



## **Agilent Technologies First Quarter Fiscal 2012 Conference Call Prepared Remarks**

ALICIA RODRIGUEZ:

Thank you and welcome everyone to Agilent's First Quarter Conference Call for Fiscal Year 2012. With me are Agilent's President and 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 Chief Operating Officer, Ron Nersesian, and the Presidents of our Electronic Measurement, Life Sciences, and Chemical Analysis groups, Guy Séné, Nick Roelofs, and Mike McMullen.

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," where you will find revenue break outs and historical financials for Agilent's operations. We will also post a copy of the prepared remarks following this call.

For any 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.

Before turning the call over to Bill, I would like to remind you that Agilent will host its annual Analyst meeting in New York City on March 8th. Details about the meeting and webcast will be available on the Agilent Investor Relations website two weeks prior.

And now, I'd like to turn the call over to Bill.

BILL SULLIVAN:

Thanks, Alicia, and hello everyone.

Agilent's Q1 orders of \$1.62 billion were flat versus last year. Q1 revenues of \$1.64 billion were up 7 percent year-over-year. Non-GAAP EPS was 69 cents per share and operating margin was 19 percent.

We generated \$150 million of cash from operations, and ended the quarter with \$1.6 billion in net cash. Our Q1 performance was a solid start to fiscal year 2012.

Electronic measurement revenues were \$778 million, up 1 percent over last year. Operating margin was 21 percent of revenue, a 58 percent incremental for the quarter.

We saw strength in aerospace and defense, up 5 percent. Industrial, computer and semiconductor markets were up 6 percent, with strength in the industrial sub-segment partially offset by continued weakness in computers and semiconductors.

We also saw an unexpected decline in the communications markets, down 8 percent year-over-year. The causes were twofold.

First, there was a decline in wireless infrastructure, or base stations, for global network equipment manufacturers. This was coupled with a substantial decrease in demand from Chinese infrastructure vendors.

Second, there was a significant decrease in investment in the RF component supply chain.

This decline overwhelmed our double-digit growth in handset test.

While we believe this is a pause, we are taking a conservative position in our guidance.

In our bio-analytical measurement businesses, you'll recall that a year ago we experienced some revenue delays from the Varian integration. This resulted in easier compares for our first quarter in fiscal year 2012.

Chemical analysis revenues of \$396 million were up 14 percent year over year. Operating margin was 22 percent.

Life Sciences revenues of \$461 were up 14 percent over a year ago. Operating margin was 14 percent.

All key markets remain strong. Environmental revenue was up 16 percent year-over-year. Food was up 14 percent, and petrochemical grew 14 percent. Pharma and biotech was up 18 percent; while academic and government grew 7 percent.

We made a number of announcements in the first quarter:

First, with our continued focus on maximizing Agilent's operations and improving gross margins, we named Ron Nersesian to the position of Chief Operating Officer. Ron led the recent transformation of our electronic measurement business.

Under Ron, we also centralized Agilent's order fulfillment operations. The new global organization should better enable us to leverage our worldwide scale and scope in manufacturing, procurement and logistics.

For example, we have started shipping NMR sample loading automation and Cary UV-Vis spectroscopy products out of Penang.

Second, we have registered Agilent Infinity 1200 LC and 6000 MS instruments as Class 1 medical devices with the U.S. Food and Drug Administration. This is an important step for Agilent's strategic initiative in the diagnostics market.

Third, we announced four acquisitions in the first quarter. These include Halo Genomics, which expands our SureSelect portfolio; and BioSystem Development, which expands our life sciences capabilities in sample-prep.

Finally, in January we announced that Agilent will initiate a quarterly cash dividend. This is a reflection of Agilent's financial strength and continued growth opportunities, and underscores our commitment to enhance shareholder value and return.

For the second quarter, we expect revenues in the range of \$1.70 to \$1.72 billion. Non-GAAP earnings are expected to be in the range of 71 to 73 cents per share.

The midpoint of our EPS guidance for the year remains unchanged. This outlook assumes several factors.

1. Electronic measurement will grow approximately 2 percent for the remainder of the year.
2. We will see continued solid performance in chemical analysis and life sciences, resulting in an overall Agilent growth rate of approximately 5 percent.
3. Revenue growth will be back-half loaded, and we will have easier year-over-year comparisons.
4. And finally, we will continue to deliver market-leading products, while we make progress in optimizing our order fulfillment operations.

Thank you for being on the call. And now, I'll turn it over to Didier.

DIDIER HIRSCH:

Thank you, Bill, and hello, everyone.

As always, my comments will refer to non-GAAP figures.

Agilent's first quarter results reflected the soundness of our operating model. Revenues adjusted for the changes in exchange rates since last quarter were at the low end of our guidance, while EPS of 69 cents was at the high end of the range, as operating expenses were well-managed.

Indeed, the first quarter year-over-year operating margin incremental of 39% was at the high end of our 30 to 40% operating model expectations.

Starting with Q1 orders and revenues

Orders of \$1.62B were flat from one year ago and down about a point in constant currency. Segment orders adjusted for currency reflected a 6% decline in EMG, while LSG and CAG grew 4% and 3% respectively.

Regional order growth rates in constant currency were 6% growth in the Americas, a 2% decline in Europe, 3% growth in Japan and a 7% decline in the rest of Asia Pacific.

Revenues of \$1.64B increased 7% from one year ago, both at current and constant exchange rates.

Both CAG and LSG revenues grew 14%, or 13% at constant currency. Adjusted for last year's Varian revenue delays mentioned by Bill, CAG grew 7% and LSG grew 11%.

EMG revenues increased 1% versus a strong prior year comparison and were flat on a currency-adjusted basis. EMG's excess backlog due to capacity constraints has now been shipped.

Regional revenue growth rates in constant currency were 3% growth in the Americas, 4% growth in Europe, 10% growth in Japan and 12% growth in the rest of Asia.

Our regional breakdown of revenue was largely consistent with prior periods with 35% coming from the Americas, 26% from Europe, 28% from Asia less Japan and 11% from Japan.

Moving to the income statement

As I have noted in the past, while currency does impact each P&L line, it has minimal impact on our operating margin performance, as a result of our geographic diversification and systematic hedging program.

Gross margin of 54.9% was essentially flat versus last year while operating expenses were well-controlled and increased only 2% YoY.

Consequently, our Q1 operating margin of 19.2% was up 150 basis points versus the same period last year.

By segment, EMG's operating margin of 20.6% improved 30 basis points year over year, CAG's operating margin of 22.2% increased 350 basis points year over year, and LSG's operating margin of 14.3% was up 240 basis points year over year.

Non-GAAP net income of \$244M, or \$0.69 cents per share, compares to \$212M and \$0.60 cents per share one year ago, an EPS increase of approximately 15% year over year.

Turning to the cash flow and our net cash position

Total quarterly cash generated from operations was \$150M, up \$30M compared to the same period last year.

During the quarter, we repurchased 1M shares at a cost of \$34M.

Our net cash position at the end of January was \$1.6 B, an increase of \$135M from the prior quarter and \$1B higher than one year ago.

Now turning to the guidance for Fiscal Year 2012

As always, our guidance assumes exchange rates as of the last day of the reported quarter.

Although the just released IMF WW GDP growth outlook of 3 ¼ % is 25 basis points lower than the assumption in Agilent's previous revenue guidance, we are not revising the midpoint of our revenue guidance, except for the currency impact.

We believe the most likely economic scenario is indeed a soft 1H followed by a stronger 2H.

We are projecting a FY12 revenue range of \$6.92B to \$7.02B, which is based on exchange rates as the end of January. At the midpoint, our guidance corresponds to a 4% growth in H1 followed by a 6% growth in H2, and for the full year a 5% YOY revenue growth or 6% in constant currency.

For EPS, we are maintaining the midpoint of our prior FY12 guidance and narrowing the range to \$3.13 to \$3.23, based on 355M diluted shares.

The midpoint of our EPS guidance at \$3.18 reflects 8% growth over our FY11 EPS of \$2.95, which is consistent with a year-over-year operating margin incremental in the middle of our 30-40% operating model range.

Finally, moving to the guidance for our second quarter

We expect Q2 revenues of \$1.70B to \$1.72B and EPS of 71 to 73 cents.

Year-over-year currency-adjusted revenue growth at the midpoint will be approximately 2%, while the midpoint of our EPS guidance is essentially flat year over year after adjusting for the one-time benefit of the non-GAAP tax rate adjustment made in Q2 of last year.

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