

## Waters Corp.

# 4Q23 review: Executing well, waiting for the rebound to come

Reiterate Rating: NEUTRAL | PO: 338.00 USD | Price: 324.85 USD

## Solid 4Q23 results; FY24 outlook largely in-line

WAT's 4Q sales fell -8% organically, in-line with BofAe, and Adj EPS of \$2.62 were +2% ahead of consensus (see our earlier [First Look](#) for details). In FY24, WAT sees organic sales of -0.5% to +1.5% and Adj EPS of \$11.75-\$12.05, largely in-line with expectations.

## China, Biopharma, and A&G key variables to guide

Like peers, WAT's FY24 guide reflects a tough 1H and improving 2H dynamic. Mgmt. noted that while visibility is high in the short-term "we just don't like what we're seeing". In China, WAT noted some signs of stabilization, but it is still too early to call for a rebound. For Biopharma, WAT saw a muted budget flush in 4Q which led to a 15% sequential q/q revenue growth, but replacement for liquid chromatography (LC) equipment remains well below average. LC instruments were down -7% (ex-China) in 2023, and while they expect the replacement cycle to resume, this is not embedded in FY24 guidance. Should China or LC rebound sooner than expected, this would be upside to our ests. Academic & Government (A&G) grew ~10% y/y overall (and ~15% ex-China) in FY23. This creates a difficult comparison for WAT at a time when governments are reevaluating fiscal priorities. Indeed, for 1Q24, WAT sees China down -40% y/y partly due to stimulus spending in the prior year.

## Good execution & margin expansion despite tough market

Despite the muted topline outlook for FY24, WAT still sees 20-30bps of operating margin expansion in FY24. Driving this expansion are mix (lower instruments, higher services, and contributions from the Wyatt deal) and pricing. WAT realized ~300bps of price in FY23 and expects to get roughly 200bps in FY24 and 100bps annually longer term vs. the historical 50-75bps level.

## Update ests; Raise PO \$338; Reiterate Neutral

We update our ests, but with higher tax rate and share count assumptions partly offsetting higher sales. On higher ests, our PO increases to \$338 PO (was \$328), still based on 18x our FY25 adjusted EBITDA, in-line with peers. Overall, we are encouraged by the resilience of WAT's business and execution. That said, we remain Neutral, as shares look fairly valued. We look to see if WAT can deliver on its promise to improved core growth by ~200bps vs. historical average as markets normalize.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.03	11.76	11.91	13.15	14.50
GAAP EPS	11.74	10.85	10.94	12.16	13.49
EPS Change (YoY)	7.4%	-2.2%	1.3%	10.4%	10.3%
Consensus EPS (Bloomberg)			11.97	13.24	14.47
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	27.0x	27.6x	27.3x	24.7x	22.4x
GAAP P/E	27.7x	29.9x	29.7x	26.7x	24.1x
EV / EBITDA*	20.5x	21.0x	18.7x	17.5x	16.4x
Free Cash Flow Yield*	2.3%	2.3%	2.5%	2.8%	3.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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### Equity

Key Changes (US\$)	Previous	Current
Price Obj.	328.00	338.00
2024E Rev (m)	2,975.0	2,990.0
2025E Rev (m)	3,137.0	3,175.0
2026E Rev (m)	3,340.0	3,385.0
2024E EPS	11.90	11.91
2025E EPS	13.10	13.15
2026E EPS	14.55	14.50

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### Stock Data

Price	324.85 USD
Price Objective	338.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-2-9
52-Week Range	231.90 USD - 346.24 USD
Mrkt Val (mn) / Shares Out (mn)	19,169 USD / 59.0
Free Float	99.8%
Average Daily Value (mn)	122.73 USD
BofA Ticker / Exchange	WAT / NYS
Bloomberg / Reuters	WAT US / WAT.N
ROE (2024E)	41.3%
Net Dbt to Eqty (Dec-2023A)	183.2%
ESGMeter <sup>TM</sup>	High

ESGMeter<sup>TM</sup> is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> Waters Corp.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	30.6%	23.6%	18.3%	18.3%	19.3%
Return on Equity	166.3%	84.1%	41.3%	31.8%	30.5%
Operating Margin	30.2%	30.9%	31.2%	31.7%	32.1%
Free Cash Flow	436	442	479	533	595

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	0.9x	0.9x	0.9x	0.9x
Asset Replacement Ratio	1.3x	1.0x	0.8x	0.9x	0.9x
Tax Rate	15.6%	16.2%	16.3%	16.7%	17.3%
Net Debt-to-Equity Ratio	216.9%	183.2%	75.0%	61.3%	46.6%
Interest Cover	23.8x	11.1x	11.5x	12.8x	14.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,972	2,956	2,990	3,175	3,385
% Change	6.7%	-0.5%	1.1%	6.2%	6.6%
Gross Profit	1,724	1,761	1,788	1,906	2,039
% Change	5.8%	2.2%	1.5%	6.6%	7.0%
EBITDA	1,018	994	1,121	1,195	1,278
% Change	5.0%	-2.4%	12.8%	6.6%	6.9%
Net Interest & Other Income	(1,083)	204	(1,681)	(1,429)	(1,176)
<b>Net Income (Adjusted)</b>	<b>725</b>	<b>697</b>	<b>711</b>	<b>770</b>	<b>834</b>
<b>% Change</b>	<b>4.4%</b>	<b>-4.0%</b>	<b>2.1%</b>	<b>8.3%</b>	<b>8.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	725	697	711	770	834
Depreciation & Amortization	130	166	196	197	199
Change in Working Capital	(247)	(242)	(242)	(242)	(242)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	3	(18)	(22)	(22)	(22)
Capital Expenditure	(176)	(161)	(165)	(170)	(176)
<b>Free Cash Flow</b>	<b>436</b>	<b>442</b>	<b>479</b>	<b>533</b>	<b>595</b>
<b>% Change</b>	<b>-25.6%</b>	<b>1.5%</b>	<b>8.2%</b>	<b>11.5%</b>	<b>11.5%</b>
Share / Issue Repurchase	(626)	(40)	(100)	(400)	(400)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	60	780	(250)	(250)	(250)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	481	396	539	438	398
Trade Receivables	723	702	696	739	788
Other Current Assets	560	517	516	546	580
Property, Plant & Equipment	582	639	630	625	623
Other Non-Current Assets	935	2,373	2,800	2,893	2,998
<b>Total Assets</b>	<b>3,281</b>	<b>4,628</b>	<b>5,182</b>	<b>5,241</b>	<b>5,387</b>
Short-Term Debt	50	50	50	50	50
Other Current Liabilities	736	695	608	646	689
Long-Term Debt	1,525	2,455	2,205	1,955	1,705
Other Non-Current Liabilities	466	276	30	32	34
<b>Total Liabilities</b>	<b>2,777</b>	<b>3,477</b>	<b>2,894</b>	<b>2,683</b>	<b>2,478</b>
<b>Total Equity</b>	<b>504</b>	<b>1,151</b>	<b>2,289</b>	<b>2,558</b>	<b>2,909</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,281</b>	<b>4,628</b>	<b>5,182</b>	<b>5,241</b>	<b>5,387</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Life Sciences & Diagnostic Tools

## Company Description

Waters Corp. (WAT) is a leading supplier of analytical instrumentation and consumable products, which are used mainly for research and quality assurance applications by pharmaceutical, life science, biochemical, industrial, academic and government customers. The company has a No. 1 position in the liquid chromatography market (about 70% of the business), a No. 3 position in the mass spectrometry market (about 20%) and a No. 1 position in the thermal analysis market (about 10%).

## Investment Rationale

Thanks to strong core end markets, new product introductions, and better commercial focus, Waters' organic revenue growth rate has accelerated over the last two years as the company has stemmed share loss. We are encouraged by the company's progress, but the opportunity for margin expansion appears limited and it remains to be seen if Waters' core growth improvement is sustainable.

## Stock Data

Average Daily Volume 377,806

## Quarterly Earnings Estimates

	2023	2024
Q1	2.49A	NA
Q2	2.80A	NA
Q3	2.84A	NA
Q4	3.62A	NA

## Abbreviations

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CDMO: Contract drug manufacturing organization

LSD: Low single digits

## Price objective basis & risk

### Waters Corp. (WAT)

Our \$338 PO is based on about 18x our FY25 EV/EBITDA estimate, in-line with the average of the company's core life sciences tools peers.

Downside risks to our PO are slower-than-expected capital deployment, a weaker global economy, share losses to competitors, the failure of new products to deliver, lingering headwinds from the COVID-19 pandemic, unfavorable currency moves, geopolitical risk (e.g., Waters has above average exposure to China), and a slowdown in Pharma and biotech spending are downside risks to our price objective.

Upside risks to our PO are faster-than-expected capital deployment, faster-than-expected uptake of new products, and the acquisition of the company.

## Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
<b>NEUTRAL</b>				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
<b>UNDERPERFORM</b>				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin

## US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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## Important Disclosures

### Waters (WAT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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