



Keysight Technologies Fourth Quarter 2025 Earnings Conference Call

Prepared Remarks

PAULENIER SIMS

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

Joining me are Satish Dhanasekaran, Keysight's President and CEO, and Neil Dougherty, our CFO. During the Q&A session, we will also be joined by Kailash Narayanan, President of the Communications Solutions Group, and Jason Kary, President of the Electronic Industrial Solutions Group.

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 UBS and Barclays. And now I will turn the call over to Satish.

SATISH DHANASEKARAN

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

Keysight delivered outstanding fourth-quarter results, exceeding the high end of our guidance. Orders grew 14%, revenue increased 10%, and EPS rose 16%. This was a strong finish to a year of building momentum. Full-year orders and revenue rose 8%, and EPS increased 14%, surpassing our expectations and our long-term model.

Keysight's leadership and differentiated solutions continue to drive demand across our markets. Our portfolio is enabling major innovation waves shaping our markets—AI and accelerated compute, non-terrestrial networks, 6G, next-gen semiconductors, and defense modernization.

We enter our fiscal 2026 with a strong solutions roadmap aligned to our customers' priorities, a healthy pipeline of sales opportunities across our end markets, and a broader set of capabilities. In Q4, we advanced our software-centric solutions strategy with the acquisitions of Spirent, Synopsys' Optical Solutions Group, and Ansys' PowerArtist. We're excited about the talent, the technology, and the expanded customer value we can bring to the marketplace.

Our operating model continues to generate strong free cash flow, providing us the flexibility to invest in the organic growth of the business, pursue select strategic acquisitions, and return of capital to shareholders. In FY25, we achieved record free cash flow of \$1.3 billion while investing in R&D, completing three acquisitions, and returning approximately \$375 million through buybacks. Since the start of 2023, we've repurchased over \$1.5 billion of shares—or approximately 45% of free cash flow. Today, I'm pleased to announce that our Board has authorized an additional \$1.5 billion share repurchase program, supporting our ongoing capital return.

Turning to the business segments...

The Communication Solutions Group's orders grew for the 6th straight quarter, delivering double-digit order and high single-digit revenue growth for the full year.

Wireline orders and revenue grew double-digits both in Q4 and for the full year, setting a new record for the business. AI infrastructure buildouts and rapid upgrades to the technology stack are driving greater design, emulation, and test intensity across multiple vectors. Our solutions span the entire workflow from silicon design to system validation and secure deployments.

The rapid scaling of AI workloads is accelerating new designs across the technology stack from compute to networking, interconnect, memory, and power. These transitions require redesigns across AI silicon, DSPs, switches, and transceivers, all of which are enabled by Keysight's solutions. Optical speed refresh cycles are also gaining momentum, moving from the 400G to 800G to 1.6T. In Q4, we collaborated with Broadcom to validate next-generation 1.6T networking silicon and custom AI accelerators. Keysight's silicon photonics solutions continue to drive advancements in CPO and LPO technologies of the future.

With the breadth of Keysight’s portfolio spanning physical-layer solutions and AI emulation solutions, built on technologies acquired from Ixia, we are making a meaningful contribution to the entire ecosystem. We are also capitalizing on robust demand from the scaling AI supply chain including rack and cluster components, interconnects, and AI accelerators.

Additionally, Keysight is actively involved with industry leaders and a growing number of consortia shaping the future of AI infrastructure. At the Open Compute Project conference, we partnered with Meta to demonstrate large-scale validation of GPUs and networking prior to deployment into clusters. The recently launched Keysight AI Data Center Builder won the Data Center Innovation best product award at the European Conference on Connectivity in October of 2025.

Turning to wireless, orders and revenue grew high-single digits for the full year, and outperformed expectations driven by ongoing standards evolutions, non-terrestrial networks, and early 6G research. We saw steady 5G demand continue with Releases 18 and 19 of the standard, which included enhanced uplink, advanced MIMO, and energy efficiency applications.

Momentum increased in non-terrestrial networks where we are engaged with industry-leading players to advance direct-to-cell connectivity and new LEO designs. Spirent’s best-in-class precision location simulators expand Keysight’s offerings by providing the accuracy and realism needed to enable the next generation of positioning, navigation, and timing use cases.

In 6G, the industry is shifting from pure research to early pre-standard designs. We are engaged with market-defining customers and are well positioned to intercept the industry’s priorities. We doubled our 6G collaborations over the past year, partnering with customers on several new applications—including channel sounding, network modeling using digital twins, FR3 spectrum, and advanced MIMO phased antenna design.

In Aerospace, Defense, and Government, we generated record orders while revenue increased by 8% for the year. In an increasingly competitive global security and defense landscape, we are seeing strong customer engagement for defense modernization, enhanced deterrence capabilities, and operational readiness.

Opportunities are expanding for Keysight as traditional primes, direct government entities, and a growing contingent of neo-primes, and defense tech companies invest in emerging technologies in space and satellite, autonomous systems, and advanced antenna designs. This quarter, we secured key wins with US prime contractors to accelerate automated device verification. Our advanced component analysis capabilities are enabling fast phased array antenna over-the-air characterization for space, radar, and tactical communication. We won a deal from a US prime contractor for multiple solutions spanning high-performance spectrum analysis, signal generation, and network analysis for radar and air defense applications.

In Europe, momentum remains strong as multiple primes invest in radar, EMSO, and space applications. Ministries of Defense in allied regions are leveraging our wide-band signal recording capabilities to capture field data for lab analysis.

With decades of leadership across RF, digital, and optical technologies—plus new federal-focused capabilities from Spirent—Keysight is well positioned to capture growing defense demand.

Now moving to the Electronic Industrial Solutions Group, orders and revenue both grew in Q4 and for the full year.

In our general electronics business, orders grew for the fifth consecutive quarter and were up high single digit in Q4 and double digit for the full year led by strength in the broad electronics supply chain, digital health, and education. AI-related innovation and investment fueled demand for our differentiated solutions for high-speed PCB, interconnect, and component test. In digital health, interoperability, connectivity, and latency challenges in the medical device and system workflow are driving investment. Advanced research spending in semiconductor, 6G, quantum and photonics initiatives is also continuing at a steady rate, particularly outside of the US where we benefit from our global scale and local engagement.

In semiconductor, the pace of innovation and investment remains robust. Our semi business delivered solid order and revenue growth this quarter, driven by steady demand for wafer test and lithography solutions as AI-driven capacity expanded for leading edge nodes, high-bandwidth memory, and silicon photonics. As lithography and foundry customers expand their own advanced packaging offerings, we are enabling them to achieve unprecedented levels of precision and accuracy.

Our deep collaboration with the world's leading foundries and integrated device manufacturers, as well as their respective customers, allow us to identify and address their end-to-end needs from early R&D to wafer fabrication. This year, we saw robust growth in silicon photonics. The investments that we initiated two years ago are allowing us to capture this inflection. While geopolitical and policy uncertainties remain, the outlook for semiconductor capacity investment and new technology roadmaps remains positive in 2026.

In automotive, despite mixed headlines, we continue to empower customer innovation, and demand has largely stabilized. We are also expanding into new opportunities in grid modernization where our combination of physical layer power and protocol layer network expertise is a differentiator. Our portfolio of solutions spans software-defined vehicles, EV, charging, grid, and manufacturing. In-vehicle network compliance and security remain customer priorities, as well as the design and test of new sensing architectures and optical connectivity. The recent acquisition of the Optical Solutions Group expands our photonics portfolio as interconnect and photonics complexity increases across next-generation industrial and automotive applications.

We continue to advance our go-to-market and customer engagement model to deepen long-standing strategic relationships while acquiring new customers and opportunities as global supply chains shift. Over the past year, our teams executed over 150 strategic engagements with market-defining innovators while expanding our customer base with more than 3,000 new logos.

Our Keysight World events reach thousands of customers globally. We actively participated in industry events, such as Mobile World Congress and European Microwave, and over 30 standards bodies with industry leaders. We continue to maintain lifecycle engagement with our customers through our

growing Services business which has reached record revenue, fueled by robust demand for KeysightCare premium offerings.

In summary, FY25 marks our return to growth, and as we look ahead, we are encouraged by the momentum in our business and end markets. The technologies reshaping our world directly match Keysight's strengths, and we're leaning in with our first-to-market solutions, customer collaborations, and operational discipline. Even in an uncertain environment, we are confident in the fundamentals of our business model and in our ability to deliver long-term shareholder value.

I will now turn it over to Neil to discuss our financial performance and outlook in more detail.

NEIL DOUGHERTY

Thank you, Satish, and hello, everyone. Fourth quarter revenue of \$1 billion 419 million was above the high end of our guidance range, up 10 percent on a reported basis or 9 percent on a core basis. Orders of \$1 billion 533 million were up 14 percent on a reported basis or 12 percent on a core basis. Fourth quarter results included \$22 million in orders and \$11 million of revenue from the recently completed acquisitions, while currency added \$4 million to orders and \$7 million to revenue.

Looking at our operational results for Q4, we reported gross margin of 64 percent, operating expenses of \$539 million, and operating margin of 26 percent. We generated \$331 million of net income and delivered earnings per share of 1 dollar and 91 cents, which increased 16 percent year-over-year. Our weighted average share count for the quarter was 173 million shares.

For the full year, Keysight generated revenue of \$5 billion 375 million, up 8 percent as reported, or 7 percent on a core basis. Gross margin was 65 percent, and operating margin was 26 percent. FY25 earnings per share of 7 dollars 16 cents was up 14 percent. For the year, Keysight delivered core operating leverage of 39 percent, inclusive of tariff impacts.

Moving to the performance of our segments, the Communications Solutions Group generated fourth quarter revenue of \$990 million, up 11 percent on a reported basis or 9 percent on a core basis. Commercial communications revenue of \$660 million was up 12 percent, driven by continued strength in wireline and growth in wireless. Aerospace, defense, and government achieved revenue of \$330 million, an increase of 9 percent. Altogether, CSG delivered 66 percent gross margin and 27 percent operating margin.

The Electronic Industrial Solutions Group generated \$429 million in revenue, an increase of 9 percent on a reported basis or 8 percent on a core basis, with growth in semiconductor and general electronics. EISG delivered 60 percent gross margin and 25 percent operating margin.

In FY25, software and services accounted for approximately 37 percent of Keysight revenue, while annual recurring revenue was 29 percent of the total.

Moving to the balance sheet and cash flow, we ended the quarter with \$1.9 billion in cash and cash equivalents, generating cash flow from operations of \$225 million, and free cash flow of \$188 million.

During the quarter, we deployed \$1.7 billion for acquisitions. We also repurchased 595 thousand shares, at an average price of approximately \$168 for a total consideration of \$100 million. Full-year share repurchases totaled \$ 375 million, or approximately 30% of the \$1.3 billion in free cash flow generated this year.

Now turning to our outlook...

For the first quarter of 2026, we expect revenue in the range of \$1 billion 530 million to \$1 billion 550 million representing 19% year-over-year growth at the midpoint. Excluding the recent acquisitions, this guidance assumes 10% year-over-year revenue growth.

We expect Q1 earnings per share to be in the range of 1 dollar 95 cents to 2 dollar 1 cent, based on a weighted diluted share count of approximately 173 million shares.

Keysight enters FY26 with strong backlog and a robust sales funnel. As a result, we expect FY26 revenue growth, excluding acquisitions, to be at or above the high end of our 5 to 7 percent long-term target.

The recently completed acquisitions of Spirent, the Optical Solutions Group, and PowerArtist are expected to contribute approximately \$375 million of revenue in FY26. We are working to realize in excess of \$100 million of synergies and other operational efficiencies across Keysight even as we sustain critical investment in R&D to ensure Keysight's expanded product portfolio intersects the growth opportunities in our markets.

The acquisitions are expected to be accretive to Keysight's earnings twelve months post-close. While this implies some mild dilution in FY26, we expect the strength of the core business to enable FY26 EPS growth at or above our long-term 10 percent target.

Now, a few additional modelling considerations for the year. As expected, Keysight enters FY26 having fully mitigated the impact of tariffs implemented in April. We now expect the August tariff increase to be fully mitigated in Q1, one quarter earlier than previously communicated. These expectations are reflected in our guidance. At current debt levels, annual interest expense is expected to be approximately \$110 million, capital expenditures are expected to be approximately \$160 million, and we are modeling a 14 percent non-GAAP effective tax rate for FY26.

In closing, we ended our fiscal 2025 with outstanding results and expect the momentum to carry into 2026. Technology innovation is driving demand for high-performance solutions across a broad range of industries. With our differentiated portfolio, technology leadership, and durable financial model, we are well-positioned to deliver sustained revenue and earnings growth.

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