Agilent Technologies First Quarter Fiscal 2021 Conference Call Prepared Remarks

Parmeet Ahuja

Thank you Emily, and welcome everyone to Agilent's Conference Call for the first quarter of Fiscal Year 2022. With me are Mike McMullen, Agilent president and CEO, and Bob McMahon, Agilent senior vice president and CFO.

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

This presentation is being webcast live. The news release for our Q1 financial results, investor presentation and information to supplement today's discussion, along with a recording of this webcast, are available on our website at www.investor.agilent.com.

Today's comments by Mike and Bob will refer to non-GAAP financial measures. You'll 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 any acquisitions and divestitures completed within the past 12 months. Guidance is based on exchange rates as of January 31.

As previously announced, beginning in the first quarter of Fiscal 2022, we implemented certain changes to our segment reporting structure. We have recast our historical segment information to reflect these changes. These changes have no impact on our company's consolidated financial statements.

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.

Our momentum continues. The Agilent team delivered a strong start to 2022 in Q1, exceeding expectations on both the top and bottom line.

Our Q1 revenues are $1.67 billion. This is up 9 percent core and up 8 percent reported. This is on top of growing 11 percent core in Q1 a year ago. Excluding COVID-related revenues, our core growth is even better at 10 percent this quarter.

We continued to see strength in our order book with robust order in-take throughout the quarter. In fact, Q1 orders grew roughly twice as fast as revenues.

Q1 operating margins are a healthy 26.3 percent, up 80 basis points from last year.

Earnings per share of $1.21 are up 14 percent. The EPS increase is versus a tough comparison of 31 percent growth in the first quarter of 2021.

These strong results have been achieved in a very dynamic environment. I could not be more proud of the Agilent team's ability to execute and deliver.

Let's take a closer look at some of what's driving our strong results.

Bob will go into more details later in the call, but our two largest markets continue strong double-digit growth.

Our pharma business, Agilent's largest market, continues to lead the way for us, growing 17 percent. Global end-market demand for our products and services remains very strong. Biopharma grew 32 percent while small molecule growth came in at a robust 9 percent.

The momentum in our chemical and energy business also continues, delivering 15 percent growth in the quarter. This was driven by mid-teens revenue increases in chemicals and advanced materials. PMI's remain positive along with our overall outlook in the chemicals, energy, and advanced materials markets.

On a geographic basis, our results were led by 13 percent growth in the Americas. This is on top of 13 percent growth in Q1 a year ago.

China grew 3 percent on top of 25 percent growth in Q1 of last year and was impacted by the timing of Lunar New Year as noted in our November call. Demand in China remains strong as orders grew high teens in the first quarter.

We continue to invest in China for China, to further strengthen our ability to serve our customers. We recently announced a $20 million expansion of our Shanghai manufacturing center to meet growing demand for our locally made liquid chromatography, spectroscopy, and mass spec systems.

Looking at our performance by business unit, the Life Sciences and Applied Markets Group generated revenue of $976 million, an increase of 7 percent on a core basis. This is versus a 10 percent core growth in Q1 of 2021. LSAG's growth was led by strength in the pharma and the chemical and energy markets. From a platform perspective, customer interest in, and purchases of our chromatography systems and mass spec offerings are very robust. Our chemistries and supplies business, which moved over from ACG this year, continues to do very well, delivering double-digit growth.

We also continue to invest and strategically partner for future growth.

Late last week, we announced the acquisition of very exciting artificial intelligence technology that will be integrated into our industry-leading chromatography businesses. This technology has the potential to significantly improve lab productivity and accuracy by automating manual interpretation of chromatography data. We believe that this capability will be very well received by the high-throughput labs Agilent serves around the world.

This acquisition is an example of our build and buy growth strategy, as it complements the work our internal R&D teams are doing to develop these types of capabilities for other Agilent platforms.

During the quarter, we also announced a partnership with Lonza to integrate Agilent's analytics technologies and techniques into Lonza's Cocoon® Platform cell therapy manufacturing workflow. The collaboration has the potential to transform the way personalized cell therapies are manufactured.

In addition, to ensure we can meet the strong and growing demand for our cell analysis offerings, we also recently announced plans to invest more than $30 million for the construction of a new manufacturing site in Chicopee, Massachusetts.

The Agilent CrossLab Group posted services revenue of $359 million. This is up 10 percent core against a 11 percent Q1 2021 core growth compare. This growth is broad-based with strength in service contracts, preventive maintenance, compliance, education and informatic enterprise services.

Our focus on providing a differentiated customer experience that leverages our large-scale and talented customer support team, continues to pay off. Our connect rates continue to improve and our installed base continues to expand – both boding well for continued strength in our services business.

The Diagnostics and Genomics Group delivered revenue of $339 million, up 14 percent core versus Q1 ’21 core growth of 15 percent. Our excellent growth is broad-based across pathology, genomics, and NASD.

Our pathology business grew roughly 10 percent with strength across all regions. Our core genomics business grew low teens, with strength in target enrichment and our genomics quality control product lines.

The NASD team continues to deliver, driving 45 percent plus, growth in the quarter. Meanwhile, the additional capacity expansion at our Frederick GMP oligo manufacturing facility continues to proceed as planned. We continue to expect this capacity to come on-line by the end of calendar year 2022.

Our Resolution Bioscience team achieved a major milestone in the first quarter by completing the Pre-Market Approval submission for the Resolution ctDx FIRST liquid biopsy assay as a companion diagnostic. This was done in conjunction with Mirati Therapeutics for Non-Small Cell Lung Cancer and is currently under review by the FDA. It is the first of what we hope will be several indications for liquid biopsy assays.

I am pleased with how we have started the year. Building on our Q1 results, continued order strength and execution prowess, we are increasing our full-year financial guidance.

We are raising our core growth guidance to a range of 7 percent to 8 percent, up 125 basis points at the mid-point from our prior guidance. Fiscal year 2022 non-GAAP EPS guidance is increased to a range of $4.80 to 4.90 per share, growing 11 to 13 percent over last year. Bob will be providing the Q2 outlook along with more detail on our improved full-year guidance.

We're very pleased with our Q1 results and looking forward to another strong quarter and year ahead. I'm also very confident in our team and our ability to execute and deliver for our customers and shareholders, no matter what the challenge.

Thank you for being on the call today and I look forward to taking your questions later. However, for right now, 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 improved outlook for the full year and our guidance for the second quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

As Mike described, we posted very strong results in Q1 and exceeded expectations. Revenue was $1.67 billion, up a reported 8.1 percent. Core growth was even better at 8.9 percent as we overcame a greater than expected negative exchange rate impact of 1.3 points, while M&A added 0.5 points to growth.

Q1 core growth was 170 basis points higher than the top end of our guidance. In addition, after adjusting for the 1-point headwind due to COVID-19 revenues, our core growth outside of COVID was roughly 10 percent, and as Mike said, order growth was even better. Again, a very strong start to the year.

Moving to our end-market performance, our results were driven by a continuation of strong growth in pharma, led by biopharma, while momentum in chemical and energy and strong results in diagnostics and clinical also led the way for us in Q1.

Our largest market, pharma grew 17 percent during the quarter, on top of 20 percent growth last year.

The small molecule subsegment delivered high single-digit growth, while large molecule continued its strong performance, growing 32 percent. We are seeing our ongoing investments in biopharma paying off as demand was strong throughout the quarter. We continue to believe in the long-term growth potential of the pharma market and that our business will drive above market growth.

Chemical and energy continued to show strength, growing 15 percent during the quarter. Growth in chemicals and advanced materials led the way and we expect continued growth in this business.

Diagnostics and clinical grew 11 percent on top of 9 percent growth last year, with all three business groups again expanding revenues nicely during the quarter. Our expansion of LC/MS equipment into the clinical space continues to do well. Our growth in China was particularly strong, increasing more than 30 percent as we continue to penetrate this market.

The academia and government market was flat in Q1. The business remained resilient despite omicron impacts in the U.S. as some universities delayed in-person learning in the period following the holiday break in December, and reduced lab activity in January. We have seen lab activity improve into February and believe the funding environment remains positive.

The food segment declined low single digits against a very strong 22 percent growth comparison from last year. The Americas were a bright spot for us, growing in the mid-teens while Europe was flat and China down due to difficult comparisons and Lunar New Year timing.

Closing out on the performance of the markets, environmental and forensics, our smallest market, was down 11 percent.

For Agilent overall on a geographic basis, all regions again grew in Q1, led by the Americas at 13 percent and Europe at 6 percent. China grew 3 percent on top of 25 percent in Q1 last year and in addition to the effect of Lunar New Year timing, which should benefit us in Q2.

Now turning to the rest of the P&L, first quarter gross margin was 56.1 percent, up 30 basis points from a year ago. Our team has done a good job increasing productivity, and pricing has helped offset higher input and logistics costs.

Operating margins of 26.3 percent increased 80 basis points even as we have increased our R&D investments. Our investments in digital technology for our internal operations also continue to pay off as we leverage our infrastructure across the company using our One Agilent approach.

Our tax rate of 14 and a quarter percent came in as expected and we had 303 million diluted shares outstanding, slightly lower than projected.

Putting it all together, we delivered EPS of $1.21, up 14 percent versus last year after growing 31 percent in Q1 of fiscal 2021.

We continued to produce strong operating cash flow, generating $255 million in the quarter, beating our forecast, while we also invested $75 million in capital expenditures during Q1.

During the quarter, we took advantage of market volatility to repurchase $447 million worth of shares. We also paid out $63 million in dividends, returning a combined total of $510 million to shareholders.

Our balance sheet remains very healthy with a net leverage ratio of 0.9 times. Given current market conditions, we expect to continue to be aggressive in deploying capital.

Now, let’s move on to our improved full year guidance and our outlook for the second quarter.

As Mike indicated, we are raising our full year core revenue growth to an expected range of 7 to 8 percent, up from our initial guide in November of 5.5 percent to 7 percent. Excluding the COVID related half-point headwind this year, this results in core growth of 7.5 to 8.5 percent.

The new guidance takes into account our strong Q1 results and an improved outlook for the rest of the year on a core basis. While we've increased our core growth expectations, the dollar has strengthened considerably, doubling the estimated exchange rate headwinds from our initial guide to $110 million for the year, while the M&A impact remains relatively unchanged.

Putting it all together, we're expecting full year revenues to be between $6.67 billion and $6.73 billion. In addition, we have increased our EPS guidance for the full year to $4.80 to $4.90 per share, up from the previous range of $4.76 to $4.86, and representing 11 to 13 percent growth versus fiscal year 2021.

For Q2, we're expecting revenue to range from $1.595 billion to $1.625 billion. This represents core growth between 7 and 9 percent after adjusting for an expected half percent impact related to COVID year-on-year. We expect reported growth in the range of 4.6 to 6.6 percent.

Exchange rates are expected to have a negative impact of about 2.3 percent in the quarter while M&A is expected to contribute 0.3 points to growth.

Closing out our Q2 guidance, non-GAAP EPS is expected to be in the range of $1.10 to $1.12, up 13 to 15 percent versus the prior year. This is based on a 14.25 percent tax rate and 303 million diluted shares outstanding.

Again, the Agilent team performed extremely well in Q1 and with the solid growth we're seeing in orders and the team's willingness and ability to take on every challenge that comes their way, I'm confident Q2 and our full year results will also be strong.

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