Agilent Technologies Fourth Quarter Fiscal 2017 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's Fourth Quarter Conference Call for Fiscal Year 2017. With me are Mike McMullen, Agilent's president and CEO, and Didier Hirsch, Agilent's senior vice president and CFO.

Joining in the Q&A after Didier's comments will be Patrick Kaltenbach, president of Agilent's Life Science 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. References to revenue growth are on a core basis. Core revenue growth excludes the impact of currency, the NMR business, and acquisitions and divestitures within the past 12 months. Guidance is based on exchange rates as of October 31st.

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, let me turn the call over to Mike.

MIKE MCMULLEN

Thanks, Alicia. Hello everyone, thank you for being on today's call.

I'm pleased to have an opportunity to continue to tell the Agilent story. A story of strong revenue and profit growth that we've been telling for the past three years. The Agilent team closed 2017 with another strong quarter, capping off a tremendous year of revenue and profit growth. We again exceeded our growth expectations. Q4 revenues of $1.19 billion are up almost 6 percent on a core basis.

Reflecting our commitment to improve Agilent's operating margins, our Q4 adjusted operating margin of 23.3 percent is up 80 basis points. This is our 11th consecutive quarter of improving operating margins.

The strong revenue growth and margin improvements resulted in a Q4 adjusted EPS of 67 cents, an increase of 14 percent.

Looking at the full year, we delivered our highest growth rate since the 2014 launch of the new Agilent. Our 2017 revenues of $4.47B are up 6.7 percent on a core basis. We have strong momentum going into 2018.

Adjusted operating margin for the year is up 130 basis points over last year. And as you know, in 2015, I committed to increasing Agilent's adjusted operating margin by 410 basis points over FY14's adjusted operating margin, to 22 percent by 2017.

I'm pleased to announce that we met this commitment and accomplished our goal. We are not done of course, but this is a significant achievement by the Agilent team. We will continue to focus on making improvements in our operating results.

The momentum in our business combined with our operational excellence drove a 19 percent increase in adjusted earnings per share for the full-year to $2.36 per share.

Let me now take a minute or two – and look closer at what is driving our stellar results.

From an end-market perspective, our Chemical and Energy revenue grew 15 percent. This is the third consecutive quarter of double-digit revenue growth. Growth was broad-based across the spectrum of exploration, refining and chemicals. We are encouraged by the uptake in reinvestment by our customers as they are upgrading their labs and investing in the next generation of equipment.

A return to growth continued in Academia and Government with 12 percent growth, which was above our expectations. Growth was broad-based across product lines, with particular strength in Europe and the Americas. Our higher than expected growth is the result of an improved funding environment and market share gains.

Food revenue grew 10 percent against a difficult compare of 10 percent in Q4 of last year. From a product perspective, strength was broad-based led by services, consumables and mass spectrometry. Regionally, Europe and Asia drove the gains.

Pharma revenue declined 5 percent against a difficult compare of 16 percent growth in Q4 of last year, which itself came on top of 19 percent growth the Q4 before. We had been anticipating continued strong Pharma investment levels with difficult compares slowing our reported market growth rates to mid-single digits.

Some additional specifics on our Q4 results. As expected, the LC replacement cycle continues in the small molecule market segment, but at a slowing rate. NASD revenue also was down as we expected. We noted in our Q3 call, that NASD reported revenues are batch-based, which makes them vary from quarter to quarter. Market demand, however, for the NASD API offerings remains strong.

Our product and geographic mix also contributed to the result. We experienced strong order demand from Europe and for higher-end mass spectrometry technologies. The order-to-revenue cycle is longer for Europe and these types of products. We expect these revenues to materialize in Q1 and Q2 of FY18.

The Bio Pharma segment of our Pharma business remains strong, along with services and consumables, across the entire Pharma end-market.

Diagnostics and Clinical grew by 9 percent, led by pathology and companion diagnostics. Continued strong end-market demand and market share gains are driving performance.

Environmental and Forensics grew 4 percent, in-line with expectations. Concerns about the health of our environment continue to drive the market in Asia.

Geographically, our company results are driven by high-single digit growth in Europe and China. The Americas grew by mid-single digits and Asia, excluding China and Japan, grew by low-single digits.

And finally, let’s turn to the highlights from our business groups.

The Life Sciences and Applied Markets Group delivered core revenue growth of 4 percent.

Market revenues were led by strength in Chemical and Energy, Academia and Government and Food, partially offset by declines in Pharma.

Double-digit growth in several platforms, including Mass Spectrometry, Microfluidics and Cell Analysis, were key drivers to reported growth.

LSAG had a tremendous year on the innovation front launching several new high-impact products, such as the Ultivo LC-MS triple quad with a 70 percent smaller footprint than its predecessor. The Ultivo, which began shipping this November, and other recent new product introductions are being well-received by the market. This gives us momentum going into 2018.

The integration of the recent acquisition of Cobalt Light Systems is going very well.

Agilent CrossLab Group's strong performance continued this quarter with 8 percent core revenue growth. Growth was healthy across services and consumables, most regions and end markets.

Our CrossLab Service and Support organization hit a significant milestone -- $1 billion in annual service orders for the first time in a single fiscal year. This milestone was accomplished ahead of our initial expectations. It validates our strategic focus on developing a services business for the entire lab.

In a rather short period of time, our team has turned the services business into a key differentiated offering for Agilent. Through these services, we can work as a strategic partner with our customers helping them achieve greater lab efficiencies and outcomes. The customer response to our service offerings is overwhelmingly positive.

Our chemistries business in ACG also continues to be rewarded for technical innovation with double digit growth in the AdvancedBio column portfolio for the fiscal year.

The Diagnostics and Genomics Group also delivered strong core revenue growth of 7 percent.

Demand is increasing for our pathology products and companion diagnostics services. We are seeing continued strength for our PD-L1 and molecular products. As expected, our Nucleic Acid Solutions business was down for the quarter, given the project driven nature of the business. As previously mentioned, market demand for our API's for RNA-based therapeutics remains strong.

DGG achieved a major milestone this year, delivering a 20 percent operating margin, exclusive of acquisitions, for the first time. Three years ago, this business had a 13 percent operating margin -- we have increased that to 20 percent. A tremendous achievement, made possible by integrating and driving improvements in the former Dako business, bringing to the market compelling new offerings and executing on gross margin improvement initiatives.

DGG continues to expand its market reach. We received several significant FDA approvals this quarter for our offerings that help our customers in their efforts to fight cancer. We received FDA approval for expanded use of our PD-L1 cancer diagnostics for Merck's Keytruda and Bristol-Myers Squibb Opdivo. We have been closely collaborating with both companies.

Our GenetiSure Dx Postnatal Assay received 510(k) clearance. This is our first comparative genomic hybridization assay approved by the FDA for diagnostic use.

Our R&D investments continue to yield differentiated new products. At the American Society for Human Genetics Conference, we introduced our first expansion of the SureGuide pooled CRISPR libraries for functional genomics. This new offering will help accelerate research into complex diseases and drug discovery.

Agilent received the 2017 Scientists' Choice Award for Best New Clinical Laboratory Product for the IQFISH Panel for Lung Cancer from the American Association for Clinical Chemistry. This award is selected through online nomination and voting by scientists around the world. This demonstrates how we are meeting our customers' needs with products that win their trust.

Before touching on the 2018 outlook, I want to provide you with a perspective about our guidance philosophy and the market environment assumptions underlying our initial outlook. Later in the call, Didier will provide additional guidance specifics.

We entered 2017 thinking that China and the Pharma market would be strong. We also pointed out, at that time, that we were moving into a period of increasingly difficult quarterly compares for these markets.

At the same time, we were uncertain about the outlook for Europe and the Chemical and Energy market.

We closed out 2017 with China and the Pharma market developing generally as expected. Europe and the Chemical and Energy market, on the other hand, exceeded our initial expectations growing 8 percent and 11 percent on a core basis, respectively.

We enter 2018 with a strong backlog and good visibility for the next one to two quarters. For the full-year, we expect Pharma to moderate slightly downward from the 6 percent growth rate delivered in 2017. We expect China to maintain a high-single digit growth rate.

For Europe and the Chemical and Energy markets, while we experienced unexpectedly strong 2017 growth, we will cautiously guide to lower growth in FY18. A level of political and economic uncertainty persists across the globe, providing less visibility into 2H'18. We are taking a "wait and see" outlook for the European and Chemical and Energy markets.

A few final comments about the next chapter in the Agilent story.

2017 was a stellar year for Agilent. We delivered our highest growth rate since the launch of the new Agilent. We raised our operating margins 410 basis in three years to 22 percent. We grew adjusted earnings per share by 19 percent.

While we were busy improving our operating results, we have also been building a company foundation for the future. Our Agile Agilent program continues to streamline the company as we upgrade our systems and infrastructure, and drive continued process improvements.

We continue to build an even stronger portfolio through our revamped R&D programs and execution of our M&A strategy. We are delivering to the market truly differentiated offerings and augmenting our internal investments with acquisitions. These acquisitions are bringing into Agilent new capabilities and unique new offerings. We then leverage our company scale to drive revenue and create cost synergies.

Our One Agilent cultural transformation is changing the way we work, improving the customer experience – it's a key driver of our excellent results. We just completed the third year of our company transformation. We now have a solid foundation in place, a proven track-record of doing what we say we will do and of executing a winning growth strategy.

I often tell the Agilent team that the best is yet to come. We have momentum and I believe Agilent's prospects have never been stronger.

Thank you for being on the call, and I look forward to answering your questions. I will now hand off the call to Didier. Didier?

DIDIER HIRSCH

Thank you, Mike, and hello, everyone.

As Mike stated, we are very pleased with our Q4 and full-year performance, both well over the high-end of our guidance. We delivered core revenue growth of 5.8% and 6.7% respectively, and our operating margin was up 80 bps and 130 bps respectively. As importantly, we reached the goal set in March 2014 to achieve 22.0% operating margin, adjusted for income from Keysight, in fiscal year 2017.

Our full year EPS, at $2.36, is 19% higher than the previous year. Our operating cash flow for the full year, at $889M, is $39M above the increased guidance provided last quarter, and $96M or 12% higher than fiscal year ‘16, reflecting our strong overall performance. Capex spending was $176M, lower than our initial guidance of $200M, as some capex related to our new nucleic acid facility was pushed into fiscal year ‘18.

Turning to capital returns, for the year, we payed $170M in dividends and repurchased $194M worth of shares.

I will now turn to the guidance for Fiscal Year 2018.

Although we are comfortable with the present revenue and EPS consensus estimates, we believe, as we did in FY16 and FY17, that it is appropriate to have a cautious first guidance of the year. Our FY18 revenue guidance of $4.72B to $4.74B corresponds to a core revenue growth of 4.0 % to 4.5%. It is based on October 31st exchange rates and currency has a 1.3% positive impact on revenues. We project FY18 adjusted operating margin of 22.2% to 22.7% and FY18 EPS of $2.50 to $2.56, growing 7% at midpoint. If market conditions and our performance continue as strong as we are presently seeing, we stand ready to reflect the on-going strength, as we set quarterly guidance in the future.

As you update your models for FY18, please consider the following ten points:

- Annual salary increases will be effective December 1, 2017.
- Stock-based compensation will be about $72M. As we front-load the recognition of stock-based compensation, the Q1 expense will be about $31M.
- Depreciation is projected to be $101M for the fiscal year.
- The non-GAAP effective tax rate is projected to remain at 18%.
- We plan to pay $192M in dividends, as the Board just approved a dividend increase of 13%. Over the last 3 years, we will have increased our dividend by nearly 50%.
- As for buybacks, we registered a 10b5-1 in September that includes two tranches, with a maximum overall spend of $380M. The first tranche is to ensure the repurchase of 2.7M

shares, with daily execution throughout the year, to maintain our diluted share count at about 326M shares on average for the year. The second tranche, as in the previous years, is opportunistic.

- For purpose of our EPS guidance, we have assumed a diluted share count of 326M, i.e. we have assumed that the opportunistic tranche does not get triggered.
- Net interest expense is forecasted at $59M, and other income at $14M.
- We expect operating cash flow of $970M and capital expenditures of $200M, which includes about $110M to complete the new nucleic acid factory that will be operational in 2019.
- The projected tax rate and cash flow exclude any impact from the potential US Tax Reform.

Finally, moving to the guidance for our first quarter.

We expect Q1 revenues of $1.145B to $1.165B and EPS of 55 to 57 cents. At midpoint, revenue will grow 5.25% YOY on a core basis, and EPS will grow 6%. As customary, Q1 EPS is negatively impacted by the December salary increase, front-loading of stock-based compensation, and the increase in payroll taxes due to the disbursement of the variable and incentive pay of the previous year.

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