20 years with Black & Decker and of course, four years after the merger with Stanley and I had the opportunity to run both global operations and procurement for the worldwide power tools and accessories business and while this is not a power tool business, it is an industrial manufacturing company with a global footprint, manufacturing a complex product mix and having a rather significant supply base. So there's a lot of similarities.

And as I made my tour around the Company, I can say that continuous improvement, or CI, we are not really starting from ground zero here. There is a Lean Six Sigma program in place. There's approximately 10% of our workforce that's been trained in either LEAN or Six Sigma. We have a global procurement team now in place that's young, it's maturing, but we are starting to see some early benefits from that already. And as you know, and as Patrick mentioned, we've gone through a little bit of footprint rationalization and realignment over the past few years. So I give the businesses a lot of credit for taking care of some heavy lifting.

And so my hope is that, in my short time here, you'll get a sense for what we mean about CI, or continuous improvement and that the key messages I leave you with are, number one, that business simplification is going to go to attack structure, process and product, the complexities that the customers simply aren't going to pay for, or they don't value, and that global procurement, while reaping the benefits of centralization in its early days can and will achieve top quartile type savings through a multipronged capability-embedded strategy that I'll talk about here in a second.

And then thirdly, Lean Six Sigma is alive and well in our Company and will be our sustaining productivity engine into the future based on focus training, targeted investment and expanding that aperture outside the four walls of our factories. Now none of these areas by themselves are really unique or different, but what is different is that we are focusing on continuous improvement in a holistic and systematic way and we are looking horizontally across the Company and we can begin to integrate certain parts of our business and enhance margins at the same time.

And while you will note a specific bent towards showing you the financial benefits of these programs, please know that these CI programs have broad-based business benefit beyond the financials. We look to improve our customer experience, enhancing speed and product delivery, eliminating unnecessary layers to speed up decision-making and in the end, our programs have at their core the customer in mind. That's really always going to be our true north as we move forward.

So I'd like to begin with the way we are thinking about continuous improvement here over the next five years. Based on the plans that I'm going to lay out, we share a strong belief that we can achieve top quartile savings, particularly with the combination of global procurement and Lean Six Sigma and we feel this is a repeatable annual benefit.

In addition to that, and while I did mention we had some strong work done in realignment and restructuring, there still remains an opportunity to achieve business simplification in the $60 million to $75 million range. Now these are one-time, multi-year benefits beyond purchasing and lean and while a bit more difficult to get at and requiring a little bit of a horizontal view, they will be done in a way that's not disruptive to the business.

So let me peak the onion back a little bit and talk about procurement. We have about $1.8 billion in spend, about a 70%/30% split between what's direct and what's indirect. The direct side is about half made up with six key commodity groups. On the indirect side, it's things like transportation, technology, professional services, business travel. We have over 17,000 suppliers, so it creates a high spend fragmentation for our business, but going forward, we believe we can achieve an elevated level of productivity through three strategies.

Number one is improving organizational capabilities and that is consolidating our procurement group under one organization. So intellectually, this is a no-brainer for us and for our sized company, we really needed to do this. However, it really was a major change for our Company. We were organized by geography, by business and changing that to a global organization -- a behavioral and a cultural change that we worked through. That change occurred earlier in the year. It's behind us and we are starting to see some early benefits from that.

Secondly, developing that strategic thought process around how we manage commodities in key categories in the future, adding a new focus of indirect spend, adding some advanced tools to our procurement organization and an e-sourcing platform that we are going to launch later in the year that will provide some real visibility to the data. And lastly, looking at our product through multiple lenses and redesigning it for margin expansion. So we believe these plans will deliver top quartile productivity into the future.

So indirect spend hasn't been an area that's not been managed, but it is certainly an area of heightened focus for us. It's an area we feel very confident in that we can take cost out year in and year out. It represents, as I mentioned, about 30% of our overall spend, or about $550 million and it really includes anything that's not salary and wage-related or not in our product.

And of course business travel falls in that category and as you look at the world-class benchmarks on the chart up on the screen, you can see that about half of our business travelers -- now this is not half of our employees, but half of our business travelers are taking advantage of and using our corporate credit card. So this limits the amount of information that we have for negotiations.

And because we have two travel management companies that have low utilization rates today, we are only getting about 38% of our travelers taking advantage of those negotiations and so you can see there's a clear opportunity for heightened focused in indirect spend to really take some cost out. This happens to be one of the nicer categories for us, but we have similar examples throughout the indirect spend category.

The next example I wanted to share with you was around what we are calling value engineered redesign. So on the left side of this chart, you are going to see the source of savings, the source of our productivity year in and year out. And 35% of that is really what I will call engineered-driven savings. And that's things like qualifying new suppliers and resourcing parts, or really changing the material that we are using in certain parts. The rest, 65%, is really negotiated savings, so this is really going after the suppliers' margin and we know this is not long term and sustainable and we want to change that mix going forward.

So how do we do that? We are using a proven formula that systematically reviews our product range, looking at products and portfolios that are margin-challenged and through a few different perspectives, the lens of the customer, through our suppliers -- they are included in these workshops

-- and our designs, we are able to identify opportunities to change the design and really optimize the product for what the customer really wants. And so we see this as a steady stream of margin enhancement going forward.

See what happens in business over time is that products get burdened with features and benefits that the customer no longer values. That puts a lot of pressure on the margins and needs to be addressed. So while this is not rocket science, it does tend to need a focus and programmatic view on it. It needs a little bit of fortitude to get started and build that pipeline. Once it's built, you start to get that steady stream, that steady annuity in terms of productivity going forward. So we think this is a highly sustainable productivity stream for us well into the future.

So I'd like to shift the focus a little bit to our Lean program. As I mentioned earlier, we are not starting from zero. We have over 1100 employees that have been trained in either Lean or Six Sigma and you can see in the box on the upper left that we have a pretty good ability to generate and execute projects. We have already completed 550 projects to date. We will finish about 800 this year, so it'll be a nice little lift from last year.

And while that is great, most of those projects are focused in the manufacturing and the operational side of the house and so we are going to want to expand that and I will talk about that in just a second. You can see from the box in the middle that our utilization rate, meaning how many of those 1100 associates are actually doing projects, is pretty low. So we are really not getting the benefit of that training that we put in place and we are going to look to double that over the course of the next three to four years.

The chart on the upper right, think about that as our student to teacher ratio. You want to make that lower. Our teachers, the black belts, the master black belts that are dedicated, these are the evangelists, these are the ones that drive projects, that mentor our other black belts, that really gin up the project work is relatively low right now. So we want to drive that ratio even lower, so we are going to make a focused investment in dedicated black belts to help do that.

So our plan going forward has three key elements. Number one is it's driving that higher mix towards Lean outside of the factory. And so what do I mean by that? It's looking at processes around Lean development, supply and demand planning, cash collections, order to quote, order processing. These processes that are really the underpinnings of our business have the ability to free up capacity so we can sell more or drop some of that to the bottom line.

Secondly, it's increasing the dedicated number of resources that we have, that student to teacher ratio. And then, finally, it's training our leadership. And speaking about that, we just launched a program in July to train our 300 top leaders in the Company, 20 folks at a time and we are doing that at sites around the world. And so over the next eight months, we will complete the training of those 300 individuals. And this is training with regards to leadership development, change management and the Lean tools like value stream mapping, the 5 Whys of kaizen, etc.

And we are skewing the exercises around process or transactional areas so that we can start to open that aperture away from -- not away from the factories, but open it beyond just the factories into transactional areas. And we think with the right exposure to the right tools, these leaders can now sense waste in the business and start to really utilize those 1100 associates that we have in the business a bit better.

So for those of you not familiar with the impact Lean can have on your organization, I have two examples. One is our Auburn facility in New York that manufactures our Goulds and Bell & Gossett products. Some of you may have visited this in the past and while you certainly see the results of this wastewater pump on the left-hand side of this chart, say for work environment, higher velocity, lower cycle times, liberating some floor space, the real key and the cultural change here is the awareness that the leader there is driving around taking one second of cycle time off every week in their facility. And done right, in a product range that takes about 500 cycles, 500 seconds to produce, that's a 10% to 15% improvement and that's the kind of thinking that we want to drive throughout the Company.

The second example is in our Calamba, Philippines, facility. Now this is our regional distribution and assembly facility located just outside of Manila. They manufacture a range of fire, booster and in-line pumps and they've taken a single piece and visual management approach to the order-to-cash process within their offices. Eliminating the cubicles and aligning personnel in a flow from order take-in to cash collections has allowed us to see bottlenecks quickly and resolve them more easily.

This has resulted in an 85% improvement in order cycle time and means higher customer satisfaction and usually lower accounts receivable disputes. So again, power of Lean both in the factory, outside the factory in a developed part of the world, as well as a developing part of the world.

So before I move onto business simplification, I thought it was important to summarize the key elements that are going to drive this upper quartile level of productivity. Number one, it's the global sourcing organization that's in place now and starting to reap some benefits. Secondly, it's around driving that organization to look at categories in a strategic way and combining that with our e-sourcing platform. And thirdly, it's diving into value-engineered redesign, which will take some time to build the pipeline, but should reap benefit in the latter part of our five-year horizon.

From a Lean perspective, it's about enabling that senior leadership team with the tools necessary to drive our asset base today. It is about expanding that dedicated resource, that student to teacher ratio and then finally it's managing that mix outside of the factory and opening that aperture up in the transactional part of our business.

So let me shift gears now to business simplification. As I mentioned earlier, there's been a fair amount of realignment and restructuring in the business. However, even with that, we have identified three areas that we are going to go after over the next five years. The first is our footprint, from both a manufactured and a non-manufactured perspective. I will talk about that in just a minute.

Secondly, it's our European commercial business. Because it has been challenged with weak markets and a complex organization structure, we've identified that as an opportunity and I will talk about that in just a second. And finally, it's the need to reduce our G&A costs to a more competitive level. Benchmarks indicate that we have a sizable opportunity against our peer set and so shared services will play a much more major role in how we operate our back office in the future. So this is a multi-year program with benefits stretching over the course of the five years.

The left side of this chart really talks more around our revenue split in 2014 geographically, aligned with our footprint during the same timeframe and you can see some clear misalignments. And as a general rule, but not absolute, we are going to want to better align our footprint with our current and forecasted demand of the business, trying to maintain a close to market philosophy where it makes economic sense.

And so you will see on the right-hand side of this chart, we have about 37 manufacturing facilities that comprise about 5 million square feet. We see consolidation opportunity, moving plants within other factories that we have capacity in and taking advantage of the overhead leverage. From a non-manufactured perspective, we have over 290 rooftops around the world. These are in areas like distribution centers, service centers, sales offices, light value-added centers and we look at proximity and utility in terms of where we see opportunity to consolidate some of those rooftops over the next five years as well.

And finally, to stitch all this together, in July this year, we made the decision to bring onboard a Vice President of Global Real Estate to develop our portfolio and our strategy in this area to really take advantage of this asset class for us.

The last piece I want to talk about is our European footprint. And as I mentioned earlier, they operate in obviously challenged markets and in a complicated organization structure. So very late last year, we set on a course to reduce business complexity. And this was all around organizationally how we create regional responsibility that really pushes our business closer to the point of impact and allows us to take full advantage of our portfolio we are offering.

Process-wise, we are mapping and improving our back-office operations both from a sales and a service perspective to reduce redundancy and speed up processes. And then, finally, as Patrick outlined in his section, we are launching a suite of commercial systems strategically and in a way that better takes advantage of these new processes. These are tools like better collaboration and lead-sharing tools, more real-time configuring and quoting tools and efficiency tools around selling and service. All of these changes are being designed and intended to drive customer satisfaction while enabling our sales team to be more effective.

So finally and in summary, what I'd like to leave you with is that business simplification is an organized and a programmatic approach built around taking complexity out of our business that the customer is not willing to pay for, that our procurement strategy will deliver that upper quartile level of productivity based on that stage capability implementation plan. And then finally our Lean Six Sigma program will become the way we work going forward. So with that, I'd like to thank you and turn it back over to Patrick.

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

Okay, so thanks, Tony and now that we've laid out some key pillars of our strategic framework, which I believe are going to manifest themselves in very strong financial results here over the next five years; before I get into our 2020 objectives and targets, I do want to highlight that, again, this morning hopefully you saw the press release where we reaffirmed our 2015 guidance. Again, that guidance is revenue in the range of $3.6 billion to $3.7 billion. It's operating margin of approximately 13% and earnings per share growth of 4% to 7%, excluding the impact of FX translation.

So now let me turn to our 2020 organic targets and related assumptions. As I mentioned earlier, we anticipate organic revenue growth between 3% to 5%, which we believe will reflect approximately 1.5 times market growth. We expect to see strong conversion and the cost savings from our CI initiatives are going to drive significant margin expansion and that will also fund a modest increase in our R&D and innovation technology efforts.

We expect our gross margins to increase from what they are today at 39% into a range of 42% to 43% and operating margins in the range of 16% to 17%, an increase of 300 to 400 basis points. Again, this performance will reflect a substantial decrease in our G&A costs, reducing them to approximately 7% of revenue, which is down 200 basis points from where we are today and would be down 300 basis points from -- since the spinout from ITT.

Now before I walk you through our views on capital deployment and how we are going to be accelerating our efforts in that area, I think it's important for me to briefly lay out what our view is on financial policies for the Company.

First, we do intend to maintain an investment-grade credit rating, targeting a leverage somewhere between 2.5 to 3.0 times EBITDA. If you look at it today from a credit rating agencies perspective, they would put us at about 2.8 times leverage. As we said before, in the past, the single most impactful investment that we can make is in organic growth. Given our incremental margin fallthrough, it's critically important that we maintain those investments. Therefore, our number one priority from a capital deployment standpoint will continue to be investing in organic business. This reflects R&D investment, as well as continued efficient investments in CapEx.

We also see, and I hope it's coming across loud and clear here today, tremendous opportunity for accelerated M&A coming out of the value mapping work that we've shared with you. I feel strongly that given our very strong cash flow generation, as well as our capital structure, we have substantial firepower again to be active in M&A while still increasing returns of capital to shareholders. We continue to expect to grow our earnings per share -- our dividend in line with EPS growth. And again, take the opportunity to opportunistically repurchase shares.

Let me turn now to capital deployment, which is where I really think that we are going to be able to accelerate our growth and value as a company. Given our strong balance sheet, again, an opportunity for leverage combined with our strong cash flow generation, we believe our capacity is going to generate more than $5 billion of cash from operations. Again, that does assume that we convert 100% of our earnings in free cash flow and I'm very confident with our working capital focus and improvement we will be able to do that.

As I mentioned earlier, again, organic reinvestment aligned to strategic growth priorities is going to be our number one priority. We will maintain CapEx spend generally in line with where we've been spending in recent years, somewhere between 2.5% to 3.5% of revenue. Next, we expect to return more than $800 million in dividends to shareholders and we do expect to deploy roughly $100 million in restructuring and realignment costs to get at the business simplification opportunities that Tony outlined. This leaves us with what we believe to be at least $3.5 billion in cash to pursue M&A and again to opportunistically repurchase our stock.

Let me turn next to M&A. And I know you are all interested in what the criteria is that I've laid out for M&A. First and foremost, the target has got to have a strategic fit and that's really been the purpose of the value mapping work that we've done. And from that perspective, we do aim to focus on four key areas of the market.

First, broadly speaking is the measurement, analytics and control sector of the industry. Secondly, it is advanced treatment, particularly in industrial applications. Today, we are strong in the public utility space. We want to broaden that capability into the industrial space.

Third, as I mentioned earlier, building out bigger and broader industrial water services capabilities. And lastly, we will absolutely opportunistically defend the core. We have some unassailable franchises that we've got to make sure that we protect.

Now we are going to execute these acquisitions in a very disciplined manner. We are going to target financial benchmarks that you see here on the slide -- IRR that's greater than our risk-adjusted cost of capital, ROIC that exceeds our average cost of capital within three to five years of the acquisition. And finally, we do expect acquisitions to be earnings accretive generally after the first year of completing the deal.

Now the money slide. First, looking ahead to 2018, I'm also talking 2020, but it is important I think to give you some milestones along the way here. By 2018, we expect average organic growth of 3% to 4%, operating margin in the range of 14% to 15% and this should yield on average 8% to 10% organic EPS growth per year.

If we then move ahead to 2020 and we begin to see the benefits of our accelerated commercial leadership activities, as well as the simplification opportunities that Tony pointed out to, we would see continued revenue growth now of 3% to 5%, further margin expansion to 16% to 17% and this would lead to organic earnings per share growth of somewhere between 8% to 12% over that timeframe.

Now again given the macroeconomic environment that we face and likely will face for some time, some of you may feel this is quite aggressive. Is it achievable? I believe with the strategy we've put in place, the team we put in place and the focus that we are driving around execution, I'm very confident we will be able to weather this environment, take advantage of our end markets, take advantage of our organic execution and we will achieve these targets over this timeframe.

But what's really exciting is beyond the organic aspects of the business, we believe that we've got the opportunity to deliver high teens EPS growth over that timeframe by accelerating our capital deployment, again, balanced between M&A and opportunistic share repurchase.

So before we go to our first Q&A, again, I just want to wrap up where I started and that is the three key pillars of our investment thesis. Stabilizing and improving end markets coupled with organic execution are going to drive faster than market growth for Xylem. Second of all, hopefully you got a feel today here from Tony that we've got a steady, multi-year self-help plan here that will continue to deliver attractive margin expansion over that timeframe. And lastly, clearly, I'm demonstrating and speaking to an increased appetite, more so than you've heard management teams here speak about in the past, to accelerating capital deployment given the arsenal that we are going to be generating over this timeframe.

So with that, why don't we go ahead? I will have Phil join us up here, along with a few other leaders and will go to our first Q&A session.

QUESTIONS AND ANSWERS

Phil De Sousa - *Xylem Inc. - VP IR*

Good morning, again, everybody. So in order to best facilitate the Q&A session, I'll ask that anyone that has a question simply raise their hand and I will do my best to ensure I identify those for the mic handlers.

I'll also ask, since we have an audience on webcast that won't be able to see or identify you, please wait for that microphone and then please identify yourself, as well as your affiliation. With that, I think I saw my first hands over here. We've got Mr. Deane Dray.

Deane Dray - *RBC Capital Markets - Analyst*

It's Deane Dray with RBC. A couple questions. Patrick, you're wearing both hats today, CEO and CFO, so we appreciate that. So an easy first question. Just to clarify since it's not a term that we see every day, the organic EPS. Were you excluding the impact of M&A and buybacks and FX in that number? Just to clarify.

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

Yes, we were. And so what we've spoken to on the slide, Deane, the materials, is really to focus in on the piece that we totally control, which is organic, excluding the impact of M&A, but really spoke to that takeaway bullet at the bottom of the slide to say, when on top of that, as we deploy that roughly $3.5 billion of capital into some combination of M&A, which we clearly will be accelerating, as well as balancing that with returning money to shareholders, you clearly get the additional accretion from an EPS growth perspective and we believe that's going to be, again, several hundred basis points above the organic base that gets us to the high teens.

Cliff Ransom - *Ransom Associates Inc. - Analyst*

Cliff Ransom, Ransom Research. Patrick, I've been frustrated over the last, pick a number, 30 years, at the inability of the water industry, which has such favorable market characteristics, to ever build itself into true solutions selling, which is a great market, great route to the aftermarket. I'm beginning to think, however, that just your pure sales reorientation is going to give you something that's akin to that because it's going to give you the ability to cross-sell. That's good news. The question then becomes can it really sustain you on a path to that Holy Grail of the water industry, which really nobody has achieved?

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

Sure. Great question, Cliff. And I think -- I can speak to that in a few different parts. First of all, I want to speak to what you picked up on and that was a clear fundamental reorientation towards the customer and towards really elevating our game on the selling end of the equation. And I think it's fair to say that, since the time of spin -- I can't speak to before then -- but certainly since the time of spin and since I've joined, I noticed that there were a lot -- there's been a lot of activity going on in the Company that I think was necessary to a large degree to get a public company set up, new things put in place, but when you do that, it's very easy to begin distracting the front end of your business, your salespeople and the customer support behind them, from what's going on with the customer and in the market.

And so we've got a clear demarcation point here as a leadership team where we've said making sure that we make it easier for customers to do business with us and make it easier for our people to support customers has got to be priority number one because one point of organic growth drops more value for us than anything else that we could possibly do and that message was loud and clear as I traveled around the world that our salespeople felt distracted, they were frustrated and they saw the opportunity to get at it. And so we are putting a real full-court press on that as a leadership team. And I know that's easier said than done. There's a lot behind that, but that's one response to your question, Cliff.

Second of all, I always say -- I think oftentimes we use the word solution selling a little too broadly and a little too loosely. What I've clarified to the organization is solution sell in my mind starts with what problem is the customer trying to solve. It may be a single product that we sell. It may be a turnkey solution. It may be services wrapped around it. It may be integrated. It could be any one of those and we are not looking to make our salespeople experts across the entire spectrum. We want to make it easier for them to understand where the expertise resides in the Company through these collaboration tools that we are putting out there.

Lastly, I would say where we are seeing more and more of a move towards these turnkey solutions where we integrate all of our offerings is in the emerging markets where our customers there are very much looking at skipping ahead and they want to minimize the number of suppliers that they deal with and they do see Xylem as a growing player in the water sector that makes it easier for them to do a one-stop shop.

Martin Sankey - *Neuberger Berman, LLC - Analyst*

Martin Sankey from Neuberger Berman. Patrick, you and the team did a wonderful job in terms of parsing the margin growth opportunity by cost category. What I'd like to know is: What is the opportunity by productline? In other words, how much of your revenues are derived from productlines that are delivering a 5% or less operating profit margin, and what is the potential that can be achieved by resolving those situations?

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

Sure. That's a great question and without going too deep on each one of our business lines from a competitive standpoint, I will stay away from specific margins on that, but I can certainly talk directionally about margin profile. I would say that a couple of areas that we are really going to be focusing in on, the team has been focused on this and continuing to improve our margins certainly will be again within our treatment business where these are highly engineered to order projects and solutions. So you've got to be sophisticated in developing the capability there. The team has done a good job of progressing there and continuing to build out those margins.

Obviously the fact that we are seeing disproportionate growth in our backlog in that business is going to be helpful from an incremental margin standpoint as well. I would say a second area of opportunity is, as we localize the product design around our core pump businesses, there will clearly be an opportunity to bring some of that innovation and redesign back to some of our mature markets as well and that will lead to I think favorable margin expansion in those areas.

I think beyond that, each of these businesses have somewhat different incremental margin dropthrough profiles associated to them, so obviously depending upon the mix of growth, you will see a lot of margin expansion in our pump businesses, vis-a-vis the other businesses.

Ryan Connors - *Boenning & Scattergood Inc. - Analyst*

Ryan Connors from Boenning & Scattergood. So actually Martin kind of stole my thunder there a little bit, Patrick, but I have a similar question, but maybe to take it to the next level. Could there actually be some divestiture opportunities or other decisions to exit certain productlines because in the value mapping effort, they just didn't measure up?

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

Yes, that's a great question. So it's interesting because, other than a couple of very small niche businesses, one of those being the one that we divested last year, which was our UK oil and gas valve business. There may be a couple businesses out there over time, quite small, that we will continue to evaluate and monitor, but it really is not a divestiture story in this portfolio. The value mapping actually showed that we are quite well-positioned in our businesses and so we like the businesses that we are in. Hence, we are going to make sure that we do defend the core where appropriate.

All I was really referring to, as you well know, Ryan, is that there are some other attractive adjacencies that are very complementary to what we do today. They would leverage our distribution channel, our customer relationships around the world that I think could be very attractive for us as we continue to move up the technology curve.

Brian Konigsberg - *Vertical Research Partners - Analyst*

Brian Konigsberg, Vertical Research. I just want to touch a little bit more on the M&A strategy. Patrick, I think this is probably most directed to you, but it looks like you are trying to put to work pretty much every dollar you can get your hands on, which is a good thing. But that's a lot of M&A. I'm just curious about the infrastructure that is in place and potentially what has to come incrementally to support these type of growth plans.

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

Sure. Great question, Brian. So as I mentioned in my closing comments there, one thing that you all should take comfort in is I am -- I and we are going to be very disciplined around our M&A approach, not only in terms of the types of targets, what we pay for them, certainly our capability in the right areas to effectively get the deal done and get it integrated.

We will continue, as we've done, to do bolt-on, small bolt-on, tuck-in opportunities and those are clearly examples where we would be relying upon those businesses that have earned the right to go out and do those types of small acquisitions and I feel comfortable we've got that capability. Anything of larger scale that we would do would not likely be businesses that necessarily get integrated directly into one of our existing businesses. So clearly, it's easier to handle those types of transactions because you're adding another leg or an adjacency and obviously anything we would go after there, we would be looking for a high-quality management team, high-quality business. I don't have an interest necessarily in turnarounds. We have enough of our own self-help opportunity here to be able to execute.

So that's clearly one of the criteria, Brian, that I use with the Board in terms of making sure when we are ready to do that. I feel confident though that we are at a point right now where we've got the execution capability. We've been doing what we say we are going to do and I expect that we should be able to do both, run the base business very well and go out and do -- higher appetite for M&A.

Phil De Sousa - *Xylem Inc. - VP IR*

We are going to go with Joe Giordano from Cowen.

Joe Giordano - *Cowen and Company - Analyst*

Thanks, Phil. So building on what Cliff asked earlier in terms of the solution package, I think historically your salesforce has been fairly siloed across products, so a Flygt salesman rather than a Xylem salesman. So has there been internally like a push on training? Like who is the face of the franchise on these kind of sales? Is there one point of contact, or is it passing the ball around to a bunch of different people?

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

So as many of you may recall, we've talked a bit about, over the last I would say year and a half to two years, that in various parts of our organization geographically for the most part we have integrated the front end or the commercial organization. What we mean by that is we've integrated leadership. We are integrating some of the back support, back-office support for them and making it easier for them to connect. It doesn't necessarily mean that we are going to -- one person is the expert on all things there and so we have looked at incentive structure.

These commercial IT implementations that we are talking about are a big part of that and we are early stages in building out key account management as another form of intervention to where you do have a lead relationship person on a given account, but they are not necessarily the subject matter expert on every single thing that we do. Now our customers deeply value having focus and expertise. They don't want to deal with generalists and so we are not looking to build that kind of profile. But there do need to be ways to pull them together when the time is right and the opportunity is there.

Phil De Sousa - *Xylem Inc. - VP IR*

Okay, great. Thanks for the question, Joe. I think our next question comes on the left-hand side of the room with Nathan Jones of Stifel.

Nathan Jones - *Stifel Nicolaus - Analyst*

Thanks, Phil. A couple questions. First, in the financial guidance you've got here, Patrick, you've got significant acceleration in the margin expansion in the back half of that five years from anywhere 30 to 60 in the first three to 100 in the back half. Can you talk about what drives that acceleration?

The second one is on emerging markets. We heard a lot about the three that you are going to focus on. Can you talk a little bit more about the other half of emerging markets that are less of a focus? Thanks.

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

Sure, sure. And if I forget to answer the second piece, just remind me. So on the first question, what really drives the accelerated margin expansion or continued margin expansion in the second half of that five-year window is twofold. One, we are going to begin to get simplification benefits from the things that Tony talked about in 2016, and 2017 into 2018. There are still some opportunities that are out there though that we will get incremental benefit in that kind of 2018, 2019, 2020 timeframe.

Another big driver here is, as Tony outlined, the whole value engineered design work that we are talking about, that may seem easy or simple on the face, but to really build a programmatic approach around that and really build that DNA and capability in the Company does take time. And we see that as really kicking in more in that middle to latter half of the five-year timeframe.

But lastly, as you well know, the way the math works in this business, these businesses that we've got have very high incremental margin dropthroughs. And so also as you see that accelerated organic growth rate in the last couple years of this, the equation on that also lifts our operating margin.

Phil De Sousa - *Xylem Inc. - VP IR*

That's great. I think our next question comes from Mike Halloran at Robert Baird.

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

Sorry, I forget the emerging market -- I thought Steve would remind me of that. Yes, so in terms of the areas that we are -- I wouldn't say that we are not focused on it. I think the key is what is the level of focus and the nature of what we are doing. We love our businesses across Latin America. We are already demonstrating -- we've been demonstrating very impressive growth rates there. We've seen great project wins in Southeast Asia, so greater Asia is a great opportunity for us.

So we will continue to feed those businesses as they need, but when we think about large-scale capital expansion or shifting notable resources to those areas, one, I just feel comfortable saying that we don't have the bandwidth and I don't think any company does at this stage of our evolution to still go after all five equally.

Secondly, the teams in those regions are actively working in developing their own development and execution plans to accelerate. And so I am comfortable that, within the next couple years, we will be able to move to the next frontier and make those investments there as well. These are not large-scale CapEx that we are talking about. So we are talking about the Shenyang expansion of $5 million. We are talking about $25 million in the Middle East. We are not looking at things larger than that. M&A is another area where emerging markets is certainly a consideration for us in terms of accelerating and building out footprint.

Phil De Sousa - *Xylem Inc. - VP IR*

Okay, Mike.

Mike Halloran - *Robert W. Baird & Company, Inc. - Analyst*

So sticking on the emerging markets side, when you think about the strategy to push into the emerging markets by localizing engineering, localizing product design and really creating products for the market, how much of that involves a tiering approach? How do you balance that against your overall portfolio where you are pushing towards higher value, higher technology pieces and what's that mean from a profitability perspective as you go after those pieces?

THOMSON REUTERS

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

Sure. So there's a lot in there, so it's a great question. First of all, it is more of a tiered approach. And so part of our message that we are driving internally here is that the primary role of our R&D and innovation centers in our established regions is very much to be focusing in on these higher-order advanced solutions moving up the technology curve. Not that our teams in the emerging markets won't be capable of doing that because we will support a lot of that work also out of India, but the reality is I very much want those teams in our business units focused in on moving up that technology curve, higher order value.

By empowering and staffing and resourcing the emerging markets and letting them have a much stronger voice in what the customers actually are asking for and needing allows that to be contained and focused. I do believe there will be opportunities to bring innovation in a reverse basis back to our developing markets as well. Other leading industrials do that all the time. No reason why we should not be able to do that. But it is a bifurcated approach so that we don't distract or make our R&D organization schizophrenic in that area.

In terms of the financial profile, there is some level of dilution in margins when you go into emerging markets and you're going after another tier of the market. The good news is, in the financial targets we've laid out, we've already modeled that in. And so all the other productivity that we're going to be driving across the Company will more than offset any of that modest dilution. It's not large. But any modest dilution that's there is already built in.

Phil De Sousa - *Xylem Inc. - VP IR*

Okay. I'm getting the signal there. We are almost running out of time, so I've got to apologize. I know there are still a couple of questions left in the room. The first one I had was in the back of the room, so we will go there and then we will break -- we will have our first break. I assure anyone who still has any questions, we have allotted plenty of time after the second session to make sure we address everyone.

Chip Moore - *Canaccord Genuity - Analyst*

Thanks. It's Chip from Canaccord. You talked about increasing digitization of assets and the opportunity to layer in some analytics. Where do you think the customer appetite is strongest there and is there opportunity to drive more recurring revenues?

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

Sure. So I think that we see the appetite in a number of our customer bases and end markets, but I think the area that I would say we are seeing the increased appetite is in two areas. One, it's in the public utility space around wastewater treatment. We are seeing that more and more both happening in our developed markets such as the US and parts of Europe, but I'd say as much, if not even more in the emerging markets.

Part of that is in the emerging markets often times again this can be a national security issue for some of these countries. Singapore is a perfect example of that. That's why they are so focused in on both reuse, but also managing this issue of nonrevenue water and so they need the technology to be able to move forward there.

The second is we are seeing a shift in our industrial client base and so I talked earlier about the increased regulation, whether it be around the treatment area or how much water they are using and consuming. But it's also driving more efficiency, whether it be greenhouse gas and energy consumption or whether it be just the cost of water as that burden is going to get shifted towards them. And industrial clients by the very nature tend to take a long view. They think about total lifecycle cost and they are more inclined to move towards digitization. So I'd say it's the industrial piece of water consumption mainly on that water side and then the public utilities piece.

Phil De Sousa - *Xylem Inc. - VP IR*

Great. Well, with that said, we are going to take a 10-minute break. I will ask everybody to return back to the main ballroom here at 11:00. Thank you.

PRESENTATION

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

Okay, well welcome back, everybody. I know it was a short break, and we'll have plenty of time on the next break over lunch to answer questions, etc.

We spent the first part of the morning giving you, hopefully, a simpler view of the Company and where we're looking to create value as an organization. But at the end of the day, it's not about just overall Company outlook or corporate-speak in certain areas. This is made up of five really solid businesses, and I think it's important for any of you that either already know the story of Xylem, or maybe new to the story, for you to really understand: How do each one of our businesses really uniquely solve customer challenges? But also, what are the opportunities that are in front of us to do that better, as well us to expand our profitability in the sector?

So each one of the business Presidents are going to take about 10 to 15 minutes each and walk you through at a high level what we do in each one of these businesses. I'm going to start today with our discussion with Tomas Brannemo, who is based in Switzerland. He is a Swede, and he leads our transport business on a global scale. So thanks, Tom.

Tomas Brannemo - *Xylem Inc. - SVP, President Transport, President Xylem Europe Gmbh*

Thank you. Good morning, ladies and gentlemen. I'm happy to be here today to share with you a little bit of the background of the transport business and opportunities for growth, and what we do to capture those opportunities based on our unique capabilities.

As we've heard, there are significant macro drivers in place which plays in favor of making wastewater an attractive business long-term. This includes population growth, urbanization, an infrastructure buildout in the emerging markets, and also the increasing need of making our infrastructure more resilient to national disasters.

In the developed countries, we see the need for upgrading the aging sewer systems. The transport business is very well positioned to extend our market leadership and capture on the growth opportunities in those developed regions. This is largely based on our innovative, market-leading products and service portfolio, and our large installed base in combination with our aftermarket capabilities.

We're also capturing new growth opportunities and enjoying improved profitability based on the emerging market localization, both on the current products we have but also new custom-developed products and solutions for the domestic markets.

In for example, China, we've been very successful with our premium wastewater Flygt offering in combination with a second-tier offer developed in cooperation between China and Sweden in the commercial building services segment. We will continue to bring our global expertise, together with local customer knowledge, to deliver product adapted for those local market requirements. We recently, as mentioned by Steve, released a new package pump station in China developed according to this methodology which has delivered some really impressive sales growth.

Transport is largely about moving different type of wastewater as efficient and trouble-free as possible to where it's being treated. It's pumping solution for municipalities, their sewage networks, and their treatment plants; it's solution for industrial wastewater applications; and in some cases, it's solution for raw water pumping in the farmer irrigation and flood control, as mentioned by Steve earlier in this nice win we released today in this SSNNL order. In most cases these solutions are also enhanced by monitoring and control, or M&C as we call it, as well as the aftermarket and service capabilities we have, providing extra value to our customers in the form of lowered cost and increased efficiency.

We are the undisputed market leader in the wastewater pumping segment in North America and Western Europe, but have lower shares in emerging markets which provides us with ample room for future growth. The total transport turnover revenue is about $1 billion, yielding about 15% market share globally in the segments we operate in.

Now, this market leadership position is built on three key success factors and our ability to combine them. The first is our world-leading innovative product portfolio and the brand equity that goes with it.

Second is our ability to support our end-customers as well as the consultants and contractors with superior application expertise and engineering support. And third is our unmatched customer intimacy and support through the most extensive sales and service presence in the business.

As you heard Patrick mentioned, Xylem has over 100 years of heritage as the leading innovator in wastewater pumping, from the world's first submersible drainage and water pumps, to revolutionary hydraulics, to systems and solutions with M&C equipment developed specifically for wastewater pumping. All of this always with a customer's need first in mind. We are now taking the next step along this evolution, developing completely digital solutions which are taking the reliability, simplicity, and energy efficiency -- in other words, the very important lifecycle costs for our customers -- to a complete new level and break new grounds into smart infrastructure.

The advantages of these solutions, including monitoring control, cannot be underestimated. As mentioned earlier, one of Xylem's three key success factor -- one of our three key success factors is our application expertise. M&C now enables us to integrate over 100 years of pumping expertise in the solutions, not only from the hardware design perspective but also adding the intelligence to the solution itself.

I want to talk about Flygt Experior. Flygt Experior is a good example of our unique capability to solve the customer's hardest wastewater challenges. It is the outstanding combination of the nonclog N-hydraulics, premium efficiency motors, and SmartRun, which is the intelligent control with patented algorithms developed specifically for wastewater pumping.

Experior has already been launched. It's a great market success, and it provides unmatched reliability and productivity for our customers in that it cuts the energy consumption for our customers up to 50% and minimizes -- and in most cases eliminates -- clogging in the pumps.

Trust me, a clogging wastewater pump is not something any customer wants to experience. It can lead to sanitation overflow and risk for millions in penalties. Apart from that, the sheer work environment of unclogging it can be seriously hazardous.

I do want to illustrate the strength of Experior with one of many case studies we have. This one is from an installation at the municipality in Jefferson Parish in Louisiana. As you watch the video, I please ask you to please consider the customer benefits of nonclogging pump solutions. (video playing)

As seen in this video, we add intelligence to our pumps and integrate our equipment into solutions. Our product offer includes everything from various sensors inside the pumps to drive and controllers to supervision systems. This offer is tailored to the wastewater business and is a differentiator which become only more and more important as our customers demand more intelligent solutions, and we have seen this market growing nicely.

Apart from making the product and solutions itself more reliable, simple, and efficient, as we saw in this Experior case, we get access to real-time data of pump performance. We get alerts and alarms and can optimize the ramp pattern of individual pumps as well as the complete pumping networks. This means our customer will get the ultimate in trouble-free operation and low lifecycle cost from the whole solution.

But this real-time data also mean that we develop advanced services from these data -- for example, preventive maintenance agreements and other proactive services that you will see an example of in the next case study. These services drive to further strengthen our customer intimacy and loyalty.

A great example of us taking the first solid step to a smart infrastructure is found in the Netherlands. Now, we have noticed that by developing this type of smart infrastructure, customers typically generate up to 4 times higher yearly revenue with Xylem. It does so by let us secure the aftermarket business; it creates additional pullthrough sales for us at nice margins; it further differentiates our pump offering; and it gives us the possibility to define and sell additional services on top of our solutions.

The success we have had on this so far makes us confident that this is a very strong business model for the future. Let me briefly describe that.

Over the last couple of years, our commercial team in the Netherlands have been using strong local capability together with application expertise on how to integrate, sell, and support complete package of pumps and M&C, but also developing services on top of these solutions. These services are based on the additional customer intimacy and knowledge we get when we're being able to monitor the status and health of the customer equipment and proactively support the customer with information, as well as our own service response if something should trigger an alarm.

Our supervision center gives the customer piece of mind, not only by having the quality and reliability of the Flygt products, but also having the full Xylem application and engineering expertise behind them if something should go wrong. For our customers, not having pumping as core, or having the strategy to outsource more of their operation, this is an excellent service, letting them focus on their own business.

We have seen very good response from this type of service in the market, and we are expanding it into new geographies and new types of services based on that response. Also based on this, considerable share of our R&D spend is being directed into new product solutions and services based on this concept.

Building on our ever-increasing installed base -- so currently more than 2 million wastewater pumps -- our aftermarket business is driving significant value for Xylem as well as for our customers. Our premium pumps generate substantial revenue through service and parts sales. In fact, our studies show that we can expect about 50% of the sales revenue in added aftermarket sales during the full lifetime of a pump.

Using that growth opportunity as well as the attractive margins it creates is a core element of our strategy going forward. Furthermore, by making our offering superior -- offering our superior aftermarket support, we will delight our customers and position ourself to be their preferred choice when replacing products, which translates into higher sales prices, better margins for us as these replacements materialize. Through our total care concept, we are leveraging our aftermarket footprint with more than 140 service centers by introducing new advanced services such as the cloud-enabled supervision, as I demonstrated in the Netherlands case.

So, let me reemphasize: there are significant macro drivers in place which play in favor of making wastewater an attractive business long-term. We see encouraging growth in the first nine months, showing that we have the strategy right.

We are very well positioned to extend our market leadership and capture growth opportunities in the developed market based on our market-leading product portfolio. Think about how we solve the main customer challenging in the form of saving energy and providing nonclogging solution, resulting in a drastically lower lifecycle cost, and too, our last installed base of over 2 million pumps and the aftermarket service capabilities we use to capture more of that potential.

We're also capturing new growth opportunities based on emerging market localization. I think I've demonstrated here the global application expertise and the local customer knowledge which has brought these opportunities to life.

All in, based on the above, we see the transport business continue to deliver high margins and mid-single growth for Xylem going forward.

Thank you very much for your attention. And with that I would like to hand over to Dave Flinton, who's going to handle the dewatering business.

Dave Flinton - *Xylem Inc. - SVP, President Dewatering*

Thanks, Tomas. Good morning, everyone. I'm Dave Flinton and I am the new leader for the Xylem dewatering business. I'm excited to be here and frankly very proud to be a part of this very special business at Xylem.

I have met some of you through my tenure in the applied water systems group, and I hope to meet more of you now as the lead for the dewatering business. I've worked for Xylem for almost 19 years now in a number of roles, most recently as the VP of Engineering and Marketing for the applied water systems group, where I built a global growth engine for that business.

Prior to that I worked in the water infrastructure business in Stockholm, Sweden, as the VP of Strategy, Business Development, Business Planning. It was actually a part -- it was my M&A group team in Sweden that was actually responsible for the Godwin Pumps acquisition in 2010, so I have a little bit of dewatering in my blood.

I'm going to spend some time today talking you through an overview of Xylem dewatering and hope to leave you with the following key takeaways. First, despite some recent market headwinds we do see positive customer trends. Construction and public utility markets are recovering, and more volatile weather patterns mean that there is more demand for emergency dewatering services.

Second, we have strong growth opportunities in front of us in terms of global rental branch expansion and new product development. And finally, we have opportunities to improve our margin and returns on capital by leaning out and standardizing the way we operate our branches and utilize our fleets.

I want to spend some time talking about: What is dewatering? Dewatering is the removal of unwanted water.

Having a lot of unwanted water around isn't very productive. It often slows customer operations down to a standstill and costs them a lot of money. That's expensive, and this is why customers pay us to do what we do.

For instance, if you're a construction company you need pumps, hoses, and people to keep your site dry as you dig so that you can pour the foundation. Similarly, if you're a mining company you need help keeping your pit or underground mine dry so that you can continue to extract commodities.

If you're a municipality you might need help pumping the flow in a pipe around a particular section in order to repair your aging infrastructure and maintain service levels for your customers. And of course, in the case of sudden, heavy inclement weather, you may very quickly need a highly responsive team of personnel with a 24/7 mindset to get rid of floodwaters or runoff.

In a lot of these cases, these types of installations are temporary. So many customers also need engineering services to logistically manage these systems of pumps and pipes quickly. These are not off-the-shelf solutions that you can go into any typical rental storefront and buy.

This is what we mean by dewatering, and Xylem is the only global company operating in this space. We're also the only company in this space that makes, rents, and sells its own equipment. We estimate the dewatering sales and rental market to be about $4 billion, and so we claim a 16% share of that; plenty of room to grow.

We go to market primarily with two leading brands: the Flygt submersible pumps and Godwin brand dry installed pumps. These two ranges of products create a unique offering that can handle many different types of applications for our customers.

But our differentiation lies not only in these superior products, but largely in our people. We have a global team of very passionate, responsive engineers and service people that help their customers get rid of their unwanted water in the most cost-effective way possible, 24 hours a day, seven days a week. It's this 24/7 mindset that makes our people so special -- almost sleeping in their boots, waiting to help quickly solve the next water main break or flash flooding problem.

Our dewatering business model is a hybrid in that 60% of our revenue comes from product sales and the other 40% from pump rental services. Rental is a very local business and creates a special bond with our customers.

If you think about it, we're there to help customers in their times of highest need, often when they're under intense pressure. By helping them to solve their most urgent water removal problems quickly, we establish a very deep level of trust, intimacy, and confidence with them. This strong relationship allows us to pull through other products in the Xylem portfolio and win a greater share of those customers' wallet.

Our revenue is weighted primarily to industry; but as you know, industry consists of a variety of segments, and as such we too participate in a wide variety of industrial markets, namely, mining, oil and gas, construction, and a host of other small industries such as marine and power generation. Oil and gas sales are currently less than 15% of our dewatering revenue. So while we been impacted by the recent drop in oil prices, it is against a smaller piece of our sales and even smaller piece of Xylem overall.

Now I want to talk about a couple of case studies that really highlight how the dewatering team solves customers' complex and challenging water issues day in and day out. This first case study is about a project we undertook earlier this year in Central America. For me it clearly demonstrates the power of combining our deep engineering expertise, the world's largest fleet of rental assets, and the world's most passionate dewatering employees.

As most of you know, the Panama Canal Authority is working to expand its capacity by 2016. Our Xylem dewatering team helped the customer meet a very demanding project schedule with some Godwin Pumps, some pipe, and five 747s. (video playing)

How's that for logistics? Look out FedEx.

This next example is a little closer to home. Earlier this year the New York City Department of Environmental Protection hired Xylem after a 60-inch wastewater intake pipe at the Bowery Bay treatment plant cracked and started leaking. The Xylem team engineered, delivered, installed, and began operating a complete temporary bypass system using Flygt submersible pumps in less than two weeks and over the Easter holiday.

Our custom-engineered system is allowing the DEP to make the necessary repairs while maintaining customer service levels, and they've been renting this from us since April. They're now looking to replace that with a permanent Xylem solution that will allow them to perform the longer-term upgrades needed at Bowery Bay.

Given the expertise and response of the Xylem team, the DEP gave us an additional order this July for their own personal dewatering fleet of 42 Godwin dry installed pumps. So as I mentioned earlier, it's this unique combination of engineering expertise, 24/7 capabilities and mindset, and a hybrid offering of rental and sales that can drive truly exceptional growth.

In dewatering, we're working to improve our competitiveness through a series of next-generation versions of our core Godwin and Flygt products. Several of these developments, as you saw in the video, include smart, connected technologies that help customers save labor, parts, energy, downtime, and overall improve the management of their asset base.

But innovation to us also means business model innovation. One of our key growth initiatives is deploying our very successful US rental model more globally.

Today we have 45 rental branches in the US and are growing that number every year. Our strategy is to replicate that success and capture growth in other markets by exporting our great products, application knowledge, to the global Xylem sales channels.

We do this with a hub-and-spoke model. We start by establishing rental hubs in key locations with large fleets, deep application expertise, and a suite of rental fleet management tools. With that in place we can then build out smaller satellite branches that pull on those hub assets and personnel to satisfy needs more locally.

We're rolling out a standard operating model for these branches, which will help keep us lean, easier to manage, and maximize our asset utilization. Our goal is to establish and expand 10 branches per year over the next five years and deliver $150 million of incremental revenue.

So to wrap up, I hope you can see that this is in fact a very special business in Xylem. It commands the highest margins in the portfolio, has some of the most passionate customer-centric experts in our Company, and has the world's largest asset base in this space. Combine this with some favorable customer trends going forward, simple, focused growth strategies, and a drive towards lean and standardized facilities and I believe we're on a path to truly globalize our entrepreneurial business that exists today.

Thanks very much for your time, and now I'd like to invite Colin Sabol to the stage.

Colin Sabol - *Xylem Inc. - SVP, President Analytics and Treatment*

Thanks, Dave. I'm going to close out on dewatering. Many of you know I've had the privilege of leading the dewatering business for the last couple years, and during that time the thing I'm most proud of is the leadership team that we've created there. It's a fantastic team.

I want you to know that I've known Dave really well for the last eight years, and I couldn't think of a better person to take over that business. I'm absolutely convinced that he's going to continue Xylem's incredible success in that market.

Now let me turn to analytics and treatment, my new world. I'm new in my role to the analytics and treatment business, but I'm not new to these markets at all. During my career, I acquired the businesses that became GE Water, and I acquire the analytics businesses that became Xylem Analytics, so they're very familiar to me.

More recently I worked closely with Xylem's analytics and treatment leadership teams on things like strategy, implementing strategy, and developing marketing plans. So I'm pretty familiar with these markets.

Now I'm absolutely thrilled to have a chance to actually lead these businesses and drive growth and margin expansion. There is a ton of potential there.

So what's going to propel the growth at the Xylem analytics and treatment? First, people around the world are more and more concerned with their environment and the resiliency of that environment to changes in the economy, the urbanization, and to climate change. Governments everywhere are issuing stringent regulations to address these concerns.

Secondly, customers across all end-markets are trying to find ways to be more productive and effective in the way that they run their water operations. This calls for more intelligent devices and more intelligent infrastructure, and Xylem is very well positioned to do both of those things.

Third, there is incredible untapped potential inside of Xylem. We have customer relationships that have been developed by each one of our individual product brands and businesses, and the investments that we've been making in CRM and vertical marketing teams and getting our sales teams to collaborate across business lines is the way that we're going to capture that potential.

Let's talk a little bit more about the analytics business. First, including acquisitions, Xylem Analytics has grown over 40% since 2011, and now it generates over $300 million of revenue per year. We've established a leading position in this $4 billion market that we call water and environmental analytics, and we are going to grow at a mid-single-digit rate in this market.

In this business, innovative instruments that we sell cost thousands of dollars, but those thousand-dollar instruments save customers millions. Those instruments help them protect the environment, protect their brands, protect their products, and to operate more efficiently.

We measure over 50 parameters in water using a wide range of technologies from electrochemistry to acoustic Doppler technologies. We measure everything from drinking water to seawater to wastewater and even apple juice.

The analytics market is fragmented, and this is what I'm really excited about. The fragmented market gives us a terrific opportunity to deploy capital towards acquisition growth in this space. Patrick talked at length about that.

Brands like WTW and YSI are really a critical component of this business. Customers have come to know these brands, and they are the absolute leaders in their categories.

Analytics has had a very diverse customer base. They enjoy 26% of the revenue from emerging markets, and I think this is an area where we can continue to grow rapidly.

Turning to treatment, Xylem has also established a strong position in this market. It's a $6 billion market that we call water and wastewater treatment. We have premier brands like Wedeco, Leopold, and Sanitaire, and we expect to grow at mid- to high-single-digit rates in this business.

This market is led by players who have innovative products, but especially by those who have great application expertise and know how to apply those products in the field where they work. Our treatment business competes across a broad range of technologies and value chain propositions, and I'm going to talk a little bit more about that in a minute.

Xylem's treatment business focuses primarily on public utilities; but to an increasing extent we are penetrating the industrial treatment space. This is an area where we will grow organically and through acquisition in the coming years. Geographically, treatment garners nearly a third of its revenue from emerging markets, driven by the booming investment cycle that's happening to build water infrastructure in those markets.

Let's take a look at a few examples of how the application expertise and these technically advanced products are solving customer problems in the marketplace. First, let's go to San Diego, California, where they import 85% of their water from the Colorado River.

With rising water costs and drought stress that California is facing, San Diego made a decision. They've decided to fulfill one-third of their drinking water demand by reclaiming wastewater.

We know this customer really well. We've got equipment installed throughout their North City Water Reclamation Plant.

Xylem's solution in this case is ozone plus filtration. That system prepares purified wastewater to flow directly into the potable wastewater treatment plant for further processing. This advanced treatment system provides a pathogen barrier, and it also extends the life of membranes which are downstream in the treatment process.

Water reuse experts around the world have spoken very clearly on this subject. They believe, as we do, that direct potable reuse is a crucial part of the solution to California's water crisis and the growing water crisis around the world. This approach is going to save California and San Diego millions of dollars relative to what are few precious other opportunities to solve this problem.

You might be wondering: How do we sell one of these large capital projects? The key is to work with customers to help them understand all the technical alternatives that they potentially have. As you watch this video I want you to think about how this approach creates a strong customer preference for Xylem. (video playing)

These microbe pilot units are an incredible way for us to create customer preference for Xylem. We work with them before they spend tens of millions of dollars on a fixed installation, to figure out exactly what will work. And when we do that and partner with them in that process, the preference for Xylem is incredible.

I want to shift gears now to innovation. Patrick introduced this slide and some of the other speakers have talked about it. I want to share a few thoughts as well.

Innovation in the analytics and treatment space is really crucial. This dynamic is driven by changing regulatory environment and an intense demand from our customers to improve water productivity and to improve water quality to new standards.

The analytics and treatment businesses combined have a vitality index of over 30% already. This is indicative of a very fresh product line, one that will grow rapidly, and one that commands a price premium in the marketplace.

We innovate all across the value chain. We innovate in products. Products are the building block of any solution in the value chain, and so products are really important to have unique features and benefits in. An example would be our revolutionary EXO sonde in the analytics business, or the innovative Duron UV system in our treatment business.

The next element of the value chain is around systems solutions, where we combine product capabilities into something that creates higher value for the customer. An example here would be combining an analytics monitoring system that monitors wastewater plants and controls wastewater plants activities with the some innovative aeration technology from our Sanitaire business, to create an energy-efficient wastewater treatment plant operation that saves 50% in energy cost.

Then finally, digital solutions where we remotely monitor and wirelessly deliver critical data to customers to simplify their water management. This opens up completely different business models for Xylem, particularly in the analytics and treatment business.

Let's move on to another example. This one's in China. Shenhua Ningxia is the largest coal company in all of China, and they operate a water-intensive process called coal-to-liquids. They wanted to reduce their water consumption in this water-inefficient process.

Xylem's solution to them was an ozone plus biological filtration system that provided final polishing treatment to the wastewater stream. It got rid of hard-to-crack contaminants from that wastewater stream. This is one of the largest installations of its type in the world, and it's customized to this customer's unique wastewater needs and the strict effluent guidelines that the government had put in place to govern them.

We've helped them to meet these very difficult and stringent standards and regulatory requirements, and that allows them to reuse the wastewater in process-cooling applications. So the customer is saving millions of gallons of water a day and improving their financial performance by implementing this system.

Now I want to come right home here to New York City with the next example. Supplying safe drinking water to cities around the world, including right here in New York City, is fundamental to taking care of people who live and work here.

The seven primary reservoirs that are located about 25 miles North of New York City provide the metro area with about 1 trillion gallons -- I'm sorry, 1 billion gallons of drinking water every single day. Our data profilers and our buoy systems monitor those reservoirs and feed wireless data to the New York City DEP, so that they can remotely optimize water intake depths from those reservoirs, detect when treatment is necessary in the reservoirs, and also prevent costly algal blooms and other quality issues before they happen.

The analytics team won this project by leveraging Xylem's broader reputation and experience with the New York DEP. This is a terrific example of collaboration between different sales operations within Xylem. It helped solve a customer's problem and also helped Xylem to grow.

I just want to wrap up by saying I am really excited to be a part of the analytics and treatment business now. These are fantastic businesses. They've got a really strong presence in attractive global markets. And the most exciting thing for me is they have incredible headroom for growth, growth organically and also through acquisition.

Xylem is really well positioned to take advantage of some compelling macro trends that I've described for you. And I am absolutely convinced that these teams in analytics and treatment will outgrow the market in the coming years.

So with that, I want to turn it over to Ken Napolitano to talk about advanced water.

Ken Napolitano - *Xylem Inc. - SVP, President Applied Water Systems*

Thanks, Colin, and thanks all of you for hanging in there with us today. I'm batting cleanup, so we're getting close to the second Q&A and to lunch.

Applied water has been on a five-year journey to re-energize innovation. We've substantially increased investment in new products, and we have funded this by delivering strong productivity. Beyond this increased investment, we've expanded margins over 200 basis points since the spin, earning the right to invest further for growth.

An important dynamic in our business is the efficiency regulation which is driving increased adoption of high-performance products, and I'll talk about what that means for our growth potential. Third, we are both building and shifting capabilities to key emerging markets to increase our penetration in faster-growth regions. In particular, we're accelerating the localization of products from legacy factories to these high-growth areas, as Steve Leung alluded to earlier.

Let me give you a quick refresher on applied water. In addition to our market-leading brands like Goulds, Lowara, and Bell & Gossett -- which by the way will celebrate its 100th anniversary in just a few months -- applied water has a network of channel partners which are the envy of our industry. As you can see on the market chart, our largest segments are industrial and commercial. They represent three-quarters of our business.

So, what do we do in these spaces? In the commercial building space, we are experts in the HVAC arena. With the Lowara brand in Europe and the Bell & Gossett brand in North America, the leader in that space, we not only play in the HVAC arena with pumps, but also with valves, with separators, with heat exchangers, and have the ability to look more holistically at the HVAC system in a commercial building, particularly in the institutional space where hydronic heating and cooling is prevalent.

But we also play in other applications in commercial buildings: in pressure boosting, in filtration, in wastewater removal. Every place that there is water in a building, we play and have deep application expertise.

In the industrial segment we play virtually everywhere. Virtually every industrial factory has some amount of water usage and water need. We're not tied to a particular vertical; we play across the entire industrial space.

It could be in boiler applications, chiller applications, cooling towers, raw water intake, boosting wastewater removal. We play across that space, so it's a very diverse space. We have a very broad portfolio, a very broad channel to market to reach all of the segments in the industrial space. Essentially the commercial building space, the industrial segment, and emerging markets are the focus of our growth strategies in applied water.

Now I'd like to share a customer story with you. National Renewable Energy Laboratory, part of the US DOE, was designing and building a supercomputer datacenter. These datacenters require substantial cooling as part of the system.

But NREL had a very high bar in terms of their objectives. They wanted to deliver the lowest energy consumption datacenter of its kind in the world.

They brought in the Xylem team from Bell & Gossett and our expertise in the cooling arena to help solve that problem. So let's take a look. (video playing)

What do all those numbers mean? Last Investor Day I spoke about datacenters and the energy intensity of those cooling systems as an example. I'm sure those of you that were there remember that vividly.

But the typical datacenter, 50% of the energy consumption in the typical datacenter goes towards cooling the computers. This particular example took that down to 3% to 4%, essentially a 93% reduction in the energy consumed in the cooling loop, right?

And they did it with heat exchangers. Those are our heat exchangers, of course.

But that technology, that approach, is not limited to this datacenter example. It certainly applies, but anywhere you have process cooling, which -- typically using a chiller or a cooling tower to remove heat, and what do we do with that heat? We throw it away. We put it into the atmosphere.

Heat is energy. You can put that through a heat exchanger and you can use it somewhere else. So that's the core technology that we're talking about.

It gives you an idea of what's really possible. And very importantly for us, this solution uses more of our equipment than a conventional system with chillers and cooling towers.

So beyond the trend for reduced energy consumption, which is out there, regulation is driving mandatory adoption of premium efficiency technologies. Xylem has been actively involved in both Europe and the US in shaping this legislation through our leadership role in the Hydraulic Institute and in Europump, the leading global industry associations.

Several of you know that I am the former Chairman of the Hydraulic Institute and continue to hold a seat on the Board, actively involve both at the DOE and in Brussels on this ever-evolving legislation. And these regulations have many phases. It's not a one-shot deal.

They are evolving over time. More and more pumps will come into the scope over time, and the performance bar of efficiency that you have to achieve will continue to go up.

For example, in Europe it started with small circulator pumps. But the regulation that's now in place, that came in Phase 1 2013, Phase 2 -- or Phase 3 2015, covers a broad array of water pumps up over 250 horsepower, and that's continuing to expand. They're looking at wastewater pumps now, so we're looking at many, many years of increasing regulation and increasing scope.

Of course, we saw this coming in 2009 when we acquired the Laing business in Europe, where we acquired a small, high-efficiency circulator technology. That was the first thing that Europe regulated. And from that acquisition we were able to leverage organically the development of the ecocirc XL that you see on the screen, which was the second thing that Europe regulated.

And that's all now coming to the US. The DOE is very much mirroring what's been happening in Europe.

The new products that we are developing or have launched in the past few years far exceed the current regulations in anticipation of this future requirements. So we're well ahead of the game.

The impact of efficiency regulation on our business is substantial. These premium products carry a higher price point, hence drive revenue growth independent of unit growth in the market.

As I mentioned, over the past five years applied water has dramatically increased our investment in new products. We've been innovating in all three dimensions.

Starting on the left it does start with -- and it's important that you have a foundation of -- good, solid products. For example, in 2014 we launched the e-1510, the upgrade of the workhorse of the Bell & Gossett product line -- you saw that pump in the video -- for heating and cooling applications, particularly in commercial buildings. The e-1510 the year it was launched, 2014, was awarded by Consulting and Specifying Engineers as the Most Valuable Product in 2014.

This is just a basic pump. Why did it win that award? Not just the award in its category, but it won the Most Valuable Product across all categories in 2014.

It was based on the unique hydraulic design techniques that our Xylem engineers have developed. Basically, not only is it a super-high-efficient product, but the efficiency over the operating range is very wide. So it's not just highly efficient in one spot of the operating range; it's highly efficient across a wide range of operation.

For you golfers out there, that's like having the driver with the biggest sweet spot, and Consulting and Specifying Engineers recognized the value, the practical value, in that. So it's important to have a good foundation of really terrific products.

From that, of course, we step up into systems solutions. We're integrating control technologies, things that -- like in this example, variable speed integrated with a conventional pump product.

Typically, customers would put those pieces together themselves, figure out how to hook them up, figure out what the control schemes are. We're integrating those, making it easier for the customer to deliver that added value.

And then all the way to the right, of course, intelligent solutions: there's the example of the ecocirc XL. Embedded algorithms, application-specific, that optimize the performance of that product in its intended application, as well as communication capability to building management systems and also wirelessly. So an operator in a building can look on their smartphone and see if that system is having a problem, or be signaled if that were to happen.

So we've innovated across all these dimensions in AWS, and as a result, we've increased our vitality index from 12% to 17% since 2010. And we're solidly en route to 25% based on the pipeline that we have.

What does this mean? For us it means growth. This is the essence of our growth.

Our new products, that make up our vitality index, are growing at over twice the rate of the balance of our portfolio. So we're going to continue to drive that and continue to drive that vitality index up.

One of the less obvious benefits of portfolio modernization is the business simplification element. Many of our new products are global modular designs replacing multiple discrete legacy products. This dramatically reduces the number of configurations, the number of component SKU numbers.

For example, our global water platform development replaces nine legacy product lines that essentially perform the same function. These simplified global platforms dramatically streamline our operations, our supply chain; they improve our cost position; and they're a catalyst for the productivity that we've been getting in the business.

It also happens to make it simpler to transfer and localize these products to emerging markets -- another key part of our strategy. On this chart on the bottom left, that's our global water platform project which we've begun to launch at the end of 2014, throughout 2015, and the last phase will launch in 2016.

The e-SV, which is a workhorse of our product portfolio, as well as several of our new Bell & Gossett products and AC Fire products are moving to our existing factories in India, in China, and in the Philippines. We're doing that faster than we have before, in part because of the modularization of these products. We'll also be moving a number of these core products into our new facility in Dubai that Steve mentioned in the very near future.

So, bottom line: shorter lead time, better cost position, and closer to the customer. This is a key to increasing our share in emerging markets.

As you can see, the applied water business is well positioned to deliver improved growth, and we will continue to deliver the productivity and margin expansion that we've demonstrated over the last several years. So with that, I thank you and I'm going to invite Patrick back on the stage for a wrap-up.

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

Well, as Ken said, I want to thank all of you, both here physically as well as those of you that are online, for hanging with us over the past few hours. Before I turn it over to Q&A -- our final Q&A of the morning -- again hopefully what you saw demonstrated there through each one of our five businesses, first of all, are leaders that are passionate about what they do; businesses that are solving real critical customer challenges. You see consistent themes around driving innovation and technology, not just in the product but business models as well.

You certainly saw the critical value propositions that our businesses are delivering. And I always find it much more impactful for you as investors and analysts to really see firsthand -- or least via video -- what are we actually talking about in terms of these kind of corporate buzzwords that oftentimes get thrown around.

These are real businesses creating real value for our customers. I couldn't be more proud of the leadership team, and I couldn't be more proud of our 12,500 colleagues around the world that serve these customers every day. They have a clear passion for winning in the marketplace and being the best at meeting our customers' needs.

We have plenty of challenges. Every company does. We are humble about those challenges, but we turn those challenges into opportunities.

So I bring it back around and I wrap up where I started, and that was the fact that hopefully we've conveyed to you this morning a very simple but powerful investment thesis. And that is, again, it's three-pronged.

It's why do we believe that we're going to be growing faster than the market both through in-market improvement, but also clear improvement and organic execution with all that we're bringing to market. I talked about the sales focus earlier and that being our true north.

Second, again, I think Tony laid out a very compelling element around the multi-year self-help story on the margin side. That clearly continues to be an opportunity for us, and I'm confident we're focused on the right areas there.

And then third, again, a larger appetite for accelerated capital deployment, a combination that's going to be disciplined and balanced around M&A, as well as share repurchase.

So with that, again I want to thank you for your time. We're now going to open it up for Q&A. I'm going to ask the business leaders that just presented to join me, along with Shashank. Your questions by no means need to be limited to the last section. We can go there; or we can also cover any questions that were carried over from the first piece.

QUESTIONS AND ANSWERS

Phil De Sousa - *Xylem Inc. - VP IR*

Good afternoon, everyone. I'll ask that anyone who has a question, again, simply raise their hand. I will try to do my best to ensure I identify them. I know we had one carryover question from earlier this morning.

I'll also ask that, for those that are on the webcast, that you please wait for the microphone to be delivered to you. Then state your name and your affiliation. I think our first question comes from Robert Barry of Susquehanna.

Robert Barry - *Susquehanna Financial Group - Analyst*

Thanks, Phil. Thanks for the presentation, by the way; very thorough, very helpful. Thank you. First, two questions really.

One, I wanted to understand how you're thinking about the margin opportunity in a little bit more detail. I think the gross margin expectation of 42% to 43% suggests that all of the operating margin expansion -- more than all of it -- is actually coming from gross margin over the next five years.

So I wanted to understand better how you're thinking about the SG&A progression and then, within that gross margin piece, how you're thinking about the contribution from price and mix. That's the first question; then I have a follow-up.

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

Sure. Okay, sure. Yes. I think to be clear, the operating margin leverage that we expect to get, bottom line, over the next five years is actually a combination of the gross margin expansion by about 300 basis points; and I will come back and talk about what drives that. But it is also a further couple hundred basis point improvement in G&A. Again, that's really going to be driven by some of the back-office simplification, looking at things horizontally across the Company rather than within the silos of the businesses themselves.

In terms of the second part of the question, which was the pricing dynamic and mix, certainly one would expect that in a rising market demand environment, that pricing would become a bit more favorable. We have not modeled that assumption into our outlook for the five-year time frame -- quite frankly, because of the fact also -- two reasons.

One, that would likely speak to some rising level of inflationary environment, although we don't foresee that in the near future. So there'd be some pressure there on the supply side. But, two, we want to continue to make sure that we are focused on share gains. We're going to be disciplined around price, but we also see great opportunities here to continue to focus on gaining share as well in a very disciplined fashion.

Robert Barry - *Susquehanna Financial Group - Analyst*

Then just a quick follow-up, actually sort of a housekeeping item on something else. The $1 billion in revenue from new products over five years, is that -- I assume some of that's from M&A. What's the mix of M&A assumed in there versus organic?

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

Yes, actually, that is all organic. Each one of our businesses today, you saw have very aggressive vitality index as targets.

Now, clearly we will benefit from M&A especially as we talk about using bolt-ons as well as tuck-ins as a form of that. But I wouldn't be able to be so precise as to say exactly how much of that index is going to come from that area.

Unidentified Company Representative

And the vitality index by its nature is not 100% incremental.

Robert Barry - *Susquehanna Financial Group - Analyst*

Just to clarify that, perhaps, I mean $1 billion on your sub-$4 billion in revenue implies 25% growth on average over five years. That's 5 points of growth a year; you're only calling for 3 to 5 organic.

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

Yes. Some of this actually, to be clear, is you're going to have some level of cannibalization of your existing revenue. Some of this is replacement; it's a refresh.

Robert Barry - *Susquehanna Financial Group - Analyst*

Got you.

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

So it's a -- I'm glad you raised that question. Because just to clarify, this is not all incremental revenue. This is replacement in some cases as well.

Unidentified Company Representative

It's a freshness index.

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

Yes. Yes.

Robert Barry - *Susquehanna Financial Group - Analyst*

Thank you.

Phil De Sousa - *Xylem Inc. - VP IR*

I think I actually saw the hand raised by one of the tallest men I've ever met, who is Deane Dray, sitting right next to Cliff. And Cliff, I know you raised your hand as well.

Deane Dray - *RBC Capital Markets - Analyst*

Appreciate that. A couple questions. First, for Colin, I know you're new to the analytical role, but you're not new to analytics. Maybe you could give us a sense of the roadmap on how you expect to build out the business.

You've become a leader in hydrology pretty quickly with some smart acquisitions. You're clearly not trying to build a me-too portfolio with what Danaher has done with Hach. So how do you expect to be differentiated?

And as you mull the answer to that one, I'm going to -- a second question to Patrick. I know it might be heresy, but maybe you can give us some insight into opportunities adjacent to water. Colin touched on that topic, saying testing apple juice.

But what are the opportunities adjacent to water? What would make you go into that, those adjacencies? And is there anything in the pipeline today that might take you in that direction? Thank you.

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

Sure. Well, in order to allow Colin even another minute or two to mull, although he doesn't need that, because he's all over these businesses. But first of all, as I've said in many forms and to many of you, we are not going to be dogmatic about only focusing in on the water sector.

As you look at various M&A opportunities that will be out there, either things that are already in our pipeline or things that we would certainly explore, there will be a number of those that by their very definition will have a non-water revenue component to them. A good example of that is within the analytics space. Even today our analytics are not exclusively focused in on water.

So I certainly am not going to be dogmatic about only pursuing businesses that only touch water. So one path into that, Deane, would certainly be through some of these strategic acquisitions where the lion's share of our focus is going to continue to be water, absolutely. We're a water company; that's what we pride ourselves at, and I really do believe it's a big enough place for us to play. But again there will be assets that will bring some non-water component to them.

Colin Sabol - *Xylem Inc. - SVP, President Analytics and Treatment*

Going back to the analytics question and how we're going to grow, I think there's several dimensions. First of all, geographically. There's lots of opportunity to grow geographically, build out a distribution network.

We have very strong presence in certain parts of the world. We can certainly do better there.

We can do that through acquisition. We can also do it by working with the broader Xylem to make sure that we're leveraging the assets that they have, to be able to enter those markets. So geography is one.

Two is industry verticals. I think there are several vertical markets -- ocean and coastal and wastewater being the two largest for us -- that are going to be a focus for us. I think we can expand our technologies to serve those industry verticals very effectively.

The wastewater one, of course -- all of my colleagues here on the stage have a strong presence in the wastewater part of the market, and we don't have to do that alone. We can do it with our peers across the rest of Xylem.

So I'd say those are the two platforms that I would say are the most likely expansion areas.

Phil De Sousa - *Xylem Inc. - VP IR*

I think Mr. Cliff Ransom.

Cliff Ransom - *Ransom Associates Inc. - Analyst*

Thanks a lot, seated as I am at the left-hand of the tallest man in the room. Can you calculate how much of the your sales today come from systems or solutions sales?

I know that you -- that that's the fastest route to the aftermarket, fastest route to customer intimacy, fastest route to satisfying your customers' demands about the demographics of their own workforce. But do you have a broad number across your Company as to what percentage of your revenues is there now? And do you have some kind of a hoshin notion that says we want that to be a different number?

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

Sure. It's a great question, Cliff, and I wouldn't give you a precise number because it really comes down to --

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Cliff Ransom - *Ransom Associates Inc. - Analyst*

Ballpark.

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

-- definition and interpretation around that. But I would first of all say -- and this is something similar to what I had shared with Deane at the RBC conference a couple weeks ago in Vegas was -- Deane asked a question around: what portion of our business would I consider to be smart technology today as well? So I'm going to answer two things here.

Let me take the first one, and that is I would say that easily more than half of our existing business today is already playing in some form of smart infrastructure. So this is not an aspiration that we're laying out there. Hopefully you're beginning to get a feel from the video and the testimonials where I'm talking about those things existing today.

In terms of your question, which is very much, Cliff, around where the systems solutions sell, again hard to put a number on that. I would say it's probably more that a third or so of our revenue today is more in that integrated, some type of bundling systems component to it. Each one of our businesses play in that.

In terms of where we want that to be, you can imagine I want to flip that on its head, because that's clearly where you get the strong aftermarket service, you get the recurring revenue stream. But more importantly, you're getting that stickiness with the customer and the intimacy that we can provide.

That's really, in my view, where you see the integration of science, engineering, biology. That's where our thought leadership, in my view, can really begin to make a difference and establish us as that thought leader.

A good example of that was the Hammarby facility that I showcased where that's one of the locations we've already integrated that whole thing, and they really see the power of our portfolio through technology. And the cost savings, the environmental protection that we provide them is a great case study.

Cliff Ransom - *Ransom Associates Inc. - Analyst*

Just as a very quick follow-up, I'm now 69 years old. Will ballast water be a meaningful revenue stream to Xylem in my lifetime?

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

Anybody here want to take the lead on that one?

Colin Sabol - *Xylem Inc. - SVP, President Analytics and Treatment*

Yes, I can say a few words about it. I mean the role we're playing in ballast water will not make it a meaningful part of our overall revenue, although we are working with several large OEMs and potentially could get a meaningful revenue stream for the treatment business inside of Xylem.

I think that the regulation changes that have taken place internationally have not made their way across the globe as rapidly as we had all thought. It's playing out slower than expected. But it will be a meaningful market; a fairly small one for Xylem.

Phil De Sousa - *Xylem Inc. - VP IR*

I would've answered it as: I hope so. Joe Giordano on the right-hand side here.

Joe Giordano - *Cowen and Company - Analyst*

Hey, just one on M&A and then one on strategy. On the strategy side, you've talked a bunch about local design in emerging markets, and then you also talked about global water platforms. So I just want to make sure I understand. Those seem like totally different things, so I want to understand that first.

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

Yes, well, I'll maybe just say a few words, and then if you want to go there, Ken, in terms of explaining maybe from the AWS perspective, I think the words do matter here and I think it all comes down to interpretation. When we talk about, again, a global water platform in some of these businesses, as you go to localized product designs, it's virtually impossible to do that when you have too many of them. You have too many products that are out there.

So that's what we talk about. We're talking about a global product platform, and Ken can give some specific examples of that.

But localization in emerging market really is not just about the product design. It's also about having the right supply chain and delivery model in place where it's speed to customer, speed to market, less time on the ocean waiting for products to get there. So I also want to make sure I broaden what that definition of localization means. But, Ken, if you want to tell us (multiple speakers)

Ken Napolitano - *Xylem Inc. - SVP, President Applied Water Systems*

Yes. No, I think that's right. I think of it as a two-step thing. One is you want to get your core products close to the customers, because you just can't ship them all around the world.

So going to global modular designs does a couple of things. One, the obvious reduction of components and SKU numbers. You get a lot more leverage out of your supply chain.

That supply chain, generally speaking, is a low-cost region supply chain to begin with. Even if the product is being assembled in a US plant for a US customer, we're getting those components from China, from India, from Mexico, from Romania, from Poland, etc.

Now you've got a bigger concentration, that anywhere you want to build that product you draw from that same supply chain. So there is obviously some scale that you get from that.

Then there's also -- these products get customization. You might be putting on local accoutrements, if you will, to the core product and doing that in the locale. Getting a baseplate locally, getting a motor locally, getting a seal locally, which impacts your cost position at that locale.

But then the next level of course is the ability to make specific design changes over time for very local market needs. So the global platforms are very adaptable, have a low-cost better supply chain associated with them, and that's how we get the big first step of value.

Joe Giordano - *Cowen and Company - Analyst*

Great. Then on M&A side, particularly on financing, at $3.5 billion, whether it's all M&A or repurchases, what gives you confidence in what you've seen so far on the 100% conversion of cash?

And in terms of the leverage, you're at 2.8; you want 3. What do you think the leeway is on the upside on a deal? Yes, we'll go with that.

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

Sure, sure. On the free cash flow conversion, a big area of opportunity for us obviously is improving our working capital performance. It is one of the Achilles' heels of not only ourselves but also peer companies in the broader flow space.

There's a lot of reasons for it, mainly tied around inventory and the supply chain and footprint, etc. So we actually have made that one of our primary annual incentive program targets for the first time this year; and that will continue on into the future.

And a big piece of our lean deployment is focused very much on working capital. So it's not just about cost out or speed or efficiency. But working capital typically is a result of bad practices, bad performance around the customer, etc., so we're confident we've got a lot of room to move there.

Right now we're about 23.5% to 24% of our revenue tied up in working capital. We believe we have an opportunity to reduce that certainly down below 20% over this planning horizon. So that frees up a fair amount of cash as well.

On the M&A side in terms of leverage, I did indicate that we do ideally want to target to stay between that 2.5 to 3 times. Partly because I don't -- I think you saw our cash arsenal and the generation power here. I don't know that we need to necessarily take on leverage.

Now, if we needed to, or we thought it was strategic and really important to do so, we're pretty comfortable that in discussions with agencies we could probably flex up a little bit, maybe 3.5 times. But it would be have to be for smart acquisitions with a great cash profile such that we were then beginning to pay that down quickly and get back into that 2.5 to 3 times range. But we really have no intention at this stage to need to go there.

Phil De Sousa - *Xylem Inc. - VP IR*

With the countdown timer more than elapsed a few minutes ago, we certainly have time for one more question here in the front.

Martin Sankey - *Neuberger Berman, LLC - Analyst*

Thank you. Martin Sankey from Neuberger Berman once again. During the presentation you mentioned an earnings-per-share target of 8% to 10% organic and high-teens aspirational earnings-per-share growth, if you could deploy capital effectively. Could you describe how the senior management team is being incented over the next five years?

What are the driving metrics regarding that growth? Does 8% to 10% EPS get you a big payout? And if it comes a choice between ROIC or growth, how do the metrics interplay?

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

Sure, sure. Just to clarify, so the organic EPS CAGR was actually 8% to 12% over the five-year time frame; 8% to 10% between now and 2018. But nevertheless, the question is the same.

If you take a look at our annual incentive plan targets, we modified that and simplified that coming into this year, and it's very straightforward. A third of that payout is tied to organic revenue growth; another third of that is tied to operating margins or operating income; the third piece of that is tied to working capital as a percentage of revenue. I feel very strongly that that kind of simple, focused measurement approach will really drive improved performance and increased performance on the organic side.

In terms of the larger-scale capital deployment and finding that right balance between ROIC and growth, our LTIP for the senior leadership team is broken down -- and right now a third of that LTIP grant is tied to performance shares, and those performance shares are tied today to ROIC: ROIC targets that are multiyear, although we do have a relative TSR governor, kind of a modifier depending upon what the performance has been on that ROIC.

We evaluate, along with the Board, our compensation plans every year. And certainly as we continue to move forward in our execution strategy we will continue to look at those components and whether there is any need to make a change in LTIP or not. But there are no plans as we sit here today.

So -- we wrapping up here, Phil?

Phil De Sousa - *Xylem Inc. - VP IR*

Yes.

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

Okay. So again, I want to take the opportunity to thank you all for sticking with us here and, more importantly, for your interest in the Company and our story. Again, take the opportunity here over lunch to continue to mingle with myself and the leadership team.

And probably most importantly, I am hoping that there has been some divine intervention so that we're not all stuck too much in traffic here over the coming hours. But again, be safe; we'll be in touch with you shortly. And again, thanks again and talk to you soon.

Phil De Sousa - *Xylem Inc. - VP IR*

Ladies and gentlemen, I would like to thank our management team and support staff, because without them this clearly wouldn't have been possible, and our vendors and partners as well. Executing this Investor Day was not easy, and I would say that their service was second to none.

This brings our Investor Day to a conclusion. I thank all those on the webcast for their interest, and I look forward to meeting with you guys soon. (Conference Instructions)