

Investing in the Global Water Sector



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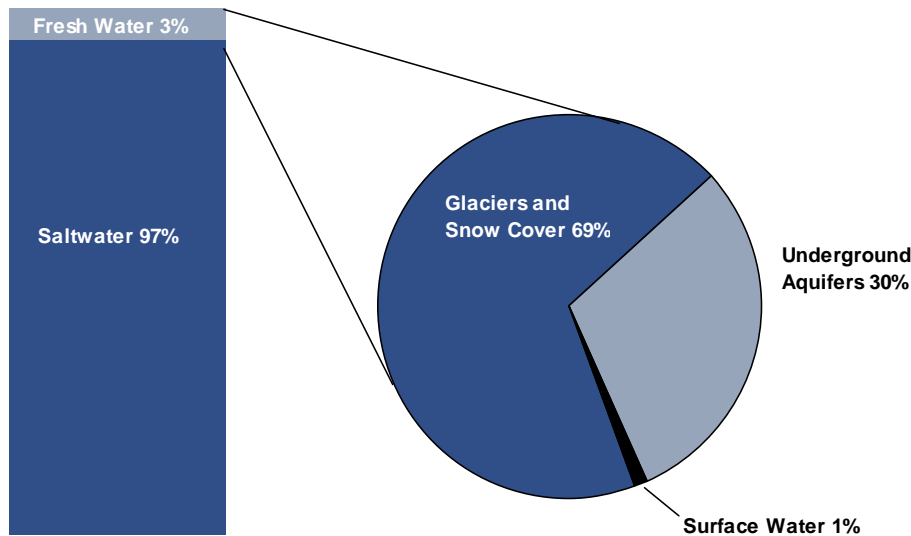
Navigating Investment Opportunities in the Global Water Sector

- **Water scarcity/quality is an enduring megatrend**
 - Demand-supply imbalances for the life sustaining resource with no substitute
- **Water sector positioned for long term, mostly defensive 4%-6% growth**
 - \$450 billion global water market, \$100 billion in the US, across 13 subsectors
 - Developed countries are focused on infrastructure rebuild: 1x-2x GDP growth
 - Developing countries are still building out new treatment systems: 8%-10% growth
 - Two-thirds of the top-50 companies in water are outside the US
- **Investors should focus on higher-end water treatment equipment and systems**
 - Desalination, filtration/ultrafiltration, water reuse, water test, smart meters
 - These command higher growth, higher margins, and premium valuations
- **Our Investment Framework: Identify best positioned Multi-Industry companies, best-in-breed, take-out candidates, and baskets/ETFs**
 - Our top picks among Multi-Industry companies in water: Buy-rated Danaher & Pentair
 - We expect ITT Water to command a premium valuation on scarcity value

Supply of Fresh Water is Limited and Stressed

Global Water Supply

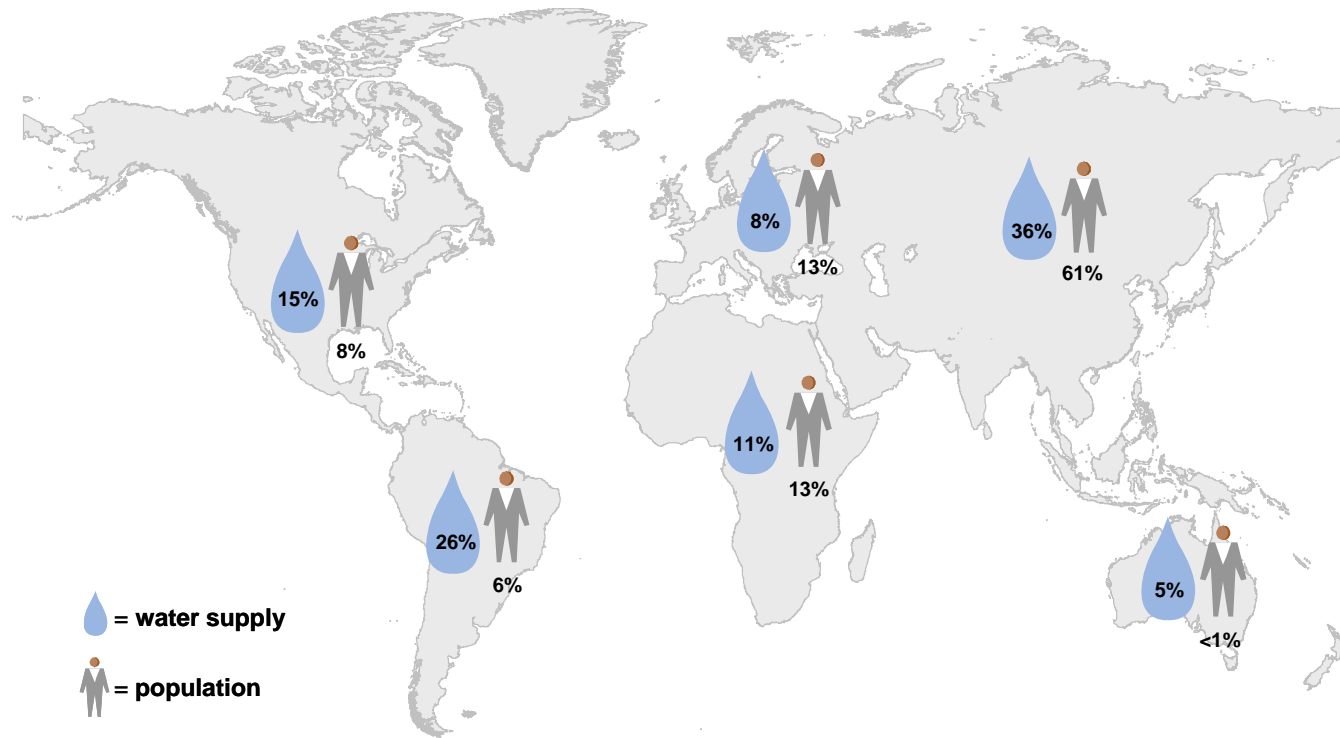
Global Fresh Water Supply



Source: United Nations

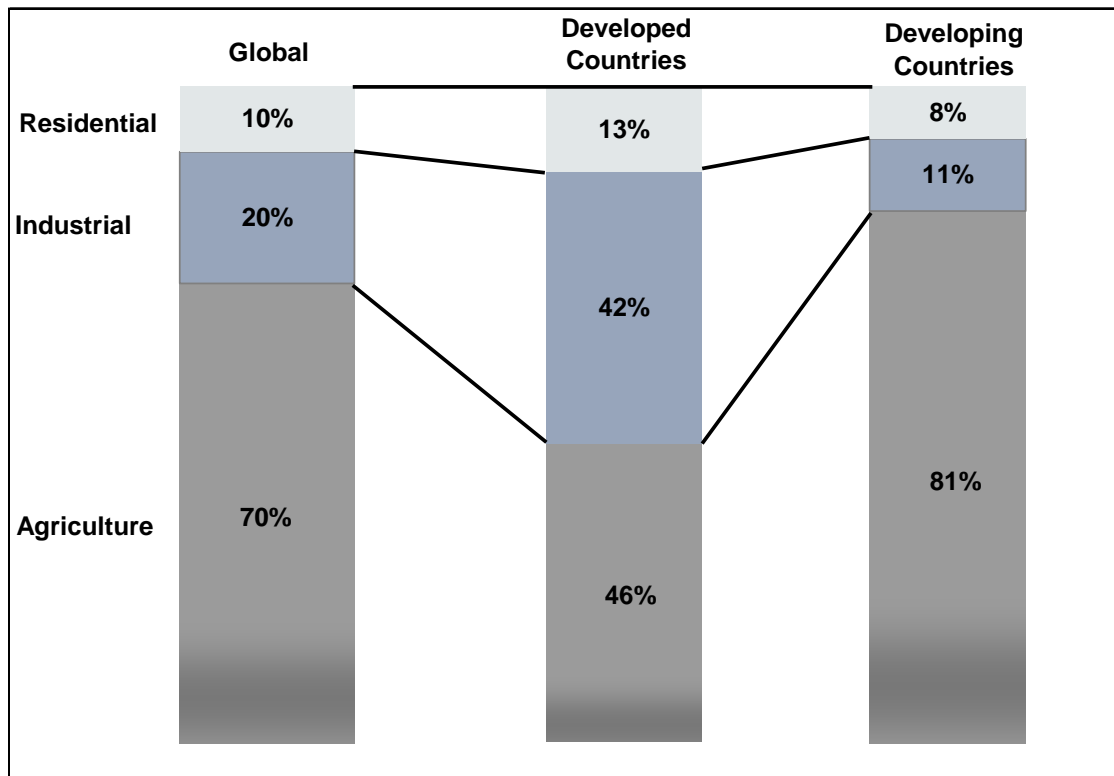
- Water supplies are threatened by pollution, population growth, urbanization, industrialization of developing markets, and climate change
- World supply of fresh water is essentially fixed, though supplies can be extended via desalination, reuse, and conservation.
- Water consumption is doubling every 20 years, more than 2x population growth.
- Water demand has tripled in the past 30 years while population growth has been just 50%.
- Growing awareness about water quality, safety, and security.
- Backlog of US infrastructure upgrades estimated \$300 bil to \$1 trillion.

Global Water Supply vs Population



- The number of people living in water-scarce conditions globally is expected to double in 20 years and those water stressed geographies should increase by six times.
- Over one billion people are exposed to unsafe drinking water and 3-4 million die annually from waterborne diseases.
- North America has an attractive ratio with 15% of the global water supply, but only 8% of the population. In contrast, China has only just 7% of the water supply, but 21% of the population.

Global Profiles of Water Demand



- Globally, 70% of the fresh water goes to agriculture, but as much as 55% is wasted using traditional irrigation methods.
- In developed countries, industrial processes represent the greatest percentage of water demand. Thermoelectric power uses half of US supply.
- As developing markets become more industrialized, there will be higher stresses on their fragile water infrastructures.

Source: United Nations

Our Top-10 Trends to Watch in Water



Top-10 Trends	Top Companies Levered to Trends
Desalination Systems	IDE Technologies, Hyflux, Suez, Veolia, ACS, Ferrovial, Acciona, Doosan Heavy, Energy Recovery, Flowserve
Water Reuse	Pall, Nalco, GE, Siemens, Pentair, Hyflux
Produced Water	Heckmann, Key Energy Services, Basic Energy Services, Complete Product Services, Guangdong Investment
Membranes Displacing Chemicals	Dow FilmTec, Pall, GE, Pentair, 3M, Koch, Siemens
Ultraviolet Light (UV) Disinfection	Danaher, ITT, Calgon Carbon
Forward Osmosis Used in Desalination	Modern Water, Hydration Technology Innovations, QuantumSphere, Oasys Company
Chinese Competitors in Water	Shanghai Industrial, Beijing Capital, Beijing Enterprises Water, China Everbright, China Water Affairs, Chongqing Water, Guangdong, Sound Global, Tianjin Capital, Hyflux*
Water Efficiency Products	Badger Meter, Itron, Roper, Insituform, Geberit, Falcon Waterfree Technologies, SPX
Point of Use (POU) Treatment	Pentair, Culligan, 3M, Siemens, Eco-Water Systems, Kinetico, BWT
Ballast Water Treatment	Danaher, Calgon Carbon



Note: *Hyflux is based in Singapore, but 85% of its revenue is from China

Market Composition of the \$450 Bil Water Sector by Key Subsectors

Water Subsector	Mkt Value (\$Bil)	Growth	Subsector Profiles
Pumps	\$34	+LSD	The pump market is mature, but fragmented, and together with Valves plays an integral role in flow control.
Valves	\$45	+LSD	Used to control direction, pressure, and rate of flow. Valve size, shape, and performance are dependent on use.
Water Test	\$7	4%-6%	Includes analytical systems, instrumentation, and reagents that are used for water quality and safety analysis.
Water & Wastewater Treatment	\$165	+MSD	This market involves the treatment of water throughout its cycle.
Industrial Water Treatment	\$65	5%-6%	Treating industrial wastewater helps prevent corrosion, contamination, and buildup of harmful deposits.
Residential Water Treatment	\$12	+MSD-HSD	Treated water reduces harmful contaminants prior to consumption, and protects home plumbing/appliances.
Produced Water	\$8	+MSD	This market is driven by expansion of land-based natural gas drilling and hydraulic fracturing.
Filtration	\$28	+LSD	Includes a diverse set of equipment and consumables. This market is driven mainly by product innovation.
Infrastructure	\$50	+LSD	This market is made up of a wide collection of water systems and equipment used to maintain, build or repair.
Automation Systems	\$10	+MSD-HSD	Strict water quality standards and rising operating costs are key growth drivers for process control equipment.
Desalination	\$10	+10%	Desalination removes salt from seawater as a source of fresh water supply.
Engineering & Consulting	\$20	+MSD	E&C captures various services across the water spectrum including wastewater, desalination, and water reuse.
Irrigation	\$8	+MSD	Food prices, federal subsidies and conservation are key drivers, potentially offset by soft nonresi construction.
Global Water Sector	\$450	4%-6%	

Note: LSD is low single-digit; MSD is mid single-digit; HSD is high single-digit

Our estimated \$450 Bil Global Water Market excludes overlap between the Filtration and Residential Water Treatment Markets

Best in Breed in Water Sector Today

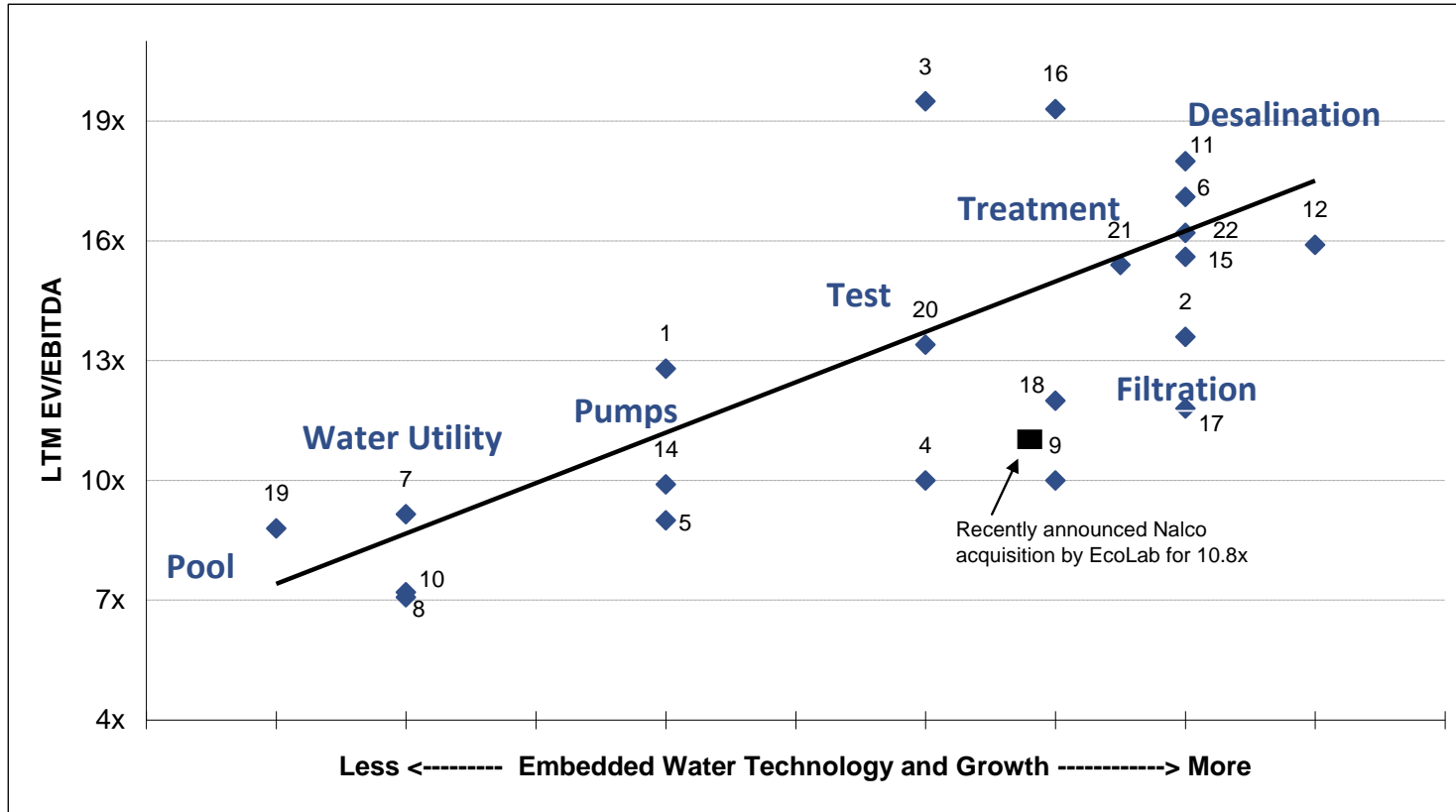
	Water Technology	Top Companies	Citi Comments
	Desalination	Hyflux (600.SI) Veolia (VE)	84% of sales in China and Middle East Global builder and operator of desal plants
	UV	Danaher (DHR) ITT (ITT)	Trojan is No. 1 in UV disinfection systems WEDECO UV disinfection and ozone oxidation is No. 2
	Filtration	Pall (PLL)	Last independent filtration company
	Water Rights	PICO Holdings, Inc. (PICO) Pure Cycle Corp (PCYO)	Owns ground water rights throughout Southwest US Owns rights to water around Denver, CO
	Test	Danaher (DHR) Thermo (TMO)	No. 1 in worldwide test, 5x larger than No. 2 competitor Leader in niche ion chromatography
	Service	Suez (SZE) Veolia (VE)	Two largest competitors with wide global reach
	Industrial Treatment	Nalco (NLC) Danaher (DHR)	No. 1 in industrial and institutional markets ChemTreat is Danaher's most recent water acquisition
	Residential	Pentair (PNR) Siemens (SI)	80% interest in residential joint venture with GE USFilter acq. added leading water treatment products
	Meters	Roper (ROP) Badger Meter (BMI)	Neptune has estimated 36% share of U.S. market Roughly 25% share, but larger portion of total sales
	Automation	Rockwell (ROK) ABB (ABB)	Leaders in process systems automation for water utilities
	Irrigation	Valmont (VMI)	Global leader in mechanized irrigation systems
	Valves	Tyco (TYC)	Water and Environmental Systems
	Pumps	ITT (ITT) Flowserve (FLS)	No. 1 worldwide, particularly strong in municipal No. 2 worldwide
	E&C	Tetra Tech (TTEK)	Expertise in water infrastructure
	Pipes	Insituform (INSU)	Leader in pipe re-lining, driven by aging infrastructure
	Water Utilities	American Water Works (AWK) Aqua America (WTR)	Largest public US water utility; serves 15 million people 200 acqs. in past 10 years; now serves 3 million people

Top 25 Global Water Companies by Key Subsector Exposures

					Water End Market								
					⇨ Low-End to High-End of the Valuation Continuum ⇨								
Company (ticker)	Country	Total Water Revs	Water Revs Percent	Market Cap	Engineering/ Construction	Pumps	Valves	Automation	Industrial Treatment	Water Treatment	Water Test	Filtration	Other Water
Veolia (VE)	France	\$17,834	39%	\$6,973	1%					35%			3%
Suez Environment (SEV-FR)	France	\$7,600	41%	\$7,135	5%					35%			
Sabesp (SBS)	Brazil	\$5,257	100%	\$5,416						100%			
Grupo Ferrovial (FER-ES)	Spain	\$3,221	20%	\$7,933	20%								
ITT Corp. (ITT)	US	\$2,727	25%	\$7,683		14%				7%		4%	
Severn Trent (SVT-GB)	UK	\$2,716	100%	\$5,360	5%					95%			
American Water Works (AWK)	US	\$2,711	100%	\$5,227						100%			
Siemens (SI)	Germany	\$2,056	2%	\$77,080					<1%	<1%		<1%	
General Electric (GE)	US	\$2,000	1%	\$161,231				<1%	<1%	<1%		<1%	
Ebara (6361-JP)	Japan	\$1,936	37%	\$1,655		37%							
Kurita (6370-JP)	Japan	\$1,922	100%	\$3,504					69%	31%			
Tetra Tech (TTEK)	US	\$1,871	85%	\$1,197	85%								
Danaher (DHR)	US	\$1,452	11%	\$29,280					2%	2%	7%		
Nalco (NLC)	US	\$1,700	40%	\$4,850					40%				
AECOM Technology (ACM)	US	\$1,636	25%	\$2,124	25%								
Kubota (6326-JP)	Japan	\$1,603	16%	\$10,473									
Pentair (PNR)	US	\$1,485	49%	\$3,127		29%						20%	
Balfour Beatty (BALF.L)	UK	\$1,426	10%	\$2,632	10%								
Mueller Water Products (MWA)	US	\$1,338	100%	\$377			28%						72%
Watts Water Technologies (WTS)	US	\$1,275	100%	\$976		42%	20%					18%	20%
Dow Chemical (DOW)	US	\$1,000	2%	\$27,794						1%		1%	
Insituform (INSU)	US	\$915	100%	\$504									100%
Tyco International (TYC)	US	\$851	5%	\$19,958			4%		1%				
Acciona (ANA-ES)	Spain	\$746	9%	\$5,115				9%					
Aqua America (WTR)	US	\$726	100%	\$2,905						100%			

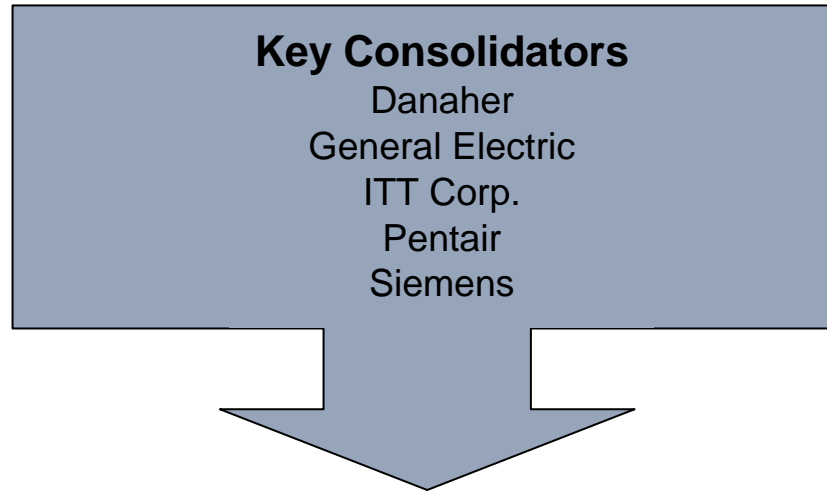
Explaining Water M&A Valuations: High-End of Water Command Premium Valuations

Citi Water Technology Valuation Continuum



Note: See our Water Sector Handbook published on May 24, 2011 for M&A transactions referenced in scatter plots

Water Sector Still Has Consolidation Opportunities



Potential Takeout Candidates		
Treatment/Filtration	Infrastructure	Equipment
Pall (PLL, \$5.6 bil) * Nalco (NLC, \$4.6 bil) Clarcor (CLC, \$2.2 bil) Calgon Carbon (CCC, \$0.9 bil)	Tetra Tech (TTEK, \$1.2 bil) Insituform (INSU, \$0.6 bil)	Badger Meter (BMI, \$0.5 bil) Energy Recovery (ERII, \$0.12 bil)

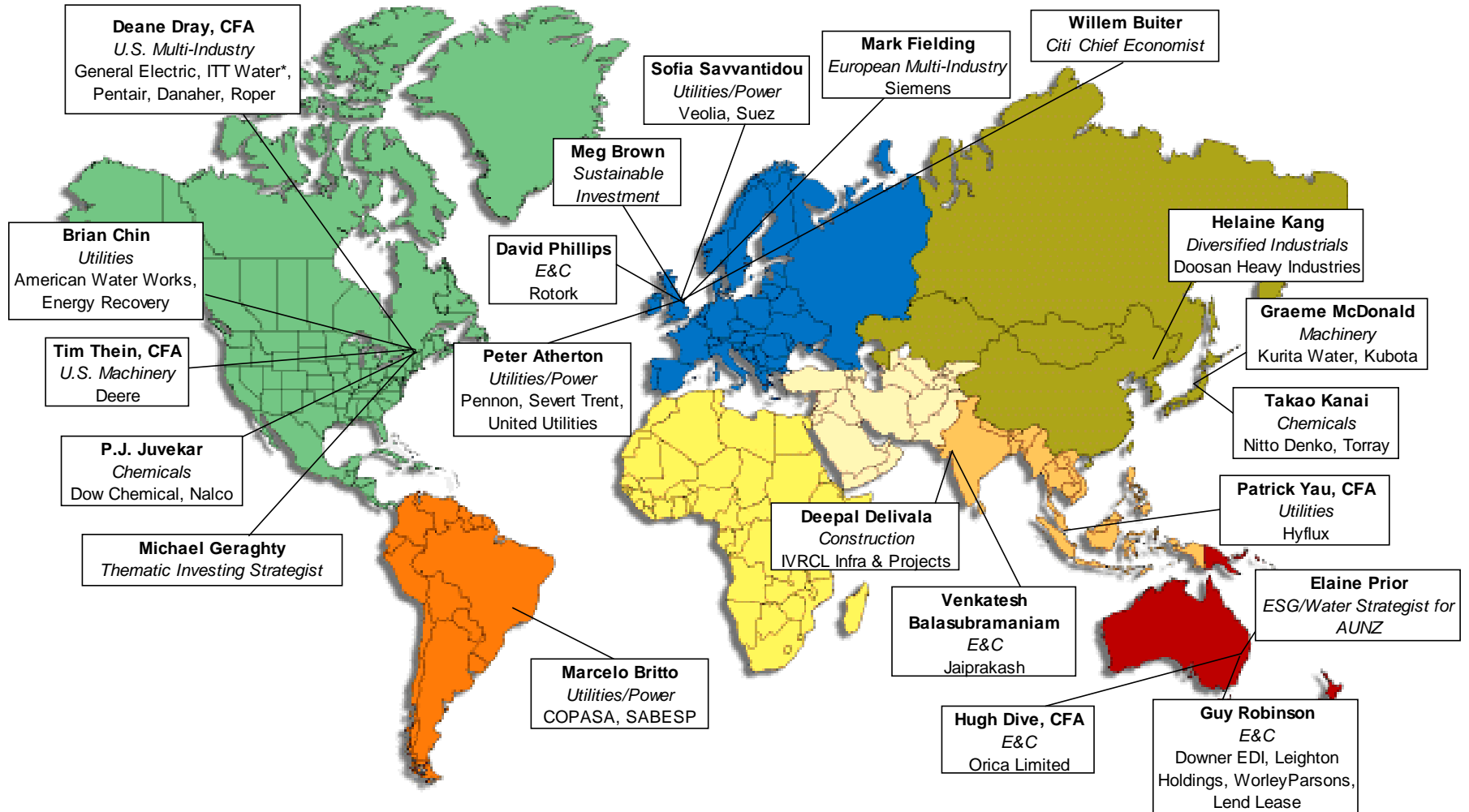
*On July 20, Ecolab Inc. (ECL, \$10.9 bil) announced its intent to acquire NLC for \$8.1 bil (10.8x TTM EV/EBITDA); the deal is expected to close in 4Q11.

Our Investment Conclusions

- **Water is a compelling megatrend with global supply-demand imbalances centering it on geopolitical, industrial & social agendas**
- **\$450 bil market, 13 subsectors, growing 4%-6%, mostly defensive**
- **Dispelling the myth about water being “un-investable”. Not all water business are valued alike.**
- **Investors should focus on the high-end of the water technology spectrum for higher growth, better margins: desalination, nano- + ultrafiltration, water test, smart meters, water rights.**
- **Water remains a challenging investment proposition. Investors should look to the best-positioned Multi-Industry companies, best-in-breed, consolidation candidates, and baskets/ETFs.**



Citi Global Research with Key Water Sector Focus



Source: CIRA

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Valuation Summary (1 of 2)

	Ticker	Rating	Risk	Price 9/23/11	Market Cap (\$ mil)	12-m o Target Price	Target Forward Multiple	Historical Range	Target Premium Discount	Estimated Total Return (ETR)	Div. Yield
Large & Mid Cap											
Cooper Industries	CBE	Buy	M	\$45.17	\$7,452	\$53	13.0x	(15%) to 5%	0.0%	20.0%	2.7%
Danaher	DHR	Buy	M	\$42.71	\$29,280	\$50	16.3x	10% to 25%	25.0%	17.2%	0.1%
DoverCorp (2)	DOV	NA		\$46.28	\$8,609	NA	NA	(10%) to 0%	NA	NA	2.7%
Emerson (1)	EMR	Hold	M	\$42.33	\$31,523	\$47	13.0x	0% to 15%	0.0%	14.6%	3.5%
General Electric	GE	Buy	M	\$15.21	\$161,231	\$20	13.0x	(15%) to 10%	0.0%	35.7%	4.2%
Granger	GWV	Hold	M	\$154.27	\$10,782	\$131	14.3x	(10%) to 15%	10.0%	-13.4%	1.7%
Honeywell	HON	Hold	M	\$42.43	\$33,198	\$51	12.4x	(15%) to 5%	-5.0%	23.0%	2.8%
Illinois Tool Works	ITW	Buy	M	\$42.66	\$20,964	\$50	12.4x	(15%) to 10%	-5.0%	20.7%	3.5%
Ingersoll Rand	IR	Sell	M	\$31.00	\$10,260	\$29	9.1x	(30%) to (5%)	-30.0%	-4.9%	1.5%
IIT Corp.	IIT	Hold	M	\$41.46	\$7,683	\$52	11.1x	(30%) to (5%)	-14.8%	28.3%	2.9%
Pentair	PNR	Buy	M	\$31.66	\$3,127	\$37	13.7x	(5%) to 15%	5.0%	19.8%	2.9%
Roper Industries	ROP	Hold	M	\$69.95	\$6,720	\$74	16.3x	10% to 30%	25.0%	6.4%	0.6%
SPX Corp.	SPW	Hold	M	\$46.47	\$2,375	\$59	11.7x	(20%) to 10%	-10.0%	29.1%	2.2%
3M	MMM	Hold	M	\$73.99	\$52,499	\$81	12.7x	(15%) to 10%	-2.5%	12.6%	3.1%
Tyco International (1)	TYC	Hold	M	\$42.98	\$19,958	\$42	12.4x	(20%) to 0%	-5.0%	0.2%	2.5%
Large & Mid Cap Mean						13.0x				14.7%	2.5%
Large & Mid Cap Median											2.8%
Small Cap											
Actuant (1)	ATU	Buy	M	\$18.18	\$1,248	\$25	14.4x	(10%) to 20%	15.0%	37.7%	0.2%
Carlisle Companies	CSL	Hold	M	\$31.70	\$1,953	\$37	11.6x	(15%) to 0%	-7.5%	19.0%	2.3%
Crane Co.	CR	Hold	M	\$36.06	\$2,094	\$40	11.3x	(25%) to (5%)	-10.0%	13.8%	2.9%
Federal Signal	FSS	Hold	H	\$4.47	\$278	\$5.50	11.3x	(15%) to 20%	-10.0%	23.0%	0.0%
Thomas & Betts Corp.	TNB	Hold	M	\$39.11	\$2,055	\$45	12.5x	(10%) to 10%	0.0%	15.1%	0.0%
Hubbell Inc. (2)	HUB.B	NA		\$49.83	\$2,951	NA	NA		NA	NA	3.0%
Graco (2)	GGG	NA		\$34.13	\$2,077	NA	NA		NA	NA	2.5%
IEX (2)	IEX	NA		\$31.11	\$2,585	NA	NA		NA	NA	2.2%
WESCO	WCC	Buy	M	\$35.95	\$1,555	\$51	12.5x	(30%) to 0%	0.0%	41.9%	0.0%
Small Cap Mean						12.5x					1.5%
Small Cap Median											2.2%
S&P 500				SPX		\$1,136.43				25.1%	2.2%

(1) Based on calendarized estimates for EMR, TYC, and ATU

(2) Based on consensus estimates for DOV, HUB.B, GGG, and IEX

Source: CIRA Estimates, Factset

Valuation Summary (2 of 2)

Large & Mid Cap	Ticker	Performance			Price vs.	EPS Growth		P/E		Relative P/E to S&P 500		EV/	EV/	FCF	Price/	FCF	Price/Book	2011E Margin	
		YTD	1 Week	2010	52-Week High	2011E	2012E	2011E	2012E	2011E	2012E	EBITDA	Sales	Conversion	FCF	Yield		Gross	EBIT
Cooper Industries	CBE	-23%	-5.2%	37%	65%	19%	13%	11.9x	10.5x	1.02	0.94	8.6x	1.5x	104%	12.6x	7.9%	2.4x	33.9%	14.2%
Danaher	DHR	-9%	-7.0%	25%	76%	27%	18%	15.2x	12.9x	1.30	1.16	9.4x	2.3x	100%	15.4x	6.5%	2.1x	52.2%	16.3%
Dover Corp (2)	DOV	-21%	-11.6%	40%	66%	30%	11%	10.3x	9.2x	0.88	0.82	5.5x	1.7x	96%	11.4x	8.7%	1.8x	38.0%	14.9%
Emerson (1)	EMR	-26%	-7.5%	34%	66%	21%	12%	12.5x	11.1x	1.07	0.99	6.9x	1.7x	112%	11.5x	8.7%	3.2x	43.0%	16.9%
General Electric	GE	-17%	-6.9%	21%	70%	20%	15%	10.9x	9.5x	0.93	0.85	NM	NM	71%	NM	NM	NM	32.6%	14.7%
Granger	GWV	12%	-3.5%	43%	93%	27%	12%	17.8x	15.9x	1.53	1.43	9.1x	1.5x	85%	19.9x	5.0%	4.9x	43.3%	13.3%
Honeywell	HON	-20%	-10.0%	36%	68%	30%	10%	10.9x	9.9x	0.93	0.88	6.0x	1.1x	83%	13.7x	7.3%	3.0x	25.7%	14.5%
Illinois Tool Works	ITW	-20%	-6.0%	11%	72%	30%	16%	11.4x	9.8x	0.97	0.88	6.5x	1.5x	105%	10.7x	9.3%	2.3x	35.0%	15.5%
Ingersoll Rand	IR	-34%	-13.2%	32%	59%	22%	23%	10.9x	8.9x	0.93	0.79	6.5x	0.9x	93%	10.9x	9.2%	1.3x	32.6%	10.3%
ITT Corp.	ITT	-20%	-7.7%	5%	65%	7%	5%	8.8x	8.4x	0.76	0.75	5.1x	0.7x	108%	8.1x	12.3%	1.7x	28.4%	10.9%
Pentair	PNR	-13%	-6.8%	13%	75%	23%	20%	12.9x	10.7x	1.10	0.96	7.4x	1.2x	106%	12.0x	8.3%	1.4x	31.9%	11.9%
Roper Industries	ROP	-8%	-7.9%	46%	79%	26%	13%	16.4x	14.6x	1.41	1.30	10.0x	3.3x	140%	11.5x	8.7%	2.5x	54.2%	23.2%
SPX Corp.	SPW	-35%	-12.6%	31%	53%	20%	31%	10.7x	8.1x	0.91	0.73	6.6x	0.6x	106%	9.9x	10.1%	1.1x	28.6%	6.9%
3M	MMM	-14%	-8.1%	4%	75%	6%	11%	12.1x	11.0x	1.04	0.98	7.1x	2.0x	100%	11.6x	8.6%	3.4x	47.5%	21.4%
Tyco International (1)	TYC	4%	-1.6%	16%	81%	21%	11%	13.2x	11.9x	1.13	1.06	6.8x	1.3x	127%	10.3x	9.7%	1.5x	38.2%	11.9%
Large & Mid Cap Mean		-1.6%	-7.8%	25%	71%	22%	15%	12.4x	10.8x	1.06	0.97	7.2x	1.5x	103%	12.1x	8.6%	2.4x	37.0%	14.4%
Large & Mid Cap Median		-1.8%	-7.6%	28%	71%	22%	13%	12.0x	10.6x	1.03	0.95	6.9x	1.5x	104%	11.5x	8.7%	2.3x	34.4%	14.3%
Small Cap																			
Actuant (1)	ATU	-32%	-9.8%	44%	60%	55%	11%	10.8x	9.7x	0.93	0.87	6.6x	1.4x	119%	8.8x	11.4%	1.8x	38.6%	13.0%
Carlisle Companies	CSL	-20%	-14.7%	16%	63%	31%	15%	10.7x	9.3x	0.92	0.83	6.2x	0.9x	101%	10.3x	9.7%	1.5x	21.2%	9.6%
Crane Co.	CR	-12%	-11.6%	34%	69%	29%	10%	10.7x	9.8x	0.92	0.87	5.9x	1.0x	75%	14.1x	7.1%	2.2x	34.3%	12.5%
Federal Signal	FSS	-35%	-14.4%	14%	57%	159%	145%	22.0x	9.0x	1.88	0.80	8.9x	0.7x	NM	NM	NM	1.2x	25.1%	4.0%
Thomas & Betts Corp.	TNB	-19%	-10.0%	35%	63%	18%	22%	12.0x	9.9x	1.03	0.89	6.2x	1.1x	103%	11.6x	8.7%	1.4x	32.0%	12.5%
Hubbell Inc. (2)	HUBB	-17%	-11.9%	27%	68%	13%	12%	11.8x	10.6x	1.01	0.95	6.0x	1.4x	120%	11.7x	8.6%	2.0x	32.6%	14.1%
Graco (2)	GGG	-13%	-9.7%	38%	63%	39%	14%	14.6x	12.8x	1.25	1.15	7.6x	3.5x	162%	13.9x	7.2%	6.1x	55.9%	22.9%
IDEX (2)	IEX	-20%	-10.0%	26%	65%	23%	15%	12.7x	11.0x	1.09	0.99	7.4x	2.4x	112%	14.9x	6.7%	1.7x	42.9%	17.1%
WESCO	WCC	-32%	-16.8%	95%	55%	48%	16%	9.5x	8.2x	0.81	0.73	6.3x	0.4x	82%	10.0x	10.0%	1.4x	20.1%	5.3%
Small Cap Mean		-22%	-12.1%	37%	63%	46%	29%	12.8x	10.0x	1.09	0.90	6.8x	1.4x	109%	11.9x	8.7%	2.1x	33.6%	12.3%
Small Cap Median		-20%	-11.6%	34%	63%	31%	15%	11.8x	9.8x	1.01	0.87	6.3x	1.1x	107%	11.6x	8.6%	1.7x	32.6%	12.5%
S&P 500	SPX	-10%	-6.5%	13%	83%	15%	5%	11.7x	11.2x										

(1) Based on calendarized estimates for EMR, TYC, and ATU

(2) Based on consensus estimates for DOV, HUBB, GGG, and IEX

Source: CIRA Estimates, Factset

Appendix A-1

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