Keysight Technologies Third Quarter 2026 Earnings Conference Call

Prepared Remarks

LIZ MORALI

Good afternoon and thank you for joining us for Keysight's Third Quarter Earnings Conference Call for Fiscal Year 2026.

Joining me on today's call are Satish Dhanasekaran, President and CEO; Neil Dougherty, Executive Vice President and CFO; Kailash Narayanan, President of the Communication Solutions Group; Jason Kary, President of the Electronic Industrial Solutions Group and Steve Yoon, Senior Vice President of Global Sales. Following the prepared remarks from Satish and Neil, we will conduct a question-and-answer session.

The press release and information to supplement today's discussion can be found on our Investor Relations website, investor.keysight.com.

During today's discussion, we will make forward-looking statements about the financial performance of the company. Actual results may differ materially from those mentioned in these forward-looking statements as a result of risks and uncertainties. Information about these risks and uncertainties can be found in our most recent Forms 10-K and 10-Q filings with the SEC. We do not intend to update any forward-looking statements.

In addition, we will refer to non-GAAP financial measures, and reference core growth, which excludes the impact of acquisitions or divestitures completed within the last twelve months and currency movements. The most directly comparable GAAP financial metrics and reconciliations can be found on our Investor Relations website, and all comparisons are on a year-over-year basis unless otherwise noted.

I will now turn the call over to Satish.

SATISH DHANASEKARAN

Thank you, Liz. Good afternoon and thank you everyone for joining us on today's earnings call.

Keysight delivered another outstanding quarter, with record results and broad-based growth across our markets. The outperformance was driven by strong execution by the team and demand extending across Keysight's full suite of differentiated products and solutions. Orders grew 56%, revenue grew 36%, and earnings per share grew 79%, alongside robust free cash flow generation. Given this momentum, we are raising our outlook for Q4 and for the full fiscal year.

Customers are investing to solve increasingly complex engineering challenges across our end markets such as AI infrastructure, advanced semiconductors, defense modernization, and next-generation communications. Our outperformance reflects the differentiation of Keysight's solution strategy and the increasing value we bring to customers across their innovation lifecycle.

We remain focused on executing our strategy for long-term value creation: starting with identifying and investing ahead of structural growth opportunities, engaging early and deeply with industry leaders, and building differentiated capabilities to solve our customers' mission-critical applications. We remain confident in our ability to sustain our momentum and deliver long-term value.

Now to the business segments…

Communications Solutions orders grew for the 9th consecutive quarter, establishing a new record, and revenue grew 43%, driven by compounding momentum in Commercial Communications and strength in Aerospace, Defense and Government.

In commercial communications, we saw the momentum from the first half of the year continue into the second half, driven by rapid scaling of the AI infrastructure ecosystem. As a result, Wireline delivered record orders, more than doubling year-over-year. The four pillars of opportunity associated with this business – AI infrastructure scaling, speed transitions, silicon photonics, and system-level emulation – all continue to drive growth and pipeline expansion with our customers.

The breadth of our portfolio and sustained engagements with customers across this ecosystem are enabling Keysight to participate across the AI innovation lifecycle, from pre-silicon design, through chip and component validation and system-level emulation of data center racks and clusters, to high-value manufacturing. The industry continues to scale, and we have seen a meaningful increase in the diversity of applications and a greater opportunity to expand with customers globally.

Let me share a few examples of the diversity of our business:

First, silicon designers are adopting Keysight's recently introduced high-performance digital and RF solutions for the lab to validate new designs with system-level requirements to ensure interoperability, performance, and reliability.

Second, interconnect manufacturers are using Keysight's high-fidelity analyzers to characterize the performance of high-speed backplanes to ensure signal integrity and manufacturing yield.

Third, switch designers are using Keysight's emulators to validate network performance across AI workloads and protocols.

Fourth, transceiver manufacturers are rapidly scaling 800G and 1.6T optical transceivers using our industry-leading 224G digital communication analyzers. Investments in the optical component ecosystem continue to ramp and the key players are adopting our broad portfolio of lab products, including the industry's first 220GHz Lightwave Component Analyzer, which we introduced at OFC this year.

And finally, our strategic engagements with hyperscalers continue to deepen, as they are integrating our pre-silicon emulation and workload solutions into their development pipelines.

Looking ahead, the scaling challenges associated with AI data center deployments are driving a multi-year industry roadmap for new architectures, evolving technologies, and new standards. We are well positioned and continue to invest ahead of transitions to capture the opportunities.

Turning to wireless, orders grew significantly again this quarter, with rising customer investment in next-generation connectivity and continued demand across the supply chain supporting AI infrastructure scaling.

In June, the 3GPP plenary meeting in Singapore confirmed the timeline for 6G, with the industry's first standard targeted for March 2029. With that milestone now set, customers are transitioning from exploratory research into funded development programs. Importantly, 6G is shaping up to be much more than the usual vectors of innovation around higher speeds and new spectrum. Three emerging technology areas are: AI-RAN, integrated sensing and communication, or ISAC, and non-terrestrial networks, or NTN. Each of these is expanding the ecosystem and creating opportunities for us to provide end-to-end solutions for these use cases, building on our 5G solutions leadership.

We are engaged with customers around multiple applications such as evaluating AI-enabled beamforming, high-fidelity digital twins, and network traffic steering, and the traction for our solutions continues to build. Our solutions have been architected around a flexible platform that enables customers to validate various candidate technologies by providing insights from the radio channel, network, device, and satellite emulators for early 6G use cases across terrestrial and non-terrestrial networks. Keysight's comprehensive portfolio – spanning the physical layer to emulation tools – is helping us secure early wins with industry leaders.

Turning to aerospace, defense and government, orders were up double digits with growth across all regions, driven by a heightened global focus on deterrence and defense modernization.

Modernization is raising the bar on performance across the market. In radar, the industry is accelerating its shift to advanced radar architectures. These use cases require high-performance validation solutions, leading to rapid adoption of our multi-channel RF solutions and next-generation oscilloscopes at prime contractors.

New security architectures have also accelerated the adoption of lower-cost, autonomous platforms, from UAVs to LEO satellite constellations, that are increasingly delivered by venture-funded defense technology companies moving at commercial speed. We are recognizing this shift and are positioning ourselves to serve this new ecosystem: our engagement with defense startups and neo-primes is scaling, and this year, we achieved key wins across satellite, UAV and phased array radar applications.

Resilient positioning, navigation and timing have become a greater priority as GPS disruption around conflict zones increasingly affects security systems. Demand accelerated for Spirent's PNT solutions that emulate various multi-channel jamming and spoofing scenarios in the lab, which enable customers to design and develop robust and resilient systems for these mission-critical environments. As we integrate our teams and solutions portfolios, we have a solid set of opportunities on which to build.

With record budgets, faster adoption of capabilities by customers, and a portfolio that is purpose-built for mission-critical requirements, we see a durable, multi-year demand cycle ahead, and we are well-positioned to capture it.

Moving to the Electronic Industrial Solutions Group, we delivered another record quarter for both orders and revenue, with revenue growth of 21 percent and meaningful double-digit order growth across all three markets — General Electronics, Semiconductor, and Automotive and Energy.

In General Electronics, growth was again led by AI-related innovation and infrastructure investment. Test intensity continues to rise for high-performance components, such as multi-layer PCBs and capacitors, in support of next-generation compute. Higher frequencies, tighter tolerances, and greater GPU and CPU density are increasing production complexity and quality requirements. Our precision measurement solutions are being adopted to qualify these components in production. In addition, digital health was up double digits with growth across wearables and monitoring applications. And, the growth in education was supported by our semiconductor workforce development solutions, particularly in Asia.

In Semiconductor, we delivered another record quarter driven by ongoing capacity expansion for advanced nodes, high-bandwidth memory, and silicon photonics. Given the increasing adoption of optical interconnects, commercial production of silicon photonics is accelerating across leading foundries and IDMs. We also saw healthy demand for our semiconductor R&D solutions. Our engagement with industry leaders remains high and gives us good visibility into their future requirements as we look into next year and beyond.

Finally, in Automotive and Energy, orders grew solid double digits. Investment remains focused on software-defined vehicle architectures, with broad-based global demand for in-vehicle network and cybersecurity test, where our solutions provide verifiable compliance in support of new standards. Our energy and charging business also grew this quarter with engagements across both grid and automotive customers and spanning high-power charging, storage, compliance, and infrastructure validation applications.

In summary, this quarter's results reflect the strength and diversity of our business. Our portfolio is enabling the major waves of innovation shaping our markets: AI and accelerated compute today, and 6G, defense modernization, grid, and autonomous systems in the years ahead. Every one of these technologies must be designed, validated, and proven before reaching the market. Keysight, with its differentiated technology stack and consistent R&D investments, is well positioned to outperform the market over the long-term.

I want to acknowledge the entire Keysight team for their hard work and commitment to our customers' success, and with that, I will pass the call over to Neil.

NEIL DOUGHERTY

Thank you, Satish, and hello, everyone.

Our momentum continued in fiscal Q3 as we delivered record results that exceeded the high end of our guidance range for both revenue and EPS. These results were driven by further acceleration in our Commercial Communications business and ongoing strength in Electronic Industrial Solutions and Aerospace, Defense and Government. Our portfolio of highly differentiated solutions is resonating with customers, allowing us to expand margins year-over-year. In addition, our cash flow generation was robust, and we are on track to achieve record operating cash flow in fiscal 2026.

Moving to the specifics for Q3…

Orders of $2 billion, 91 million dollars were up 56 percent on a reported basis. Acquisitions represented 5 percentage points of growth and currency was a 1 percentage point headwind. On a core basis, excluding those items, orders grew 52 percent.

Revenue of $1 billion, 846 million dollars was up 36 percent on a reported basis, and up 31 percent on a core basis. Gross margin was 69.0 percent, and operating expenses were $661 million dollars. Operating margin was 33.2 percent, up 820 basis points year-over-year, and exceeded our long-term target range of 31 to 32 percent. We delivered net income of $531 million dollars and earnings per share of $3 dollars and 7 cents. Our core business contributed substantially to these results, with an operating margin of 34.7 percent and operating margin incremental of 66 percent.

From a segment perspective, the Communications Solutions Group generated revenue of $1 billion, 345 million dollars, up 43 percent on a reported basis and up 36 percent on a core basis. CSG gross margin was 70.8 percent, and operating margin was 34.0 percent.

Within CSG, the commercial communications business generated its first billion-dollar quarter, with revenue of $1 billion, 6 million dollars, up 56 percent, led by outstanding growth in Wireline and supported by strong growth in Wireless. Wireline revenue exceeded wireless revenue for the first time this quarter.

Aerospace, defense, and government achieved revenue of $339 million dollars, an increase of 14 percent.

The Electronic Industrial Solutions Group generated a record $501 million dollars in revenue, an increase of 21 percent, with growth across all three markets - general electronics, semiconductor and automotive and energy. EISG gross margin was 64.1 percent, and operating margin was 31.0 percent.

Software and services both grew double digits, now representing approximately 33 percent of Keysight revenue, while annual recurring revenue was 24 percent of total mix.

Moving to the balance sheet and cash flow, we ended the quarter with $2 billion, 605 million dollars in cash and cash equivalents, generating cash flow from operations of $437 million dollars, and free cash flow of $403 million dollars.

This quarter, we repurchased approximately 640 thousand shares of Keysight stock at an average price of approximately $326 dollars per share for a total consideration of $210 million dollars. Year-to-date in fiscal 2026, our share repurchases total $517 million dollars.

Before I turn to our outlook, I wanted to provide an update on our recent acquisitions. Our integration efforts are now largely complete, including systems migrations, one quarter ahead of schedule. Given the faster-than-expected integration, our cost synergy realization will accelerate in Q4. We now expect to have 80 to 90 percent of the $100 million dollars in cost synergies realized on a run-rate basis exiting the fiscal year.

Now, turning to our outlook…

For the fourth quarter of 2026, we expect revenue in the range of $1 billion, 930 million dollars to $1 billion, 950 million dollars, representing 37 percent year-over-year growth at the midpoint. We expect Q4 earnings per share to be in the range of $3 dollars and 34 cents to $3 dollars and 40 cents, representing approximately 76 percent year-over-year growth at the midpoint. This will result in fiscal year 2026 revenue growth of 32 percent and EPS growth of approximately 60 percent at the midpoint. This guidance is based on a weighted diluted share count of approximately 172 million shares.

In closing, fiscal 2026 thus far has been a remarkable year with exceptional performance across our businesses. Our leading portfolio of solutions, levered to multiple technology megatrends, is driving significant growth and margin expansion. We remain focused on enabling our customers and helping them further accelerate technology innovation, in turn driving continued organic growth, profitability and ultimately, value creation for our shareholders.

With that, I will turn the call over to Liz to begin the Q&A session.