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Xylem Reports Fourth-Quarter and Full-Year 2023 Results

Fourth-Quarter Highlights

- **Orders of \$2.0 billion, up 42% on a reported basis and 10% organically**
- **Revenue of \$2.1 billion, up 41% on a reported basis and 9% organically**
- **Earnings per share of \$1.10, up 34%; \$0.99 on an adjusted basis, down 1%**

Full-Year Highlights

- **Revenue of \$7.4 billion, up 33% on a reported basis and 12% organically**
- **Earnings per share of \$2.79, up 42%; \$3.78 on an adjusted basis, up 20%**
- **Initiating 2024 full-year revenue guidance of \$8.4 to \$8.5 billion, up 3% to 5% organically, and adjusted earnings per share range of \$4.00 to \$4.20**

WASHINGTON, D.C., (Feb. 6, 2024) – Xylem Inc. (NYSE: XYL), a leading global water technology company dedicated to solving the world’s most challenging water issues, today reported fourth-quarter and full-year 2023 results. The Company’s total revenue of \$2.1 billion surpassed prior guidance, on continued strong execution and demand. Fourth-quarter earnings exceeded Xylem’s previous guidance.

“The team delivered an outstanding fourth quarter, fueling momentum as we enter 2024,” said Matthew Pine, Xylem president and CEO. “Revenue, margin and earnings per share all exceeded expectations, driven by strong execution on healthy demand across our business. In a transformational year for Xylem, the team stayed focused on serving our customers and delivered strong results on both the top and bottom lines.”

“That discipline and focus, paired with continuing resilient underlying demand, gives us confidence in further growth and margin expansion in the year ahead. Our integration of Evoqua is ahead of schedule, and our team is taking full advantage of the breadth of our combined offering to solve even more of our customers’ water challenges.”

Net income was \$266 million, or \$1.10 per share. Net income margin increased 270 basis points to 12.6 percent. These results are driven by strong operational performance and non-recurring tax benefits, partially offset by higher acquisition and integration costs related to the Evoqua transaction, purchase accounting intangible amortization, special charges, and restructuring and realignment costs. Adjusted net income was \$239 million, or \$0.99 per share, which excludes the impacts of special charges, purchase accounting intangible amortization, and restructuring and realignment costs.

Fourth-quarter adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) margin was 19.6 percent, reflecting a year-over-year increase of 90 basis points. Productivity savings, strong price realization and higher volume drove the margin expansion, exceeding the impact of inflation and strategic investments.

The Board of Directors of Xylem has declared a first-quarter dividend of \$0.36 per share, an increase of 9 percent. The dividend is payable on March 20, 2024, to shareholders of record as of February 21, 2024.

Outlook

Xylem forecasts full-year 2024 revenue of approximately \$8.4 to \$8.5 billion, up approximately 14 to 15 percent on a reported basis and up approximately 3 to 5 percent on an organic basis.

Full-year 2024 adjusted EBITDA margin is expected to be approximately 19.4 to 19.9 percent, an increase of 50 to 100 basis points from Xylem's 2023 adjusted results. Full-year free cash flow conversion to net income is expected to be approximately 115 percent.

Further 2024 planning assumptions are included in Xylem's fourth-quarter 2023 earnings materials posted at www.xylem.com/investors. 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.

Supplemental information on Xylem's fourth-quarter 2023 earnings and reconciliations for certain non-GAAP items is posted at www.xylem.com/investors.

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About Xylem

Xylem (XYL) is a leading global water technology company committed to solving the world's critical water challenges with innovation and expertise. Our 23,000 diverse employees delivered combined pro forma revenue of \$8.1 billion in 2023. We are creating a more sustainable world by enabling our customers to optimize water and resource management and helping communities in more than 150 countries become water-secure. Join us at www.xylem.com and Let's Solve Water.

Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Generally, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "contemplate," "predict," "forecast," "likely," "believe," "target," "will," "could," "would," "should," "potential," "may" and similar expressions or their negative, may, but are not necessary to, identify forward-looking statements. By their nature, forward-looking statements address uncertain matters and include any statements that: are not historical, such as statements about our strategy, financial plans, outlook, objectives, plans, intentions or goals (including those related to our social, environmental and other sustainability goals); or

address possible or future results of operations or financial performance, including statements relating to orders, revenues, operating margins and earnings per share growth.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, many of which are beyond our control. Important factors that could cause our actual results, performance and achievements, or industry results to differ materially from estimates or projections contained in or implied by our forward-looking statements include, among others, the following: the impact of overall industry and general economic conditions, including industrial, governmental, and public and private sector spending, interest rates, inflation and related monetary policy by governments in response to inflation, and the strength of the residential and commercial real estate markets, on economic activity and our operations; geopolitical events, including the ongoing and possible escalation of the conflicts involving between Russia and Ukraine, and the Middle East, as well as regulatory, economic and other risks associated with our global sales and operations, including those related to domestic content requirements applicable to projects receiving governmental funding; manufacturing and operating cost increases due to macroeconomic conditions, including inflation, energy supply, supply chain shortages, logistics challenges, tight labor markets, prevailing price changes, tariffs and other factors; demand for our products, disruption, competition or pricing pressures in the markets we serve; cybersecurity incidents or other disruptions of information technology systems on which we rely, or involving our connected products and services; lack of availability or delays in receiving parts and raw materials from our supply chain, including electronic components (in particular, semiconductors); disruptions in operations at our facilities or that of third parties upon which we rely; uncertainty related to the realization of the benefits and synergies from our acquisition of Evoqua; safe and compliant treatment and handling of water, wastewater and hazardous materials; failure to successfully execute large projects, including with respect to meeting performance guarantees and customers' budgets, timelines and safety requirements; our ability to retain and attract leadership and other diverse and key talent, as well as competition for overall talent and labor; defects, security, warranty and liability claims, and recalls with respect to our products; uncertainty related to restructuring and realignment actions and related costs and savings; our ability to execute strategic investments for growth, including related to acquisitions and divestitures; availability, regulation or interference with radio spectrum used by certain of our products; volatility in served markets or impacts on our business and operations due to weather conditions, including the effects of climate change; risks related to our sustainability commitments and related disclosures; fluctuations in foreign currency exchange rates; difficulty predicting our financial results; risk of future impairments to goodwill and other intangible assets; changes in our effective tax rates or tax expenses; financial market risks related to our pension and other defined benefit plans; failure to comply with, or changes in, laws or regulations, including those pertaining to our business conduct, operations, products and services, including anti-corruption, data privacy and security, trade, competition, the environment, climate change and health and safety; legal, governmental or regulatory claims, investigations or proceedings and associated contingent liabilities; matters related to intellectual property infringement or expiration of rights; and other factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 and in subsequent filings we make with the Securities and Exchange Commission ("SEC").

Forward-looking and other statements in this press release regarding our environmental and other sustainability plans and goals are not an indication that these statements are necessarily material to investors or are required to be disclosed in our filings with the SEC. In addition, historical, current, and forward-looking social, environmental and sustainability-related statements may be based on standards for measuring progress that are still developing, internal controls and processes that continue to evolve, and assumptions that are subject to change in the future. All forward-looking statements made herein are based on information currently available to us as of the date of this press release. We undertake 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.

XYLEM INC. AND SUBSIDIARIES**CONSOLIDATED INCOME STATEMENTS (Unaudited)**

(In Millions, except per share data)

Year Ended December 31,	2023	2022	2021
Revenue from products	\$ 6,291	\$ 4,978	\$ 4,684
Revenue from services	1,073	544	511
Revenue	7,364	5,522	5,195
Cost of revenue from products	3,817	3,002	2,831
Cost of revenue from services	830	436	389
Cost of revenue	4,647	3,438	3,220
Gross profit	2,717	2,084	1,975
Selling, general and administrative expenses	1,757	1,227	1,179
Research and development expenses	232	206	204
Restructuring and asset impairment charges	76	29	7
Operating income	652	622	585
Interest expense	49	50	76
U.K. pension settlement expense	—	140	—
Other non-operating income, net	33	7	—
(Loss) Gain on sale of businesses	(1)	1	2
Income before taxes	635	440	511
Income tax expense	26	85	84
Net income	\$ 609	\$ 355	\$ 427
Earnings per share:			
Basic	\$ 2.81	\$ 1.97	\$ 2.37
Diluted	\$ 2.79	\$ 1.96	\$ 2.35
Weighted average number of shares:			
Basic	217.0	180.2	180.2
Diluted	218.2	181.0	181.5

XYLEM INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In Millions, except per share amounts)

December 31,	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,019	\$ 944
Receivables, less allowances for discounts, returns and credit losses of \$56 and \$50 in 2023 and 2022, respectively	1,617	1,096
Inventories	1,018	799
Prepaid and other current assets	230	173
Total current assets	3,884	3,012
Property, plant and equipment, net	1,169	630
Goodwill	7,587	2,719
Other intangible assets, net	2,529	930
Other non-current assets	943	661
Total assets	\$ 16,112	\$ 7,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 968	\$ 723
Accrued and other current liabilities	1,221	867
Short-term borrowings and current maturities of long-term debt	16	—
Total current liabilities	2,205	1,590
Long-term debt, net	2,268	1,880
Accrued post-retirement benefit obligations	344	286
Deferred income tax liabilities	557	222
Other non-current accrued liabilities	562	471
Total liabilities	5,936	4,449
Stockholders' equity:		
Common stock — par value \$0.01 per share:		
Authorized 750.0 shares, issued 257.6 and 196.0 shares in 2023 and 2022, respectively	3	2
Capital in excess of par value	8,564	2,134
Retained earnings	2,601	2,292
Treasury stock – at cost 16.0 shares and 15.8 shares in 2023 and 2022, respectively	(733)	(708)
Accumulated other comprehensive loss	(269)	(226)
Total stockholders' equity	10,166	3,494
Non-controlling interest	10	9
Total equity	10,176	3,503
Total liabilities and stockholders' equity	\$ 16,112	\$ 7,952

XYLEM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (In Millions) (Unaudited)

Year Ended December 31,	2023	2022	2021
Operating Activities			
Net income	\$ 609	\$ 355	\$ 427
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	193	111	118
Amortization	243	125	127
Deferred income taxes	(79)	(64)	10
Share-based compensation	60	37	33
Restructuring and asset impairment charges	76	29	7
U.K. pension settlement expense	—	140	—
Loss (gain) from sale of businesses	1	(1)	(2)
Other, net	—	(4)	8
Payments for restructuring	(30)	(11)	(25)
Contributions to post-retirement benefit plans	(25)	(19)	(29)
Changes in assets and liabilities (net of acquisitions):			
Changes in receivables	(87)	(192)	(70)
Changes in inventories	41	(147)	(167)
Changes in accounts payable	22	117	81
Changes in accrued liabilities	(4)	57	7
Changes in accrued and deferred taxes	(109)	57	(9)
Net changes in other assets and liabilities	(74)	6	22
Net Cash — Operating activities	837	596	538
Investing Activities			
Capital expenditures	(271)	(208)	(208)
Proceeds from the sale of property, plant and equipment	1	4	3
Acquisitions of businesses, net of cash acquired	(476)	—	—
Proceeds from sale of businesses	105	1	10
Cash received from investments	1	5	—
Cash paid for investments	(1)	(11)	—
Cash paid for equity investments	(57)	(3)	(5)
Cash received from interest rate swaps	38	—	—
Cash received from cross-currency swaps	28	28	14
Settlement of currency forward agreement	—	(10)	—
Other, net	4	3	3
Net Cash — Investing activities	(628)	(191)	(183)
Financing Activities			
Long-term debt issued, net	278	—	—
Long-term debt repaid, net	(160)	(527)	(600)
Repurchase of common stock	(25)	(52)	(68)
Proceeds from exercise of employee stock options	62	8	19
Dividends paid	(299)	(217)	(203)
Other, net	(13)	(2)	(3)
Net Cash — Financing activities	(157)	(790)	(855)
Effect of exchange rate changes on cash			
Net change in cash and cash equivalents	75	(405)	(526)
Cash and cash equivalents at beginning of year	944	1,349	1,875
Cash and cash equivalents at end of year	\$ 1,019	\$ 944	\$ 1,349
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 69	\$ 76	\$ 99
Income taxes (net of refunds received)	\$ 211	\$ 91	\$ 83