

Waters Corporation - Funding the Next Adjacency

Internal ID: S&F-STR-585

Topic: Growth Strategy, Capital Allocation, Mergers & Acquisitions

Industry: Life Sciences Tools & Services

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Decision date and information cutoff: 19 May 2022

Decision scope: Target selection and funding rule for growth adjacencies

Case convention: This is an author-created board decision exercise based on information available by the cutoff. Market estimates and forecasts are attributed to management. No later acquisitions or outcomes are included.

The decision

At its 19 May 2022 Analyst and Investor Day, Waters Corporation described a “Market+” strategy: execute in core markets and build exposure to adjacent markets. Management identified bio-separations, bioprocess characterization, LC-MS diagnostics, battery testing and sustainable polymers as potential opportunities. It said its growth strategy would fully fund high-return organic growth and margin opportunities, make M&A its primary growth-capital focus, and retain share repurchases as its primary method of returning capital. The annual mix could vary. [P1], slides 59-60 and 68.

Assignment: You are a hypothetical member of Waters’ board. Recommend a target-selection and funding rule for core investments, organic adjacency development, acquisitions and buybacks. How should Waters decide which opportunities receive capital, how much evidence should be required before scaling, and when should it preserve capital for repurchases? Respect management’s stated priorities while testing whether the evidence supports each proposed investment. Do not select a specific transaction announced after the cutoff.

The opportunity set

Waters estimated the markets for its named adjacencies at about \$1.2 billion for bio-separations, \$0.5 billion for bioprocess characterization, \$1.2 billion for LC-MS diagnostics, \$0.8 billion for battery testing and more than \$3 billion for sustainable polymers. It characterized their growth as high-single-digit to double-digit, with variations by market. These estimates drew on internal analysis, consulting data, industry reports and market research; Waters said they could change. They are not independently validated market sizes, and they do not show how much of each market Waters can serve profitably. [P1], slide 59, lines 402-405.

Waters presented technical and customer-use examples for new applications. One management claim was that its BioAccord system could reduce initial clone cell-selection time from six weeks to under one week. The presentation did not independently validate this claim or establish customer adoption, willingness to pay, margins or repeatability at scale. [P1], slides 38-39, lines 285-299.

The company also described core growth levers: instrument replacement cycles, new applications, commercial execution, new products and unified R&D and commercial teams. These organic investments compete for technical and commercial resources but may build on established customer relationships and platforms. Management showed both organic core development and adjacency expansion as parts of Market+; the disclosures did not provide project-level returns or budgets. [P1], slides 30-31, lines 226-237 and 302-304.

Management's stated priorities and financial context

Waters said high-return organic growth and margin expansion opportunities should be fully funded; M&A would be the primary growth-capital focus; and share repurchases would remain the primary capital-return method. It also said the annual mix could vary. This is the starting policy for the board's decision, not a quantified funding waterfall: the presentation did not state an acquisition budget, hurdle rate, buyback valuation threshold or amount allocated to each adjacency. [P1], slide 68, lines 452-455.

Management forecast approximately 4-6% constant-currency growth near term, with roughly 100 basis points from Market+ execution. For the mid-term (2024 onward), it projected mid-single-digit to high-single-digit end-market exposure and another roughly 100 basis points from high-growth adjacencies. These were forward-looking company forecasts, not achieved adjacency contributions. [P1], slides 59-60, lines 373-378 and 402-410.

Waters presented 2021 adjusted operating margin of 30.2%, versus a 22.6% peer average, as well as five-year revenue CAGR of 5%, adjusted EPS CAGR of 11%, and five-year average FCF of 26% of sales. These are company-presented metrics, not independent peer analysis. Peer definitions and comparability varied. FCF was non-GAAP: Waters' reconciliation began with GAAP operating cash flow, subtracted capital additions, then added back specified items such as major facility renovations and certain unusual costs. The 26% figure is not simply GAAP operating cash flow less capital expenditures. These historical metrics provide context, not a guaranteed return on future adjacency investments or a direct cash budget for them. [P1], slides 62, 66, 74 and 78, lines 419-422, 442-449, 491-497 and 543-548.

Exhibit 1. Adjacencies identified by Waters

Market	Management-estimated market size	Management-estimated growth description
Bio-separations	~\$1.2bn	High-single-digit to double-digit
Bioprocess characterization	~\$0.5bn	Double-digit-plus
LC-MS diagnostics	~\$1.2bn	High-single-digit to double-digit
Battery testing	~\$0.8bn	Double-digit
Sustainable polymers	\$3bn+	High-single-digit

Source: [P1], slide 59, lines 402-405. These are Waters' estimates based on internal and external sources, subject to change. The table does not show Waters' addressable share, competitive win rate, product readiness, customer economics or required investment.

Exhibit 2. Funding choices within the stated policy

Choice	How it could fit the stated priorities	Main question or risk
Reinforce core organically	Fully fund high-return instrument, application, service and margin opportunities	Which projects have sufficiently demonstrated customer need, return and execution capacity?
Build adjacencies organically	Extend Waters' technology and commercial capabilities into named markets	Do management market estimates translate into product-market fit and profitable adoption? Development may be slow.
Acquire complementary capabilities	M&A is the stated primary growth-capital focus and could add technology, products or customer access	Is the target complementary, appropriately sized and assimilable? What are the integration burden and downside case?
Repurchase shares	Buybacks remain the stated primary capital-return method	At what valuation and under what opportunity-cost rule are repurchases more attractive than qualified growth investments?

These choices are not mutually exclusive. The board's task is to specify order, evidence thresholds, review points and conditions for varying the annual mix. The presentation does not supply enough information to value the named adjacencies or determine a winner.

Questions for discussion

1. How should Waters translate “fully fund high-ROI organic growth” and “M&A primary growth-capital focus” into an investment sequence?
2. Which adjacency opportunities warrant further diligence, and what evidence would distinguish market growth from a Waters-specific opportunity?
3. What technical, commercial, financial and integration hurdles should govern an acquisition? How should target scale and knowledge complementarity be assessed?
4. When should buybacks take priority over an available acquisition or adjacency project? What valuation evidence would the board require?
5. Which milestones should permit capital to scale, and what conditions should trigger a pause, partnership, redesign or exit?

Sources and conventions

P1. Waters Corporation, [2022 Analyst and Investor Day presentation](#), filed 19 May 2022 as Form 8-K Exhibit 99.1. Growth strategy and adjacency estimates, slides 59-60; core growth drivers, slides 30-31; application examples, slides 38-39; historical metrics, slides 62 and 66; capital priorities, slide 68; non-GAAP discussion and FCF reconciliation, slides 74 and 78.

Market estimates, growth forecasts, proof points, peer comparisons, FCF and capital priorities are management-presented and appropriately qualified. No academic coefficients or post-cutoff transactions/outcomes are used to forecast Waters. No financial model is part of the case.