

Xylem Inc.
Form PRE 14A
March 13, 2017

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☒ Preliminary Proxy Statement

☐ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to Rule 14a-12

☐ Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Xylem Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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☒ No fee required.

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party

(4) Date Filed



XYLEM INC.
2017 Proxy Statement

Notice of Annual Meeting of Shareholders
to be held on May 10, 2017

March , 2017

Dear Xylem Shareholders,

2016 was a transformative year for Xylem as we delivered strong financial results, grew our business and made significant progress on each of our strategic priorities. We also deployed nearly \$2 billion last year for acquisitions that collectively are reshaping the growth and profitability profile of Xylem. We also continued to invest in the development of our employees to ensure our global workforce and leadership teams have the skills and expertise needed to deliver on our strategy and meet our customers' evolving needs.

Despite decidedly mixed economic conditions in various regions around the globe, our teams delivered positive organic revenue growth year-over-year, driven primarily by a robust public utility end market, where we captured market share in certain regions, and a relatively stable commercial business. This momentum was tempered by ongoing weakness in the oil and gas and mining sectors that we serve, as well as lower demand in the light industrial arena.

As we expanded both organically and inorganically, we also made significant progress in our ongoing productivity initiatives designed to improve our operational efficiency and reduce our cost structure. These efforts generated more than \$130 million in cost savings, which enabled us to continue to invest in our strategic growth initiatives. These results not only grew our profitability for the year, but also better positioned Xylem to deliver increased growth and profitability in the future.

For the year, we delivered reported earnings of \$1.45 per share, and adjusted earnings of \$2.03* per share, a 10-percent increase over the prior year's adjusted results. In addition, we increased our dividend by 10 percent last year, and have also announced a 16-percent increase in the dividend for 2017, representing our fifth consecutive year of raising the dividend.

Evolving our Portfolio to Accelerate Growth

During the year, we accelerated our capital deployment through acquisitions that met our clearly defined strategic and financial criteria. Our acquisitions of Sensus and Visenti immediately expanded our portfolio with the types of intelligent, integrated solutions that are fueling the water sector's transition to smart infrastructure. These additions are helping to advance our long-term vision of being a leading provider of advanced technologies and integrated solutions across the water sector.

Sensus, the largest of these acquisitions, is a leader in smart meters, network technologies and advanced data analytics services for the water, gas and electric utilities industries. This addition has increased Xylem's exposure to faster-growing end markets, opening up attractive new markets and providing new growth platforms for the company. We now have a strong portfolio in the metering industry and leading position in the faster-growing advanced metering space. The businesses in the electric and gas utilities sectors are attractive adjacencies that increase Xylem's exposure to the entire arena of smart infrastructure.

In addition, the Sensus network technologies currently connect millions of smart meters around the world, which we expect to extend to Xylem's current portfolio of connected water solutions. We also will build on the platform of advanced data analytics currently provided to utilities as these capabilities have the flexibility to be applied in other smart infrastructure adjacencies. With Visenti, we added a suite of products that focus on increasing the productivity of water distribution networks. These offerings target the perennial challenge of leak detection, pressure management and water quality monitoring in the distribution network. In addition, Visenti's highly expert data scientists will further accelerate our R&D work across Xylem in the area of systems intelligence.

These transactions are excellent illustrations of how an acquisition can be an effective proxy for R&D. Together, they helped to quickly move Xylem's portfolio of solutions up the technology curve and increase the value we can bring to customers with a broader portfolio of solutions that target some of their most urgent challenges.

* This is a non-GAAP measure that excludes certain items. For a description and reconciliation of the items excluded, please see pages 27-29 of our 2016 Annual Report on Form 10-K.

Focus and Execution

Our focus on five strategic priorities helped to drive our progress and maintain focus, even as we completed significant acquisitions. They continue to serve as the foundation for future growth and long-term value creation. Those priorities are strengthening innovation and technology, enhancing commercial excellence by increasing sales capabilities, simplifying processes and improving customer experience, growing in Emerging Markets, building a continuous improvement culture, and cultivating leadership and talent development. Along with these priorities are the imperatives of driving a culture of compliance and safety to create a sustainable enterprise that demonstrates respect for the communities in which we operate and our colleagues around the world.

A few highlights include our successful global launch of the Flygt Concertor, the world's first intelligent wastewater pump. We opened a new factory in Dubai, bringing our capabilities closer to our customers in that important region. We established a Xylem Systems Intelligence Center of Excellence in the U.S. to accelerate the development of new integrated solutions. New partnerships with MIT and Stanford University will help to drive our sustainability agenda, and we collaborated with the U.S. Bureau of Reclamation to sponsor the Arsenic Sensor Challenge. Our commitment to creating a sustainable enterprise was recognized by the FTSE4Good Index and Nasdaq CRD Global Sustainability Index. And we continued to expand our talent development with the launch of an online Xylem Learning Center.

As a global enterprise, we will continue to face mixed economic environments but there are undeniable macro trends that will positively impact our business for years to come. The steady increase in spending on water infrastructure coupled with the benefits provided by smart, integrated solutions in the water sector provide a strong foundation for continued growth. We also see a growing demand for data analytics to optimize customers' operations. And the need for sustainable solutions that address the impacts of climate change is accelerating at a notable pace.

We firmly believe that the actions we took in the past year uniquely position Xylem to capture the opportunities presented by these trends. With an expanded portfolio of solutions, continuing focus on productivity and, above all, a passionate team of Xylem colleagues around the world, we are confident in our ability to drive sustained, profitable growth and create greater value for our shareholders. We thank you for your ongoing support and look forward to continuing to share our progress with you.

Sincerely,

Markos I. Tambakeras
Chair

Patrick K. Decker
President & CEO

1 International Drive
Rye Brook, NY 10573

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

March , 2017

Date and Time: Wednesday, May 10, 2017, at 11:00 a.m. ET

Place: Xylem World Headquarters
1 International Drive, Rye Brook, New York 10573

1.
Election of six members of the Xylem Inc. Board of Directors.
2.
Ratification of the appointment of Deloitte & Touche LLP as our independent registered accounting firm for 2017.

Items of Business: 3.
Advisory vote to approve named executive officer compensation.
4.
Amendment to Articles of Incorporation to allow Shareholders to amend our By-laws.
5.
Transact such other business as may properly come before the meeting.

Record Date: March 14, 2017

Mailing or Availability Date: Beginning on or about March , 2017, this Notice of Annual Meeting and the 2017 Proxy Statement are being mailed and made available to shareholders of record as of March 14, 2017.

Voting by Proxy: Your vote is important. You can vote your shares by Internet, by telephone or by completing and returning your proxy card or voting instruction form. Please see “Proxy Statement – Information About Voting” for details.

By Order of the Board of Directors,

Claudia S. Toussaint
SVP, General Counsel & Corporate Secretary

Important Notice Regarding the Availability of Proxy Materials for the 2017 Annual Meeting:
Our 2017 Proxy Statement and Annual Report for the year ended December 31, 2016 will be available online at www.proxyvote.com and on our website at www.xyleminc.com under “Investors.”

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Proxy Statement Summary

We are providing this Proxy Statement to you in connection with the solicitation of proxies by the Board of Directors of Xylem Inc. (“Xylem” or the “Company”) for the 2017 Annual Meeting of Shareholders (the “Annual Meeting”) and for any adjournment or postponement of the Annual Meeting. Below are highlights of certain information in this Proxy Statement. As it is only a summary, please review our complete Proxy Statement and 2016 Annual Report before you vote.

2017 ANNUAL MEETING OF SHAREHOLDERS

Date and Time	Record Date	Location
May 10, 2017 at 11:00 a.m. ET	March 14, 2017	Xylem Inc. World Headquarters 1 International Drive Rye Brook, New York 10573

Agenda Items:

Proposal	Board Recommendation	Page Reference
1 Election of 6 members of the Xylem Inc. Board of Directors	FOR	4
2 Ratification of the appointment of Deloitte & Touche LLP for 2017	FOR	9
3 Advisory vote to approve named executive officer compensation	FOR	11
4 Amendment to Articles of Incorporation to allow shareholders to amend the By-laws	FOR	12

CORPORATE GOVERNANCE HIGHLIGHTS

• Independent Chair	• Executive officers are subject to clawback policy
• All Directors are independent except our CEO (90%)	• Declassified Board phase-in will be complete in 2018
• Shareholder proxy access right	• Shareholders have the right to call special meetings
• Regular engagement with shareholders	• No poison pill
• Senior executive & Director stock ownership guidelines	• Board & committees conduct annual self-assessments
• Restriction on the number of other boards Directors may serve on to avoid overboarding	• Majority voting with a Director resignation policy for Directors in uncontested elections
• Overall Board and committee meeting attendance of 98% in 2016	• Company policy prohibits executive officers and Directors from pledging and hedging Xylem stock
• Board regularly reviews board size and composition, including diversity and tenure, as well as committee structure through its Nominating & Governance Committee	• The Independent Directors hold regularly scheduled executive sessions of Board and each committee without Company management present

SHAREHOLDER ENGAGEMENT

We value the views of our shareholders and we believe that building positive relationships with our shareholders is critical to our long-term success. To help management and the Board understand and consider the issues that matter most to our shareholders, we regularly engage with our shareholders on a range of topics related to strategic and operational matters as well as executive compensation and governance matters.

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Proxy Access

for Director

Nominations

In 2016 we adopted proxy access provisions with the following key parameters:

• Ownership threshold: 3% of outstanding shares of our common stock, including certain loaned shares

• Holding period: Shares owned continuously for 3 years

• Number of director nominees: Two or up to 20% of our existing Board, whichever is greater

• Nominating group size: Up to 20 shareholders may group together to reach the 3% ownership threshold (counting certain groups of funds as one shareholder for these purposes)

See page 13 for more information on our shareholder engagement program.

COMMITMENT TO SUSTAINABILITY

At Xylem, sustainability is at the very center of who we are and what we do. As a leading global water technology company, we deal with one of the world's most urgent sustainability issues on a daily basis - responsible stewardship of our shared water resources. Our link to this enormous challenge informs how we think about sustainability and drives us to become a more sustainable company.

In 2016, we were rated by and named to several indices used to track performance of companies in measuring and reporting on their sustainability performance: the MSCI Global Sustainability Index Series, the FTSE4Good Index Series, the CDP (formerly the Carbon Disclosure Project), and the NASDAQ OM CRD Global Sustainability Index. This is a major acknowledgment reflecting the work we have done to advance sustainable business practices and to consistently report our progress over time. To learn more about our sustainability efforts, please view our annual Sustainability Report available at www.xylemsustainability.com.

We encourage our shareholders to sign up for electronic delivery of proxy materials to help conserve natural resources (see page 48 for instructions). If you have feedback or questions on our Sustainability Report, please email us at xylem.sustainability@xylem.com.

COMPENSATION HIGHLIGHTS

(see page 26 for our Compensation Discussion and Analysis)

- A significant portion of our executive pay is performance-based and not guaranteed
- Compensation for our named executive officers ("NEOs") is aligned with shareholder interests through a balanced equity program (mix of restricted stock units, performance share units and stock options)
- We conduct regular compensation benchmarking and an annual compensation risk assessment
- We have a cap on our incentive compensation payouts
- In 2016 we implemented a double-trigger change in control requirement for our long-term incentive awards
- Our Leadership Development and Compensation Committee is advised by an independent compensation consultant
- In 2016, as in prior years, we received strong support in our say-on-pay advisory vote (97%)
- Our policy is to conduct an Annual Say-on-Pay shareholder vote

2016 NEO Compensation Mix*:

*Percentage of pay is based on annual target compensation (base salary, target annual incentive compensation and target long-term incentive compensation) and excludes any one-time awards granted upon hire.

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PROPOSALS TO BE VOTED ON AT THE 2017 ANNUAL MEETING

PROPOSAL 1 — ELECTION OF DIRECTORS

We are a global water technology company committed to developing innovative technology solutions to the world's water challenges. Our Board, through its Nominating and Governance Committee, regularly reviews the skills and experience needed to properly oversee the interests of the Company, taking into account the Company's short and long-term strategies. Our Board believes that the director nominees, along with the continuing members of the Board, have the appropriate mix of experience, skills, qualifications and attributes needed to lead the Company at the Board level.

Xylem's Board of Directors - Experience, Skills, Qualifications & Attributes

Leadership Experience Operational Expertise Diversity of Thought & Background

Governance Expertise Strategic & Growth Experience Global Experience

Technology & Innovation Experience Water Industry Knowledge Sales & Marketing Experience

Financial Expertise Risk Management Experience Talent Management Experience

For more information regarding director nominations and qualifications, see “Identifying and Evaluating Director Nominees” on page 15.

Historically our Board of Directors was divided into three classes. In 2013, our shareholders voted to support a management proposal to declassify our Board in three phases. Beginning in 2016 each director nominee that is elected will serve for a one-year term.

Our Board has nominated each of Curtis J. Crawford, Ph.D., Robert F. Friel, Sten E. Jakobsson, Steven R. Loranger, Surya N. Mohapatra, Ph.D. and Jerome A. Peribere for a one-year term. Edward J. Ludwig, who is currently a Director serving as Chair of the Finance, Innovation and Technology Committee and also serving on our Leadership Development and Compensation Committee has informed that Board that he will not stand for re-election. Mr. Ludwig will continue to serve through the end of his current term.

The Board has determined that each nominee is independent and that each nominee brings experience, expertise and diverse perspectives that will contribute to the overall strength of the Board in its oversight role. Each of the nominees currently serves on our Board and has agreed to be named in this Proxy Statement and to serve as a Director if elected.

In the event that these nominees should become unavailable for election due to any presently unforeseen reason