JPM Life Science 2025 CEO Call Series: Waters (WAT)
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I would like to now turn the call over to Rachel Vatnsdal. Please go ahead.

Rachel — Perfect. Thank you, operator. And thank you, everyone, on the line for joining us today for our call with Waters. This is Rachel Vatnsdal from the Life Science Tools and Diagnostics team here at JPMorgan and on the line we have Udit Batra, CEO of Waters.

So, as we typically do with our CEO call series, this will be an hour of Q&A. So, if any of you on the line do have questions, please feel free to either submit them via the NetRoadshow app, otherwise you can send them to me via email or over Bloomberg as well.

So, with that, Udit, thank you so much for joining us today.

Udit — Good morning, Rachel, and thank you for having us.

Rachel — Yes, of course. So, let's start with your recent second quarter results, then we can kind of shift to some of the other topics, like the BD deal and what you're seeing in the business. But, first and foremost, regarding the second quarter performance, you had a solid topline beat, you lifted the full year guide. So maybe now that you've had a bit more time to process the numbers, what is the message that you're really looking for people to take away coming out of the quarter?

Udit — Rachel, Q2 was a continuation of what we've been seeing with the business for the last several quarters now, right? I mean, it is basically just an example of, I would say, very disciplined execution in a pretty dynamic environment, as you've probably seen with the results from many of our peers. So strong results driven by double digit growth in pharma, especially our focus on QA/QC, CDMOs, genetics, really helps us. LC-MS was a hero again, driving high single digit growth driven by the replacement cycle and new products continued to contribute. And these results, as I said, are a result of highly disciplined execution of our strategy, which we had delineated several years ago starting with commercial execution. And look, I mean service attachment went up by 200 basis points, now at 52%, Ecommerce is above 40% penetration already, and we saw an increase in CDMO penetration given the dynamism in that end customer.

Innovation contributed nicely. Alliance IS, 300% growth, so three times what we saw same time last year. TQ Absolute goes from strength to strength. With the introduction of the XR version, we now see the robustness angle added on to the most sensitive instrument in the industry, so really growing nicely, 40% versus previous year. And our column business, our chemistry business, had, again, a very, very strong quarter, with new products contributing nicely. We launched the Protein A affinity columns, which become a real case example of using antibodies and affinity columns for separating large molecules.

And then finally, the incremental growth drivers, this is the idiosyncratic growth drivers like GLP-1 testing, PFAS testing in India, which also grew high teens. Pricing was 200 basis points

across the board, a very strong performance. I suspect the only challenge we saw was the TA business in the United States declining, but we were more than able to offset it with the other growth drivers that I just mentioned.

And this, of course, gave us a confidence to raise the full year guide to now 5.5% to 7.5% in constant currency growth and the EPS guide was also raised to $12.95 to $13.05, for 9% to 10% year on year growth on EPS as well in such a dynamic environment. I think quite solid results. Very happy with it, and really proud of the team that's remained focused.

Rachel — Perfect. I wanted to dig a little bit into the guidance assumptions that you laid out on the back half. So, you just walked through some of the strength and momentum that you saw in second quarter, you opted to really not necessarily carry that forward in terms of momentum into the back half assumptions. So, can you just walk us through, what are you assuming in terms of third quarter, whether that's some of the regional performance instrument versus recurring revenue assumptions, things like that, and then how do you see that approaching as we step up into the fourth quarter implied as well?

Udit — Yes, it's a good question. And look, our guidance philosophy has not changed. I mean, we took the victory from the first half of the year, passed it on in the guide raise, but the second half we've still assumed is between 5% and 7% growth for the topline, I think that's where your question is. And in that instruments are on the lower end, roughly five-ish percent, even though the first half of the year has been much more dynamic, and we see a good replacement cycle, we see very strong uptake of new products, we think there's a level of prudence that we want to build in by just going into the back half of the year, like we've done at the beginning of the year.

And recurring revenues are on the higher end, 6% to 7%. Now if you would take the $8 million pull forward that we saw between China and Europe on chemistry that gets flushed out in the second half. We have one extra day in the second half of the year, which adds $5 million, so there's a net $3 million headwind in the second half of the year, so we say 6% to 7%. That gives you the range of 5% to 7% for the second half.

For your question on the third quarter, we've assumed the chemistry pull forward is equally spaced between Q3 and Q4. And the ramp from Q2 to Q3 is in line with what we've seen historically, roughly 1.3'ish percent.

And your question also on regions, one of the more positive surprises, India did very nicely, again in high teens growth. One of more positive surprises was China growing double digits again in the second quarter. But we've remained prudent, and we said, look, it's going to be low to mid-single digit growth for the second half of the year. That just sort of gives you an indication of how we think about guidance in general. I mean, we'll beat, we'll raise based on the beat, but we will keep sufficient prudence.

And then finally, a comment on Q4, which is where we basically added an additional level of conservatism, I would say. Usually Q3 to Q4, the ramp is about 22% historically in Waters. Last year that number was about 18%; this year we resumed even lower than that, 17.5%, meaning almost no budget flush, as one would like to call it. But the ramp in historical terms is probably at one of the lower levels that we've seen historically, just in our assumptions. And as I said, the momentum is good, but as we've done in the past, we've become more constructive as the year goes on. And as the 3Q results come, we will get constructive about Q4.

Rachel — Great. That's helpful context. I wanted to dig into the topic on reoccurring revenues. You mentioned some of the notable strengths you saw in that quarter as chemistry grew 16%, but there was also that $8 million of pull forward that you called out. Even excluding that though, chemistry still grew 9% in the quarter. So how should we think about the durability of strength on the chemistry side as we go into the back half of the year? And then can you walk us through

how did you quantify the magnitude of the pull forward and what regions did you really see that come from within the second quarter as well?

Udit — The simple way to think about chemistry and service, in general, both of those businesses, is it's like a Swiss clock. When you go back 20 years for Waters, the growth is 6%'ish percent for both; 6%'ish for service and 7%'ish percent for chemistry. And so this quarter we saw, excluding the pull forward, 9% growth versus the previous year, so versus the 7% to 8% that we would have generally seen. And so, with the pull forward itself, it would have been 16%, so 9% without it.

Now this is higher than typical, by about 100 to 150 basis points, and this is really our new products shining through. We're starting to see strong uptake of the MaxPeak Premier family, the new launches with the protein affinity columns. I mean, the customers are really appreciating specific solutions for complex, large molecules, and are collaborating with us as we develop new columns.

Second, we've seen strong pricing in the chemistry business. Given its differentiation, there is virtually no discount there. So, as we raise prices, they flow through. Customers are quite amenable to that, given the differentiation again, so we're starting to see that now improve the baseline.

Now going forward, I would still caution against immediately assuming a 9% growth forever. You know us, as we deliver, we will talk about it more, rather than in the rearview mirror, so I would still assume for the balance of the year the 6% to 7% for the recurring revenue that I mentioned. Long term, of course, we expect this to become much more dynamic.

Now to your question on the determination of the pull forward, remember, our business is largely focused on late-stage development and QA/QC, and whenever there is an aberration to the trend, we're easily able to pick it up, because it's quite predictable what's going to happen from one quarter to the other by customer, by geography, by segment, and we have a ton of historical data. So, we saw an aberration in China, we saw an aberration in Europe. In China, roughly $5 million-ish was pulled forward, and this was confirmed by our colleagues on the ground. And the same thing was true in Europe, but the number was around $3'ish million, so customers were just planning for tariffs. So, I hope that clarifies the chemistry piece.

But, long-term, this is a fantastic business. We have a very good position. As we've invested more on the novel modality side, on the biologic side, customers have appreciated, and that shows up in the strength of the growth, as well as the pricing.

Rachel — Got it. That's helpful. Maybe a follow up on that, that I'm getting over email a little bit here is just on the pricing contribution on chemistry, can you unpack for us what was pricing in chemistry in the second quarter and what are you assuming in the back half for pricing on that piece?

Udit — I mean, it's no different than we've historically done. We don't break it down by product area, but a general algorithm is if you think of our overall pricing algorithm of 100 to 200 basis points, we're saying now 150 basis points going forward. This quarter we saw 200 basis points for the whole business. On the chemistry side, the stick rate is almost 100%. So if you look at our overall pricing, 20% of the business is chemistry, 5% price increase flows right to the bottom line and that's 100 basis points of contribution to the bottom. So, I would keep that as a general assumption, and if it is more, we will discuss it when it comes.

Rachel — Got it. That's helpful. One more follow up just on this topic, the strong performance in the reoccurring revenues this quarter is one area that I think we're getting a lot of questions on, is around the margins in the second quarter, given the strong performance you saw in reoccurring revenues, but that margin was maybe a little bit lighter than some investors were expecting given that strength. So, can you walk us through, Udit, what are the moving pieces on the

margin front in second quarter? Were there any one-timers there? How much of it was mix? And then how do you think about that gross margin and operating margin line evolving as we move throughout the back half of the year as well?

Udit

A simple way to think about it is like the second quarter, the gross margin was 58.3% and operating margin was slightly north of 29%, 29.1%. This is relatively soft, and was driven by basically a regional sales mix. You saw certain regions that have lower margins growing stronger. And the margin dilution also came from the tariff surcharges as well as elevated freight costs that came in the second quarter. So, the gross margin was down by about 100 basis points, and operating margin down by about 10 basis points versus the same time previous year.

For the full year, basically we've assumed 59% gross margin and an operating margin of roughly 31%. This is similar to last year's levels, despite the onset of tariff related costs and the margin headwinds we've seen this year. So, in the second half, margin performance should improve versus first half, given costs like freight and tariff driven relocation costs where we relocated certain manufacturing sites, certain manufacturing for specific products. I mean, these were specific to the first half and are not expected in the second half of the year, so we expect progressive improvement of the margins through Q3 and Q4 versus last year. And of course, Q4 always benefits from a volume leverage given the size. So I hope that clarifies the assumptions.

Rachel

That's helpful. Maybe shifting over to the instrument replacement cycle. During the quarter, you guys pointed towards 4% instrument growth, which really was underpinned by that high single digit growth in LC-MS, and then obviously TA was a bit of a drag as you alluded to earlier. Prior quarter, though, you had 11% instrument growth. So, this is kind of a key point that investors were focusing in on driving some of the fears of did the replacement cycle decelerate? You've also cited some of this lumpiness, though, on instruments quarter to quarter, and that if we look at it in the first half performance for instruments, the performance was solid. So, can you walk us through, how are you thinking about the health of that replacement cycle going forward, specifically just for Waters, if we exclude the BD potential tailwind here? How should we think about the instrument growth as we go into the third quarter and back half overall? And what type of order book do you need to see to underpin your back half assumptions within the guide?

Udit

Look, it's a common question on the instrument replacement cycle. Look, the instrument replacement cycle remains healthy. And let me sort of give some boundary conditions that will help you think through it.

This quarter, LC-MS grew high single digits, and it was driven by late stage pharma, QA/QC. So generics, CDMOs, places where the replacement cycle is going nicely, and it's driven by our new product portfolio, not in any small part. And that is continuing and the funnels are very strong as we look at the back half of the year. So that's just the here and now on the replacement cycle, and what we see on LC-MS.

But take a step back. Typical replacement cycles usually last two to three years, and this is the algorithm we've talked about at our investor day as well. And in this time frame, instruments will grow between 7% and 8% largely driven by the LC-MS outperformance, which enables the long-term instrument growth CAGR to catch up to about 5% growth. So, as we sit here from 2019 to 2025, the first half of the year, the LC-MS CAGR still stands at only 2%. So there is a long runway ahead of us to catch up to the 5% CAGR. So that's the first point I would want you to understand.

The second, and at Waters we never have only one way we want to achieve our target, we also have a number of these idiosyncratic growth drivers that are independent of the replacement cycle and are related to exposures where testing volume dynamics are seeing quite significant growth. I mean, this is GLP-1 testing which is expected to add 30 basis points a year, which is well ahead of that target. It's growing 70% year to date. PFAS testing is growing 50% year to

date. Biologics testing, India genetics, all of this added up. Remember, 270 to 200 basis points in addition to our average instrument growth rate in the near to mid-term.

Now, you add these two dynamics, and you say, well, the instrument growth rate should generally be high single digit to high single digit plus. And then you sort of subtract from that the fact that not all customers are on the table today, like China genetics, like biotechs, like CROs, drug discovery and so these segments, as they return, you will see the catch up become even more robust. But there is nothing that tells us at this point that we move away from the 7% to 8% that we talked about for instrument growth rate during this catch up period and the year to date results show that. I would not pay too much attention to quarter on quarter trends, especially when you can point towards one specific challenge that came with TA in the United States.

So, the underlying replacement cycle is strong, idiosyncratic growth drivers are contributing, and we've been pretty transparent about their contribution. Pricing is doing extremely well, and China genetics is still tepid, CROs are still tepid, drug discovery and biotech is still tepid. So, the replacement cycle in this time around will likely last longer. I hope that gives you not just the specifics, but sort of a reminder of how we are thinking about it.

Rachel — That's helpful. Maybe just on that topic, can you kind of break down how we should expect some of the replacement cycle to kick in across pharma, drug discovery, CROs, and then also some of the branded generics in China? And when should we expect some of those to start firing on all cylinders in terms of the replacement cycle as well for those categories?

Udit — Too many toys in the toy store. Rachel, too early to say. I think it’s very difficult to tell exactly when some of these things will pick up. I mean, there is a deficit that's building in branded genetics in China. There's a deficit that's building in stable biotechs, which some of whom have funding again. And there's a deficit, for sure, in drug discovery, and, to some extent, also in academia and replacing LCs. But no, at this point, no real indication exactly when that augments our current projections.

Rachel — Got it. That's helpful. Maybe shifting then to the BD announcement. Obviously, you recently announced that you guys are acquiring BD’s Biosciences and Diagnostic Solution business. So just to start off the conversation at a high level, can you walk us through the strategic rationale for this transaction? Why do you believe now is the right time to do such a transformative deal for Waters? And then also just remind us how competitive was this process that you guys went through for the transaction.

Udit — So, again, take a step back. I mean, five years ago, back at your conference in 2021 we stated that we had three goals in our strategy. One, to regain our commercial momentum, to catch up to sort of historical Waters levels with instrument replacement, service attachment, ecommerce, and very tactical commercial initiatives. There are five of them, and we gave you an update on those every single year.

Second, we said we want to reignite our innovation engine and bring back Waters to the podium in LC in mass spec, in chemistry and informatics. And I think we made some nice progress there as well.

And then third, we said once we've done these two things, we want to ensure that the future is secure by increasing our strength in adjacencies, which look similar to our recurring business model with replacement and service and informatics and chemistry and add some higher growth to our overall business. So these are the three things that we stated.

The first two chapters have gone superbly. I mean, the commercial momentum is back, and even in a very dynamic sort of last five years, we've stood out as a company that's been able to withstand the challenges just given the choices we've made and the execution.

Second, on the innovation side, I mean Alliance IS, TQ Absolute, TQ Absolute XR, [indiscernible 21:06], the columns the chemistry portfolio with MaxPeak. Now, Informatics with multi angle light scattering on Empower. So, innovation, internal homegrown innovation is going extremely well.

Then brings me to my third chapter, where we want to accelerate in the adjacencies. And there were four to five adjacencies where we were identified. With BD, with one shot we were able to accelerate our move into three prime adjacencies that we had outlined. The first one was having a stronger portfolio in bioanalytical characterization. As the pipeline of our key customers starts becoming much more focused on novel modalities and biologics, we felt we needed to have a broader portfolio of analytical instruments that eventually we could take into QA/QC. And basically, two of the more significant gaps in our portfolio were around flow cytometry and PCR. BD brings those. Not just brings them, they bring them at scale where the technology has been de-risked and the commercial risk is zero. They're a strong player in those two segments.

Second, we wanted to advance our portfolio in bio separations, and we've been doing a pretty good job organically with it, but we felt we needed access to the reagents, especially antibodies, to take our hypotheses on attaching antibodies to columns. And here we've just done the proof of launch, the proof of concept with Protein A columns, which is going extremely, extremely well, and we needed access to a large antibody portfolio, and BD brings that. So that's number two on the adjacencies.

And number three, we've also been clear that mass spec belongs in specialty diagnostics. And in fact, Roche's entry into this space really, really verifies this hypothesis. We feel that mass spec belongs in specialty diagnostics, but we did not have the commercial reach, nor the regulatory and medical affairs capabilities to do justice to it in the short term. So, we collaborated with a player in China to do it for China for China, but outside of China, meaning in Europe and the United States, we were on the lookout for partners or acquisition targets. And here's BD, which with scale in molecular diagnostics and the exact capabilities you need. So strategically a complete and clear fit.

And then turning to the quality of the asset, and I'll keep these comments brief, and you can pull any thread that you like in any of these areas, the quality of the assets, roughly 80% of the portfolio is in leading positions. Flow cytometry is considered a jewel in the life science tool space for a long time. I mean, what LC is to Waters, flow is to Beckton Dickinson, so this is a really, really strong brand that we're bringing into our armamentarium.

Second in the diagnostic space, especially microbiology, microbiology, which is 65% of the diagnostic segment, has no pricing or reimbursement pressure given that it's only two competitors who are supplying most of the global customers, by and large. And in the DRGs, microbiology testing is a very small portion of the overall cost, not dissimilar to QA/QC for large pharma, so very strong portfolio. And then, of course, we'll have ample opportunity, hopefully, to talk about the synergies. I mean, we have signed up for roughly $345 million in synergies, creating a ton of value, and all of these synergies, and we went through this in our Q2 prepared remarks as well, are very tactical. I mean, they're here and now. These are sort of things that we've done at Waters. During the diligence, we went in quite deep into understanding what the drivers were, what the fact based were talking to several customers, and really digging in and understanding how tactical these revenue and cost synergies were. We feel very comfortable that we can achieve the $345 million and more often than not surpass it like we've done with other objectives. And that stands up a very, very strong life science tools and diagnostics layer, with its resilient revenue growth like Waters, by the end of the five year period, we're looking at a 7% growth for the combined company and a 32% operating margin, which again, puts us in the top of the industry. So, feel extremely, extremely good. I mean, Rachel, I'm again in California here to meet colleagues. I'm raring to go. I'm done talking about it.

Rachel

Perfect. I wanted to dig into some of the revenue synergies that you laid out during the transaction announcement. Obviously, you went into a little bit more detail on the second quarter earnings call a few weeks ago as well, but I think this is still the area where investors are trying to understand the achievability of some of these revenue synergies. So can you just walk us through the confidence in achieving some of these revenue targets, maybe rank order for us where you have the most confidence, whether that is the revenue synergies on commercial excellence or the adjacencies or cross selling, and then some of the associated timelines with each of those buckets as well?

Udit

As I go through them, maybe we can talk about the rank order, but if I were to sort of do it superficially right now, I'd say, look, the commercial excellence synergies are here and now. This is stuff that we've been doing at Waters for the last five years. We went from a spreadsheet based instrument replacement protocol, where there was a deficit of about 13,000 instruments that we had to replace at Waters. And mind you, the deficit is now 4,000. So we track it to a multiyear time frame, initially starting with Excel spreadsheets, which sort of I created on a weekend and had the team fill, to now a CRM tool that is managed with Rob Cartio and his team and very careful management of replacement with different segments and propensity to the place across different customer segments. So, huge confidence on the commercial side.

On the strategic adjacencies, two out of three are almost cross selling. Mass spec into diagnostics is basically just accessing the commercial infrastructure that BD has with molecular diagnostics for specialty labs and their service team that we currently don't have. Mass spec will provide immediate expansion of service, but also allow us to improve the attachment on that front.

And then on flow and PCR, all we've modeled is taking flow and PCR into process development using Waters as resources and not necessarily moving them into QA/QC. A huge confidence across the three commercial ones, these two which are here and now. On the technical ones, especially taking the antibodies and attaching them to our columns, we have proof of concept. There's about between 15 and 20 programs that were stranded just waiting for access to antibodies, which will now start in earnest as soon as we get access to the full portfolio and we feel that should hit in the three to five year time frame. That's the one that will take a bit of time to develop technologically.

And then lastly, on cross selling with access to DMPK or other segments, again, that's here and now. Given that we have the best instrument in the industry with mass spec with TQ Absolute XR, that belongs in DMPK and we've already done a proof of concept with several customers there. But let me just go through it a little bit more systematically, but that gives you sort of a flavor of confidence across which is pretty significant.

In all of these areas we have backstops. So, we mapped out roughly $290 million in revenue synergies over five years, and it basically spans across these 3 defined and execution ready areas; the $115 million from commercial excellence, $115 million from high growth adjacencies, $60 million from cross selling. And this is similar to what we had done back at Waters, especially on commercial excellence. I mean, the BD business resembles what Waters looked like back in 2020, 30% of the installed base of instruments is due for replacement, 30%. 70% of the revenue comes from the reagents, yet only a small percentage flows through E commerce, right? And 40% of the installed base of instruments is on service coverage, and I went through earlier also on how we've improved service attachment rate over the last few years at Waters. So, these are areas that we've just worked on, and we're getting just a larger portfolio to apply these capabilities on.

So, just take one of these, for example. By applying the same playbook, the $115 million is well within reach. So, for example, Ecommerce attachment, if you just increase it by 20%, on BDs $1.8 billion reagents business like we've achieved with Waters, it unlocks the $75 million that we've signed up for there alone. And this map is based on what we've seen firsthand at

Waters. This is not sort of consulting math. I mean, this is stuff that we've seen ourselves, where an incremental dollar is generated for every $5 that are shifted to digital channels.

And at Sigma Aldrich, we had roughly 75% of antibodies going through Ecommerce. So this is far, far from what we will be signing up for.

And in terms of bio analytical characterization, bio separation from mass spec and diagnostics, each sort of contribute between $35 million and $40 million. So as I said before, for flow and PCR, we're just assuming that these get access and these are BDs products that get access to QA/QC laboratories and process development laboratories from Waters initially only process development, and that sort of justifies the $40 million. And over time, we intend to take flow cytometry and PCR into QA/QC, like we have taken multi angle light scattering from wired into QA/QC, but the number, the $40 million only envisages access to process development, so the QA/QC move is an upside.

Similarly, for bio separations, as I mentioned, the $35 million basically just is based on concrete opportunities that we currently have stranded in our pipeline, which will be advanced with access to the antibodies. And on the diagnostic side, upstream proteomics is identifying new biomarkers for early disease detection, and mass spec is an essential tool that that is going to be used for multiplex diagnostics. So Roche's entry into the space with their very high throughput platform validates this hypothesis. And so, with BD we gain immediate access to global specialty diagnostic labs, which we today don't have at Waters, and a service infrastructure that gives us a 24-hour premium plan. So, this channel and service capability alone gives us a $40 million upside. And this stuff, again, does not include the development of a fully integrated mass spec platform like Roche has. We've done that already in China with KHP. We intend to do it here, but that's an upside.

And on cross selling, on cross selling it's a significant revenue synergy where BD's strong presence in pharma clinical laboratories, which, again, where Waters doesn't have a lot of access today, gives us reach into those laboratories where we can place our TQ Absolute and TQ Absolute XR. Previously, we haven't had penetration there, and that is part of the cross selling that we're signing up for. Roughly a $600'ish million TAM. We're assuming $60 million over the next few years.

Now, what this does not include is any contribution from mass spec for identification of microbes in microbiology labs or taking microbiology into pharma, stability testing for QA/QC applications. And these two areas can contribute quite a bit more. Each one of them is between $300 million to $500 million in TAM and are existing in markets where these products are relevant, but BD is not taken them there due to either lack of technical capabilities or commercial access.

So, in all, I feel very good about the $290 million that we signed up for. It does not include the transformation that we intend to orchestrate with the microbiology business to get it back to sort of peer level growth. It does not include the revenue synergies that come from the microbiology business. And the $345 million does not include overachieving the cost synergies where the overall $345 million of EBITDA, in fact, does not include the over achievement of cost energies, bringing it in line with what we did with Sigma Aldrich as well. So, feel very good that these are tactical here and now initiatives.

Rachel — Perfect. That's a lot of detail on the revenue synergies. So maybe I could just shift over to the cost synergy side of things that you just alluded to. You said that you expect to achieve $200 million in cost synergies and also expand the operating margin profile of the company by 500 basis points by 2030. So can you walk us through some of these key drivers in the confidence, on the cost synergy side, and then also on that margin expansion over the next five years here?

Udit — So on the cost side, Rachel, like I said, it's $200 million by the end of year three. $80 million comes from manufacturing and supply chain. About $40 million of that $80 million is from

site rationalization and consolidation, so we've identified meaningful overlap across the combined manufacturing and distribution footprint, including specific sites where there are opportunities for rationalization and to consolidate. So, this provides a very clear and actionable path forward. And Chris Ross, who's heading up the integration office now, comes from operations, so I have immense confidence that we will achieve this rather rapidly.

$30 million comes from direct procurement savings. Now this is highly conservative. It's just 2.5% of the combined material spend. Usually, from a benchmarking perspective, you'll see 5% achieved, so we're just signing up for half of it, $30 million. So, there's a $30 million upside here.

We've assumed $10 million from freight lane optimization. This is basically just using the same freight lanes across a larger portfolio, so we can over achieve that, I'm quite certain. Both freight and direct procurement ramp up quickly within the first three years. Site rationalization will usually begin in year two, with full benefits by the end of year three. And again, application of supply chain rationalization, procurement leverage, workforce consolidation and overlapping areas is something we have not incorporated. So $80 million is quite straightforward and straightforward to achieve.

Second, the $75 million coming from commercial infrastructure, service and technology, 50% of this will come from consolidating regional management, inside sales, sales operations with zero impact on quota carrying sales reps. So that's the first part of it, where we'll consolidate regional structures which, of course, are going to be redundant across the two companies. 50% of it also comes from eliminating duplicative technology platforms. We don't need two CRM tools, we don't need two Ecommerce's, we don't need two analytics platforms. And the central service oversight is there across the two companies, and we would want to make sure we consolidate that as well.

Beyond the $75 million that we've modeled in commercial infrastructure, service and technology, there is significant opportunity as we examined the BD structure in improving spans and layers. So as a reminder, back in early 2023, we took out 5% of Waters' overall headcount, given the slowdown in the market. And this was Q1 of 2023 when we implemented the program. This was largely done by reducing the number of layers from me all the way to the front line and increasing the span for each manager. So typically, now at Waters, each manager has roughly seven direct reports on average; some more, some less. And there's only seven layers from me all the way to the front line and this is very different at BD. Adding this would give us a much more significant number on adding on to that $75 million. So that's manufacturing and supply chain and commercial and infrastructure.

And the third is about $45 million from indirect procurement and using our global capability center in Bangalore. So, the $20 million from indirect procurement savings is less than 2%, again, of the indirect spend. And usually, I mean even in the Sigma days we did more than double of this, so this is well below any benchmark. But $20 million out of the $45 million comes from indirect procurement. The balance comes from insourcing, outsourced services that BD today has to the Waters India global capability centers, where we already deliver equivalent output of $0.30 to a dollar. So, whatever we can do in our in-house capability center is 70% cheaper versus going outside.

And there's, of course, additional upside from rebalancing roles from high-cost geographies into India, and something that we would treat as an upside. Finally, this indirect procurement saving usually ramps up in year one and two, so you should see it sooner than later. And the global capability realization requires us to renegotiate contracts with external IT vendors, usually takes two to three years. So that's overall the $200 million in cost synergies. And again, I'll remind you, this is sort of grounded in what we already did back at Waters without sort of the benefit of an integration, which is also 5% of our overall headcount. So the 4.7% here of the total cost base with the cost synergies is imminently achievable, even if you look at it from that perspective.

And then secondly, of course, if I go back to my own experience and Chris Ross's experience at MilliporeSigma, when we combined those two organizations, we took out between 7.5% to 8% of the total cost base. And if you just take that alone, you get to $325 million in cost synergies. So, significant upside potential here. So that's, I think, the first part of your question, just elaboration on the cost synergies.

Now you also asked about our assumption on the margin going from 27% to 32%. Let me sort of dimensionalize or give you just a simple numerical way to look at it. Start with 27%. 250 basis points will come from the $345 million synergies, of which 200 basis points are tied to margin benefit from cost synergies, only at 4.7% of the combined company cost threshold. Remember, at Sigma we did much, much larger, so this is sort of our lower end. 250 basis points on the $345 million in synergies, another 130 to 150 basis points from Waters standalone. Remember what we spoke about at the investor day, the trajectory that we have to get closer to 35% by 2030 and this is a program that we will continue to implement. And that leaves between 50 and 100 basis points for BD standalone.

Applying just a pricing discipline alone, including the resumption of, for instance, in the microbiology business of annual price increases on the BACTEC platform which has been which has been constant for the last few years, and greater volume leverage gets you that 100 basis points. So, 27 plus 250, plus 250 from the costs from the overall synergies, 130 to 150 from Waters standalone, and about 50 to 100 from BD standalone gets you to 32%. So long answer, but happy to pull any thread if you like.

Rachel — Perfect. Maybe just in the interest of time, I think shifting over to 2026 and the discussion there, because I've been getting some questions from investors on it. So, if we look at your current guidance for the rest of this year, it really implies like a mid-single digit organic growth for Waters in the fourth quarter. How should we think about this exit rate in the context of the 2026 outlook for standalone Waters? And then also, how do we think about margins for standalone Waters as well as we look to next year?

Udit — We will not guide fully to all of next year, but I think I can give you a guidepost on a way to think about it. First half of the year, you saw us on the lower end of the high single digit range, 7'ish percent growth. And I think your question is more around what should you assume when the company is combined and what would be Waters standalone and what would be BD's standalone? What would be synergies? Any sort of take each of those and answer that question, and it'll give you the answer to the Waters question.

BD standalone, we've assumed roughly 4.5% and we can get into the details in a bit. But we've assumed in 2026 there will be a bit of recovery. It still doesn't recover to the '19 to '24 growth rate, but 4.5%. You add the revenue synergies in year one to it, and you basically then finally add the Waters growth rate, which I would be comfortable in saying that it is on the lower end of the high single digit number, meaning, say, between 6% and 7%. You add those three up to a weighted average, you come up with a company that's growing north of 6%. So, I think that's how I would model it. There can be deviations on one or the other of that, but overall, I think you can be quite sure that a six plus percent growth is within reach in 2026 for the combined company.

Rachel — That's helpful. Just to follow up on that, though, any comment on margins? And then maybe more broadly, just given the timing of when the deal closes, when should we expect to actually receive formal 2026 guidance for you guys?

Udit — It depends on when the deal closes, right? I mean, if the deal closes at the end of Q1 and after our Q4, we usually give our full year guidance with our Q4 earnings, so it depends on the timing. If it is before, we will do our best to try to give you an indication of what the full year would look like. I mean, not much more to say at this point, but it's usually in that time frame that you should get guidance. I won't comment much more on the margin side at this stage.

Rachel — Fair enough. Maybe shifting over then to some of the end market discussion. So, pharma biotech, you guys grew 11% in that end market this quarter. It grew 8% in the first quarter as well. So clearly, you're seeing some traction on the pharma side, especially. That said, we've had some crazy headlines at the start of the year with things like MFN, tariffs, so investor sentiment is pretty pressured on this pharma end market. Can you just reconcile that for us? What are you hearing from your pharma customers in regard to some of these headlines and their plans on the capex replacement cycle? And what gives you confidence that you're not going to experience some type of a delay in the instrument replacement cycle in the coming quarters here?

Udit — So three comments, Rachel. First, on the pharma, overall pharma side, remember, we are mostly in late stage development, QA/QC, sort of mostly CDMOs or generics, right? So that's the part of pharma that generally is preserved even through cycles. And we have a deficit on the replacement cycle, as I mentioned earlier, the 5, 6 year CAGR is now still at 2%. We have very, very strong funnels. So analytically, no reason for anything to slow down.

Then the second piece is the qualitative discussion. The qualitative discussions completely support it. Meaning, once we have planned the replacement cycle for LC-MS instruments in QA/QC laboratories with CDMO players, it's a multiyear process, and let me sort of explain how that becomes multiyear. The discussion to determine the exact portfolio you're going to use, exact sites that you're going to replace it at, is a very large cross functional discussion that starts with looking at IT and saying, okay, what version of Empower are you on, and what version of Windows are you on? So incidentally, Microsoft has just sort of upgraded to Windows 11. Many of our large pharma customers are adopting it. That then allows you to take the latest version of Empower, that allows you to get Alliance IS into the mix, which our customers are extremely keen to get into the mix in QA/QC. So those three then determine what exact sort of portfolio you use for the replacement, and it's a multiyear process basically agreed upon across many different functions in these pharma customers.

So, analytically the replacement cycle has a huge deficit still. Quantitatively, the funnels are very strong, and we are still at 2% on a CAGR basis, so there's still more to go. And from a discussion perspective, we are not seeing any pressure from the customers in those categories.

Now, the story is a little bit different in drug discovery, in biotechs, to some extent in CROs and also China genetics, which is a different type of pressure, but different type of discussion. But in all of these, there is still no start to replacing instruments, so no real change. And we're following the MFN discussions, we're having discussions with our customers, but where we sit today there is really minimal to no impact on the change of trajectory.

Rachel — Got it. That's helpful. Maybe digging into China, I think that's another area where we've gotten some questions on the line. This region returned to growth for Waters late last year. You posted 14% growth in China in the second quarter. But we've seen China performance from the broader tools group be a little bit mixed, just given some of the macroeconomic pressures in the region still persist. So, can you reconcile this for us, what is driving Waters performance in the region? What makes your portfolio different to some of your peers in China? And then, what are you seeing in the region from a customer and product perspective here?

Udit — In China, China is not sort of one market. As much as we'd like to think of it as one sort of monolith, break it up into the three end markets and we saw double digit growth this quarter. Break it up into the three different end markets, in pharma we saw high single digit growth, while branded generics were still pressured. That's still sort of 50% of our pharma business, they were still pressured and declining, but CDMOs more than offset it. And you say, wow, CDMOs growing in China. What's the basis? Well just read the headlines on biotech. 35% of in licensing of global biotech molecules comes from China now. And there are structural advantages of doing early stage trials and derisking large molecule development in China that this is a secular trend now. Unless the US, Europe and other countries catch up in simplifying

the early stage development of large molecules, China has an advantage, and you will see this continue to grow. CDMOs support these companies, and it's fantastic. We're seeing some really nice dynamism, both in service as well as in chemistry.

On the instrument side, back during Covid, a lot of the CDMOs purchased quite a large number of instruments. And when the demand slowed down, those instruments were not being utilized as much, but they're now starting to increase the utilization which is what we see with service growth and with chemistry growth. So, really robust trend. I would say rather secular now, unless real structural changes are made in biotech development in the rest of the world.

And I think we've telegraphed this about a year ago as well, but we're starting to see the impact of it. And we met eight of our top customers in Milford at our headquarters, and they were talking about the latest and the greatest technologies that they can bring in to support these biotech customers. So that's pharma.

Industrial, TA is a paradoxical business for us. While in the US, we had a huge challenge with sort of classical materials customers in China, with battery testing, it was fantastic. It grew double digits. With chemical analysis, it grew double digits. The industrial segment did extremely well in China for us, it grew nicely, the double digit arena, largely driven by the TA strength.

And third, in the academic and government segment, we worked extremely hard over the last few years to localize our portfolio and improve our distribution. This has benefited us, so this has benefited us in winning a disproportionate share in with those customers, and more recently also with a similar stat game in part of the stimulus that came in Q2. So, China overall I'm not ready to sort of underwrite double digit growth that we've seen in the first half of the year for a long period to come. The second half of the year, we have good visibility. We think it's going to be nice and dynamic, but just as we've done in the past, we've said low to mid-single digit growth in our second half guidance, but all three end markets have different, independent drivers. So pharma with CDMOs, industrial with battery testing and chemical analysis, and A&G with a localized portfolio with some benefit from the stimulus.

So, I hope that gives you color on Waters' growth in China. Very happy with it, with what the team is doing there. And I'll just make one more point. Usually you'll see us sort of, and this is true with the BD acquisition as well, when we put a target on the table, we have multiple ways of achieving it. And so, when we talk about guidance, there are geographies that we can pull and push faster or slower, there are portfolio pieces, and we feel very good about where now our China business is competitively.

Rachel — Perfect. Maybe following up on your comments there around the CDMO drivers within the pharma segment in China, can you just remind us, what does your CDMO customer base look like in the region? Is it pretty broad-based, or is it mainly focused with some of the larger players, like WuXi in the region?

Udit — A mix, but mostly large now. It used to be large and small, but with the bio secure act, the small ones sort of were not viable anymore, but it's mostly large ones. We have deep relationships with names that you mentioned. I mean, there's also Pharmaron there's WuXi. There's also some large pharma in China who do contract manufacturing themselves. So very, very good relationships. And again, remember, I think back in 2021, early 2021, we had flipped WuXi from a competitor to us. It went from 80/20 of a competitor to 80/20 Waters, and we've maintained that share. So, feel extremely good about it.

Rachel — Okay, that's helpful context. Maybe shifting to India. India grew double digits in the second quarter. It grew roughly 20% in the first quarter as well. You've talked about how you expect that the generics opportunity in India will contribute 70 to 100 basis points annually that you mentioned at the analyst day. So, with this in mind, can you discuss some of the competitive

dynamics in India for the generics opportunity? And then, how should we think about the tariff dynamic in India impacting this opportunity, if at all?

Udit — Again, sort of quantitative and qualitative, so let me start with the qualitative this time. We have deep relationships with the top generics players in India, and these folks, some of them have sites in the United States and Canada as well. They're very close to the tariff discussion between the US and India. There is no impact on this industry, per se, especially the export generics industry, and they are very confident in their capex investment. So, we're very close to these customers. Our GM talks to them on a weekly basis, I talk to them on a monthly basis, and I have a firsthand view that we're not seeing any pressure on CapEx investments for generics to support the upcoming patent cliffs. So that's the first piece.

The second quantitatively, yes, India has been growing in the high teens for a while now, and we don't see the funnel support strong growth for the back half of the year as well. So quantitatively, we don't see any challenge. Now, I'm very close to all the discussions that are taking place between the US and India. I think the discussion largely you should focus is on the agriculture and dairy segments, and not as much the pharma and genetic segment. The pharma discussion is largely taking place with the US and large pharmaceutical companies with MFN, not with the genetics industry, per se, in mind. So I think you sometimes sort of lump pharma into one. It's a different discussion with large pharma, different discussions with generics which are not being impacted with India and the US. It's largely a discussion on agriculture and dairy products, both of which are politically important for both countries, given the population that is involved. So I think just important to be specific on that front, but we're very close to the details there, so I feel very good about our position and our forecast in India.

Rachel — Great. That's helpful. Maybe in the final minute or two here, can you just provide us with any final takeaways, and what do you think is the most underappreciated aspect of the Waters story here?

Udit — Thank you, firstly, for giving us the time to talk about it today. I think we feel very fortunate in terms of where we stand, as Waters standalone; how our strategy is working; how the execution is really now kicking into good gear, and we're able to sort of offset any challenges that we see geopolitically, geographically, and this has lot to do with the team's resilience. So, I think that has been understood reasonably well. And yes, we discussed the replacement cycle, chemistry, etc., again and again, but I think overall that's well understood.

The potential of the BD transaction I think is getting better and better appreciated. I feel good about the discussions we've had with several investors and several of our large investors. As we provide more detail, as time passes and people get more comfortable with their own analysis, there is a tremendous value creation potential here to create a leading innovation driven life science tools and diagnostics company, which basically is able to withstand even more turbulence than Waters standalone has been able to do. So, feel very good about the discussions we've had. And as the story gets appreciated, I am sure more and more folks will see an opportunity to come in and support us.

So, I want to again thank you for the opportunity, thank you for the forum, and thank you for your questions. I hope it was helpful.

Rachel — Yes, with that, we are unfortunately out of time. So, thank you so much again, Udit, for joining us today. And thank you for everyone on the line as well. Please feel free to reach out if you have any follow up questions.

Udit — Thank you, Rachel. Thanks, everyone. Bye.

Moderator — This concludes today's call. Thank you for joining. You may now disconnect your lines.