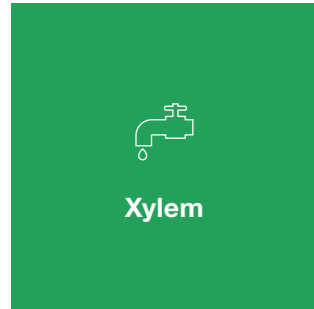


Xylem

Water

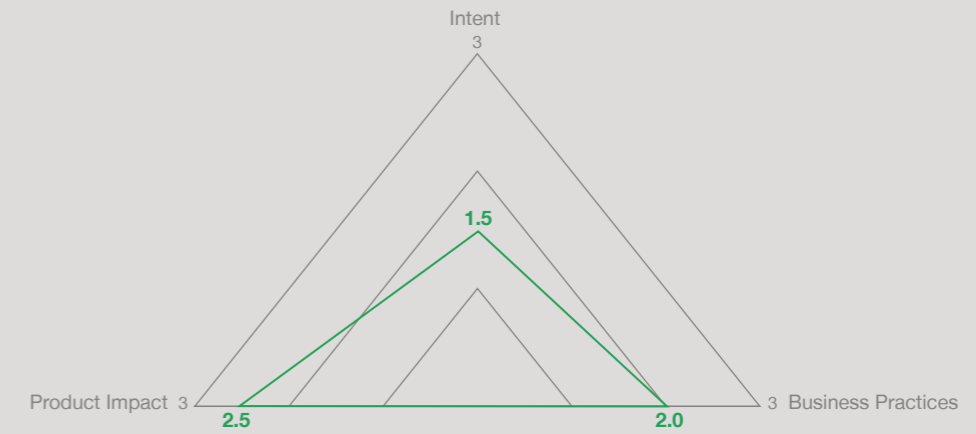


Xylem provides equipment and services for water and wastewater applications. It has a broad product portfolio that includes pumps, testing and filtration equipment, sensors, and smart meters. Xylem's products are critical to modern water infrastructures which provide people with access to safe drinking water and clean sanitation.

Investment Case

What challenge is the Company tackling?	Water is essential to life. In 2010, the United Nations General Assembly explicitly recognised access to water and sanitation as a human right. However, 650 million people around the world do not have access to safe drinking water. Furthermore, over 2 billion people lack access to basic sanitation services such as toilets and latrines. Poor sanitation is a major cause of death in children under the age of five and over 800 children die every day from diarrhoea alone. Ageing infrastructure presents another challenge and, in the U.S., 6 billion gallons of water are lost every day due to leaking pipes. When it comes to environmental impact, more than 80% of wastewater is discharged into rivers or sea without treatment, leading to pollution and biodiversity losses.
Is the Company's offering sufficiently different and better than the status quo?	Xylem's products help to improve the access to safe and clean drinking water. For example, Xylem was selected to supply wastewater treatment technology to the first-ever sewage treatment plant in Sehore, India, which when constructed, will improve hygiene for 100,000 people. Xylem's products also help to improve the efficiency of existing infrastructure. For instance, its pumps have reduced energy consumption at Heathrow's pumping station by 50% and improved the efficiency of a water treatment plant in Cagliari, Italy, by 35% since installation. Looking forward, Xylem is integrating sensors and data analytics capabilities into its existing products to help utilities companies and corporate customers detect water leakage and predict when maintenance is required.
Is there a committed management team? What have they done before?	Patrick Decker has been the company's CEO since 2014 and is committed to the water challenge. The company has a Sustainability Steering Committee which consists of regional and operational members and is chaired by Bennett Leff, Xylem's Director of Environment, Safety, Health, and Sustainability. Xylem's R&D spend accounts for just under 3% of sales, which is fairly standard for the industry, although the company aims to increase this to 5% in the medium term. In the long run, we would like to see research and development (R&D) expenditure increase, especially given the repeated emphasis on innovation by the management team. Employee satisfaction is high due to good benefits and a culture committed to driving change.
How does the Company treat stakeholders?	The company follows a Code of Conduct and provides a Supplier Code of Conduct which are translated into over 18 different languages and set a global standard. Within this the company prioritises local suppliers, offers free training to help suppliers implement environmentally friendly practices and puts significant emphasis on employee safety.
Is there a potential to create a profitable and defensible business?	Xylem provides critical components where the cost of failure is high, which results in sticky customers. Over time, demand for Xylem's expertise should increase due to: 1) increases in the type and number of contaminants in the water supply; 2) increasing environmental regulations; 3) the need for greater system efficiency; 4) retirement of the water industry workforce that has not been systematically replaced; and 5) the build-out of water infrastructure in emerging markets. Xylem has industry leading technology and its ongoing research into sensors and data analytics could become a further competitive advantage source.
Is the business attractively valued?	Increased focus on water safety and wastewater treatment should support attractive long-term growth. In the US, water capital expenditure has increased from \$12.5 billion in 2010 to an estimated \$20 billion in 2016. China and Brazil have also doubled their expenditure in the last six years. High single digit revenue growth through a combination of organic growth and acquisitions should be achievable and margins should expand through increased operating efficiency. For this, we are asked to pay low-20s P/E which seems attractive.

Impact Analysis



Product Impact

Breadth is at the higher end of the scale due to the application of Xylem's products across a wide range of different industries and worldwide applications. As the company increasingly operates in emerging market contexts, particularly for municipal projects, the potential depth of impact increases.

Intent

The challenge of water sustainability is ingrained in Xylem's business. Thought leadership and a holistic approach to the problem are particularly positive although management lack clear targets for delivering positive impact.

Business Practices

While there are some questions around Xylem's remuneration policy structure, corporate governance reforms are ongoing and efforts to engage suppliers in greater resource efficiency are positive.

	Relevant Targets	Relevant Products
6 CLEAN WATER AND SANITATION	<p>Target 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all.</p> <p>Target 6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials.</p> <p>Target 6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity.</p>	<p>Over 90% of Xylem's revenue comes from the provision of water equipment and solutions. Those products and services, such as water pumps, filtration and testing equipment and smart meters, are critical to modern water infrastructure, which brings clean, safe and affordable drinking water to citizens.</p> <p>Xylem's equipment helps utilities companies and industrial customers to collect and treat wastewater before it is returned to nature.</p> <p>Xylem helps to improve water-use efficiency through the recycling and re-use of water. For example, the company's technology is used in Los Angeles' Terminal Island Water Reclamation Plant which treats wastewater from more than 100 businesses and 130,000 residents.</p>
9 INDUSTRY INNOVATION AND INFRASTRUCTURE	<p>Target 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being.</p> <p>Target 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.</p>	<p>21% of Xylem's revenue comes from emerging markets. In those countries, Xylem conducts local research and development, and helps governments and industrial customers to construct modern water infrastructure.</p> <p>For example, Xylem was selected to supply advanced wastewater treatment technology to the first-ever sewage treatment plant in Sehore, India.</p>
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	<p>Target 12.2 By 2030, achieve the sustainable management and efficient use of natural resources.</p>	<p>Xylem's products and services help to reduce water pollution by reducing the release of untreated wastewater and enable more efficient water use through recycling and re-use.</p>

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