



**Agilent Technologies**

**Agilent Technologies Third Quarter Fiscal 2016  
Conference Call Prepared Remarks**

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's Third Quarter Conference Call for Fiscal Year 2016. 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.

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.

Please note that we are reporting results for the Americas, Europe and Asia on a “ship to” basis. Previously we assigned revenue to these regions based on where the order was placed. The change aligns with individual country reporting, which has always been on a “ship to” basis. Historical restatements are available on the Investor Relations website.

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. Thank you for joining us on today’s call.

I am pleased to report that the Agilent team delivered another quarter above expectations. Let me highlight three key results.

First, Q3 core revenue growth of 3 percent was above the high end of our May guidance. Second, EPS of 49 cents was also above the high end of our guidance of 45-to-47 cents. Finally, we delivered adjusted operating margin of 20.6 percent, an increase of 70 basis points from a year ago.

Agilent’s third-quarter results echoed many of the same themes that we saw last quarter. The Pharma, Food, Clinical and Diagnostics end-markets remain strong. In the Chemical and Energy market, while demand for services and consumables was strong, capital expenditures for new equipment purchases remain challenged.

Geographically, Asia – led by China’s double digit growth – drove Agilent’s third-quarter core growth, with strength across all business segments.

Let me highlight our Q3 results by business group.

In line with our expectations, Life Sciences and Applied Markets Group core revenues were down 2 percent. Our strong growth in Pharma, Environmental and Food markets was offset by continued weakness in Chemical & Energy capital expenditures. Academia and Government revenues were also down across most regions.

Despite this mixed market environment, LSAG’s operating margin for the quarter was 19.1 percent, up 40 basis points from a year ago.

Let me shift gears to talk about some of LSAG’s new products. We are seeing very strong demand for the newly released 1260 and the 1290 Infinity II LC systems. The 1260 systems were part of the launch of the “InfinityLab” portfolio at Analytica in May. The “InfinityLab” portfolio consists of this new line of LC instruments, along with columns, supplies and services.

In Q3, LSAG also introduced two new 7000 Series Triple-Quad GC/MS analyzers: one for pesticides and another for environmental pollutants.

And we continued to strengthen our ICP-MS market leadership with the new Agilent 8900 Triple-Quad ICP-MS system. This new system offers customers improved speed and accuracy of analysis.

Turning to the Agilent CrossLab Group, the business delivered another strong quarter, with 8 percent core revenue growth. This growth is driven by strength in the Food, Pharma and Environmental markets. ACG’s operating margin for the quarter was 22.7 percent, up 10 basis points from a year ago.

Portfolio expansion efforts also continued in ACG. In Q3, Agilent signed a definitive agreement to acquire the assets of iLab, and we just closed the transaction in early August. iLab is the market leader in cloud-based solutions for core laboratory management; and provides services to leading universities, research hospitals and independent institutions around the world.

This acquisition further expands Agilent's portfolio in the Academia and Government market. iLab enables Agilent to deliver broader value for our customers in this market segment. We also see an opportunity to expand the iLab business, both geographically and into the Pharma market.

Finally, we saw continuing momentum in the Diagnostics and Genomics Group, where the business delivered 8 percent core growth in Q3. We saw strength across all DGG businesses, driven by growth in the Pharma and Clinical & Diagnostics markets.

Our Pathology business continues on its steady trajectory of improved growth. This was highlighted by demand for our new PD-L1 companion diagnostics. Growth in Genomics reflected strong market performance in the U.S. and China, across our array CGH, target enrichment and SureSelect products. We also saw healthy demand for our Nucleic Acid solutions offerings.

DGG's operating margin for the quarter was 18.8 percent, up 200 basis points from a year ago.

Q3 highlights for DGG include the announcement of an expansion of the intended use of our PD-L1 pharmDx test in Europe for patients with melanoma. This test was previously approved in the U.S. and available in Europe for patients with non-squamous non-small-cell lung cancer, and in the U.S for patients with melanoma.

We also announced a \$120 million investment over the next three years to expand production capacity for our Nucleic Acid Solutions business. This includes the purchase of 20 acres of land in Colorado. We plan to build a factory on this land that will double our manufacturing capacity for nucleic acid active pharmaceutical ingredients and grow our business.

Now, I'll provide an overview of Agilent's core revenues by end-market.

In our Life Sciences markets, Pharma saw its sixth consecutive quarter of double-digit growth, with core revenue up 10 percent. Academia & Government core revenue was down 5 percent, down across most geographies except China. Clinical & Diagnostics grew 4 percent, with strength in North America and Asia, and led by growth in Pathology.

Applied end-market performance was mixed. Food was up 11 percent, with strong demand in China and the Americas. These regions also drove growth in the Environmental market, for both instruments and aftermarket products.

This performance was offset by continued challenges in the Chemical & Energy market, down 4 percent globally with only Asia posting growth on a regional basis. The overall result was due to prolonged effects of macro-economic concerns and lower oil prices.

Now I'll turn to an update on our operating margin improvement initiatives.

Q3 marked a major step forward in simplifying our company's infrastructure. In May, we completed the migration of the company's financial systems onto a single SAP platform. This was the culmination of a 20-month cross-company effort, and represents a major step in simplifying Agilent's systems infrastructure that will deliver incremental cost savings as planned in fiscal 2017.

In summary, our multi-year "Agile Agilent" program continues to simplify the company's business processes. This program is designed to make us more nimble, and lower our costs. It will continue to deliver incremental savings in 2017.

On the capital deployment front, we purchased iLab, paid \$37 million in dividends and repurchased \$94 million of Agilent stock.

We continue to deliver on our strategy to drive sustainable growth, while expanding operating margins and balancing deployment of our capital to drive shareholder value creation.

At our recent May Analyst meeting, I described our shareholder value creation model:

- Outgrow the market
- Expand Operating Margins
- Balanced Capital Deployment

Let's look at our Q3 results in the context of these longer-term goals and shareholder value creation model. In 2015, we delivered our highest annual growth rate in four years while increasing adjusted operating margin 170 basis points, and completely offset the \$40 million of dis-synergies from the company split.

We have sustained this trajectory of improved operating results in fiscal 2016. In the first three quarters of 2016, the team has delivered strong growth and earnings above our initial expectations, despite a challenging Chemical and Energy market environment and global macroeconomic concerns.

We have continued to leverage our balance sheet and deploy capital in a balanced manner, buying companies that bring new capabilities to Agilent, while repurchasing our stock and increasing cash dividends.

The new leadership team continues to transform the business and deliver results. We continue to demonstrate our ability to deliver above-industry organic growth, while expanding margins and leveraging our balance-sheet strength. Our Q3 results in a challenging global economic environment reflect the strength of our team; combined with Agilent's scale and broad, differentiated portfolio of products and services.

Looking at today's overall market environment, we expect continued strength in Pharma along with growth in the Food, Environmental, and Clinical Research and Diagnostics markets, and in China on a regional basis.

As I highlighted in our last call, we are experiencing a steeper and more prolonged slowdown in the Chemical and Energy market than initially projected entering fiscal 2016. We subsequently revised our forecast for this market segment last quarter to overall low single-digit market declines for the year. While there are some signs of an impending bottom in the market, we remain cautious in our outlook and expect Q4 to be in a similar range as the past quarter.

Against this market backdrop, we are well positioned to capture growth in those end-market segments and geographies where growth is expected to remain strong. The combination of expanding our customer channel reach and continual strengthening of our portfolio, positions us well to achieve our previously raised full-year guidance for 2016 and our longer term goals.

Our One Agilent team continues to work well together, and is energized to win in the market. Overall, we remain on track with our 2017 goal to outgrow the market and improve our operating margins to 22 percent.

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 guidance for the remainder of 2016.

Didier?

DIDIER HIRSCH

Thank you, Mike, and hello, everyone.

As mentioned by Mike, we delivered higher core revenue growth, operating margin, and earnings per share than the high end of our guidance. Earnings per share grew 11% in the quarter versus a year ago.

We also generated \$194M in operating cash flow, more than double last year's amount, which gives us increased confidence that we will achieve our previously raised operating cash flow guidance for the full year.

FX had a negative impact on revenue of about \$10M or 1% versus previous guidance, and \$7M or 0.7% versus last year. It had a negative impact on operating profit of \$3M versus previous guidance and \$1M versus last year.

I will now turn to the guidance for our fourth quarter

We expect Q4 revenues of \$1.05B to \$1.07B and earnings per share of 50 to 52 cents. At midpoint, revenue is expected to grow 1.2% on a core basis. Versus previous guidance, FX is estimated to have a negative impact of \$9M on revenue and \$2M on operating profit. Our 21.3% adjusted operating margin at midpoint will be up 70 bps sequentially.

Now to the guidance for Fiscal Year 2016. The Q4 guidance is expected to result in the following fiscal year guidance:

- At midpoint, revenue is projected to grow 4.5% on a core basis. No change from the previous guidance.
- Our earnings per share guidance of \$1.90 at mid-point is also unchanged from previous guidance and corresponds to a 9% year over year increase.
- Adjusted operating margin for the year is expected to be 20.4% or 80 bps higher than in FY15.
- FX is estimated to have a negative impact on a year over year basis of \$68M on revenue, \$10M on operating profit related to currency translation, and an additional \$21M related to currency hedging.

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