

Waters Corporation (WAT)

\$220.09 (As of 02/06/20)

Price Target (6-12 Months): **\$231.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: C

Momentum: F

Summary

Waters reported fourth-quarter results wherein earnings and revenues grew year over year. The company witnessed strong performance in the governmental & academic market. Further, its improved performance in Europe contributed to the results. Solid momentum across large molecule pharma and biomedical research applications remained a major positive. Additionally, Waters' growing investments in LC, LC-MS and chemistry categories aided it in gaining traction in large molecule market. The company remains optimistic regarding strengthening growth initiatives and new product cycle. However, sluggishness in TA segment is a concern. Further, government policy changes in China and political uncertainties in Mexico and Brazil are overhangs. Softness in small molecule market is a headwind. The stock has underperformed the industry over a year.

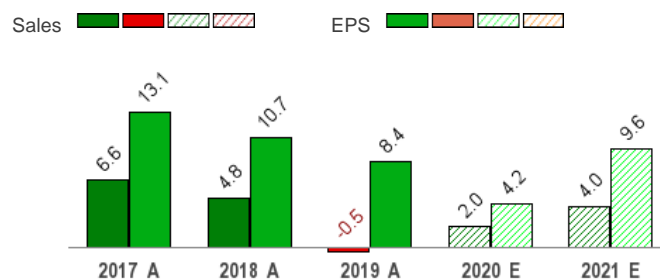
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$255.21 - \$199.11
20 Day Average Volume (sh)	531,852
Market Cap	\$14.2 B
YTD Price Change	-5.8%
Beta	1.10
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Instruments - Scientific
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.0%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-5.0%
Expected Report Date	04/28/2020
Earnings ESP	-3.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	540 E	630 E	617 E	769 E	2,555 E
2020	520 E	609 E	593 E	737 E	2,456 E
2019	514 A	599 A	577 A	716 A	2,407 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.93 E	\$2.50 E	\$2.51 E	\$3.42 E	\$10.27 E
2020	\$1.68 E	\$2.29 E	\$2.29 E	\$3.18 E	\$9.37 E
2019	\$1.60 A	\$2.14 A	\$2.13 A	\$3.20 A	\$8.99 A

*Quarterly figures may not add up to annual.

P/E TTM	24.3
P/E F1	23.5
PEG F1	2.3
P/S TTM	5.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

Milford, MA-based, Waters Corp. is an analytical instrument manufacturer and offers practical and sustainable products for laboratory-dependent organizations. Moreover, Waters provides analytical workflow solutions based on mass spectrometry, liquid chromatography and thermal analysis technologies.

The company's products are used by pharmaceutical, life science, biochemical, industrial, academic and government customers, working in research and development, quality assurance and other laboratory applications.

Waters serves customers through its strong sales and service networks.

Notably, the company generated \$2.4 billion of total revenues in 2019, declining 0.5% from 2018.

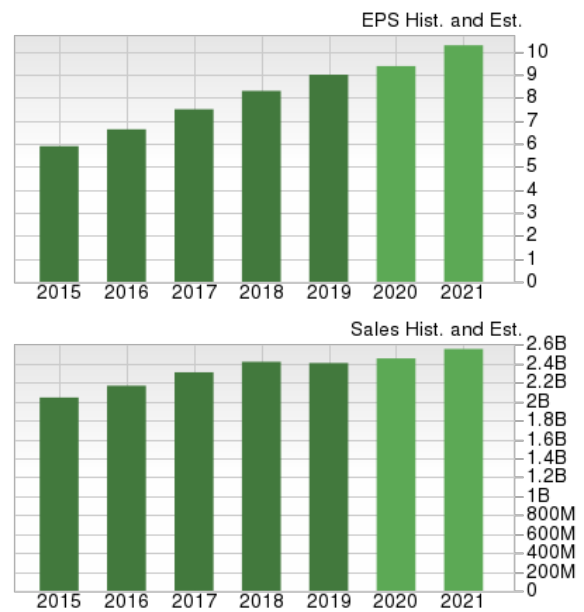
The company operates in Asia, Americas and Europe. Waters organizes its business into two operating segments: Waters Division and TA Division.

Waters Division (88.8% of total revenues in 2019)- High Performance and Ultra Performance Liquid Chromatography (HPLC).

Developed in the 1950s, HPLC is the standard technique used to identify and analyze the constituent components of a variety of chemicals and other materials. The company believes that HPLC's performance capabilities enable it to separate and identify approximately 80% of all known chemicals and materials. As a result, HPLC is used to analyze substances in a wide variety of industries for research and development purposes, quality control and process engineering applications.

TA Division (11.2% of total revenues in 2019)- Thermal Analysis, Rheometry and Calorimetry.

Thermal analysis measures the physical characteristics of materials as a function of temperature. The techniques are widely used in the development, production and characterization of materials in various industries, such as plastics, chemicals, automobiles, pharmaceuticals and electronics. Rheometry instruments characterize the flow properties of materials and measures their viscosity, elasticity and deformation under different types of "loading" or conditions. The information obtained under such conditions provides insight into a material's behavior during manufacturing, transport, usage and storage.



Reasons To Buy:

- ▲ Waters' key strengths include leading positions in the pharmaceutical market, broad global customer base and an impressive lineup of products. For 2020, Waters remains confident that solid demand in large molecule pharma, modest recovery of industrial markets and growth in recurring revenue will accelerate its growth momentum. Healthy global industrial conditions and the overall rise of regulatory standards for performance and quality should boost demand for Waters Corp.'s products and offerings.
- ▲ Waters has a strong presence in the chromatography instrument and pharmaceuticals markets, and expects to reap enhanced profit from these markets, going forward. The company, which is currently one of the leading players in the mass spectrometry market, has been garnering significantly from the sale of its advanced mass spectrometry instruments. Waters' global pharmaceuticals business, its largest single market and major revenue driver, is gaining traction over the last few quarters and fueling the growth of Waters Division. In fourth-quarter 2019, the company's global pharmaceuticals business accounted for 54.8% of the net sales. Positive macro trends including, rising global regulatory standards, increasing access of patients to prescription drugs, growing testing needs of newer biological drugs and ever-increasing complexity in molecular structure, are acting as tailwinds for the pharmaceutical business. Moreover, well-performing small and large molecule applications will continue to aid the top-line growth within this market.
- ▲ Waters continues to benefit from increasing regulation around food safety and quality, strict conditions for food testing, and environmental and fine chemical applications. Going forward, the company is very optimistic about the breadth of opportunity for this segment, across materials characterization, food safety and environmental applications. The company's governmental and academic category which accounted for 14.9% of the total revenues in the fourth quarter, is being driven largely by strong spending by academic institutions on biomedical research across U.S., Europe and Korea.
- ▲ Waters has an active research and development (R&D) division that is primarily focused on the development and commercialization of products that complement as well as update its existing product offerings. The company spends a significant amount on R&D as most of its products are manufactured in-house across its facilities. Moreover, an increased demand for research intensive products, especially the company's mass spectrometry solutions, is a positive for Waters Corp.'s business which has been on an uptrend lately. Apart from this, the company has started shipping its recently launched next generation screening system called RenataDX. Further, it recently introduced BioAccord LCMS system. The company also introduced ACQUITY UPLC PLUS series, a series of three new ACQUITY systems. Going forward, Waters Corp. remains confident that its industry-leading Empower software, tailored to QDa methodologies, will offer it a distinct advantage in this high-potential product category. Also, the company's DMA 850 continues to boost the performance of TA product line. Overall, robust product pipeline and strength in end markets is anticipated to drive top-line growth for the upcoming quarters.

Waters remains confident on its improving position in the Governmental & Academic market. Also, its mass spectrometry portfolio and liquid chromatography systems continues to perform well.

Reasons To Sell:

- ▼ Waters faces competition from several international instrument manufacturers and other companies in both domestic and foreign markets. The company's key technologies like HPLC, UPLC, MS, LC-MS, thermal analysis, rheometry and calorimetry product lines are part of a highly competitive industry and are subject to rapid changes in technology. Although the company continues to invest in its research and development (R&D) division to outdo its peers, this tends to push the expenses higher. Waters Corp. has been incurring high R&D expenses over the last few years. The company intends to increase its spending on research and development in order to boost product innovations in the coming quarters. The higher outlay, although beneficial in the long run, will push expenses higher and hurt immediate profits.
- ▼ Waters' debt levels and the consequent interest expenses remain a burden. Moreover, significant portions of the company's contracts are on a fixed-price basis. As the company generally executes these contracts via third parties, it runs the risks of losses if the sub-contractors are not able to complete the required amount of work in scheduled time. Additionally, such contracts are generally from outside U.S. and hence, are subject to several economic and political uncertainties across the globe. The company may also have to bear losses if these costs exceed expectations. In recent times, slower budgetary releases in the U.S. have hurt the company's pharmaceutical business in the U.S. The company sales were limited due to macroeconomic and government policy uncertainties, which seem to be affecting general business activity in the US.
- ▼ Waters generates a substantial portion of its revenues from non-U.S. markets. Therefore, currency volatility considerably impacts its revenues. Financial markets in certain foreign countries have been experiencing economic inconsistencies. The inherent instability of the currency markets poses a risk to the company's financials. In recent times, the negative impact of currency translation has reduced sales growth, and this remains a risk for future quarters as well.
- ▼ Waters is highly dependent on capital spending and any delay in its release can hinder its business. The company's business is significantly reliant on government, academic and research institutions capital spending. Fluctuations in these funds can affect Waters Corp.'s business significantly by reducing the ongoing research and development activities. The company's business in Japan and China also depends largely on such funding. Moreover, softness in Indian market is expected to continue, which is a headwind. The company's government and academic businesses has suffered in the past on account of increased variability in the purchasing pattern and high selling prices of the advanced systems. There is a risk that this segment might revert to such performance in the future. In addition, the company's industrial business also remains susceptible to high quarterly variability.

Waters continually grapples with currency volatility and stiff competition, which hurt its revenues as well as margins. Further, high debt level of the company remains a major headwind.

Last Earnings Report

Waters' Q4 Earnings & Revenues Top Estimates

Waters Corporation reported fourth-quarter 2019 non-GAAP earnings of \$3.20 per share, which surpassed the Zacks Consensus Estimate by 5.9%. However, the figure improved 11.5% on a year-over-year basis and 50.2% sequentially.

Net sales of \$716.3 million beat the Zacks Consensus Estimate of \$713.9 million. The top line was up 0.2% from the year-ago quarter on the reported basis and 1% on constant currency basis. Further, the figure improved 24.1% from the prior quarter.

Sluggishness in year-over-year top-line growth can be attributed to softness in pharmaceutical and industrial market. Further, the company encountered weakness in the Americas and Europe regions during the third quarter.

Nevertheless, Waters witnessed solid momentum across Europe and the governmental & academic market during the reported quarter.

Further, the company remains optimistic regarding strengthening growth initiatives and increasing R&D activities aimed at bolstering the new product cycle, which are likely to instill investor optimism in the near term.

Top Line in Detail

Waters' net sales figure can be categorized in four ways:

By Operating Segment: The company operates in two organized segments — Waters and TA.

Waters segment (88.6% of net sales) generated \$634.31 million of sales, up 1.5% from the year-ago quarter. Sales in TA segment came in \$81.99 million and accounted for 11.4% of the net sales. The figure reflected year-over-year decline of 8.8%.

By Products & Services: This division comprises three segments — Instruments, Services and Chemistry.

Instruments sales (52.6% of sales) came in \$376.6 million, down 3.9% on a year-over-year basis.

Service sales (31.7% of the sales) were \$227.4 million, improving 5% year over year.

Chemistry sales (15.7% of the sales) were \$112.2 million, advancing 5.4% from the year-ago quarter.

Moreover, service and chemistry sections together generated recurring revenues of \$339.7 million, up 5% from the year-ago quarter.

By Markets: The company serves three end markets — Pharmaceutical, Industrial and Governmental & Academic.

Pharmaceutical market (54.8% of net sales) generated sales of \$392.4 million, down 1% on a year-over-year basis.

Industrial market (30.3% of sales) sales came in \$216.7 million, down 1% from the year-ago quarter.

Governmental & Academic (14.9% of sales) generated \$107.2 million of sales. The figure improved 8% year over year.

By Geography: This company's operating regions include Asia, Americas and Europe.

Asia (36.6% of net sales) generated \$261.9 million of sales, down 0.3% on a year-over-year basis.

Americas (34.2% of sales) generated \$245.1 million of sales, decreasing 1% year over year.

Europe (29.2% of sales) generated \$209.2 million of sales, up 3% from prior-year quarter.

Operating Details

In the fourth quarter, non-GAAP selling and administrative expenses were \$139.4 million, suggesting a decline of 2.6% from the year-ago quarter.

Per management, research and development spending was \$37.1 million, indicating a decline of 2.7% from the year-ago reported figure.

Adjusted operating margin was 33.6%, which contracted 90 bps year over year.

Balance Sheet & Cash Flow

As of Dec 31, 2019, cash, cash equivalents and investments came in \$337.1 million, lower than \$404.65 million as of Sep 28, 2019.

Further, total liabilities were \$2.8 billion, up from \$2.4 billion in the prior quarter.

Waters generated cash from operation of \$191.9 million in the fourth quarter, up from \$148.4 million in the previous quarter.

Further, free cash flow of \$157.6 million in the reported quarter.

Guidance

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	0.33%
EPS Surprise	5.96%
Quarterly EPS	3.20
Annual EPS (TTM)	9.07

For first-quarter 2020, Waters expects non-GAAP earnings in the range of \$1.55-\$1.65 per share.

The company anticipates net sales growth between 0% and 2% on a constant currency basis.

For 2020, Waters expects non-GAAP earnings in the range of \$9.15-\$9.40 per share.

Further, the company's net sales growth on a year-over-year basis is anticipated between 1% and 3 on a constant currency basis.

Recent News

On **Jan 13, 2020**, Waters agreed to acquire Andrew Alliance for an undisclosed amount. The acquisition will help Waters to bolster presence in the growing pharmaceutical market. The software and new technologies acquired from the deal will help Waters provide enhanced offerings to customers.

On **Nov 5, 2019**, Waters revealed that its ACQUITY Advanced Polymer Chromatography System is a fully solvent-compatible UltraPerformance Liquid Chromatography/ultra-high performance size exclusion chromatography which is first of its kind. The company is likely to gain momentum among research scientists with this product.

On **Oct 1, 2019**, Waters unveiled TA Instruments MSF16 Multi-Specimen Fatigue Instrument, thus expanding its TA product portfolio.

Valuation

Waters shares are up 3.4% in the past six-month period but down 4.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 7% and 19.6% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 4.9% and 30.2%, respectively.

The S&P 500 index is up 14.3% in the past six-month period and 22.6% in the past year.

The stock is currently trading at 22.08X forward 12-month earnings, which compares to 24.3X for the Zacks sub-industry, 22.88X for the Zacks sector and 19.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.87X and as low as 17.95X, with a 5-year median of 22.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$231 price target reflects 23.17X forward 12-month earnings.

The table below shows summary valuation data for WAT

Valuation Multiples - WAT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.08	24.3	22.88	19.17
	5-Year High	26.87	26.74	22.88	19.34
	5-Year Low	17.95	18.41	16.87	15.18
	5-Year Median	22.06	22.21	19.28	17.46
P/S F12M	Current	5.66	5.15	3.74	3.55
	5-Year High	7.25	5.92	3.74	3.55
	5-Year Low	4.33	3.63	2.3	2.54
	5-Year Median	5.69	4.8	3.02	3
EV/EBITDA TTM	Current	18.25	24.15	12.29	11.95
	5-Year High	20.57	27.54	12.59	12.85
	5-Year Low	8.82	15.24	7.68	8.49
	5-Year Median	14.94	21.07	10.53	10.56

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



Top Peers

Agilent Technologies, Inc. (A)	Neutral
Bio-Rad Laboratories, Inc. (BIO)	Neutral
Bruker Corporation (BRKR)	Neutral
Danaher Corporation (DHR)	Neutral
General Electric Company (GE)	Neutral
Mettler-Toledo International, Inc. (MTD)	Neutral
PerkinElmer, Inc. (PKI)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral

Industry Comparison Industry: Instruments - Scientific				Industry Peers		
	WAT Neutral	X Industry	S&P 500	A Neutral	GE Neutral	MTD Neutral
VGM Score	F	-	-	D	D	C
Market Cap	14.18 B	265.64 M	24.40 B	26.31 B	113.10 B	18.96 B
# of Analysts	8	3.5	13	9	7	6
Dividend Yield	0.00%	0.00%	1.75%	0.85%	0.31%	0.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.05	0.04	0.05	0.78	0.01
EV/EBITDA	17.99	19.86	14.17	21.70	-17.85	25.89
PEG Ratio	2.23	2.20	2.05	1.99	3.22	2.35
Price/Book (P/B)	NA	2.23	3.31	5.53	3.80	43.26
Price/Cash Flow (P/CF)	19.75	16.55	13.63	21.39	15.80	32.03
P/E (F1)	23.24	22.26	19.08	24.86	21.74	31.12
Price/Sales (P/S)	5.89	2.21	2.67	5.10	1.07	6.30
Earnings Yield	4.26%	4.51%	5.24%	4.02%	4.63%	3.21%
Debt/Equity	-6.09	0.31	0.71	0.38	3.16	2.57
Cash Flow (\$/share)	11.14	1.81	6.89	3.96	0.82	24.30
Growth Score	C	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	10.49%	7.25%	10.80%	9.28%	-20.84%	15.10%
Proj. EPS Growth (F1/F0)	4.19%	10.97%	7.23%	9.72%	-8.35%	9.87%
Curr. Cash Flow Growth	-4.57%	-4.57%	9.51%	9.85%	-48.47%	12.72%
Hist. Cash Flow Growth (3-5 yrs)	7.84%	8.44%	8.55%	-2.46%	-19.88%	9.65%
Current Ratio	0.74	1.79	1.20	1.53	1.84	1.34
Debt/Capital	91.94%	42.31%	42.90%	27.39%	75.95%	71.95%
Net Margin	24.61%	4.41%	11.76%	20.74%	-4.71%	18.65%
Return on Equity	172.16%	7.29%	16.98%	20.13%	14.13%	113.33%
Sales/Assets	0.86	0.86	0.54	0.57	0.37	1.14
Proj. Sales Growth (F1/F0)	2.26%	1.13%	4.15%	7.08%	-13.78%	3.19%
Momentum Score	F	-	-	F	F	B
Daily Price Chg	-0.29%	0.00%	-0.11%	-0.13%	0.70%	-0.07%
1 Week Price Chg	-5.78%	-3.27%	-2.60%	-6.46%	6.32%	-7.66%
4 Week Price Chg	-3.81%	-3.09%	1.51%	-2.81%	8.73%	-3.99%
12 Week Price Chg	3.10%	5.55%	5.63%	10.50%	14.70%	9.09%
52 Week Price Chg	-4.31%	-12.83%	17.01%	12.60%	28.73%	20.12%
20 Day Average Volume	531,852	93,858	1,961,054	1,786,410	62,546,728	132,848
(F1) EPS Est 1 week change	-5.04%	0.00%	0.00%	0.00%	-1.37%	0.00%
(F1) EPS Est 4 week change	-5.04%	0.00%	-0.00%	0.00%	-15.07%	0.00%
(F1) EPS Est 12 week change	-5.12%	0.00%	-0.16%	-0.26%	-15.76%	0.13%
(Q1) EPS Est Mthly Chg	-12.99%	-6.49%	0.00%	0.00%	-18.71%	0.23%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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