



Keysight Technologies Second Quarter 2026 Earnings Conference Call

Prepared Remarks

LIZ MORALI

Good afternoon and thank you for joining us for Keysight's Second 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 take your questions.

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 for joining us today.

Keysight delivered the best quarter in company history, capping off a record first half. Q2 orders grew 56 percent year-over-year, surpassing \$2 billion dollars. Revenue grew 31 percent, earnings per share grew 69 percent, and we generated a record \$472 million dollars in free cash flow. These results demonstrate the strength of Keysight's portfolio, which has been built strategically to deliver first to market solutions that enable innovations across our end markets, including datacenters, networking, defense, semiconductors and general electronics. We are raising our growth expectations for fiscal 2026, driven by the solid start to the year and the pipeline of opportunities we see in the second half. We now expect revenue growth in the high-20s percent for the fiscal year, as the underlying trends driving our business are expected to continue. These investments we are making in our comprehensive set of solutions and deep engagements with market-defining customers position us well for sustained value creation.

Moving to our results by business...

Communications Solutions' order growth significantly outpaced revenue growth of 35 percent year-over-year, with broad strength across both Commercial Communications and Aerospace, Defense and Government. This performance builds on the growth we saw in Q2 last year where CSG delivered 9 percent revenue growth.

In Commercial Communications, we continued to see accelerating momentum in our Wireline business, driven by the ongoing AI datacenter expansions. Wireline delivered record orders again this quarter, with robust demand for both R&D and manufacturing solutions. In the first half of fiscal 2026, our AI-related business has already surpassed the levels achieved in all of 2025. As I mentioned in our Q1 earnings call, this momentum continues to be driven by four key pillars of opportunity that we expect to continue: AI infrastructure scaling, speed transitions, optical and photonics technologies, and system-level emulation.

First, the scaling challenge is intensifying as AI clusters integrate GPUs, CPUs, DPUs, switches, NICs, memory fabrics, and storage across multiple vendors and the networking technologies including Ethernet, UALink, PCIe, NVMe, and CXL. Customers are adopting Keysight's solutions for end-to-end interoperability and system validation to ensure that these components function reliably together at scale. This quarter, Keysight announced new scale up validation solutions for performance characterization. As systems become more complex and expensive, additional investments in deeper manufacturing validation and production test coverage are needed to improve yields and reduce post-deployment failures. We saw strong adoption for newly introduced ultra-high density interconnect solutions that enable rapid characterization of rack backplanes for next-generation scale up networks.

Second, the industry continues to navigate multiple overlapping speed transitions, with continued 800-gig deployments, accelerating adoption of 1.6-terabit architectures and increased R&D activity around 3.2-terabit technologies. The Optical Fiber Conference and Nvidia's GTC this quarter reinforced the accelerating importance of networking as a critical enabler of AI data center scaling.

At OFC, Keysight demonstrated our 1.6-terabit physical-layer solutions with over 20 industry leaders. We also showcased 1.6-terabit traffic emulation, link reliability validation, and SerDes signal integrity solutions for switch and system vendors. And, we collaborated with Broadcom on the industry's first public interoperability demonstration of Ultra Ethernet Consortium specifications, marking a major step toward production-ready AI-optimized Ethernet fabrics.

Third, activity in silicon photonics and co-packaged optics continues to expand. Our early engagements in co-packaged optics position Keysight well to capture value as the industry transitions to these architectures. We are also seeing strong demand from next-generation optical component and transceiver development and deployment, driven by expansion in scale-out networks. We recently expanded our optical portfolio with the industry's first 220GHz Lightwave Component Analyzer to support advanced transceiver and photonic designs. Building on our existing chiplet and photonic design solutions, our new 3D Interconnect Designer is also helping customers address the growing complexity of designing next-generation 3D stacked chip architectures.

Finally, customers need system level emulation and benchmarking capabilities for data centers at scale. We saw strong adoption of our AI workload emulation solutions among hyperscalers as they work to improve utilization of GPU and power resources while addressing growing system and security complexity. This quarter, we expanded the Keysight AI portfolio with the release of Keysight AI Inference Builder, designed to support emerging inference applications.

Together, these trends are driving increasing demand for our solutions across multiple domains. The breadth of Keysight's solutions portfolio and ongoing R&D investments enable us to maintain a differentiated portfolio and an industry-leading position.

Turning to Wireless, orders saw robust growth in the quarter with activity in non-terrestrial networks, 6G research, and increased demand to support the supply chain associated with AI expansion. NTN is becoming an important layer of future wireless architectures, with new LEO constellations scaling and the industry targeting direct-to-cell deployments in the next few quarters. The increasing complexity of LEO environments, including speed, dynamic link conditions, and stringent positioning requirements, is driving demand for Keysight's orbit emulation and Spirent's PNT solutions, which together provide customers with a differentiated ability to validate next-generation NTN systems.

As the industry explores new use cases for 6G such as integrated sensing and communication, energy-efficient networks and expanded coverage capabilities, we are well-positioned to intercept these opportunities through our portfolio of high-fidelity tools for design and emulation. This quarter, we expanded our collaboration with Qualcomm on RF digital twins and, at Mobile World Congress, conducted a joint demonstration with Samsung on AI-RAN workflows. Next month, Keysight will host the 3GPP meeting in Singapore where the timeline for 6G standardization is being solidified, further reflecting Keysight's leadership position as the ecosystem evolves toward commercialization.

Turning to Aerospace, Defense and Government, we saw broad-based global momentum, led by Europe, supported by continued strength in the Americas, as global defense modernization priorities increasingly translate into new programs and investments in next-generation systems. Demand was strongest across radar and electromagnetic spectrum operations as governments and prime

contractors expanded capacity to support evolving operational requirements, while activity in space, satellite and autonomous systems remained healthy. This drove ongoing customer engagement and new wins for our recently introduced radar target generation solutions.

Keysight's ability to accurately simulate radar signals and emulate threat environments is a key differentiator, creating higher-value system-level opportunities with defense contractors and government agencies around the world.

As contested spectrum environments drive a greater focus on radar survivability and autonomous operations, customers are increasingly adopting Keysight's solutions that include high-fidelity emulation, signal analysis, PNT and RF validation to accelerate their development and deployment. This quarter, we secured a key win with the US Airforce to enable next generation operational flightline testing with more stringent requirements. Given the mission-critical nature of this defense market, we also continue to see increased attach rates for our value-added services to enable mission readiness and operations.

Moving to the Electronic Industrial Solutions Group, we delivered a record quarter with all-time highs for both orders and revenue with strong growth across all three EISG markets - General Electronics, Semiconductors and Automotive and Energy.

In General Electronics, double-digit order and revenue growth was driven by ongoing momentum in AI-related innovation and infrastructure investment. Customer capacity investment for high-performance PCBs was again strong this quarter. Greater complexity, increasing density interconnects, multi-layer architectures, and higher speeds are driving customer engagement across multiple standards and applications, resulting in a higher test intensity for PCBs. In education, we saw healthy demand from governments and universities around the globe in the development of the next generation of semiconductor workforce talent through our tailored training modules. Our solutions are also facilitating leading-edge university research in advanced technologies with key wins this quarter in quantum, photonics, semiconductor, and 6G.

In our Semiconductor markets, we saw continued momentum in the pace of innovation and customer investments, as the industry races to scale capacity through 2030. AI ecosystem demand further accelerated this quarter across advanced node, memory, and silicon photonics. Our collaborations with leading foundries, from R&D to production, are enabling faster development and commercial ramp timelines for increasingly complex chip architectures and packaging. This quarter, we had key wafer test solution wins in support of silicon photonics and advanced node programs across Asia, the U.S., and Europe, while our solutions for key lithography customers grew strongly as well. We expect this to be a sustainable contributor of growth for us over the next several years.

Finally, in Automotive and Energy, orders grew for the third consecutive quarter as the business has largely stabilized. Growth was across both software-defined vehicles and EV charging solutions, with key wins for in-vehicle network, cybersecurity, and over-the-air design and validation at OEMs and test labs globally. We are leveraging our expertise and leadership in networking applications to develop solutions for the new mobility market.

In closing, the strong results we are delivering in fiscal 2026 reflect the execution of our strategy we outlined at our Investor Day in 2023, centered on consistently identifying and investing in long-term growth opportunities across technology trends, transforming industries, and global market dynamics. This framework has guided our disciplined organic and inorganic investments, enabling us to build a differentiated portfolio aligned with some of the world's most important and fastest-growing end markets. As we are focused on capitalizing on our early leadership in the AI datacenter infrastructure ecosystem, we are equally excited by the broader set of secular growth opportunities we are progressing, including defense technology, space, 6G, and quantum computing. We believe our portfolio, technology leadership, product pipeline and deep customer relationships position us well to capitalize on these opportunities and continue creating long-term value for our customers and shareholders.

All of this value creation is enabled by the commitment of our team and the collaborative and innovative culture in the company; I want to acknowledge the entire Keysight team for their hard work and dedication to our success.

I'll now pass the call over to Neil to provide additional details on our financial performance and guidance.

NEIL DOUGHERTY

Thank you, Satish, and hello, everyone.

We delivered outstanding results in fiscal Q2, setting new company records for orders, revenue and earnings per share. Our teams capitalized on the robust and dynamic demand environment resulting in strong, double-digit growth across all our business groups.

Q2 orders of \$2 billion, 51 million dollars were up 56 percent on a reported basis, with acquisitions adding 700 basis points and currency adding 100 basis points. On a core basis, excluding those items, orders grew 48 percent.

Revenue of \$1 billion, 717 million dollars was up 31 percent on a reported basis, and up 24 percent on a core basis. Gross margin was 72.3 percent and operating expenses were \$669 million dollars. We delivered net income of \$497 million dollars and earnings per share of \$2 dollars and 87 cents.

As noted in our earnings press release, following the US Supreme Court decision invalidating the IEEPA tariffs, in Q2 we recognized the impact of tariff refunds and the refund of associated surcharges collected from our customers. This resulted in a \$40 million dollar reduction in Q2 revenue and a \$97 million dollar reduction in costs and expenses. Excluding these one-time impacts, Q2 revenue was \$1 billion, \$758 million dollars, up 35 percent; gross margin was 67.6 percent, up 300 basis points; and EPS was \$2 dollars and 58 cents, up 52 percent. Our Q2 investor presentation contains additional details on these adjustments, including impacts by operating segment.

These strong results were driven by acceleration in our organic business, which, excluding one-time tariff impacts, delivered operating margin of 30.4 percent, up 520 basis points year-over-year, as a result of 49 percent operating leverage.

Moving to the segments, the Communications Solutions Group generated revenue of \$1 billion, 231 million dollars, up 35 percent on a reported basis and up 27 percent on a core basis. CSG gross margin was 74.1 percent and operating margin was 33.4 percent.

Within CSG, the commercial communications business generated revenue of \$858 million dollars, up 40 percent, with robust growth in both Wireless and Wireline.

Aerospace, defense, and government achieved revenue of \$373 million dollars, an increase of 24 percent.

The Electronic Industrial Solutions Group generated \$486 million dollars in revenue, an increase of 24 percent, with growth across all three end markets - general electronics, semiconductor and automotive and energy. EISG delivered gross margin of 67.8 percent and operating margin of 33.1 percent.

Software and services accounted for approximately 36 percent of Keysight revenue, while annual recurring revenue was 27 percent of total mix.

Moving to the balance sheet and cash flow, we ended the quarter with \$2 billion, 412 million dollars in cash and cash equivalents, generating record cash flow from operations of \$501 million dollars, and record free cash flow of \$472 million dollars.

This quarter, we repurchased approximately 780 thousand shares of Keysight stock at an average price of approximately \$283 dollars per share for a total consideration of \$220 million dollars.

Now, turning to our outlook...

For the third quarter of 2026, we expect revenue in the range of \$1 billion, 730 million dollars to \$1 billion, 750 million dollars, representing 29 percent year-over-year growth at the midpoint. We expect Q3 earnings per share to be in the range of \$2 dollars and 43 cents to \$2 dollars and 49 cents, representing 43 percent year-over-year growth at the midpoint. This guidance is based on a weighted diluted share count of approximately 173 million shares.

Our acquisition integrations remain on track, and we continue to expect \$375 million dollars in FY26 revenue from the acquisitions and greater than \$100 million dollars in cost synergies and other operational efficiencies. As a reminder, we expect to have about 80 percent of those cost synergies realized on a run-rate basis exiting this fiscal year.

As Satish mentioned, given the strong results we have delivered in the first half of the fiscal year, combined with our guidance for fiscal Q3, we are on track for revenue growth in the high-20s percent range for fiscal 2026. With the visibility we currently have, we would expect to see a historically typical sequential revenue increase into fiscal Q4. In addition, we are increasing investments to meet these higher growth levels and now expect FY26 capital expenditures to be in the range of \$200 million dollars.

In summary, we delivered a record quarter driven by focused execution with robust growth across our businesses, improved operating leverage and record cash flow generation. We are seeing accelerating market momentum underpinned by our differentiated portfolio of solutions and increased customer demand and believe we are well positioned to capture sustained investments over the near and medium-term as we integrate our acquisitions, evolve our portfolio with new product introductions and make focused R&D investments aligned to multi-year technology trends.

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