Agilent Technologies Third Quarter Fiscal 2015 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's Third Quarter Conference Call for Fiscal Year 2015. With me are Mike McMullen, Agilent's president and CEO, and Didier Hirsch, Agilent senior vice president and CFO.

Joining in the Q&A after Didier's comments will be Patrick Kaltenbach, president of Agilent's Life Sciences and Applied Markets Group; Jacob Thaysen, president of Agilent's Diagnostics and Genomics Group; and Mark Doak, president of the Agilent CrossLab Group.

You can find the press release and information to supplement today's discussion on our website at www.investor.agilent.com.

While there, please click on the link for "financial results" under the "Financial Information" tab. You will find an investor presentation along with revenue breakouts and currency impacts, business segment results and historical financials for Agilent's operations. We will also post a copy of the prepared remarks following this call.

Today’s comments by Mike and Didier will refer to non-GAAP financial measures. You will 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. Please note that we will refer to “core” order and revenue growth percentages. Core orders and revenue exclude the impact of currency, the exit of the NMR business, and acquisitions and divestitures within the past 12 months.

Reconciliations between reported and core growth in dollars and percentages can be found in the financial results section on the IR website.

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 Mike.

MIKE MCMULLEN

Thanks Alicia, and hello everyone. Thank you for joining us on today’s call.

I will start with a summary of our Q3 performance. Then I'll move to an update and outlook on operating margin expansion and capital deployment plans. Finally, I will close with our full-year guidance.

I am very pleased to report our Q3 results, with the Agilent team delivering revenue at the high end of our guidance and earnings above our guidance range. Agilent's Q3 revenue of $1.01 billion grew 1 percent over a year ago, up 9 percent on a core basis. Orders of $953 million, while down 6 percent compared to a year ago, were up 3 percent on a core basis.

Our strong revenue growth was driven by continued strength in the pharma, diagnostics, environmental and forensics markets; and across all geographies. We saw strong customer acceptance of our new instrument product introductions; and strength in our CrossLab services and consumables, diagnostics and genomics offerings.

We also resolved previous start-up issues in our Americas logistics center, which delayed $15 million of shipments last quarter.

A few additional comments on the order front: Our 3 percent core growth was against a tough compare of 9-percent core growth in Q3'14. We also experienced some U.S. and state government "big deal" delays into Q4. And customers in the industrial markets continue to take a cautious stance, in light weak commodity prices and uncertainties in the world economies.

Adjusted operating margin, including the adjustment for Keysight billings, was 19.9 percent, expanding 110 basis points over a year ago. Earnings per share were

44 cents. This marks another quarter of significant year-over-year margin improvements, driven by our intense focus on growing our operating margin, as we seek to achieve 22 percent margins by fiscal 2017.

Moving on to the results by business group…

The Life Sciences and Applied Markets Group, or “LSAG” as a reminder, brings together Agilent’s analytical laboratory instruments and informatics. Core revenue growth of 9 percent was driven by strong performance in Pharma, environmental and forensics markets.

Core orders were down 1 percent. LSAG operating margin for the quarter was 18.7 percent, up 220 basis points from a year ago. The previously announced exit of the NMR hardware business continues to proceed as planned. We expect our LSAG sales funnels to continue to strengthen, given a number of recent significant new product introductions.

At June’s HPLC 2015 Conference in Geneva, we further enhanced our new Infinity II LC line with the new 1290 Infinity II Vial-Sampler. This product significantly lowers the entry price to the top-line product range, offering analytical laboratories a cost-effective way to experience the advantages of ultra-high-pressure liquid chromatography.

We released the 6470 LC/MS Triple-Quad at ASMS in June. This newly engineered core platform provides attogram-level sensitivity, and accurate quantitation with up to six orders of linear dynamic range.

The new product delivers significant improvements to the bestselling core LC/MS Triple-Quad, the 6460. It offers improved performance, precision, speed and robustness; and features a small footprint to preserve bench space in the lab.

And in spectroscopy, the 7800 quadrupole ICP-MS, which we launched in Q2, is the latest addition to Agilent's industry-leading ICP-MS portfolio. This new product raises the standard for routine elemental analysis.

Next, the Agilent CrossLab Group, or "ACG," combines our analytical laboratory services and consumables businesses under a new Agilent brand. Core revenues were up 8 percent, while core orders grew 6 percent in the quarter. Operating margin was 22.6 percent.

Last quarter we launched the Agilent CrossLab Brand Promise program. This program is focused on delivering a new and integrated approach that offers actionable insights to help customers. New service solutions include:

- Laboratory business intelligence reporting,
- RFID inventory management services, and
- Laboratory asset utilization services

And in consumables, we expanded our AdvanceBio portfolio of solutions, which enables scientists to speed research and lower costs.

Finally, turning to the Diagnostics and Genomics Group, "DGG" is comprised of three divisions: the former Dako business, Genomics and Nucleic Acid Solutions.

DGG's results were driven by excellent performance across all three divisions: pathology and companion diagnostics, genomics and nucleic acid businesses. DGG's core revenue grew 10 percent versus a year ago. Orders grew 8 percent on a core basis. Operating margin of 16.8 percent was up 330 basis points over Q3 of fiscal 2014.

In the third quarter, DGG completed its acquisition of Cartagenia, a leading provider of software for clinical genetics and molecular pathology labs.

We launched updated Gene Expression Microarray tools for researchers to better investigate expression patterns on a highly accessible platform.

Adding to products for next generation sequencing, we released new Target-Enrichment Solutions for disease research, which will address current limitations in exome sequencing.

Now, let's take a brief look at Agilent's revenue by end market performance on a core basis.

Life sciences and diagnostics markets continued to see strength in pharma, a recovery with strong demand in the diagnostics and clinical market, and moderate growth in academia and government.

Applied end-market performance was led by continued spending in environmental and forensics, and moderate growth in food. Chemical and energy was flat, due to reduced investments in oil exploration. We also saw cautious spending in the downstream refining and chemical segments, driven by macroeconomic uncertainty concerns.

Geographically, we saw healthy core revenue growth across all regions, particularly in the Americas, Europe and Asia Pacific, with strong growth in China. Major pharma spending was brisk, with large firms upgrading to the new Infinity LC platform.

Turning from the report-out of Agilent's revenue and order results, let me update you on our operating margin improvement initiatives and Q3 capital deployment actions and outlook.

Thanks to those of you on the call who joined us at our May Analyst and investor meeting. As a reminder, I highlighted three focus areas where we are working as a team to drive shareholder value:

1. Deliver above-market revenue growth
2. Expand operating margins to historic highs; and
3. Return 85 percent of free cash flow to shareholders

I've just discussed our revenue growth. Now here's an update on operating margin and capital deployment.

Our multi-year "Agile Agilent" program is re-engineering the company to be more efficient, nimble and externally focused. As of the third fiscal quarter, we have delivered $35 million of the expected gross savings of $50 million in 2015 from our combined actions. We are committed to achieving a 22-percent operating margin by FY17, a three-point improvement over FY14, while continuing to invest for long-term revenue growth.

With the margin improvement results over the past two quarters, we are very confident in our ability to deliver on our margin expansion goals.

Now turning to capital deployment, as previously guided, we are on track to return $500 million this year to shareholders in the form of dividends and buy backs. In Q3 we repurchased $99 million of stock, bringing our year-to-date repurchases to $267 million.

With respect to guidance, we are reaffirming our previous FY 2015 EPS guidance of $1.68 to $1.72, as the operating model of the new Agilent continues to drive profitable growth and margin expansion.

Thank you for being on the call today. I will now turn it over to Didier, who will provide additional details on our guidance and financial results.

DIDIER HIRSCH

Thank you, Mike, and hello, everyone.

To recap the quarter, our core order and revenue growth, excluding the impact of currency, NMR, and acquisitions and divestitures were respectively 3% and 9%. This quarter, currency subtracted 6.9 percentage points from our year-over-year revenue growth.

As Mike stated, start-up issues with the transfer of our US distribution center were resolved in Q3, which resulted in about $15M of additional revenue.

Adjusted operating margin was 19.9%, 160 bps higher than guidance and 110 bps higher than last year on just 0.5% higher nominal revenues. Excluding the $40M annual cost dis-synergies resulting from the Agilent / Keysight split, operating margin grew 210 bps.

I will now turn to the guidance for our fourth quarter. We expect Q4 revenues of $1,03B to $1.05B and EPS of 45 to 49 cents. At midpoint, revenue will grow 6.7% on a core basis. Our 20.3% adjusted operating margin at midpoint will be up 40 bps sequentially. We expect to continue our disciplined buyback program with planned purchases of $98M in Q4.

Now to the guidance for Fiscal Year 2015: the Q4 guidance results in the following fiscal year guidance:

At midpoint, revenue will grow 6.6% on a core basis, again, excluding the impact of currency, NMR, and acquisitions and divestitures. FY15 revenue guidance is $37M lower than previous guidance, of which $15M is due to currency.
Our EPS guidance of $1.70 at mid-point is unchanged from previous guidance, due to additional Agile Agilent savings that compensated for slightly lower revenues. Adjusted operating margin for the year is expected to be 19.2% or 40 bps higher than in FY14. Excluding the impact of the $40M cost dis-synergies related to the Agilent / Keysight split, our operating margin will be up 140 bps year-over-year, on flat reported revenue growth.

With that, I will turn it over to Alicia for the Q&A