



Equity Research Division

Xylem

Water Technology Provider

Target Price: \$ 76.34

Current Price: \$ 103,41

Downside Potential: -26.2%

Recommendation: SELL

Investment Horizon: 1 year

Vienna, 27.01.2023

Team Overview

Equity Research



Raj Rajeshwari
Head of Equity Research

- Task distribution
- Story guideline



▪ MSc.



Arthur Kaspar
Senior Associate

- Task distribution
- Story guideline
- Business strategy



▪ BSc. – 5th Sem.



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- Industry analysis



▪ MSc. – 5th Sem.



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Associate

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- Financial analysis



▪ MSc. – 3rd Sem.



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- ESG



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Johanna Sares
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Analyst

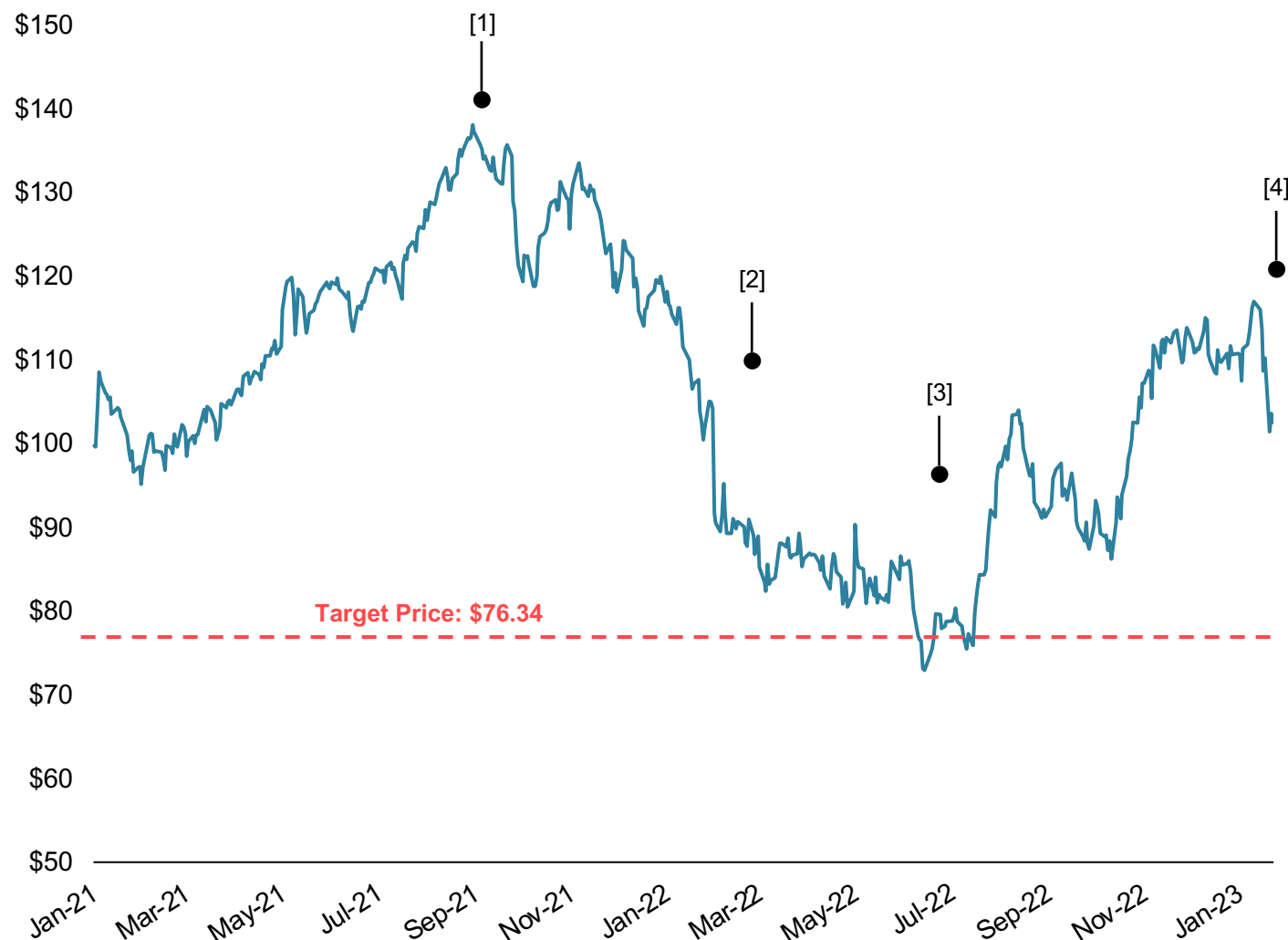
- Business strategy
- Business model



▪ MSc. – 1st Sem.

Share Price Performance

Fluctuating company results coupled with global economic uncertainty is reflected in Xylem's volatile share price



Share Price – Major Events

- **[1]** September 2021 (+36%) – A favorable Fed policy enabled momentum in the stock market pushes stocks higher
- **[2]** February 2022 (-32%) – Disappointing results for Q4 2021 as well as a worsening US inflation outlook woe investors leading to a selloff in Xylem
- **[3]** June 2022 (-19%) – Continued inflation, foreign currency headwinds, rising interest rates coupled with supply chain issues and the Russian-Ukrainian war further depress Xylem's performance
- **[4]** 23rd January 2023 (-12%) – Xylem announces to acquire Evoqua in \$7.5 bn all-stock deal

Key Stats

- **IPO:** October 21st, 2011
- **Ticker:** XYL (NYSE)
- **52-week range:** \$72.08 – \$118.58
- **Price range** since IPO: \$23.00 – \$138.03
- **Market Cap:** \$20.905 bn

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Investment Thesis

A water industry incumbent struggling with stagnating revenues and fierce competition

Key investment highlights



- 1 Xylem's **comprehensive product portfolio** creates value along the entire water cycle, bridging the gap between utilities and consumers
- 2 Increasing global water stress and worsening climatic conditions could foster a **favorable regulatory environment for industries** Xylem is operating in
- 3 Xylem is faced with an **eroding competitive advantage** due to a highly fragmented market and a better positioning of peers in digital solutions
- 4 Saturation in Xylem's core markets leads to a **stagnating revenue growth**, restricting its further growth potential in current markets
- 5 Xylem's **margins** have been **consistently lower** than the industry average while the company is trading at higher multiples
- 6 Xylem's recent announced acquisition of Evoqua creates **uncertainty** while further strengthening the argument of its **overvaluation**



Xylem

WUTIS – Equity Research

Business Overview

Company Overview

A US-based company striving to solve water issues using technological solutions

Company Description

- Xylem is a **water technology provider**, engaged in designing, manufacturing, and servicing of engineered products and solutions for water and wastewater applications since 2011
- Committed to “solve water”, Xylem operates in **three segments**



Water Infrastructure



Applied Water



Measurement and Control



Headquarters: Washington DC, US



Employees: ~17,000

Management



Patrick Decker
CEO
since 2014



Franz Cerwinka
Applied Water
joined Xylem in 2020

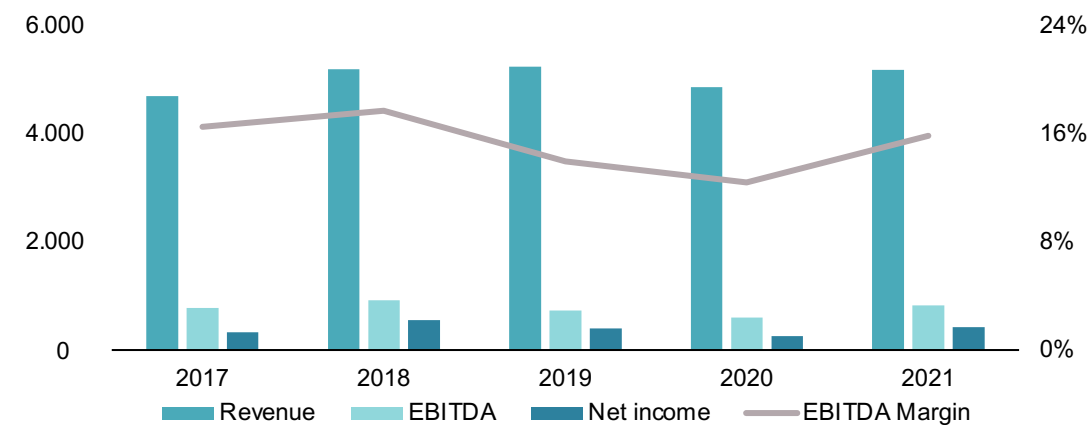


Hayati Yarkadas
Water Infrastructure
joined Xylem in 2020

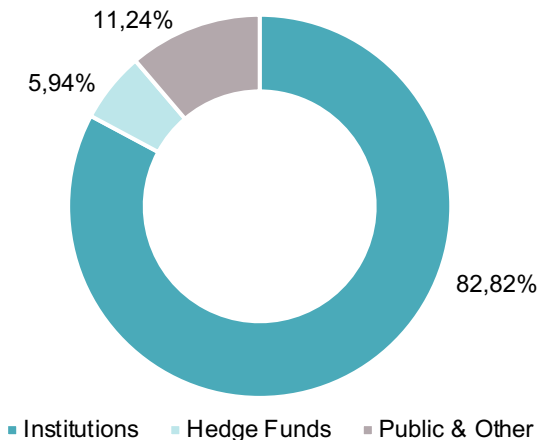


Mike McGann
Measurement & Control
joined Xylem in 2011

Financials (\$ mn)



Shareholder Structure

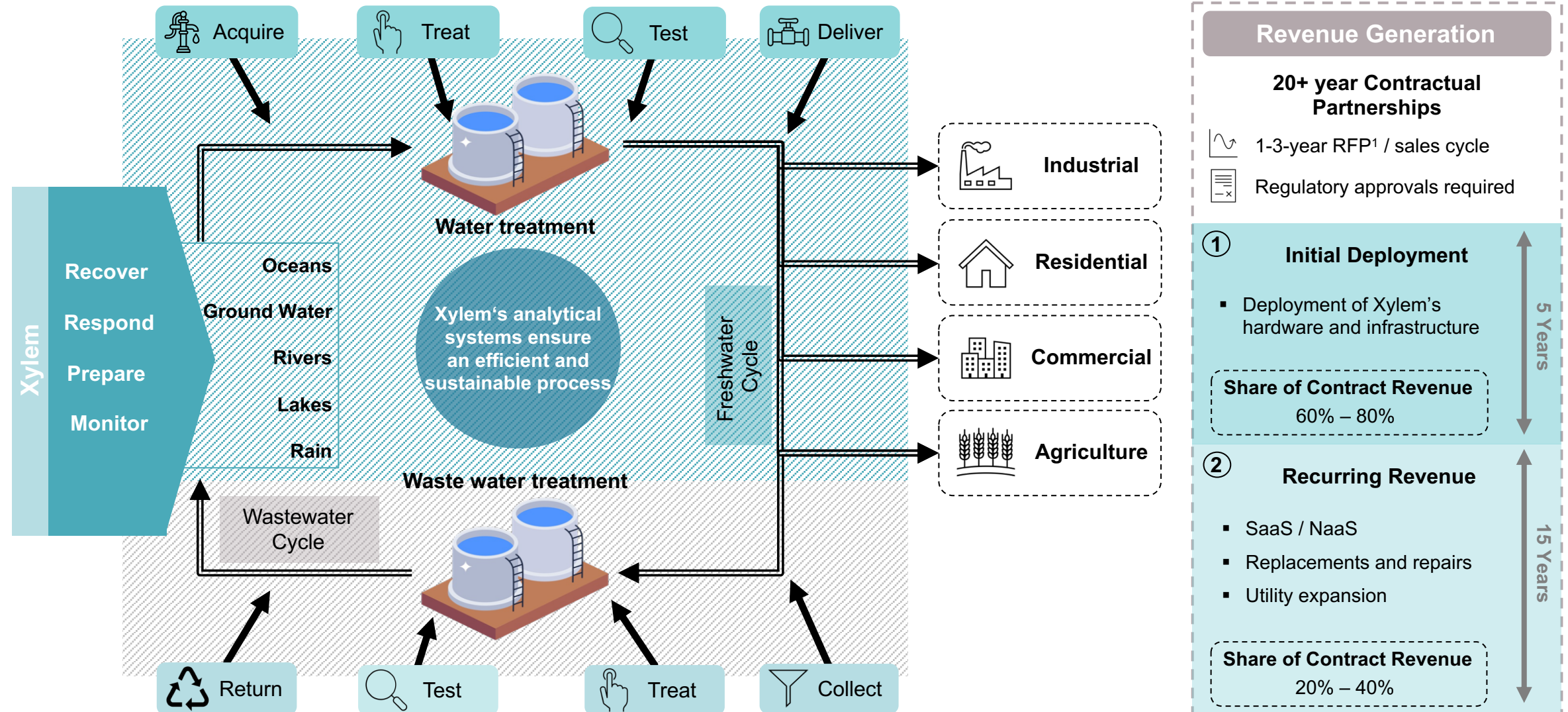


Top Shareholders

The Vanguard Group	11.55%
Black Rock	10.37%
Aristotle Capital	5.04%
State Street Global	4.20%

Business Model

Xylem offers a set of comprehensive solutions, capturing value along the entire water cycle

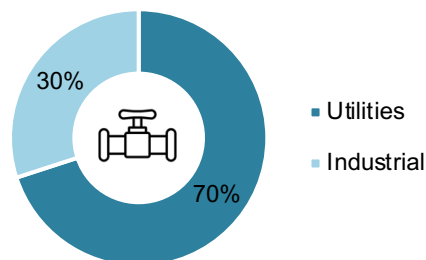


Product Segments

An integrated product portfolio applicable to a diverse set of situations

Water Infrastructure

Revenue
\$2.3 bn



Infrastructure Solutions

Transport
45%

- Waste- and clean water transportation

Dewatering
25%

- Emergency dewatering
- Engineered solutions

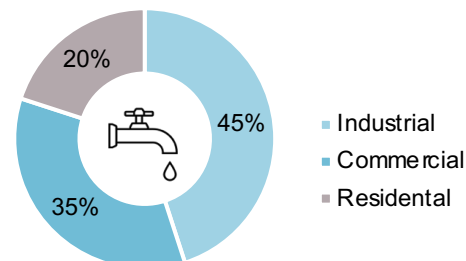
Treatment
30%

- Filtration-
- Ultraviolet-
- Ozone systems



Applied Water

Revenue
\$1.6 bn



Applied Water Solutions

Industrial
45%

- Process-/cleaning water supply
- Clean water supply
- Agricultural irrigation

Commercial
35%

- HVAC and heat transfer
- Pressure boosting
- Wastewater removal

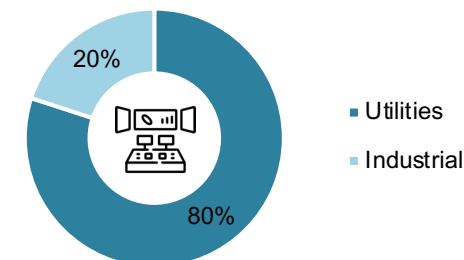
Residential
20%

- Groundwater
- Drinking water
- Waste/rainwater systems



Measurement and Control

Revenue
\$1.4 bn



Measurement & Control Solutions

Metering
70%

- Integrated sensors
- Communication- networks and software for utilities

Analytics
20%

- Water quality measurement for water and energy utilities

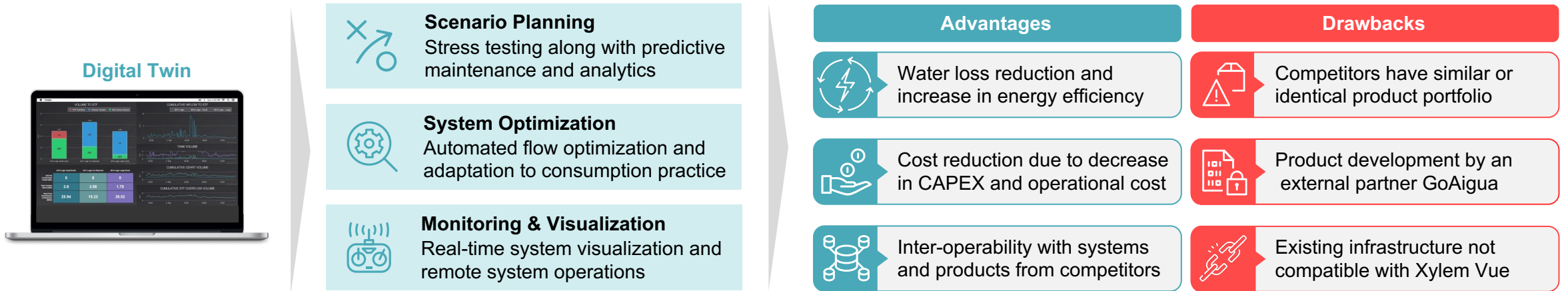
Assessment
10%

- Asset integrity services
- Digital optimization of utilities

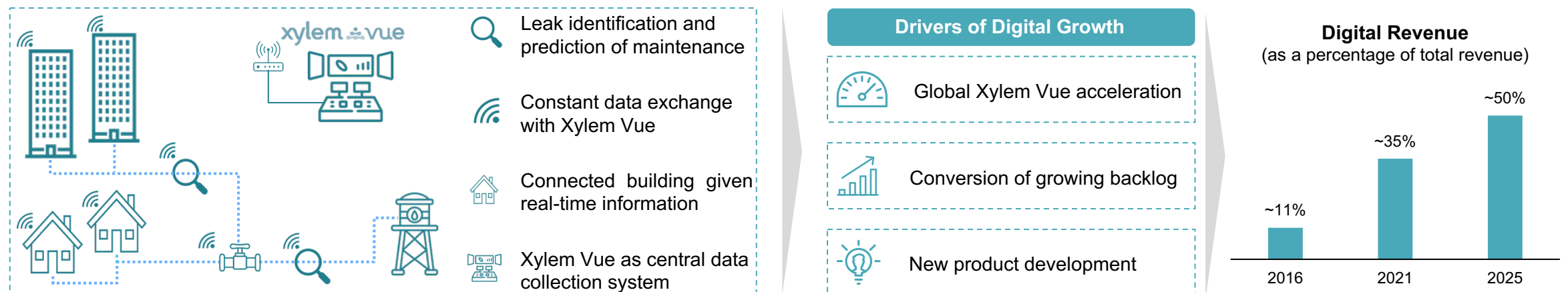


Xylem's approach at digitizing the water cycle

Xylem Vue – Digital Twin in the Water Management System



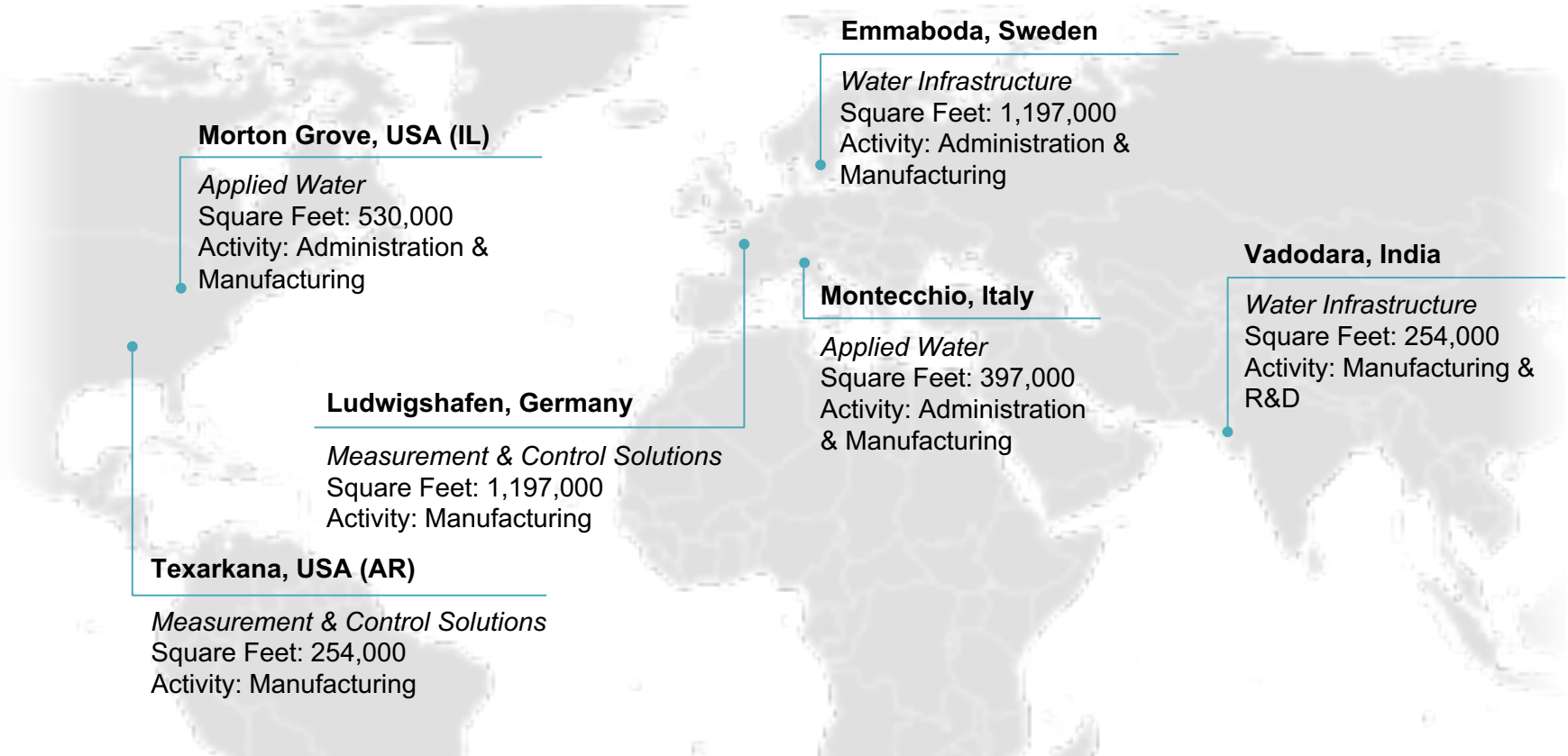
Xylem Vue – Technology accelerating digital Growth




Global Presence

Active around the globe with strategically allocated manufacturing and R&D sites

Xylem’s Significant Locations

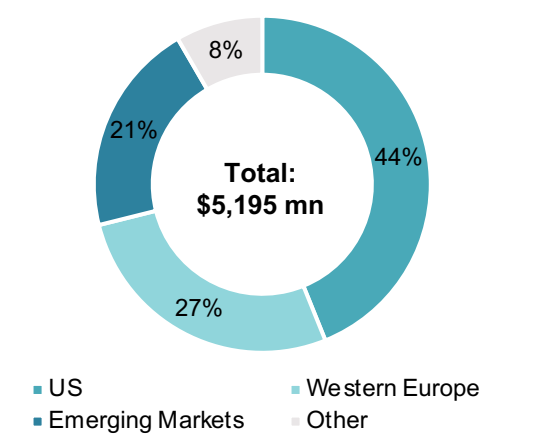




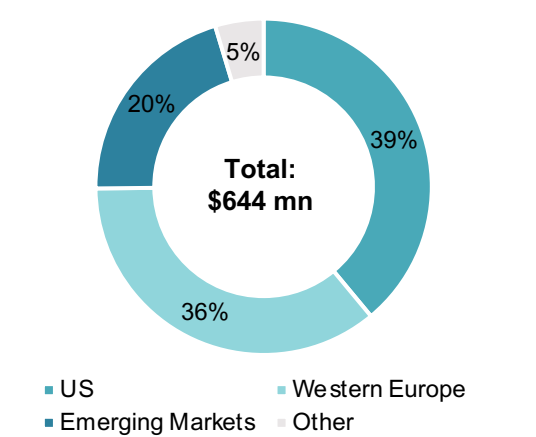
Emerging markets expansion plan

Strong population growth, and therefore increasing demand for water infrastructure and treatment plants in emerging markets, has led to Xylem considering expanding to those regions

Revenue by Region FY2021



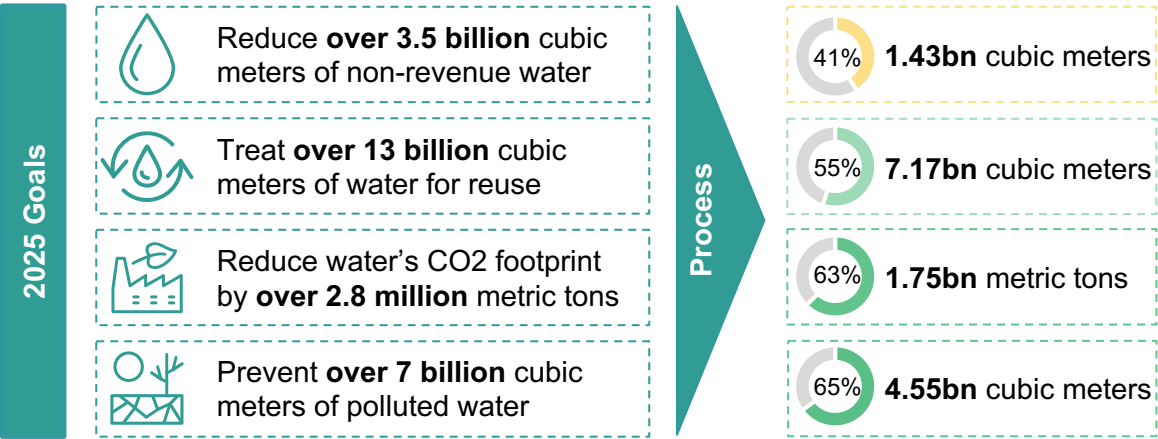
PPE by Region FY2021



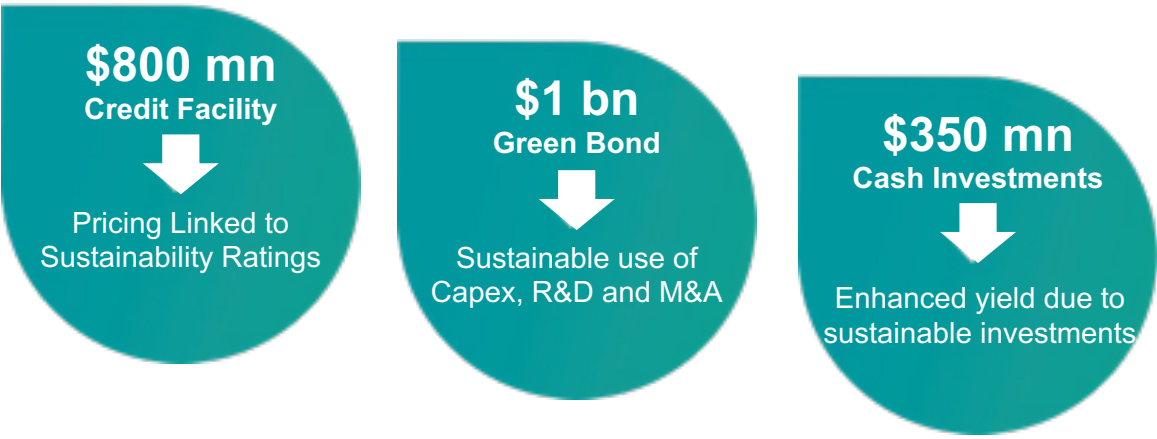
Sustainability Aspect

Sustainability as an integral part of the operating business

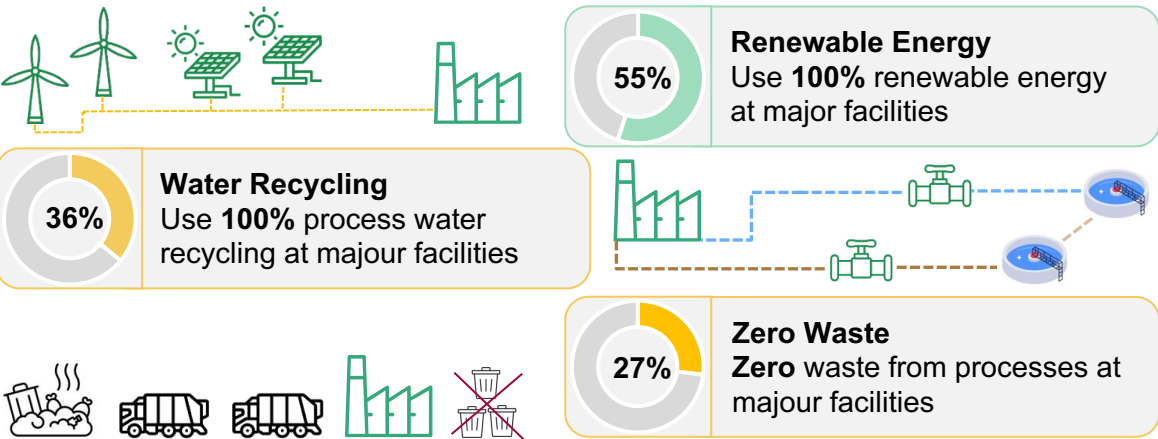
Helping the Customers achieve sustainable Processes



Integrating Sustainability in Xylem's Capital Markets Strategy



Minimizing environmental Footprint across Xylem's operations












Sustainability Governance



M&A Transaction

Xylem's recent M&A announcement further strengthens overvaluation concerns

Acquisition	Revenues	EBITDA margin	Segments		
	\$5.3 bn	15.3%	Water Infrastructure  Treatment Transportation	Applied Water 	Measurement and Control 
+	+	+	+	+	
	\$1.7 bn	14.3%	Treatment <i>integrated solutions and services</i>	Applied Water <i>filtration, separation, wastewater treatment</i>	
		+			
		Cost synergies*			
	\$7bn	15.0%-15.7%	Water Infrastructure  2x Treatment Transportation	2x Applied Water 	Measurement and Control 

Although cost synergies of \$140 mn are suggested to be realised in the next three years, Evoqua's margins being lower than that of Xylem loom **uncertainty over the dilution** of Xylem's shares. Moreover, the acquisition is yet to get a green flag, further **postponing the impact of it on Xylem's business**



Xylem

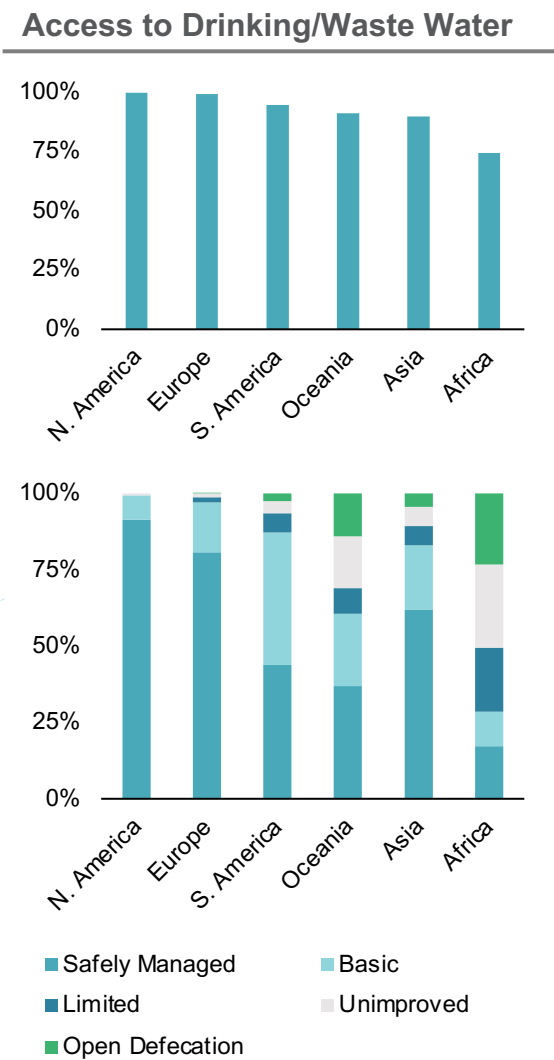
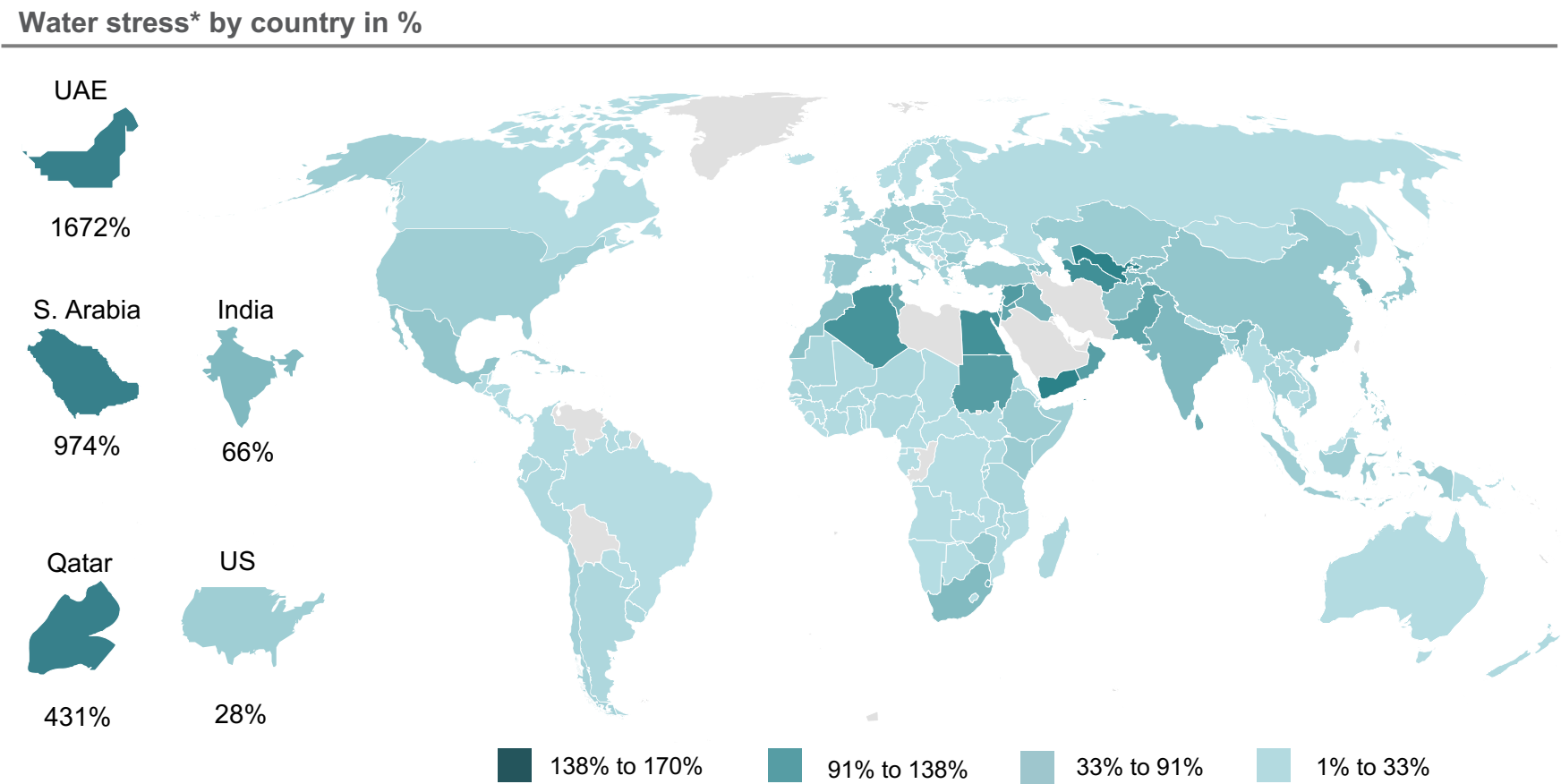
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Market Overview



Water Scarcity and Access

Accelerated water depletion and deteriorating water access as increasingly global issues



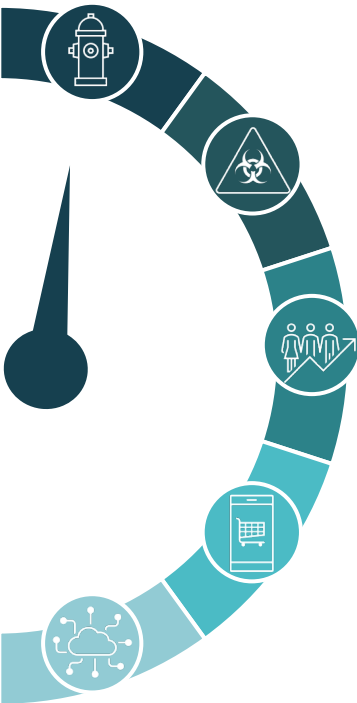
Rising water demand, primarily driven by **population and production growth**, leads to increased water stress **especially among emerging economies**, requiring the implementation of **water recycling** processes, replacement of aging infrastructure, **providing access to drinking/waste water**, and adoption of technology solutions

Rising water concerns, especially from infrastructure perspective, are attracting regulatory attention

Trends/Drivers

Aging infrastructure

Obsolete water infrastructure has become a serious concern, especially in the US and Emerging Markets, according to AWWA



Dangerous water contaminants

Water pollution requires more sophisticated water treatment solutions due to regulatory requirements

Urbanization and population growth

Expanding population and urbanization trends boost real estate demand

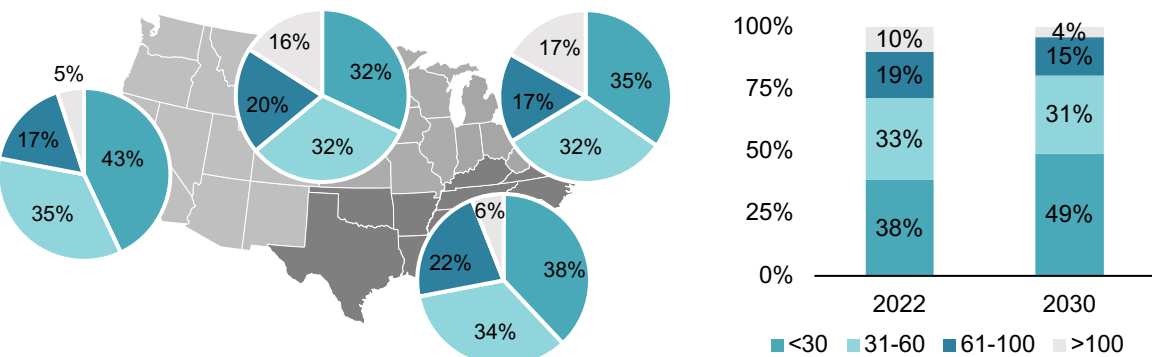
Rising e-commerce presence

E-commerce demand almost recovered to pre-pandemic levels with a strong outlook for the future

Smart grid

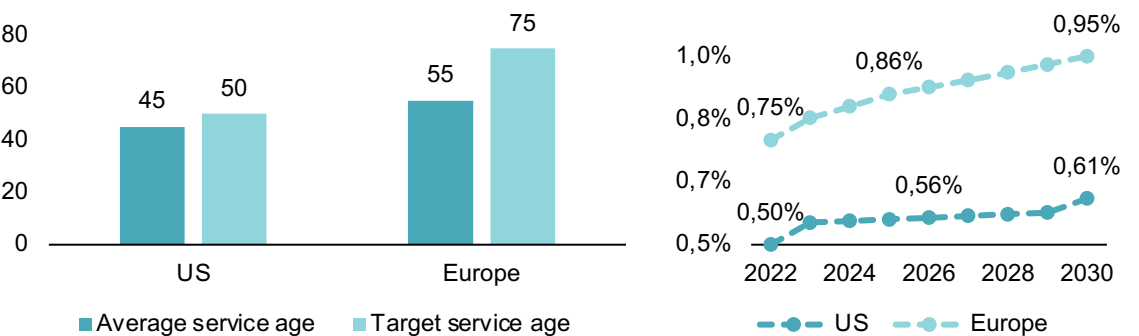
The utility industry is re-shaping technology solutions to save costs and drive efficiency, providing benefits for consumers and environment

Breakdown of Water Infrastructure in the US by Age/Target Breakdown



30% of US water infrastructure exceeds recommended service age by ASCE

Conditions of Rater Infrastructure by Region/Target Pipes Renewal Rate



An increase in pipe renewal rate is crucial for both the US and EU, in order to not exceed the target service age of water infrastructure



Xylem

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Competition Analysis & Peer Benchmarking

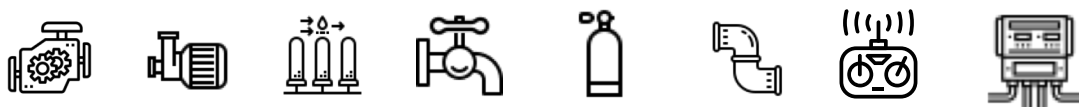
Competitive Landscape

Numerous companies offering similar solutions, leaving less scope for exclusivity

Water Infrastructure & Applied Water



Solutions



Product highlights



InstelliFlo VSF Pump

- First pump with **adjustable speed and flow** conditions, with a rating of 4.8
- Ensures **cost efficiency** of up-to \$1,500 per year



Pioneer Pump

- **Lower NPSHr** yield and **superior vapor-handling** capabilities
- Modularity and durability guaranteeing **flow and performance** efficiency

Measurement & Control Solutions

Honeywell



Automation and intelligence

Honeywell
Metro

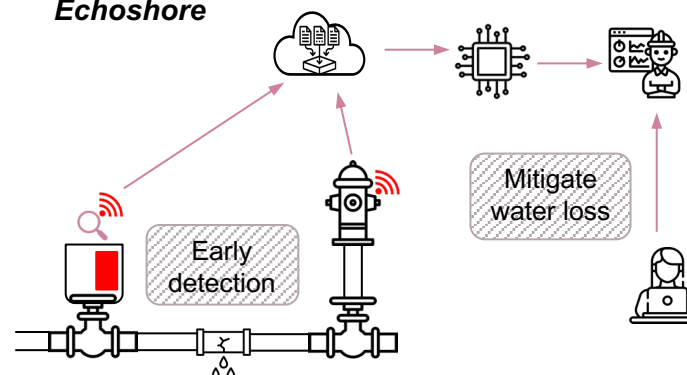


Route based meter

Early mover in intelligent water solution with Elster in 2015, **four years before Xylem**

MUELLER

Echoshore



- **Maintenance and protection** of key areas
- **Catastrophic break prevention**
- Addressing prominent **ESG concerns**
- **Achievment** of non-revenue water loss **targets**

The systems help in **notably reducing costs** and ensuring **operational efficiency**

Comparable Benchmarking I

The US water industry is highly saturated with many direct peers

Peer Group Overview

Tier I



Tier II



Tier III



Enriching Lives



Peer Group Selection Criteria



Water industry

Only companies focusing on products and services in water utilities and water technologies were considered



Segments

Tier I includes companies that match at least two of Xylem's segments (WI, AW, M&C)



Common theme

Companies similar in size are considered, extreme outliers got excluded in order not to distort multiple solution

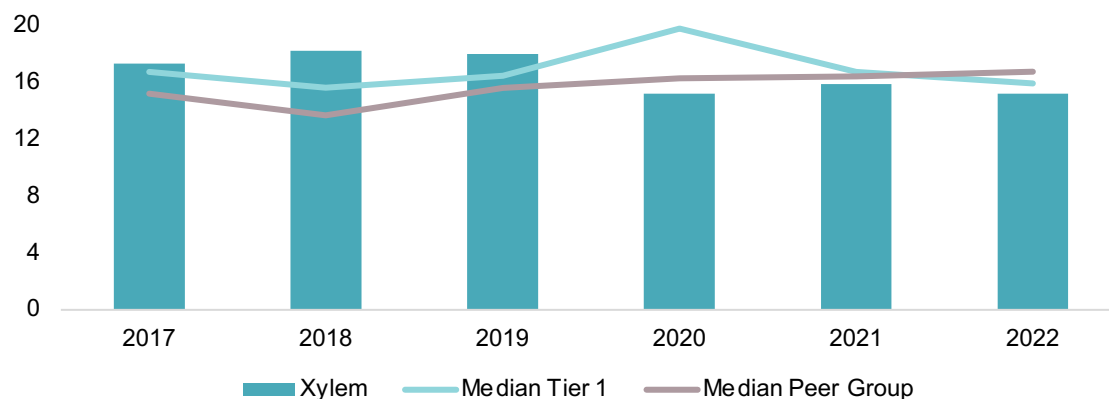
Tier I & Tier II

Name	HQ	Revenue (\$)	Market Cap	Ebitda %	Segment*
Evoqua	US	1,737 mn	5.1 bn	14.1%	WI, AW
Ilex	US	3,086 mn	17.9 bn	27.9%	AW, M&C
Watts Water Technologies	US	1,951 mn	5.2 bn	18.3%	WI, AW
Mueller Water Products	US	1,247 mn	1.9 bn	15.0%	AW, M&C
Badger Meter	US	554 mn	3.4 bn	20.7%	AW, M&C
Franklin Electric	US	1,986 mn	4.0 bn	14.9%	WI, AW
Pentair	US	4,105 mn	8.3 bn	18.6%	WI, AW
Landis + Gyr	CH	2,234 mn	2.2 bn	9.0%	M&C

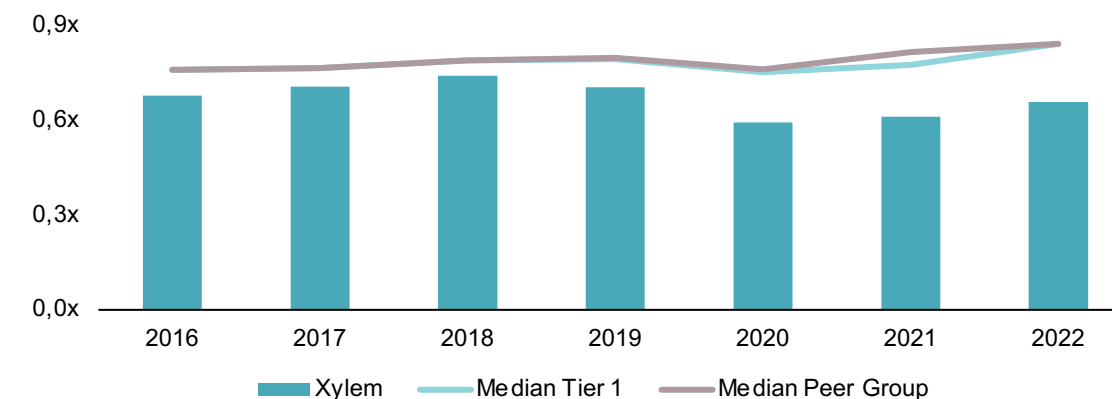
Comparable Benchmarking II

Xylem finds itself lagging behind its strong peers

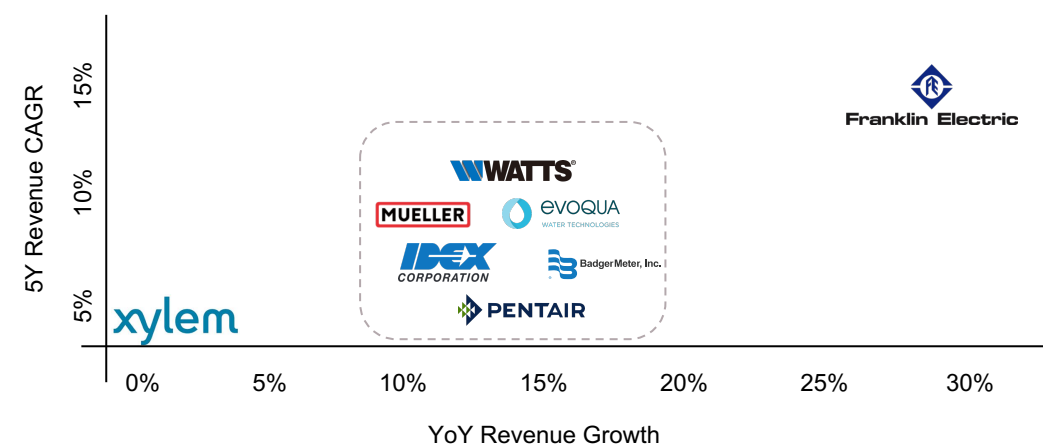
EBITDA Margin has been below the Industry Average since 2020



Asset Turnover Underperformed Peer Group



Short Term & Long Term Revenue Growth



EBIT Margin
Xylem was not able to operate as efficient as its peers since 2020 even though the industry showed market resilience after the pandemic

Asset Turnover
Historically, Xylem was less effective in generating sales through their assets than its peers

Revenue
In the past year, Xylem increased their revenue only by 1.8%, significantly less than an increase of at least 15% of most peers



Xylem

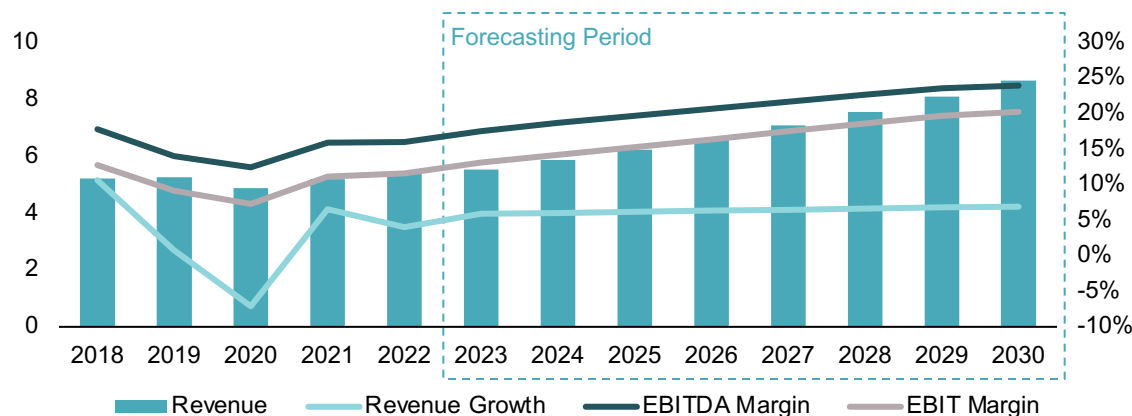
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Valuation

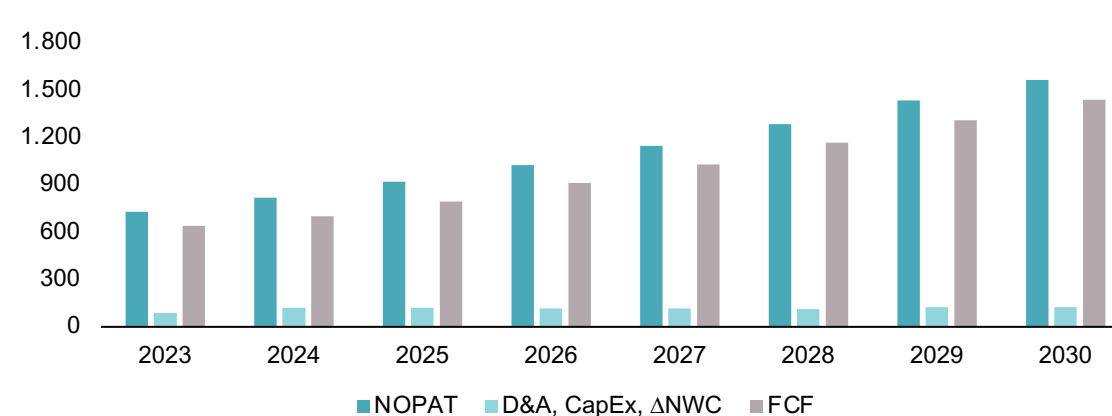
DCF - Discounted Cashflow Analysis

Even further growth and increasing margins do not justify the current share price

Revenue & Margin Development (\$ bn)



Free Cashflow Composition (\$ mn)



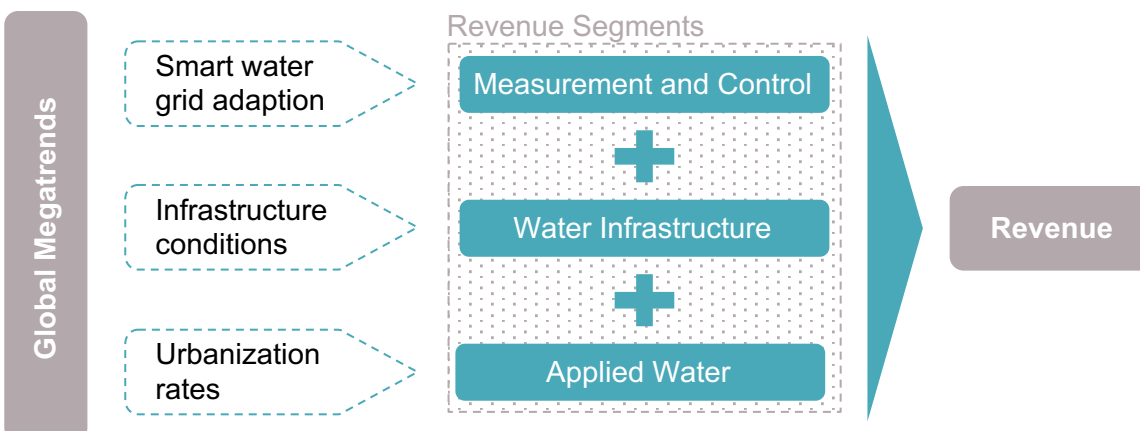
Key Highlights

Growth Rates
The business environment is characterized by a fierce competition, which does **not leave much room for growth** in developed markets

Restructuring
Through the businesses' **continued restructuring activities** and reduced headcount we expect **margins to increase** in the coming years

Financing Costs
Current market environment suggests **increasing financing costs**, leading to a **higher WACC**, an impact further enhanced by soon expiring notes

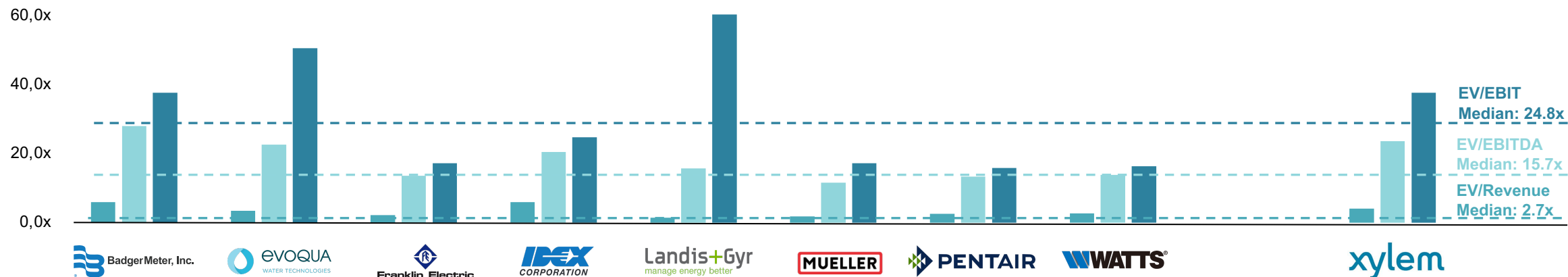
Revenue Forecast Approach



CCA - Comparable Company Analysis

Trading multiples show that Xylem is overvalued relative to its peers

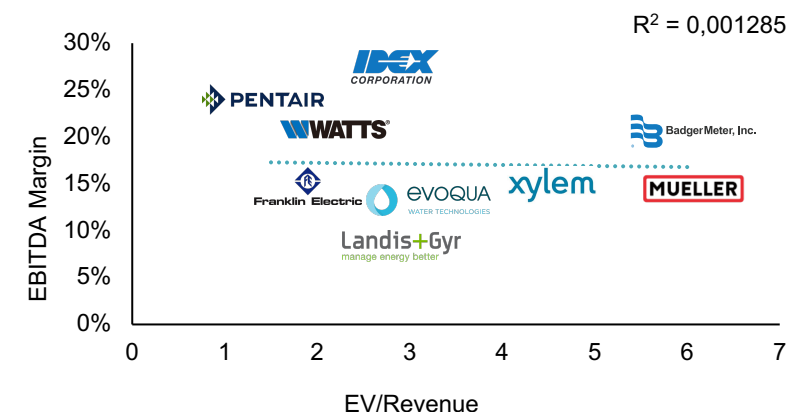
Multiples Valuation Summary



Comparable Companies: Overview

Company Name	HQ	Market cap \$	Enterprise Value \$	EV/Revenue		EV/EBITDA		EV/EBIT	
				LTM	NTM	LTM	NTM	LTM	NTM
Xylem	US	20.9 bn	22.2 bn	4.1x	4.0x	23.6x	22.8x	37.7x	30.3x
Evoqua Water Technologies	US	5.1 bn	6.0 bn	3.4x	3.2x	22.6x	18.3x	50.5x	30.4x
IDEX	US	17.9 bn	18.4 bn	6.0x	5.6x	20.5x	20.3x	24.8x	22.7x
Mueller Water Products	US	1.9 bn	2.2 bn	1.8x	1.7x	11.6x	10.4x	17.2x	14.2x
Watts Water Technologies	US	5.2 bn	5.2 bn	2.7x	2.7x	13.9x	15.0x	16.4x	16.7x
Badger Meter	US	3.4 bn	3.3 bn	6.0x	5.7x	28.0x	27.9x	37.7x	33.7x
Franklin Electric	US	4.0 bn	4.3 bn	2.2x	2.1x	13.6x	13.9x	17.2x	15.8x
Landis+Gyr	CH	2.2 bn	2.4 bn	1.5x	1.5x	15.7x	15.7x	60.3x	29.4x
Pentair	US	8.3 bn	10.7 bn	2.6x	2.6x	13.3x	12.6x	15.9x	13.0x
Median				2.7x	2.7x	15.7x	15.7x	24.8x	30.3x

EV/Revenue Adjustments





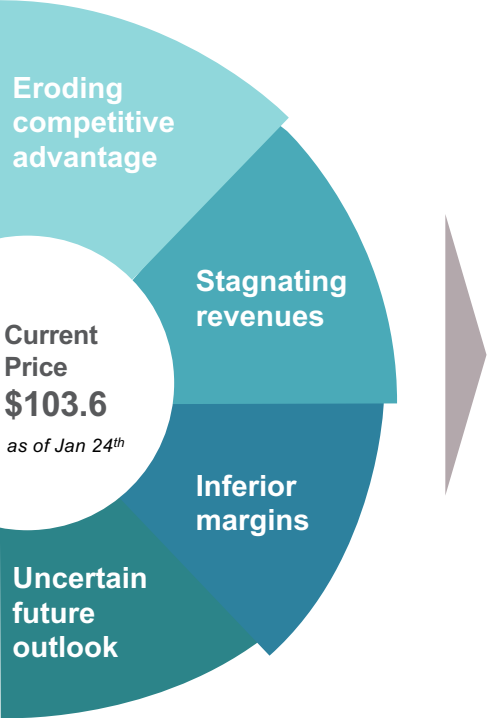
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Conclusion

Conclusion

Weak competitive positioning coupled with slowing core market revenues creates significant downside potential

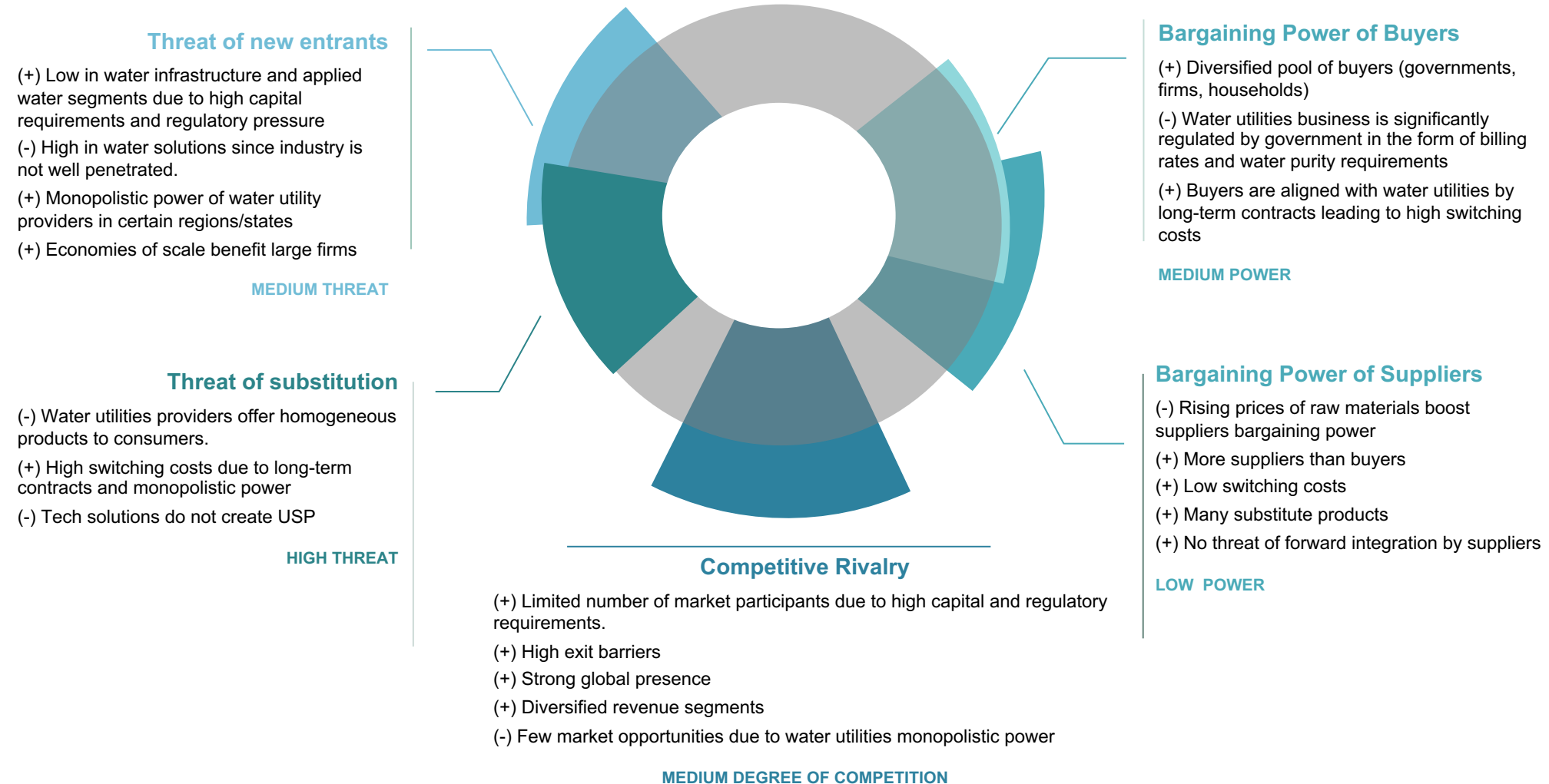




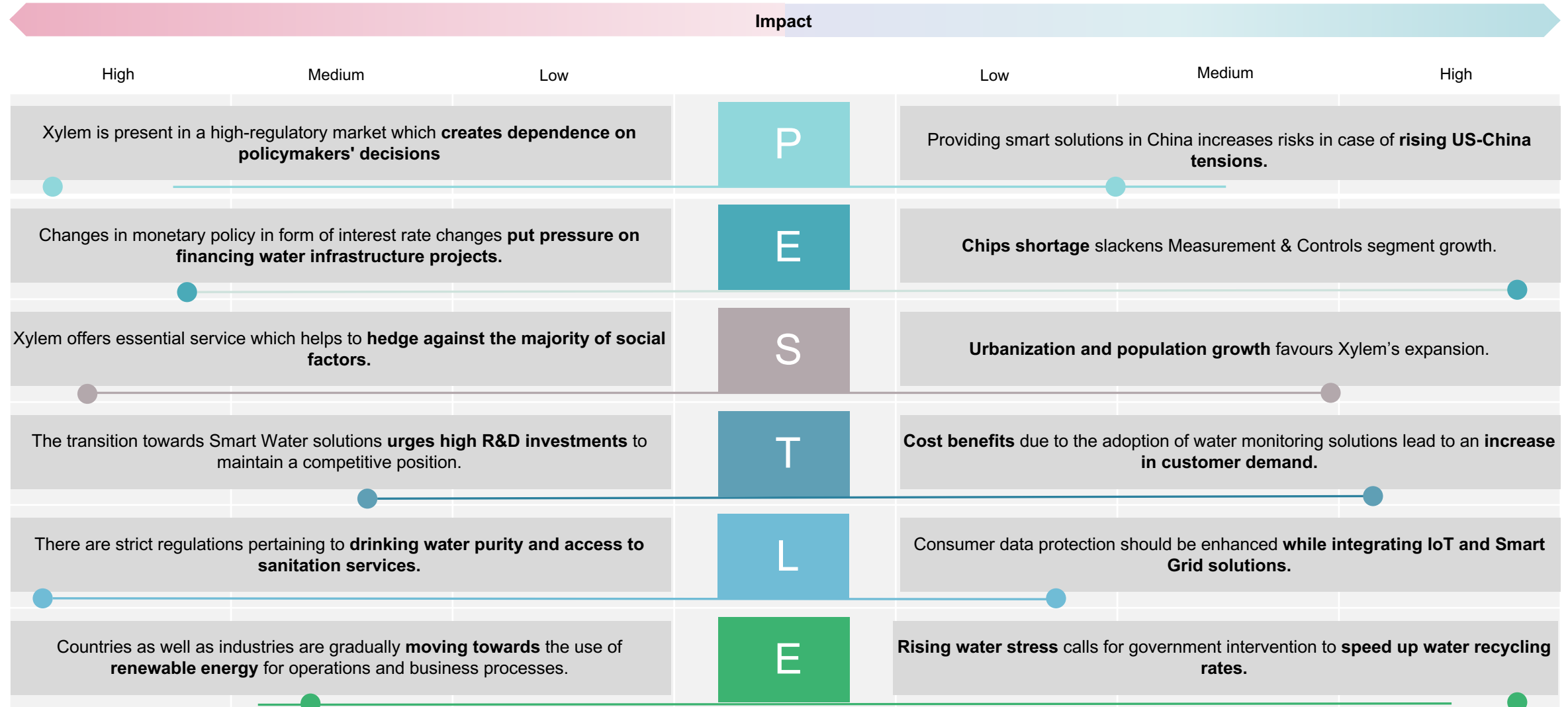
Xylem

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Appendix



PESTLE Analysis



STRENGTHS

- Xylem has a **large product portfolio** with a wide range of applications. By focusing on the **digital product portfolio**, this diversity is further enhanced.
- The products are backed by a **strong distribution network**, which enables the agreed projects to be realised quickly and efficiently.
- The company is currently carrying out **restructuring and realignment actions**. These initiatives support the long-term financial resilience, simplify the operations, strengthen the competitive positioning and better serve Xylem's customers.

OPPORTUNITIES

- Key operational regions, such as the USA and Europe, are planning to **renew many pipelines** and water application systems to incorporate new technologies and digital solutions.
- Several countries are adopting **new environmental policies** to reduce CO2 emissions and water consumption. **Xylem Vue** addresses this problem and helps to save costs, energy and water.
- **Rising population** in emerging markets leads to **increasing demand** for water infrastructure, applied water and measurement & control.

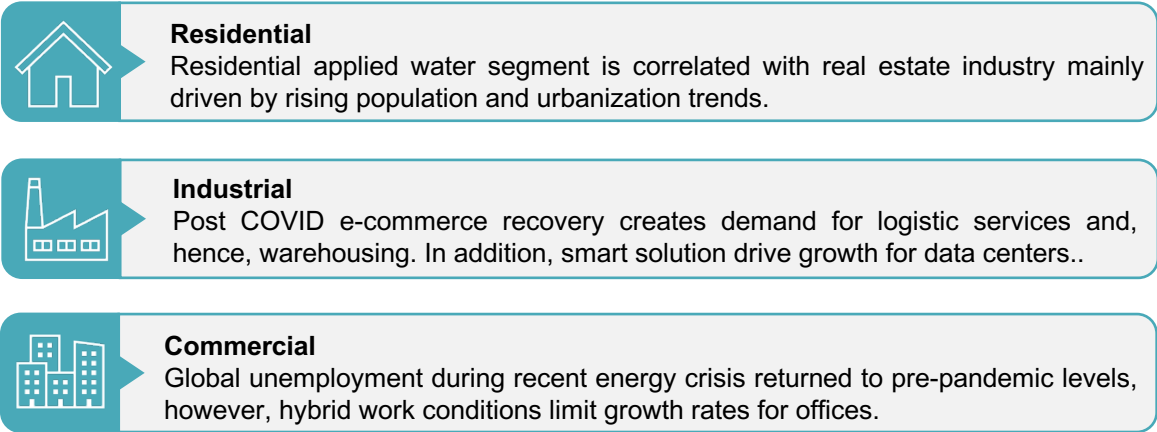
- Xylem has **difficulties to compete successfully** in the highly competitive markets, including the ability to develop and commercialize innovative and disruptive technologies.
- It is **challenging** for Xylem to **retain the existing management**, engineering, technology, sales, services and other key talents as well as **to attract new qualified and diverse talents**.
- Growth strategy includes the acquisition of new companies to increase know-how and capabilities. Xylem may be **unable to successfully execute or integrate** acquisitions due to **financing difficulties** and **operational problems**.

WEAKNESSES

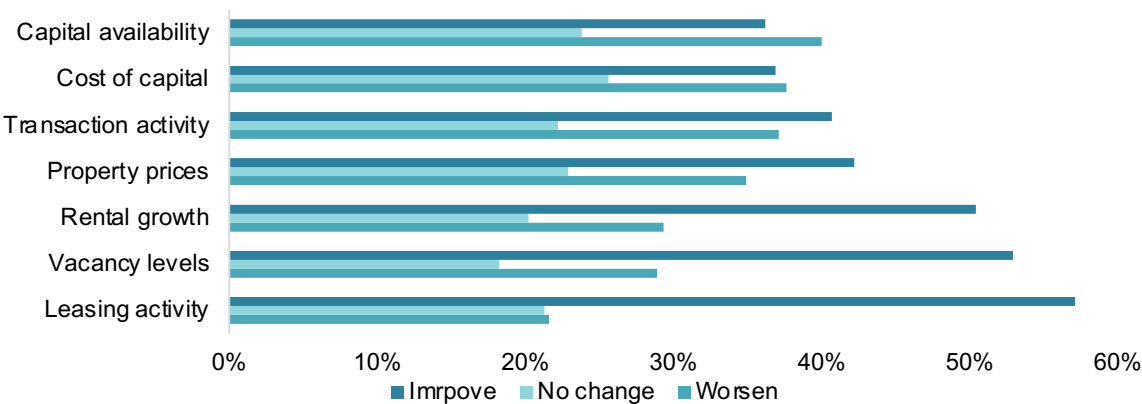
- Due to the **lack of or delay in availability** of products, parts and raw materials from the supply chain can lead to an **inability to meet the customer needs** in a timely and qualitative manner.
- Liability laws vary from state to state. Planned expansion into emerging markets can cause **legal difficulties**.
- There has been an **increase in competition**, especially in the area of **digital applications**, where the entry barriers are relatively low.
- Significant portion of products and offerings in Management & Control Solutions are **subject to government regulations**.

THREATS

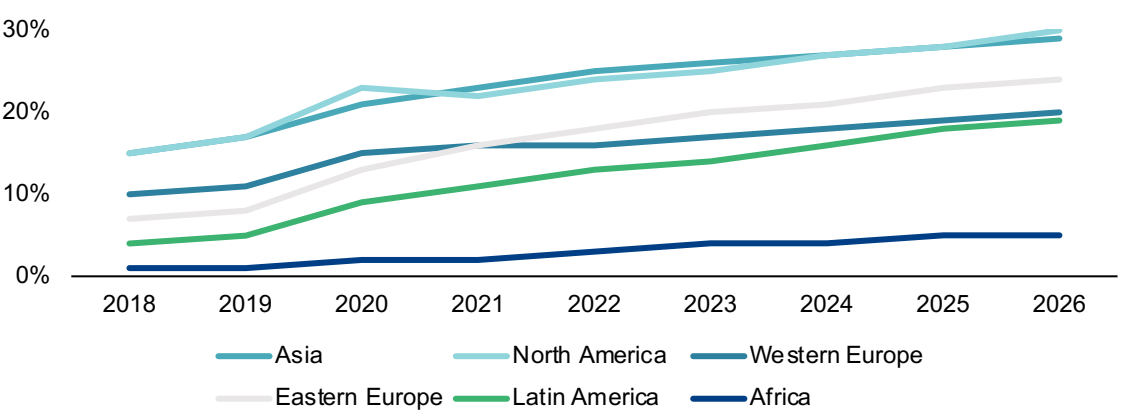
Trends and Drivers



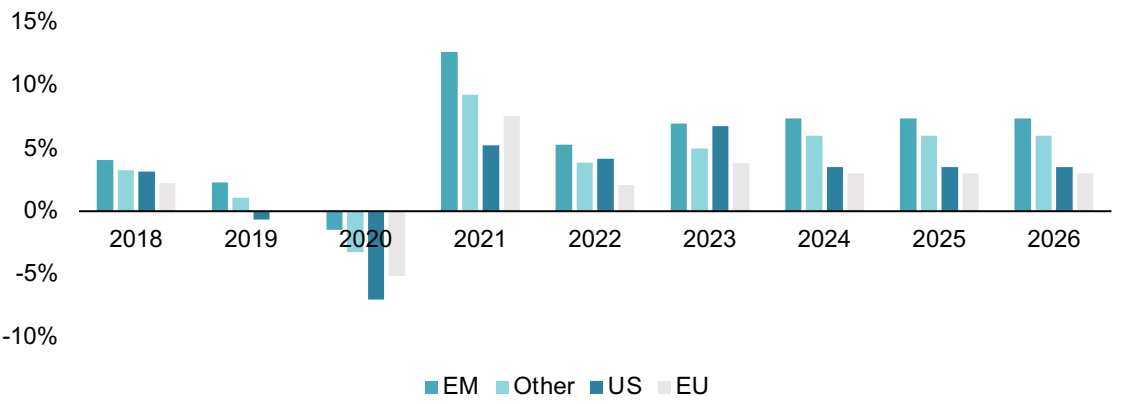
Experts outlook on the real estate market in the next 12 to 18 months




E-commerce as a percentage of retail sales by region




Production growth by region




Trends and Drivers



Water Scarcity
Water leakage due to obsolete water infrastructure drives water solutions to monitor water flows, regulate the pressure, and detect breakdowns.

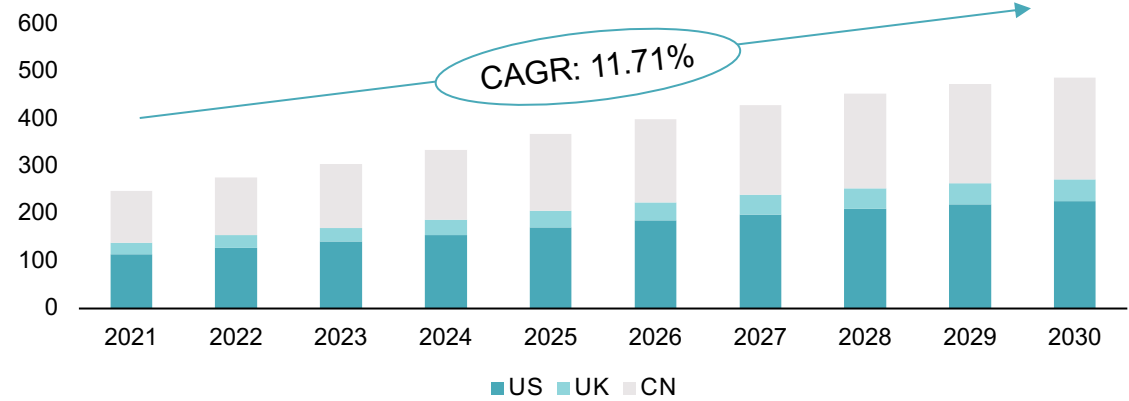


Cost Saving
Rising utility bills driven by current energy crisis speed up the transitions towards smart metering systems, which benefit consumers on the cost side.

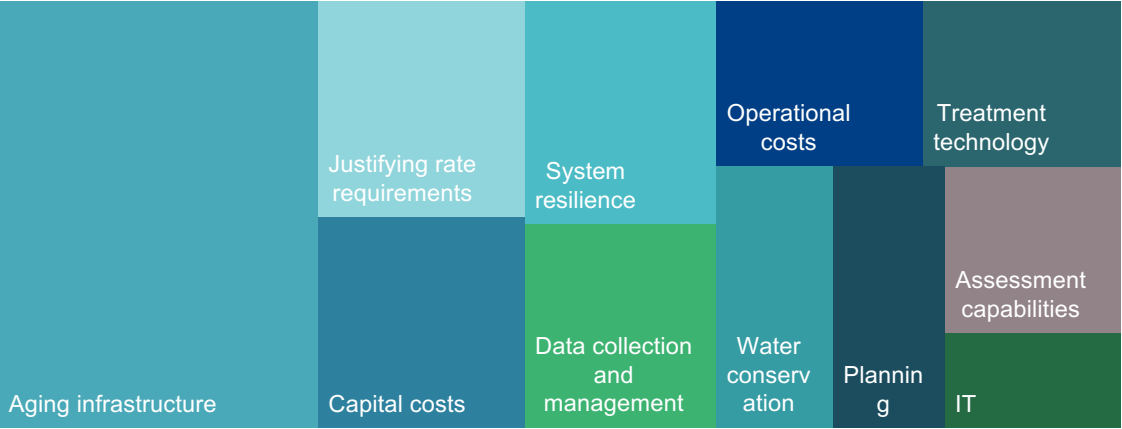


Smart Water
Smart Water is a part of Smart Grid concept which introduces integration of emerging technologies driving automation, data sharing, and cost efficiency.

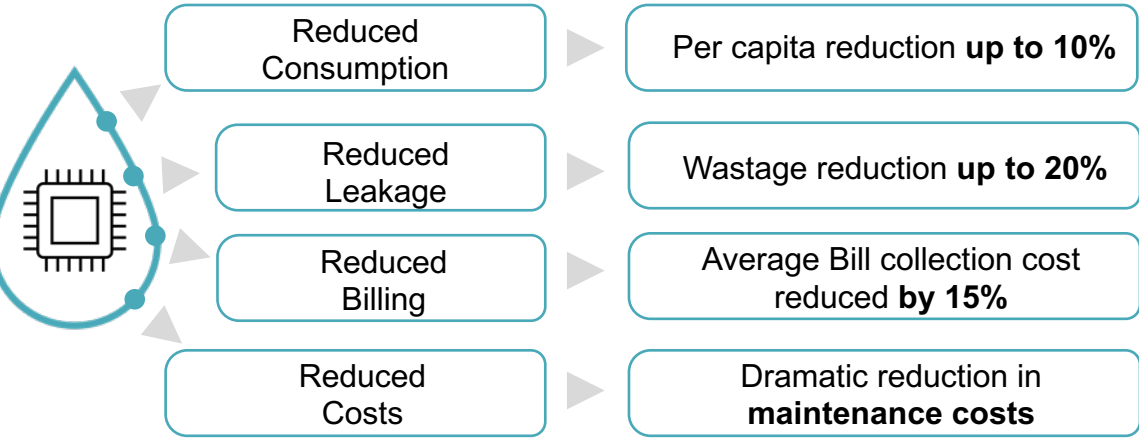
Smart metering installations in mn by selected countries



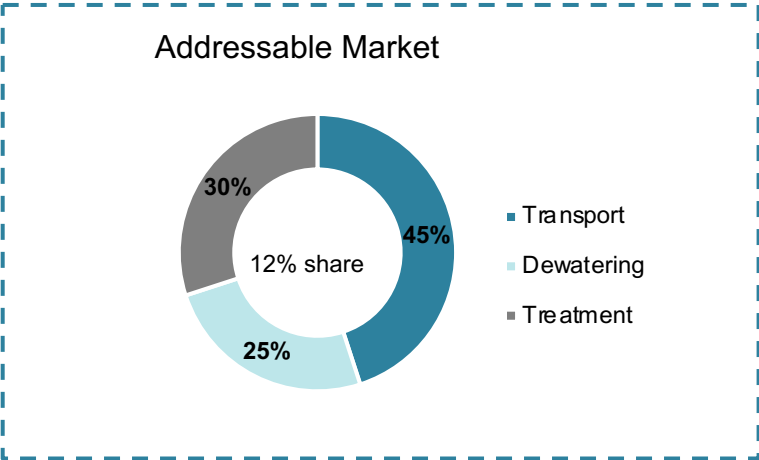
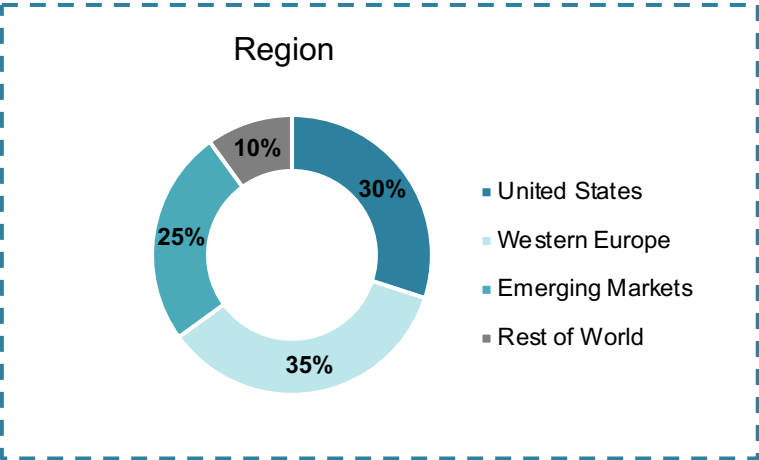
Challenges facing US water industry in 2022



Benefits of IoT Smart Water solutions



Revenue Profile: \$2.3 bn



Transport 55%

Transport of wastewater and clean water across the water cycle

Dewatering 25%

Moving water in emergencies, engineered solutions and industrial maintenance

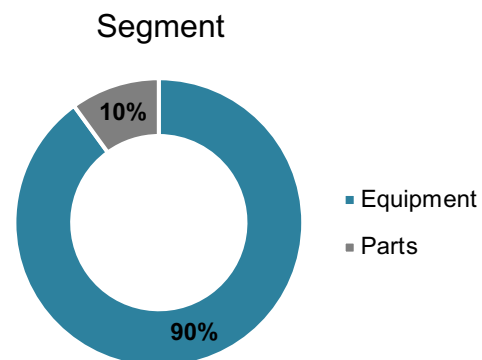
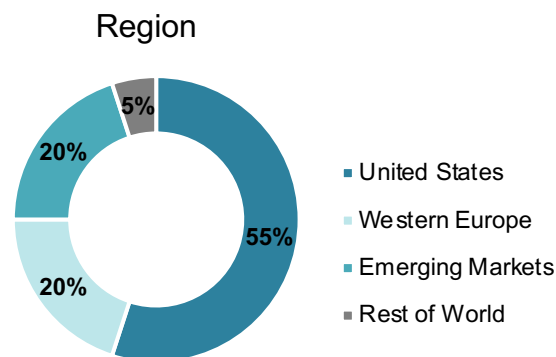
Treatment 20%

Filtration, ultraviolet, and ozone systems that make water fit-to-use

Iconic Brands



Revenue Profile: \$1.6 bn



Industrial 45%

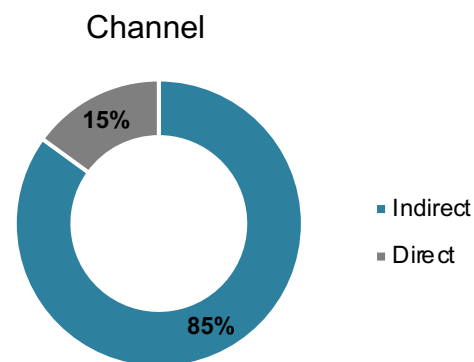
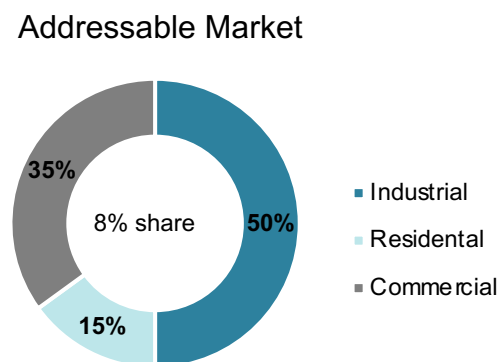
Process Water • Cleaning / Washing
Beverage Dispensing • Agriculture • Clean Water

Commercial 35%

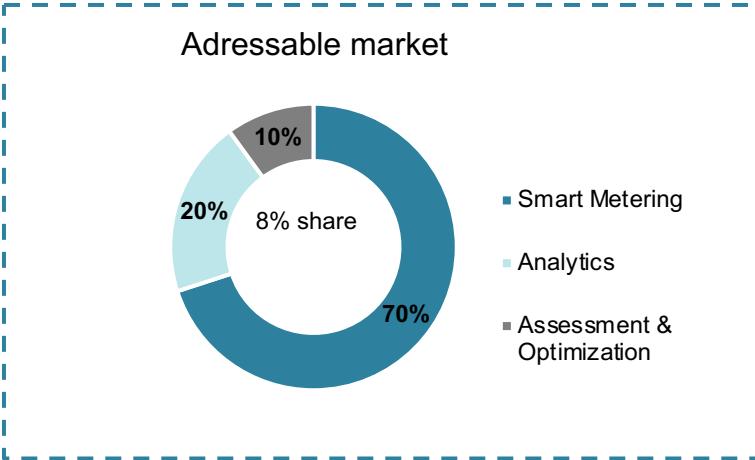
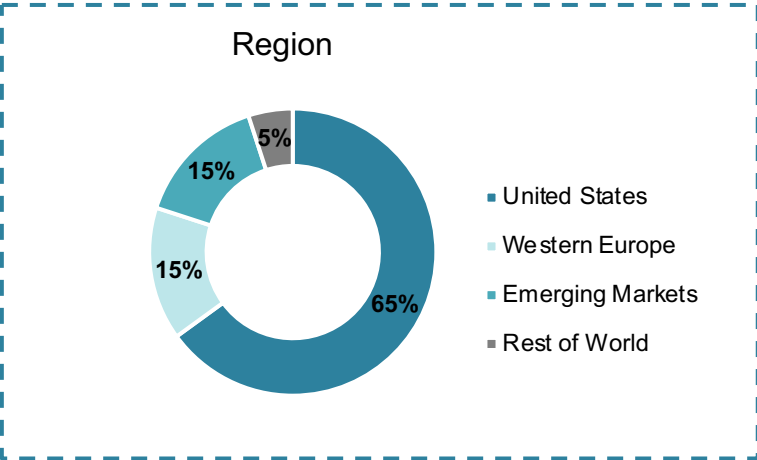
HVAC • Pressure Boosting
Wastewater Removal • Heat Transfer

Residential 20%

Groundwater • Wastewater Removal
Potable Water • Pool / Spa • Rainwater / Garden



Revenue Profile: \$1.4 bn



Smart Metering 70%

Integrated sensor, communication networks and software for water and energy utilities

Analytics 20%

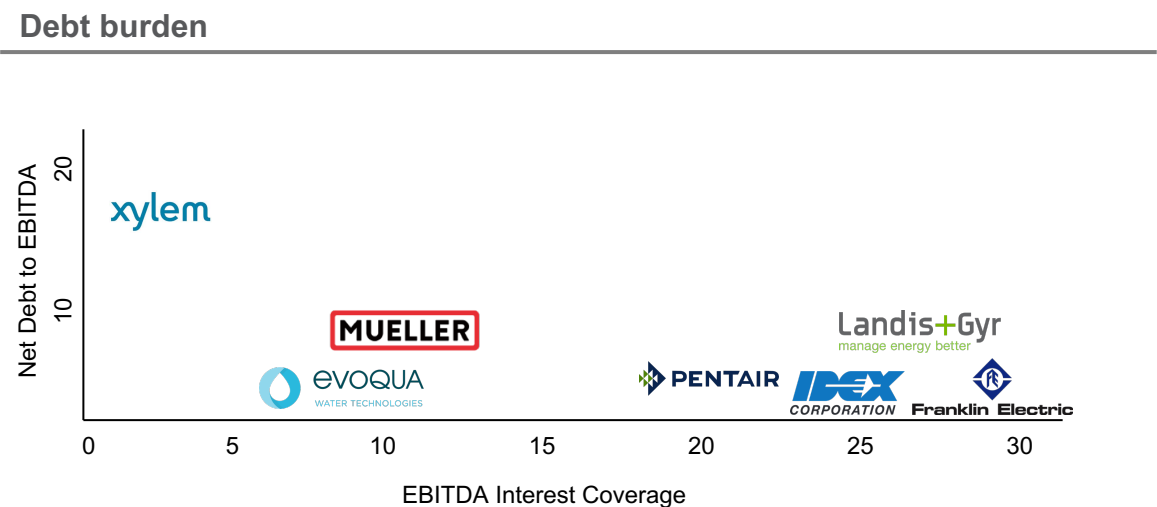
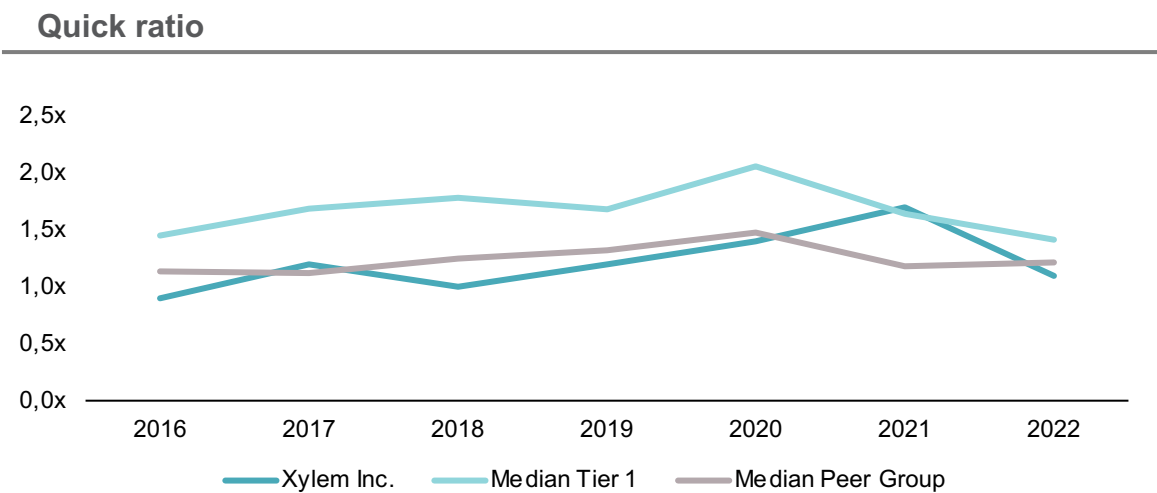
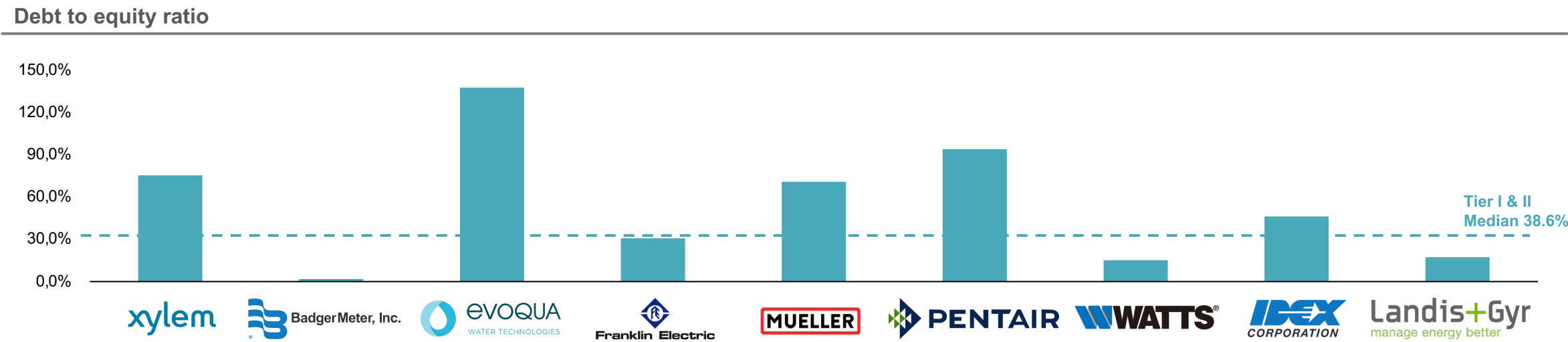
Comprehensive water quality measurement in outdoor environments / treatment facilities

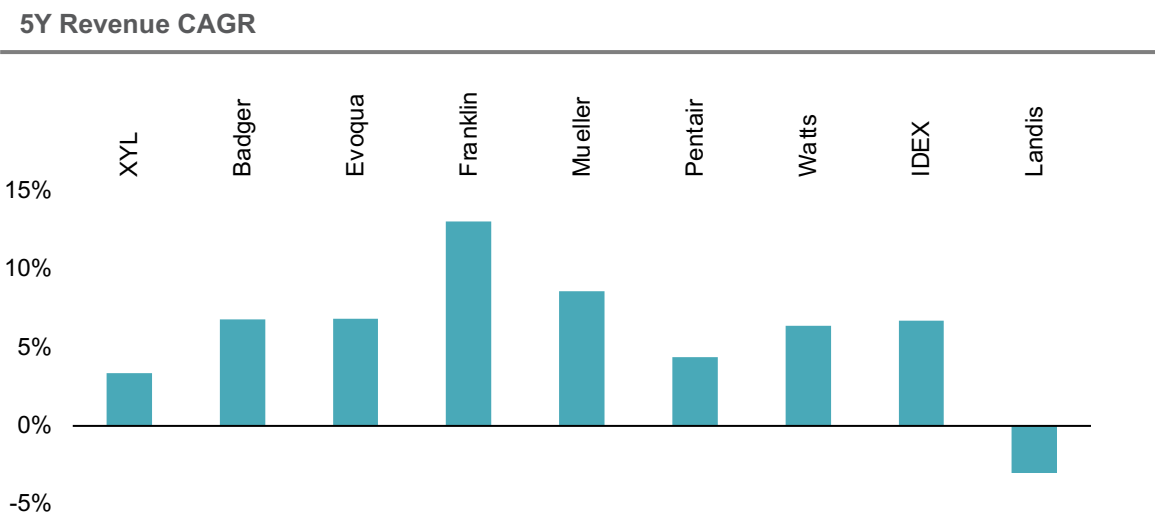
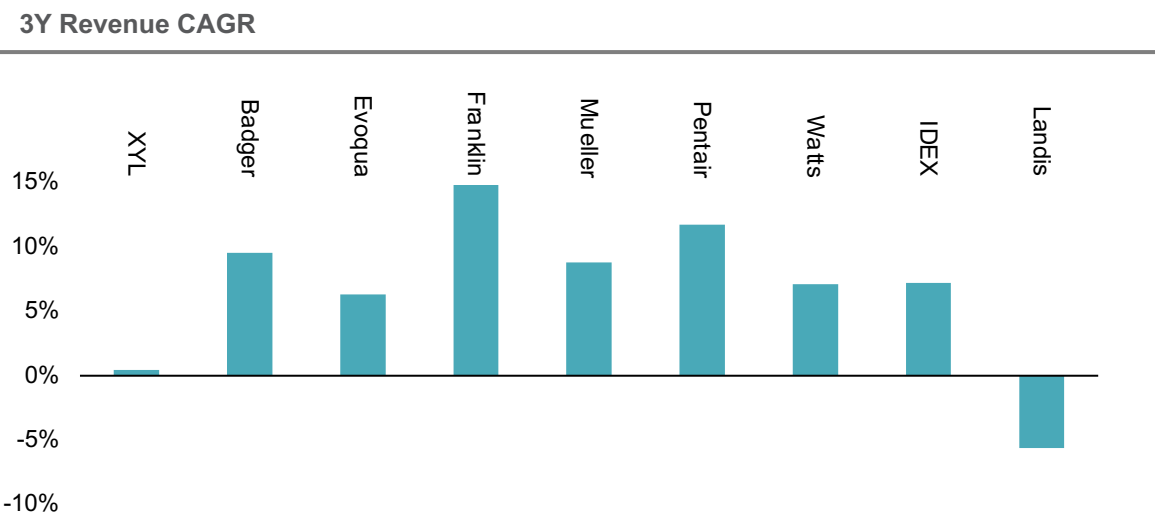
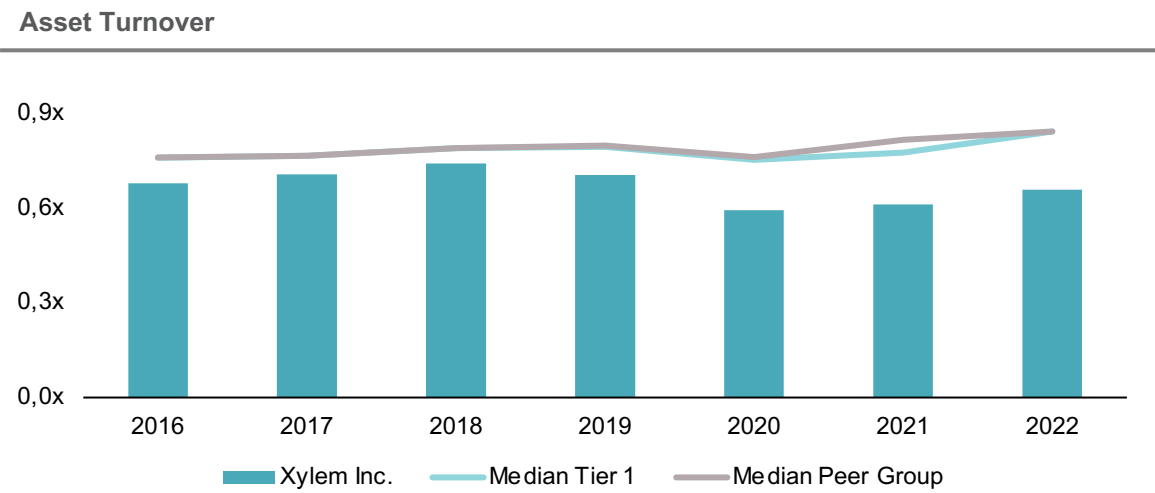
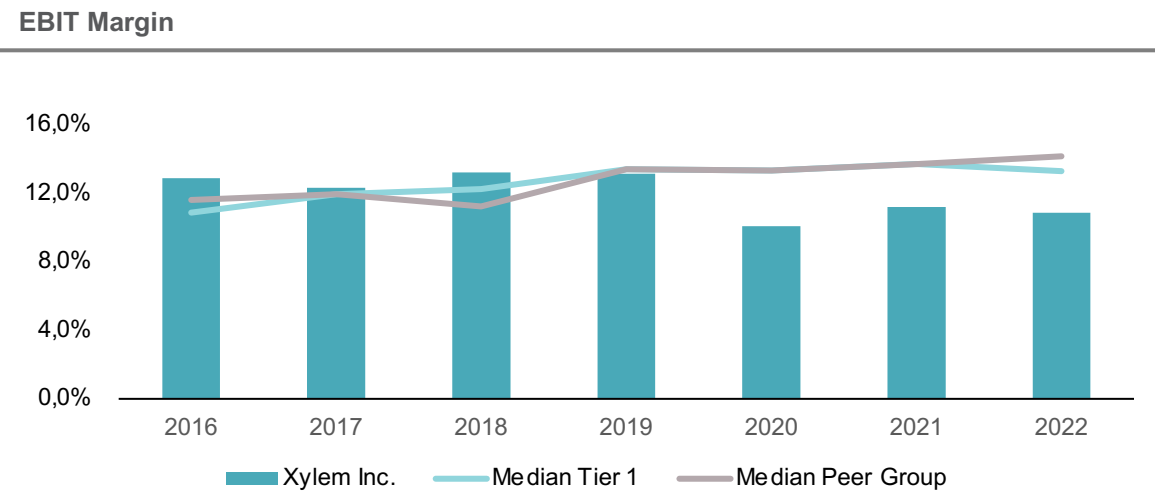
Assessment 10%

Asset integrity services for pipelines Digital optimization of utilities

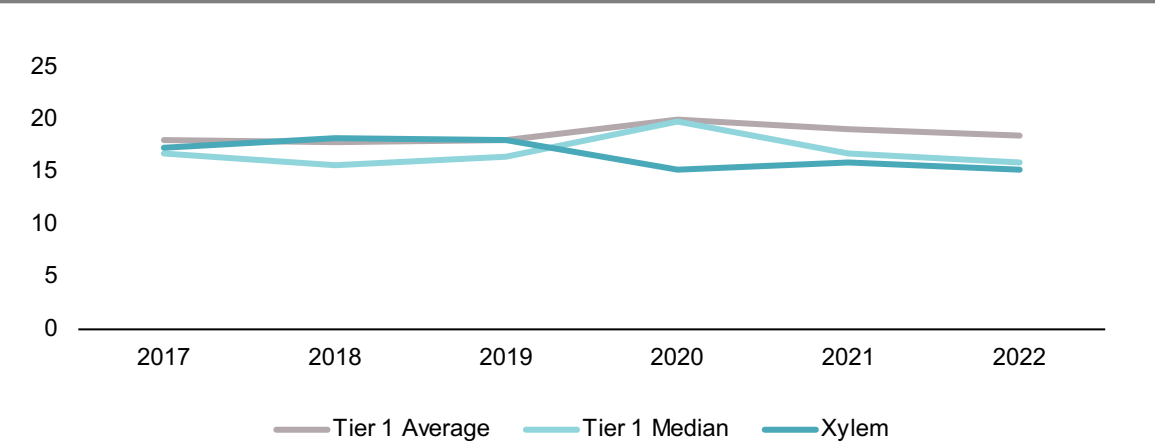
Iconic Brands



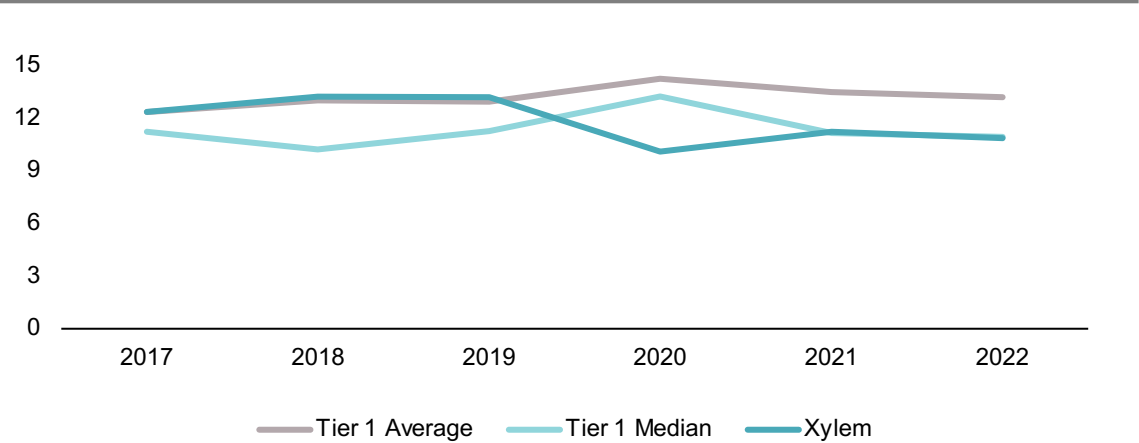




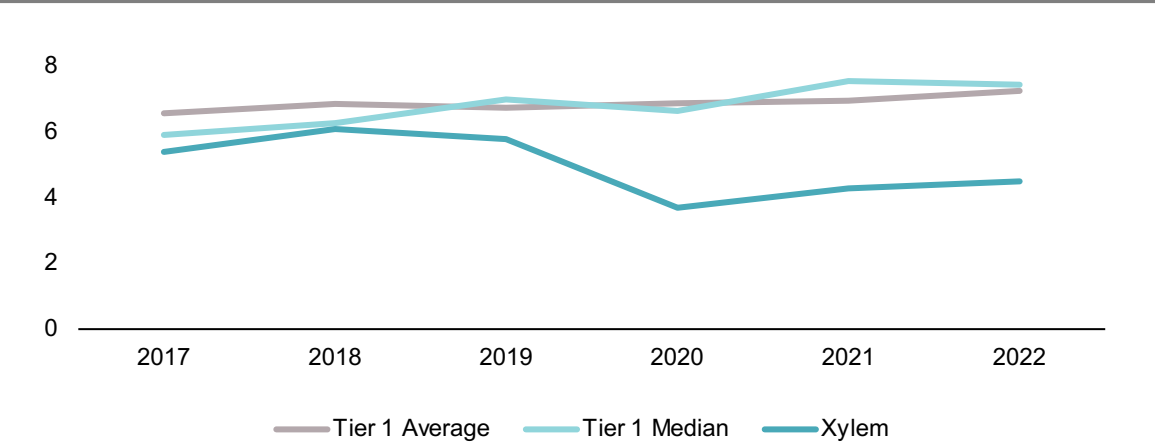
EBITDA Margin



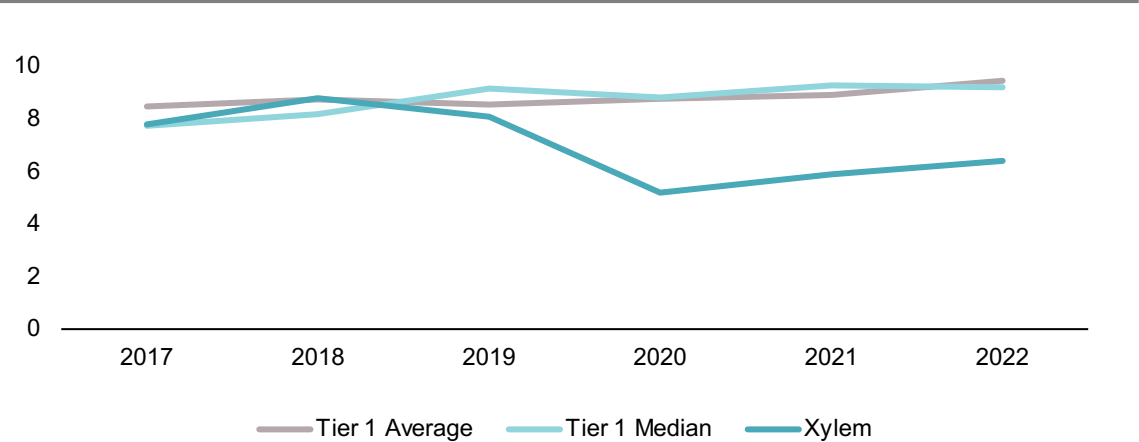
EBIT Margin

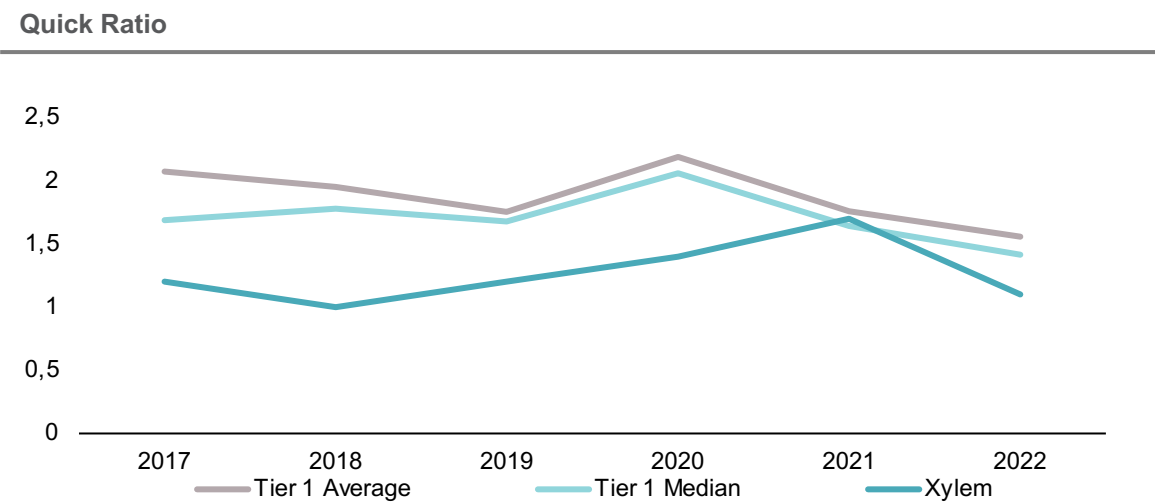
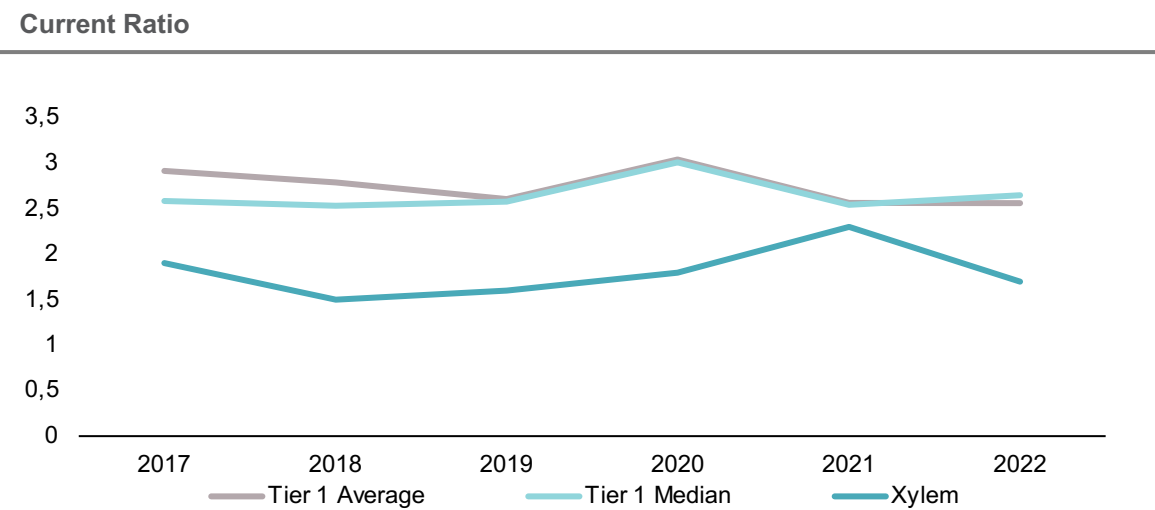
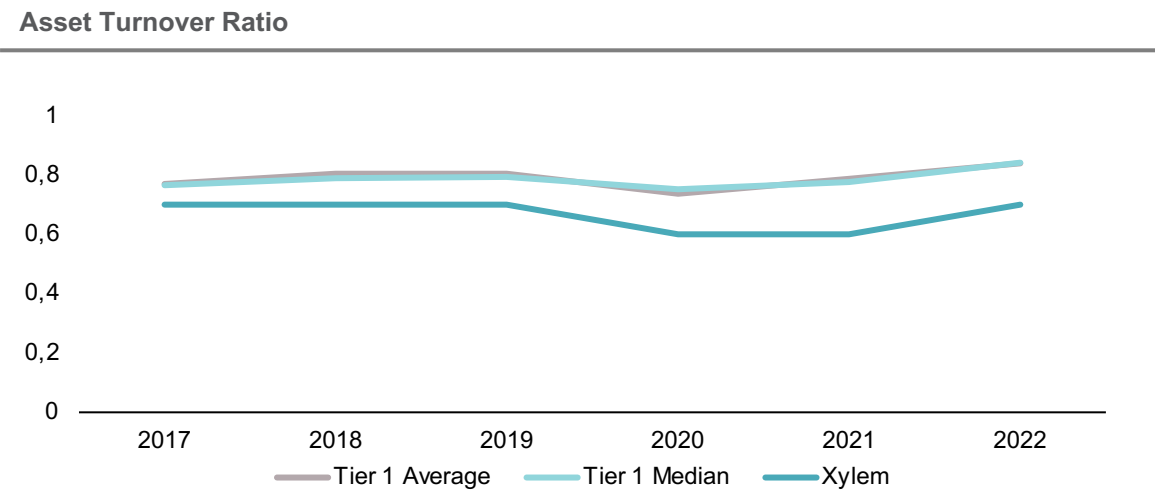
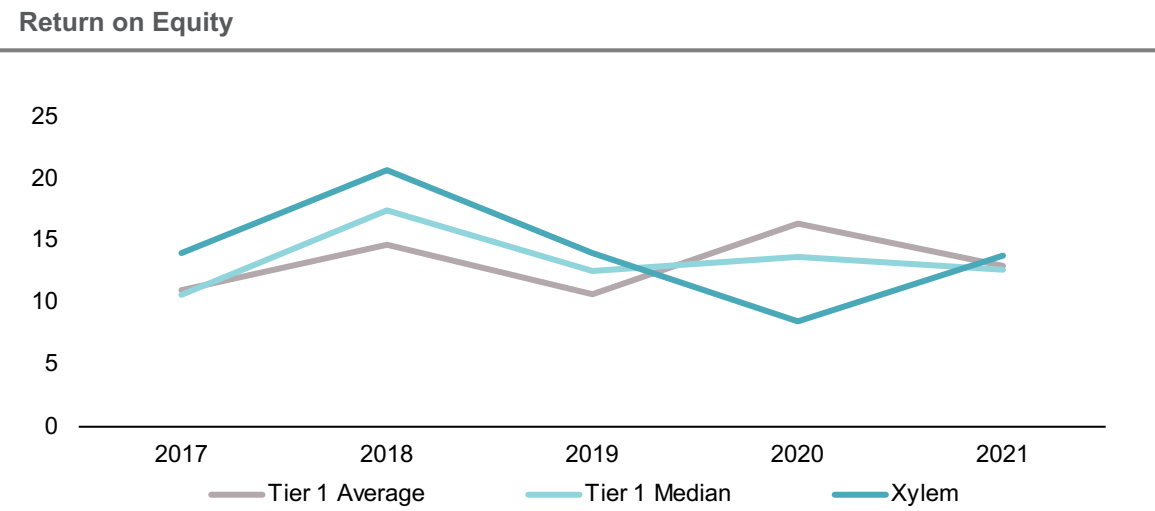


Return on Assets

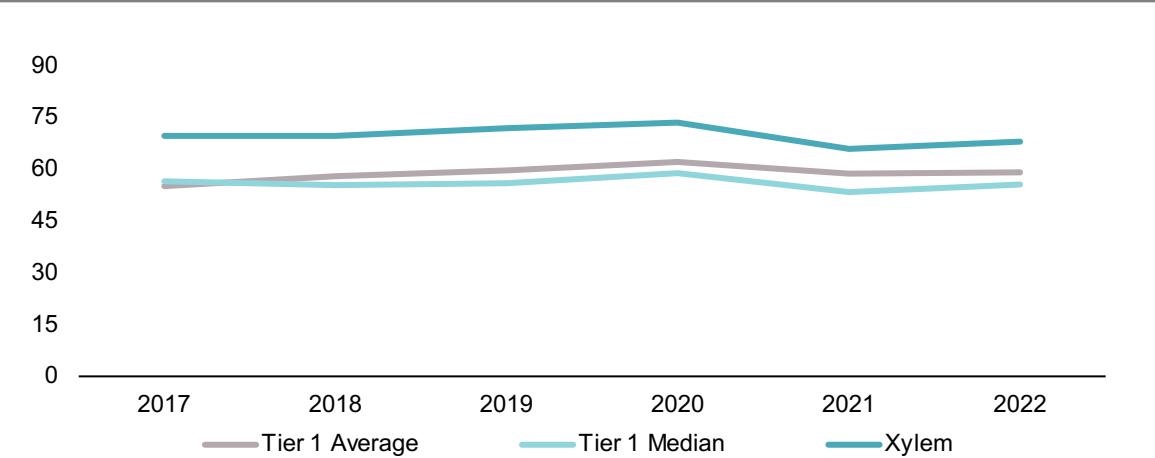


Return on Capital

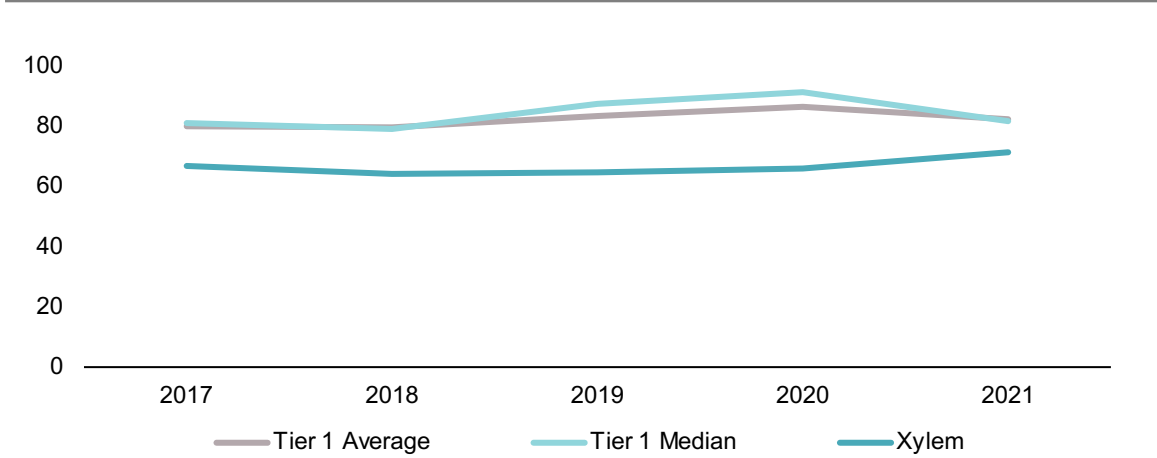




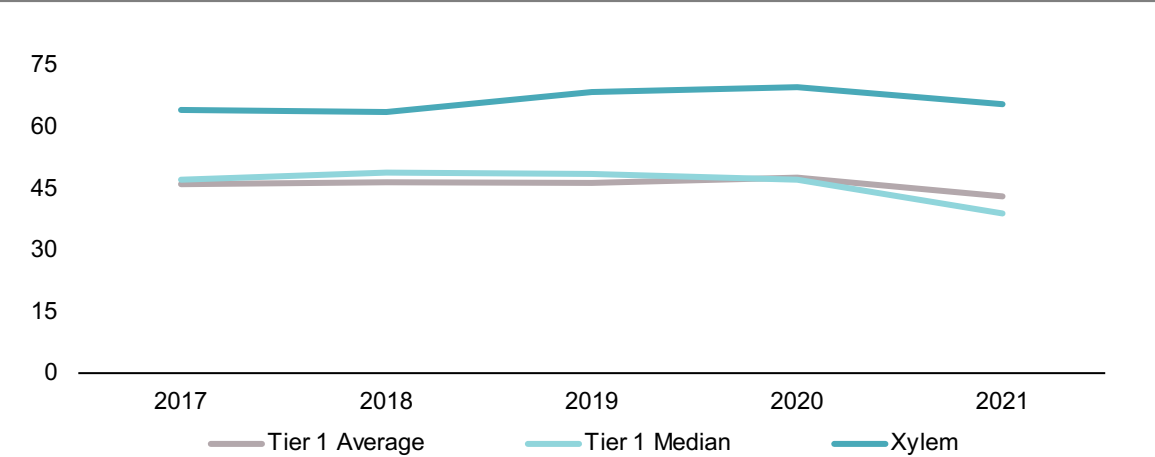
Days Sales Outstanding



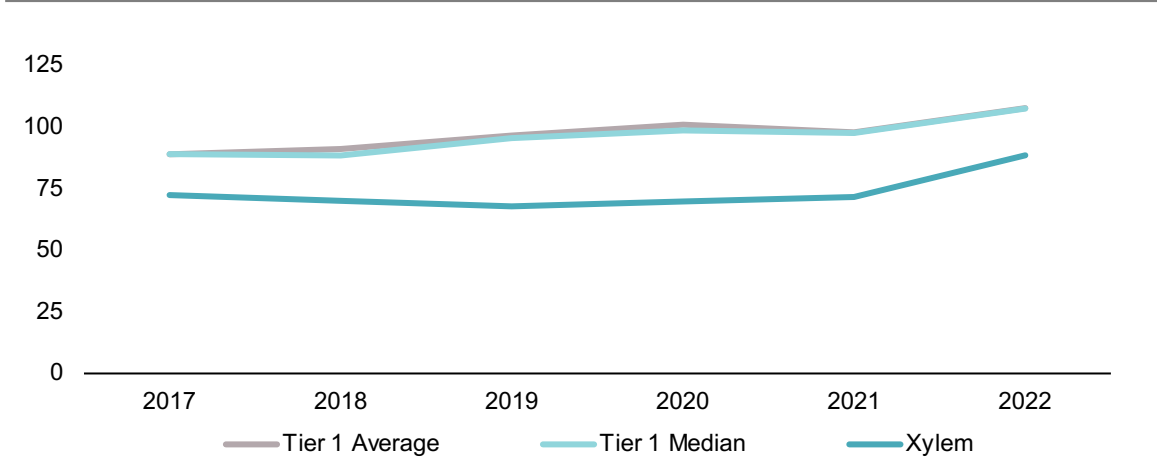
Days Inventory Outstanding



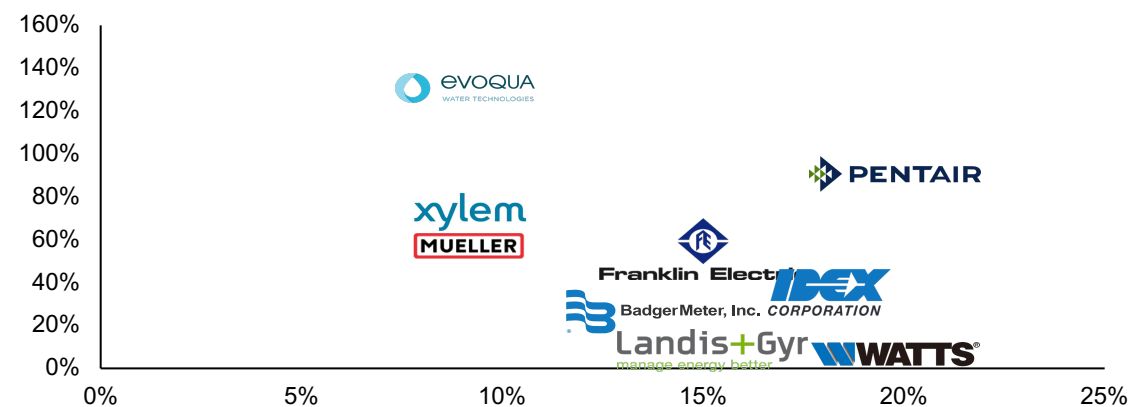
Days Payable Outstanding



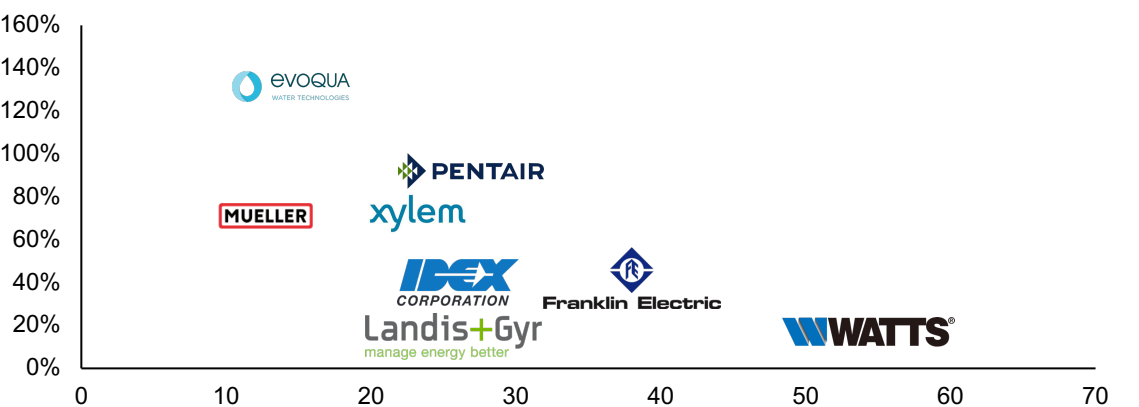
Cash Conversion Cycle



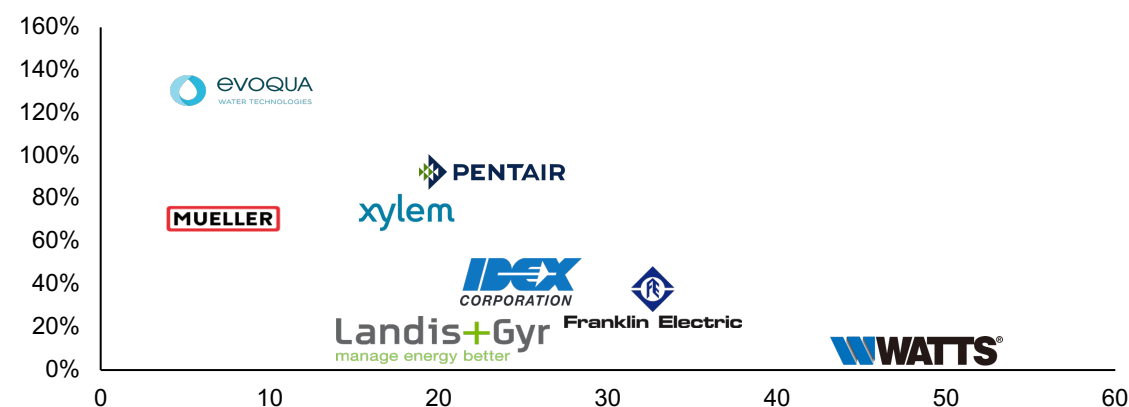
Debt to Equity/ROE



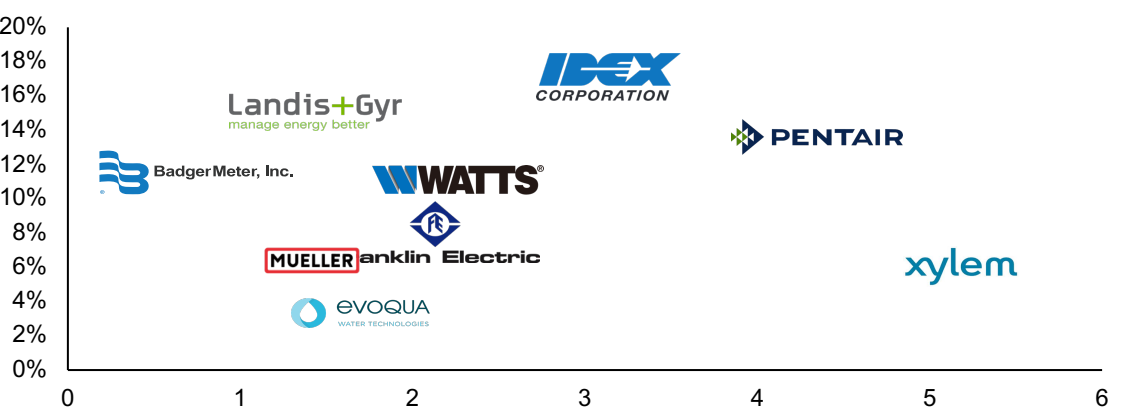
Debt to Equity/EBITDA_INT



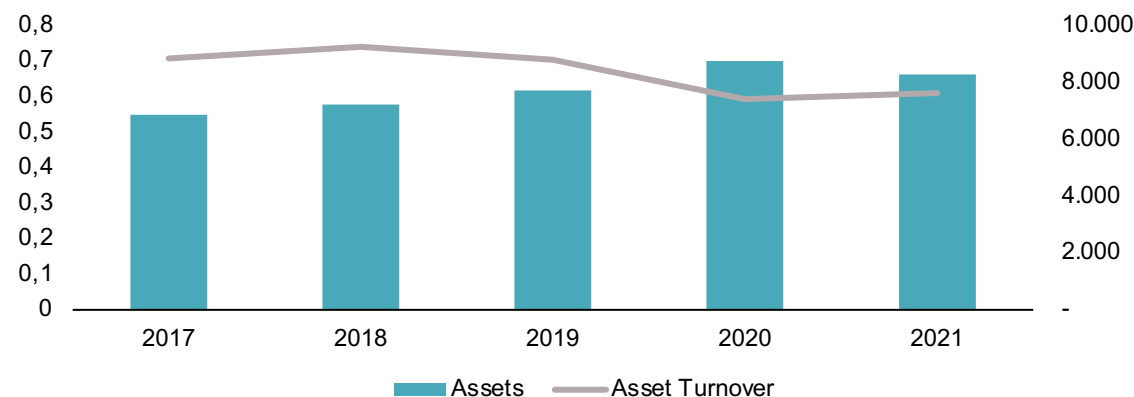
Debt to Equity/EBITDA_CAPEX_INT



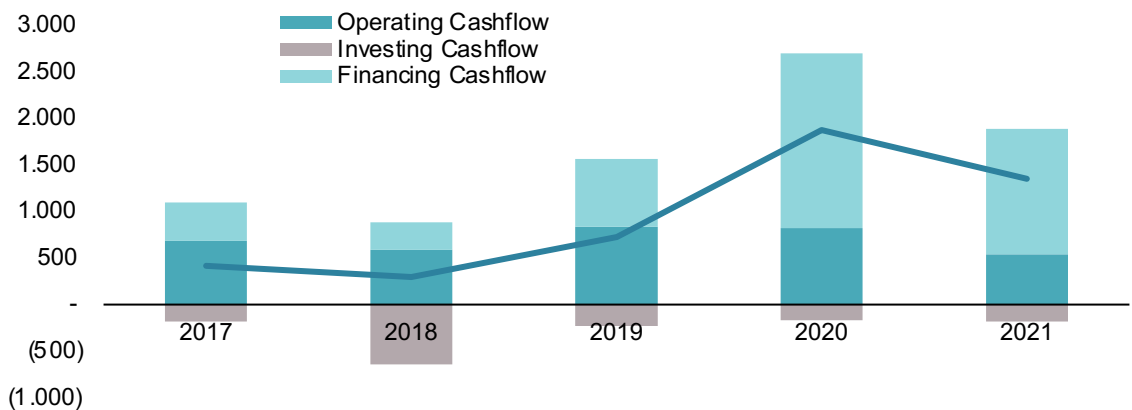
Net Income Margin/Revenue [in bn]



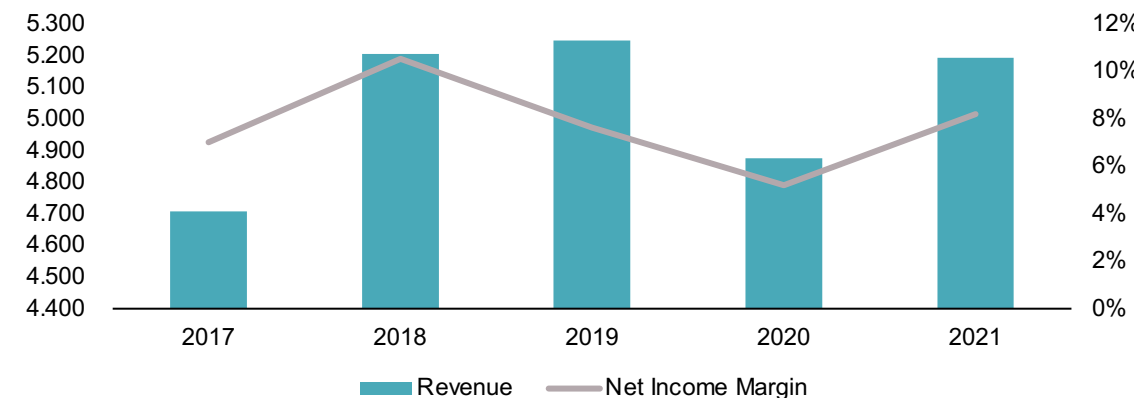
Assets and Turnover



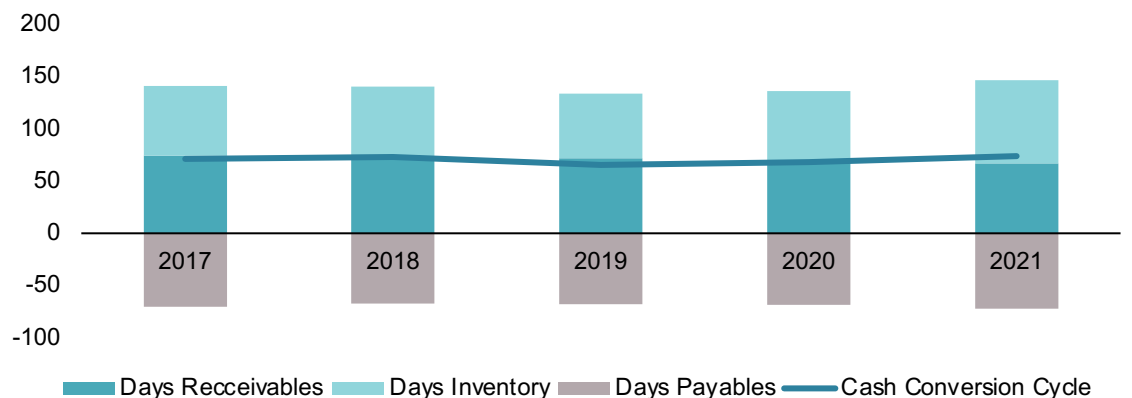
Cashflow



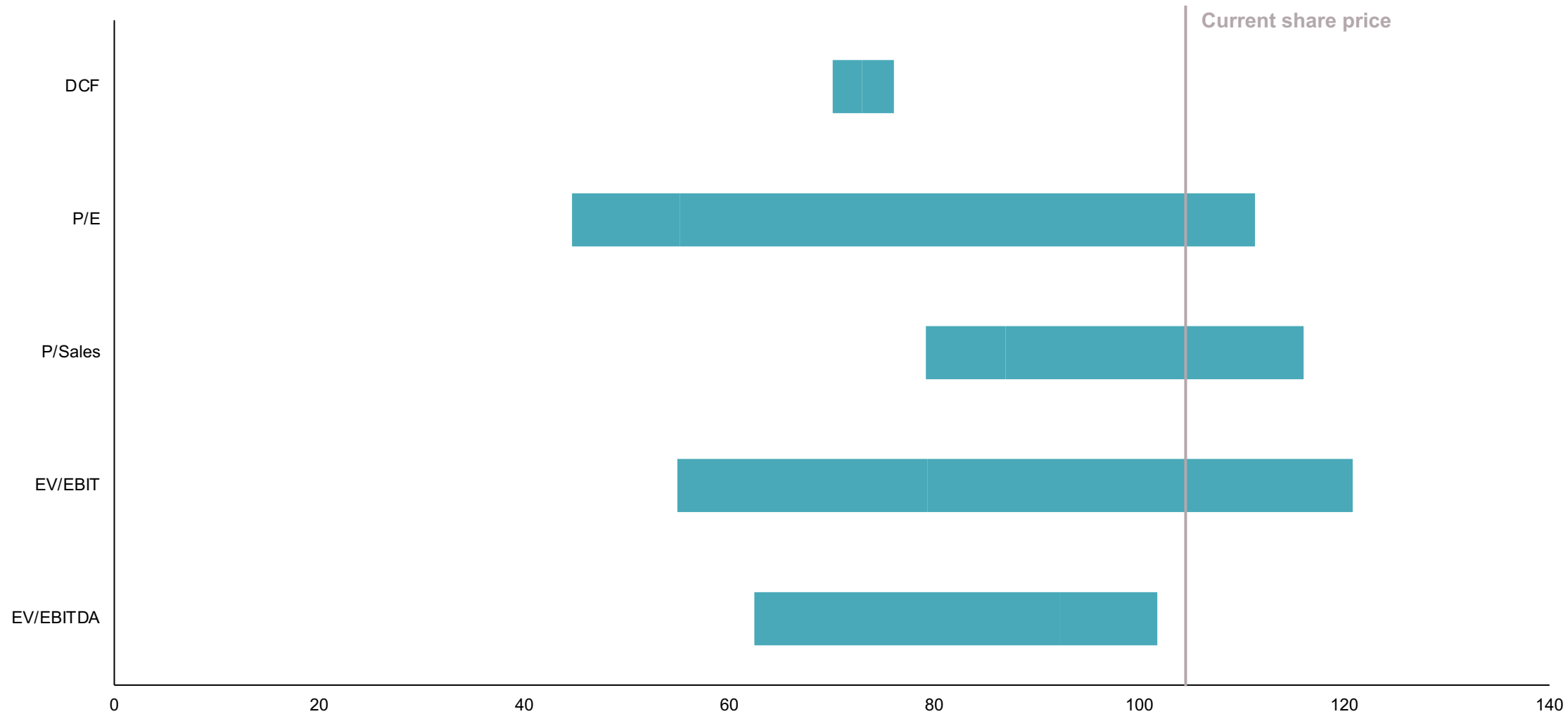
Revenue



Working Capital



Football Field Chart



Income Statement

Income Statement		2017A	2018A	2019A	2020A	2021A	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total Revenue		4,707	5,207	5,249	4,876	5,195	5,425	5,523	5,867	6,241	6,647	7,088	7,569	8,094	8,667
	Growth in %		10.6%	0.8%	-7.1%	6.5%	4.4%	1.8%	6.2%	6.4%	6.5%	6.6%	6.8%	6.9%	7.1%
COGS		(2,856)	(3,181)	(3,203)	(3,046)	(3,220)	(3,333)	(3,363)	(3,535)	(3,721)	(3,921)	(4,136)	(4,369)	(4,620)	(4,940)
	% of Revenue	60.68%	61.09%	61.02%	62.47%	61.98%	61.10%	60.21%	59.32%	58.43%	57.55%	56.66%	55.77%	54.89%	54.00%
Gross profit		1,851	2,026	2,046	1,830	1,975	2,091	2,160	2,332	2,520	2,726	2,952	3,201	3,474	3,727
	Gross Margin	39.3%	38.9%	39.0%	37.5%	38.0%	38.6%	39.1%	39.7%	40.4%	41.0%	41.6%	42.3%	42.9%	43.0%
SG&A expenses		(1,090)	(1,161)	(1,158)	(1,143)	(1,179)	(1,233)	(1,230)	(1,279)	(1,331)	(1,387)	(1,446)	(1,509)	(1,576)	(1,647)
	% of Revenue	23.2%	22.3%	22.1%	23.4%	22.7%	22.7%	22.3%	21.8%	21.3%	20.9%	20.4%	19.9%	19.5%	19.0%
R&D expenses		(180)	(189)	(191)	(187)	(204)	(205)	(208)	(221)	(235)	(251)	(267)	(285)	(305)	(327)
	% of Revenue	3.8%	3.6%	3.6%	3.8%	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Restructuring and asset impairment charges		(25)	(22)	(63)	(75)	(7)	(25)								
	% of Revenue	0.5%	0.4%	1.2%	1.5%	0.1%	0.5%								
Goodwill impairment charge				(148)	(58)										
Operating profit		556	654	486	367	585	629	722	832	953	1,089	1,239	1,407	1,593	1,753
	Operating Margin	11.81%	12.56%	9.26%	7.53%	11.26%	11.6%	13.1%	14.2%	15.3%	16.4%	17.5%	18.6%	19.7%	20.2%
Interest gain, (expense)		(82)	(82)	(67)	(77)	(76)	(70)	(95)	(92)	(100)	(134)	(123)	(133)	(126)	(118)
	% of Operating Profit	15%	13%	14%	21%	13%	11%	13%	11%	11%	12%	10%	9%	8%	7%
Other non-operating gain/ (expense), net		(2)	13	4	5										
Gain on sale of businesses		-	10	(1)	(2)										
EBT		466	585	416	285	511	559	627	740	853	955	1,116	1,274	1,467	1,635
	EBT Margin	9.90%	11.23%	7.93%	5.84%	9.84%	10.30%	11.34%	12.60%	13.67%	14.36%	15.75%	16.83%	18.12%	18.86%
Income tax expense		(136)	(36)	(15)	(31)	(84)	(117)	(132)	(155)	(179)	(200)	(234)	(268)	(308)	(343)
	Tax Rate	29%	6%	4%	11%	16%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Net income		330	549	401	254	427	441	495	584	674	754	882	1,006	1,159	1,292
	Net Income Margin	7%	11%	8%	5%	8%	8%	9%	10%	11%	11%	12%	13%	14%	15%

Balance Sheet I

Assets

Balance Sheet		2017A	2018A	2019A	2020A	2021A	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Assets															
Cash and cash equivalents		414	296	724	1,875	1,349	1,497	1,710	2,084	2,517	3,014	3,596	4,268	5,032	4,800
	% of Revenue	8.8%	5.7%	13.8%	38.5%	26.0%	27.6%	31.0%	35.5%	40.3%	45.3%	50.7%	56.4%	62.2%	55.4%
	% of TA	6.03%	4.10%	9.39%	21.43%	16.30%	17.59%	19.40%	22.29%	25.30%	28.40%	31.65%	34.98%	38.26%	36.59%
Receivables		956	1,031	1,036	923	953	1,054	1,066	1,121	1,187	1,256	1,329	1,405	1,496	1,590
	% of Revenue	20.3%	19.8%	19.7%	18.9%	18.3%	19.4%	19.3%	19.1%	19.0%	18.9%	18.8%	18.6%	18.5%	18.3%
	% of TA	13.94%	14.28%	13.44%	10.55%	11.52%	12.39%	12.09%	11.99%	11.93%	11.83%	11.70%	11.52%	11.37%	12.12%
Inventories		524	595	539	558	700	602	607	637	672	708	747	787	834	892
	% of COGS	18.3%	18.7%	16.8%	18.3%	21.7%	18.1%	18.1%	18.0%	18.1%	18.1%	18.1%	18.0%	18.1%	18.1%
	% of TA	7.64%	8.24%	6.99%	6.38%	8.46%	7.08%	6.89%	6.81%	6.75%	6.67%	6.57%	6.45%	6.35%	6.80%
Prepaid and other current assets		177	172	151	167	158	178	180	189	199	209	221	233	247	264
	% of Revenue	3.8%	3.3%	2.9%	3.4%	3.0%	3.3%	3.3%	3.2%	3.2%	3.2%	3.1%	3.1%	3.0%	3.0%
	% of TA	2.58%	2.38%	1.96%	1.91%	1.91%	2.09%	2.04%	2.02%	2.00%	1.97%	1.94%	1.91%	1.88%	2.01%
Total current assets		2,071	2,094	2,450	3,523	3,160	3,331	3,563	4,030	4,575	5,187	5,894	6,693	7,609	7,546
	% of TA	30.19%	28.99%	31.78%	40.26%	38.18%	39.15%	40.42%	43.12%	45.98%	48.88%	51.87%	54.86%	57.86%	57.53%
Property, plant and equipment, net		643	656	658	657	644	726	819	901	973	1,038	1,096	1,149	1,198	1,243
	% of TA	9.37%	9.08%	8.53%	7.51%	7.78%	8.53%	9.29%	9.64%	9.78%	9.78%	9.64%	9.42%	9.11%	9.48%
	% Growth		2.0%	0.3%	-0.2%	-2.0%	12.7%	12.8%	10.0%	8.0%	6.6%	5.6%	4.8%	4.2%	3.8%
Goodwill		2,768	2,976	2,839	2,854	2,792	2,792	2,792	2,792	2,792	2,792	2,792	2,792	2,792	2,792
	% of TA	40.35%	41.21%	36.82%	32.62%	33.74%	32.82%	31.67%	29.87%	28.06%	26.31%	24.57%	22.88%	21.23%	21.28%
Other intangible assets, net		1,168	1,232	1,174	1,093	1,016	995	977	960	945	931	917	903	889	873
	% of TA	17.03%	17.06%	15.23%	12.49%	12.28%	11.70%	11.08%	10.27%	9.50%	8.78%	8.07%	7.40%	6.76%	6.65%
Other non-current assets		210	264	589	623	664	664	664	664	664	664	664	664	664	664
	% of TA	3.06%	3.66%	7.64%	7.12%	8.02%	7.80%	7.53%	7.10%	6.67%	6.26%	5.84%	5.44%	5.05%	5.06%
Total assets		6,860	7,222	7,710	8,750	8,276	8,508	8,815	9,348	9,949	10,612	11,363	12,202	13,152	13,118

Balance Sheet II

Liabilities and Stockholders Equity

Balance Sheet		2017A	2018A	2019A	2020A	2021A	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
LIABILITIES AND STOCKHOLDERS' EQUITY															
Current liabilities:															
Accounts payable		549	586	597	569	639	632	638	669	706	744	785	827	877	937
	% of COGS	19%	18%	19%	19%	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%
	% of TA	8.00%	8.11%	7.74%	6.50%	7.72%	7.43%	7.24%	7.16%	7.09%	7.01%	6.91%	6.77%	6.66%	7.14%
Accrued and other current liabilities		551	546	567	724	683	597	607	645	686	731	780	832	890	953
	% of TA	8.03%	7.56%	7.35%	8.27%	8.25%	7.01%	6.89%	6.90%	6.90%	6.89%	6.86%	6.82%	6.77%	7.27%
Short-term lease liabilities			61	63	69		64	65	68	72	76	80	84	89	70
	% of TA	0.00%	0.00%	0.79%	0.72%	0.83%	0.75%	0.73%	0.73%	0.72%	0.71%	0.70%	0.69%	0.68%	0.54%
Short-term borrowings and current maturities of long-term debt		-	257	276	600	-	483	-	-	500	-	500	-	-	-
	% of TA	0.00%	3.56%	3.58%	6.86%	0.00%	5.68%	0.00%	0.00%	5.03%	0.00%	4.40%	0.00%	0.00%	0.00%
Total current liabilities		1,100	1,389	1,501	1,956	1,391	1,776	1,310	1,382	1,964	1,550	2,144	1,744	1,856	1,961
	% of TA	16.03%	19.23%	19.47%	22.35%	16.81%	20.87%	14.86%	14.79%	19.74%	14.61%	18.87%	14.29%	14.11%	14.95%
Long-term debt, net		2,200	2,051	2,040	2,484	2,440	2,081	2,586	2,723	2,369	3,028	2,698	3,383	3,583	2,816
	% of TA	32.07%	28.40%	26.46%	28.39%	29.48%	24.46%	29.34%	29.13%	23.81%	28.53%	23.75%	27.73%	27.24%	21.47%
Long-term lease liabilities				185	216	243	213	215	226	238	251	265	281	297	234
	% of TA	0.00%	0.00%	2.40%	2.47%	2.94%	2.50%	2.44%	2.42%	2.39%	2.37%	2.34%	2.30%	2.26%	1.78%
Accrued post-retirement benefits		442	400	445	519	438	438	438	438	438	438	438	438	438	438
	% of TA	6.44%	5.54%	5.77%	5.93%	5.29%	5.15%	4.97%	4.69%	4.40%	4.13%	3.85%	3.59%	3.33%	3.34%
Deferred income tax liabilities		252	303	310	242	287	287	287	287	287	287	287	287	287	287
	% of TA	3.67%	4.20%	4.02%	2.77%	3.47%	3.37%	3.26%	3.07%	2.88%	2.70%	2.53%	2.35%	2.18%	2.19%
Other non-current accrued liabilities		347	297	262	357	251	251	251	251	251	251	251	251	251	251
	% of TA	5.06%	4.11%	3.40%	4.08%	3.03%	2.95%	2.85%	2.69%	2.52%	2.37%	2.21%	2.06%	1.91%	1.91%
Total liabilities		4,341	4,440	4,743	5,774	5,050	5,046	5,087	5,307	5,547	5,805	6,084	6,384	6,713	5,987
	% Growth		2.3%	6.8%	21.7%	-12.5%	-0.1%	0.8%	4.3%	4.5%	4.6%	4.8%	4.9%	5.2%	-10.8%
Stockholders' equity:															
Authorized 750.0 shares, issued 195.6 and 194.9 shares in 2021 and 2020, respectively		2	2	2	2	2	2	2	2	2	2	2	2	2	2
	% of TA	0.03%	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Capital in excess of par value		1,912	1,950	1,991	2,037	2,089	2,089	2,089	2,089	2,089	2,089	2,089	2,089	2,089	2,089
	% of TA	27.87%	27.00%	25.82%	23.28%	25.24%	24.55%	23.70%	22.35%	21.00%	19.69%	18.38%	17.12%	15.88%	15.92%
Retained earnings		1,227	1,639	1,866	1,930	2,154	2,391	2,656	2,969	3,330	3,734	4,207	4,746	5,367	6,060
	% of TA	17.89%	22.69%	24.20%	22.06%	26.03%	28.10%	30.13%	31.76%	33.47%	35.19%	37.02%	38.90%	40.81%	46.19%
Treasury stock – at cost 15.2 shares and 14.5 shares in 2021 and 2020, respectively		- 428	- 487	- 487	- 588	- 656	- 656	- 656	- 656	- 656	- 656	- 656	- 656	- 656	- 656
	% of TA	-6.24%	-6.74%	-6.32%	-6.72%	-7.93%	-7.71%	-7.44%	-7.02%	-6.59%	-6.18%	-5.77%	-5.38%	-4.99%	-5.00%
Accumulated other comprehensive loss		- 210	- 336	- 375	- 413	- 371	- 371	- 371	- 371	- 371	- 371	- 371	- 371	- 371	- 371
	% of TA	-3.06%	-4.65%	-4.86%	-4.72%	-4.48%	-4.36%	-4.21%	-3.97%	-3.73%	-3.50%	-3.27%	-3.04%	-2.82%	-2.83%
Total stockholders' equity		2,503	2,768	2,997	2,968	3,218	3,455	3,720	4,033	4,394	4,798	5,271	5,810	6,431	7,124
Non-controlling interest		16	14	10	8	8	8	8	8	8	8	8	8	8	8
	% of TA	0.23%	0.19%	0.13%	0.09%	0.10%	0.09%	0.09%	0.09%	0.08%	0.08%	0.07%	0.07%	0.06%	0.06%
Total equity		2,519	2,782	3,007	2,976	3,226	3,463	3,728	4,041	4,402	4,806	5,279	5,818	6,439	7,132
Total liabilities and stockholders' equity		6,860	7,222	7,750	8,750	8,276	8,508	8,815	9,348	9,950	10,612	11,363	12,202	13,152	13,118

Cashflow Statement I

Cashflow Statement	2017A	2018A	2019A	2020A	2021A	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Operating Activities														
Net income	330	549	401	254	427	441	495	584	674	754	882	1,006	1,159	1,292
Adjustments to reconcile net income to net cash provided by operating activities:														
Depreciation	109	117	117	117	118	115	130	147	162	175	186	197	206	215
Amortization	125	144	140	134	127	124	117	115	113	111	110	108	106	105
D&A Total	234	261	257	251	245	239	247	262	275	286	296	305	313	320
Deferred income taxes	- 33	- 47	- 77	- 31	10									
Share-based compensation	21	30	29	26	33									
Restructuring and asset impairment charges	25	22	63	75	7									
Goodwill impairment charge			148	58										
Gain from sale of businesses	10	-	1	-	2									
Other, net	19	9	9	46	8									
Payments for restructuring	- 28	- 21	- 30	- 36	- 25									
Contributions to post-retirement benefit plans	- 33	- 41	- 19	- 27	- 29									
Changes in assets and liabilities (net of acquisitions):														
Changes in receivables	- 79	- 103	- 23	- 109	- 70	- 101	- 11	- 55	- 66	- 68	- 74	- 76	- 90	- 94
Changes in inventories	27	97	47	5	167	98	5	29	35	36	39	40	48	58
Changes in accounts payable	50	51	29	39	81	7	6	31	37	38	41	42	50	61
Changes in accrued liabilities	28	6	15	101	7	86	11	38	41	45	49	53	58	63
Changes in accrued taxes	104	-	13	20	9									
Net changes in other assets and liabilities	11	21	4	22	22	20	2	9	10	11	12	12	13	17
Net Cash — Operating activities	686	586	839	824	538	564	740	821	916	1,008	1,143	1,277	1,427	1,566
Investing Activities														
Capital expenditures	- 170	- 237	- 226	- 183	- 208	- 197	- 223	- 229	- 234	- 239	- 244	- 250	- 255	- 260
Purchase of intangible assets						- 103	- 99	- 99	- 98	- 97	- 96	- 94	- 92	- 89
Acquisitions of businesses and assets, net of cash acquired	- 33	- 433	- 18											
Proceeds from sale of businesses	16	22			10									
Cash received from investments	10	11	11	200	3									
Cash paid for investments	- 11	- 11	- 7	- 200										
Cash received from cross-currency swaps	1		9	12	14									
Other, net	6	5		2	2									
Net Cash — Investing activities	- 181	- 643	- 231	- 169	- 183	- 300	- 322	- 327	- 332	- 336	- 340	- 344	- 347	- 349

Cashflow Statement II

Cashflow Statement	2017A	2018A	2019A	2020A	2021A	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Financing Activities														
Short-term debt issued, net		335	281	359										
Short-term debt repaid, net	- 282	- 52	- 254	- 640										
Long-term debt issued, net		1		985		89	508	151	163	675	189	705	221	850
Long-term debt repaid, net		120		-	600		-483	0	0	-500	0	-500	0	0
Repurchase of common stock	- 25	- 59	- 40	- 61	- 68									
Proceeds from exercise of employee stock options	16	7	13	20	19									
Dividends paid	- 130	- 152	- 174	- 188	- 203	- 205	- 230	- 271	- 313	- 350	- 409	- 467	- 538	- 599
Other, net		-	3	- 2	3									
Net Cash — Financing activities	- 421	- 40	- 177	- 473	- 855	- 116	- 205	- 120	- 150	- 175	- 220	- 262	- 316	- 1,449
Effect of exchange rate changes on cash	22	- 21	3	23	26									
Cash and cash equivalents at beginning of year	308	414	296	724	1,875	1,349	1,497	1,710	2,084	2,517	3,014	3,596	4,268	5,032
Net change in cash and cash equivalents	106	- 118	428	1,151	- 526	148	213	374	433	497	583	671	765	232
Cash and cash equivalents at end of year	414	296	724	1,875	1,349	1,497	1,710	2,084	2,517	3,014	3,596	4,268	5,032	4,800

Additional Calculations

Supporting Schedules		2017A	2018A	2019A	2020A	2021A	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
PPE Schedule															
Opening			643	656	658	657	644	726	819	901	973	1,038	1,096	1,149	1,198
Capital Expenditures		170	237	226	183	208	197	223	229	234	239	244	250	255	260
	% of Revenue	4%	5%	4%	4%	4%	4%	4%	4%	4%	4%	3%	3%	3%	3%
Depreciation		109	117	117	117	118	115	130	147	162	175	186	197	206	215
	% of PPE	17%	18%	18%	18%	18%	16%	18%	18%	18%	18%	18%	18%	18%	18%
Closing		643	656	658	657	644	726	819	901	973	1,038	1,096	1,149	1,198	1,243
Working Capital															
Inventories		524	595	539	558	700	602	607	637	672	708	747	787	834	892
	% of Revenue	11%	11%	10%	11%	13%	11%	11%	11%	11%	11%	11%	10%	10%	10%
Receivables		956	1,031	1,036	923	953	1,054	1,066	1,121	1,187	1,256	1,329	1,405	1,496	1,590
	% of COGS	33%	32%	32%	30%	30%	32%	32%	32%	32%	32%	32%	32%	32%	32%
Payables		549	586	597	569	639	632	638	669	706	744	785	827	877	937
	% of COGS	19%	18%	19%	19%	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Net Working Capital		931	1,040	978	912	1,014	1,024	1,035	1,089	1,154	1,220	1,292	1,366	1,454	1,545
Δ NWC			109	(62)	(66)	102	10	11	54	64	66	72	74	88	91
Dividends															
Dividends paid		-130.00	-152.00	-174.00	-188.00	-203.00	-204.82	-229.69	-271.11	-312.75	-349.96	-409.22	-467.01	-537.72	-599.39
Payout ratio		39%	28%	43%	74%	48%	46%	46%	46%	46%	46%	46%	46%	46%	46%
Debt Schedule															
Total Debt		2,200	2,308	2,562	3,363	2,752	2,841	2,866	3,017	3,179	3,355	3,544	3,749	3,970	3,120
% of revenue		47%	44%	49%	69%	53%	52%	52%	51%	51%	50%	50%	50%	49%	36%
% of TA		32%	32%	33%	38%	33%	34%	33%	33%	32%	32%	31%	31%	30%	30%
Total Debt / EBITDA															
ST Debt % of Total Debt		0.00%	11.14%	10.77%	17.84%	0.00%	17.00%	0.00%	0.00%	15.73%	0.00%	14.11%	0.00%	0.00%	0.00%
LT Debt % of Total Debt		100%	89%	80%	74%	89%	73%	90%	90%	75%	90%	76%	90%	90%	90%
ST Leases % of Total Debt		0%	0%	2%	2%	3%	2%	2%	2%	2%	2%	2%	2%	2%	2%
LT Leases % of Total Debt		0%	0%	7%	6%	9%	7%	7%	7%	7%	7%	7%	7%	7%	7%
Intangible Assets Schedule															
Intangibles BOP			1,168	1,232	1,174	1,093	1,016	995	977	960	945	931	917	903	889
Purchases			208	82	53	50	103	99	99	98	97	96	94	92	89
	% of Revenue		4%	2%	1%	1%	2%	2%	2%	2%	1%	1%	1%	1%	1%
Amortization			144	140	134	127	124	117	115	113	111	110	108	106	105
	% of Intangibles		12%	11%	11%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Intangibles EOP			1,232	1,174	1,093	1,016	995	977	960	945	931	917	903	889	873

Free cashflow

Discounted Cash Flow		FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast	FY27 Forecast	FY28 Forecast	FY29 Forecast	FY30 Forecast
Revenues		5,724	6,071	6,448	6,857	7,302	7,786	8,314	8,892
Cost of revenues		3,363	3,535	3,721	3,921	4,136	4,369	4,620	4,940
Gross Profit		2,361	2,536	2,727	2,936	3,166	3,417	3,694	3,951
Oprating Expenses		1,438	1,500	1,567	1,637	1,713	1,794	1,881	1,974
EBIT		924	1,036	1,161	1,299	1,452	1,623	1,813	1,978
Taxes		194	218	244	273	305	341	381	415
	Tax Rate	21%	21%	21%	21%	21%	21%	21%	21%
NOPAT		730	818	917	1,026	1,147	1,282	1,433	1,563
+D&A		247	262	275	286	296	305	313	320
- Capex		327	328	333	337	342	346	349	352
#+/- Changes in NWC		11	54	64	66	72	74	88	91
Unlevered FCF		639	699	795	908	1,030	1,167	1,308	1,439
Present Values of Unlevered FCF		593	601	634	672	706	742	771	787

Terminal Value	
Terminal Value	16,695
PV of FCF	5,505
PV of Terminal Value	9,125
Valuation	
Total Enterprise Value	14,629
Interest bearing liabilities	2,841
Cash	1,497
Net Debt	1,344
Equity Value	13,285
Shares Outstanding (mil.)	180
Share price	73.72
Current Share Price	103.41
Downside Potential	-28.71%

Cost of Equity	
Beta	1.11
10Y US Treasury Bond as of 05.01.2023	3.00%
Cost of Equity	8.44%
Cost of Debt	
CDS-Spread for BBB Rating 10Y	2.00%
10Y US Treasury Bond	3.00%
Cost of debt pretax	5.00%
Debt Ratio	13%
Equity Ratio	87%
Tax Rate	21%
WACC	7.84%

Data	Tier	Ticker	Name	Share Price	Market Cap	Enterprise Value	Revenue	EPS	EBITDA	EBIT	Price/Sales	P/E	P/EBIT	LTM Net Debt	LTM Total Pref. Equity	LTM Minority Interest	Cash & Equivalents
		NYSE:XYL	Xylem Inc.	103.41	20,905.70	22,152.70	5,339.00	1.76	814.00	579.00	3.92	58.76	36.11	1,240.00		7.00	1,186.00
		NYSE:BMI	Badger Meter, Inc.	116.42	3,407.50	3,299.90	554.00	2.26	114.60	87.60	6.15	51.51	38.90	(107.60)	-		
		NYSE:AQUA	Evoqua Water Technologies Corp.	41.82	5,097.60	5,923.20	1,737.10	0.58	244.90	117.40	2.93	72.10	43.42	825.60	-		
		NasdaqGS:FELE	Franklin Electric Co., Inc.	86.32	3,998.20	4,278.20	1,986.80	3.98	297.00	248.10	2.01	21.69	16.12	277.00		3.00	
		NYSE:IEX	IDEX Corporation	236.70	17,852.20	18,425.10	3,086.00	7.55	859.60	743.80	5.78	31.35	24.00	573.10		(0.20)	
		SWX:LAND	Landis+Gyr Group AG	77.48	2,234.40	2,428.10	1,491.80	7.95	134.60	52.60	1.50	9.75	42.48	173.30		8.43	
		NYSE:MWA	Mueller Water Products, Inc.	12.18	1,902.50	2,229.70	1,247.40	0.48	187.10	129.50	1.53	25.38	14.69	327.20	-		
		NYSE:PNR	Pentair plc	50.53	8,312.10	10,670.30	4,105.70	3.22	762.10	671.00	5.57	15.69	12.39	2,358.20	-		
		NYSE:WTS	Watts Water Technologies, Inc.	156.65	5,215.40	5,175.30	1,951.50	6.61	357.60	315.90	2.67	23.70	16.51	(40.10)	-		
			Minimum	12.18	1,902.50	2,229.70	554.00	0.48	114.60	52.60	1.50	9.75	12.39	(107.60)		(0.20)	
			25%-Percentile	50.53	3,407.50	3,299.90	1,491.80	1.76	187.10	117.40	2.01	21.69	16.12	173.30		2.20	
			Median	86.32	5,097.60	5,175.30	1,737.10	3.22	297.00	248.10	2.93	25.38	24.00	327.20		5.00	
			Mean	97.95	7,658.40	8,286.94	2,098.38	3.82	419.06	327.21	3.56	34.44	27.18	625.19		4.56	
			75%-Percentile	116.42	8,312.10	10,670.30	1,986.80	6.61	762.10	579.00	5.57	51.51	38.90	825.60		7.36	
			Maximum	236.70	20,905.70	22,152.70	5,339.00	7.95	859.60	743.80	6.15	72.10	43.42	2,358.20		8.43	
Multiple	Tier	Ticker	Name					EV/Revenue	EV/EBITDA	EV/EBIT							
		NYSE:XYL	Xylem Inc.					4.10x	23.60x	37.70x							
		NYSE:BMI	Badger Meter, Inc.					6.00x	28.00x	37.70x							
		NYSE:AQUA	Evoqua Water Technologies Corp.					3.40x	22.60x	50.50x							
		NasdaqGS:FELE	Franklin Electric Co., Inc.					2.20x	13.60x	17.20x							
		NYSE:IEX	IDEX Corporation					6.00x	20.50x	24.80x							
		SWX:LAND	Landis+Gyr Group AG					1.50x	15.70x	60.30x							
		NYSE:MWA	Mueller Water Products, Inc.					1.80x	11.60x	17.20x							
		NYSE:PNR	Pentair plc					2.60x	13.30x	15.90x							
		NYSE:WTS	Watts Water Technologies, Inc.					2.70x	13.90x	16.40x							
			Minimum					1.50x	11.60x	15.90x							
			25%-Percentile					2.20x	13.60x	17.20x							
			Median					2.70x	15.70x	24.80x							
			Mean					3.37x	18.09x	30.86x							
			75%-Percentile					4.10x	22.60x	37.70x							
			Maximum					6.00x	28.00x	60.30x							

CCA – Share Price Calculation

EV calculated with	EV/EBIT	Equity Value	Shares Out.	Implied Shareprice	
25%-Percentille	17.20	9897.80		180.20 \$	54.93
Median	24.80	14298.20		180.20 \$	79.35
Mean	30.86	17804.37		180.20 \$	98.80
75%-Percentille	37.70	21767.30		180.20 \$	120.80

EV calculated with	EV/EBITDA	Equity Value	Shares Out.	Implied Shareprice	
25%-Percentille	13.60	11009.40		180.20 \$	61.10
Median	15.70	12718.80		180.20 \$	70.58
Mean	18.09	14663.36		180.20 \$	81.37
75%-Percentille	22.60	18335.40		180.20 \$	101.75

Share Price Calculated with	Price/Sales	Shares Out	Implied Shareprice	
25%-Percentille	10744.11	180.20 \$		59.62
Median	15667.54	180.20 \$		86.95
Mean	19021.99	180.20 \$		105.56
75%-Percentille	29748.16	180.20 \$		165.08

Executive Summary

USD

Current Share Price 103.4

Implied Share Price 76.34

Downside Potential -26.2%

Recommendation **SELL**

Method	Weights	Share Price	Downside Potential
DCF	50%	73.72	-28.7%
CCA	50%	78.96	-23.6%

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