



Agilent Technologies First Quarter Fiscal 2018 Conference Call Prepared Remarks

ALICIA RODRIGUEZ

Thank you, and welcome everyone to Agilent's First Quarter Conference Call for Fiscal Year 2018. 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 Patrick Kaltenbach, president of Agilent's Life Science 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.

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.

Unless otherwise noted, all references to increases or decreases in financial metrics are year over year. References to revenue growth are on a core basis. Core revenue growth excludes the impact

of currency, and acquisitions and divestitures within the past 12 months. Guidance is based on exchange rates as of January 31st.

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. Hello everyone, thank you for joining us.

In today's call, I want to cover our Q1 business results and talk about Agilent's business momentum. Let's start with the business results. I'm happy to report that the Agilent team delivered an outstanding start to 2018. We exceeded our own growth and earnings expectations. We continue to outgrow the market. Q1 revenues of \$1.21 billion grew 10 percent on a core basis. And, we continue to improve our operating margins. Adjusted operating margin of 22.5 percent is up 130 basis points from Q1 of last year. I am proud to report that this is our 12th consecutive quarter of improving operating margins.

The combination of strong revenue growth and continued margin improvements drove an adjusted EPS of 66 cents for the quarter, well above our expectations. Adjusted EPS is up 25 percent over the first quarter of last year.

Now, on to Agilent's business momentum. When I use the term "momentum", I am describing strong, broad-based growth for all our businesses as we outgrow the market. In this context, our momentum remains very strong.

First, our Chemical and Energy revenue grew 13 percent with broad strength in all product categories. Customers are investing across the spectrum of exploration, refining and chemicals. This is the fourth consecutive quarter of double-digit revenue growth in this market segment. After a long period of deferred investment, we are now seeing increased capital expenditures.

Pharma is our largest business and had a strong showing of 8 percent growth. Growth was very solid across instruments, services and consumables in both the Bio-Pharma and Small Molecule market segments. We remain very confident in achieving our 2018 Pharma growth objectives.

Academia and Government sustained its recent trajectory with 11 percent growth. Growth was driven by strength in China and Europe.

Food revenue grew 8 percent against a difficult compare of 11 percent in Q1'17. Europe growth led our strong results with broad-based strength across instruments, services and consumables.

Diagnostics and Clinical revenue grew 5 percent as expected, led by strong demand for companion diagnostics and pathology products.

Environmental and Forensics grew 14 percent. Our Forensics business was particularly robust driven by U.S. government purchases. Environmental growth remained healthy with solid demand for GC, GC/MS and ICP-MS.

Geographically, China led the gains with strong high-teens growth. Europe and the Americas delivered healthy high single-digit growth.

Looking at the highlights from our business groups: The Life Sciences and Applied Markets Group delivered core revenue growth of 11 percent fueled by double-digit growth in major platforms, led by Mass Spectrometry and Cell Analysis, demand in Europe and China and broad strength across end-markets.

On the M&A front, we announced the acquisition of Luxcel Biosciences. Luxcel has developed a portfolio of cell-based assay kits that allow researchers to evaluate cell metabolism and function on standard fluorescent plate-readers. This technology is highly complementary to our Seahorse Bioscience offerings and further enhances our position in the fast-growing cell analysis space.

Our internal focus on innovation continues to receive external recognition. The Ultivo Triple Quadrupole LC/MS system was recognized as one of the top 2017 innovations by the Analytical Scientist. And, Industry Business Outlook recognized Agilent as the “Company of the Year” in the Life Sciences tools market for our innovation across the company.

Agilent CrossLab Group’s continued its strong performance with 9 percent core revenue growth. The Agilent CrossLab strategy launched three years ago continues to yield exceptional results.

Our services business team is focused on supporting customers to deliver greater lab efficiencies. As a result, services growth was strong across all regions and end-markets. We continue to introduce new capabilities for our customers. For example, we launched Agilent Care which extends and expands solution support beyond the traditional first 90 days of solution ownership.

We also expanded the CrossLab Service Guarantee to our multi-vendor service business. If a non-Agilent instrument under contract cannot be repaired, it will be replaced with the Agilent equivalent. This improves confidence in Agilent as a customer-focused service provider for multi-vendor instruments. This guarantee differentiates Agilent from our competitors and in the eyes of our customers.

Fueled by our innovation investments, our Consumables business was strong across both chemistries and supplies. Recently introduced new products and biopharma applications are making a difference in our reported growth. Agilent’s Captiva Enhanced Matrix Removal–Lipid technology is one example – the Analytical Scientist also recognized it as a top 2017 innovation. Our digital investments are delivering new capabilities to our customers. We have deployed ground-breaking e-commerce initiatives, such as E-renewal of support contracts, making it easier for customers to do business with Agilent.

The Diagnostics and Genomics Group also delivered strong core revenue growth of 8 percent. Demand continues to be healthy for our pathology products and companion diagnostics services.

We continue to bring compelling new offerings to our customers. We shipped our first comparative genomic hybridization assay for diagnostic use in the US, GenetiSure Dx Postnatal Assay, this quarter. We also made available to customers CRISPR Activation and Interference libraries. Targeted at the research community, these libraries use state-of-the art, validated gene targets that enable the easy and flexible implementation of targeted functional assays for the entire genome.

Now, looking ahead – a few comments on our updated outlook for the rest of the year. We continue to take a “quarter by quarter” look at the business – and stand ready to raise our full-year guidance as business conditions remain favorable. As such, we are now raising our full-year growth and earnings guidance with our strong Q1 in the “books.” Didier will share the specifics on the updated guidance, inclusive of the forecasted impact from the new U.S. tax law. While future market conditions are often difficult to predict, I can confidently predict that Agilent will outgrow the market in any encountered market conditions.

A few closing comments, before I hand off the call to Didier. First, I am very pleased with our start to 2018. Following our stellar year in 2017, the Agilent team continues to deliver a differentiated customer experience, a great product portfolio and excellent operating results.

The transformational strategic initiatives we launched three years ago continue to work. We are maintaining our momentum. We are delivering on our measures of success to outgrow the market, improve operating margins and deploy capital in a balance manner.

Our One Agilent culture is built on a foundation of core values that puts the customer at the center of everything we do. Agilent’s collaborative work environment enables the leveraging of the full power of our team. As a result, our team provides a superior customer experience while focused on operational excellence, a combination that allows us to produce results.

We continue our commitment to our Agile Agilent program. This transformational initiative continues to streamline the company's operations and drive efficiencies.

Our portfolio transformation and innovation engines continue to provide our customers with truly differentiated technology and solutions. Our innovation efforts are complemented by a focused M&A strategy. Our portfolio of offerings is "second to none" and will continue to strengthen.

As evidenced in our track record of impressive results, Agilent has started 2018 with strength. The results speak for themselves. It's what gives me the confidence to tell our team, "The best is yet to come."

Thank you for being on the call, and I look forward to answering your questions I will now hand off the call to Didier. Didier?

DIDIER HIRSCH

Thank you, Mike, and hello, everyone.

As Mike stated, we are very pleased with our Q1 performance, well over the high end of our guidance. We delivered a core revenue growth of 9.7% (versus a core revenue growth of 4.8% in Q1 FY17), and our adjusted operating margin, at 22.5%, was up 130 basis points versus Q1 of last year. Our EPS, at 66 cents, was 10 cents above the midpoint of our guidance, and up 25% on a year-over-year basis.

Currency had a favorable impact on revenues of \$32M and \$6M versus last year and guidance respectively, and an impact on operating profit of \$8M and \$0M versus last year and guidance respectively.

Our operating cash flow of \$215M was 85% higher than in Q1 FY17. Finally, we bought back \$47M worth of shares and paid \$48M in dividends.

I will now turn to the guidance for Fiscal Year 2018. We are significantly raising the core revenue growth guidance of 4.0 to 4.5%. The new core revenue growth guidance is 5.25 to 5.75%.

Also, the weakening of the US dollar since our November guidance is expected to have a positive impact of \$108M on full year reported revenues. The total impact of the increase in core revenue guidance and of the currency tailwind is an increase in midpoint revenue guidance of \$165M. As a result, we now expect FY18 revenues of \$4.885 to \$4.905B.

Turning to earnings per share, we are also significantly increasing our November guidance of \$2.50 to \$2.56. The new guidance is \$2.62 to \$2.68, with 4 cents of the 12 cents increase due to currency. We are also raising our operating cash flow guidance from \$970M to \$1,050M. There is no change to our expectation to buy back 2.7M shares and maintain our diluted share count at 326M shares.

Lastly, I will provide some insights on the impact of the US Tax Reform. Because our fiscal year started before the enactment of the new law, we will enjoy the reduction in the US corporate tax rate effective January 1, 2018, while the negative effects (mostly, the so-called GILTI tax) of the Tax Reform will not impact us until FY19. However, because this benefit of 2 to 3 points would only be temporary, we have decided not to reflect it in our FY18 pro forma tax rate, and are maintaining the rate at 18%, as we expect this will be our tax rate in FY19 and onwards.

Finally, moving to the guidance for our second quarter. We are expecting Q2 revenues of \$1,200M to \$1,220M. The midpoint corresponds to a core revenue growth of 4.25%, on a difficult compare, as Q2 FY17 saw a core revenue growth of 8.7%.

Comparing guidance to the just finished Q1, Q1FY18's 9.7% core revenue growth benefited from an easier compare (in part due to the date of the 2017 Lunar New Year), and a \$20 to \$25M

carryover from Q4FY17 when we saw extended order-to-revenue conversions related to higher European and Mass Spec demand. Conversely, Q2FY18's projected 4.25% reflects the expected impact of the 2018 Lunar New Year in addition to a tough compare.

As for EPS, we expect Q2 EPS to range between 61 to 63 cents, a 7% year over year increase at midpoint.

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