AGILENT TECHNOLOGIES

Agilent Technologies Third Quarter Fiscal 2011 Conference Call Prepared Remarks

ALICIA RODRIGUEZ:

Thank you and welcome everyone to Agilent's Third Quarter Conference Call for Fiscal Year 2011. With me are Agilent's President and CEO, Bill Sullivan, as well as Senior Vice President and CFO, Didier Hirsch.

Bill will give his perspective on the quarter, and Didier will follow with a view of financial results. After Didier’s comments, we will open the line for questions.

Joining in our Q&A will be the Presidents of Agilent's Electronic Measurement, Life Sciences, and Chemical Analysis groups, Ron Nersesian, Nick Roelofs, and Mike McMullen.

In case you’ve not had a chance to review our press release, you can find it on our website at www.investor.agilent.com. We are also providing further information to supplement today's discussion.

At our website, please click on the link for “supporting materials”. There you will find information such as revenue break outs, historical financials for Agilent's operations and an investor presentation. We will also post a copy of the prepared remarks following this call.

If during this conference call we use any non-GAAP financial measures, you will find on our website the most directly comparable GAAP financial metrics.

We will make forward-looking statements about the future 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 throughout the current quarter.

Please look at the company's most recent SEC filings for a more complete picture of the risks and other factors at work.

And now, let me turn the call over to Bill.
Thanks Alicia, and hello everyone.

Agilent’s Q3 revenues were $1.69 billion, up 21 percent year-over-year on a non-GAAP basis. Q3 orders were also $1.69 billion, up 13 percent over last year.

Overall financial results were excellent. Non-GAAP EPS was 77 cents per share, while adjusted operating margin of 20.2 percent was the highest in Agilent’s history.

The Electronic Measurement business continues to be excellent. Q3 revenues of $856 million were up 24 percent over last year. All regions achieved double-digit growth. Quarterly operating margin of 24 percent was a record high for the business.

Communications revenues were up 33 percent year-over-year. We saw strong test demand for wireless manufacture, driven by smart phones, 3G and LTE network rollouts, while wireless R&D was relatively flat.

Although wireless manufacturing growth of 80 percent in the quarter lowered our overall gross margins, we still produced an incremental operating margin of 47 percent. We will continue to pursue mobile handset manufacturing opportunities, while positioning Electronic Measurement to continue meeting its incremental targets.

General Purpose revenues were up 19 percent, with growth driven by industrial, computer and semiconductor sub-markets. Digital test was particularly strong, driven by new high-speed digital interfaces.

Aerospace and Defense was unfavorably impacted by recent U.S. budget concerns. However, Aerospace and Defense outside of the Americas, which accounts for roughly 35 percent of that business, continues to see solid growth.

Market acceptance for our oscilloscope product offerings continues to be excellent. We’ve also had a strong response to the introduction of our PNAX network analyzer.
Life Sciences business revenues of $453 million were up 21 percent over a year ago, up 18 percent organically. We saw solid growth across all regions, with particular strength in China and the rest of Asia Pacific.

While there continues to be market uncertainty in the U.S. and European pharmaceutical industry, we have good momentum driven by the replacement cycle for lab instrumentation. In academia and government, we continue to do an excellent job of identifying opportunities where our solutions are true differentiators for leading researchers.

The Life Sciences Group launched several new mass spec products in Q3. These include the 6550 iFunnel Q-TOF, the highest-performing Q-TOF in the market; and the 6420 Triple Quad, our entry-level triple-quad product.

Our mass spec platform continues to perform exceptionally well as a result of a solid portfolio and positioning. All key product platforms, as well as services, demonstrated double-digit revenue growth.

The Chemical Analysis business saw revenue growth of 17 percent to $383 million, up 11 percent organically. Chemical Analysis continues to outpace the markets, with particular strength in the United States, China and Southeast Asia. Operating margins continued to expand, up nearly 2 points from the previous quarter to 21 percent.

We saw continued growth in core end-markets. Energy, chemical and food markets remain strong across geographies, while the environmental market is particularly strong in China. Services also saw double-digit revenue growth.

Our gas phase business had excellent results, with orders and revenues for both GC and GC/MS up by double-digits from a year ago. We introduced our new GC/MS Q-TOF at ASMS in Denver. This is the first newly developed Agilent instrument that incorporates Agilent pumps.

Overall, Agilent is in a strong financial position as we navigate through a challenging global economy. Our third quarter earnings, combined with solid asset
management, enabled us to generate $252 million of operating cash flow. We ended the quarter with net cash of $1 billion.

As we have noted previously, we will continue to accumulate cash to have sufficient liquidity in these uncertain economic times. This enables us to be in a position to pursue value-creating acquisitions.

Despite ongoing challenges in the global economy, we are pleased with our results and our momentum. We continue to aggressively allocate resources to market opportunities, with particular emphasis on developing countries, wireless manufacturing, non-U.S. Aerospace & Defense, academia and research, energy and food.

We look forward to a strong finish in fiscal 2011. For the fourth quarter, we expect revenues in the range of $1.74 to $1.76 billion. Non-GAAP earnings are expected to be in the range of 79 to 81 cents per share.

Thank you for being on the call. Now I’ll turn it over to Didier.
DIDIER HIRSCH:

Thank you, Bill, and hello, everyone.

I will start by providing some additional color on our third quarter results and then comment on our outlook for Q4 and the fiscal year.

As in prior calls, all of my comments will refer to non-GAAP figures. References to organic results are results without the impact of acquisitions within the past 12 months.

Starting with Q3 results.

As Bill mentioned, we are pleased with Agilent’s third quarter results, as both revenues and EPS were significantly higher than the top end of our guidance and the consensus estimates.

Orders of $1.69B were up 13% from one year ago, or 11% on an organic basis, including 4 percentage points related to currency. Organically, EMG orders grew 12%, LSG orders 11%, and CAG 9%.

The regional distribution of the 7% organic order growth at constant currency is as follows: Americas grew 7%, Europe 3%, Japan 10%, and the rest of Asia Pacific 9%.

Revenues of $1.69B were up 21% from one year ago, or 19% on an organic basis, including 5 percentage points related to currency. Organically, EMG revenues grew 24%, LSG 18%, and CAG 11%.

The regional distribution of the 14% organic revenue growth at constant currency is as follows: Americas grew 17%, Europe was down 1%, Japan up 20%, and the rest of Asia Pacific up 23%.

China revenue growth continues at a significant pace (+47%) and China revenues represent 17.5% of Agilent WW revenue.

Moving to the income statement.
While currency impacted each P&L line, it had minor bottom line impact, the result of our broad geographic diversification and systematic hedging.

This quarter, we reached a milestone and exceeded 20% operating margin for the first time in our history, as we continue to adhere strictly to our operating model.

OM at 20.2% was up 92 basis points from last quarter and up 220 basis points year over year.

Our strength in the very competitive Wireless Manufacturing market had a negative impact on our GM, but was more than offset by well-contained operating expenses.

Also, as previously indicated, we are delivering significant operating expenses reductions as we complete the Varian integration, whereas COS synergies will materialize mostly over the next 2 years.

Non-GAAP net income of $276M, or $0.77 per share, compares to $191M and $0.54 per share one year ago, an increase of 43% year over year.

Turning to the cash flow and our net cash position.

Total quarterly cash generated from operations was $252 million, an increase of $162 million compared to the same period last year.

During the quarter, we received $95M from employee stock programs and repurchased $192M worth of shares, for a net share buyback of $97M.

Our net cash position at the end of July was $1 billion, an increase of $116M from one quarter ago and $734M higher than Q3 last year.

Now turning to the guidance for the FY and for Q4.

Given our sound Q3 performance and reflecting Agilent’s strong competitive position, we are raising our revenue and EPS guidance for the year. At mid point, our revenue guidance is up $70M and our EPS guidance is up 5 cents.
We now expect FY11 revenues of $6.64B to $6.66B which, at the mid-point of the range, represents 22% YOY revenue growth, or 17% growth on an organic basis. This implies Q4 revenues of $1.74B to $1.76B. At the mid-point of the range, Q4 YOY revenue growth will be 11%.

Consistent with our 30-40% YOY incremental OM commitment, we are also raising our EPS guidance to $2.90 to $2.92, based on 357M diluted shares and no change in the tax rate. At the midpoint of the guidance, EPS will grow by 46% YOY.

This corresponds to Q4 EPS projections of 79 to 81 cents. The mid-point of our Q4 EPS guidance corresponds to YOY EPS growth of 23%.

We are also raising our operating cash flow projections to $1,100M, up $50M. Capital expenditures for the year are still projected to be approximately $200M, hence free cash flow is projected to be $900M.

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