

# Xylem - How Fast Should the Evoqua Integration Go?

**Internal ID:** S&F-STR-600

**Topic:** Mergers & Acquisitions, Growth Strategy, Capital Allocation

**Industry:** Industrial Machinery & Supplies & Components

**Source:** Strategy & Finance

**Publication date:** 5 October 2026

**License:** Not specified

**Decision date and information cutoff:** 31 October 2024

**Decision scope:** Integration speed and resource allocation over the next 12-18 months

**Case convention:** This is an author-created decision exercise based on information available at the cutoff. Management forecasts and claims are attributed; no later outcomes are included.

## The decision

Xylem completed its all-stock combination with Evoqua on 24 May 2023. At Xylem's October 2024 Q3 results, management said integration was ahead of schedule and expected to exit 2024 with a \$130 million annualized cost-synergy run rate. The original deal announcement had forecast \$140 million of annual run-rate cost synergies within three years of close. [P2], slide 3; [P3], lines 47-50; [P4].

**Assignment:** You are advising Xylem's executive team on the next 12-18 months. Should it accelerate the remaining Evoqua integration to pursue procurement, network and corporate-cost benefits; phase operational changes to protect customer and employee continuity; or shift more management attention to growth, innovation and financial flexibility? Define milestones and evidence that would change the pace. Do not treat a projected synergy run rate as realized net cash or assume every function should integrate at the same speed.

## Deal thesis and accounting measures

The transaction was all-stock. The 10-Q recorded \$6.900 billion of acquisition-date consideration, including shares issued, replacement awards and repayment of Evoqua debt. The January 2023 announcement had described approximately \$7.5 billion of implied enterprise value. These are distinct transaction measures and should not be conflated. Xylem recorded \$4.801 billion of goodwill, which it said primarily reflected expected synergies, economies of scale and Evoqua's assembled workforce. Goodwill is an accounting amount, not evidence that expected benefits were achieved. [P1], Note 3, lines 339-355, 393-394; [P4].

The original \$140 million annual run-rate cost-synergy target was expected within three years after close, with savings from scale, procurement, network optimization and corporate costs. At Q3 2024, Xylem forecast a \$130 million annualized run rate by year-end; the CEO characterized integration as ahead of schedule. The 10-Q also reported \$47 million of productivity savings for the first nine months of 2024, including Evoqua synergies, but did not isolate the Evoqua portion. These measures are not equivalent: a target, a future annualized run rate and broader year-to-date productivity savings do not establish cash realized net of implementation costs. [P2], slide 3; [P3], lines 47-50; [P1], lines 1652-1665.

## **Demand signals are mixed across the portfolio**

Xylem reported Q3 revenue of \$2.104 billion, up 1% organically, while organic orders grew 8% to \$2.201 billion and backlog reached \$5.3 billion. Segment performance varied: Measurement and Control Solutions revenue/orders grew 11%/12%; Water Infrastructure 1%/6%; Applied Water revenue fell 4% while orders rose 4%; and Water Solutions and Services revenue fell 1% while orders rose 11%. These measures describe different points in the order-to-revenue process and should not be treated as interchangeable demand signals. [P1], Item 2, lines 1437-1457, 1537-1587; [P2], slides 2-6.

Water Infrastructure's backlog was \$1.9 billion, down 14% organically; Xylem attributed some of the moderated performance to past-due execution and also pointed to project timing. The data raise a delivery and conversion question, but do not establish cancellations or customer harm. [P2], slides 5-6; [P3], lines 40-45.

Xylem reported adjusted EBITDA margin of 21.2%, up 140 basis points in Q3. Management said productivity savings and price more than offset inflation, strategic investments and mix. The margin improvement cannot be assigned solely to Evoqua synergies. Research and development spending was \$172 million in the first nine months of 2024, equal to 2.7% of revenue, versus \$172 million and 3.3% a year earlier. Strategic investment spending also increased. [P1], lines 1645-1658, 1687-1694; [P2], slides 3-5.

## **Capacity for investment and another commitment**

For the first nine months, Xylem reported \$688 million of GAAP operating cash flow and \$467 million of company-defined free cash flow; the deck reported 79% FCF conversion versus 94% in the comparable prior period. Full-year FCF conversion guidance was at least 120%. Management attributed FCF growth to higher net income, partly offset by higher capital spending and working capital. These are period results and management guidance, not an unrestricted capital pool. [P1], lines 1490-1500; [P2], slides 4 and 20; [P3], lines 54-56.

At 30 September 2024, total debt was \$1.994 billion; Xylem had repaid its Evoqua acquisition term loan in April using cash on hand. The earnings deck reported 0.6x net debt to adjusted EBITDA on a trailing-twelve-month basis. The credit facility's leverage covenant ceiling was 4.0x for an initial period after a material acquisition and 3.5x thereafter; that contractual limit is not a target for optimal leverage. The revolver was undrawn, with \$1 billion available. [P1], Note 12, lines 881-937; [P2], slide 4.

There was also a prospective commitment. Xylem owned 25.1% of Global Omnium Idrica at 30 September. On 29 October it exercised a call option to acquire another 35.9% for approximately €146 million (\$163 million), with closing expected in December 2024. The acquisition was not complete at the cutoff, and its integration plan and full funding implications were not disclosed. This option may compete with the Evoqua program for cash and management attention. [P1], Note 20, p. 36, lines 1393-1395.

## Exhibit 1. Integration and performance snapshot

| Measure                             | Status at 31 October 2024                                                                                         | Scope / caution                                                                                                    |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Original Evoqua cost-synergy target | \$140m annual run rate within three years of May 2023 close                                                       | Management forecast at deal announcement. [P4]                                                                     |
| Q3 forecast                         | \$130m annualized run rate expected by year-end 2024; management characterized integration as ahead of schedule   | Forward-looking, not year-end actual or realized net cash. [P2], slide 3; [P3]                                     |
| Productivity savings                | \$47m, nine months through September 2024                                                                         | Broader Xylem productivity savings including Evoqua synergies; Evoqua portion not isolated. [P1], lines 1652-1665. |
| Q3 revenue / orders / backlog       | \$2.104bn / \$2.201bn / \$5.3bn                                                                                   | Revenue +1% organically; orders +8% organically. Different measures. [P1], [P2].                                   |
| Segment organic revenue / orders    | MCS +11% / +12%; Water Infrastructure +1% / +6%; Applied Water –4% / +4%; Water Solutions and Services –1% / +11% | Q3 2024. Segment growth rates are not interchangeable. [P2], slides 5-6.                                           |
| Water Infrastructure backlog        | \$1.9bn, down 14% organically                                                                                     | Management cited past-due execution; no cancellation inference. [P2], slide 6.                                     |
| Idrica option                       | +35.9% interest for ~€146m (\$163m); expected December close                                                      | Not completed at cutoff; integration/funding details unavailable. [P1], Note 20.                                   |

## Exhibit 2. Integration choices for the next 12-18 months

| Approach                                 | Potential benefit                                                                                                                                            | Principal risk                                                                                                                   |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <b>Accelerate broad integration</b>      | Capture savings sooner in overlapping procurement, networks and corporate support; standardize selected processes                                            | Management capacity may be diverted from client delivery and growth; savings may be offset by implementation costs or disruption |
| <b>Stage customer-facing integration</b> | Continue fast work in clear back-office overlaps while sequencing service, sales, product and local operating changes against customer and employee evidence | Slower savings and added coordination; “temporary” interfaces may persist without owners or deadlines                            |
| <b>Prioritize growth and flexibility</b> | Protect innovation, backlog execution and commercial capacity; preserve cash/management bandwidth while Idrica proceeds                                      | Cost opportunities may be delayed; growth synergies remain unproven and financial flexibility may be underused                   |

These are classroom alternatives, not announced management plans. A strong recommendation distinguishes tasks with clear overlap from activities where customer knowledge, local expertise or service continuity may be important.

## Questions for discussion

1. What can the \$130 million year-end forecast tell the board about integration progress? What does it not reveal about realized cash or service outcomes?
2. Which Evoqua workstreams should accelerate, continue at the current pace or pause? What evidence supports different speeds?
3. How should Xylem balance cost synergies against Q3 order/backlog conversion, segment differences, R&D and customer continuity?
4. What should Idrica's expected closing mean for cash, leadership capacity and governance over the next 12-18 months?
5. Define a dashboard and decision gates that could change the integration pace without confusing forecast, run rate and realized savings.

## Sources and conventions

**P1.** Xylem, [Form 10-Q for quarter ended 30 September 2024](#), filed 31 October 2024. Acquisition accounting, Note 3; Idrica, Note 20; debt, Note 12; Q3/YTD financial and segment results, Item 2.

**P2.** Xylem, [Q3 2024 Results & Earnings presentation](#), 31 October 2024. Slides 2-6 (financial, integration, order/backlog and segment information); slide 20 (FCF reconciliation).

**P3.** Xylem, [Q3 2024 results release](#), 31 October 2024, lines 40-56.

**P4.** Xylem, ["Xylem To Acquire Evoqua in \\$7.5 Billion All-Stock Transaction"](#), 23 January 2023.

All acquisition-synergy values retain their original target/run-rate/YTD status. Acquisition-date consideration is distinct from announced enterprise value. Growth, adjusted EBITDA, FCF and leverage ratios are company-defined where indicated. Idrica remained pending at cutoff. No post-cutoff outcomes or academic effects appear in the student case.