



Agilent Technologies First Quarter Fiscal 2023 Conference Call Prepared Remarks

Parmeet Ahuja

Thank you, and welcome everyone to Agilent's conference call for the first quarter of Fiscal Year 2023. 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 first 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. Our guidance is based on forecasted currency exchange rates.

During this call 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.

The Agilent team delivered an excellent start to 2023, exceeding both top and bottom-line expectations.

Q1 revenues of 1.76 billion dollars are up 10 percent core. Agilent's broad-based portfolio and resilient growth model are on full display during the quarter – with growth across all end markets and geographic regions.

Operating margins for the quarter are 27.1 percent, up 80 basis points.

Earnings per share of \$1.37, are up 13 percent.

Let's now take a closer look at our first quarter performance, starting with end market highlights. Chemicals and advanced materials led the way for us with another

outstanding quarter delivering 14 percent core growth with strength across all geographies.

The strength in our pharma business continues and is up 11 percent with both large and small molecule growing nicely. This is on top of 17 percent growth last year.

Our environmental and forensics business grew 12 percent, while the academia and government and the food markets both grew 8 percent.

On a geographic basis, China once again led the way. Our China team continued their record of strong execution, overcoming any disruptions associated with COVID, and delivered 13 percent growth during the quarter – exceeding our expectations.

In Europe we also delivered stronger than expected results, growing 10 percent. The Americas posted solid results, with 8 percent growth.

Looking at our performance by business unit, the **Life Sciences and Applied Markets Group** delivered revenues of 1.03 billion dollars, up 11 percent core. LSAG delivered growth across all end markets and regions.

Our LC and LCMS platforms continued their strong performance during the quarter, growing faster than the market at 16 percent.

Demand in the chemicals and advanced materials end market continues to be strong, particularly for materials used in manufacturing semiconductors and batteries.

Our spectroscopy business grew more than 20 percent in the quarter, and we continued to strengthen our position in spectroscopy across multiple end markets. In Q1 we announced the deployment of the Insight200M. This system is used at

checkpoints throughout London Heathrow Airport to efficiently provide enhanced security and ensure passenger safety.

The **Agilent CrossLab Group** posted revenue of 381 million dollars in Q1. This is up 13 percent core as the team continues to take advantage of record instrument placements over the past two years along with continued growth in attach rates.

The CrossLab team's deep knowledge of customer-lab operations continues to drive consistently high levels of customer satisfaction. The breadth and diversity of our product offerings is driving record renewals for support contracts. At the same time, our enterprise services business continues its strong momentum, driving growth and converting competitive accounts.

The **Diagnostics and Genomics Group** delivered revenues of 342 million dollars, up 5 percent core. Our pathology-related business performed well with double-digit growth, led by the Americas and Europe.

NASD posted another strong quarter growing 22 percent. Our Train B manufacturing expansion remains on-track to come online mid-calendar year.

In January, we announced an additional 725-million-dollar expansion of our NASD facility that will double our oligo manufacturing capacity. And two weeks ago, we were pleased to have the governor of Colorado join us at our groundbreaking ceremony at the Frederick site.

In addition to organic investments, we continue to invest externally in new technologies and partnerships.

In the quarter, we welcomed the Avida Biomed team into Agilent, further enhancing our genomics capabilities. Avida is an early-stage life sciences company designed to assist clinical researchers using NGS approaches to study cancer.

We also continue to partner with new technology platform companies to drive our solutions in the marketplace. This quarter, we announced a partnership with Akoya Biosciences to combine our companion diagnostic and IHC workflow expertise with their solution to drive multiplexed tissue assay development for biopharma.

In addition to these business group highlights; Agilent was again recognized among the top 100 Most Just companies in the U.S. by Just Capital and CNBC. As part of this announcement, we are very proud to be the leader in the medical equipment and services industry for our treatment of employees and focus on customer relations.

The Agilent team navigated challenging market uncertainties in Q1 and yet once again produced excellent results. It was a great start to the year.

Q1 was another outstanding example of the work we've done to build a resilient company with multiple growth drivers. Those growth drivers – created through targeted investments that aim to expand and enhance our business in high growth areas – are the heart of our build and buy growth strategy.

As we look ahead to Q2, we remain confident in the strength and resilience of our business.

We have an unstoppable One Agilent team that continues to execute at an extremely high level and is well-prepared to deal with any challenges they face.

Given the strong start to the year, we are raising our full-year core revenue and EPS guidance while also keeping a close eye on macro-economic conditions.

Bob will provide the details on our overall outlook, but overall we remain convinced our strategic focus and unmatched execution capabilities will continue to drive strong results.

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, as well as take you through the income statement and other key financial metrics. I'll then finish up with our updated full-year guidance and initial guidance for the second quarter. Unless otherwise noted, my remarks will focus on non-GAAP results.

We are extremely pleased with our Q1 performance. It was a very solid start to the year.

Q1 revenue was 1.76 billion dollars, exceeding our expectations. Revenues were up 10 percent core and 5 percent on a reported basis. Currency was a 5-point headwind, which was an improvement from the beginning of the quarter, while the M&A contribution was as we expected. Pricing for the quarter was higher than the full year forecast, also as we expected.

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

Results in our largest market **pharma**, were again very strong. Pharma grew 11 percent following 17 percent growth last year. Performance was solid across both small and large molecule. Small molecule grew 12 percent while large molecule grew 9 percent.

As Mike mentioned, **chemicals and advanced materials** also continued to be strong, growing 14 percent during the quarter on top of 15 percent last year. The chemical and energy sub-segments of the market are doing well, while the advanced materials market continues to deliver outsized growth. Semiconductors and batteries are driving demand, helped by government investment in this area.

The **food** market grew 8 percent during the quarter, driven by double-digit growth in China.

The **environmental and forensics** business grew 12 percent led by the Americas, as increased testing for PFAS chemicals drives customer investment in this area and recently approved U.S. legislation leads to broad spending in the environmental market.

Our business in the **diagnostics and clinical** market grew 4 percent versus 11 percent growth last year. Pathology led the way for us here, partially offset by industry-wide challenges in the genomics market.

The **academia and government** market was up 8 percent led by LCs and services. Regionally, Europe and Asia showed strong results.

On a geographic basis, the China team delivered 13 percent growth and Europe grew 10 percent, both exceeding expectations. The Americas had another solid quarter coming in at 8 percent, in line with our expectations.

Now let's turn to the rest of the P&L, first quarter gross margin was 56.5 percent, up 40 basis points from a year ago. The gross margin performance, coupled with good cost discipline in SG&A helped drive our operating margin to 27.1 percent, up 80 basis points from last year.

Below the line, our tax rate was 13.75 percent for the quarter, and we had 297 million diluted shares outstanding, both as expected.

Putting it all together, earnings per share were \$1.37, up 13 percent from a year ago.

In summary, Q1 ended with 10 percent core topline growth and 13 percent EPS growth – a very good start to the year.

Now, some metrics on cash flow and our balance sheet. In Q1, we generated 296 million dollars in operating cash flow, up 16 percent versus last year, while investing 76 million dollars in CapEx. Capex spending continues to be driven by our scale up of our Train B manufacturing line and other capacity expansion projects.

In the quarter, we returned 142 million dollars to shareholders through 67 million dollars in dividends and by repurchasing shares worth 75 million dollars. We also announced we're increasing our dividend by 7 percent along with a new 2-billion-dollar share repurchase authorization – continuing our successful, balanced approach to capital deployment.

Our balance sheet continues to remain healthy as we ended the quarter with a net leverage ratio of 0.8.

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

The macro-economic environment remains dynamic and interest rates and currencies continue to be volatile. However, given the good start to the year, we are increasing our full year revenue to a range of 7.03 to 7.10 billion dollars.

This increase updates our full year core revenue guidance to a range of 5.5 to 6.5 percent, increasing the mid-point of our guidance to 6 percent.

We have also seen the dollar weaken against major currencies in the first quarter, although it has rebounded somewhat in February. As a result, the full year guide reflects \$100 million of favorable currency movements since our initial guide in November. For the full year, we still expect currency to be an almost 300 basis point headwind to reported growth.

In addition, we are also raising our full year EPS guidance to a new range of \$5.65 to \$5.70 per share.

Lastly, given the recently announced NASD expansion to double our oligo manufacturing capacity, we are updating our forecasted capital spending for the year to 500 million dollars, up 200 million dollars from our guidance at the beginning of the year.

Turning to Q2, we expect revenue in the range of 1.655 to 1.680 billion dollars. This represents core growth of 6.0 to 7.5 percent and reported growth of 3 to 4.5 percent. Currency is expected to be a headwind of 3.1 points while M&A will contribute 0.1 points of growth in Q2, which is consistent with Q1.

Second quarter non-GAAP earnings per share are expected to be between \$1.24 and \$1.27, representing growth of 10 to 12 percent versus the prior year.

I am pleased with how the team has delivered in the first quarter. We are focused on the things we can control. Our team is driving strong execution in the marketplace. Coupled with our broad portfolio of products and services, we expect to continue to grow faster than the market as we go through the year.

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

#####