Agilent Technologies

Agilent Technologies Fourth Quarter Fiscal 2020 Conference Call Prepared Remarks

ANKUR DHINGRA

Thank you, and welcome everyone to Agilent's fourth quarter and full year Conference Call for Fiscal Year 2020. With me are Mike McMullen, Agilent's president and CEO, and Bob McMahon, Agilent's senior vice president and CFO.

Joining in the Q&A after Bob's comments will be Jacob Thaysen, president of Agilent's Life Science and Applied Markets Group; Sam Raha, president of Agilent's Diagnostics and Genomics Group; and Padraig McDonnell, president of the Agilent CrossLab Group.

This presentation is being webcast live. The news release, investor presentation and information to supplement today's discussion, along with a recording of this webcast, are made available on our website at investor.agilent.com.

Today's comments by Mike and Bob 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 and references to revenue growth are on a core basis. Core revenue growth excludes the impact of currency, and the acquisitions and divestitures completed within the past 12 months. Guidance is based on exchange rates as of October 31.

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.

As announced, we will hold our virtual Investor Day in a few weeks, on December 9th.The event will include presentations from our CEO, CFO and three Group Presidents, followed by a Q&A. We look forward to having you join us on December 9th.

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

MIKE MCMULLEN

Thanks, Ankur – and thanks to everyone for joining us on our call. Today, I want to get straight to our quarterly results because they tell a very compelling story.

The Agilent team delivered a very strong close to 2020. We posted revenues of $1.48 billion during the quarter. Revenues are up 8 percent on a reported basis and up 6 percent core. Operating margins are a healthy 24.9 percent. EPS of 98 cents is up 10 percent year-over-year.

These numbers tell the story of a strong, resilient company that is built for continued growth.

Our better than expected results are due to the strength of our core business along with signs of recovery in our end markets. Geographically, China continues to lead the way with double digit growth.

From an end market view, both our pharmaceutical and food businesses grew double digits. In addition, our chemical and energy business grew after two quarters of declines, exceeding our expectations. We also saw a rebound in U.S. sales during the quarter. Overall, COVID-19 tailwinds contributed just over two points to core growth.

Achieving these results in the face of a global pandemic is a tribute to our team and the company we've built over the last five years. I couldn't be more pleased with the way the Agilent team has performed over the last quarter and throughout 2020. They have again proven their ability to work together and step up to meet any challenge that comes their way.

During the quarter all three of our business groups grew high single digits on a reported basis.

Our Life Sciences and Applied Markets Group generated $671 million in revenue, up 8 percent on a reported basis and up 4 percent core. LSAG growth is broad-based. The cell analysis and mass-spec businesses both grew at double digit rates. In terms of end-markets, chemical and energy returned to growth, food grew double digits and pharma high single digits. LSAG remains extremely well-positioned and is outperforming the market.

The Agilent CrossLab Group came in with revenues at $518 million. This is up a reported 9 percent and up 7 percent core. ACG's growth is also broad-based, across end-markets and geographies. Our focus on "on-demand" services is paying off as activity in our customers' labs continues to increase. The ACG team continues to build upon its already deep connections with our customers, helping them operate through the pandemic and continue to drive improved efficiencies in lab operations.

For the Diagnostics and Genomics Group, revenues were $294 million, up 9 percent reported and up 7 percent core. Growth was broad-based with NASD oligo manufacturing revenues up roughly 40 percent. The genomics and pathology businesses continued to improve during the quarter. I'm also very proud of our NASD team for successfully ramping production at our new Frederick site this year. We have built a very strong position in this attractive market, with excellent long-term prospects for high growth.

Let's now shift gears and look at our full-year fiscal 2020 results.

Despite the disruption, uncertainty and economic turmoil of dealing with a global pandemic, the Agilent team delivered solid results. We generated $5.34 billion in revenue, up 3 percent on a reported basis and up nearly one percent core.

To put this in perspective, it's helpful to recall the progression of our growth. In Q1, we delivered two percent core growth as we saw the first impact of COVID-19 in our business in China. Both Q2 and Q3 declined low single digits as the pandemic spread across the globe and governments instituted broad shutdowns. With six percent core growth, 8 percent reported in Q4, we're seeing business and economies start to recover. As a result, we are clearly exiting 2020 with solid momentum.

Our recurring types of businesses represented by ACG and DGG proved resilient, growing low to mid-single digits for the year. In a very tough capex market our LSAG instruments business declined only 2 percent for the year and returned to growth in the final quarter.

China led the way for our recovery with accelerating growth as the year progressed. In our end-markets, Pharma remained the most resilient and food markets recovered most quickly.

Full-year earnings per share grew 5 percent during fiscal 2020 to $3.28. The full year operating margin of 23.5 percent is up 20 basis points over fiscal 2019.

As we head into 2021, we do so with tremendous advantages. Our diverse, industry-leading product portfolio has never been stronger. Our "building and buying" growth strategy with a focus on high growth markets continues to deliver. Our ability to respond quickly to rapidly changing conditions is also serving us extremely well. The way our sales and service teams have been able to quickly pivot to meet customer requirements during the pandemic has been nothing short of remarkable.

Last year at this time, I used this call to remind you of the Agilent shareholder value creation model. Our approach is focused on delivering above market growth while expanding operating margins, along with a balanced deployment of capital. We prioritize deployment of our capital, both internally and externally, on additional growth.

A few proof points on our growth oriented capital deployment strategy. A year ago we spoke about recently closing the BioTek acquisition and the "promise of growth" that BioTek represented. Today, BioTek is no longer a "promise" but a "driver" of growth. In total, the cell analysis business generated more than $300 million in revenue for us during the year, with double-digit growth in Q4 – and continued strong growth prospects.

Similarly, last year I was talking to you about ramping our new Frederick site facility, a $185M capital investment. In addition to successfully ramping Frederick as we planned, we did so with an expanding book of business. We also recently announced an additional $150 million investment to add future manufacturing capacity. We are aggressively adding capacity to capture future growth opportunities in this high growth market.

Even in the face of a pandemic, we stayed true to our build and buy strategy. We have clearly seen the advantages of our approach. I'm confident that our strategy will continue to produce strong results for us.

The strength of our team and resilience of our business model have served us well. And, as you can see from the numbers, our growth strategy is producing outstanding results for our customers, employees and shareholders.

While uncertainties remain as we begin fiscal 2021, we're operating from a position of strength. Because of this, we're cautiously optimistic about the future. We have built and will sustain our track record of delivering results and working as a One Agilent team on behalf of our customers and shareholders.

As I noted earlier, I couldn't be more pleased with the results the Agilent team delivered in the fourth quarter and throughout the year.

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

BOB MCMAHON

Thanks Mike, and good afternoon everyone. In my remarks today, I will provide some additional revenue detail and take you through the fourth quarter income statement and some other key financial metrics. I'll then finish up with our outlook for 2021 and the first quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

We are very pleased with our fourth quarter results as we saw strong growth exceeding our expectations, especially considering the ongoing challenges associated with COVID-19.

For the quarter, revenue was $1.48 billion, reflecting core revenue growth of 5.6 percent. Reported growth was stronger at 8.5 percent. Currency contributed 1.7 percent while M&A added 1.2 points of growth.

From an end-market perspective, pharma our largest market, showed strength across all regions and delivered 12 percent growth in the quarter. Both small and large molecule businesses grew, with large molecule posting strong double-digit growth. We continue to invest and build capabilities in faster-growth biopharma markets and offer leading solutions across small and large molecule applications.

The food market also experienced double-digit growth during the quarter, posting a 16 percent increase in revenue. While our growth in our food business was broad-based, China led the way.

As Mike noted earlier, our chemical and energy market exceeded our expectations, growing three percent after two quarters of double-digit declines. While one quarter does not a trend make, we are certainly pleased with this result. The growth came primarily from the chemical and materials segment.

Diagnostics and clinical revenue grew 1 percent during Q4 led by recovery in the U.S. and Europe. We continue to see recovery in non-COVID-19 testing, as expected, although the levels are still slightly below pre-COVID levels.

Academia and government was flat to last year, continuing the steady improvement in this market. And revenue in the environmental and forensics market declined mid-single-digits against a strong comparison from last year.

On a geographic basis, all regions returned to growth. China continues to lead our results with broad-based growth across most end-markets. For the quarter, China finished with 13 percent growth and ended the full year up 7 percent – just a great result from our team in China.

The Americas delivered a strong performance during the quarter growing 5 percent with results driven by large pharma, food and chemical and energy.

In Europe, we grew 2 percent as we saw lab activity improve sequentially, benefitting from our "on-demand" service business in ACG as well as from a rebound in pathology and genomics as elective procedures and screenings started to resume. However, while improving, capex demand still lags our service and consumables business.

Now turning to the rest of the P&L, fourth quarter gross margin was 55 percent. This was down 150 basis points year-over-year primarily by a shift in revenue mix and an unfavorable impact of FX on margin.

In terms of operating margin, our fourth quarter margin was 24.9 percent. This is down 20 basis points from Q4 of last year, as we made some incremental growth-focused investments in marketing and R&D, which we expect to benefit us in the coming year. The quarter also capped off a full-year operating margin of 23.5 percent, an increase of 20 basis points over fiscal 2019.

Now, wrapping up the income statement, our non-GAAP EPS for the quarter came in at 98 cents, up 10 percent versus last year. Our full year earnings per share of $3.28 increased 5 percent.

In addition, our operating cash flow continues to be strong. In Q4, we had operating cash flow of $377 million, up more than $60 million over last year.

And in Q4 we continued our balanced capital approach, repurchasing 2.48 million shares for $250 million. For the year, we repurchased just over 5.2 million shares for $469 million and ended the fiscal year in a strong financial position with $1.4 billion in cash and just under $2.4 billion in debt.

All in all, a very good end to the year.

Now let's move on to our outlook for the 2021 fiscal year. We and our customers have been dealing with COVID-19 for nearly a full year and are seeing our end markets recover. Visibility into the business cadence is improving and as a result, we are initiating guidance for 2021. There is still a greater than usual level of uncertainty in the marketplace across most regions and so while we are providing guidance, we are doing so with a wider range than we have provided historically. It is with this perspective that we are taking a positive but prudent view of Q1 and the coming year.

For the full year, we're expecting revenue to range between $5.6 and $5.7 billion, representing reported growth of 5 to 7 percent and core growth of 4 to 6 percent. This range takes into account the steady macro improvement we are seeing. It does not contemplate any business disruptions caused by extended shutdowns like we saw in the first half of this year.

We are expecting all three of our businesses to grow, led by DGG. We expect DGG to grow high single digits with the continued contribution of the NASD ramp and recovery in cancer diagnostics. We believe ACG will return to its historical high single digit growth while LSAG is expected to grow low-to-mid single digits.

We expect operating margin expansion of 50 to 70 basis points for the year as we absorb the build-out costs of the second line in our Frederick, Colorado NASD site.

In helping you build out your models, we're planning for a tax rate of 14.75 percent, which is based on current tax policies and 309 million of fully diluted shares outstanding. This includes only anti-dilutive share buybacks.

All this translates to a fiscal year 2021 non-GAAP EPS expected to be between $3.57 to $3.67 per share resulting in double-digit growth at the mid-point.

Finally, we expect operating cash flow of approximately $1 billion to $1.05 billion and an increase in capital expenditures to $200 million driven by our NASD expansion. We have also announced raising our dividend by 8 percent, continuing an important streak of dividend increases, providing another source of value to our shareholders.

Now, let's finish with our first quarter guidance. But before we get into the specifics, some additional context. Many places around the world are currently seeing renewed spikes in COVID-19 that could cause additional economic uncertainty. While we are extremely pleased with the momentum we have built during Q4, we are taking a prudent approach to our outlook for Q1 because of the current situation with the pandemic.

For Q1, we are expecting revenue to range from $1.42 to $1.43 billion, representing reported growth of 4.5 to 5.5 percent and core growth of 3.5 to 4.5 percent.

First-quarter 2021 non-GAAP earnings are expected to be in the range of 85 to 88 cents per share.

Before opening the call for questions, I want to conclude by echoing Mike's comments about the amazing work the Agilent team performed during fiscal 2020. To be where we are now after knowing where we stood in March is truly remarkable.

Add to this the strong momentum we saw during Q4 and I believe we are well positioned to accelerate our growth in fiscal 2021.

With that, Ankur back to you for the Q&A.

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