Agilent Technologies First Quarter Fiscal 2021 Conference Call Prepared Remarks

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Thank you, and welcome everyone to Agilent's first quarter Conference Call for Fiscal Year 2021. 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 www.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 January 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. And now, I'd like to turn the call over to Mike.

MIKE MCMULLEN

Thanks, Ankur – and thank you to everyone for joining us today on our call. I'm very pleased to be on the call with you today. We are off to an excellent start to our fiscal year. The Agilent team delivered outstanding results in the first quarter. The momentum in our business continues.

Revenues for the quarter are $1.55 billion. This is up 14 percent on a reported basis and 11 percent core, exceeding our mid-January revised expectations. Also, as expected, COVID-19 tailwinds added roughly 2 1/2 points to our overall growth.

Operating margins are a healthy 25.5 percent. EPS of $1.06 is up 31 percent year-over-year. Overall, a very impressive start to 2021.

Our growth is broad-based. All three of our business groups delivered double-digit growth. All regions grew, with the two largest leading the way. China grew 25 percent and the Americas posted 13 percent growth. We continue to see strength in most of our end-markets, led by Pharma growing 20 percent.

These results are a testament to our build-and-buy growth strategy, and the Agilent team's relentless customer focus. Demand remains strong for the full breadth of our offerings. We have been gaining market share in key areas. We're clearly keeping our foot on the gas.

Now let's look at our performance by business group.

The Life Sciences and Applied Markets Group generated $722 million in revenue, up 13 percent on a reported basis and up 11 percent core. LSAG's growth is broad-based, across end-markets and geographies. We are particularly pleased with our cell analysis business. Cell analysis grew in the high teens, led by BioTek, which grew 26 percent. Growth is also strong in our liquid chromatography and mass spec product lines, with both growing in the teens.

Overall, our LSAG business saw very strong demand as many customers utilized their end-of-year capex budgets and our market share gains continued. From an end-market perspective, food and pharma led the way for LSAG.

Continuing our biopharma investment focus, we introduced new updates to our MassHunter LC/MS software. This new software enables data integrity consistent with important regulatory requirements for our biopharma customers. As we continue to build our digital lab, we introduced the Agilent 7850 ICP-MS System which provides new smart digital tools to improve workflows. LSAG's broad and continually strengthening portfolio is well positioned and continues to outperform the industry.

The Agilent CrossLab Group posted revenues of $532 million. This is up a reported 13 percent and up 10 percent core. ACG's growth is also broad-based, across end-markets and geographies. Growth is strong in both services and consumables.

Our digital investments and scale are adding significant value. We continue to drive improved attach rates to Agilent's large installed base of instruments. Annual service contract renewal rates and growth were strong in the quarter, as we continue to build a more resilient and higher growth business.

For the Diagnostics and Genomics Group, revenues are $294 million, up 18 percent reported and up 15 percent core. Growth is broad-based, led by our NASD oligo business. Our genomics product portfolio grew double digits, aided by COVID-related qPCR demand. We also achieved strong growth in our core NGS sample prep business.

As mentioned earlier, overall company growth is broad based across most of our end markets. The pharmaceutical and food businesses led the way, both growing strong double digits. We also posted 10 percent growth in the environmental and forensics market. Chemical and energy grew 2 percent and we are seeing increased business activity in the C&E space. The academia end-market is down 1 percent, with many university labs still operating in a constrained environment.

We are also continuing our efforts in the battle against COVID-19. We have completed our development and clinical validation work for a serology assay to detect COVID-19 antibodies. We plan to submit to the U.S. FDA for Emergency Use Authorization within the next month.

In addition, we're making progress on our qPCR-based test for COVID-19 detection and plan to launch in Europe in the next couple of months and submit for Emergency Use Authorization in the U.S. within the same timeframe.

I'm also pleased to share that Barron's again recently named Agilent one of America's Most Sustainable companies. This marks the third year in a row we have been included among the top three companies in this ranking. We have also been the leader in our industry all four years the Barron's list has been published. We're very proud of this honor. Sustainability is a key priority for our company.

When I look back at the uncertainty we faced at this time last year, I'm so proud of what the Agilent team accomplished – all-time high customer satisfaction ratings, building momentum in all our businesses and delivering excellent results.

Our first quarter results are another compelling proof point that we are building an even stronger company and market position during the pandemic.

As we discussed at our December investor event, 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 M&A funnel is robust and remains focused on growth-accretive M&A opportunities. We are targeting companies in markets where we see potential for significant long-term growth and Agilent is in a strong position to win.

As we look ahead, we have a sense of realistic optimism. We have solid momentum; we're winning in the market and we have the right team to continue to succeed. As a result, we are raising our core growth guidance range to 6 1/2 to 8 percent for the year.

As you may recall, we recently guided to a long-term core growth rate of between 5 and 7 percent, so we are certainly off to a good start in 2021 and we have no intention of slowing down.

We are also raising our earnings guidance for the year. In December, I shared Agilent's long-range plan of margin expansion at 50 to 100 basis points a year. We are now guiding toward the top end of that range for 2021. Bob will share more details on this in his remarks.

I couldn't be more pleased with how we have started the year. We have momentum, our team is strong and energized, we are gaining market share in key areas and we have an even more promising outlook for the full 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?

<u>BOB MCMAHON</u>

Thanks Mike, and good afternoon everyone. In my remarks today, I will provide some additional details on Q1 revenue and take you through the first quarter income statement and some other key financial metrics. I'll then finish up with our outlook for 2021 and the second quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

We are very pleased with our first quarter results as we saw strong, broad based growth exceeding our revised expectations. Revenue for the first quarter was $1.55 billion, reflecting reported growth of 14.1 percent. Core revenue growth was 11.3 percent, while currency contributed 2.8 points of growth.

Before I get into the end-markets, Mike's earlier comments bear repeating: all 3 business groups delivered double-digit core growth in the quarter.

Our superior value proposition continues to resonate with our customers and our team executed well, capitalizing on recovering demand in our end-markets.

Pharma, our largest market, was strong across all regions, delivering 20 percent growth. Growth was led by NASD, which experienced significant growth in the quarter, albeit against the easiest comp of the year. NASD contributed 4 points to the overall Pharma growth rate. We continue to be very pleased about the ramp of the Frederick oligo facility and the recently announced capacity expansion in Frederick is on track.

Small molecule grew mid-teens, while biopharma, excluding NASD, delivered 20 percent growth driven in part by strong demand for LC and Mass Spec instrumentation. We saw strong year-end demand from pharma customers and are also seeing increased business related to characterization of oligo-based therapies and vaccines.

The food market also experienced strong double-digit growth during the quarter, posting a 22 percent increase in revenue. Our business grew in all geographies driven by increased demand for food safety and quality testing. China is leading the way driven by investments in both commercial and government entities.

Environmental and forensics grew double digits, coming in at a 10 percent core growth. Broad regional growth reflected strong tech refresh, or replacement demand, from contract labs.

Diagnostics and clinical revenue grew 9 percent during the quarter and has benefitted from growth in COVID related applications primarily in the Americas and Europe. Our pathology business grew slightly as non-COVID testing continues to improve but has not yet recovered to pre-pandemic levels globally. While our diagnostics and clinical end-market in China is still small, it experienced strong growth, due to improvements in non-COVID testing and the uptake of our clinical LC/MS.

The chemical and energy end-market continued the recovery we saw last quarter and grew 2 percent in Q1. We continue to see signs of increased business activity, particularly in specialty chemicals and engineered materials along with encouraging improvements in the macro environment. While we are optimistic, we are not yet reflecting a change in our forecast for the rest of the year.

As expected, the academia and government market recovery has lagged our other end-markets, down 1 percent year-on-year as research labs are still not operating at full capacity. We continue to expect a slow, but steady recovery throughout 2021.

On a geographic basis, all regions grew. China grew 25 percent, leading all geographies, led by the food and Pharma markets.

The Americas delivered a strong double-digit performance during the quarter with 13 percent growth while Europe was up 6 percent, also led by pharma and food.

Now turning to the rest of the P&L, first quarter gross margin was 55.8 percent, up 10 basis points year-on-year. Adjusting for exchange rates, gross margins improved 50 basis points.

Our operating margin for the first quarter came in at 25.5 percent. This is up an impressive 260 basis points from last year, driven by volume and spending discipline. This result includes the impact of increased strategic investments we started last quarter.

Our strong top line growth coupled with our operating leverage helped deliver EPS of $1.06, up 31 percent versus last year. Our tax rate was 14.75 percent and share count was 309 million shares as expected.

Now on to cash flow and the balance sheet.

Our operating cash flow continues to be very strong. In Q1, we had operating cash flow of $238 million, a 43 percent increase over last year, after adjusting for last year’s one-time tax payment. This performance shows the strength of our business model and provides financial flexibility going forward.

We continued the balanced capital deployment strategy we highlighted at our investor event in December. In the quarter, we invested $41 million in capital expenditures, paid out $59 million in dividends, and repurchased 2.9 million shares for $344 million.

And as we announced earlier today, our Board of Directors authorized a new $2 billion share repurchase program, replacing the current program.

We ended the quarter in a strong financial position with $1.3 billion in cash and $2.5 billion in debt.

Moving to the outlook, we have had a strong start to the year. While there are still uncertainties in front of us and the business environment remains fluid, we have solid momentum and we see continued recovery in our end markets, albeit at different rates. As a result, we're increasing our full year projections for both revenue and EPS.

For revenue, we are increasing our full year to a range of $5.825 to $5.9 billion, up over $200 million at the midpoint and representing reported growth of 9 to 11 percent and core growth of 6 1/2 to 8 percent. This increase reflects strong Q1 results and some improvement in our outlook for the remainder of the year.

The increased guide assumes stronger performance in most of our end-markets. The Academia market continues to track as expected in our initial plans and while business activity in chemical and energy has picked up, we have not yet included any improvement in that market in this updated outlook. In addition, we have not included any revenue associated with either the serology or qPCR COVID assay in the outlook.

As Mike mentioned, we also feel very good about expanding our margins. During our investor event in December, we provided a long-range plan of annual margin expansion in the range of 50 to 100 basis points. Given the volatility in results during 2020, our margin expansion profile will vary each quarter. However, we feel confident about full year margin expansion being toward the top end of that range, while also investing for future growth.

The higher sales and margin expansion, coupled with maintaining our tax rate at 14.75 percent and a lower share count of roughly 307 million shares, increases our fiscal year 2021 non-GAAP EPS to a range of $3.80 to $3.90 per share. This is growth of 16 to 19 percent for the year.

For the fiscal second quarter, we are expecting revenue to range from $1.37 to $1.39 billion, representing reported growth of 11 to 12 percent and core growth of 7 to 9 percent.

We expect second-quarter 2021 non-GAAP earnings to be in the range of 78 to 80 cents per share with growth of 10 to 13 percent as we approach the one-year anniversary of the significant reduction in expenses in Q2 of last year.

Before opening the call for questions, I want to say that I couldn’t be more proud of the Agilent team in driving such strong performance. We have gotten off to a great start this year and I’m personally very excited to know what this company is capable of moving forward. We have very strong momentum and the right approach that leads me to believe we are on a very solid path for Q2 and the rest of 2021.

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

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