



Agilent Technologies Fourth Quarter Fiscal 2022 Conference Call Prepared Remarks

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Thank you, Beau, and welcome everyone to Agilent's Conference Call for the fourth 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 fourth quarter 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 October 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.

Please note that we have changed the name of the chemical and energy end market to the chemicals and advanced materials end market. This change better reflects the mix of business in this market. It does not affect financial reporting in this quarter or prior quarters.

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 everyone for joining our call today.

In the fourth quarter the Agilent team continued its strong performance. We delivered an excellent quarter – significantly exceeding our revenue and earnings expectations.

Revenue of 1.85 billion dollars is up more than 17 percent core.

Our strong top-line performance helped deliver fourth quarter operating margins of 29.1 percent. Operating margins continue to expand despite the inflationary environment and the strengthening dollar and are up 260 basis points from last year.

Earnings per share of \$1.53 are up 26 percent.

These Q4 results mark an outstanding finish to another strong year for Agilent in fiscal 2022. With full-year revenue of 6.85 billion dollars we delivered core revenue growth of 12 percent. This is on top of core revenue growth of 15 percent in 2021.

Our operating margins continue to increase and are 27.1 percent for the year, up 160 basis points. Earnings per share of \$5.22 are up 20 percent for the year.

Our excellent results this year highlight the ongoing strength of our diversified business and shine a light on the multiple growth drivers we've put in place over the years. They also continue to demonstrate the outstanding execution capabilities of the Agilent team. Throughout the year, we navigated market uncertainties, inflation, COVID-related shutdowns, and supply chain and logistics constraints.

Our strength is broad-based, with all three business groups growing double digits for the year. All major geographies and regions grew double digits in FY22 after adjusting for our exit from Russia. This was highlighted by China leading the way, growing 18 percent. From an end market perspective, all markets expanded, led by excellent growth in our two largest markets, pharma and chemicals and advanced materials.

All in all, it was an extremely good year for Agilent.

Let's now take a closer look at our fourth quarter performance, starting with end market highlights. During Q4, our performance was led by 20 percent plus growth in three of our six end-markets. Pharma, our largest market, posted 20 percent growth on top of 21 percent in Q4 last year.

The chemicals and advanced materials business grew 27 percent. We saw robust demand in chemicals along with secular growth in semiconductors, batteries, and other advanced materials.

The food market also grew 20 percent on strong end-of-year demand in China that had been previously delayed by COVID-related shutdowns.

On a regional basis, China led the way for us with stellar 44 percent growth as demand remained strong. Business activity continued to recover, and the Agilent team worked quickly and effectively to start working down the backlog including delivering remaining shipments deferred due to the Shanghai COVID-related shutdown in Q2.

Europe also exceeded expectations by delivering double-digit growth in the quarter, coming in 14 percent higher than a year ago with broad strength across our markets, highlighted by low twenties growth in Pharma.

Looking at our performance by business unit, the **Life Sciences and Applied Markets Group** continued its outstanding performance and posted revenue of 1.12 billion dollars. This represents growth of 22 percent with the instruments business growing 24 percent, and our consumables and supplies business growing 15 percent.

We also saw excellent low thirties growth in our LC and LCMS instruments businesses as our solutions continue to resonate with customers.

LSAG was also able to build on our leadership in applied markets with spectroscopy growing in the low twenties and the GC and GCMS business growing in the low thirties.

In addition, Agilent is doing its part to help customers monitor and manage microplastics in the environment as we released the latest version of the 8700 LDIR Chemical Imaging System. This unique system has been optimized specifically for the analysis of microplastics in environmental samples.

The **Agilent CrossLab Group** posted revenue of 381 million dollars in Q4. This is up 14 percent core with broad-based strength across our entire portfolio of offerings. Pharma and chemicals and advanced materials both grew mid-teens for ACG.

On a regional basis, China led the way with high twenties growth as business continued to recover. ACG also delivered double-digit growth in the Americas.

ACG has delivered double digit growth for us every quarter this year, and our engagement with large enterprise customers continues to accelerate. Through its deep understanding and insights into lab operations, the ACG team continues to build strategic partnerships and long-term relationships that maximize customer value and provide ongoing demand for services and support.

The **Diagnostics and Genomics Group** delivered revenue of 352 million dollars, up 8 percent core.

DGG's results were led by strong growth in the low twenties for NASD. As expected, our NASD business delivered higher quarterly revenue on a sequential basis given the planned shutdown last quarter.

Our Genomics portfolio also posted solid results, growing low teens and, pathology grew mid-single digits.

On a regional basis, DGG also delivered mid-twenties growth in China.

In addition to these business group highlights, during Q4 Agilent was recognized by the World Economic Forum Global Lighthouse Network as a world leader in advanced manufacturing. Agilent's manufacturing facility in Singapore received this recognition for deploying innovative technologies at scale in the manufacture of scientific instruments driving productivity while advancing sustainability.

Also, we were extremely pleased to announce a new multi-million-dollar partnership with Delaware State University, a leading historically Black university. The work we will do together with DSU is geared toward increasing the number of underrepresented students entering STEM fields.

In addition, Agilent was certified as a great place to work by the Great Place to Work Institute in more than 20 countries and regions around the world during the quarter. This recognition distinguishes Agilent as a top employer based on an independent survey of its global workforce.

Recapping 2022, we had another very successful year not only delivering excellent financial results but building for the future. We continue to drive innovation, focus on supporting our customers, and executing our build and buy strategy to outgrow the market. The Agilent team continues to deliver.

We have built a resilient company with multiple drivers for growth and targeted investments focused on high growth areas. We have an unstoppable One Agilent team that can take on any challenge and execute at an extremely high level.

As we look ahead to 2023, we believe these qualities are a winning formula for continuing to deliver in an increasingly uncertain economic environment. Bob will now share more detail on the quarter and the year, along with our initial view on expectations for fiscal year 2023. After his remarks I will rejoin to add some final comments and perspective.

Thank you for joining us today. And now, Bob, over to you.

Bob McMahon

Thanks Mike, and good afternoon, everyone. In my remarks today, I will provide some additional details on revenue in the quarter and the year, as well as take you through the income statement and other key financial metrics. I'll then finish up with our guidance for fiscal year 2023 and the first quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

We are extremely pleased with our Q4 performance and finished the year on a very strong note, exceeding our expectations on both revenue and earnings per share.

Q4 revenue was 1.85 billion dollars, up 17.5 percent core and 11.4 percent on a reported basis. During the quarter, we saw the dollar continue to strengthen.

Currency exchange rates were a 6.2-point headwind to growth or 103 million dollars. The contribution from M&A was as expected, adding one tenth of a point to reported growth.

Our performance was again broad-based, as all end markets and regions grew during the quarter. Orders also grew again during the quarter, while outstanding execution from our order fulfillment and supply chain teams enabled us to start working down

our record backlog. As we enter FY23, our backlog is still elevated and helps provide good visibility and confidence in our outlook going forward.

Now, I'd like to share additional detail on our end markets.

Results in our largest market **pharma**, were very strong. This market represents 37 percent of Agilent's revenue and grew 20 percent in the quarter. Biopharma grew 18 percent and small molecule was up 21 percent. Looking forward, we expect the Pharma end market to grow high single digits in FY23.

Chemicals and advanced materials led growth for us during the quarter at 27 percent. This compares with 11 percent growth in Q4 last year. All three sub-markets -- chemicals, advanced materials, and energy -- had strong growth in the quarter. All regions grew as well, led by China.

Demand continues to be driven by investments in advanced materials, driving secular growth opportunities in batteries, alternative energy, and semiconductors. While not immune to macro uncertainties, we believe these secular drivers in advanced materials will continue, helping to drive mid-single digit growth for this market next year.

We delivered growth of 20 percent in the **food** market, led by China as our results continued to benefit from the recovery of revenue delays due to COVID related shutdowns in Q2. During FY23, we expect the food market to normalize and grow in the low single digits after two years of very strong growth.

The **environmental and forensics** market posted 18 percent growth with particular strength in the Americas. This result was driven by increased governmental spending helping to drive technology refresh for newer applications like PFAS testing. Europe

and China also posted impressive double-digit growth in the quarter. We see PFAS-related funding and demand continuing to be a driver for this end-market and expect mid-single digit growth next year.

Our business in the **diagnostics and clinical** market grew 6 percent against an 11 percent compare last year. Growth was led by Europe and China, while the Americas grew low single digits. We also expect to see mid-single digit growth in this market in FY23.

The **academia and government** market grew 3 percent led by continued strength in our service business. This market grew 3 percent overall for the year as well, and looking forward, we expect similar growth in 2023.

On a geographic basis, China led the way with phenomenal 44 percent growth in Q4, driven by underlying demand across multiple end markets and our continued ability to quickly recover deferred revenue from Q2.

As we have discussed the last two quarters, the COVID-related lockdowns in China earlier this year deferred an estimated 50 million to 55 million dollars in revenue from Q2 into future quarters. This recovery started last quarter and our team in China continued their outstanding work to ramp production and shipments quickly in Q4.

We have now fully worked through this deferred revenue a full quarter earlier than originally anticipated back in Q2, a true testament to the entire team.

We estimate this recovery had a mid-single digit positive impact to China's Q4 growth. So even excluding this, our business performance in Q4 was very strong. Now looking ahead to next year, we expect China will continue to be a key growth driver for us.

And as Mike mentioned, Europe grew a very solid 14 percent, which exceeded our expectations. We also posted 8 percent growth in the Americas, driven by pharma, chemicals and advanced materials, and strong growth in the environmental and forensics market, partially offset by academia and government. And lastly, the rest of Asia grew 12 percent.

Now turning to the rest of the P&L, our team continues to execute at a very high level. Fourth quarter gross margin was 56.3 percent, up 40 basis points from a year ago. Volume leverage, along with pricing, helped overcome continued inflationary pressures and higher logistics costs. Our operating margin was 29.1 percent in Q4, up 260 basis points from last year.

Below the line, our tax rate was 14 percent for the quarter, as expected, and we had 298 million diluted shares outstanding.

Putting it all together, earnings per share were \$1.53 for the quarter, up 26 percent from a year ago, as Mike mentioned.

So, in summary, Q4 ended with 17 percent core topline growth and 26 percent EPS growth – a very strong finish to the year where we had revenue growth of 12 percent and EPS growth of 20 percent!

Now, some metrics on our cash flow and balance sheet. In Q4, we generated operating cash flow of 448 million dollars while investing 70 million dollars in capital expenditures. The capex spending is driven by our continued scale up of Train B for our NASD expansion.

In the quarter, we also paid out 62 million dollars in dividends and repurchased shares valued at 135 million dollars.

For the year, we returned almost 1.4 billion dollars to shareholders through 250 million dollars in dividends and a bit more than 1.1 billion dollars in share repurchases. And as we've indicated before, given the on-going strength of the business, we believe these share repurchases represent a very good long-term investment.

Our balance sheet continues to remain healthy as we end the fiscal year with a net leverage ratio of 0.8.

Now, let's move to our outlook for the upcoming fiscal year and first quarter.

Looking forward to 2023, we enter the year with business momentum and a very healthy backlog. We also acknowledge the increasingly uncertain macro environment, rising interest rates, and currency headwinds and have reflected that in our thinking based on what we know today.

For fiscal year 2023, we expect revenue in the range of 6.9 billion to 7 billion dollars as we have significantly greater currency headwinds since last we spoke. Core growth is expected to be in the range of 5 to 6 and-a-half percent, in line with our long-range goals. Currency will negatively affect reported growth by 430 basis points or roughly 295 million dollars during the year based on fiscal year end rates.

To help with your modelling, at a business group level, this revenue guidance assumes mid-single digit core growth for LSAG, mid-to-high single digit growth for DGG, and high single digit growth for ACG.

Despite ongoing currency headwinds and a continued inflationary environment, we are expecting operating margin expansion for FY23.

Below the line, we expect 40 million to 50 million dollars of net expense, a tax rate of 13.75 percent, which is slightly below this year, and 297 million shares outstanding.

Fiscal 2023 non-GAAP EPS is expected to be in the range of \$5.61 to \$5.69. This range represents a growth rate of 7.5 to 9 percent versus the prior year and incorporates an estimated 4 percentage point headwind due to currency, net of our hedging activities.

We are also expecting 1.4 billion to 1.5 billion dollars in operating cash next year and CapEx of roughly 300 million dollars based on currently approved expansion projects, primarily Train B for NASD.

We have also announced raising our dividend 7 percent, providing our shareholders with another source of value.

And finally, for Q1 2023, we expect revenue in the range of 1.68 to 1.70 billion dollars. Core growth is expected to be in the range of 6.8 percent to 8 percent while currency will be a 6.6-point headwind to reported growth. This outlook for the quarter incorporates the impact of the timing of Lunar New Year this year.

First quarter 2023 non-GAAP earnings per share are expected to be between \$1.29 and \$1.31.

Mike will speak to this further in just a minute, but our diversified business model and the strength of our team are key assets for Agilent. These two elements produced an outstanding Q4 and full year 2022 and they have put us in an excellent position to again deliver strong results in the coming year.

And now, I will turn the floor back over to Mike for some closing comments. Mike?

Mike McMullen -- Closing Comments

Thanks Bob. Today's results are a strong indication that Agilent has the right growth strategies, the right team and right culture to continue delivering strong results. Our customers know we are reliable, resilient, and extremely quick in reacting to meet their needs. The Agilent team continues to work hard to earn their trust.

Looking ahead, we are all seeing increasing economic uncertainty. However, this company and team are built to successfully navigate any economic challenges we may encounter.

Throughout the pandemic, we have stated that Agilent will emerge as a stronger company. Today's results are yet another proof point that we are well on our way in this journey. And, we're not done yet.

We continue to prioritize investments in growth. We are a resilient company with multiple growth drivers and unmatched execution capabilities. I'm quite confident we will continue to react quickly to changing conditions and deliver at a high level.

Thanks for being on the call. And now, I will turn things back over to Parmeet as we take your questions. Parmeet?

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