Agilent Technologies Fourth Quarter Fiscal 2021
Conference Call Prepared Remarks

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Thank you, and welcome everyone to Agilent's fourth 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 Mike and 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 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.

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

Mike McMullen

Thanks, Parmeet. And, thanks to everyone for joining our call today. The Agilent team delivered another excellent quarter to close out an outstanding, record-setting 2021.

At $6.32 billion for fiscal 2021, revenues are almost a billion dollars higher than last year. Full-year, core growth is up 15 percent on top of growing 1 percent last year. The strength is broad-based with our three business units all growing more than 10 percent core for the year.

Our full-year operating margins are up 200 basis points. Earnings per share of $4.34 are up 32 percent.

Let's now take a closer look at our strong finish to 2021 and review Q4 results.
Our momentum continues as orders increased faster than revenue in Q4 and at the same time, we delivered our fourth straight quarter of double-digit revenue growth. At $1.66 billion, revenues are up 12 percent on a reported basis. Our core revenues grew 11 percent, exceeding our expectations. This is on top of 6 percent core growth last year.

Our Q4 operating margin is 26.5 percent. This is up 160 basis points from last year.
EPS is $1.21, up 23 percent year-over-year. Our earnings growth also exceeded our expectations.

We continue to perform extremely well in pharma, our largest market -- growing 21 percent, driven by our biopharma business. Total pharma now represents 36 percent of our overall revenue. This compares to 31 percent of our revenues just 2 years ago.

The strong growth in our chemical and energy business continues, as we delivered 11 percent growth in the quarter. This is on top of growing 3 percent in Q4 of last year. PMI numbers are positive and we expect that chemical and energy will continue its strong growth trajectory into fiscal 2022.
In diagnostics and clinical, revenues grew 11 percent on top of growing 1 percent last year as testing volumes started to recover.

On a geographic basis, our results were led by a strong performance in the Americas and China. Our business in the Americas grew 15 percent on top of 5 percent last year.
China grew 8 percent core on top of strong 13 percent growth in Q4 of last year. China order growth outpaced revenue growth for the third quarter in a row.

Now, looking at our performance by business unit, the Life Sciences and Applied Markets Group generated revenue of $747 million. LSAG is up 11 percent on both a reported and core basis. LSAG's growth was broad-based and led by strength in liquid chromatography and cell analysis. The pharma and chemical and energy markets were particularly strong for new instrument purchases. Our cell analysis business crossed the $100 million mark in the quarter for the first time.

During the quarter, the LSAG team announced a new Ion Mobility LC/Q-TOF and enhancements to our VWorks automation software suite. These new, well-received offerings are used to improve the analysis of proteins and peptides to speed development of new protein-based therapeutics.

The Agilent CrossLab Group posted revenue of $572 million. This is up a reported 10 percent and 9 percent core. Growth is broad-based driven by strength in service contracts and on-demand services, as well as for chemistries and supplies. Our focus on increasing connect rates continues to pay off for us. The strong expansion of our installed base in 2021 and increasing connect rates bodes well for continued strength in our ACG business moving forward. Our ability to drive growth and leverage our scale produced operating margins of roughly 30 percent, up more than 200 basis points from the prior year.

The Diagnostics and Genomics Group delivered revenue of $341 million, up 16 percent reported and up 13 percent core.

Our NASD oligo business led the way with robust double-digit growth in the quarter and achieved full-year revenues exceeding $225 million. We expect another year of strong double-digit growth as the team continues to do a great job of increasing throughput with the existing capacity.
The additional expansion of our “Train B” oligo manufacturing facility in Frederick, Colorado is proceeding as planned. We expect this additional capacity to come online by the end of calendar year 2022.

Moving on from our business group updates, there are several other significant developments for Agilent this quarter. We announced our commitment to achieving net zero greenhouse gas emissions by 2050. We believe our approach delivers the same rigor to sustainability that we apply to everything else we do. We also believe these actions are not only the right thing to do, but fundamental to achieving long-term success.

Our sustainability leadership continues to be prominently recognized, as well. . You may have seen that Investors’ Business Daily recently named Agilent to its Top 100 ESG Companies list.
We are also a company where diversity and inclusion represent a company priority and is a core element of our culture. During the quarter, we achieved recognition by Forbes as one of the World’s Best Employers, and as a Best Workplace for Women.

While the Agilent team has a strong track record of delivering above market growth and leading customer satisfaction – we’re always looking to do more. To further accelerate growth and strengthen our focus on customers, we are implementing a new One Agilent Commercial organization -- combining, for the first-time, all customer-facing activities under one leader. The new organization brings together and strengthens our sales, marketing, digital channel, and services team.
The new enterprise-level commercial organization is led by Padraig McDonnell. Padraig will continue to lead the Agilent CrossLab Group as business group president, as well as serve as Agilent’s first-ever Chief Commercial Officer.

The way I like to characterize this move is to say we are “doubling-down” on the success we’ve achieved with ACG – applying a holistic, customer-focused approach to all aspects of our business.

We are also moving the Chemistries and Supplies Division to LSAG. This closer organizational alignment between instrument and chemistries development will further accelerate our progress on instrument connect rates for chemistries and consumables. We believe that “structure follows strategy” and that this new organizational structure will further enhance our customer focus and the execution of our growth strategies.

Looking ahead to the coming year, we are in a strong position to continue to deliver on our “build and buy” strategy. Agilent’s business remains strong. We enter the new year with a robust backlog and have multiple growth drivers coupled with the proven execution excellence of the Agilent team.
A year ago, during our Agilent Investor Day, we raised our long-term annual growth outlook to the 5-7 percent range, while reaffirming our commitment to annual operating margin improvement and double-digit EPS growth. We are now one year in and well on our way to achieving these long-term goals.

Bob will provide more details, but for fiscal 2022 our initial full-year guide calls for core growth in a range of 5.5 to 7 percent. We expect to continue our top-line growth as we launch market leading products and services, invest in fast growing businesses, and deliver outstanding customer service.
My confidence in the unstoppable One Agilent team and our ability to execute and deliver remains firmly intact. This is our formula for delivering solid financial results, outstanding shareholder returns and continued strong growth.

We are very pleased with our performance in 2021, but not satisfied. As I tell the Agilent team: The best is yet to come -- for our customers, our team, and our 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?

Bob McMahon

Thanks Mike, and good afternoon everyone. In my remarks today, I will provide some additional details on revenue and take you through the income statement and some other key financial metrics.

I'll then finish up with our initial outlook for the upcoming year and for the first quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

As Mike mentioned, we had very strong results in the fourth quarter. Revenue was $1.66 billion, reflecting reported growth of 12 percent. Before I get into the details, I want to acknowledge our supply chain team, which has been doing a great job managing in a challenging global environment. Core revenue growth at 11 percent was a point above the top of our guidance range.
Currency accounted for 0.8 percent of growth, while M&A contributed 0.5 percent during Q4. As expected, COVID-19 related revenues were roughly flat sequentially and resulted in just over a point headwind to quarterly core growth. Late in the quarter, we did see transit times that in certain cases were greater than anticipated resulting in some revenue being deferred into Q1.

Our results were driven by a continuation of outstanding momentum in pharma, and biopharma in particular, while chemical and energy and diagnostics and clinical also delivered strong results for us. Our largest market, pharma grew 21 percent during the quarter against a tough compare of 12 percent last year.

The small molecule segment delivered mid-teens growth, while large molecule grew 31 percent. Pharma was a standout all year, growing 24 percent for the full year after growing 6 percent in 2020. In FY22, we expect our pharma business to grow in the high-single digits.

Chemical and energy continued to show strength, growing 11 percent with instrument growth in the mid-teens during the quarter. This impressive performance was against a 3 percent increase last year. The C&E business grew 12 percent for the year, after declining 3 percent in 2020.
Growth was driven by continued momentum in chemicals and engineered materials, and we expect our C&E business to continue to grow solidly next year in the high single digits.

Diagnostics and clinical grew 11 percent with all three groups growing nicely during the quarter. While the largest dollar contributor to this market is DGG driven by our pathology-related businesses, the LSAG business continues to penetrate the clinical market and drive growth with strong performances by cell analysis and mass spec.

We saw mid-teens growth in the Americas and strong growth in China, albeit off a small base. For the year, the diagnostics and clinical business grew 15 percent for the year after declining slightly by 1 percent in 2020. We expect to continue growing in the mid- to high-single digits in 2022. Academia and government, which can be lumpy and represents less than 10 percent of our business was up 1 percent in Q4 versus flat growth last year. Most research labs continue to remain open globally and increase capacity to pre-pandemic levels.

China came in at low single digits, while the Americas and Europe were roughly flat. For the year, we grew 7 percent after declining 4 percent last year. We expect this market will continue to improve slightly in fiscal year 2022 and expect growth of low to mid-single digits.

Food was flat during the quarter against a very tough 16 percent compare. Europe and the Americas grew while China declined. For the year, food grew 13 percent after growing 7 percent in 2020. Looking forward, we expect food to return to historical growth rates in the low single digits.

Rounding out the markets, environmental and forensics declined 2 percent in the fourth quarter, off a 5 percent decline last year, as growth in environmental was overshadowed by a decline in forensics. For the year, we grew 5 percent off a 2 percent decline in 2020. Looking forward, like food, we expect environmental and forensics to grow low single digits in the coming year.

For Agilent overall on a geographic basis, all regions again grew in Q4, led by the Americas at 15 percent. China grew 8 percent, and Europe grew 4 percent. For the year, Americas led the way with 21 percent growth, followed by China at 13 percent and Europe at 12 percent.

Now let’s turn to the rest of the P&L, fourth quarter gross margin was 55.9 percent, up 90 basis points from a year ago.

Gross margin performance along with continued operating expense leverage, resulted in an operating margin for the fourth quarter of 26.5 percent, improving 160 basis points over last year.
Putting it all together, we delivered EPS of $1.21, up 23 percent versus last year. During the quarter, we benefitted from additional tax savings resulting in a quarterly tax rate of 13 percent. Our full-year

tax rate was 14.25 percent. Our share count was 305 million shares, as expected. For the year, EPS came in at $4.34, an increase of 32 percent from 2020.

We continued our strong cash flow generation, resulting in $441 million for the quarter, an increase of 17 percent versus last year. For all of 2021, we generated almost $1.5 billion in operating cash and invested $188 million in capital expenditures.

During the quarter, we returned $195 million to our shareholders, paying out $59 million in dividends, and repurchasing roughly 830 thousand shares for $136 million. For the year, we returned over a billion dollars to shareholders in the form of dividends and share repurchases. We ended the year with $1.5 billion in cash and $2.7 billion in outstanding debt and a net leverage ratio of 0.7. All in all, a great end to an outstanding year.

Now let's move on to our outlook for the 2022 fiscal year. While we are still dealing with the pandemic and we have the additional challenges around logistics and inflationary pressures, we enter the year with strong backlog and momentum.

For the full year, we're expecting revenue to range between $6.65 and $6.73 billion, representing reported growth of 5 to 6.5 percent and core growth of 5.5 to 7 percent, consistent with our long-range goals. This incorporates absorbing roughly a half-point headwind associated with COVID-related revenues, with the majority of that impact coming in Q1.

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 NASD and cancer diagnostics. We expect ACG to grow high single digits, with both services and our chemistries and supplies business growing comparably, while LSAG is expected to grow mid-single digits.

We expect operating margin expansion of 60 to 80 basis points for the year as we absorb the build-out costs of Train B at our Frederick, Colorado NASD site.

In helping you build out your models, we're planning for a tax rate of 14.25 percent, consistent with current tax policies, and 305 million fully diluted shares outstanding.

All this translates to a fiscal 2022 non-GAAP EPS expected to be between $4.76 to $4.86 per share resulting in double-digit growth.

Finally, we expect operating cash flow of approximately $1.4 to $1.5 billion and capital expenditures of $300 million. The capital investment represents an increase over 2021 as we continue our focus on growth, bringing our NASD Train B expansion online and expanding consumables manufacturing capacity for our cell analysis and genomics businesses.

We have also announced raising our dividend by 8 percent, continuing an important streak of dividend increases and providing another source of value to our shareholders.

Now, let's move on to our first quarter guidance. But before we get into the specifics, some additional context. Lunar New Year is February 1st this year, a shift from last year when it was in mid-February. As a result, we expect some Q1 revenue to shift to the second quarter this year as customers shut down ahead of the holiday. In addition, as I mentioned, we do expect to see the largest impact of COVID-related revenue headwinds in the first quarter. We estimate these two factors will impact our base business growth by 2 to 3 points and are roughly equal in impact.

For Q1, we are expecting revenue to range from $1.64 to $1.66 billion, representing reported and core growth of 5.9 to 7.2 percent. Adjusting for the timing of Lunar New Year and COVID-related revenue headwinds, core growth would be roughly 8 to 10 percent in the quarter.

First-quarter 2022 non-GAAP earnings are expected to be in the range of $1.16 to $1.18.

A couple of additional points before opening the call for questions. In conjunction with new One Agilent Commercial organization Mike talked about, we will be reporting under the new structure starting in Q1. In addition, we will be providing a recast of certain LSAG and ACG historical financials to account for the segment changes after the filing of our Annual Report on Form 10-K in

December. I am extremely proud of what the Agilent team achieved in 2021 and look forward to another strong performance in 2022.

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