



## **Agilent Technologies Fourth Quarter Fiscal 2015 Conference Call Prepared Remarks**

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's Fourth Quarter Conference Call for Fiscal Year 2015. With me are Mike McMullen, Agilent's president and CEO, and Didier Hirsch, Agilent senior vice president and CFO.

Joining in the Q&A after Didier's comments will be Patrick Kaltenbach, president of Agilent's Life Sciences and Applied Markets Group; Jacob Thaysen, president of Agilent's Diagnostics and Genomics Group; and Mark Doak, president of the Agilent CrossLab Group.

You can find the press release and information to supplement today's discussion on our website at [www.investor.agilent.com](http://www.investor.agilent.com).

While there, please click on the link for "financial results" under the "Financial Information" tab. You will find an investor presentation along with revenue breakouts and currency impacts, business segment results and historical financials for Agilent's operations. We will also post a copy of the prepared remarks following this call.

Today's comments by Mike and Didier 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. As a reminder, we are no longer reporting or commenting on orders or book to bill. Please note that we will refer to "core" revenue growth, which excludes the impact of currency, the NMR business, and acquisitions and divestitures within the past 12 months.

Reconciliations between reported and core growth in dollars and percentages can be found in the financial results section on the IR website.

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, Alicia, and hello everyone. Thank you for joining us on today's call.

Our new Agilent team had strong year. Let me start by highlighting our fourth quarter performance, focusing on three key numbers. First, revenue is up 6.2

percent on a core basis. Second, adjusted operating margin is up 150 basis points to 21.9 percent. Finally, EPS of 50 cents is above the high end of our guidance.

Now I would like to talk about our full-year results. For the full-year, our core revenue is up 6.4 percent. It is worth noting that this is our highest annual core growth rate since 2011. Adjusted operating margin is up 80 basis points to 19.6 percent. And EPS of \$1.74 is above the midpoint of both our November 2014 and August 2015 guidance. We offset significant FX headwinds and \$40 million of dis-synergies from the spin-off of our electronic measurement business.

Our fourth quarter capped off a stellar performance by the team in our first year of the New Agilent. This team has not skipped a beat as we navigated through a CEO transition, implemented a new strategy and dealt with changing market conditions. Both our fourth-quarter and full-year results demonstrate our commitment to drive both growth and operating margin expansion.

Now let me move on to more details on what is going on in the business.

Our Q4 results were driven by strength in the pharma, diagnostics, clinical and food markets. Geographically, we saw core growth across all regions, with particular strength in our liquid chromatography offerings, CrossLab services and consumables, and diagnostics and genomics products.

Let me highlight the Q4 results by business group.

The Life Sciences and Applied Markets Group delivered core revenue growth of 2 percent. Strong performance in Pharma was offset by softness in the industrial and

academia & government markets. LSAG's operating margin for the quarter was 20 percent, down 20 basis points from a year ago.

In November, Agilent closed its acquisition of Seahorse Bioscience. Seahorse is a leader in providing instruments and assay kits for measuring cell metabolism and bioenergetics.

Seahorse's unique technology is the perfect complement to Agilent's market-leading separations and mass spec solutions, in particular for metabolomics and disease research in pharma. The combination of these two platforms gives scientists a more comprehensive and faster path to researching some of the most challenging diseases affecting mankind. Seahorse will be incorporated into Agilent's financials starting in the first fiscal quarter of 2016.

In Q4, Agilent started shipping the new 1290 Infinity II Vialsampler, as well as its 600-bar 1260 Infinity version. At the BCEIA conference in Beijing, we introduced the Agilent 5977B High-Efficiency Source GC/MSD System, a tandem gas chromatograph and mass spectrometer that delivers lower limits of detection than any other instrument in its class.

We also introduced the 4200 TapeStation system. This fully automated instrument enables scientists to rapidly analyze up to 96 DNA samples at a time, and sets a new sample QC standard for next-gen sequencing.

And we also launched several targeted solutions, such as our GC QTOF Pesticide Analysis Solution, and our LC QTOF Water Analysis System.

Next, the Agilent CrossLab Group delivered another strong quarter, with core revenue growth of 11 percent in Q4. Both services and consumables experienced strong growth across all geographies. Operating margin was 25.1 percent for the quarter, up 150 basis points from a year ago.

Customers are benefitting from ACG's new brand promise to "deliver insights that lead to outcomes." In Q4, Agilent University introduced an enhanced portfolio of online training courses. This enables customers – from lab technicians to researchers – to develop new skills and gain insights that can improve economic, operational and scientific outcomes for their laboratories. The launch of the online training has exceeded our expectations.

In consumables, we introduced a new product to help food-safety labs test high-fat samples more accurately. The Enhanced Matrix Removal-Lipid removes matrix interferences that have made test results challenging to reproduce. This gives food-safety labs a better way to address what has been one of their most challenging tasks.

Finally, the Diagnostics and Genomics Group continued to build momentum in Q4, delivering 10 percent core revenue growth and strength across all of its businesses. Target enrichment was particularly strong, while Dako Omnis once again had record shipments and continues to gain competitive wins. DGG's operating margin for the quarter was 19.2 percent, up 430 basis points from a year ago.

In the fourth quarter, two new diagnostics products from DGG received FDA approval. The first product was created in partnership with Merck & Co. This new

companion diagnostic test can reveal whether a patient with advanced non-small-cell lung cancer is likely to respond to Merck's anti-PD-1 therapy KEYTRUDA.

The second product is our first complementary diagnostic developed in collaboration with Bristol-Myers Squibb. This new test can identify PD-L1 expression levels on the surface of non-small-cell lung cancer tumor cells, and provide information on the survival benefit with OPDIVO for patients with non-squamous, non-small-cell lung cancer.

Now, let's take a brief look at Agilent's revenues by end-market performance on a core basis.

Life sciences and diagnostics markets continued to see ongoing strength in the pharma, diagnostics and clinical markets, fueled by technology refresh deals, new product uptake and healthy demand across the spectrum. Spending in Academia and Government was down versus an extremely strong Q4'14.

Applied end-market performance was led by continued growth in food. Environmental and chemical & energy were flat on a core basis. As we noted in our Q3 call, customers in the industrial markets continue to take a cautious stance, in light of weakening commodity prices and uncertainties in the world economy.

Geographically, we saw core revenue growth across all regions, led by the U.S. and Asia, excluding Japan.

Now let me provide some additional insight on our operating margin improvement initiatives.

Our multi-year “Agile Agilent” program, launched in Q2, is re-engineering the company to be more nimble and efficient. In fiscal 2015, our actions delivered about \$40 million in gross savings. In addition the NMR closure resulted in \$15million in savings, and our Agilent Order fulfillment organization delivered on its \$25 million committed savings. The Agile Agilent program and Order fulfillment cost savings will be key drivers behind continued operating margin expansion.

We remain on track to achieving a 22-percent adjusted operating margin by FY17 – a four-point improvement over FY14, exclusive of company split dis-synergies. At the same time, we continue to invest for long-term revenue growth. Our results over the past three quarters give us confidence in our ability to deliver on this longer-term operating margin expansion commitment.

We are pleased with the operational results for our first year as the “New” Agilent Technologies, and our ability to meet our external earnings commitments for the full year.

Now I want to tell you how we think about our guidance. We are committed to achieving our long-term financial goals. At the same time, we will be more conservative in our guidance. This is especially prudent due to macro-market concerns that have developed since I spoke with many of you at our May Analyst and Investor Day meeting.

Before turning the call over to Didier, I want to recap a few highlights of our first year as the “New” Agilent Technologies. This was a transformational year for the company.

We successfully completed the CEO transition. We formed a new executive leadership team that is deeply committed to delivering results. We also implemented a new company strategy, restructured the company’s operations and product portfolio, and committed to new long-term financial goals.

Despite all this change and moving pieces, we have delivered growth and increasing profitability over the past three quarters.

Let me close with a few comments about the future. We are making acquisitions such as Cartagenia and Seahorse, expanding our presence in served life sciences and diagnostics markets.

Our pipeline of new offerings has never been stronger. I am convinced we have an energized, aligned team at Agilent that will deliver on our full potential. I remain quite confident in our long-term prospects of above-market growth, increasing profitability levels, and greater shareholder value.

Thank you for being on the call today. I will now turn it over to Didier, who will provide additional insights on our financial results and our FY16 guidance.



## DIDIER HIRSCH

Thank you, Mike, and hello, everyone. As Mike stated, we are very pleased with our Q4 and full-year performance. We delivered above-market core revenue growth of 6.2% and 6.4% respectively, and our operating margin, adjusted for income from Keysight, was 21.9% and 19.6% respectively. Excluding the \$40M annual cost dis-synergies resulting from the Keysight spinoff, our operating margin was up 240 bps in Q4 and up 170bps for the full year.

We are therefore well on our way to deliver on the committed 400 bps improvement in adjusted operating margin by FY17. Our hedging strategy, consisting of both structural and systematic financial hedges, was put to the test this year and delivered very well. Thanks to structural hedging stemming from our global footprint, flow-through was just 20% and we also gained \$18M from our systematic cash flow hedges.

Turning to capital returns and cash flow, for the year, we returned \$400M to shareholders in the form of dividends and buybacks and generated \$491M in operating cash flow. We did not repurchase stock in the 4th quarter but we intend to repurchase this quarter, subject to customary conditions.

I will now turn to the guidance for Fiscal Year 2016.

Our FY16 revenue guidance of \$4.15B to \$4.17B corresponds to a core revenue growth of 4.0 to 4.5%. It is based on October 30th exchange rates and takes into

account the Cartagena and Seahorse acquisitions as well as the XRD divestiture and NMR exit. We expect currency will have a 1.7% negative impact on revenues. Regarding XRD and NMR, FY15 revenues were \$58M and FY16 revenues are expected to be \$12M. We project FY16 EPS to range from \$1.85 to \$1.91, growing 6 to 10 %, based on an adjusted operating margin of 20.0% to 20.5%.

You will notice that we are projecting a narrow revenue and EPS range at this time. We believe that 4.3% core revenue growth and 20.3% adjusted OM are the proper midpoints, taking into account both the present macroeconomic environment and our operating margin commitments. With those midpoints, we also want to set the low end of our guidance in line with our commitments. Having set those at 4.0% core revenue growth and 20.0% adjusted operating margin, the high-end of the guidance naturally falls out at 4.5% core revenue growth and 20.5% adjusted operating margin.

As you adjust your models for FY16, please consider the following nine points:

1. Annual salary increases will be effective December 1, 2015.
2. Stock-based compensation will be about \$57M. As we front-load the recognition of stock-based compensation, the Q1 expense will be about \$22M.
3. Depreciation is projected to be \$100M for the fiscal year.
4. The non-GAAP effective tax rate is projected to be 20%.
5. We plan to return approximately \$635M in capital to shareholders, including \$155M in dividends and \$480M in buybacks, subject to customary conditions.

6. As communicated at the Analyst and Investor Day in May, we plan to borrow \$250M around February to fund a portion of our buyback program.
7. Net interest expense is forecasted at \$68M, and other income at \$7M, including \$12M billed to Keysight.
8. For purpose of our EPS guidance, we have assumed a diluted share count of \$328M, \$7M less than the average diluted share count in FY15.
9. We expect operating cash flow of \$650M and capital expenditures of \$140M, \$42M over FY15 as we embark on a two year program to significantly increase the capacity of our nucleic acid facilities.

Finally, moving to the guidance for our first quarter

We expect Q1 revenues of \$1.00B to \$1.02B and EPS of 42 to 44 cents. At midpoint, revenue will grow 3.5% YOY on a core basis, and EPS will grow 5%. As customary, Q1 EPS is negatively impacted by the December salary increase, front-loading of stock-based compensation, and the increase in payroll taxes due to the disbursement of the variable and incentive pay of the previous semester.

With that, I will turn it over to Alicia for the Q&A.