Agilent Technologies Fourth Quarter Fiscal 2024 Conference Call Prepared Remarks

Parmeet Ahuja, Vice President, Investor Relations

Thank you, and welcome everyone to Agilent's conference call for the fourth quarter of fiscal year 2024.

I'm sure you have seen our press release earlier today regarding our new, market-focused organizational structure, which we will talk about in more detail. These changes have no impact on our company's consolidated financial statements. All financial metrics and guidance during this call will be shared under our historical structure. We will provide recast historical segment information to reflect these changes ahead of our upcoming Investor Day.

Now onto our quarterly results.

With me are Padraig McDonnell, Agilent president and CEO, and Bob McMahon, Agilent senior vice president and CFO.

Joining in the Q&A will be:

- Phil Binns, president of the former Life Sciences and Applied Markets Group.
- Simon May, president of the newly formed Life Sciences and Diagnostics Markets Group.

- And Angelica Riemann, president of the expanded Agilent CrossLab Group.
- Also joining in the call is Mike Zhang, president of the newly formed Applied Markets Group.

This presentation is being webcast live. The news release for our fourth-quarter financial results, investor presentation, and information to supplement today's discussion — along with a recording of this webcast — are available on our website at www.investor.agilent.com.

Today's comments will refer to non-GAAP financial measures. You'll 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 and references to revenue growth are on a core basis. Core revenue growth excludes the impact of currency, and any acquisitions and divestitures completed within the past 12 months. Guidance is based on forecasted exchange rates.

During this call 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, I'd like to turn the call over to Padraig.

Padraig McDonnell, President and CEO

Great. Thank you, Parmeet.

Hello, everyone, and thank you for joining today's call.

Before I begin, I would like to welcome new AMG President Mike Zhang. While Mike is new to this role, he is not new to Agilent. Mike joined Agilent more than 20 years ago as a manufacturing engineer in China and most recently was vice president and general manager of the GC and GC/MS business within our former Life Sciences and Applied Markets Group. With his broad experience in both manufacturing and in the business, Mike will be an incredible asset in this role. I am very much looking forward to him moving AMG and Agilent forward.

I also want to take a moment to wish Phil Binns a wonderful retirement in advance of him leaving Agilent. Phil joined Agilent with the Varian acquisition in 2010. All told, Phil is celebrating just over 40 years of service with Agilent and Varian.

Although Phil is retiring from the business-president role, he has graciously agreed to serve as a special adviser through April 2025. All of us at Agilent wish Phil the very best and look forward to working with him during the last five months at Agilent.

Now, onto our high-level Q4 results.

I'm happy to share not only our solid fourth-quarter results that point to continued steady market recovery, but also our outlook and drivers for 2025 fiscal year. I'm especially excited to talk about Agilent's customer-first strategy evolution and our aggressive transformation ambition that led to the news you read ahead of the call: the new, market-focused organizational structure to become a nimbler, even more customer-centric company to accelerate our performance. In the fourth quarter, the Agilent team delivered revenue of 1.701 billion dollars — roughly 1 percent reported growth with a flat core growth. This represents a sequential improvement of over 400 basis points from Q3. In addition, our total company book to bill was greater than one. This points to a steady market improvement we're seeing, and we expect it to continue in 2025.

We also gained share in all our geographies — evidence that even in challenging capex environment, customers trust Agilent. As we evolve, we are confident this will only accelerate.

Bob will provide deeper details on our Q4 results — and our outlook for Q1 and FY25. Now I'd like to spend some time talking about our new organizational structure we announced earlier today.

Our new market-focused organizational structure is a result of our customer-centric, market-first strategy and an important step in our organizational transformation work, which we have named "Ignite." This is a product of our Enterprise-focused strategy that drives our evolution to become a nimbler, even more customer-centric company to accelerate our performance.

The new market-focused organizational structure is one of the most significant changes Agilent has seen in a decade and continues the work we did creating our Commercial Organization three years ago. The Commercial Organization doubled down on our customer-first approach in the field and is a critical competitive advantage in supporting our customers.

At that time, we started by creating a singular Commercial leadership structure. We then created a foundational infrastructure and intensified our focus on digital capabilities, accelerated an end-to-end customer experience, and ensured sales channels were customer- and market-centric.

So, the changes you see today are part of the successful journey we started three years ago.

With the new structure, we are aligning business units to our markets, facilitating close collaboration among the businesses like never before, and enabling better execution on cross-division, customer-first priorities.

We are combining the strengths of our three businesses, as well as our portfolios, so that we can offer end-to-end solutions and workflows that revolve around our customers and markets.

The Life Sciences and Diagnostics Markets Group, or LDG, represents 2.5 billion dollars in annual revenue and is primarily focused on our Pharma/Biopharma and Clinical/Diagnostics end markets.

LDG provides a comprehensive portfolio of leading technology platforms and solutions to serve Agilent customers' value chain — including research and discovery, development and scale-up, production of therapeutics, and development of critical cancer diagnostics.

LDG includes LC and LC/MS, cell analysis, as well as CDMO capabilities, which include NASD and BIOVECTRA. The business also includes pathology, companion diagnostics, and genomics.

Simon May will serve as president of LDG. Prior to joining Agilent earlier this year, Simon was executive vice president and president of the Life Science Group at Bio-Rad Laboratories.

The Applied Markets Group, or AMG, represents 1.3 billion dollars in annual revenue and is focused on food, environmental, forensics, chemicals, and advanced materials markets. AMG includes GC and GC/MS, spectroscopy, vacuum-technology platforms, and Certified Pre-Owned business. AMG will focus on growing Agilent's strong leadership in these markets and accelerating growth in new areas of the market.

Mike Zhang, a 22-year veteran of Agilent, has been promoted to president of AMG. Most recently, Mike was vice president and general manager of our GC and GC/MS product line.

And Agilent CrossLab Group, or ACG, represents 2.7 billion dollars in annual revenue and is focused on supporting our customers in all our end markets.

The group is uniquely positioned to leverage its comprehensive portfolio and capabilities to further enhance the installed base of instruments with targeted workflows and applications that drive critical outcomes and productivity in labs.

ACG includes services, software and informatics, automation, and consumables. This business will accelerate and strengthen customer relationships across all end markets.

Angelica Riemann, a 25-year veteran of Agilent, will continue to serve as president of ACG. Prior to her current role, she served as vice president and general manager of ACG's Services business. This change is one of the many that demonstrate how we're becoming nimbler and accelerating the pace of innovation.

And you can see that with the Q4 launch of the exciting Agilent Infinity III LC Series that harnesses our 50 years of LC expertise and leadership. The Infinity III Series has advanced automation that simplifies our customers' daily routines and is compatible with the previous generation, which allows for seamless upgrades and technology refreshes. And Agilent

InfinityLab LC Solutions are certified by My Green Lab. These instruments optimize lab space; and they reduce water, solvent, and energy consumption while also minimizing waste.

While just launched in October, early traction from customers has been very positive.

Also in Q4, we closed our acquisition of BIOVECTRA, demonstrating our commitment to providing customers the most advanced capabilities to accelerate their therapeutic programs.

With BIOVECTRA now being part of Agilent, we expand our portfolio of CDMO services beyond our market-leading oligonucleotide production at NASD. We're adding more rapidly growing therapeutic modalities, like peptide synthesis, a market expected to continue to expand rapidly over the coming years and bringing world-class capabilities to support gene-editing therapies.

Just last month, my leadership team and I visited BIOVECTRA to welcome our new team members to Agilent and we became even more exhilarated by the capabilities we will be able to harness. Plus, both Agilent and BIOVECTRA's focus on putting customers first and accelerating the pace of innovation so we can add to and capitalize on opportunities was abundantly clear as I spoke to dozens of BIOVECTRA employees.

Separately, during the quarter, we hit another important milestone. For the full year, we passed the 1-billion-dollar mark in digital orders for the first time across the company. This is a result of our investment in our digital ecosystem to ensure our customers can do business with us in ways that meet their needs. To reinforce what I've stated in previous calls: We are sharply focused on key growth vectors, such as Biopharma, PFAS, and Advanced Materials.

And the Agilent team is mobilized to accelerate value creation through our Ignite transformation program. The objective of Ignite is to drive revenue growth and margin expansion — by increasing our execution capabilities. The world is moving faster than ever, and so are we.

That's exactly why we introduced our new, market-focused organizational structure.

We are laser focused on winning in the marketplace and adding value to our customers and shareholders.

We will dive more deeply into these details — including our evolved strategy and the Ignite transformation that will help us execute on that strategy — at our Investor Day on Dec. 17 in New York.

Bob will now provide the details of our results as well as our outlook for fiscal year 2025 and the first quarter.

After Bob delivers his comments, I will be back for some closing remarks.

Over to you, Bob.

Bob McMahon, Chief Financial Officer

Thank you, Padraig, and good afternoon, everyone.

In my remarks today, I will provide some additional details on fourth-quarter revenue and take you through the income statement and other key financial metrics.

I'll then cover our guidance for fiscal year 2025 and the first quarter of 2025. Unless otherwise noted, my remarks will focus on non-GAAP results.

As Padraig said, we are pleased with our Q4 results. Agilent finished the fourth quarter with core growth in line with our expectations while EPS exceeded our expectations as we executed well against a challenging, albeit, improving market.

Q4 revenue was 1.701 billion dollars, a decline of 0.3 percent core but a sequential improvement of over 400-basis-points.

On a reported basis, our revenues were up 0.8 percent as we benefited from 50 basis points of currency and BIOVECTRA contributed 60 basis points. Looking at our Q4 performance by business unit, the **Life Sciences and Applied Markets Group** reported 833 million dollars in revenue. That represents a 1 percent decline as instrument volumes continue to be constrained by conservative customer capex spending, while consumables grew mid-single digits.

Having said that, for our Instruments business, our orders grew year-on-year and for the third consecutive quarter our book-to-bill was once again greater than one. We see this as positive evidence of an ongoing, steady instrument recovery.

Moving on to **Agilent CrossLab Group**, the business delivered revenue of 426 million dollars for the quarter — up 5 percent.   ACG grew in every market and in every region except China, where it was flat year over year but up sequentially. The contracts business, including our fast-growing Enterprise Services business, grew double digits again in Q4 — as it has every quarter this year.

Our largest customers continue to maximize utilization of their assets, right-size their operations and leverage opex budgets to deliver on their productivity goals and outcomes.

We recently received a top supplier award from one of our largest strategic customers in the Applied Markets as a recognition of our longstanding and beneficial partnership throughout the years.

The **Diagnostics and Genomics Group** posted 442 million dollars in revenue, representing a 3 percent decline that was slightly above expectations.

Pathology saw solid growth globally and was offset by expected softness in NASD and cell-analysis instruments.

Now looking at our end markets and geographies, our largest end market, Pharma, declined 1 percent, slightly better than what we expected. Within Pharma, BioPharma declined mid-single digits, while small molecule grew low-single digits. Encouragingly, all regions — except for the Americas — grew in the quarter. The Americas region was pressured by the expected decline of NASD. We expect both the Americas region and NASD to return to growth in fiscal year 2025.

In Chemical and Advanced Materials, revenue grew 1 percent, with our advanced materials sub-market growing mid-single digits, driven by our business in the semiconductor market.

Our business in the Diagnostics and Clinical end market performed strongly, growing 7 percent, driven by Pathology and improved performance in Genomics.

In Environmental and Forensics, we declined 6 percent, although dollars were roughly flat sequentially. All regions grew — except for the U.S., related to timing of orders. That being said, we continue to see very strong growth in PFAS solutions with our business growing more than 40 percent in Q4 across multiple end markets.

Now wrapping up our end markets, Food was down 3 percent versus last year while our Academia and government market was down 1 percent.

Geographically, Asia ex-China grew high-single digits and Europe grew low single digits in the quarter, while the Americas and China declined as expected. China was down only 3 percent and exceeded our expectations. We also booked our first China stimulus orders in October, and anticipate much more in fiscal 2025.

Now let's move to the rest of the P&L

Gross margin was 55.1 percent in the quarter — down 70 basis points versus last year driven by lower volume and mix.

Our operating margin was 27.4 percent as our productivity initiatives and the cost actions we took earlier in the year were fully recognized this quarter. The annualization of these savings, coupled with the market recovery and the initial returns from the Ignite transformation give us confidence in driving EPS growth in fiscal year 2025.

In addition, we continue to look for ways to drive EPS growth below the line. Our net interest income was in line, while we benefitted from a lower tax rate in the quarter and our share count was 287 million diluted shares outstanding.

Now putting it all together, Q4 earnings per share was $1.46. That was ahead of our expectations and up 6 percent from a year ago.

Now let me turn to cash flow and the balance sheet.

We continue to enjoy a very strong balance sheet and healthy cash flows. Operating cash flow was 481 million dollars in the quarter, and we invested 93 million dollars in capital expenditures. For the year, we well exceeded our operating cash flow expectations, with operating cash flow of 1.75 billion dollars.

During the quarter, we returned over 400 million dollars to shareholders, consisting of 335 million dollars in share repurchases and 68 million dollars in dividends. For the year, we returned over 1.4 billion dollars to shareholders through repurchasing shares and dividends.

Looking forward, you may have also seen recently we announced a 5 percent increase in our quarterly dividend, marking another year of increases in advancing our industry-leading dividend yield.

We ended the quarter with a net leverage ratio of 1.1, a very strong number even as we acquired BIOVECTRA in the quarter. Our strong cash flow and healthy balance sheet provide us with plenty of opportunity to invest in the business going forward.

In summary, we performed well and saw steady market improvement in the quarter.

We are executing well, staying disciplined, and investing in high-growth opportunities.

Now, let's move on to our outlook for the upcoming fiscal year and first quarter.

We expect the recovery that we have seen the past few quarters to continue throughout fiscal 2025. While we expect the market to grow slower than historical rates for the full year, we expect improvement throughout the year with the second half of the year returning to more traditional levels of growth. We expect our results to mirror that cadence of improvement on a core basis.

As Padraig noted earlier, we exited Q4 with a book to bill ratio over one for the company and greater than 1 for instruments. In addition, Q4 was the first quarter in 2024 that instrument orders grew year on year. While one quarter does not a trend make, it is certainly encouraging.

For the full year guide, we expect revenue in the range of 6.79 to 6.87 billion dollars. This represents a reported growth range of 4.3 percent to 5.5 percent. Currency is a slight headwind of 0.2 points while M&A, related to BIOVECTRA contributes 2.0 percent at the low end and 2.2 percent at the high end. This translates to a core growth of 2.5 percent to 3.5 percent.

To start the year, we think this is a prudent way to plan given the near-term dynamics in the U.S.

From a geographic perspective, we expect modest growth in the Americas and Europe. While we see funnel activity increasing in China, we are taking a conservative approach on the timing of revenue associated with the stimulus.

We expect to see recovery over the course of the year in China, resulting in slightly positive growth for the full year.

From a business group perspective, we expect to return to growth in all three groups, led by ACG.

As a note, this statement is true under the new structure as well. As Parmeet mentioned earlier, we will provide recast historical segment information to reflect these changes ahead of our upcoming Investor Day.

In terms of phasing, we expect improvement throughout the year, with more normalized growth expected in the second half of the year.

We are projecting roughly 50 to 70 basis points of operating margin expansion for the year.

Below the line, we expect net interest expense of 25 million dollars due to the financing of BIOVECTRA versus the net interest income this year. In addition, we expect a tax rate of 13 percent and 286 million shares outstanding.

Fiscal 2025 non-GAAP EPS is expected to be in the range of $5.54 to $5.61 and incorporates the planned 5 cents Year One dilution from BIOVECTRA. This range represents a 5 to 6 percent growth rate and if excluding the BIOVECTRA dilution, a growth rate of 6 to 7 percent year on year.

We expect cash flow to remain strong in fiscal year 2025. We are expecting roughly 1.65 billion dollars in operating cash flow and 450 million dollars in capex as 2025 is the peak spending year for the NASD expansion.

Looking to Q1, we expect revenue in the range of 1.65 to 1.68 billion dollars. Our forecast assumes no significant budget flush during the end of this calendar year. This represents a reported decline of 0.5 percent to growth of 1.3 percent. Currency is a 30-basis point headwind, while M&A is expected to contribute 1.8 points of growth. We are expecting core growth between a decline of 2 percent to flat at the upper end.

It's important to note that we estimate our projected Q1 year-over-year results will be negatively impacted this year by roughly 2 percentage points due to timing of the Lunar New Year, which occurs in late January versus February of last year. This includes the additional 15 million dollars in revenue pull-forward we communicated in Q1 of last year. Adjusting for the Lunar New Year impact, we are expecting continued sequential growth improvement.

First quarter 2025 non-GAAP earnings per share are expected to be between $1.25 and $1.28, lower than the full year growth rate due to the Lunar New Year timing.

Looking into 2025 and beyond, we remain incredibly optimistic about the future of our markets and our long-term prospects. We are confident in our new market-focused approach and the Ignite transformation will propel us to accelerated growth — and we will become a stronger company.

With that, I'll turn it back over to Padraig for closing comments. Padraig?

Padraig McDonnell, President and CEO

I've said it before, and I want to say it again: These are exciting times at Agilent.

Over the last several months, we have been focused on evolving our strategy, transforming our processes, and empowering our people while continuing to win in the marketplace.

Already, we've made bold moves that have created momentum. We've developed our future strategy. We've kicked off our Ignite transformation to help execute on that strategy.

And along the way, we've made moves to create new growth vectors.

We are making acquisitions that will contribute to our growth. And we are strengthening our capability to efficiently and effectively integrate those acquisitions that will lay the foundation for future M&A.

These initial actions position us well for the journey ahead.

They ensure we are building the capability, strength, and speed to reinvigorate our culture and enable us to thrive while delivering outstanding results for our customers and for our shareholders.

And amid all this change, Fortune Magazine this month named Agilent No. 11 among the "World's Best Workplaces 2024" — a list that only includes 25 companies. This is yet another recognition of what we already know internally: The Agilent team is the best in the industry!

This is not only a recognition of our outstanding company culture but of the talented professionals we have — ones who are ambitious, resilient, and high-performing.

This is exactly the team we need to evolve Agilent — to build an enduring company that sets the standard for excellence with our customers and creates value for our shareholders.

Thank you again for joining today's call.

I couldn't be more energized by the momentum we have, the opportunities we will seize, and the history we will make.

Now, I look forward to answering your questions. Parmeet?