



Keysight Technologies First Quarter 2026 Earnings Conference Call

Prepared Remarks

LIZ MORALI

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

With me are Satish Dhanasekaran, President and CEO, and Neil Dougherty, Executive Vice President and CFO. Later, during the question-and-answer session, we will be joined by Kailash Narayanan, President of the Communication Solutions Group and Steve Yoon, Senior Vice President of Global Sales.

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 and welcome to the Keysight team. You're joining the company at an exciting time. Good afternoon to everyone listening in and thank you for joining us today.

Since our last earnings call, we have seen further acceleration in demand, with robust growth across business segments and key regions. During the first quarter, Keysight delivered outstanding results, with both revenue and earnings per share exceeding the high end of our guidance range.

This performance reflects the execution of our strategic roadmap alongside the convergence of several secular tailwinds. These include AI-driven technology transformations, next-generation connectivity, rising semiconductor complexity, and defense modernization. Our differentiated portfolio of solutions is helping customers address increasing design complexity, accelerate innovation, and move more quickly from concept to deployment. The investments we have made over the last 3 years have strengthened our portfolio, deepened our customer relationships, and prepared us to capitalize on this unprecedented time.

In Communications Solutions, we saw robust order growth, outpacing revenue growth of 27 percent in the quarter, driven by both Commercial Communications and Aerospace, Defense and Government markets.

First to commercial communications, Wireline delivered record orders, surpassing Wireless for the first time, and was driven by demand for both R&D and manufacturing solutions. This momentum was broad-based across compute, memory, interconnect, and networking technologies.

This quarter marks the ninth consecutive quarter of wireline growth, with four fundamental drivers shaping demand into the future.

First, AI infrastructure is rapidly scaling. Hyperscalers and their respective ecosystems are investing in designing and deploying scale-up and scale-out architectures. As these systems grow larger and more complex, there is an increasing need to validate performance across the entire infrastructure stack. Keysight's full stack portfolio across electrical, optical, RF, and network protocol technologies enables this end-to-end validation from early design through deployment. We are engaging with all the hyperscalers and their ecosystems early in the development cycle to further breakthrough innovations in AI infrastructure.

Second, the industry is moving to higher speeds and Ethernet-based AI networking. AI workloads are driving rapid data center buildouts with 800G and 1.6T optics, alongside accelerated development of 3.2T. The move to Ethernet-based AI fabrics for better interoperability is creating more test opportunities for Keysight. Our high-speed digital, optical, and protocol solutions are helping customers design and validate next generation switching silicon, SerDes, and interconnects, reducing risk and accelerating time to deployment. In parallel, our arbitrary waveform generators and oscilloscopes are facilitating the move towards higher lane speeds such as 448G per lane to enable 3.2T speeds.

Third, optical interconnects are increasing in importance. Rising bandwidth and power demands in AI data centers are accelerating the adoption of optical interconnects to supplement copper. Keysight is assisting optical transceiver and module suppliers to ramp and design their 800G and emerging 1.6T modules, with our recently introduced digital communication analyzer and lightwave component analyzer products, providing precision measurements for standards compliance prior to deployment. Concurrently, customers are designing architectures around co-packaged optics, optical circuit switching, and silicon-photonics. Our differentiated optical capabilities, including tunable laser sources and polarization synthesizers, provide metrology grade measurements for silicon photonics workflows.

Fourth, system-level validation and benchmarking are becoming essential. As AI clusters scale, our workload emulation solutions are assisting leading customers in solving their deployment challenges by emulating real AI workload and stress conditions.

These four drivers create meaningful opportunities and sustained demand for our solutions as customers design, deploy, and scale next-generation AI systems around the world. Keysight's thought leadership and partnerships with industry leaders will be on display at the upcoming DesignCon and OFC events.

Turning to wireless, we saw healthy growth in the quarter, driven by activity in non-terrestrial networks, 6G research, emerging AI at the edge applications, and continued stability in 5G. We are seeing a broadening of non-terrestrial network ecosystems as new LEOs and direct-to-cell services gain traction. Keysight's 5G emulation platforms have expanded their coverage to non-terrestrial network system use cases. This quarter we achieved a live NR-NTN connection with Samsung in a 3GPP-defined satellite frequency band, furthering standardization. The Spirent PNT portfolio further enhances our ability to serve this market with industry-leading satellite emulation capabilities. Concurrently, we are seeing an uptick in activity across the wireless supply chain driven by AI edge devices and supply chain resilience priorities of manufacturers around the globe. Early 6G R&D engagements expanded as the industry prepares for large-scale technology demos at the LA Olympics in 2028, solidifying our view of commercialization by 2030. This quarter, Keysight collaborated with MediaTek to progress standards around integrated sensing and communication use cases. In addition, we registered multiple wins for our newly launched RaySim AI RAN offering which makes possible the emulation of real-world network environments to train AI models for network functions. Keysight will be showcasing its end-to-end solutions portfolio for the wireless ecosystem at MWC 2026 in Barcelona, along with a number of industry leaders.

Turning to Aerospace, Defense, and Government, we saw record Q1 orders and growth across all regions, driven by the heightened global focus on deterrence and defense modernization priorities. Orders reflected a mix of program expansions, production automation, and new system deployments across spectrum operations, space and satellite and radar applications. Keysight's high-precision and purpose-built RF and digital solutions and automation capabilities are ideally suited for these applications with stringent, mission-critical performance requirements. US Primes continue to develop precision capabilities and ramped radar production in the quarter. We secured multiple wins in North America for Keysight's high-performance threat emulators to meet critical spectrum operation requirements. Our digital transceiver module payload testing capability was chosen by a Canadian prime contractor for Space & Satellite applications. We continue to expand collaborations with

defense technology startups and neo-primes as governments look to accelerate innovation around new applications in satellites, drones and autonomous systems. We also saw robust, broad-based activity in Europe, supported by rising defense budgets, and elevated national security priorities aimed at strengthening regional sovereignty. Keysight is actively engaged with multiple European primes and Government agencies in the areas of signal detection and recording, radar phased array antenna characterization over-the-air, 5G field deployments, and precision angle of arrival characterization applications. Our newly acquired PNT portfolio had a solid quarter as Aerospace and defense organizations depend on technology to test anti-jam and anti-spoof avionics in contested environments. The increase in global defense spending represents a structural tailwind to our aerospace and defense business, and we are well positioned to capitalize on this sustained demand going forward.

Moving to the Electronic Industrial Solutions Group, orders grew for the third consecutive quarter, and revenue was a record. Orders and revenue both grew double digits across all three EISG markets of general electronics, semiconductors, and automotive and energy.

In our general electronics business, growth was driven by ongoing momentum in AI-related innovation and infrastructure investments across the global supply chain. In particular, the increasing complexity of high-performance PCBs with higher density interconnects, multi-layer architectures, faster speeds, and tighter tolerances is driving greater test intensity. Keysight's solutions address customer needs across all major PCB design standards. By investing ahead of the curve, we are leading in both R&D and production with increasing speed and higher frequency measurement capabilities. Digital health again grew with wins spanning medical device manufacturing, R&D, and biomedical research. In education and advanced research, lower funding in the U.S. was offset by strength in Asia as sovereign programs step up investment in semiconductor research and workforce development.

In our semiconductor business, the pace of investment accelerated. High-bandwidth memory and a broader AI-driven capacity expansion led to robust demand for our wafer-level test and characterization solutions. Silicon photonics programs and production timelines across major foundry customers are picking up speed and intensity. Keysight's deep photonics and semiconductor expertise, as well as our broad R&D and production portfolio, make us the partner of choice. The outlook for the year, as reflected in our customers' latest technology roadmaps and capacity plans, has improved sequentially.

Lastly, in automotive and energy, the overall business environment was stable as orders grew for the second consecutive quarter. While the end market remains mixed, we had healthy annual renewals in our ESI simulation portfolio, as well as key wins with leading EV and robotaxi customers in software-defined-vehicle-related manufacturing. EV and charging R&D investment by OEMs and test labs was stable sequentially. We recently introduced two new megawatt charging solutions that enable customers to reduce design time and deliver reliable high-power charging systems that meet the latest global and local standards.

In summary, we are pleased with the start to the year and have confidence in our ability to outperform, grounded in our strong pipeline of solutions and go-to-market momentum.



Keysight serves a diversified set of end markets, which allows us to capture growth wherever it emerges. As AI investment inflects, we are leveraging our strengths to capitalize on that momentum.

Importantly, the same core strengths driving our success today are the ones that position us for future inflection points. As new growth opportunities develop, we are built to identify them, respond quickly, and outperform. We see a broad and expanding set of opportunities ahead, and remain confident in our ability to convert them into sustained growth and value creation.

I will now pass it on to Neil to provide additional details on our financial performance for Q1.

NEIL DOUGHERTY

Thank you, Satish, and hello, everyone.

We achieved record results in Q1, well above the high end of our guidance range, fueled by strong growth across our businesses, as we continued to meet increased customer demand for our portfolio of technology solutions.

First quarter total company revenue of \$1 billion, 600 million was up 23 percent on a reported basis, with acquisitions adding 8 points and currency 1 point. On a core basis, excluding those items, revenue grew 14 percent. Orders of \$1 billion, 645 million were up 30 percent on a reported basis and up 22 percent on a core basis.

Gross margin was 66.7 percent, up 90 basis points, driven by favorable product mix, including the addition of higher gross margin revenues from our recent acquisitions. Operating expenses were \$628 million, in line with our expectations, as we continued investments in next-generation R&D. Operating margin was 27.4 percent, up 20 basis points.

We delivered net income of \$376 million and earnings per share of \$2.17, both up 19 percent. This result was driven by strength in our core business, which delivered operating margin of 28.9 percent, up 170 basis points year-over-year, as a result of 41 percent core operating leverage.

Moving to the segments, the Communications Solutions Group generated revenue of \$1 billion, 124 million, up 27 percent on a reported basis and up 16 percent on a core basis, with a gross margin of 68.5 percent and operating margin of 27.5 percent.

Within CSG, the commercial communications business generated revenue of \$758 million, up 33 percent, with growth in Wireless and Wireline.

Aerospace, defense, and government achieved revenue of \$366 million, an increase of 18 percent.

The Electronic Industrial Solutions Group generated \$476 million in revenue, an increase of 15 percent, with growth across all three markets - general electronics, semiconductor and automotive. EISG delivered gross margin of 62.4 percent and operating margin of 27.2 percent.



Software and services accounted for approximately 40 percent of Keysight revenue, while annual recurring revenue was 29 percent of total mix.

Moving to the balance sheet and cash flow, we ended the quarter with approximately \$2 billion, 200 million dollars in cash and cash equivalents, generating cash flow from operations of \$441 million, and free cash flow of \$407 million.

This quarter, we repurchased approximately 420 thousand shares of Keysight stock at an average price of approximately \$207 for a total consideration of \$87 million.

Now, turning to our outlook...

Today's guidance does not contemplate any impact from the recently announced Supreme Court decision regarding tariffs, which we are still assessing.

For the second quarter of 2026, we expect revenue in the range of \$1 billion, 690 million to \$1 billion, 710 million, representing 30 percent year-over-year growth at the midpoint. We expect Q2 earnings per share to be in the range of \$2.27 to \$2.33, representing 35 percent year-over-year growth at the midpoint. This guidance is based on a weighted diluted share count of approximately 173 million shares.

From an acquisition perspective, the integrations are on track, and we are excited about the expanded opportunities we have to serve customers. Our expectation for \$375 million in acquisition-related revenue for fiscal '26 is unchanged. Our synergy target of more than \$100 million in run-rate cost synergies and other operational efficiencies also remains unchanged, with realization heavily weighted to late in 2026 given our timeline for ERP migration.

As you heard from Satish, we are highly encouraged by the strength of our portfolio and the direction of our end markets. With the visibility we currently have, our base case for fiscal '26 has increased, as we now expect total annual revenue and earnings growth just above 20 percent.

In closing, we've started fiscal 2026 with outstanding results and we see solid momentum into Q2, as we contemplate the remainder of the year.

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