



# Agilent Technologies

## Agilent Technologies Second Quarter Fiscal 2024 Conference Call Prepared Remarks

### Parmeet Ahuja, Vice President, Investor Relations

Thank you, and welcome everyone to Agilent's conference call for the second quarter of fiscal year 2024. With me are Padraig McDonnell, Agilent president and CEO, and Bob McMahon, Agilent senior vice president and CFO.

Joining in the Q&A will be Phil Binns, president of the Agilent Life Sciences and Applied Markets Group; Simon May, our newly named president of the Agilent Diagnostics and Genomics Group; and Angelica Riemann, president of the Agilent CrossLab Group.

This presentation is being webcast live. The news release for our second-quarter financial results, investor presentation, and information to supplement today's discussion — along with a recording of this webcast — are available on our website at [www.investor.agilent.com](http://www.investor.agilent.com).

Today's comments will refer to non-GAAP financial measures. You'll find the most directly comparable GAAP financial metrics and reconciliations on our website.

Unless otherwise noted, all references to increases or decreases in financial metrics are year-over-year and references to revenue growth are on a core basis. Core revenue growth excludes the impact of currency, and any acquisitions and

divestitures completed within the past 12 months. Guidance is based on forecasted exchange rates.

As previously announced, beginning in the first quarter of fiscal 2024, we implemented certain changes to our segment reporting structure, related to the move of our cell analysis business from LSAG into DGG. We have recast our historical segment information to reflect these changes. These changes have no impact on our company's consolidated financial statements.

During this call we will also make forward-looking statements about the financial performance of the company. These statements are subject to risks and uncertainties and are only valid as of today. The company assumes no obligation to update them. Please look at the company's recent SEC filings for a more complete picture of our risks and other factors.

And now, I'd like to turn the call over to Padraig.

### **Padraig McDonnell, President and CEO**

Thanks, Parmeet.

Good afternoon, everyone, and thank you for joining today's call.

I want to begin by saying I am incredibly honored to serve as CEO of this great company, and I'm thankful for the opportunity to lead such a talented team.

I truly believe the Agilent team is second to none and I am energized about the future possibilities that lie ahead of us.

I also want to take this time to welcome our new DGG president, Simon May, to the Agilent team. Simon's diversified experience, strong technical skills and growth mindset will be a key asset in this role. Since starting earlier this month, Simon has hit the ground running and I am really looking forward to him helping move DGG and Agilent forward.

Before I talk about the quarterly results, I'd like to tell you how I've spent my time since the announcement in February that I would become Agilent's CEO. I have been meeting and connecting with employees, customers, and shareholders around the world to listen to their perspectives on how we should build on our strengths and evolve Agilent.

What they have told me is clear: Agilent must become even more customer focused and even more nimble to continue to win in the marketplace and add value to customers and shareholders.

This has really resonated with our employees and customers.

As an energized Agilent team, we will evolve our strategy, adapting quickly to market trends and changes while accelerating our pace of innovation in areas of greatest return for long-term growth.

We will double down on our customer-first culture, deepening our relationships to further enhance our market-leading customer experience that is already the best in the industry.

Now let's talk about the Q2 results and outlook moving forward.

In a challenging market environment, the Agilent team delivered on expectations.

In the second quarter, we reported revenue of 1.573 billion dollars — a 7.4 percent decline. This was against a tough compare of 9.5 percent growth in Q2 of last year.

While revenues declined in the quarter, our book-to-bill was greater than 1 and orders grew year over year for the first time in seven quarters.

Earnings per share of \$1.22 beat our expectations and represented a 4 percent decline from the second quarter of 2023.

Now looking forward, the market environment continues to be challenging, but we are seeing early signs of recovery. However, as we announced in our press release, this market recovery is not at the pace we anticipated when we provided guidance earlier in the year.

As a result, we are reducing our market-growth expectations and revising our full-year core revenue to be in the range of 6.42 billion dollars to 6.50 billion dollars and growth to decline between 4.3 and 5.4 percent.

We now expect earnings per share to be between \$5.15 and \$5.25 for the year.

We have responded quickly to the lower market-growth expectations and are taking difficult-but-necessary actions to streamline our cost structure. These actions will allow us to invest in our most promising growth opportunities while also delivering incremental annualized savings of 100 million dollars by the end of this fiscal year.

We are sharpening our focus on key growth vectors, such as Biopharma, PFAS, and Advanced Materials while also investing in our digital ecosystem and accelerating our innovation to drive even faster execution.

And we are leveraging our strong balance sheet and plan to repurchase 750 million dollars of our common stock across the third and fourth quarters — over and above our normal anti-dilutive repurchases.

Bob will provide more details on our results and latest outlook in his remarks.

Getting back to Q2 results, as expected, all end markets saw declining revenue in Q2.

Geographically, the Americas and Europe came in slightly ahead of expectations while China lagged.

Despite the challenging market conditions, our Agilent team stayed close to our customers and continued to leverage our strong relationships with them to execute remarkably well while maintaining strong cost discipline.

When we look at our performance by business unit, the **Life Sciences and Applied Markets Group** reported 754 million dollars in revenue — down 13 percent.

The group saw a decline across all end markets and regions, with consumables being a bright spot. Consumables grew in the low-single digits, driven by Chemical and Advanced Materials, Food, and Environmental and Forensics. Also, while relatively small, we continue to see strong growth in our pre-owned instrument business.

The LSAG team continues to innovate, introducing two new instruments this quarter that extend our applied-markets leadership.

First, our 7010D GC/Triple Quad instrument delivers exceptional sensitivity for customers in the environmental PFAS and Advanced Materials markets, designed for analyses that demand the lowest limits of detection.

And second is our 8850 GC, a distinguished new member to our market-leading GC portfolio. The 8850 is ultrafast in separation and cool-down speed with design innovations that enable customers to run tests up to twice as fast as a regular benchtop GC. And it's the smallest high-performance benchtop GC on the market. Plus, it's sustainable, using up to 30% less electricity power compared with a traditional benchtop GC.

Now moving on to **Agilent CrossLab Group**, which delivered revenue of 402 million dollars for the quarter — up 5 percent.

ACG grew across all end markets and every region except China. The business delivered double-digit growth in services contracts, which now represents almost 70 percent of the total business offset by declines in new-instrument-installation revenues. The ongoing strength in our contracted business speaks to our strategy of increasing the connect rates on our instruments and the ongoing value we are providing to our customers.

The **Diagnostics and Genomics Group** posted 417 million dollars in revenue, representing an 8 percent decline.

Pathology was up mid-single digits globally and was more than offset by declines in the mid-20s in Cell Analysis due to the constrained capital environment for instrumentation. NASD declined low-teens as expected, driven by more clinical products being produced this year versus Q2 of last year.

Europe was a bright spot for DGG, growing low-single digits in the quarter, while Americas and China declined.

Despite the subdued market environment, we continue to innovate in our Cell Analysis business. We recently introduced the Agilent Spectral Flow Cytometer

which allows our customers to perform sophisticated experiments that expand the range of their research on the same easy-to-use NovoCyte platform.

Bob will now provide the details on our results as well as our outlook for the remainder of the year.

After Bob delivers his comments, I will be back for some closing remarks.

Over to you, Bob.

### **Bob McMahon, Chief Financial Officer**

Thanks Padraig, and good afternoon, everyone.

In my remarks today, I will provide some additional details on revenue in the quarter, as well as take you through the income statement and other key financial metrics.

I'll then cover our updated full-year and third-quarter guidance.

Q2 revenue was 1.573 billion dollars, a decline of 7.4 percent core. On a reported basis, currency had a negative impact of 0.8 percentage points while M&A had a negative impact of 0.2 percent, resulting in a reported decline of 8.4 percent.

As Padraig mentioned, **Pharma**, our largest end-market, declined 11 percent with both Biopharma and Small Molecule declining roughly the same percentage.

Instrument demand continues to be constrained while services delivered mid-single digit growth.

Looking forward, while we have seen sentiment improve, instrument purchases are still constrained, and we are expecting that to continue for the rest of the year. In addition, we have reduced our expectations for NASD as several clinical programs have pushed out into next year and some commercial products have not ramped at the pace as expected. As a result, we have reduced our full-year growth outlook for the Pharma end market from roughly flat to down low double digits, similar to our Q2 performance. Our revised expectation for the Pharma end market is the largest change in our outlook.

The Chemical and Advanced Materials market was better than expected, declining 3 percent after coming off a very tough comparison of 16 percent growth last year.

The Academia and Government market declined 12 percent against a tough compare of 11 percent growth last year. While soft globally, the decline was driven by China, which was down mid-30s.

Our business in the Diagnostics and Clinical market declined 2 percent. Our Pathology business continues to show resilience in this market, growing mid-single digits, while our NGS QC instrumentation business also grew slightly. These were offset by softness in our NGS Chemistries business.

The Environmental and Forensics market declined 2 percent. The business grew mid-single digits ex-China, highlighted by continued strength in serving the rapidly expanding PFAS opportunity.

The Food market declined 13 percent on a very tough compare of 21 percent growth last year heavily impacted by the low-30s declines in China.

On a geographic basis, all regions declined.

The Americas region was down 5 percent, Europe was down 3 percent, while Asia Pacific ex China was down slightly.

China was down 21 percent, missing our expectations of a mid-teens decline. We saw demand weakness expand beyond Pharma. As a result, we have revised our full-year expectation for China from a mid-single-digit decline to a double-digit decline. We have seen funnel activity increase because of the recently announced stimulus program, but we are not assuming any revenue impact in our fiscal year.

Moving down the P&L, our second-quarter gross margin was 55.6 percent — up 30 basis points from a year ago as productivity and cost savings were offset by lower demand and mix.

Our operating margin of 25.1 percent was down year-over-year as expected.

Below the line, we benefitted from greater-than-expected interest income and a lower tax rate.

Our tax rate was 12.5 percent and we had 293 million diluted shares outstanding.

Putting it all together, Q2 earnings per share were \$1.22, down 4 percent from a year ago — less than the decline in revenue and ahead of our expectations.

Now let me turn to cash flow and the balance sheet.

Operating cash flow was 333 million dollars in the quarter, and we invested 103 million dollars in capital expenditures as we continue our planned NASD expansion.

We returned 299 million dollars to shareholders in the quarter: 69 million dollars through dividends and 230 million dollars through repurchased shares, catching up on our anti-dilutive buying year to date.

In summary, we met our expectations for the quarter and our markets are recovering but at a slower pace than we anticipated. We are directing our energy toward high-growth opportunities and are committed to delivering value to our customers and our shareholders.

Now on to our revised outlook for the year and our third-quarter guidance.

We now expect full-year revenue to be in the range of 6.42 to 6.50 billion dollars. This represents a decline of 6.0 to 4.9 percent on a reported basis and a decline of 5.4 to 4.3 on a core basis. Currency and M&A combined are a headwind of 60 basis points.

This is a 300-million-dollar reduction at the midpoint and is primarily related to changes in two areas: China overall and the Pharma end market outside of China.

For China, we have reduced our expectations to a double-digit decline from mid-single digits with all end markets being reduced. This represents roughly 70 million dollars of the guidance reduction.

The remainder of the change in the Pharma end market globally outside of China is due to two factors. The first and largest factor is continued caution in budget releases and extended approval times for instrumentation purchases in both small and large molecule. This is roughly 175 million dollars of the change.

The second factor is related to NASD due to the reasons I mentioned earlier and represents the remaining 55-million-dollar reduction.

While down from our previous guidance, we are expecting growth in the second half of the year to be roughly 400 basis points better than the first half of the year and plan to exit the year roughly flat year on year at the midpoint of the new guidance.

Full-year, non-GAAP earnings per share are now expected to be between \$5.15 and \$5.25, representing a decline of 5.3 to 3.5 percent.

This incorporates a roughly 35-million-dollar expense reduction due to the actions Padraig mentioned, the majority hitting Q4 in order to help mitigate the bottom-line impact of the change to our revenue guidance. It also assumes a 13 percent tax rate and 292 million fully diluted shares outstanding.

We will leverage our strong balance sheet and plan to repurchase 750 million dollars of our shares in the second half of the year in addition to our anti-dilutive repurchases. We expect these repurchases to be weighted towards Q3. All told, we expect to return roughly 1.4 billion dollars to shareholders this year between dividends and share repurchases. In addition, the board authorized a new 2-billion-dollar share repurchase program that will go into effect August 1st and replace the existing authorization.

Now, for our Q3 guidance.

We expect revenue will be in the range of 1.535 to 1.575 billion dollars. This represents a decline of 8.2 to 5.8 percent on a reported basis and a decline of 6.9 to 4.5 on a core basis. Currency and M&A combined are a headwind of 130 basis points.

Third-quarter, non-GAAP earnings per share are expected to be between \$1.25 and \$1.28, representing a decline of 12.6 to 10.5 percent.

Looking forward, we remain disciplined. We're focusing on what we can control and driving strong execution in a challenging market. And we are optimistic about the long-term future.

Now, back to Padraig.

## **Padraig McDonnell, President and CEO**

When I joined you last quarter as CEO-elect, I said Agilent has a compelling story to tell and I was excited by the possibilities that lie before us as we help our customers bring great science to life.

That excitement has only grown.

I've spent 26 years at Agilent — first starting as a field employee before moving to sales and then leading some of our businesses. I know Agilent's strengths and its opportunities very well.

We are in great long-term growth markets. And while the markets are recovering slower than anticipated, they are recovering.

This company is a leader across key platforms, making us uniquely qualified to support our customers in their missions to solve some of the world's most important problems.

And our customers value their relationships with us because we offer them an unparalleled experience — and, as I said earlier, that is a competitive differentiator in the market.

The actions we are now taking, while difficult, will enable us to quickly capitalize on growth opportunities as the markets fully recover.

I know the future is bright and we will forge an enduring company that sets the standard for excellence with our customers and creates value for our shareholders.

Thank you, again, for joining today's call. I look forward to a continued dialogue with all of you.

Parmeet, over to you for Q&A.