

# Keysight Technologies

## Q2 Fiscal Year 2020 Results

MAY 26, 2020



# Safe Harbor

This communication contains forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbors created therein. Statements preceded by, followed by, or that otherwise include the words “anticipate,” “plan,” “estimate,” “expect,” “intend,” “forecast,” “target,” “project,” “believe,” “outlook,” “prospect” and similar words or expressions, or future or conditional verbs such as “will,” “should,” “would,” “may,” or “could”, or statements regarding the company’s goals, priorities, anticipated revenues, anticipated demand, growth opportunities, customer service and innovation plans, new product introductions, anticipated financial condition, anticipated gross and operating margins, future earnings, the anticipated continued strengths and expected growth of the markets the company sells into, and future operations, earnings, and tax rates are intended to identify forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause Keysight’s actual results to differ materially from management’s expectations contemplated by these forward-looking statements. Keysight disclaims any intention to, and undertakes no responsibility to, update or revise any forward-looking statement, whether as a result of new information, a future event, or otherwise. Such risks and uncertainties include, but are not limited to, changes in the demand for current and new products, technologies, and services; customer purchasing decisions and timing; and our ability to realize the savings or benefits expected from integration and restructuring activities; increased trade tensions and tightening of export control regulations; impact of pandemic conditions such as the novel coronavirus (Covid-19), including but not limited to supply chain disruption causing delay in our ability to manufacture and deliver products and solutions to our customers, labor shortages, the impact of social distancing, slowdowns in customer purchasing and increased order cancellations, and the impact of a second wave of infection and government mandated shutdowns . For additional risks and uncertainties that could impact Keysight’s actual results, please see our Form 10-K for the fiscal year ended October 31, 2019 and our latest Form 10-Q filed with the SEC on March 5, 2020, included but not limited to the discussion under “Risk Factors” therein, which may be viewed at [www.sec.gov](http://www.sec.gov).

This presentation includes a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, for making operating decisions and for forecasting and planning for future periods. Non-GAAP measures exclude primarily the impacts of amortization of acquisition-related balances, share-based compensation, acquisition and integration costs, restructuring and related costs, non-recurring items such as goodwill impairment, legal settlement, gain on divestitures, Northern California wildfire-related costs and others. Also excluded are tax benefits or expenses that are not directly related to ongoing operations and which are either isolated or cannot be expected to occur again with any regularity or predictability. Most of these excluded amounts pertain to events that have not yet occurred and are not currently possible to estimate with a reasonable degree of accuracy. Accordingly, no reconciliation to GAAP amounts has been provided. The definitions of these non-GAAP financial measures may differ from similarly titled measures used by others, and such non-GAAP measures should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. Keysight generally uses non-GAAP financial measures to facilitate management’s comparisons to historic operating results, to competitors’ operating results and to guidance provided to investors. In addition, Keysight believes that the use of these non-GAAP financial measures provides greater transparency to investors of information used by management in its financial and operational decision-making. Refer to slide 24 for more details on the use of non-GAAP financial measures.

# Q2'20 Highlights

- Strong operating margin and cash flow generation despite COVID-19 supply chain and revenue disruption
  - Non-GAAP operating margin<sup>1</sup> of 19%
  - Record free cash flow of \$275M (31% of revenue)
  - Record cash and cash equivalents of \$1.8B
- Orders of \$1.1B declined 3% compared to last year's record second quarter
  - Record 5G orders as market momentum and strong customer adoption of Keysight solutions continues
  - Continued investment in next-generation technologies, such as 5G, 400G and advanced process nodes
  - Strong demand for Aerospace Defense and Government solutions in the U.S.
- Site re-openings in progress with production capacity ramping; expect to be at 100% by end of the third quarter
  - Due to government mandated shutdowns in response to COVID-19 pandemic, global sites and production operations were fully closed for two weeks in March with limited activity in April

# COVID-19 Situation – Impact and Response

**Prioritizing the health and safety of its employees, Keysight took prompt action to mitigate risk in response to the pandemic**

- Immediate action and temporary closures of Keysight's global locations [announced](#) on March 18, 2020
  - Closures included order fulfillment and manufacturing operations in California and Malaysia
  - Stated these actions may impact the company's ability to meet the fiscal second quarter 2020 financial guidance provided on February 24, 2020
- Customers
  - Took necessary steps to deliver on customer commitments, particularly those who provide essential services
  - Launched the Innovate Anywhere program to enable IT teams to support remote users, ensuring VPN performance and improving security
- Communities
  - Contributed to relief efforts globally through monetary and supply donations to local hospitals, and government agencies providing support to children, families and the most vulnerable
  - Provided direct financial contributions to local community and global non-profit organizations
- Re-opening and ramping capacity
  - Implementing health and safety measures at all locations as part of re-opening protocol
  - Expecting production and services operations to be back to 100% capacity by the end of the third quarter

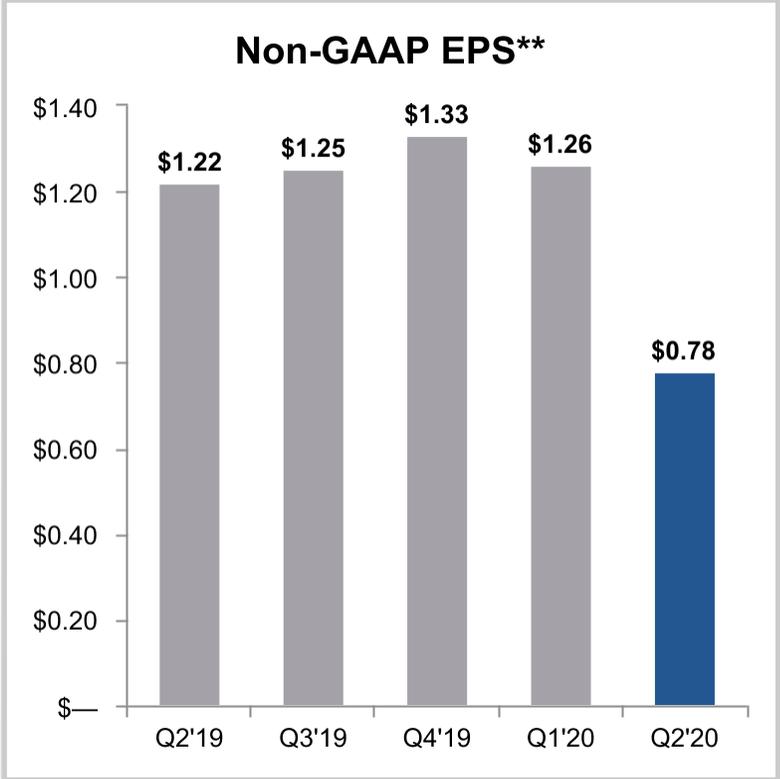
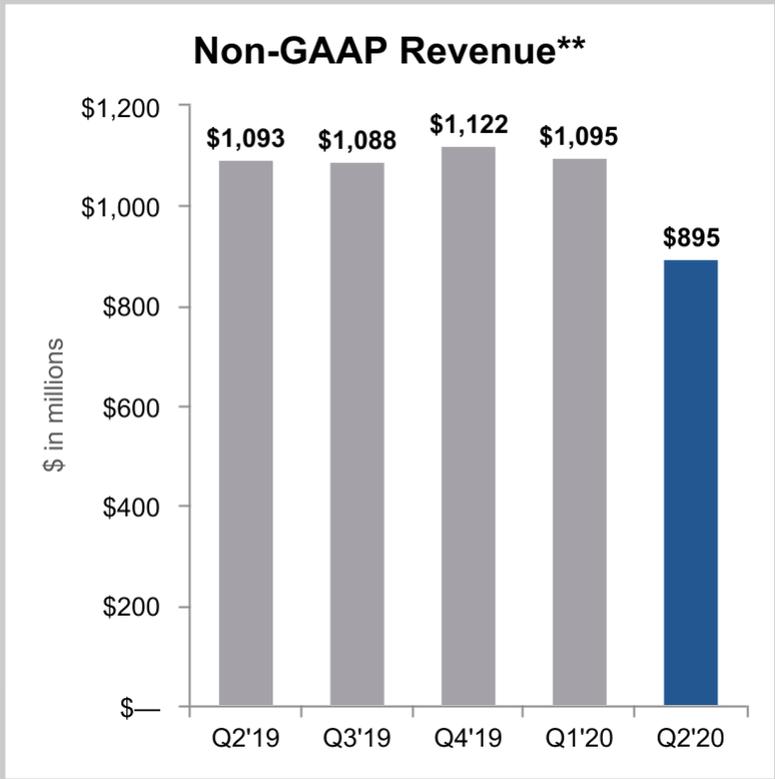
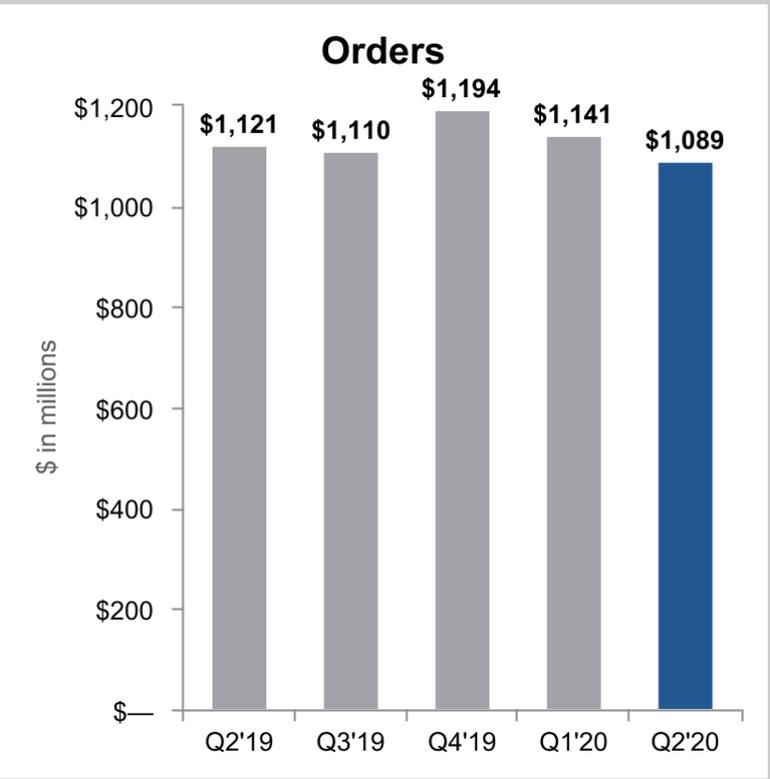
# COVID-19 Situation – Impact and Response

**The resilience of Keysight's business model was exceptional and our flexible cost structure performed as expected**

- Keysight's flexible cost structure performed as expected
  - Lower variable compensation
  - Reduction in outsourced manufacturing costs and indirect sales
- Implemented proactive measures to reduce costs and preserve liquidity, while supporting critical infrastructure customers and advancing key projects
  - Reductions in discretionary spending, i.e. travel, marketing, and hiring freeze
  - Temporary reduction in executive base salaries (100% for the CEO, 50% for senior vice presidents)
- The resilience of Keysight's operating model delivered in Q2 despite COVID-19 supply chain disruption
  - Non-GAAP operating margin<sup>1</sup> of 19% on revenue of \$895M

# Q2'20 Non-GAAP Financial Highlights

<p><b>Orders</b>  <b>\$1,089M</b>                  -3%/y/y (-3% core*)</p>	<p><b>Revenue</b>  <b>\$895M</b>                  -18%/y/y (-18% core*)</p>	<p><b>Operating Margin</b>  <b>19.4%</b>                  -520 basis points y/y</p>
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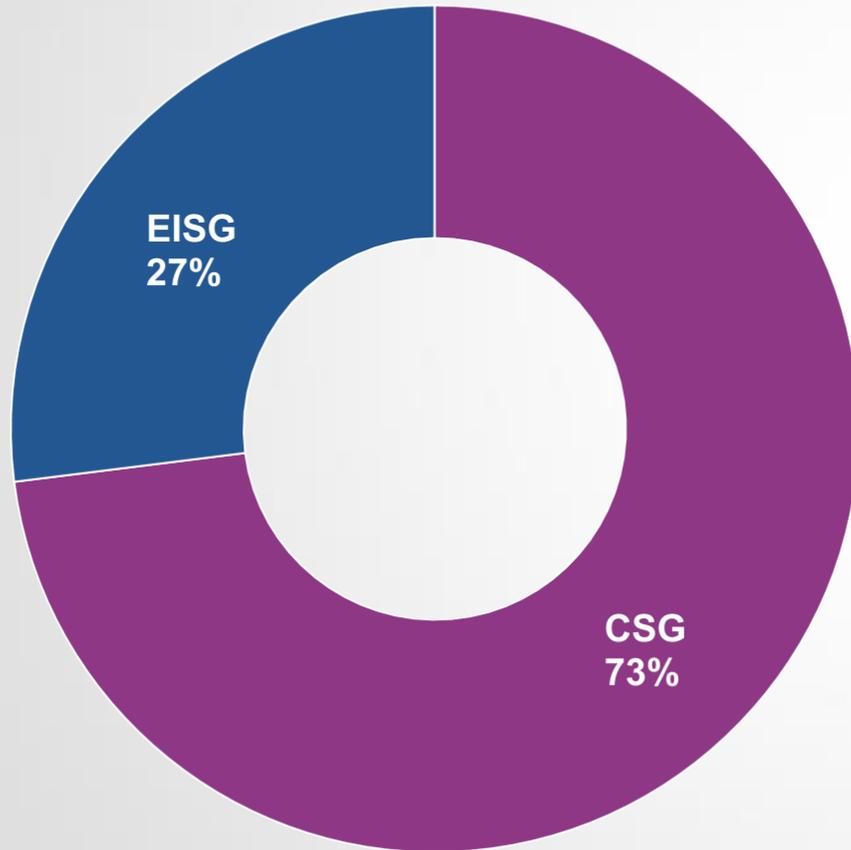
\* Core growth excludes the impact of currency, acquisitions or divestitures closed in last twelve months.

\*\* Reconciliations to closest GAAP equivalent provided. Non-GAAP revenue excludes the impact of fair-value adjustments to acquisition-related deferred revenue balances; for Q1'20 and Q2'20, the adjustment was zero.

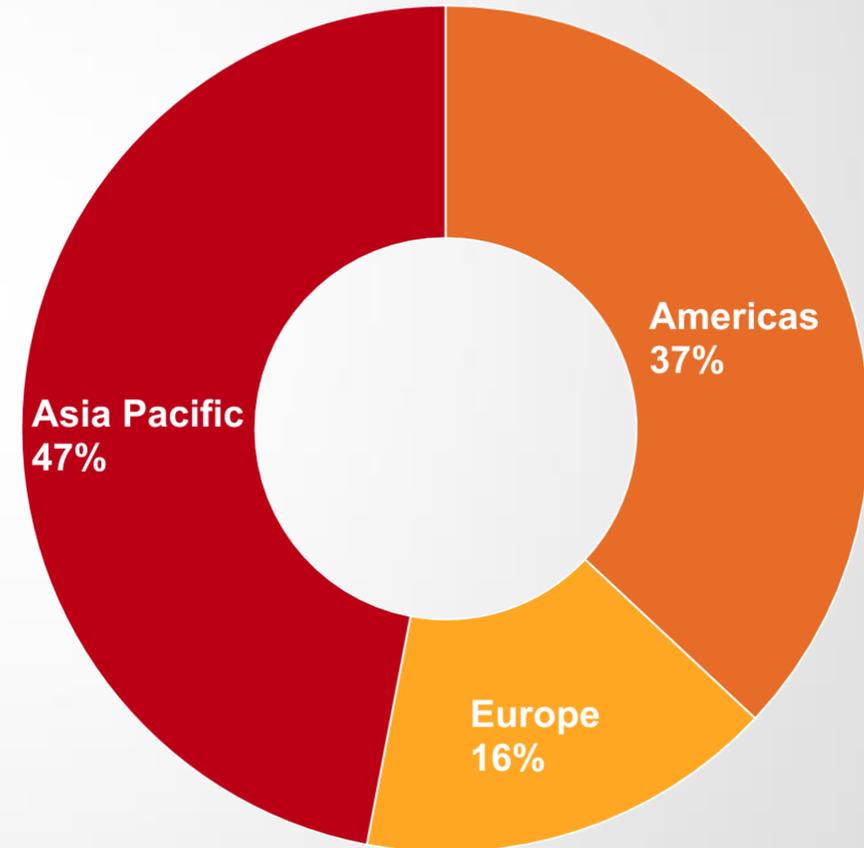
# Revenue by Segment & by Region

Q2'20 REVENUE: \$895M

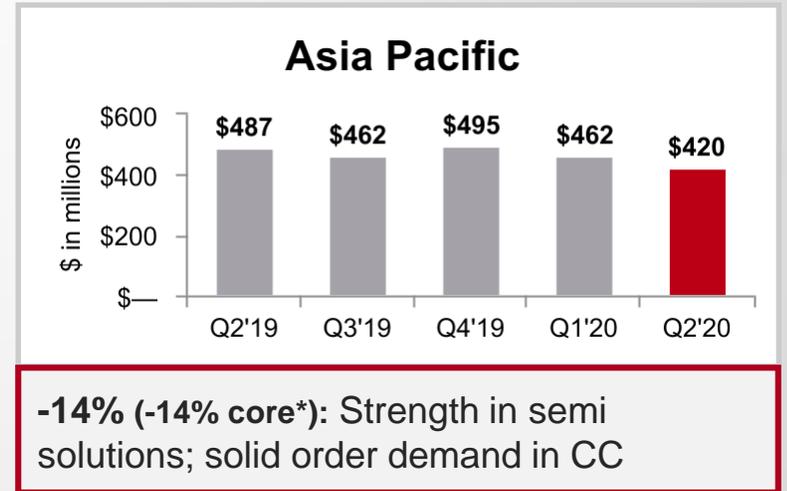
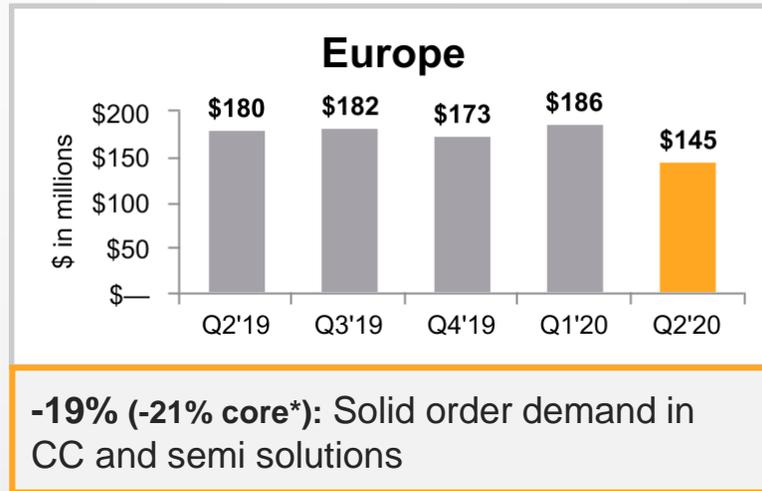
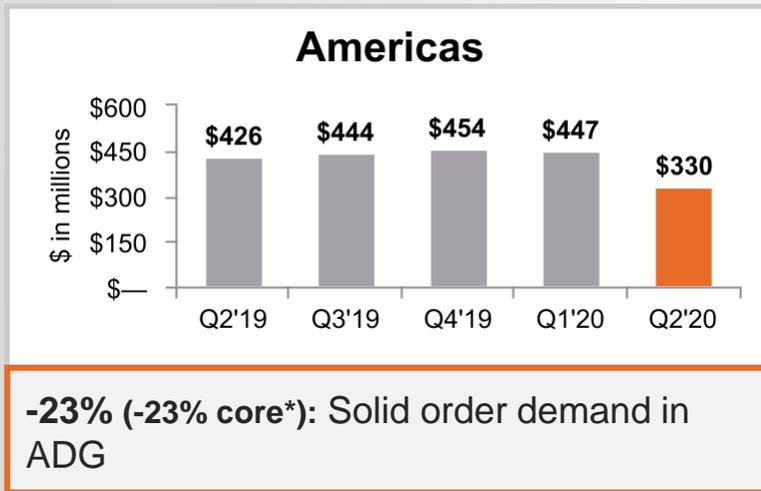
By Segment



By Region



# Non-GAAP Revenue Trend by Region



Regional Highlights (Y/Y Non-GAAP Revenue Growth\*\*)

# Q2'20 Communications Solutions Group Highlights



Revenue

**\$653M**

-18% y/y (-18% core\*)



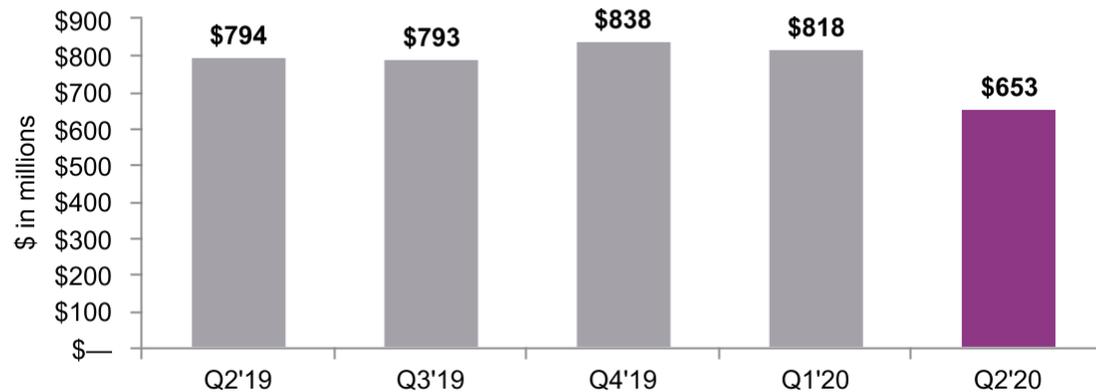
Operating Margin

**17.5%**

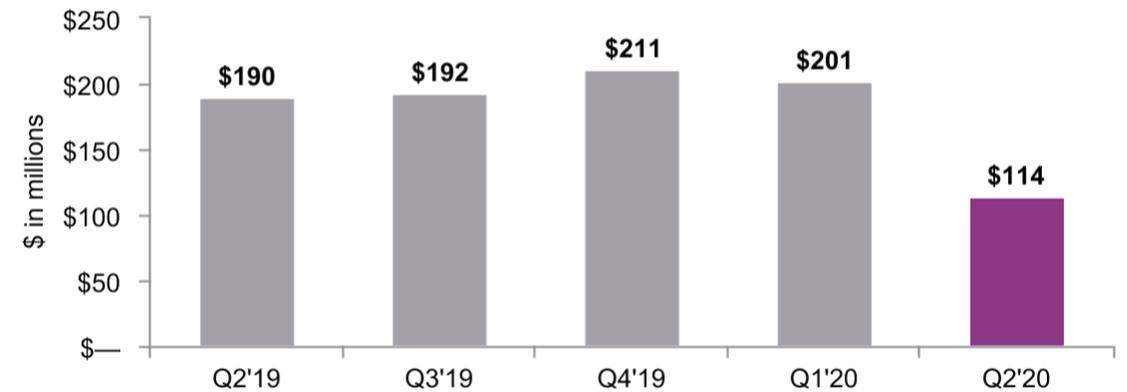
-650 basis points y/y

- CSG operating margin of 17.5%
- **Commercial Communications:** Record 5G orders driven by continued investment in next-generation technologies such as 5G and 400G. End-to-solutions portfolio gaining strong customer adoption.
- **Aerospace, defense and government:** Order growth driven by strong U.S. demand.

### CSG Revenue



### CSG Income from Operations



# Q2'20 Electronic Industrial Solutions Group Highlights



Revenue

**\$242M**

-19% y/y (-19% core\*)



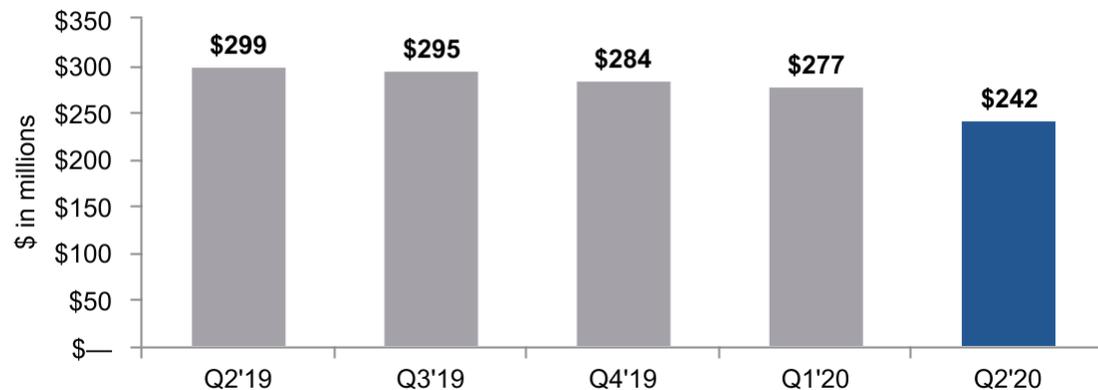
Operating Margin

**24.4%**

-170 basis points y/y

- EISG operating margin of 24.4%
- Semiconductor revenue growth driven by continued investment in next-generation process node technology testing.
- Decreased demand for automotive and general electronics, including education.

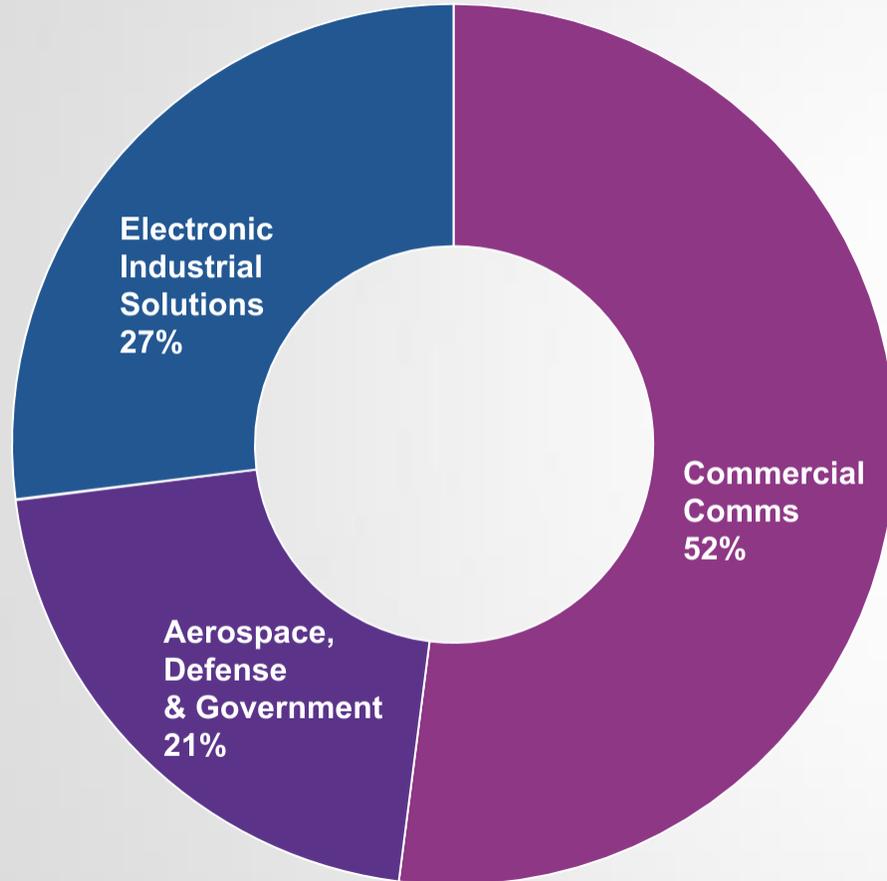
### EISG Revenue



### EISG Income from Operations



# Q2'20 Non-GAAP Revenue By End Market



End Market	Revenue	YoY %
Commercial Communications	\$468M	-15%
Aerospace, Defense & Government	\$185M	-25%
Electronic Industrial Solutions	\$242M	-19%
<b>Total*</b>	<b>\$895M</b>	<b>-18%</b>

# Outlook and Financial Considerations

## Q3'20 Outlook

- Expect Q3 revenue, operating margin and earnings to be in line with, or better than, Q2
- Expectations based on order funnel and strong backlog position; assume limited incremental supply chain constraints or disruption from additional shutdowns or a second wave of the pandemic

## Long-term Expectations<sup>1</sup>

- Core Revenue Growth: 4% - 6% CAGR
- Operating Margin: 26% - 27%
- EPS Growth: ≥10%

## FY20 Financial Considerations

- Net Interest and Other Income/Expense: \$7-10M net expense / quarter
- Non-GAAP tax rate of 12%
- Weighted-average diluted share count of approximately 190M shares
- Expected 2020 capital expenditures of \$100-110M

# Investor Resources & Links

## Investor Day March 2020 Videos *(single-click access to each executive's presentation)*

<a href="#">Company Overview and Strategic Direction</a>	Ron Nersesian Chairman, President and CEO	(36 minutes)
<a href="#">Culture and Talent Transformation</a>	Ingrid Estrada SVP, CAO	(13 minutes)
<a href="#">Technology Leadership and Software Differentiation</a>	Jay Alexander SVP, CTO	(32 minutes)
<a href="#">Communications Solutions</a>	Satish Dhanasekaran SVP, President – CSG	(37 minutes)
<a href="#">Electronic Industrial Solutions</a>	Gooi Soon Chai SVP, President – EISG	(21 minutes)
<a href="#">Global Services</a>	John Page SVP, President – Global Services	(11 minutes)
<a href="#">Global Marketing</a>	Marie Hattar SVP, CMO	(11 minutes)
<a href="#">Global Sales</a>	Mark Wallace SVP - Global Sales	(14 minutes)
<a href="#">Financial Update</a>	Neil Dougherty SVP, CFO	(18 minutes)
<a href="#">Closing Remarks</a>	Ron Nersesian Chairman, President and CEO	(3 minutes)

## [Recent Investor Presentations and Webcasts](#)

## [The Keysight Leadership Model](#)



# Reconciliations

**KEYSIGHT TECHNOLOGIES, INC.**  
**NON-GAAP OPERATING MARGIN RECONCILIATION**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

	<b>Three months ended</b>	
	<b>April 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Income from operations, as reported</b>	\$ 102	\$ 185
Amortization of acquisition-related balances	54	54
Share-based compensation	15	23
Acquisition and integration costs	2	-
Restructuring and related costs	1	6
Northern California wildfire-related impacts	-	-
Other	(1)	-
<b>Non-GAAP income from operations</b>	<b>\$ 173</b>	<b>\$ 268</b>
 <b>GAAP Operating Margin</b>	 11.4%	 17.0%
<b>Non-GAAP Operating Margin</b>	19.4%	24.6%

**KEYSIGHT TECHNOLOGIES, INC.**  
**NON-GAAP NET INCOME AND DILUTED EPS RECONCILIATIONS**  
(In millions, except per share amounts)  
(Unaudited)  
**PRELIMINARY**

	Three months ended April 30,			
	2020		2019	
	Net Income	Diluted EPS	Net Income	Diluted EPS
GAAP Net income	\$ 71	\$ 0.37	\$ 153	\$ 0.80
Non-GAAP adjustments:				
Amortization of acquisition-related balances	54	0.28	54	0.28
Share-based compensation	15	0.08	23	0.12
Acquisition and integration costs	2	0.01	1	0.01
Northern California wildfire-related impacts	-	-	-	-
Restructuring and related costs	1	0.01	6	0.03
Other	(12)	(0.06)	(12)	(0.06)
Adjustment for taxes	17	0.09	8	0.04
Non-GAAP Net income	\$ 148	\$ 0.78	\$ 233	\$ 1.22
Weighted average shares outstanding - diluted	189		191	

**KEYSIGHT TECHNOLOGIES, INC.**  
**RECONCILIATION OF NON-GAAP CORE REVENUE**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

	<b>Year-over-year compare</b>		
	<b>Q2'20</b>	<b>Q2'19</b>	<b>Percent Inc/(Dec)</b>
<b>GAAP Revenue</b>	\$ 895	\$ 1,090	(18)%
Amortization of acquisition-related balances	-	3	
<b>Non-GAAP Revenue</b>	\$ 895	\$ 1,093	(18)%
Less: Revenue from acquisition or divestitures included in segment results	(6)	-	
Currency impacts	3	-	
<b>Non-GAAP Core Revenue</b>	\$ 892	\$ 1,093	(18)%

Non-GAAP core revenue excludes impact of currency and revenue from acquisitions or divestitures closed within the last twelve months.

**KEYSIGHT TECHNOLOGIES, INC.**  
**RECONCILIATIONS OF NON-GAAP REVENUE BY SEGMENT AND REGION**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

<b>Revenue by Segment</b>	<b>Year-over-Year</b>								
	<b>GAAP Revenue</b>			<b>Amortization of acquisition-related balances</b>		<b>Non-GAAP Revenue</b>			
	<b>Q2'20</b>	<b>Q2'19</b>	<b>YoY % Chg.</b>	<b>Q2'20</b>	<b>Q2'19</b>	<b>Q2'20</b>	<b>Q2'19</b>	<b>YoY % Chg.</b>	
Communications Solutions Group <sup>(a)</sup>	\$ 653	\$ 791	(18)%	\$ -	\$ 3	\$ 653	\$ 794	(18)%	
Electronic Industrial Solutions Group	242	299	(19)%	-	-	242	299	(19)%	
Keysight	<u>\$ 895</u>	<u>\$ 1,090</u>	(18)%	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 895</u>	<u>\$ 1,093</u>	(18)%	

<b>Revenue by Region</b>	<b>Year-over-Year</b>								
	<b>GAAP Revenue</b>			<b>Amortization of acquisition-related balances</b>		<b>Non-GAAP Revenue</b>			
	<b>Q2'20</b>	<b>Q2'19</b>	<b>YoY % Chg.</b>	<b>Q2'20</b>	<b>Q2'19</b>	<b>Q2'20</b>	<b>Q2'19</b>	<b>YoY % Chg.</b>	
Americas	\$ 330	\$ 425	(22)%	\$ -	\$ 1	\$ 330	\$ 426	(23)%	
Europe	145	179	(19)%	-	1	145	180	(19)%	
Asia Pacific	420	486	(14)%	-	1	420	487	(14)%	
Total Revenue	<u>\$ 895</u>	<u>\$ 1,090</u>	(18)%	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 895</u>	<u>\$ 1,093</u>	(18)%	

<sup>(a)</sup> Restated for the recently completed organizational change to manage our Ixia Solutions Group within our Communications Solutions Group, effective Q1'20.

**KEYSIGHT TECHNOLOGIES, INC.**  
**RECONCILIATIONS OF NON-GAAP CORE REVENUE BY SEGMENT AND REGION**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

Year-over-Year									
<u>Revenue by Segment</u>	Non-GAAP Revenue			Revenue from acquisitions or divestitures		Currency Adjustments	Non-GAAP Core Revenue		
	Q2'20	Q2'19	YoY %	Q2'20	Q2'19	Q2'20	Q2'20	Q2'19	YoY %
Communications Solutions Group <sup>(a)</sup>	\$ 653	\$ 794	(18)%	\$ 6	\$ -	\$ (2)	\$ 649	\$ 794	(18)%
Electronic Industrial Solutions Group	242	299	(19)%	-	-	(1)	243	299	(19)%
<b>Keysight</b>	<u>\$ 895</u>	<u>\$ 1,093</u>	(18)%	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ 892</u>	<u>\$ 1,093</u>	(18)%

<u>Revenue by Region</u>	Non-GAAP Revenue			Revenue from acquisitions or divestitures		Currency Adjustments	Non-GAAP Core Revenue		
	Q2'20	Q2'19	YoY %	Q2'20	Q2'19	Q2'20	Q2'20	Q2'19	YoY %
Americas	\$ 330	\$ 426	(23)%	\$ -	\$ -	\$ -	\$ 330	\$ 426	(23)%
Europe	145	180	(19)%	5	-	(2)	142	180	(21)%
Asia Pacific	420	487	(14)%	1	-	(1)	420	487	(14)%
<b>Total Revenue</b>	<u>\$ 895</u>	<u>\$ 1,093</u>	(18)%	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ (3)</u>	<u>\$ 892</u>	<u>\$ 1,093</u>	(18)%

<sup>(a)</sup> Restated for the recently completed organizational change to manage our Ixia Solutions Group within our Communications Solutions Group, effective Q1'20.

**KEYSIGHT TECHNOLOGIES, INC.**  
**SEGMENT REVENUE RECONCILIATION**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

**Keysight**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 1,090	\$ 1,087	\$ 1,120	\$ 1,095	\$ 895
Amortization of acquisition-related balances	3	1	2	-	-
<b>Non-GAAP/Segment Revenue</b>	<u>\$ 1,093</u>	<u>\$ 1,088</u>	<u>\$ 1,122</u>	<u>\$ 1,095</u>	<u>\$ 895</u>

**Communications Solutions Group<sup>(a)</sup>**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 791	\$ 792	\$ 836	\$ 818	\$ 653
Amortization of acquisition-related balances	3	1	2	-	-
<b>Segment Revenue</b>	<u>\$ 794</u>	<u>\$ 793</u>	<u>\$ 838</u>	<u>\$ 818</u>	<u>\$ 653</u>

**Electronic Industrial Solutions Group**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 299	\$ 295	\$ 284	\$ 277	\$ 242
Amortization of acquisition-related balances	-	-	-	-	-
<b>Segment Revenue</b>	<u>\$ 299</u>	<u>\$ 295</u>	<u>\$ 284</u>	<u>\$ 277</u>	<u>\$ 242</u>

<sup>(a)</sup> Restated for the recently completed organizational change to manage our Ixia Solutions Group within our Communications Solutions Group,

**KEYSIGHT TECHNOLOGIES, INC.**  
**RECONCILIATION OF NON-GAAP REVENUE BY REGION**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

**Keysight**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 1,090	\$ 1,087	\$ 1,120	\$ 1,095	\$ 895
Amortization of acquisition-related balances	3	1	2	-	-
<b>Non-GAAP Revenue</b>	<u>\$ 1,093</u>	<u>\$ 1,088</u>	<u>\$ 1,122</u>	<u>\$ 1,095</u>	<u>\$ 895</u>

**Americas**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 425	\$ 443	\$ 453	\$ 447	\$ 330
Amortization of acquisition-related balances	1	1	1	-	-
<b>Non-GAAP Revenue</b>	<u>\$ 426</u>	<u>\$ 444</u>	<u>\$ 454</u>	<u>\$ 447</u>	<u>\$ 330</u>

**Europe**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 179	\$ 182	\$ 173	\$ 186	\$ 145
Amortization of acquisition-related balances	1	-	-	-	-
<b>Non-GAAP Revenue</b>	<u>\$ 180</u>	<u>\$ 182</u>	<u>\$ 173</u>	<u>\$ 186</u>	<u>\$ 145</u>

**Asia Pacific**

	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>
<b>GAAP Revenue</b>	\$ 486	\$ 462	\$ 494	\$ 462	\$ 420
Amortization of acquisition-related balances	1	-	1	-	-
<b>Non-GAAP Revenue</b>	<u>\$ 487</u>	<u>\$ 462</u>	<u>\$ 495</u>	<u>\$ 462</u>	<u>\$ 420</u>

**KEYSIGHT TECHNOLOGIES, INC.**  
**RECONCILIATION OF NON-GAAP REVENUE BY END MARKET**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

	GAAP Revenue			Amortization of acquisition-related balances		Non-GAAP Revenue		
	Q2'20	Q2'19	Percent Inc/(Dec)	Q2'20	Q2'19	Q2'20	Q2'19	Percent Inc/(Dec)
Aerospace, Defense & Government	\$ 185	\$ 245	(25)%	\$ -	\$ -	\$ 185	\$ 245	(25)%
Commercial Communications <sup>(a)</sup>	468	546	(14)%	-	3	468	549	(15)%
Electronic Industrial	242	299	(19)%	-	-	242	299	(19)%
<b>Total Revenue</b>	<b>\$ 895</b>	<b>\$ 1,090</b>	<b>(18)%</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ 895</b>	<b>\$ 1,093</b>	<b>(18)%</b>

<sup>(a)</sup> Restated for the recently completed organizational change to manage our Ixia Solutions within our Commercial Communications, effective Q1'20.

**KEYSIGHT TECHNOLOGIES, INC.**  
**FREE CASH FLOW**  
(In millions)  
(Unaudited)  
**PRELIMINARY**

	<b>Q2'20</b>
Net cash provided by operating activities	\$ 298
Less: Investments in property, plant and equipment	(23)
Free cash flow	\$ 275
 Free cash flow as a percentage of GAAP Revenue	 31%

## Non-GAAP Financial Measures

Management uses both GAAP and non-GAAP financial measures to analyze and assess the overall performance of the business, to make operating decisions and to forecast and plan for future periods. We believe that our investors benefit from seeing our results “through the eyes of management” in addition to seeing our GAAP results. This information enhances investors’ understanding of the continuing performance of our business and facilitates comparison of performance to our historical and future periods.

Our non-GAAP financial measures may not be comparable to similarly titled measures used by other companies, including industry peer companies, limiting the usefulness of these measures for comparative purposes.

These non-GAAP measures should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. The discussion below presents information about each of the non-GAAP financial measures and the company’s reasons for including or excluding certain categories of income or expenses from our non-GAAP results. In future periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, adjustments for these items and other similar items in our non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent or unusual.

*Non-GAAP Revenue* includes recognition of acquired deferred revenue that was written down to fair value in purchase accounting. Management believes that excluding fair value purchase accounting adjustments more closely correlates with the ordinary and ongoing course of the acquired company’s operations and facilitates analysis of revenue growth and business trends.

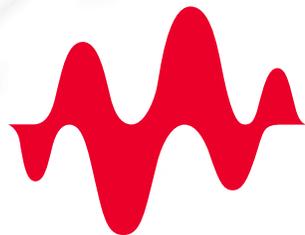
*Non-GAAP Core Revenue* is non-GAAP revenue (see *Non-GAAP Revenue* above) excluding the impact of foreign currency changes and revenue associated with businesses acquired and divested within the last twelve months. We exclude the impact of foreign currency changes as currency rates can fluctuate based on factors that are not within our control and can obscure revenue growth trends. As the nature, size and number of acquisitions can vary significantly from period to period and as compared to our peers, we exclude revenue associated with recently acquired businesses to facilitate comparisons of revenue growth and analysis of underlying business trends.

*Non-GAAP Income from Operations, Non-GAAP Net Income and Non-GAAP Diluted EPS* may include the following types of adjustments:

- *Acquisition-related Items:* We exclude the impact of certain items recorded in connection with business combinations from our non-GAAP financial measures that are either non-cash or not normal, recurring operating expenses due to their nature, variability of amounts and lack of predictability as to occurrence or timing. These amounts may include non-cash items such as the amortization of acquired intangible assets and amortization of items associated with fair value purchase accounting adjustments, including recognition of acquired deferred revenue (see *Non-GAAP Revenue* above). We also exclude other acquisition and integration costs associated with business acquisitions that are not normal recurring operating expenses, including amortization of amounts paid to redeem acquires’ unvested stock-based compensation awards, and legal, accounting and due diligence costs. We exclude these charges to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.
- *Share-based Compensation Expense:* We exclude share-based compensation expense from our non-GAAP financial measures because share-based compensation expense can vary significantly from period to period based on the company’s share price, as well as the timing, size and nature of equity awards granted. Management believes the exclusion of this expense facilitates the ability of investors to compare the company’s operating results with those of other companies, many of which also exclude share-based compensation expense in determining their non-GAAP financial measures.
- *Northern California wildfire-related impacts and Other Items:* We exclude certain other significant income or expense items that may occur occasionally and are not normal, recurring, cash operating, from our non-GAAP financial measures. Such items are evaluated on an individual basis based on both quantitative and qualitative factors and generally represent items that we would not anticipate occurring as part of our normal business on a regular basis. While not all-inclusive, examples of certain other significant items excluded from non-GAAP financial measures would include net unrealized gains on equity investments still held, and significant non recurring events like realized gains or losses associated with our employee benefit plans, costs and recoveries related to unusual disaster like Northern California wildfires, gain on sale of assets and small divestitures, etc.
- *Restructuring and Related Costs:* We exclude incremental expenses associated with restructuring initiatives, usually aimed at material changes in the business or cost structure. Such costs may include employee separation costs, asset impairments, facility-related costs, contract termination fees, and costs to move operations from one location to another. These activities can vary significantly from period to period based on the timing, size and nature of restructuring plans; therefore, we do not consider such costs to be normal, recurring operating expenses. We believe that these costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of the company’s current operating performance or comparisons to our operating performance in other periods.
- *Estimated Tax Rate:* We utilize a consistent methodology for long-term projected non-GAAP tax rate. When projecting this long-term rate, we exclude any tax benefits or expenses that are not directly related to ongoing operations and which are either isolated or cannot be expected to occur again with any regularity or predictability. Additionally, we evaluate our current long-term projections, current tax structure and other factors, such as existing tax positions in various jurisdictions and key tax holidays in major jurisdictions where Keysight operates. This tax rate could change in the future for a variety of reasons, including but not limited to significant changes in geographic earnings mix including acquisition activity, or fundamental tax law changes in major jurisdictions where Keysight operates. The above reasons also limit our ability to reasonably estimate the future GAAP tax rate and provide a reconciliation of the expected non-GAAP earnings per share for the third fiscal quarter of 2020 to the GAAP equivalent.

Management recognizes these items can have a material impact on our cash flows and/or our net income. Our GAAP financial statements, including our Condensed Consolidated Statement of Cash Flows, portray those effects. Although we believe it is useful for investors to see core performance free of special items, investors should understand that the excluded costs are actual expenses that may impact the cash available to us for other uses. To gain a complete picture of all effects on the company’s profit and loss from any and all events, management does (and investors should) rely upon the Condensed Consolidated Statement of Operations prepared in accordance with GAAP. The non-GAAP measures focus instead upon the core business of the company, which is only a subset, albeit a critical one, of the company’s performance.

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