Agilent Technologies Third Quarter Fiscal 2021
Conference Call Prepared Remarks

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Thank you, and welcome everyone to Agilent's third 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 July 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, Parmeet – and welcome to your first Agilent earnings call as our new Vice President of Investor Relations. And, thanks to everyone for joining our call today.

Before covering our third quarter financial results, I want to acknowledge the recent passing of Dr.Tachi Yamada, a giant in our industry and a former Agilent board member.

Tachi was much more than a knowledgeable, deeply involved Agilent board member for nine years. As many of you on the call already know, Tachi lived a very full life, as a doctor, a scientist and as a humanitarian who was driven to help others.

I know that the Agilent team is not alone in recognizing that Tachi Yamada will be greatly missed, and we extend our deepest sympathies to Tachi's family.

Now, on to the third quarter review and our updated outlook for the year.

In Q3, the very strong, broad-based momentum in our business continues. The Agilent team delivered another outstanding quarter, exceeding our expectations.

Q3 revenue of $1.59 billion is up a reported 26 percent and is up 21 percent core. This is against a modest decline of 3 percent in Q3 of last year, so we are well above fiscal year 2019, pre-pandemic levels. In addition, as another positive sign of continued momentum, orders outpaced revenue during the quarter.

Our growth is broad-based across all business groups, markets, and geographies. The combination of strong top line performance and execution translated into excellent growth in profitability and earnings per share.

Our Q3 operating margin is 26 percent. This is up 230 basis points from last year.

EPS is $1.10, up 41 percent year-over-year.

Agilent's success continues to be driven by our "build and buy" growth strategy and execution prowess. We are developing market leading products and services, investing in fast growing businesses while delivering outstanding customer service, and continuing to drive profitability.

Since the onset of the pandemic, we have taken actions to ensure Agilent emerges even stronger as a company. While we have yet to leave COVID-19 in the "rearview" mirror, our Q3 results are another indicator our actions are delivering the intended results.

Bob will provide more details on end-markets and geographies, but I want to briefly highlight our performance in our 2 largest end-markets, pharma and chemical and energy.

We continue to perform extremely well in pharma, our largest market -- growing 27 percent with strength in both small and large molecule segments. Our large molecule business grew roughly 52 percent in the quarter and now represents 36 percent of our overall pharma revenue, up from the mid 20's just a few years ago.

In chemical and energy, our business is recovering faster than expected, expanding 23 percent in the quarter. This is an acceleration of the momentum we achieved in the first half and our order funnel continues to strengthen.

Looking at our performance by business unit, the Life Sciences and Applied Markets Group generated revenue of $680 million. LSAG is up 22 percent on a reported basis. This is up 18 percent core off just a 4 percent decline last year.

LSAG's growth is broad-based across all end-markets. Our performance was led by strength in pharma, which is up 22 percent and chemical and energy, up 31 percent. All businesses delivered strong growth, led by cell analysis at 38 percent growth and our LC and LCMS businesses, which grew 22 percent.

We continue to strengthen our position in the fast-growing large molecule market segment. During the quarter, the LSAG team launched three InfinityLab Bio LC systems at the well-attended InfinityLab LC Virtual Conference in June. These new products further extend our LC leadership position.

In addition, building on our already strong pharma offerings, we launched new compliance-ready LC/QTOF and LC/TOF solutions to our portfolio in the quarter.

The Agilent CrossLab Group posted revenue of $560 million. This is up a reported 21 percent and up 15 percent on a core basis. These results are on top of 1 percent growth last year.

The business is benefitting from increased activity in customer labs and instrument connect rates. This is leading to more contracted services, on-demand services, and consumables consumption across all end-markets. All end-markets grew mid-teens or higher, with the exception of environmental and forensics which still grew 9 percent.

The pandemic has shown ACG to be our most durable business, with ACG growing each quarter since COVID-19 first emerged. Our customer-focused approach and digital investments continue to pay dividends. Looking forward, instrument placements and demand bode well for continued strong performance by ACG as we drive attachment rates and increase customer lifetime value.

The Diagnostics and Genomics Group produced revenue of $346 million, up 44 percent reported and up 37 percent core, compared to an 8 percent decline last year.

The growth was broad-based across product lines and regions and was led by our NASD GMP oligo business. The ramp of our facility in Frederick, Colorado continues to go very well. The quarterly results exceeded our expectations, easily surpassing the $50 million revenue milestone.

While one quarter does not make a trend, our team has done a tremendous job increasing output in a high-quality manner. This gives us increased confidence in our ability to exceed the $200 million annual run rate in revenue with existing capacity. In addition, the “Train B” manufacturing line expansion is well underway and on schedule.

Our genomics instrumentation and consumables businesses rebounded strongly in the quarter, as did our pathology-related businesses. For the first time in several quarters, we saw diagnostic testing above pre-pandemic levels. While we are watching the Delta variant very closely, to-date, we have not seen a meaningful negative impact in testing volumes.

I also want to highlight our performance in China. While still less than 10 percent of DGG revenue, our China business grew 50 percent in the quarter. We continue to see tangible progress in building a stronger China market position. In Q3, we signed our first-ever companion diagnostic development services agreement with a China-based biopharma company. Earlier this month, we also announced the initiation of “in-country” manufacturing for our SureSelect product line. We are very bullish about long-term growth prospects in China for our DGG product and services offerings.

In addition, the integration of the Resolution BioScience team is going well, and we are very pleased to enter and expand our participation in the fast-growing NGS based cancer diagnostic market.

It was a busy quarter at Agilent, so I have a few other achievements I’d like to share with you.

Last month, we published Agilent’s 21st annual Corporate Social Responsibility report. At a time when some are just starting to look at issues like sustainability and societal impact, this has always been a key part of who we are as a company. We’ve been addressing these issues since our founding more than two decades ago. I would encourage you to review our report on the Agilent website.

We are also very pleased to receive recognition as a Great Place to Work in the United States by the Great Place to Work Institute. This result is just one more example of Agilent having a highly engaged and energized team -- and as you know, teams with high engagement win in the market.

Looking ahead, building on another excellent quarter and the momentum we're seeing, we expect the business to continue to perform well as we close out what we believe will be an outstanding fiscal year 2021.

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 and earnings generation.

While the world has yet to fully emerge from the global pandemic, Agilent is well positioned to deliver excellent results again in the fourth quarter. I remain very proud of the Agilent team's ability to consistently deliver for our customers and shareholders.

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 Q3 revenue and take you through the income statement and some other key financial metrics. I'll then finish up with our updated outlook for the fourth quarter and full year. Unless otherwise noted, my remarks will focus on non-GAAP results.

As Mike mentioned, we had excellent results in the third quarter. Revenue was $1.59 billion, reflecting reported growth of 26 percent. Core revenue growth was 21 percent. Currency added 4.5 percent for the quarter and M&A added half a point. In addition, COVID related revenues were in line with the prior year.

All end markets performed well, with pharma and chemical and energy as standouts versus our expectations.

Our largest market, pharma, grew 27 percent during the quarter after growing 2 percent last year. The performance was led by the continued strength in our large molecule business growing 52 percent, while our small molecule business grew mid-teens. All regions in the pharma market grew double digits.

Our large molecule business was driven by our NASD division and demand for LC and Mass Spec instrumentation and solutions, while our small molecule business was primarily driven by QA/QC refresh.

Chemical and energy also performed well this quarter with 23 percent growth. Even after accounting for the comparison against a 10 percent decline last year, this was clearly our best quarter since the onset of the pandemic. This result was driven by increasing momentum and demand for advanced materials, and general global economic growth. Our view is that the chemical and energy market still has additional room to grow moving forward.

The diagnostics and clinical market grew 28 percent against a decline of 10 percent a year ago, our softest quarter last year. We are very encouraged with the continued recovery in the market as our genomics and pathology businesses saw very good growth. On a regional basis, all regions grew with China up 41 percent and the Americas delivering 38 percent growth.

In the academia and government market we delivered 12 percent growth as most research labs continue to open globally and expand capacity. On a regional basis, Europe led the way.

The food market continued its double-digit performance growing 12 percent on top of growing 1 percent last year. Food manufacturers continue to invest in increased testing to ensure quality and authenticity. A developing cannabis testing market, primarily in the U.S. also contributed to growth in this market. Regionally, the food market was led by the Americas and Europe.

Rounding out our key markets, environmental and forensics came in with 5 percent growth.

On a geographic basis, all regions demonstrated solid growth, led by the Americas at 32 percent and Europe at 23 percent, both exceeding expectations. The performance was broad-based across all markets.

As expected, China was up 8 percent, on top of 11 percent growth last year. All 3 business groups grew in China during the quarter. Pharma, chemical and energy, and diagnostics were the key drivers.

Now turning to the rest of the P&L, third quarter gross margin was 55.9 percent, up 80 basis points from a year ago, despite roughly 40 basis points of headwind from currency. Our strong topline and some positive product mix, coupled with strong execution from our operations team, drove the year-on-year improvement. And, our supply chain team is doing a tremendous job getting our products to customers despite the increase in demand.

Gross margin performance along with continued operating expense leverage, resulted in an operating margin for the third quarter of 26 percent, improving 230 basis points over last year.

Putting it all together, we delivered EPS of $1.10, up 41 percent versus last year. Our tax rate was 14.75 percent and share count was 306 million shares, as expected.

We delivered $334 million in operating cash flow during the quarter -- showing a strong conversion from net income -- and up more than 15 percent from last year while crossing the billion-dollar mark in 9 months.

During the quarter, we returned $172 million to our shareholders, paying out $59 million in dividends, and repurchasing roughly 800 thousand shares for $113 million.

Year to-date, we’ve returned $829 million to shareholders in the form of dividends and share repurchases.

We ended the quarter with $1.4 billion in cash, $2.9 billion in outstanding debt and a net leverage ratio of 0.8.

Accounting for our Q3 performance and improved outlook in the fourth quarter, we are again raising our full year projections for both revenue and earnings per share.

We are increasing our full year revenue projection to a range of $6.29 billion to $6.32 billion, up $125 million at the midpoint from previous guidance and representing reported growth of 17.8 to 18.4 percent and core growth of 14.5 to 15 percent. Included is roughly 3 points of impact from currency and a small amount from M&A. In addition, we are on track to deliver roughly $100M in COVID-related revenue in fiscal 2021, in line with our expectations from the beginning of the year and flat to last year.

We expect to continue our strong operating leverage and so we are increasing our fiscal year 2021 non-GAAP EPS to a range of $4.28 to $4.31 per share, up 30 to 31 percent for the year.

This translates to fourth quarter revenue ranging from $1.63 billion to $1.66 billion. This represents reported growth of 10 to 12 percent and core growth of 8.5 to 10 percent on top of 6 percent growth in Q4 of last year when we started to see early signs of recovery from the strict lockdowns.

In addition, while COVID revenue is roughly flat year-on-year for the full year, last year’s fiscal fourth quarter represented the high-water mark in our COVID-related revenue. As a result, we expect to see a roughly 1-point headwind due to COVID revenue in the quarter, so our core growth, excluding COVID would be comparable to 9.5 to 11 percent.

We are forecasting higher expenses in the fourth quarter as we invest to maintain our strong momentum but expect continued operating leverage in excess of 100 basis points. Non-GAAP EPS is expected to be between $1.15 and $1.18 with growth of 17 to 20 percent.

Now, before opening the call for questions, I want to reiterate that we continue to see good demand in our end-markets, have solid momentum in all our businesses and expect to close the year extremely well.

We believe our strategies are the right ones for Agilent, but we couldn't achieve the results we've been producing without excellent execution by the team.

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