Agilent Technologies

Agilent Technologies First Quarter Fiscal 2016 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's First Quarter Conference Call for Fiscal Year 2016. 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. As a reminder, we are no longer reporting or commenting on orders or book to bill. Our guidance is based on exchange rates as of the last day of the reported quarter.

And please note that we will refer to “core” revenue growth, which excludes the impact of currency, 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’m pleased to report that our team delivered a very strong start to our fiscal 2016. Both revenue and earnings are above the high end of our guidance. I will now highlight three key results. First, revenue was up over 6 percent on a core basis. Second, we delivered an operating margin increase of 200 basis points from a year ago to 20.2 percent, adjusted for Keysight billings. Finally, adjusted EPS of 46 cents was up 12 percent over last year.

Our Q1 results were driven by continued strength in the pharma, clinical & diagnostic markets, with a return to growth in academia & government. Market demand remains strong for our liquid chromatography, CrossLab services & consumables, and diagnostic & genomics offerings. Geographically, all regions grew on a core basis, with strong growth in China.

Let me highlight the Q1 results by our three business groups.

The Life Sciences and Applied Markets Group delivered core revenue growth of 2 percent. We see continued strong global Pharma demand, growth returning in Academic & Government markets, and China government investments in Environmental and Food markets. All of this offset continued weakness for new equipment purchases in the Chemical & Energy market space.

LSAG's operating margin for the quarter was 21.7 percent, up 210 basis points from a year ago.

As a reminder, in November we closed the acquisition of Seahorse Bioscience. Integration activities are in full swing with a team excited to be part of Agilent.

LSAG continued to strengthen its portfolio in Q1. We released two new Refractive Index Detectors, the 1260 and 1290 Infinity II RID. These detectors help expand the capabilities of modern UHPLC chromatography to make difficult measurements in certain chemical, biopharma and food applications.

Agilent's innovation strength was recognized In the January edition of Analytical Scientist magazine. We were honored with an Innovation Award for our unique LC dual needle technology. This is a breakthrough in the way samples are injected into Agilent's LC products. The unique design enables fast injection cycles, scalable injection volumes and ultra-low carry-over.

Next is the Agilent CrossLab Group. We continue to see consistently strong revenue results. Our core revenue growth was 10 percent in Q1. Strong Pharma and Chemical & Energy market demand drove growth in our services and consumables offerings.

Operating margin was 22.1 percent for the quarter. This is up 140 basis points from a year ago.

We continue to bring novel new chemistries to market. For example, we released the Advance Bio SEC family of products. These Innovative new products are designed for accurate and precise size-exclusion chromatography, targeted at biopharma applications. Early adopting customers are reporting significant economic and performance benefits over any current technologies offered by our competitors.

Finally, the Diagnostics and Genomics Group continues to demonstrate momentum. In Q1, DGG delivered 12 percent core revenue growth, with strength across all of its businesses. The Pathology business continues a steady trajectory to market growth rates. We see strong growth for Dako Omnis reagents and growing revenue for new PD-L1 diagnostics. The Companion Diagnostics business also continues to demonstrate momentum.

Double-digit growth in both Nucleic Acids and Genomics reflected strong demand from Pharma and Clinical markets and favorable compares.

DGG's operating margin for the quarter was 9.6 percent, that's up 910 basis points from a year ago. I want to remind you that, last year, this business "broke even" in Q1 of fiscal 2015.

Last year, our Dako complementary diagnostic for Bristol-Myers Squibb's OPDIVO was approved by the FDA for non-squamous, non-small cell lung cancer. In January of this year, the FDA approved expanding the intended use of this PD-L1 diagnostic to include patients with melanoma.

Positive PD-L1 status in melanoma has been correlated with the treatment effectiveness of Bristol-Myers Squibb's drug treatment. Agilent is the first company to provide FDA-approved tests for lung cancer and melanoma for PD-L1 markers.

Now, I'll take a brief look at Agilent's revenues by end-market performance on a core basis.

We saw strength in all of our Life Sciences and Diagnostics markets. Continued robust demand drove Pharma revenue up 19 percent. Growth was fueled by technology refresh deals, new product uptake and after-market demand for services and consumables.

Our Clinical and Diagnostics revenue was up 7 percent. And we experienced a return to growth in Academia and Government, up 4 percent. This growth was significantly driven by the authorization of larger research budgets in the U.S.

Applied end-market performance was generally soft except for Environmental, which was up 9 percent driven by strength in China. Food declined 1 percent. Our Food market strength in China was offset by soft demand in developed countries. Chemical & Energy declined 2 percent, driven by the well-publicized macroeconomic concerns.

Now let me provide an update on our operating margin improvement initiatives.

This quarter marks the fourth consecutive quarter of year-over-year operating margin improvement. This is how we are driving the sustained performance. We are building a new company portfolio. We have exited unattractive businesses and are acquiring new ones to enable our growth strategies.

Our multi-year “Agile Agilent” program is simplifying our company, making it more nimble and lowering our costs. Finally, we are improving our execution capabilities, transforming our culture to work as one team across the entire company. We call this “One Agilent.”

As we enter the second year of the new Agilent, here’s what you can expect as we move forward. We are building a new business - one that delivers above-market growth. We will continue to target operating margin expansion. Finally, we are driving a balanced capital allocation policy that includes increased levels of free cash flow being returned to shareholders.

Going forward, we will continue to make tough decisions to ensure our long-term competitiveness. For example, we have just frozen our U.S. Defined Benefits Retirement plan. This change is effective in the second half of fiscal 2016.

I have also spoken with many of you about our multiple ERP systems and oversized IT environment. We continue to streamline our IT systems and infrastructure to reduce costs and increase effectiveness.

While work remains, we are pleased with the start to the second year of the New Agilent and our progress in transforming the company.

Let me share my view on the current market outlook. The principle of the New Agilent is to be realistic and to carefully monitor market conditions that could affect our business. Global macro-economic concerns are pressuring some end-markets and emerging economies. The good news is that we see solid market conditions in other end-markets and geographies.

I remain confident in our ability to achieve our full-year core growth and operating margin goals. I am also confident that we will make course corrections as market conditions dictate.

We are strengthening our portfolio. Building on our prior year introductions, we have an exciting pipeline of compelling new offerings set to launch this year.

In tandem with these new offerings, we are creating new “go-to-market” capability. We have a focused, energized sales force, and we are overhauling our e-commerce environment to make it easier for customers to do business with us.

And most importantly, across the company we have the organizational capability to execute and deliver. The Agilent team is aligned and highly energized – driven to win in the market place.

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

Didier?

DIDIER HIRSCH

Thank you, Mike, and hello, everyone.

To summarize Q1 results, they are above the high end of our revenue and EPS guidance, even as currency impacted revenue by $7M and OP by $2M. The EPS beat was the result of the higher revenues as well as favorable mix. Our adjusted operating margin of 20.2% and Operating Cash Flow of $106M were strong. We bought back $200M or 4.9 million shares in Q1.

I will now turn to the guidance for Fiscal Year 2016

We are confirming the core revenue growth guidance of 4.0 to 4.5% we provided in November. However, the strengthening of the USD since our November guidance is expected to have a negative impact of about $50M on reported revenues, $13M on operating profit and 3.3 cents on EPS. As a result, we now expect FY16 revenues of $4.10B to $4.12B and EPS of $1.81 to $1.87.

To note, in the last 2 weeks we have seen the USD weaken. If the weakening continues, we will reflect the positive impact in our May guidance.

Turning to our share buyback program, we remain committed to our plan of repurchasing another $280M of shares before our Fiscal Year End.

Finally, moving to the guidance for our second quarter

We are expecting Q2 revenues of $965M to $985M, reflecting typical second quarter seasonality vs Q1. The midpoint corresponds to a core revenue growth of 4.0%.
The sequential reduction in revenues will translate into a sequential reduction in EPS; we expect Q2 EPS to range between 37 to 39 cents.

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