



Agilent Technologies First Quarter Fiscal 2013 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you and welcome everyone to Agilent's First 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 Group, Chemical Analysis Group and Diagnostics and Genomics Group, Guy Séné, Mike McMullen 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.

Before turning the call over to Bill, I would like to remind you that Agilent will host its annual analysts meeting in New York City on March 7. Details about the meeting and webcast will be available on the Agilent investor website two weeks prior to that date.

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

BILL SULLIVAN

Thanks, Alicia, and hello everyone.

For Agilent's fiscal first quarter, Orders were \$1.7 billion, up 5 percent year-over-year inclusive of the benefits from the Dako acquisition. Revenues of \$1.68 billion were up 3 percent, again with the benefit of the Dako acquisition, but on the low end of our guidance. Earnings per share of 63 cents were two cents below the low end of our guidance, due entirely to some unexpected one-time expenses.

The company has struggled with the predictability of revenue and EPS performance over the past four quarters. While we have delivered EPS above the

mid-point guidance in aggregate, we have missed our EPS guidance in two of the last four sequential quarters, and have exceeded EPS guidance in the other two quarters.

The problem is the volatility of revenue and orders in the last month of the quarter. Last year's third-quarter EPS shortfall was due to the unexpected push-out of deliveries. This quarter we again experienced an unexpected, last-minute push-out of deliveries, mostly in the communication market.

In addition, while we were pleased with our strong January orders, over half of January's orders were received in the last five days of the month.

Our order fulfillment team did an outstanding job of meeting the low end of our revenue guidance, but we missed our internal revenue forecast by \$35 million, which decreased our earnings per share by 5 cents. With the lower revenue, we were not able to absorb the unexpected expenses.

We ask for patience from our shareholders, as our customers continue to face challenging delivery needs. Agilent maintains a flexible delivery policy, and we are committed to be the best measurement partner for our customers as they meet their own business challenges.

Moving forward, we are widening our quarterly guidance range to set better expectations for our investors.

We now anticipate likely cutbacks in defense spending, which accounts for 10 percent of Agilent's business, and continued softness in the communications

market. As a result, we are lowering our revenue guidance for the year, as well as our EPS range.

We continue to control expenses well. We are driving down our variable spending as we reduce our flex force, and we are aggressively implementing our manufacturing consolidation plans.

As we continue to manage through end-market and customer uncertainties, we are encouraged by the strong January orders, the breadth of new product launches, and the benefits of the expense reductions we expect to see for the remaining part of the year.

Within the businesses, our newly formed diagnostics and genomics group's revenue grew 145 percent, up 4 percent organically. The integration of Dako continues to proceed well. We saw mid-single-digit year-over-year growth in the pathology staining market, and high growth in expanding our Pharma partnerships – as evidenced by the recently announced partnerships with Eli Lilly and Pfizer.

We are also pleased with our strong, high single-digit sequential growth in revenue, as we continue to expand our sales team in Asia and launch new products.

For example, our HER2 IQFISH was approved by the FDA. Dako Link was upgraded as the market's leading software tool, linking all of Dako's instruments together for optimal lab control and workflow optimization. And the launch of our new automated stainer remains on track for commercial release.

Our overall genomics business grew in low single digits, with continued strength in CGH microarrays for clinical markets. SureFISH sales continue to see high renewal rates.

Our life science business grew 2 percent year-over-year. Academic and government markets were flat, with modest growth in pharma markets and mid single-digit sequential growth. We continued to see solid growth in our consumables and service business, and modest growth in our LC instrument platforms.

While we saw a decrease in our LC-MS business due to difficult year-over-year compares, orders grew in the low double digits. We also introduced several new products in the quarter to improve LC detection and increase workflow productivity.

Chemical analysis revenues were down slightly year-over-year, due entirely to the decline in our environment markets. This is the second quarter in a row of weak environmental sales. The fundamental cause is lower government spending.

We continue to see strong growth in the forensics market, and flat-to-modest growth in food and petrochemical. At the beginning of February, we announced the introduction of our new 7890B gas chromatograph and 5977A series single-quadrupole mass spec. These next-generation products offer industry-leading productivity, sensitivity and reliability.

Electronic measurement revenues were down 7 percent over last year. This was mostly due to a decrease in the wireless handset market after a period of strong

investment, but compounded by push-outs of deliveries. Base station investment remains soft, as we await the rollout of LTE in other major regions around the world.

Orders did strengthen in January as we ended the quarter with a book-to-bill greater than one. And even as we manage through the current market volatility, we continue to ensure that we have market-leading products.

We introduced the InfiniiVision 4000 X-Series oscilloscopes, the only upgradeable family of five-in-one oscilloscopes in the industry. And on February 8th, we announced the industry's highest-performance real-time spectrum analysis for our PXA signal analyzers.

As a reminder, in January we announced a 20-percent increase in our quarterly dividend to 12 cents per share, as well as a stock repurchase program of up to \$500 million during fiscal year 2013. These moves reflect our confidence in our ability to manage the present business volatility, our ability to generate cash, and our commitment to return capital to our shareholders.

Thank you for being on the call. Now I will turn it over to Didier.

DIDIER HIRSCH

Thank you, Bill, and hello, everyone.

As Bill stated, it has become more challenging to predict the short term outcomes.

70% of our revenue is related to capital expenditures where customers' buying decisions are heavily dependent on overall demand and business confidence, both at low levels in today's world of uncertainty.

Because of customers' delays in placing orders, shipments were also delayed. As a result, we achieved only the low end of our revenue guidance. However, we missed the low end of our EPS guidance by 2 cents due to unexpected and one-time items. Three items made up most of the 2 cents: they relate to customs duties in a foreign jurisdiction, "unclaimed property" claims in the US, and a B/S hedging loss. For a company of our size and complexity, such items, both positive and negative, are not unusual. However, this is the first time that they all were unfavorable.

To recap the quarter, core orders were flat YOY while core revenue decreased 2%, and our OM, always the lowest of the year in Q1, was slightly over 17%.

By segment, EMG core revenue decreased 7% YOY, CAG was up 1%, LSG 3%, and DGG 6%. By region, Americas was down 1%, Europe 2%, Japan 6%, and the rest of A/P 2%, all on a core revenue basis.

Turning to cash, we generated \$245M in operating cash flow, by far the largest Q1 cash flow generation since Q1 2000. We bought back 2M shares for \$79M and are back to a net cash position of over \$150M.

Now turning to the guidance for the full year. As Bill stated, the low end of our guidance now assumes sequestration will take place, while the high end reflects a

slower economic recovery, lower government spending and softer communication markets than previously assumed. Also, currency is expected to have a negative revenue impact of about \$35M for the year, versus the November guidance.

FY13 revenue is expected to range from \$6.9B to \$7.1B, or 2 percent reported growth at mid-point, which translates into a 1% core revenue decrease.

As you compare those projections with those of our peers, please note the different product and customer mix: we generally have a higher mix of instruments versus recurring revenues and are more exposed to the industrial and defense markets, as well as to Japan. On an apple-to-apple basis, we are gaining ground in many of our businesses, but current results and short term projections are skewed by our mix.

On the cost front, our global order fulfillment organization is on track to generate about \$50M of savings and our control of discretionary expenses is nearly of the same magnitude as during the 2009 downturn.

Those actions, coupled with the benefit of the incremental stock buyback program, will partially offset the impact of lower revenue projections and currency headwinds on our EPS, expected to range from \$2.70 to \$3.00.

Finally, moving to the guidance for our second quarter. As Bill stated, we are widening our guidance range for the quarter, for both revenues and EPS. We expect Q2 revenues of \$1.74B to \$1.77B and EPS of 64 to 70 cents.

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