



Agilent Technologies First Quarter Fiscal 2017 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's First Quarter Conference Call for Fiscal Year 2017. With me are Mike McMullen, Agilent's president and CEO, and Didier Hirsch, Agilent's senior vice president and CFO.

Joining in the Q&A after Didier's comments will be Jacob Thaysen, president of Agilent's Diagnostics and Genomics Group; and Mark Doak, president of the Agilent CrossLab Group. Patrick Kaltenbach, president of Agilent's Life Science and Applied Markets Group and a regular participant in our calls, is on a well-deserved vacation and will not be joining us today.

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. 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.

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.

Unless otherwise noted, all references to increases or decreases in financial metrics are year over year. Guidance is based on exchange rates as of the last day of the reported quarter.

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, let me turn the call over to Mike.

MIKE MCMULLEN

Thanks, Alicia, and hello everyone.

I'm very pleased to announce that the Agilent team started 2017 with another strong quarter.

First, we continued to deliver above-market growth. Revenues of \$1.07 billion exceeded the high end of November's guidance by \$7 million, and were up 4.8 percent on a core basis. We will dig deeper into details behind the stronger performance later in the call.

Second, our adjusted EPS of 53 cents for the quarter is 3 cents above the high end of our guidance. Adjusted EPS is up 15 percent over the first quarter of last year.

Finally, this is our 8th quarter in a row of improving profitability. Adjusted operating margin of 21.2 percent is up 100 basis points from Q1 of fiscal 2016.

Let me now highlight the drivers behind our stronger-than-expected revenue growth. First, we are seeing some segments of the Chemical and Energy business growing again. Second, growth in China is higher than expected.

Let's take a closer look at our results by end-market and business group. I'll start with the end-markets.

Growth in Pharma is up 7 percent as expected, against a tough compare. Growth is being led by continued strong demand across the entire portfolio. The Pharma business is particularly strong in China and India.

After seven consecutive quarters of year-over-year declines, we see Chemical companies beginning to increase their purchases. However, our energy exploration and refining business remains challenged. This results in an overall 3 percent growth for our Chemical and Energy business.

Clinical and diagnostics markets are strong, with revenue up 8 percent year-over-year. Growth drivers include our companion diagnostics and CrossLab businesses.

As expected, Academia and Government is down 1 percent for the quarter, with sustained tight funding across most regions.

Our Food testing related business is up 11 percent, driven by China.

Environmental and Forensics revenues were down 1 percent for the quarter, with strong China Environmental growth being offset by weak U.S. Forensic spending.

Let's talk about China, a major part of the story, as you have heard today. Geographically, Asia – driven by China – continues to lead regional growth.

Coming into 2017, we expected China to grow in the low double-digit range for the year. We expected Q1 growth rates to be lower than the full-year because of the Lunar New Year falling in our fiscal Q1. However, we ended up delivering low double digit-growth growth in Q1, above our expectations.

The Americas were up in mid-single digits, with strength in the U.S. Europe and Japan were flat.

Let's turn to our business groups.

The Life Sciences and Applied Markets Group delivered core revenue growth of 4 percent, with end-market strength in Pharma, Food and Chemical & Energy.

Innovative new offerings such as the Infinity II LC Series and Agilent 8900 ICP-MS are driving growth. Industry trade publication "The Analytical Scientist" also recognized our innovation strength. They named the Agilent Intuvo 9000 GC system as 2016's Number One innovation of the year.

The Agilent CrossLab Group continued its consistently strong performance, with 7 percent core revenue growth in the quarter. Growth is healthy across both services and consumables.

We are focused on future growth. In November, we announced the opening of a new Technology Center in Folsom, California. This new \$14 million facility reflects our investment in new microfluidic technology.

This "state-of-the-art" microfabrication and technology facility is for the development and manufacture of a whole new generation of unique core instrument components and consumables for our customers. The new Intuvo 9000 GC's components and associated supplies are the first example of this new capability, now housed within Agilent.

We are relentlessly focused on our customers. We are now the first in the industry to allow customers to renew their service contracts on-line. Our eRenewals program was just introduced in the U.S., with other regions to follow.

Finally, the Diagnostics and Genomics Group continues to deliver solid growth. DGG had core revenue growth of 4 percent in Q1, while continuing to drive improvements in their operating margins. The group delivered operating margins of 14.3 percent for the quarter, up 470 basis points from a year ago.

Q1 marked several key milestones for our DGG business. This quarter marked the successful integration of the former Dako business onto Agilent's system and infrastructure platform.

We closed the acquisition of Multiplicom, a leading European diagnostics company, with state-of-the-art genetic testing technology and products. Multiplicom's solutions enable clinical labs to identify DNA variants associated with genetic disease and help direct cancer therapy. With this acquisition, along with the Cartagenia acquisition in 2015, we continue to expand our genomics platform.

We launched Cartagenia Bench Lab 5.0. This a major software revision providing even more capabilities to the "platform of choice" for high-throughput diagnostics labs, to help them validate and automate their results.

You may recall we developed – in concert with Merck – the PD-L1 companion diagnostic for Merck's Keytruda drug. Use of this companion diagnostic continues to grow as Keytruda has become a first-line treatment for non-small-cell lung cancer in a growing number of geographies, now including Europe. Our test helps identify potential candidates for Merck's Keytruda drug, which targets patients with non-small-cell lung cancer.

Turning to our updated FY17 Market and company outlook.

We were quite pleased with how the company started 2017.

While still early in the year, the Q1 results in China and some segments of the Chemical and Energy market are encouraging. We do see continued challenging conditions in the Academia &

Government market in most geographies, as well as the global Energy segment of the Chemical & Energy market. We also anticipate continued weak economic conditions in Europe and Japan.

These cautions aside, we are encouraged by the company's growth prospects and are raising our full-year core revenue growth expectations. Didier will share the details.

Before I turn the call over to Didier, let me close by making a few comments on where we have come from – and where we are going.

Our leadership team that was put in place almost 24 months ago is delivering on our promise to increase shareholder value. We are outgrowing the market, in sometimes challenging economic circumstances.

For eight quarters in a row, we have delivered improved profitability. We are deploying our capital in a balanced manner – with Q1 stock repurchases of \$111 million, cash dividends of \$42 million and \$70 million set aside for the Multiplicom acquisition.

Having built momentum, we are facing the future with confidence. We have a deep commitment to customers, a strong team and a belief that we can deliver a superior customer experience and exceptional innovative new offerings.

I look forward to answering your questions later in the call... and will now hand off to Didier. Didier will provide additional insights on our Q1 results and updated guidance.

Didier?

DIDIER HIRSCH

Thank you, Mike, and hello, everyone.

To summarize Q1 results, they were above the high end of our revenue and EPS guidance, even as currency negatively impacted revenue by \$12M and Operating Profit by \$4M. The EPS beat was mostly the result of the revenue beat, and EPS was 15% higher than in Q1 FY16.

We continue to improve our adjusted Operating Margin, at 21.2% in Q1 and up 100 bps versus Q1 FY16. Finally, our operating cash flow of \$116M was \$5M higher than in Q1 of last year.

I will now turn to the guidance for Fiscal Year 2017.

We are raising the core revenue growth guidance of 4.0 to 4.5% that we provided in November by 25 basis points or \$11M. The new core revenue growth guidance is therefore 4.25 to 4.75%. However, the strengthening of the US Dollar since our November guidance is expected to have a negative impact of about \$36M on full year reported revenues. Finally, we expect to generate \$11M in revenue from the Multiplicom acquisition which closed on January 20.

The net impact of the increase in core revenue guidance, negative currency headwind, acquisition of Multiplicom, and rounding is a reduction in revenue guidance of \$20M. As a result, we now expect FY17 revenues of 4.33 to \$4.35B.

Turning to EPS, we are reaffirming our November guidance of \$2.10 to \$2.16, even as currency and acquisition have a negative impact of 3 cents, most of it currency related.

There is no change to our previous guidance of \$825M operating cash flow, \$200M capex, and buyback of \$430M.

Finally, moving to the guidance for our second quarter

We are expecting Q2 revenues of \$1,040M to \$1,060M, reflecting typical second quarter seasonality vs Q1. The midpoint corresponds to a core revenue growth of 3.5%.

The sequential reduction in revenues will translate into a sequential reduction in EPS; we expect Q2 EPS to range between 47 to 49 cents, a 9% year over year increase at midpoint.

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