Keysight Technologies Fourth Quarter 2026 Earnings Conference Call

Prepared Remarks

LIZ MORALI

Good afternoon and thank you for joining us for Keysight's Fourth 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, everyone, and thank you for joining us today.

Fiscal 2026 was the strongest year in Keysight's history. We delivered a record fourth quarter, exceeding the high end of our guidance, with orders up 53 percent and revenue up 41 percent. For the full year, orders surpassed $8 billion and revenue exceeded $7 billion, with broad-based growth across all our end markets. Earnings per share grew 64 percent to $11.72, nearly twice our revenue growth. We enter fiscal 2027 with a record backlog and a robust pipeline of opportunities. These results validate our strategy, our operating model and reaffirm our long-term track record of executing and delivering on our commitments.

Businesses today are facing increasingly demanding engineering challenges as new technologies reshape industries and raise performance expectations. Our customers rely on Keysight as a trusted innovation partner. We uniquely provide design, emulation, and test solutions that enable engineers to advance new technologies from design and development through launch. And with the pace of innovation accelerating, our opportunity is only expanding.

Keysight's disciplined, early investments are enabling us to capture that opportunity and deliver first-to-market solutions. Over the past several years, we have invested in portfolio differentiation and long-term growth, made acquisitions that allow us to offer customers more complete solutions, and strengthened our operations end to end. This year we launched the largest refresh of our core high-performance measurement tools and deepened our collaborations with industry-leading companies on next-generation technologies. The strength of these customer relationships and the pipeline of new products will sustain our momentum for years to come.

Customer demand continues to build, with fourth quarter orders setting a new record. As we shared earlier this year, we took a long-term view of supply and initiated strategic actions to scale our operations to meet increasing demand. These include broadening our supply base, building longer-term partnerships, and adding manufacturing capacity. As a result, we grew revenue sequentially every quarter, and we begin the new year well positioned for continued value creation.

Now, on to the business segments. Communications Solutions delivered a record year, with full-year orders up strong double digits. Fourth quarter orders grew for the tenth consecutive quarter to a new record, and revenue grew 51 percent.

In commercial communications, the rapid development of AI infrastructure technologies continued to drive our wireline business. Wireline delivered record orders again this quarter, with strong growth in both R&D and manufacturing for electrical and optical applications. Demand was broad-based across the ecosystem, including: chip and silicon designers, interconnect and switch makers, transceiver and module manufacturers, and the hyperscalers themselves.

As I discussed last quarter, AI infrastructure is evolving into a broader, more heterogeneous environment. AI compute spans a wide range of performance and power points, from the most advanced GPUs to purpose-built inference processors. Racks and clusters are designed in modular

ways, with components and interconnects from a diverse supply chain. More protocols are being adopted at every layer of the stack, and agentic and inference workloads are adding new requirements. That widens our opportunity across the full AI life cycle, from silicon design through system emulation into high-value manufacturing.

Let me share a few examples from this quarter. First, chip and silicon designers used our high-speed digital and protocol solutions to validate next-generation switching and accelerator silicon, including the first PCIe 7.0 designs, so they can prove interoperability before tape-out. Second, interconnect and switch makers used our analyzers and newly introduced backplane test solutions to characterize 1.6T copper and optical links, so they can ship with confidence in signal integrity and yield. Third, transceiver and module manufacturers scaled production of 800 gig and 1.6T modules on our digital communication analyzers, so they can ramp volume without sacrificing quality. And fourth, hyperscalers used our workload emulators to validate scale-up, scale-out, and scale-across fabrics before deployment. We also advanced our collaboration with industry leaders, including Cisco on scale-across networks and Broadcom on the industry's first multi-vendor Ethernet scale-up interoperability demonstration at OCP.

Looking ahead, we continue to see four key pillars of opportunity over the long term: AI infrastructure scaling, speed transitions, optical and photonics technologies, and system-level emulation. Today, the industry is in the early innings of the 1.6T ramp, with 3.2T already in active R&D. Co-packaged and near-packaged optics add an incremental opportunity on top of those transitions, with meaningful revenue already realized and significant growth opportunities ahead. And as the new AI architectures emerge, demand for system-level emulation will continue to rise. Our first-to-market solutions, deep customer collaborations, and continued investment across all four pillars give Keysight a strong position to capture this growth.

Turning to wireless, orders grew double digits this quarter, driven by early 6G development, non-terrestrial networks, and demand from the wireless supply chain as it supports AI infrastructure scaling.

First, in 6G, the standardization timeline remains on track, with 3GPP Release 21 expected in 2029. Leading chipset and network equipment manufacturers are expanding from research into funded development. Investments in AI-RAN and integrated sensing and communication continues to grow. Keysight joined the Verizon 6G Forum as its independent design, emulation, and test partner, and we enabled 6G over-the-air research at UC Berkeley.

Second, non-terrestrial networks are becoming a new architectural layer ahead of 6G as LEO constellations scale and direct-to-cell services near launch. We have built our leadership in this ecosystem, from early 5G end-to-end NTN connection with Qualcomm and MediaTek to the industry's first NR-NTN multi-orbit handover with KT SAT. With Samsung, we validated satellite-to-satellite mobility on modem silicon and tested NR-NTN devices aligned with planned direct-to-cell deployments, including Starlink. Building on that work, this quarter Korea Testing Laboratory selected our solutions to certify satellite-enabled devices.

Third, chipset makers, interconnect suppliers, and contract manufacturers across the wireless ecosystem are adding capabilities to serve the AI infrastructure buildout. We are enabling them through our high-speed interconnect, AI server board, and optical interconnect silicon test solutions.

As the engineering complexity of wireless networks grows, so does the opportunity for our solutions.

In aerospace, defense, and government, orders grew strong double digits, with growth across all regions, as record defense budgets translated into new programs and production. In the US, long-term contracts are enabling the primes to move new programs into production and add test capacity. In Europe, governments are investing in sovereign capabilities, including space and satellite as well as electromagnetic spectrum operations and radar. And a new generation of venture-backed defense companies is bringing commercial speed to autonomous systems, satellites, and counter-UAV defense technologies.

Our electromagnetic spectrum operations business was a highlight of the year. This quarter, a leading US prime contractor selected our threat emulation platform for a major program, and the US Navy broadened its use of the platform to validate next-generation systems. In radar, counter-UAV detection and antenna characterization drove demand for our radar scene emulation and over-the-air test systems. We also joined Lockheed Martin, Verizon, and NVIDIA to demonstrate AI-enabled airspace protection against UAVs over commercial 5G spectrum. Beyond defense, the FAA will deploy our handheld analyzers at more than 100 sites nationwide to modernize its radar infrastructure. And our positioning, navigation, and timing portfolio from Spirent grew strongly this year, as customers design systems that stay resilient to GPS jamming and spoofing. As programs move into production and modernization continues, we see a long runway of growth ahead.

Moving to the Electronic Industrial Solutions Group, we also delivered a record year, with full-year orders up strong double digits. Fourth quarter orders grew for the sixth consecutive quarter and were up significantly in each of our three markets, while revenue grew 16 percent.

In general electronics, orders grew double digits, led once again by AI-related investments across the electronics supply chain. The impact of AI on this business is broadening. PCB manufacturers adding high-frequency test capacity for higher speeds drove growth this year, and that demand continued. Alongside it, the component test demand we noted last quarter gained traction, led by multilayer ceramic capacitors and photodiodes for near-packaged optics. Looking further out, customers are engaging us early on their road maps for interposers that will enable co-packaged optics. In education, demand for our semiconductor workforce development solutions grew as funded programs expanded, and our university engagements extended into next-generation wireless research as the industry moves from 5G to 6G. Heading to fiscal 2027, the diversity of this business is growing as AI drives architectural upgrades across the stack.

In semiconductor, orders grew double digits, driven by capacity expansion for advanced nodes, high-bandwidth memory, and silicon photonics as the industry races to scale through 2030. Leading foundry and memory makers in Asia, the United States, and Europe expanded wafer test capacity with Keysight throughout the year. The most important development is in silicon photonics. As optical interconnects move into the data center at scale, leading foundries are taking silicon photonics into commercial

production and engaging us earlier on their long-term road maps for near-packaged and co-packaged optics. These programs require optical validation alongside the electrical parametric test we already provide. Early engagement keeps us in lockstep with our customers' capacity plans.

Finally, in automotive and energy, orders grew double digits, with growth across software-defined vehicle, electric vehicle, and manufacturing applications. In software-defined vehicles, semiconductor and OEM customers expanded their use of our design and development solutions, and makers of automotive chipsets are adopting high-speed digital test as vehicle architectures move to higher data rates. Electric vehicle and energy grew as OEMs and utilities invested in charging, grid, and power test, including the new requirements of megawatt charging. An independent UL Solutions report confirmed that our automated grid-interconnection test matches the traditional method while cutting test time from weeks to under a day. Looking ahead, the trends associated with software-defined vehicle and energy infrastructure investments remain strong.

As we look into fiscal 2027, the growth initiatives we invested in over the past few years are meeting the inflecting market opportunities. Every step up in frequency, bandwidth, data rates, and protocols creates more complexity for customers and more demand for Keysight. We have a clear set of priorities for the year ahead. First, deliver growth and outperform our markets. Second, invest to realize long-term opportunities for differentiation, from AI infrastructure today to 6G and defense in the years ahead. And third, remain disciplined in how we allocate capital, delivering strong incremental margins and compounding long-term value for shareholders.

Based on our visibility into demand and supply through the first half of the year, our base case for fiscal 2027 is 20 percent revenue growth. Our backlog and funnel are at record levels, and we are adding operational and supply chain capacity to meet this robust demand.

Before I close, I want to recognize Neil Dougherty. Over 13 years as Keysight's CFO, Neil has made exceptional contributions to the company, helping build a strong financial model and organization that have supported our growth and evolution. I have always valued his perspective and partnership, and we will continue to build on this strong foundation.

One of the key strengths of our culture is developing leaders and preparing them to take on new roles as our business evolves. Next month, Jason Kary will succeed Neil as Keysight's CFO. Many of you know Jason from his decade of leading our Investor Relations and Treasury functions. Most recently, he has led our Electronic Industrial Solutions Group and played an important role in driving Keysight's growth. I look forward to partnering with Jason as we execute on our strategy and create long-term value for our shareholders.

Lastly, I want to thank the entire Keysight team for an exceptional year and for their ongoing commitment to our customers. We enter fiscal 2027 with a differentiated portfolio, deep customer partnerships, significant opportunities across our end markets, and strong momentum. I am confident in what this team can accomplish together in the years ahead. With that, I'll pass the call over to Neil.

NEIL DOUGHERTY

Thank you, Satish. It's been an honor to serve as Keysight's CFO, and I'm looking forward to supporting Jason and the leadership team during the transition.

Moving on to our results…

Keysight delivered outstanding results in fiscal 2026, fueled by focused execution and significant momentum across all business areas. This combination enabled us to outperform our expectations throughout the year, achieving record orders, revenue, gross profit, operating profit, cash flow, and earnings per share. We delivered these strong results while continuing to invest nearly $1.2 billion dollars in R&D and repurchasing $667 million dollars of Keysight stock.

For the full fiscal year, orders were $8 billion, 126 million dollars, up 49 percent, and revenue was $7 billion, 157 million dollars, up 33 percent on a reported basis, or 26 percent on a core basis. Revenue growth was driven by Commercial Communications growth of 51 percent, Aerospace, Defense and Government growth of 15 percent, and Electronic Industrial Solutions growth of 19 percent. Bolstered by our market-leading portfolio of solutions, we expanded gross margin to 69.3 percent and operating margin to 32.7 percent, while continuing to prioritize investments consistent with our first-to-market technology strategy. Given the robust topline growth and strong profit leverage, we delivered earnings per share of $11.72 for fiscal year 2026, up 64 percent.

Moving to the specifics for Q4…

Orders of $2 billion, 339 million dollars were up 53 percent on a reported basis, or up 49 percent on a core basis. Revenue of $1 billion, 994 million dollars was up 41 percent on a reported basis, or up 36 percent on a core basis. Gross margin was 69.0 percent, and operating expenses were $662 million dollars. Operating margin was 35.8 percent, up 950 basis points year-over-year. We delivered net income of $623 million dollars and earnings per share of $3 dollars and 61 cents.

From a segment perspective, the Communications Solutions Group generated revenue of $1 billion, 496 million dollars, up 51 percent on a reported basis and up 45 percent on a core basis. CSG gross margin was 70.6 percent, and operating margin was 37.1 percent.

Within CSG, the commercial communications business generated revenue of $1 billion, 145 million dollars, up 73 percent, led by triple-digit growth in Wireline and robust double-digit growth in Wireless. Aerospace, defense, and government achieved revenue of $351 million dollars, an increase of 7 percent.

The Electronic Industrial Solutions Group generated $498 million dollars in revenue, an increase of 16 percent. EISG gross margin was 64.2 percent, and operating margin was 32.0 percent.

Software and services grew double digits, representing 33 percent of Keysight revenue, while annual recurring revenue was 25 percent of the total mix.

Moving to the balance sheet and cash flow, we ended the quarter with $2 billion, 916 million dollars in cash and cash equivalents, generating cash flow from operations of $507 million dollars, and free cash flow of $465 million dollars.

This quarter, we repurchased approximately 450 thousand shares of Keysight stock at an average price of approximately $332 dollars per share for a total consideration of $150 million dollars. There are $833 million dollars remaining on our current share repurchase authorization.

Before I turn to our outlook, I will provide a brief update on our acquisitions and related cost synergy attainment. From a revenue perspective, the acquisitions delivered revenue of $370 million dollars, compared to our initial expectation of $375 million dollars for fiscal 2026. Our integration efforts continued to proceed ahead of schedule, and on a run-rate basis, we have now realized the full $100 million dollars of cost synergies and other operational efficiencies that we targeted. As a result of these efforts and strong operational execution, these businesses progressed from a collective operating margin of 11 percent in the first quarter to 32 percent by the fourth quarter. We are pleased with this progress and expect to realize incremental margin improvement for these businesses in fiscal year 2027.

Now, turning to our outlook…

For the first quarter of fiscal 2027, we expect revenue in the range of $2 billion, 40 million dollars to $2 billion, 60 million dollars, representing 28 percent year-over-year growth at the midpoint. We expect Q1 earnings per share to be in the range of $3 dollars and 63 cents to $3 dollars and 69 cents, representing approximately 68 percent year-over-year growth at the midpoint. This guidance is based on a weighted diluted share count of approximately 172 million shares.

As we think about the full fiscal year, we expect to see many of the same end market drivers supporting growth, and as Satish said, our base case assumption for fiscal 2027 is revenue growth of 20 percent. From a gross margin perspective, we expect continued stability, albeit without the one-time tailwind of 110 basis points that occurred in fiscal 2026 from the IEEPA tariff refunds. We expect capital expenditures to be approximately $275 million dollars, and we are modeling a 14 percent non-GAAP effective tax rate.

In closing, I am incredibly proud of all that we accomplished. I am confident that Keysight has the right leadership team, outstanding people, culture, and technology differentiation to capture the significant opportunities ahead. Thank you to Satish for his leadership of the company over the last four years and to my Keysight colleagues who supported me throughout my career.

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