

# XYLEM INC.

## Q1 2017 EARNINGS RELEASE

**MAY 2, 2017**



**xylem**  
Let's Solve Water

# FORWARD-LOOKING STATEMENTS

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

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

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

# Q1'17 PERFORMANCE SUMMARY

(Dollars, In Millions, except EPS)

	GAAP Q1 2017	Adjusted* Q1 2017
<b>Xylem Consolidated</b>		
Revenue	1,071	1,071
Overall Growth	+26%	+26%
Constant Currency Growth		+28%
Pro Forma Organic Growth		+1%
Organic Growth		-1%
Operating Income	86	112
Operating Margin	8.0%	10.5%
Earnings per Share	0.31	0.39
<b>Segment Results</b>		
<b>Water Infrastructure</b>		
Revenue	496	496
Overall Growth	-4%	-4%
Constant Currency Growth		-2%
Organic Growth		-3%
Operating Income	47	52
Operating Margin	9.5%	10.5%
<b>Applied Water</b>		
Revenue	333	333
Overall Growth	0%	0%
Constant Currency Growth		+2%
Organic Growth		+2%
Operating Income	36	45
Operating Margin	10.8%	13.5%
<b>Sensus</b>		
Revenue	242	242
Overall Growth		
Constant Currency Growth		
Pro Forma Organic Growth		+7%
Operating Income	18	26
Operating Margin	7.4%	10.7%

## Earnings Call Notes:

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

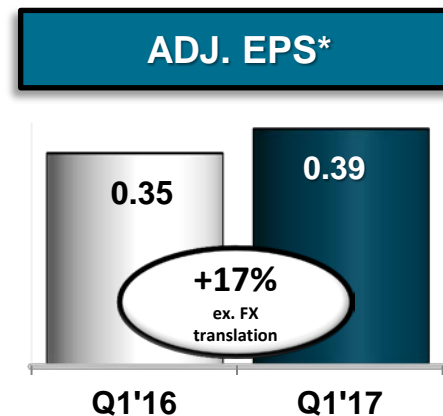
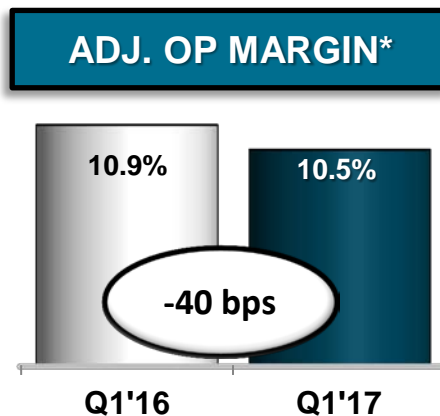
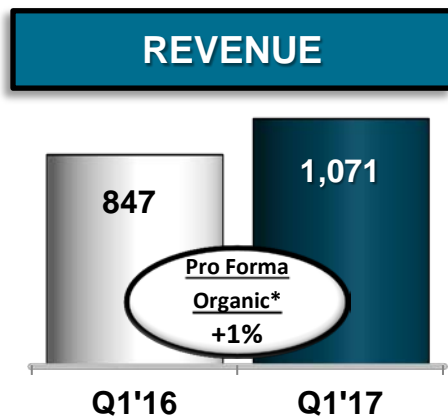
# KEY MESSAGES

- **Solid 1Q start, on track to deliver on our 2017 financial commitments**
  - +1% Pro Forma Organic\* Growth
    - -1% Base Xylem Organic\* Revenue ... In-line with high end of previous guide
    - +7% Sensus Pro Forma Organic\* Revenue Growth
  - Adj. Op Margin\* of 10.5%, down 40 bps (primarily due to Sensus amortization)
  - Adj. EBITDA\* of 16.2%, up 100 bps (reflecting strong cash generation of Sensus)
  - Adj. EPS\* of \$0.39, up 17% (ex. FX translation)
- **Maintaining our fundamental outlook**
  - Sensus off to strong start
  - Growth in Residential & Commercial markets help offset tough PY Public Utility comp
  - Emerging market growth in line with our expectations
  - Improving Orders growth and building backlog
- **Raising FY'17 EPS guidance for FX ... Adj. EPS range now \$2.23 to \$2.38**
- **Executing on strategy laid out at April Investor Day**

**SOLID START TO THE YEAR AND GOOD MOMENTUM INTO Q2**

# Q1'17 XYLEM PERFORMANCE

(Dollars, In Millions, except EPS)



Adj. EBITDA\* 15.2%      16.2%

## Key Performance Drivers

- Sensus delivers +7%; Base Xylem Organic revenue -1% in-line with expectations
- Lower Public Utility revenue from tough PY comp partially offset by Residential and Commercial market strength
- Growth and cost reductions fund investments and offset inflation
  - Cost reductions drive 310 bps Op Margin expansion (EPS +\$0.14)
  - Cost inflation reduces Op Margin by 150 bps (EPS -\$0.07)
  - Vol/price/mix/Acq/other reduce Op Margin by 80 bps (EPS +\$0.05)
  - Sensus Amortization reduces Op Margin by 70 bps (EPS -\$0.03)
  - Strategic investments reduce Op Margin by 50 bps (EPS -\$0.02)
  - Incremental Interest Expense (EPS -\$0.03)

Other: Tax Rate\* 22.0%      Share Count 180.7M

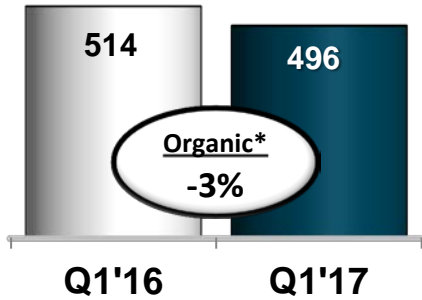
Key Organic Growth Drivers	
+ Residential	+14%
+ Commercial	+2%
- Public Utility	-4%
- Industrial	-2%
Organic Growth by Region	
= W. Europe	Flat
- U.S.	-4%
+ Emerging	+3%

**DRIVING PRODUCTIVITY TO OFFSET INFLATION & FUND INVESTMENTS**

# Q1'17 WATER INFRASTRUCTURE PERFORMANCE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- Treatment -12%
- Transport -2%
- + Test +2%

#### By Regions

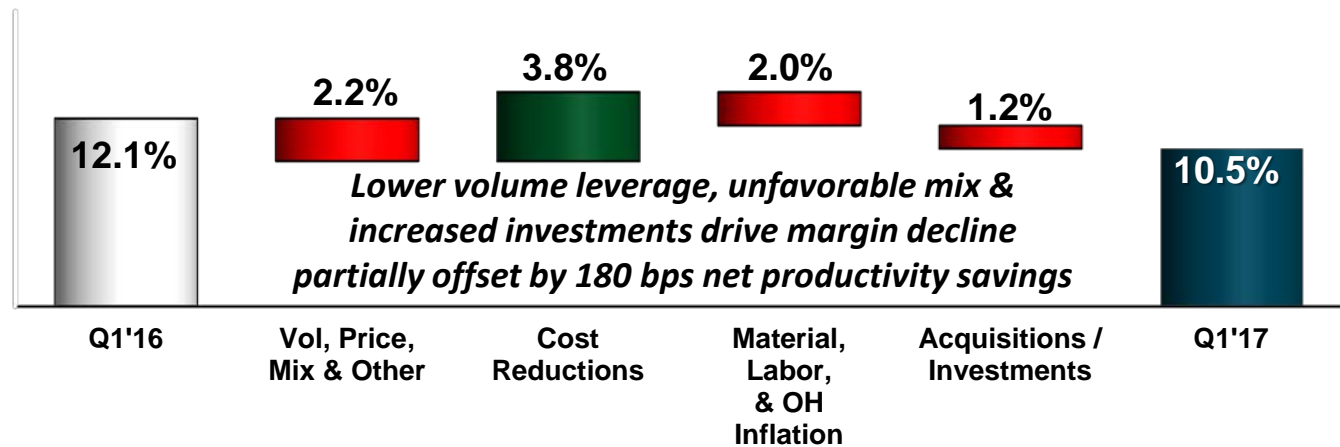
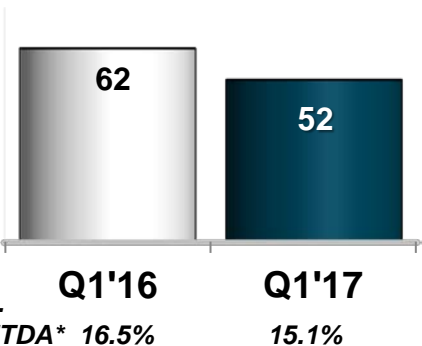
- U.S. -8%
- W. Europe -2%
- + Emerging +2%

### Highlights

- Difficult revenue comparison with 12% growth in Global Public Utility in PY, incl. 22% increase in U.S., but partially offset by strength in Emerging Markets
- + Fundamentals strong with 3% order growth driven by Public Utility (including 8% in Treatment) and double-digit increase in Treatment bidding pipeline
- Industrial down from large non-recurring equipment sales in PY
- + Dewatering O&G up for first time since Q4 2014

## ADJ. OP INCOME\*

(Dollars, In Millions)

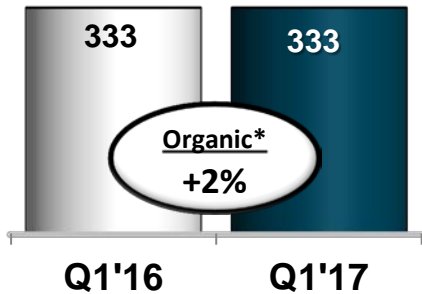


**BUILDING BACKLOG & ORDER MOMENTUM REINFORCES STRONG OUTLOOK & HEALTH OF PUBLIC UTILITY END MARKET**

# Q1'17 APPLIED WATER PERFORMANCE

## REVENUE

(Dollars, In Millions)



### Organic Growth

#### By Application

- + Residential +14%
- + Commercial +2%
- Ind'l Water -3%

#### By Regions

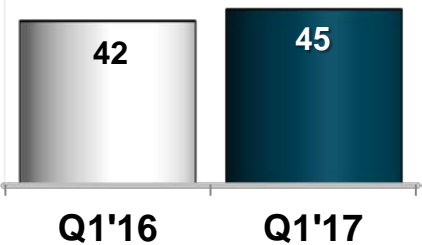
- + W. Europe +6%
- + Emerging +4%
- U.S. -1%

### Highlights

- + Residential market strength in the U.S. driven by promos and share gains
- + Commercial growth driven by new product traction and sales channel investments in Western Europe & market strength in Asia
- Weakness from soft Industrial market conditions and PY fire pump projects drive decline in U.S.

## ADJ. OP INCOME\*

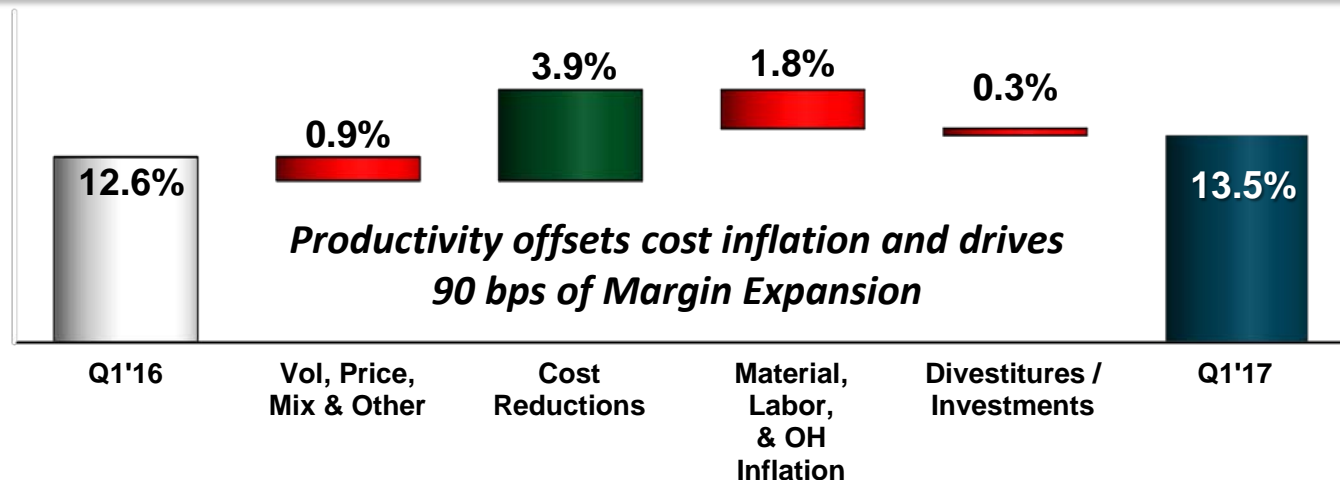
(Dollars, In Millions)



Adj.

EBITDA\* 14.1%

14.4%



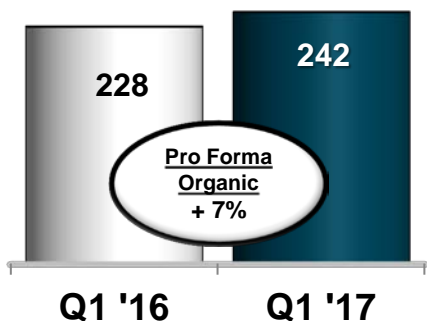
## STRONG EXECUTION DRIVES OP MARGIN IMPROVEMENT

# Q1'17 SENSUS

Note: Results reflect only Sensus and Visenti businesses and do not include Xylem's Analytics business. New combined segment to be reported in Q2 2017.

## REVENUE

(Dollars, In Millions)



### Pro Forma

#### Organic\* Growth

##### By Application

+ Smart Electric	+ 53%
+ Smart Water	+ 4%
+ Smart Gas	+ 4%
- SaaS/Other	- 2%

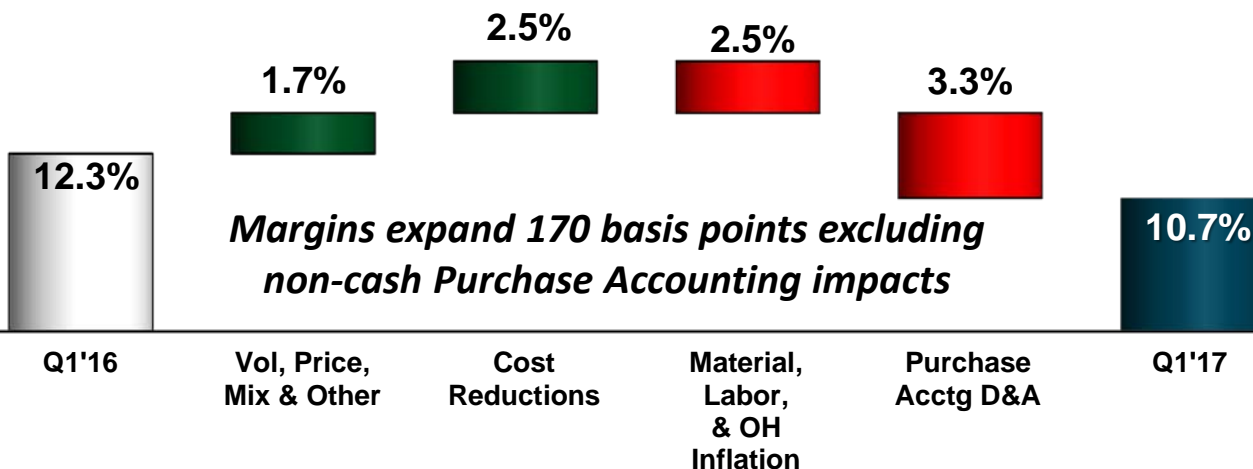
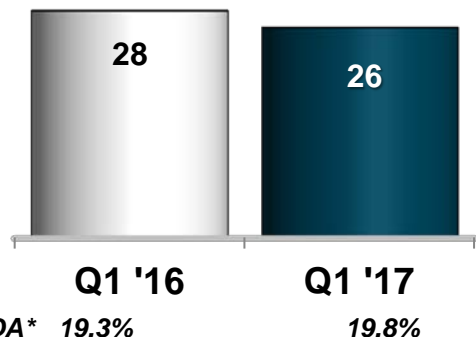
##### By Regions

+ U.S.	+ 9%
+ Emerging	+ 20%
- W. Europe	- 5%

### Highlights

- + Strength in Electric due to large project deployments primarily in U.S.; Strong performance from new products (Stratus)
- + Growth in Water driven by project timing in the Middle East from traction with new product sales (iPerl)
- SaaS/Other decline as expected primarily due to service fees in PY for large contract deployment in UK

## ADJ. OP MARGIN\*



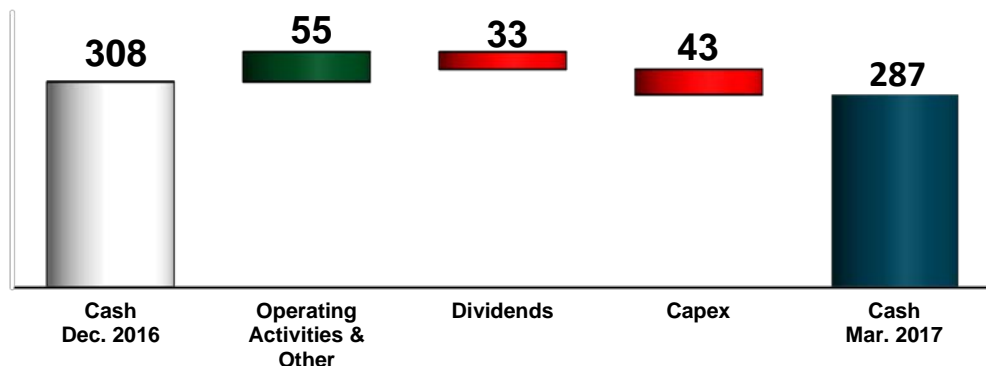
**BOLSTERING XYLEM'S PORTFOLIO WITH HIGHER GROWTH, MARGIN AND CASH GENERATION**



# XYLEM FINANCIAL POSITION

(Dollars, In Millions)

## CASH DRIVERS

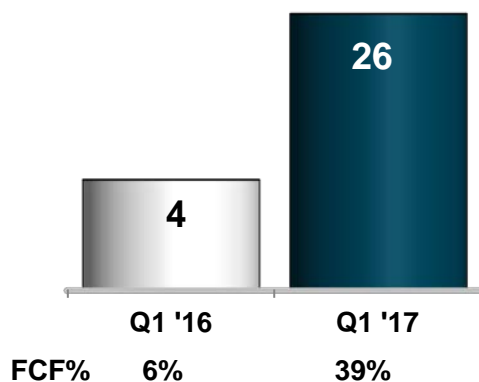


## CAPITAL SUMMARY

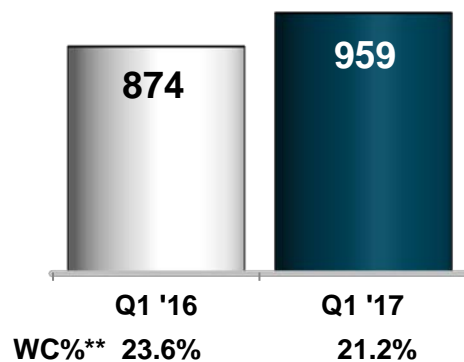
MARCH 31, 2017

Cash	287
Debt	2,387
Net Debt	2,100
Shareholders' Equity	2,268
Net Capital	4,368
Net Debt to Net Capital	48%

## FREE CASH FLOW\*



## WORKING CAPITAL

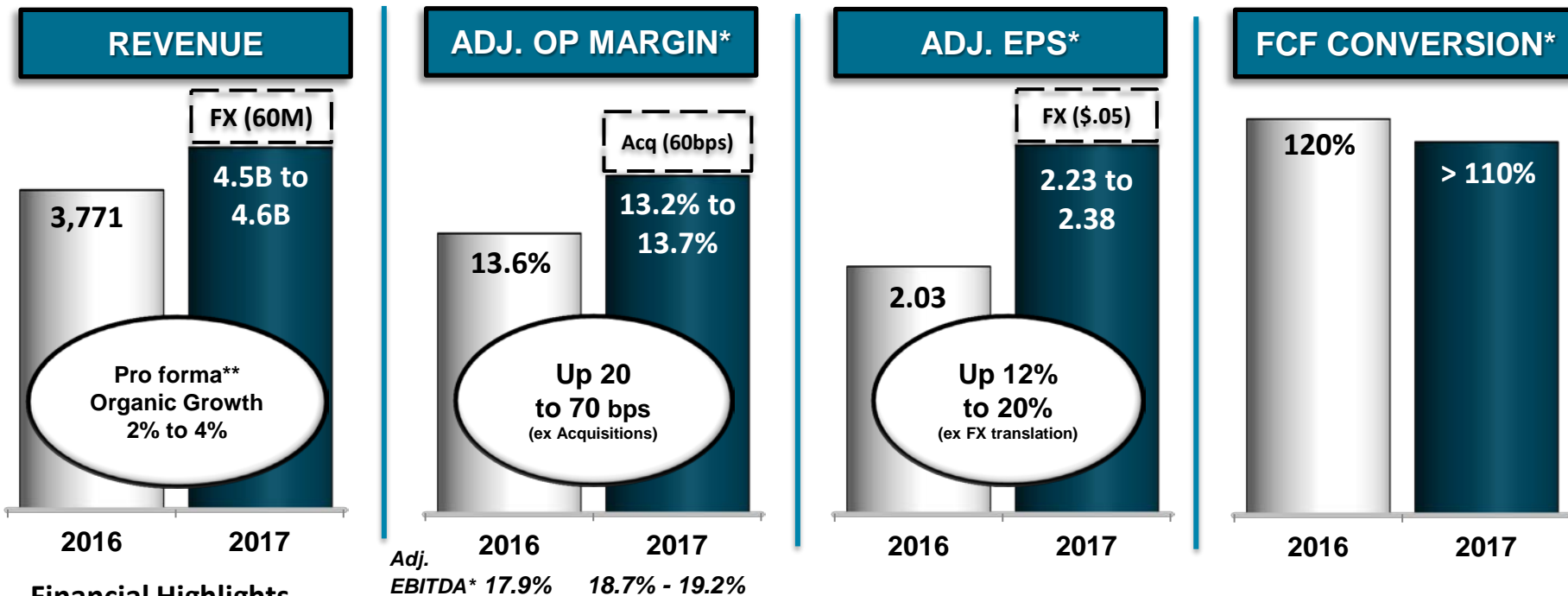


## Financial Highlights

- Healthy 1Q FCF generation / conversion
  - Strong 1Q performance
  - Sensus improves overall working capital and FCF performance
- Increased dividend by 16%
- Committed to maintaining Investment Grade Credit (BBB/Baa2)

# 2017 OUTLOOK

(Dollars, In Millions, except EPS)



## Financial Highlights

- Updating previous FY guidance to reflect FX favorability ... EUR/USD assumption to 1.07 (from 1.04)
- Xylem Pro Forma Organic growth of 2% to 4%
  - Xylem's base Organic Revenue growth of 1% to 3%; Sensus Pro Forma Organic Growth of 6% to 7%
- Expecting strong underlying Op Margin expansion; On-track to deliver long-term targets (ex. acquisitions)
- Sensus acquisition accelerates Revenue, EBITDA margin and earnings growth profile

**ACQUISITIONS ACCELERATE REVENUE & EPS GROWTH ...  
EXECUTION & PRODUCTIVITY FOCUS DRIVES STRONG OP MARGIN EXPANSION**

# 2017 END MARKET OUTLOOK



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

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



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

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



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

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



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

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

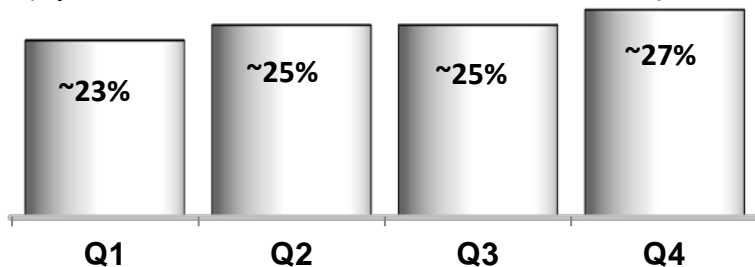
# 2017 OUTLOOK

(Dollars, In Millions)

## HISTORIC QUARTERLY PROFILE

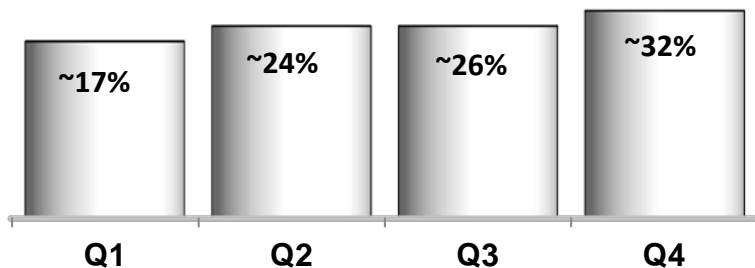
### Revenue As a % of Full Year

(Xylem 2012 – 2016 & Sensus 2015 - 2016)



### Adj. EPS As a % of Full Year

(Xylem 2012 – 2016)



## PLANNING ASSUMPTIONS

- 2017 Revenue and EPS quarterly split in line with historical profiles
  - 2Q Base XYL Organic Growth: +1% to +2%
  - 2Q Sensus Pro Forma Organic Growth: +1% to +2%
- FY Adjusted Op Margin: 13.2% to 13.7%
  - 2Q Adjusted Op Margin: 12.8% to 13.0%
- FY Interest/Other Expense: ~ \$80M
- Operating Tax Rate: ~ 22%
- Share count: ~182M
- Excluded from 2017 Outlook:
  - Sensus Integration, Restructuring & Realignment Costs ~\$30M

	2017 Updated Guidance Rate	Impact on Full Year 2017 Revenue	Impact on 2017 EPS	Revenue Impact of 5% Decrease in Rate*	EPS Impact of 5% Decrease in Rate*
Euro	1.07	(\$23M)	(\$0.06)	(\$35M)	(\$0.08)
GBP	1.25	(18)	-	(15)	-
SEK	.112	(6)	\$0.02	(6)	\$0.01
All Other		(13)	(\$0.01)	(22)	-
<b>Total</b>		<b>(\$60M)</b>	<b>(\$0.05)</b>	<b>(\$85M)</b>	<b>(\$0.07)</b>

\* Increase in rate would have inverse impact on results.

**2Q OUTLOOK: ORGANIC REVENUE INCREASE DRIVEN BY LSD GROWTH IN MOST END MKTS  
OP MARGIN UP 50 TO 70 BPS EXCLUDING SENSUS NON-CASH AMORTIZATION**

# SUMMARY

- **Solid 1Q start, on track to deliver on our financial commitments**
- **Maintaining our fundamental outlook**
- **Raising full year earnings guidance to reflect foreign exchange favorability**
- **Remain focused on executing long-term strategy from April Investor Day**

# APPENDIX

## Xylem Inc. Non-GAAP Measures

Management reviews key performance indicators including revenue, gross margins, segment operating income and margins, orders growth, working capital and backlog, among others. In addition, we consider certain non-GAAP (or "adjusted") measures to be useful to management and investors evaluating our operating performance for the periods presented, and to provide a tool for evaluating our ongoing operations, liquidity and management of assets. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including but not limited to, dividends acquisitions, share repurchases and debt repayment. Excluding revenue, Xylem provides guidance only on a non-GAAP basis due to the inherent difficulty in forecasting certain amounts that would be included in GAAP earnings, such as discrete tax items, without unreasonable effort. These adjusted metrics are consistent with how management views our business and are used to make financial, operating and planning decisions. These metrics, however, are not measures of financial performance under GAAP and should not be considered a substitute for revenue, operating income, net income, earnings per share (basic and diluted) or net cash from operating activities as determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators:

**"Organic revenue" and "Organic orders"** defined as revenue and orders, respectively, excluding the impact of fluctuations in foreign currency translation and contributions from acquisitions and divestitures. Divestitures include sales of insignificant portions of our business that did not meet the criteria for classification as a discontinued operation. The period-over-period change resulting from foreign currency translation impacts is determined by translating current period and prior period activity using the same currency conversion rate.

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

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

**"Adjusted Operating Income", "Adjusted Segment Operating Income", "Adjusted Net Income" and "Adjusted EPS"** defined as operating income, segment operating income, adjusted net income and earnings per share, adjusted to exclude restructuring and realignment costs, Sensus acquisition related costs, gain from sale of business and special charges and tax-related special items, as applicable. For Sensus historical adjustments, see Sensus Historical - Adjusted Operating Income table.

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

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

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

**"Special charges"** defined as costs incurred by the Company, such as non-cash impairment charges, initial acquisition costs not related to Sensus and other special non-operating items.

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

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

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Orders 2017	Orders 2016	Change 2017 v. 2016	% Change 2017 v. 2016	Acquisitions / Divestitures	FX Impact	Change Adj. 2017 v. 2016	% Change Adj. 2017 v. 2016			
<b>Quarter Ended March 31</b>											
<b>Xylem Inc.</b>	1,137	888	249	28%	(237)	12	24	3%		29%	
Water Infrastructure	546	534	12	2%	(2)	8	18	3%		4%	
Applied Water	354	354	-	0%	1	5	6	2%		1%	
Sensus	237	-	237	N/A	(236)	(1)	0	N/A		N/A	

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue 2017	Revenue 2016	Change 2017 v. 2016	% Change 2017 v. 2016	Acquisitions / Divestitures	FX Impact	Change Adj. 2017 v. 2016	% Change Adj. 2017 v. 2016			
<b>Quarter Ended March 31</b>											
<b>Xylem Inc.</b>	1,071	847	224	26%	(242)	11	(7)	-1%		28%	
Water Infrastructure	496	514	(18)	-4%	(2)	7	(13)	-3%		-2%	
Applied Water	333	333	-	0%	1	5	6	2%		2%	
Sensus	242	-	242	N/A	(241)	(1)	-	N/A		N/A	



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

	Q1	
	2017	2016
Total Revenue		
• Total Xylem	1,071	847
• Water Infrastructure	496	514
• Applied Water	333	333
• Sensus	242	-
Operating Income		
• Total Xylem	86	79
• Water Infrastructure	47	54
• Applied Water	36	39
• Sensus	18	-
• Total Segments	101	93
Operating Margin		
• Total Xylem	8.0%	9.3%
• Water Infrastructure	9.5%	10.5%
• Applied Water	10.8%	11.7%
• Sensus	7.4%	N/A
• Total Segments	9.4%	11.0%
Sensus Acquisition Related Costs		
• Total Xylem	10	-
• Water Infrastructure	-	-
• Applied Water	-	-
• Sensus	6	-
• Total Segments	6	-
Special Charges		
• Total Xylem	5	4
• Water Infrastructure	-	4
• Applied Water	5	-
• Sensus	-	-
• Total Segments	5	4
Restructuring & Realignment Costs		
• Total Xylem	11	9
• Water Infrastructure	5	4
• Applied Water	4	3
• Sensus	2	-
• Total Segments	11	7
Adjusted Operating Income		
• Total Xylem	112	92
• Water Infrastructure	52	62
• Applied Water	45	42
• Sensus	26	-
• Total Segments	123	104
Adjusted Operating Margin		
• Total Xylem	10.5%	10.9%
• Water Infrastructure	10.5%	12.1%
• Applied Water	13.5%	12.6%
• Sensus	10.7%	N/A
• Total Segments	11.5%	12.3%

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

	Q1	
	2017	2016
<b>Net Cash - Operating Activities</b>	\$ 52	\$ 41
Capital Expenditures	(43)	(37)
<b>Free Cash Flow</b>	<u>\$ 9</u>	<u>\$ 4</u>
Cash paid for Sensus acquisition related costs	(17)	-
<b>Free Cash Flow, excluding Sensus Acquisition Related Costs</b>	<u>\$ 26</u>	<u>\$ 4</u>
Net Income	56	66
Gain from sale of business	(5)	-
Special Charges - Non-cash impairment	5	-
Sensus acquisition related costs	(10)	-
<b>Net Income, excluding gain on sale of business, non-cash impairment charges and Sensus Acquisition Related Costs</b>	<u>\$ 66</u>	<u>\$ 66</u>
<b>Free Cash Flow Conversion</b>	<u>39%</u>	<u>6%</u>

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

	Q1 2017			Q1 2016		
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted
Total Revenue	1,071		1,071	847		847
Operating Income	86	26 a	112	79	13 a	92
Operating Margin	8.0%		10.5%	9.3%		10.9%
Interest Expense	(20)		(20)	(14)		(14)
Other Non-Operating Income (Expense)	(1)		(1)	-		-
Gain from sale of business	5	(5)	-	-	-	-
Income before Taxes	70	21	91	65	13	78
Provision for Income Taxes	(14)	(6) b	(20)	1	(17) b	(16)
Net Income	56	15	71	66	(4)	62
Diluted Shares	180.7		180.7	179.3		179.3
<b>Diluted EPS</b>	<b>\$ 0.31</b>	<b>\$ 0.08</b>	<b>\$ 0.39</b>	<b>\$ 0.37</b>	<b>\$ (0.02)</b>	<b>\$ 0.35</b>
Year-over-year currency translation impact on current year diluted EPS	\$ (0.02)		\$ (0.02)			
<b>Diluted EPS at Constant Currency</b>	<b>\$ 0.33</b>	<b>\$ 0.08</b>	<b>\$ 0.41</b>			

a Restructuring & realignment costs of \$11 million and \$9 million in 2017 and 2016, respectively, Sensus acquisition related costs of \$10 million and non-cash impairment charges of \$5 million in 2017 and special charges of \$4 million in 2016.

b Net tax impact on restructuring & realignment costs of \$2 million in both 2016 and 2015, net tax impact on Sensus acquisition related costs of \$4 million in 2017, net tax impact on special charges of \$1 million in 2016 and tax-related special items of \$14 million of expense in 2016.

Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter

(\$ Millions)

	2017				Total
	Q1	Q2	Q3	Q4	
Net Income	56				56
Income Tax Expense	14				14
Interest Expense (Income), net	20				20
Depreciation	28				28
Amortization	31				31
Stock Compensation	6				6
EBITDA	155	-	-	-	155
Restructuring & Realignment	11				11
Gain on sale of business	(5)				(5)
Sensus acquisition related costs	7				7
Special Charges	5				5
Adjusted EBITDA	173	-	-	-	173
Revenue	1,071				1,071
Adjusted EBITDA Margin	16.2%				16.2%

	2016				Total
	Q1	Q2	Q3	Q4	
Net Income	66	71	73	50	260
Income Tax Expense	(1)	19	22	40	80
Interest Expense (Income), net	14	19	16	19	68
Depreciation	20	21	20	26	87
Amortization	12	12	12	28	64
Stock Compensation	5	5	5	3	18
EBITDA	116	147	148	166	577
Restructuring & Realignment	9	11	12	15	47
Sensus Acquisition Related Costs	-	-	10	36	46
Special Charges	4	1	-	-	5
Adjusted EBITDA	129	159	170	217	675
Revenue	847	932	897	1,095	3,771
Adjusted EBITDA Margin	15.2%	17.1%	19.0%	19.8%	17.9%

Xylem Inc. Non-GAAP Reconciliation  
EBITDA and Adjusted EBITDA by Quarter

Water Infrastructure

(\$ Millions)

	2017				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	48				48
Interest Expense (Income), net	-				-
Depreciation	12				12
Amortization	9				9
Stock Compensation	1				1
EBITDA	70	-	-	-	70
Restructuring & Realignment	5				5
Adjusted EBITDA	75	-	-	-	75
Revenue	496				496
Adjusted EBITDA Margin	15.1%				15.1%

	2016				Total
	Q1	Q2	Q3	Q4	
Pre-Tax Income	54	70	80	105	309
Interest Expense (Income), net	-	-	-	(1)	(1)
Depreciation	12	12	12	12	48
Amortization	10	9	10	9	38
Stock Compensation	1	-	1	-	2
EBITDA	77	91	103	125	396
Restructuring & Realignment	4	8	9	7	28
Special Charges	4	1	-	-	5
Adjusted EBITDA	85	100	112	132	429
Revenue	514	566	554	612	2,246
Adjusted EBITDA Margin	16.5%	17.7%	20.2%	21.6%	19.1%

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

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	38				38
Interest, net	-				-
Depreciation	5				5
Amortization	1				1
Stock Compensation	-				-
EBITDA	44	-	-	-	44
Restructuring & Realignment	4				4
Gain on sale of business	(5)				(5)
Special Charges	5				5
Adjusted EBITDA	48	-	-	-	48
Revenue	333				333
Adjusted EBITDA Margin	14.4%				14.4%
	2016				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	38	52	50	48	188
Interest, net	-	-	-	-	-
Depreciation	5	5	5	5	20
Amortization	1	1	1	1	4
Stock Compensation	-	1	-	-	1
EBITDA	44	59	56	54	213
Restructuring & Realignment	3	3	3	7	16
Gain on sale of business	-				-
Adjusted EBITDA	47	62	59	61	229
Revenue	333	366	343	351	1,393
Adjusted EBITDA Margin	14.1%	16.9%	17.2%	17.4%	16.4%

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

	2017				
	Q1	Q2	Q3	Q4	Total
Pre-Tax Income	17				17
Interest, net	-				-
Depreciation	7				7
Amortization	19				19
Stock Compensation	-				-
EBITDA	43	-	-	-	43
Restructuring & Realignment	2				2
Sensus acquisition related costs	3				3
Adjusted EBITDA	48	-	-	-	48
Revenue	242				242
Adjusted EBITDA Margin	19.8%				19.8%

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

	(As Reported - GAAP)				(As Adjusted - Organic)				Constant Currency		
	(A)		(B)		(C)		(D)		(E) = B+C+D	(F) = E/A	(G) = (E - C) / A
	Revenue	Revenue	Change	% Change	Acquisitions /	FX Impact	Change	% Change			
2017	2016 (a)	2017 v. 2016	2017 v. 2016	Divestitures			Adj. 2017 v. 2016	Adj. 2017 v. 2016			
<b>Quarter Ended March 31</b>											
<b>Xylem Inc.</b>	1,071	1,075	(4)	0%	(1)	15	10	1%	1%		
Water Infrastructure	496	514	(18)	-4%	(2)	7	(13)	-3%	-2%		
Applied Water	333	333	-	0%	1	5	6	2%	2%		
Sensus	242	228	14	6%	-	3	17	7%	7%		

(a) Includes Sensus revenue for the three months ended March 31, 2016 which was prior to Xylem acquiring the business.

Sensus Historical Non\_GAAP Reconciliation  
Adjusted Operating Income  
(\$ Millions)

	QTR 3/31/17	QTR 3/31/16
Revenue	242	228
Operating Income	18	49
Operating Margin	7.4%	21.5%
Reversal of product warranty reserve	-	(27)
Restructuring & realignment costs	2	3
Sensus acquisition related costs	6	-
Management fees	-	2
Other non-recurring charges	-	1
Adjusted Operating Income	26	28
Adjusted Operating Margin	10.7%	12.3%

Sensus Historical Non\_GAAP Reconciliation  
Adjusted EBITDA  
(\$ Millions)

	QTR 3/31/17	QTR 3/31/16
Pre-Tax Income	17	41
Interest Expense (Income), Net	-	9
Depreciation and Amortization	26	15
EBITDA	43	65
Reversal of product warranty reserve	-	(27)
Restructuring & realignment costs	2	3
Sensus acquisition related costs	3	-
Management fees	-	2
Other non-recurring charges	-	1
Adjusted EBITDA	48	44
Revenue	242	228
Adjusted EBITDA Margin	19.8%	19.3%

# xylem

## Let's Solve Water

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You may scan the QR code for direct access to the Xylem IR app for iPad® mobile devices.



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