

Keysight Technologies Third Quarter 2025 Earnings Conference Call

Prepared Remarks

PAULENIER SIMS

Thank you, and welcome everyone to Keysight's Third Quarter Earnings Conference Call for Fiscal Year 2025.

Joining me are Keysight's President and CEO, Satish Dhanasekaran, our CFO, Neil Dougherty and our senior vice president of global sales, Steve Yoon.

The press release and information to supplement today's discussion are on our website at investor.keysight.com under financial information and quarterly reports. Today's comments will refer to non-GAAP financial measures. We will also make reference to "core" growth, which excludes the impact of currency movements and acquisitions or divestitures completed within the last twelve months. The most directly comparable GAAP financial metrics and reconciliations are on our website, and all comparisons are on a year-over-year basis unless otherwise noted.

We will make forward-looking statements about the financial performance of the company on today's call. These statements are subject to risks and uncertainties and are only valid as of today. We assume no obligation to update them and encourage you to review our recent SEC filings for a more complete view of these risks and other factors.

Lastly, management is scheduled to participate in upcoming investor conferences hosted by Deutsche Bank, Citi Bank, JP Morgan, and Goldman Sachs.

And now I will turn the call over to Satish.

SATISH DHANASEKARAN

Good afternoon, everyone, and thank you for joining us today.

In the third quarter, Keysight's strong execution resulted in an 11% year-over-year increase in revenue to \$1.4 billion and earnings per share of \$1.72, both of which exceeded the high end of our guidance.

On the demand front, orders increased by 7% with growth across both the CSG and EISG segments. We saw sustained AI momentum, strong growth in aerospace, defense and government and general electronics with stability in wireless and automotive.

We are executing our strategy and capitalizing on opportunities across our end markets. The ongoing pace of innovation is driving deeper collaboration with customers. Based on our solid pipeline of opportunities and customer engagements, we are once again raising our outlook for the full fiscal year.

Turning to the business segments...

The Communication Solutions Group delivered solid order and revenue growth year-over-year.

In wireline, our early recognition of AI as a transformative technology shift led us to make strategic investments a few years ago to align our portfolio to the multi-year innovation roadmap we saw unfolding. As the industry accelerates investments in compute, memory, networking, and interconnect technologies, we are capitalizing today while investing to position Keysight for the long term.

The emerging AI ecosystem is fueling massive growth in digital infrastructure, which in turn drives the need for rapid innovation across the technology stack. To meet this challenge, we're delivering advanced physical layer solutions and new silicon photonics capabilities that enhance R&D workflows and address customers' signal integrity and performance requirements.

At the same time, networking technologies are advancing rapidly to keep pace with escalating performance needs. Our interconnect solutions are enabling this evolution, supporting scale-up and scale-out architectures with higher network speeds and more advanced switching capabilities. This quarter, we delivered the industry's first protocol-layer solution for validating 1.6 terabit performance – a major milestone for next-generation networks. We also partnered with AMD to achieve early PCIe gen 6 compliance validation, laying the groundwork for the next wave of AI-ready high-speed interfaces.

With growing complexity in data centers at scale, it's critical to model and test not just individual devices and components but their interactions at the system level. This prevents bottlenecks within the datacenter, optimizing system efficiency and performance for AI applications. We're working closely with industry leaders to model complex workloads, training environments, and inter-cluster interactions. Our software solutions enable emulation of real-world scenarios, exposing system-level challenges early in the design process. This quarter, we saw broader adoption of Keysight AI solutions as customers look to streamline integration and accelerate deployment of AI infrastructure.

The wireless business remains stable. Current momentum in non-terrestrial networks and continued R&D activity in 5G advanced is contributing to steady demand. We are actively partnering with industry leaders to support emerging applications like direct-to-cell connectivity and low Earth orbit networks. While broader 6G commercialization is still years away, we are focused on leading the industry into the next generation of innovation. We're deeply engaged in progressing early 6G research and shaping the standards that will define its implementation. This quarter, we collaborated with NTT to demonstrate a breakthrough in sub-terahertz component characterization at ultra-high data rates. We're working with key customers on advancing new spectrum utilization, sensing, and next-generation MIMO technologies that will drive long-term transformation across wireless.

Moving to Aerospace, Defense and Government...

Elevated defense spending globally and modernization priorities are driving robust demand, particularly in the U.S and Europe. We secured key wins at EU prime contractors for radar and

electromagnetic spectrum operation applications, leveraging our multi-decade experience in high-performance capabilities and complex system integration. Our differentiated platforms emulate complex 3D radio channel conditions and enable customers to model dynamic signals for satellite, vehicle, airborne, and terrain scenarios. Keysight is well-positioned to capitalize on growing defense and government budgets around the world.

Our enablement of sovereign research and innovation continued. This quarter, we collaborated with AIST in Japan to establish a 1,000 qubit platform. This sets a new benchmark for furthering quantum computing research and results from our commitment to long-term innovation and investments in advanced R&D.

Turning to the Electronic Industrial Solutions Group, orders and revenue grew both year-over-year and sequentially.

In our broad general electronics business, orders grew strongly in the quarter and year-to-date. In consumer industrial, high-performance requirements in AI data centers are translating into investment in high-speed PCBs and interconnects. Digital health continued to grow driven by advancements in the validation and production of medical devices. This momentum extended to ensuring compliance in wireless and wired connectivity for monitoring systems. Advanced research and education also grew this quarter, driven by leading-edge semiconductor, 6G, and photonics initiatives, with growth across the EU and Asia-Pac regions.

In automotive, demand improved sequentially and was stable year-over-year as we lapped higher compares. Our solutions are enabling OEMs and their partners to advance new, software-defined architectures, as well as advanced radar and sensing. Leveraging Keysight's broad portfolio, we're engaging with customers in the design and validation of in-vehicle network compliance and security applications.

This quarter we enabled NIO to validate the compliance of their smart electric vehicles with global wireless connectivity standards. In addition, our ESI and design engineering software renewal rates with major OEMs were strong across all regions. We also recently delivered and installed a state-of-the-art R&D battery test lab for a leading European OEM customer. Despite headwinds, these collaborations illustrate the industry's on-going commitment to innovation as it transitions to smart, connected vehicles.

In semiconductor, robust demand for our wafer test solutions continued. Keysight's differentiation and customer focus is driving tighter engagement with leading foundries and IDMs. Our advanced node, high-bandwidth memory, and silicon photonics solutions are enabling customers to address increasing AI compute intensity and power efficiency requirements. Investment and growth expectations remain favorable, supported by sovereign priorities around the world.

Moving to software and services...

Keysight's simulation and emulation portfolio is unlocking faster and smarter innovation for our customers, helping them to achieve faster time-to-market, reduced risk, and superior product

performance. This quarter, we saw healthy demand for our RF EDA solutions driven by increased government, aerospace and defense spending as well as the need for high-speed digital simulation capabilities in the AI data center supply chain.

Keysight's services business continues to grow, driven by the expansion of managed services and value delivered through KeysightCare. This quarter, we saw strength in aerospace, defense, and government, as well as data centers – markets where high-value services and maximum uptime are mission-critical to our customers' success.

Our new products and solutions continue to accelerate customer innovation. At the International Microwave Symposium in June, Keysight showcased multiple high-performance products that address the needs of next-generation radio frequency and digital designs. This included the industry's first handheld millimeter wave signal analysis solution, advanced phased-array antenna test capabilities, and phase-noise measurement systems, all with applications across multiple end markets.

In summary, Keysight is capitalizing on market opportunities and the multiple waves of technology innovation underway. I'd like to thank our team for their relentless customer focus and collaboration, which positions us well for both near- and long-term value creation. We remain confident in our ability to navigate the evolving trade and tariff environment, to deliver healthy margins and strong free cash flow with our financial model and operational flexibility – reinforcing our ability to invest, adapt, and lead.

With that, I will turn it over to Neil to discuss our financial performance and outlook.

NEIL DOUGHERTY

Thank you, Satish, and hello, everyone. Third quarter revenue of \$1 billion 352 million was above the high end of our guidance range, up 11 percent on a reported basis or 9 percent on a core basis. Orders of \$1 billion 340 million were up 7 percent on a reported basis or 6 percent on a core basis.

Looking at our operational results for Q3, we reported gross margin of 64 percent, operating expenses of \$526 million, and operating margin of 25 percent, an increase of 60 basis points over last year.

Turning to earnings, we achieved \$297 million of net income and delivered earnings per share of 1 dollar and 72 cents, which increased 9 percent year-over-year. Our weighted average share count for the quarter was 173 million shares.

Keysight's Q3 tariffs were in line with the estimates that we provided last quarter. We are making progress on our mitigation strategies, which include supply chain optimization, as well as pricing and efficiency actions. Accounting for the longer execution time required for certain strategies and our quote-to-revenue cycle time, we are factoring in a lag for these actions to be fully realized in our results.

Moving to the performance of our segments, the Communications Solutions Group generated third quarter revenue of \$940 million, up 11 percent on a reported basis or 10 percent on a core basis.

Commercial communications revenue of \$644 million was up 13 percent, driven by double-digit growth in both wireline and wireless.

Aerospace, defense, and government achieved revenue of \$296 million, an increase of 8 percent. Altogether, CSG delivered 67 percent gross margin and 26 percent operating margin.

The Electronic Industrial Solutions Group generated \$412 million in revenue, an increase of 11% on a reported basis or 9% on a core basis, with growth across automotive and energy, semiconductor, and general electronics. EISG delivered 57 percent gross margin and 22 percent operating margin.

Software and services accounted for approximately 36 percent of Keysight revenue, while annual recurring revenue was 28 percent of the total.

Moving to the balance sheet and cash flow,

In Q3, we generated cash flow from operations of \$322 million, and free cash flow of \$291 million. Year-to-date free cash flow now stands at \$1.1 billion. We ended the quarter with \$2 billion 636 million dollars in cash and cash equivalents. An additional \$759 million is designated as short-term restricted cash, the vast majority of which is set aside for closing the Spirent acquisition. We repurchased approximately 300 thousand shares this quarter at an average price of approximately \$164 for a total consideration of \$50 million.

With regard to the pending acquisition of Spirent, the final regulatory review is progressing, and we now anticipate closing the transaction in our fiscal fourth quarter. The acquisitions of Synopsys' Optical Solutions Group and Ansys' PowerArtist are similarly advancing towards final regulatory approval.

Turning to our outlook...

Let me start with a few comments on the tariff rates announced on August 1st. We estimate the new tariff rates will increase our tariff exposure by approximately \$75 million annually. As communicated last quarter, we are on track to fully mitigate the April tariffs by Q1. We have initiated additional actions to address the August tariff increase which we expect to have fully mitigated, on a dollar basis, within the first half of FY26.

As Satish noted, the demand environment has remained resilient, despite an uncertain macroeconomic backdrop. We enter Q4 in a strong backlog position. Given our year-to-date outperformance and visibility into the coming quarter, we are raising our full-year growth outlook once again.

For the fourth quarter, we expect revenue in the range of \$1 billion 370 million to \$1 billion 390 million, and Q4 earnings per share in the range of 1 dollar 79 cents to 1 dollar 85 cents, based on a weighted diluted share count of approximately 173 million shares. This will result in full-year revenue growth of 7% and full-year EPS growth of approximately 13% at the midpoint. This guidance factors in all tariff announcements to date and assumes tariffs remain at August levels.

With that, I will now turn it back to Paulenier for the Q&A.