



Agilent Technologies Fourth Quarter Fiscal 2013 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you and welcome everyone to Agilent's Fourth Quarter Conference Call for Fiscal Year 2013. With me are Bill Sullivan, Agilent's president and CEO; Ron Nersesian, CEO-designate of the Electronic Measurement company; and Didier Hirsch, Agilent senior vice president and CFO.

Joining in the Q&A after Didier's comments will be the Presidents of our Chemical Analysis and Life Sciences and Diagnostics Groups, Mike McMullen and Lars Holmkvist. Also joining from the Electronic Measurement business will be Neil Dougherty, CFO-designate, and Guy Séné, senior vice president of R&D, Sales and Marketing.

I would like to remind you that starting this quarter, we are reporting three segments: Electronic Measurement; Chemical Analysis; and Life Sciences and Diagnostics. The formation of the Life Sciences and Diagnostics segment was announced September 19th, and represents the combination of Agilent's former Life Sciences and Diagnostics and Genomics Groups.

You can find the press release and information to supplement today's discussion on our website at www.investor.agilent.com.

While there, please click on the link for “financial results” under the “Financial Information” tab. There, you will find an investor presentation along with revenue break outs, 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 Bill, Ron and Didier will refer to non-GAAP financial measures. You will find the most directly comparable GAAP financial metrics and reconciliations on our website.

We will 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 Bill.

BILL SULLIVAN

Thanks Alicia, and hello everyone.

Today Agilent reported fourth-quarter orders of \$1.83 billion, an increase of 4 percent over last year. Q4 revenues of \$1.72 billion were down 3 percent. Adjusted net income was \$271 million or 81 cents per share.

We exceeded EPS guidance, despite challenges in several of our markets due to an ongoing period of economic uncertainty. We continue to benefit from the commitment to manage expenses and reduce manufacturing costs.

On September 19th, we announced our intention to separate Agilent into two publicly traded standalone companies. The electronic measurement business will be spun off to form a new company under the leadership of Ron Nersesian.

The life sciences and diagnostics and applied markets businesses will continue as Agilent under my leadership. Didier Hirsch will continue as Agilent's CFO.

As we noted at the time of the announcement, Agilent has evolved into two distinct investment and business opportunities. We believe this separation will unlock value for our shareholders in both the short and long term. We are creating two separate and strategically focused enterprises, each one better able to concentrate on the opportunities in its respective markets and industries.

We continue to make excellent progress in preparing for the split of the company. Later in the first fiscal quarter, we plan to announce the name of the new Electronic Measurement company. By August of 2014, the new Electronic Measurement company is expected to operate independently as a fully owned subsidiary of Agilent.

The separation is expected to occur through a tax-free pro-rata spinoff of the new Electronic Measurement company to Agilent shareholders. We expect the separation to be completed in early November 2014, at which time the shares of

the new Electronic Measurement company will be distributed pro rata to Agilent shareholders of record.

Throughout the separation process, both companies will continue to focus on meeting Agilent's revenue and earnings commitments for fiscal 2014.

At the same time, we will increasingly differentiate the two businesses for customers and investors. Today, I will share the performance highlights for our LDA or Life Sciences, Diagnostics and Applied market businesses.

After that, Ron Nersesian will discuss our Electronic Measurement performance. Finally, Didier Hirsch will provide a more detailed discussion of Agilent's overall financial results, as well as our fiscal 2014 and our Q1 guidance.

Turning to LDA, our fourth-quarter performance set record levels in orders, revenues and operating profits. Q4 orders were \$1.09 billion, up 9 percent year-over-year on a strong book-to-bill of 1.07. Q4 revenues were \$1.01 billion, up 6 percent.

Operating margins were up 100 basis points to 21.4 percent, consistent with our margin expansion goals for the businesses. We believe that this validates our strategic direction, which focuses on attractive end markets, a leading product portfolio and significant operational leverage.

We saw strong growth in Pharmaceutical, up 10 percent on technology upgrades and offshoring to emerging economies.

Food and Energy revenue momentum continued, up 7 percent and 5 percent respectively, on strong demand from China and other BRIC countries.

Clinical and Diagnostics revenue grew 16 percent, driven by strong growth in pathology, reagent partnerships and companion diagnostics from Dako, and record volumes for Agilent's legacy genomics products.

Environmental and forensics markets were flat, as tight government budgets continued to constrain demand in the U.S. and Europe.

Academic and government trends reversed, growing 4 percent on a relatively easy compare.

On a regional basis, LDA experienced growth across all geographies except Japan. BRIC country performance was strong, driven by growth in Russia, China and India.

Within LDA, our life sciences and diagnostics group or LDG, had Q4 orders of \$642 million, up 12 percent. Q4 revenues of \$601 million were up 8 percent. These were both record highs for the business. Performance was led by services, consumables, LCs and diagnostic products. Operating margin was 19 percent.

Q4 marked the commercial launch of the new Omnis autostainer from Dako. First installations have taken place, and we are seeing a strong pipeline of orders in both the U.S. and Europe.

And this week, we introduced our new ProPulse NMR platform. ProPulse brings increased ease-of-use to high-performance NMR in a compact footprint for applied chemical research, drug discovery, food science and metabolomics.

Our Chemical Analysis business had Q4 orders of \$445 million, up 6 percent over a year ago. Revenues of \$412 million grew 4 percent. Spectroscopy, consumables, and services led the growth in CAG. Operating margin was 25 percent.

In the quarter, Chemical Analysis launched the new 7000C Triple Quad GC/MS. The system adds new capabilities that enhance performance, simplify use and reduce operating costs.

CAG opened a new Spectroscopy Technology Innovation Center in Mulgrave, Australia. This leading-edge research and testing facility includes labs for in-house testing, rapid prototyping, and customer demos and training.

The LDA outlook for FY14 is promising. We expect positive trends to continue across food, energy, pharma, clinical and diagnostic markets. These trends will be supported by a strong pipeline of new products in the coming year.

Our priorities will continue to be centered on improving the customer experience, driving organic growth, increasing our margins and improving our return on invested capital.

LDA revenues for the first fiscal quarter of FY14 are expected to be between \$990 million to \$1.01 billion, or 5.4 percent core growth at the midpoint. We expect operating margins at the midpoint of 18 percent.

For the full fiscal year in 2014, we expect LDA revenues of \$4.03 billion to \$4.13 billion, or 4.4 percent core growth at the midpoint. We expect operating margins at the midpoint of 19.5 percent. Didier will provide additional details in his commentary.

Thank you for being on the call. Now I'll turn it over to Ron to talk about the Electronic Measurement business.

RON NERSESIAN

Thank you, Bill, and hello everyone.

For the fourth quarter, the Electronic Measurement Group reported orders of \$742 million, down 2 percent year-over-year. EMG revenues declined 14 percent in the quarter, to \$705 million. This represents a book-to-bill of 1.05 driven by relative order strength in Europe and early positive signals from semiconductor test markets. EMG also had its highest ever orders for real-time oscilloscopes in the fourth quarter.

While revenues were down, EMG delivered 19 percent operating margins for Q4, reflecting excellent gross margin management, tight expense controls and an increasing flexible operating model aligned with the requirements of changing

global market conditions. For the full year, EM revenues were \$2.9 billion with an operating margin of 19 percent.

Taking a closer look at EM markets for the quarter, Industrial, Computers and Semiconductor revenues declined 10 percent year-over-year, but as I have already mentioned, our orders reflected positive signals from the semiconductor test markets.

Aerospace and Defense revenues declined 11 percent year-over-year versus a tough compare in Q4'12, which included a surge in U.S. demand in advance of Sequestration budget reductions. Q4'13 Aerospace and Defense revenues were lower year-over-year in the US and Asia and were partially offset by strength in Europe.

Communication revenues were down 19 percent in the fourth quarter, and down 5 percent, adjusting for non-recurring business from the wireless manufacturing customer that we discussed in our Q2 earnings call.

EMG continues to make a significant investment in modular instrumentation, and recently introduced two new modular communications test solutions. In Q4 we introduced a PXI vector signal analyzer aimed at wireless validation and testing. And earlier this week, we launched our next generation wireless manufacturing test solution offering our fastest and most accurate parallel device testing capability for leading edge Wireless LAN and cellular technologies, such as 802.11ac and LTE-Advanced. Sales of our PXI and AXIe modular instruments continue to grow rapidly.

Our priorities for FY14 are:

- to launch ourselves as an independent company focused solely on electronic measurement customers
- to strengthen our position in wireless communications, and
- to continue to generate strong profit margins for our shareholders

We are implementing a detailed plan to separate EMG from Agilent and to create a standalone pure play electronic measurement company. There is a lot of hard work that remains to be done, but we are progressing according to plan. In addition, we remain focused on delivering world-class quality innovation and customer satisfaction.

In FY14, we expect EMG to return to a growth position for three reasons:

1. Longer term growth drivers for the industry remain intact.
2. Economic indicators suggest a modest improvement in the global economy.
3. We continue to strengthen our product portfolio.

EMG's revenues for the fiscal first quarter are expected to be \$680 to \$700 million, or negative 2.8 percent core growth at the midpoint. We expect operating margins at the midpoint of 15.5 percent.

For the full fiscal year in 2014, we expect EMG revenue of \$2.87 billion to \$3.07 billion, or 3.2 percent core growth at the midpoint. We expect operating margins at the midpoint of 19.5 percent.

Now, I will turn it over to Didier to provide more information on Agilent's financials.

DIDIER HIRSCH

Thank you, Ron, and hello, everyone.

Bill and Ron have already reported on this quarter's better-than-expected results, in terms of orders, revenues and profits.

Please note that Q4 core revenue growth by segment and by geography is reported on the slide deck posted on our website.

This quarter, currency subtracted 1.5 points from our revenue growth and acquisitions had no material impact.

I will turn directly to the guidance for Fiscal Year 2014

Our FY14 revenue guidance of \$6.95B to \$7.15B assumes the economy will pick-up moderately in the first half of our fiscal year and gain more steam in the second half.

At midpoint, our YOY growth will be 4%, both as reported and on a core basis. The midpoint of our \$3.03 to \$3.33 EPS guidance translates into a 10% YOY gain.

As you update your models for FY14, please consider the following:

- Annual salary increases will be effective December 1, 2013.
- Stock-based compensation will be about \$99M, compared to \$85M in FY13.

As we front-load the recognition of stock-based compensation, the Q1 expense will be about \$38M.

- Depreciation is projected to be \$200M for the fiscal year.
- Net interest expense is forecasted at \$109M, and other income at \$7M.
- The non-GAAP effective tax rate is assumed to remain at 16% and the diluted share count at 336M.
- We expect operating cash flow of \$1.2B and capital expenditures of \$250M
- Both numbers reflect one-time and pre-separation expenses of \$100M and separation-related capital expenditures of \$50M
- The one-time and pre-separation expenses of \$100M will be pro forma. We will start recording cost dissynergies only after the planned separation i.e. in FY15.

Finally, moving to the guidance for our first quarter

We expect Q1 revenues of \$1.68B to \$1.70B and EPS of 65 to 67 cents. At midpoint, revenue will grow 1% YOY, or 2% on a core basis.

As a reminder, we typically see EPS decline materially from Q4 to Q1, because of the impact of 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.

Also, I want to note that this year's Chinese New Year begins on January 31, 2014 and we expect little activity in Asia in the last week of our first quarter.

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