



Agilent Technologies Second Quarter Fiscal 2013 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you and welcome everyone to Agilent's Second Quarter Conference Call for Fiscal Year 2013. With me are Agilent's CEO, Bill Sullivan, as well as Senior Vice President and CFO, Didier Hirsch.

Joining in the Q&A after Didier's comments will be Agilent's President and Chief Operating Officer, Ron Nersesian. Also joining are the Presidents of our Electronic Measurement, Chemical Analysis, Life Sciences and Diagnostics and Genomics Groups, Guy Séné, Mike McMullen, Nick Roelofs and Lars Holmqvist.

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," where you will find 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.

Bill and Didier's comments today 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 revenues of \$1.73 billion for the second quarter of fiscal 2013, inclusive of the Dako acquisition. Adjusted net income was \$269 million or 77 cents per share. We exceeded EPS guidance, despite continued industry headwinds and macroeconomic challenges.

Strong Q2 earnings were driven by our ability to generate higher manufacturing margins, while sequentially reducing operating expenses. These improvements demonstrated the strength of Agilent's business model, which enables us to streamline our operations while supporting future growth.

We expect the macroeconomic environment to remain challenging through the second half of 2013. We are taking additional action to ensure that Agilent is solidly positioned for future success and value creation. Today we announced a

\$50 million restructuring program to further streamline our operations and reduce our cost structure.

In addition, Agilent's board has authorized a doubling of our stock repurchase authorization, from \$500 million to \$1 billion. The repurchase program will be executed by the end of calendar year 2013.

Despite current challenges, Agilent is well positioned in our targeted markets. The integration and leverage of our worldwide manufacturing operation will continue to drive higher gross margins. We have a deep pipeline of new product introductions, and our commitment to customer satisfaction is second to none.

Here are some of the business highlights.

Agilent's Q2 orders of \$1.69 billion were down 8 percent over last year, including Dako. Revenues of \$1.73 billion were flat year over year. Operating margins were 19 percent.

With the acquisition of Dako, we will no longer refer to our Life Science and Chemical businesses as "Bio-Analytical Measurement" or "BAM." Instead we will use "LDA," for Life Science, Diagnostics and Applied Chemical Markets.

Please note, this is not an organizational change. We will continue to report Life Science, Diagnostics and Genomics, and Chemical Analysis as separate segments.

Revenues for LDA were \$972 million in Q2, up 13 percent year-over-year inclusive of Dako. Operating margin was 18 percent. Overall pharmaceutical

markets grew 8 percent, driven by technology upgrades. Academic and government markets declined 5 percent.

Food safety grew 8 percent, offsetting softness in the forensics and environmental markets. Petrochemical was up 3 percent.

Within LDA, the Life Sciences Group revenues grew 2 percent year-over-year. Operating margin was 15 percent.

Performance was led by LC, LC/MS and recurring revenues. The new Encore Multispan liquid handling system from our Automation Division has been well received in the marketplace.

Revenues in the Diagnostics and Genomics Group grew 124 percent, down 3 percent organically. Operating margin was 17 percent.

While currency impacted our genomics business, CGH sales remain strong. Target enrichment volumes grew even in the face of strong competitive pricing, underscoring our leading market position. SureFish renewals continue at a high rate as we continue to expand the customer base.

We continue to be pleased with the results from Dako. Last quarter Dako launched its new advanced staining platform, OMNIS, which includes hardware, software and reagents. Placements have begun at key seed customer sites, and feedback has been excellent.

Chemical Analysis Group revenues grew 3 percent year-over-year. Operating margin was 22 percent.

Our recently-introduced GC-QTOF and ICP-QQQ showed solid results. In addition, we introduced the new 7890B gas chromatograph and the 5977A series single-quad mass spec, as well as a whole new release of our OpenLAB Chromatography Data System.

Electronics Measurement Group revenues declined 13 percent over last year. Despite the lower-than-expected revenues, operating margin of 21 percent was strong. We were able to maintain gross margins and rapidly reduce expenses, in response to the changing environment.

Industrial demand was down 17 percent, reflecting weak macroeconomic conditions that are expected to persist in the near-term. Computers and semiconductors also declined by double digits, reflecting the overcapacity situation and the weak PC market.

Aerospace and defense was flat, as overseas sales offset declines in the United States. Wireless R&D was down 1 percent, as customers continued to invest cautiously.

Wireless manufacturing was down 26 percent due to the loss of business from a large customer, as we could not agree on terms this year. This will continue to have a major negative revenue impact through the rest of FY13. Nevertheless, we continue to see opportunities in wireless manufacturing. We just introduced our new manufacturing solution for Wireless LAN.

We will continue to invest in market-leading wireless test solutions in both R&D and manufacturing. We are excited with our upcoming product launches for the second half of the year.

We are also in the midst of two significant transformations related to modular and handheld instruments, where we continue to make investments and bring new products to market.

We are seeing continued double-digit growth year-to-date in our AXIe and PXI modular platforms. And our Microwave FieldFox handheld has been well received by the customers.

As I indicated, we are forecasting a weak Q3, due to lower revenue from our wireless manufacturing business, and a challenging macro environment for electronic measurement.

In summary, here are the additional actions we are taking to leverage our integrated and variable business model, and to increase Agilent's financial performance.

We will maintain the expense controls that we had in place in Q2. These controls enabled us to expand margins and exceed EPS even in the face of lower revenues.

As part of the \$50 million restructuring I mentioned earlier, we will reduce Agilent's overall workforce by an additional 2 percent or 450 employees. This is on top of the manufacturing restructure that has already been initiated.

Finally, we will increase our stock re-purchase program by \$500 million to \$1 billion, to be completed within the calendar year.

We now expect FY13 revenues of \$6.75 to \$6.85 billion, which is at the low end of our previous guidance. We expect FY13 adjusted EPS of \$2.70 to \$2.85. Our ongoing expense controls, restructuring and additional stock repurchase programs announced today are expected to absorb most of the impact of the lower revenue on our EPS.

While we face a tough operating environment, we are executing the right strategy for Agilent to benefit from a market recovery when it occurs. We have built a strong foundation for growth, by safeguarding our profitability while capitalizing on opportunities for the future. We believe this strategy will enable Agilent to build and sustain shareholder value.

Thank you for being on the call. Now I will turn it over to Didier for a more detailed discussion of our financial results.

DIDIER HIRSCH

Thank you, Bill, and hello, everyone.

As we have stated, the low-end of our revenue guidance assumed that the sequester would take effect on March 1st. Our Q2 revenues were \$8M below the low-end of our guidance, a difference that was entirely due to the \$12M negative impact from currency changes.

Q2 EPS on the other hand were 7 cents above the high-end of our guidance, as we executed on our commitment to significantly curtail discretionary expenses as long as the economic environment remained highly uncertain.

To recap the quarter, core orders, which exclude the impact of currency and acquisitions, were down 12% year-over-year while core revenues decreased 4%. However, our OM at 19.3% was on par with last year's 19.5%.

By segment, EMG core revenues decreased 12% year-over-year, CAG was up 5%, LSG was up 4%, and DGG was flat year-over-year.

By region, core revenues were down in the Americas by 7%, Europe by 2% and Japan by 7%, and flat for the rest of Asia Pacific.

Our strong 19.3% overall operating margin, 20.5% for EMG and 18.3% for LDA, demonstrates that we have come a long way since 2009, when we also experienced tough economic conditions that severely impacted EMG and to a lesser extent LDA. Back then, our overall operating margin was about 7%, even after the temporary 10% pay cut.

Clearly, the actions we have taken to reduce our fixed cost structure, leverage the scale and integration of Agilent through our Agilent Order Fulfillment and Global Infrastructure Organizations, as well as our acquisition strategy have paid off nicely.

We did not eliminate EMG's sensitivity to the macroeconomic environment nor the lumpiness of some markets, but we did reduce significantly the bottom line volatility

Regarding cash, we generated \$315M in operating cash flow.

We bought back 3.3M shares during the quarter for \$140M and have a net cash position of \$225M.

Now turning to the guidance for the full year. The low end of the revenue guidance provided last February, which, again, assumed the sequester would be effective March 1st, was \$6.9B. Since then, currency changes have had a negative impact of \$50M versus the last guidance. In addition, there is no sign yet of a macroeconomic recovery and PMI indices are stuck around 50.

We are now expecting Fiscal Year '13 revenues to range from \$6.75B to \$6.85B, a 1 percent reported year-over-year decrease at the mid-point, which translates into a 3% core revenue decrease, reflecting the loss of the wireless manufacturing business Bill talked about.

On the cost front, our global order fulfillment organization is on track to generate about \$50M of savings and our control of discretionary expenses will be maintained in the foreseeable future.

Those actions, coupled with the benefit of the incremental \$500M stock buyback, will offset most of the impact of lower revenue projections and currency headwinds on our EPS, which is expected to range from \$2.70 to \$2.85.

Finally, moving to the guidance for our third quarter. We expect Q3 revenues of \$1.63B to \$1.66B. At the mid-point, reported revenue would be down about 5% versus last year, with EMG down about 19% and LDA up about 10% including Dako and up 5% excluding Dako. Excluding the impact of the wireless manufacturing business lost, EMG would be down about 8%, reflecting the sequester and the ongoing challenging macroeconomic situation. We will continue clamping down on discretionary spend and will start seeing the first savings from the additional restructuring program in the third quarter. We expect Q3 EPS of \$0.60 to \$0.64.

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