Agilent Technologies

Agilent Technologies Second Quarter Fiscal 2021
Conference Call Prepared Remarks

RUBEN DIRADO

Thank you, and welcome everyone to Agilent's second 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 and Mike'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 April 30.

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, Ruben – and thanks to everyone for joining our call today.

Before I get into the quarterly details, I want to start by recognizing our Agilent India team. Despite the challenging COVID-19 situation, our India team is working closely with our customers to do what we can to help in this time of extreme need.

In addition, our Agilent India customer support, finance, and IT teams have worked tirelessly to help us close out the second quarter and keep us moving forward.

I could not be more proud of how the team has worked together in true "One Agilent" fashion. Our thoughts go out to the entire Agilent team and their families during this difficult time.

In Q2, the strong momentum in our business continues against the backdrop of a recovering market.

The Agilent team delivered another outstanding quarter exceeding our expectations. Both revenue and earnings are up sharply versus a solid Q2 last year, when revenues and earnings per share were relatively flat.

Our growth is broad-based across all business groups, markets, and geographies. We also expanded margins, driving faster earnings per share growth.

Revenues for the quarter are $1.525 billion. This is up 23 percent on a reported basis and 19 percent core. COVID-19 related revenues accounted for roughly two percent of overall revenues as expected and contributed about a point to our overall growth. Our revenue growth is not a "one quarter" or “easy compare” story, but one of sustained above market growth. For example, our Q2 revenues are up more than 17 percent core from two years ago.

Q2 Operating margins are 23.9 percent. This is up 150 basis points.

EPS of 97 cents is up 37 percent year-over-year.

Late in the quarter, we also welcomed the Resolution Bioscience team to Agilent, continuing our investments in high-growth markets and bringing outstanding talent into Agilent. Like our recent acquisitions in cell analysis, Resolution Bioscience is an example of our ‘build and buy’ growth strategy in action.

The Agilent story remains the same. It is a story of one team outpacing the market to deliver strong, broad based growth in an environment of a continuing market recovery.

Moving on to our end-market highlights, we grew strongly in all markets. Our growth is led by 29 percent growth in pharma and 22 percent in food. We are seeing improving growth in the chemical and energy market with 14 percent growth. We also posted “low teens” growth in diagnostics and over 20 percent growth in academia and government. Lastly, environmental and forensics grew 8 percent.

Bob will provide more end-market detail later in his comments.

Geographically, the Americas led the way with 27 percent growth. Strength in China, Europe and the rest of Asia continues with all growing in the mid-teens. The 13 percent growth in China is on top of 4 percent growth last year when the business started to recover from the pandemic.

As we look at our performance by business group, the Life Sciences and Applied Markets Group generated revenue of $674 million during the quarter. LSAG is up 28 percent on a reported basis and up 25 percent core, off a 7 percent decline last year. LSAG’s growth is broad-based, across all end-markets and geographies. Our focus and investments in fast growing end markets continues to pay off. The LSAG pharma business is very strong, growing 41 percent with strength in both biopharma and small molecule.

From a product perspective we saw strength in liquid chromatography and LCMS along with continued growth in cell analysis. During the quarter, cell analysis grew 34 percent, with our BioTek business growing close to 40 percent.

During the quarter, the LSAG team also contributed to our long-term company-wide focus on sustainability in advancing important ESG initiatives. LSAG announced several new products that have earned the highly respected Accountability, Consistency, and Transparency (ACT) Label from My Green Lab. My Green Lab is a nonprofit organization dedicated to improving the sustainability of scientific research. LSAG products also received two Scientists' Choice Awards announced at the SelectScience Virtual Analytical Summit.

In our cell analysis business during the quarter, we launched our Cytation 10 Confocal Imaging Reader, a multi-functional automated system focused on research labs and core facilities looking for increased productivity.

This product builds on the BioTek cell imaging leadership with the Cytation multi-mode reader and expands our reach in this strategic business. While still early, customer feedback has been extremely positive. We are also very pleased with the progress and trajectory of our cell analysis business overall and see a very positive future for this space.

The Agilent CrossLab Group posted revenues of $536 million. This is up a reported 19 percent and up 15 percent on a core basis versus a 1 percent increase last year. ACG’s growth is driven by demand for consumables and services across the portfolio as lab activity continues to increase for our customers.

This is leading to more on-demand services and parts consumption. Revenues from our contract business continue to drive strong growth due to the high level of contract renewals seen in the previous quarter. Our strong instrument placements and the increasing installed base will benefit the ACG business going forward.

At the same time, our digital investments continue to pay off with continued strong customer uptake in consumables and our digitally enabled service offerings.

Our LSAG and ACG business come together in the analytical lab. This is where we believe we are well positioned to continue driving above market growth as we build on our market leading portfolio, strong service organization and outstanding customer service.

For the Diagnostics and Genomics Group, revenues were $315 million, up 20 percent reported and up 16 percent core versus a 5 percent increase last year. Growth is broad-based, led by our NASD oligo and genomics businesses. Demand for our NASD offerings remains strong and our capacity expansion plans for our high-growth NASD business remain on-track.

We're very pleased with our acquisition of Resolution Bioscience during the quarter. With their liquid biopsy technology, Resolution Bioscience is a key player in a very exciting area of cancer diagnostics. We are very glad to have them on the Agilent team. I'm confident that as time goes on, you will be hearing more and more from us on this business and its contributions.

I would now like to recap the second quarter and take a look forward.

The strong momentum in our business continues. This is being driven by our relentless customer focus, the strength of our portfolio and the execution capability of the One Agilent team. Our "build and buy" growth strategy is delivering, as intended, with above-market growth.

Over the last year, I have often said that Agilent is focused on coming out of the pandemic even stronger as a company. I believe you're seeing the impact of this approach in our current results.

As we look ahead, we do so with a sense of both optimism and confidence. We are optimistic because of the continued market recovery and the strength of our portfolio. We are confident because we have the right team – customer focused, operationally excellent and driven to win.

As a result, we are once again raising our full-year revenue and earnings guidance.

Bob will share more details, but we are expecting a continuation of our excellent top line growth. We also expect to convert this strong top line into excellent earnings growth and cash generation.

During our investor event in December, we discussed our shareholder value creation model and our goals for increasing long-term growth and expanding margins. Six months into fiscal 2021, we are well on our way to achieving those objectives.

Our “build and buy” growth strategy is delivering. The One Agilent team continues to demonstrate its execution prowess and strong drive to win. We’ve raised the bar on customer service and continue to exceed customer expectations in providing industry-leading products and services.

While we have yet to fully emerge from the global pandemic, we are looking forward to the future with both optimism and confidence.

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 details on Q2 revenue and take you through the income statement and some other key financial metrics. I’ll then finish up with our updated outlook for 2021 and the third quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

Revenue for the second quarter was $1.525 billion, reflecting reported growth of 23 percent. Core revenue growth was 19 percent, while currency contributed just under 4 points of growth.

We are very pleased with our second quarter results as we saw strong, broad based growth with all three business groups posting mid-teens growth or higher, and all end markets growing strongly.

From an end-market perspective, our focus on fast growing markets is paying off.

Pharma, our largest market, again led the way, delivering 29 percent growth. This is on top of growing 5 percent last year. Growth was led by cell analysis, LC, and Mass Spec. These tools are delivering critical capabilities to our Bio-Pharma customers as they continued to make investments to develop new therapies and vaccines. Our biopharma business grew roughly 40 percent and represented over 35 percent of our pharma business in the quarter.

Our small molecule segment also has momentum, growing in the mid-twenties in the quarter. Overall, we are well positioned in pharma and expect the pharma market to continue being the strongest end-market as we enter the second half of the year.

The food market continued its strong performance, growing 22 percent. We experienced strong growth across all regions and segments as we continue to see global investments across the entire food supply-chain.

We were very pleased to see the non-COVID diagnostics businesses continue to improve throughout the quarter growing 13 percent as routine doctor visits returned closer to pre-pandemic levels. We posted a very strong month in the diagnostics and clinical market as we came to the anniversary of the weak April we experienced in our large markets at the onset of the pandemic last year. We exited the quarter with testing volumes at a run rate slightly higher than pre-pandemic levels.

The chemical and energy end-market continues to recover as we grew 14 percent off a decline of 10 percent last year. Our results were primarily driven by continued strength in the chemicals and materials markets. In a positive sign, our order growth rates were ahead of revenues and finished the quarter strong, leading us to believe this trend will continue.

We also saw a nice recovery in the academia and government market as non-COVID-related labs resume operations in a strong funding environment. With the increase in activity, our business grew 21 percent against the weakest comparison of the year. We would expect the academia and government market to continue to recover throughout the rest of the year.

Lastly, environmental and forensics saw high single-digit growth driven by the Americas, services and consumables, and atomic spectroscopy.

On a geographic basis, all regions grew, led by the Americas at 27 percent. The pharma and academia and government markets in the Americas grew in the low 30 percent range and all markets grew at least 20 percent.

Europe experienced 16 percent growth led by food, academia and government, and chemical and energy. Those three markets all grew more than 20 percent.

As Mike noted, China grew 13 percent after growing 4 percent last year. This was driven by pharma growth in the high 30s. Our growth in orders outpaced revenue growth by mid-single digits during the quarter.

Now turning to the rest of the P&L, second quarter gross margin was 55.4 percent, flat year-on-year despite a headwind of more than 30 basis points from currency.

Our operating margin for the second quarter came in at 23.9 percent. Driven by volume, this is up a solid 150 basis points from last year even as we saw increased spending as activity ramped and we invest for the future.

Strong top line growth coupled with our operating leverage helped deliver EPS of 97 cents, up 37 percent versus last year. Our tax rate was 14.75 percent and share count was 307 million shares.

Now on to cash flow and the balance sheet.

Our performance translated into very strong cash flows. We delivered $472 million in operating cash flow during the quarter, up more than 50 percent from last year.

This strong cash flow has continued to help drive our balanced capital deployment strategy. During the quarter, we retuned $254 million to our shareholders, paying out $59 million in dividends, and repurchasing 1.55 million shares for $195 million.

And as Mike mentioned, we also continued to strategically invest in the business. We spent a net of $547 million to purchase Resolution Bioscience and invested $31 million in capital expenditures.

Year to-date, we've returned $657 million to shareholders in the form of dividends and share repurchases, while re-investing in the business by spending $619 million on M&A and capital expenditures.

We ended the quarter with a strong balance sheet, which enables us to enjoy financial flexibility going forward. During the quarter, we raised $850 million in long term debt at very favorable terms, redeemed $300 million that was maturing next year and reduced our ongoing interest expense.

We ended the quarter with $1.4 billion in cash, $2.9 billion in outstanding debt and a net leverage ratio of 1X.

Turning to the outlook for the full year and the third quarter, we see great opportunity to build on our strong first half results. Looking forward, while the pandemic is still with us, we continue to see recovery in our end-markets and have solid momentum in all our businesses. As a result, we're again increasing our full year projections for both revenue and earnings per share. This reflects our strong Q2 results and increasing expectations for the second half of the year. We are also incorporating Resolution Bioscience into our new guidance.

For revenue, we are increasing our full year to a range of $6.15 billion to $6.21 billion, up nearly $320 million at the midpoint and representing reported growth of 15 to 16 percent and core growth of 12 to 13 percent. Included is roughly 3 points of currency and about a half-point attributable to M&A.

The increased outlook also reflects continued growth in our end-markets. We see sustained momentum in the second half of the year in the pharma, food, and environmental and forensics markets.

Markets that we expect will continue to recover in the second half include diagnostics and clinical, academic and government, and chemical and energy.

As Mike mentioned 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. Our updated guidance for the year exceeds the top end of that range.

In addition, we are increasing our fiscal year 2021 non-GAAP EPS to a range of $4.09 to $4.14 per share. This is growth of 25 to 26 percent for the year.

For the third fiscal quarter, we are expecting revenue to range from $1.51 to $1.54 billion, representing reported growth of 20 to 22 percent and core growth of 15 to 17.5 percent.

We expect third-quarter 2021 non-GAAP EPS to be in the range of 97 to 99 cents per share with growth of 24 to 27 percent.

Now, before opening the call for questions, I want to say we’re extremely pleased with how we’ve started the first half of the year. We believe our strategies and our execution are driving the strong results we’ve achieved and put us in a great position to continue driving strong results for the remainder of the year.

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

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