

Keysight Technologies

Q3 Fiscal Year 2020 Results

AUGUST 20, 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, 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; 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. 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 June 2, 2020, included but not limited to the discussion under “Risk Factors” therein, which may be viewed at 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 22 for more details on the use of non-GAAP financial measures.

Q3'20 Highlights

- Stronger-than-expected orders and revenue drove strong margin and solid cash flow performance
 - 13% q/q revenue growth due to exceptional execution in capacity ramp and supply chain management
 - Record non-GAAP operating margin¹ of 26%
- Orders of \$1.1B declined 4% y/y vs. last year's record third quarter
 - 5G order strength continued as innovation and commercial deployment drove device and design development, while investment in virtualization and O-RAN technologies expanded.
 - Semiconductor measurement solutions order strength was driven by smartphone processors, high-speed networking and high-performance data center applications.
 - Weakness in automotive, general electronics and international aerospace, defense and government due to macroeconomic pandemic impact partially offset continued investment in next-gen technologies.
- Software and services revenue growth (>30% of total revenue) contributing to the durability of Keysight's business model, while increasing recurring revenue and improving gross margins.

Q3'20 Non-GAAP Financial Highlights

Orders
\$1,067M

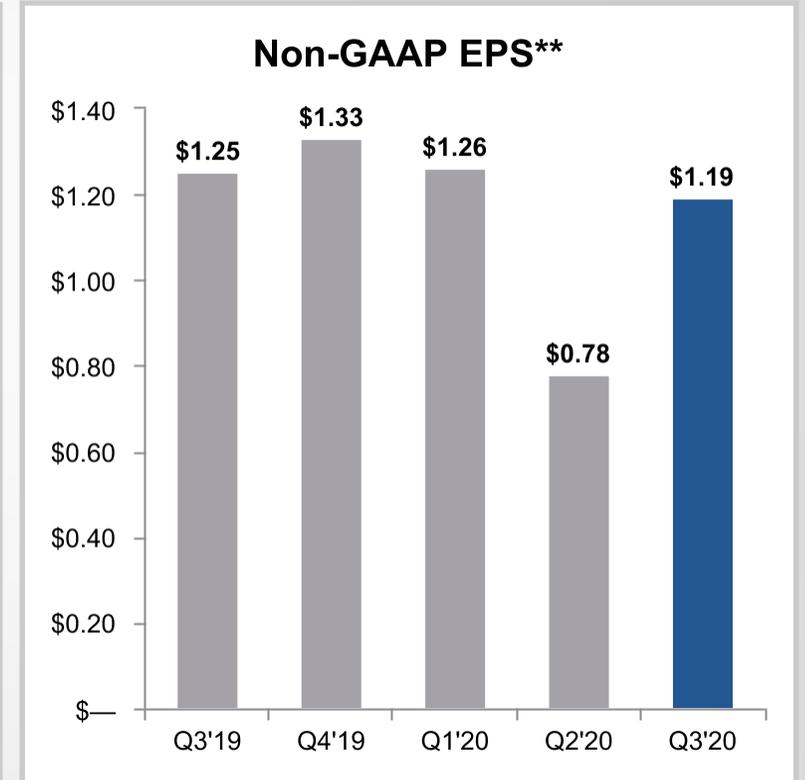
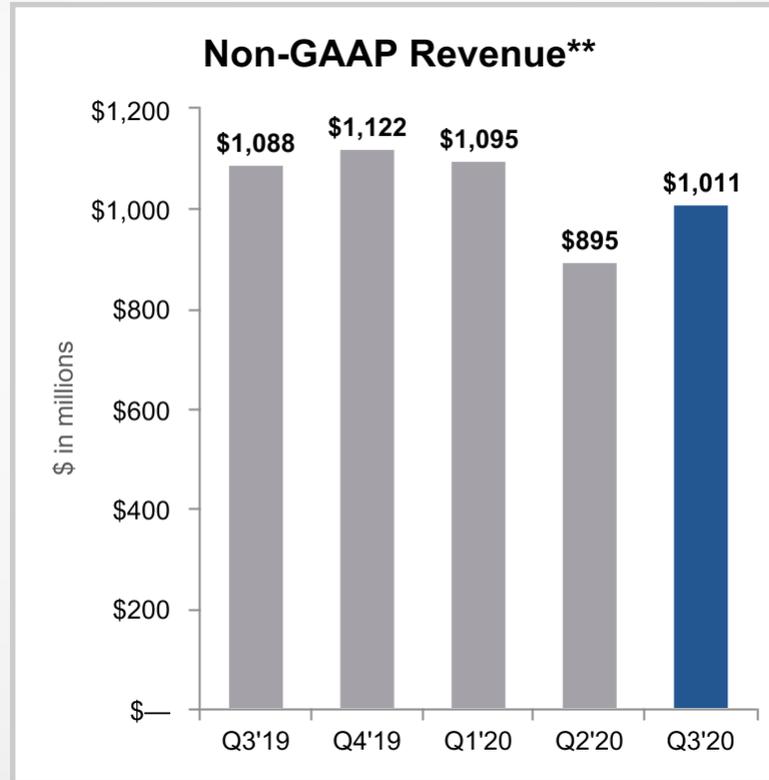
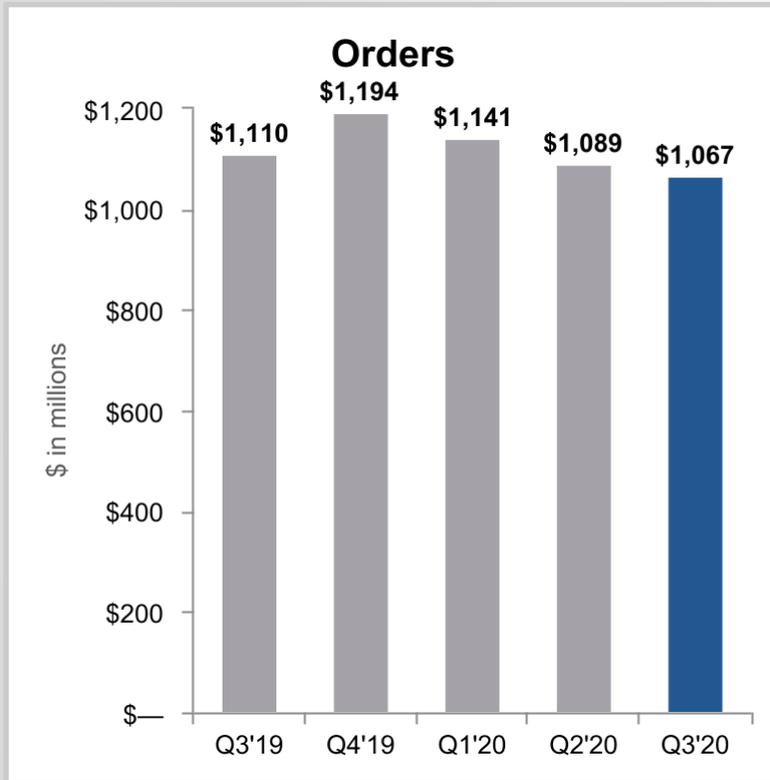
-4%/y/y (-4% core*)

Revenue
\$1,011M

-7%/y/y (-7% core*)

Operating Margin
26.1%

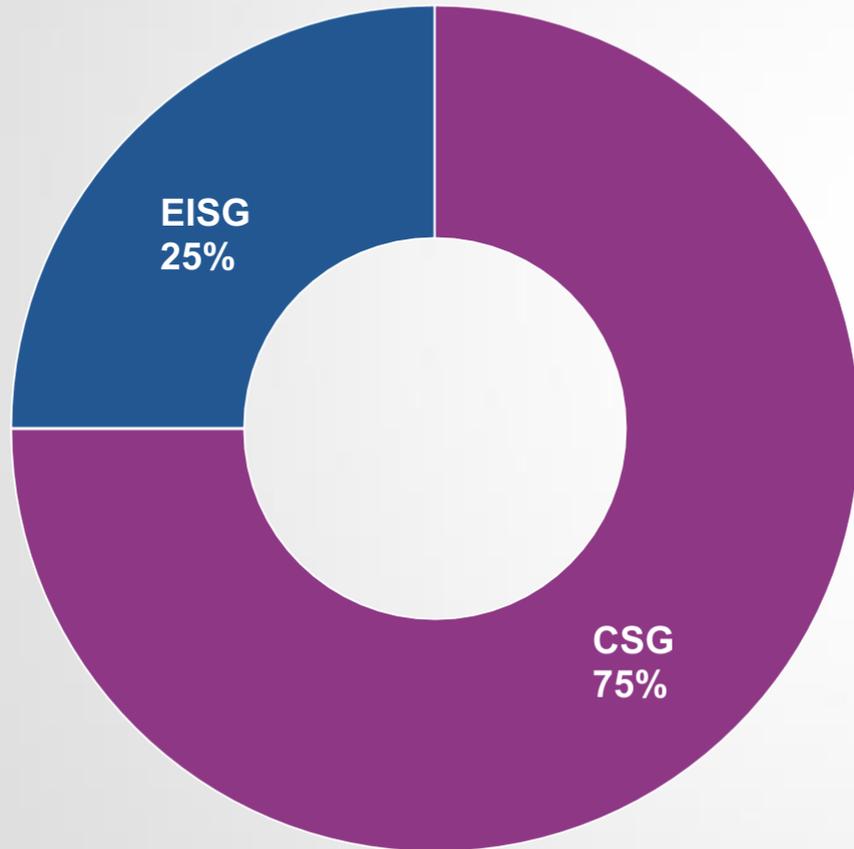
+90 basis points y/y



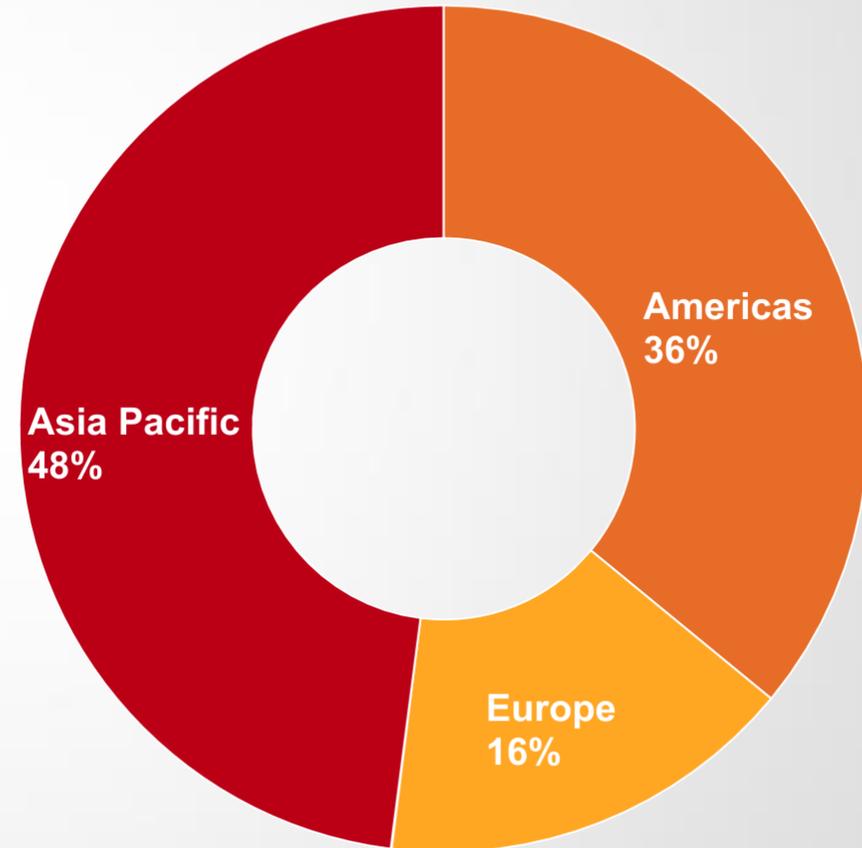
Revenue by Segment & by Region

Q3'20 REVENUE: \$1,011M

By Segment



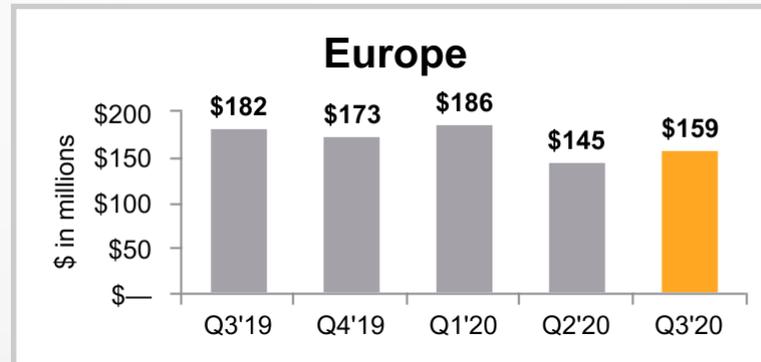
By Region



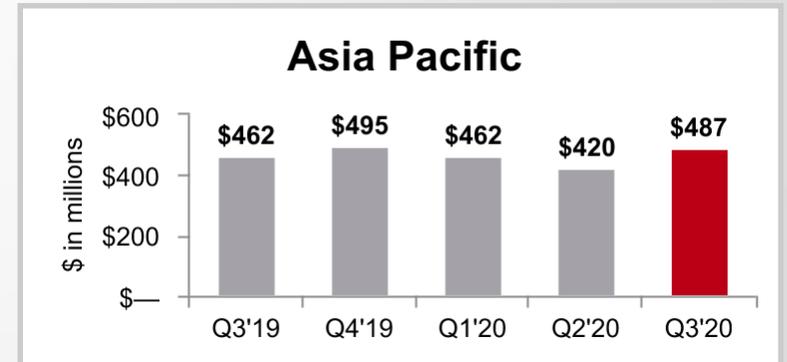
Non-GAAP Revenue Trend by Region



-18% (-18% core*): Solid order demand in ADG, with weakness in CC and EI as COVID disruption tempered revenue ramp



-13% (-14% core*): Strong order demand in EI, with weakness in ADG and CC as revenue reflects COVID impact



+5% (+5% core*): Stable order demand in CC and EI, with weakness in ADG as revenue reflects leading COVID recovery

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

Q3'20 Communications Solutions Group Highlights



Revenue

\$760M

-4% y/y (-4% core*)



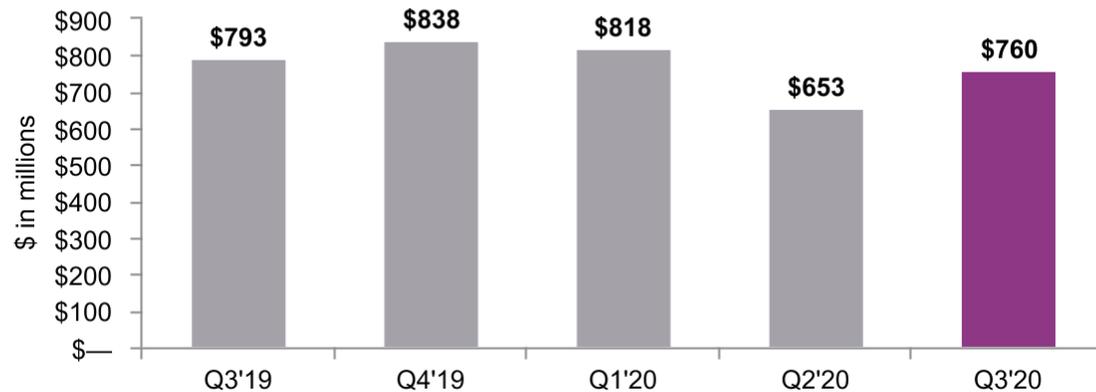
Operating Margin

25.9%

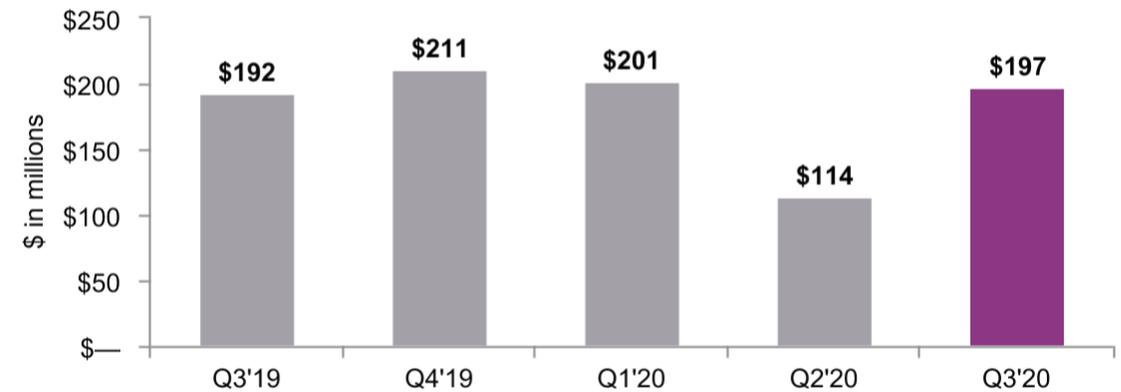
+180 basis points y/y

- Record CSG operating margin of 25.9%
- **Commercial Communications:** Continued investments in next-generation technologies, such as 5G and 400G-related data center investment.
- **Aerospace, defense and government:** Strong U.S. orders offset by lower investment in Europe and Asia.

CSG Revenue



CSG Income from Operations



Q3'20 Electronic Industrial Solutions Group Highlights



Revenue

\$251M

-15% y/y (-16% core*)



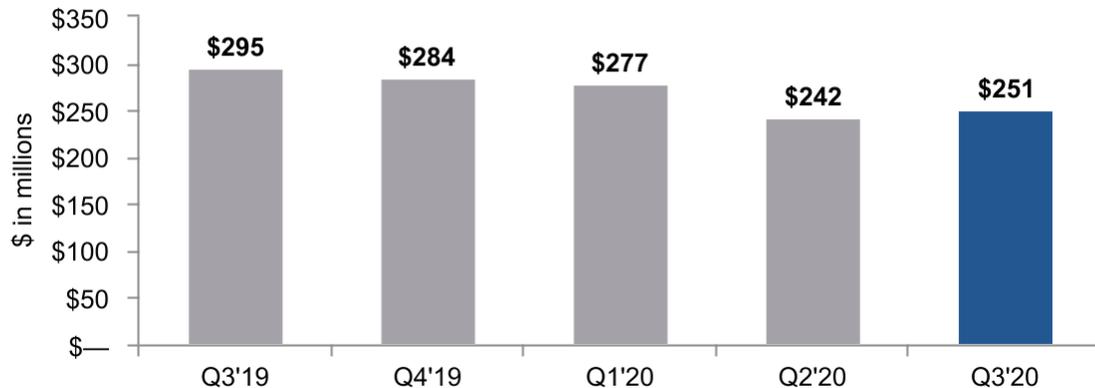
Operating Margin

26.5%

-160 basis points y/y

- EISG operating margin of 26.5%
- Continued investment in advanced process node technologies drove double-digit order growth in semiconductor measurement solutions.
- Decreased demand for automotive and general electronics.

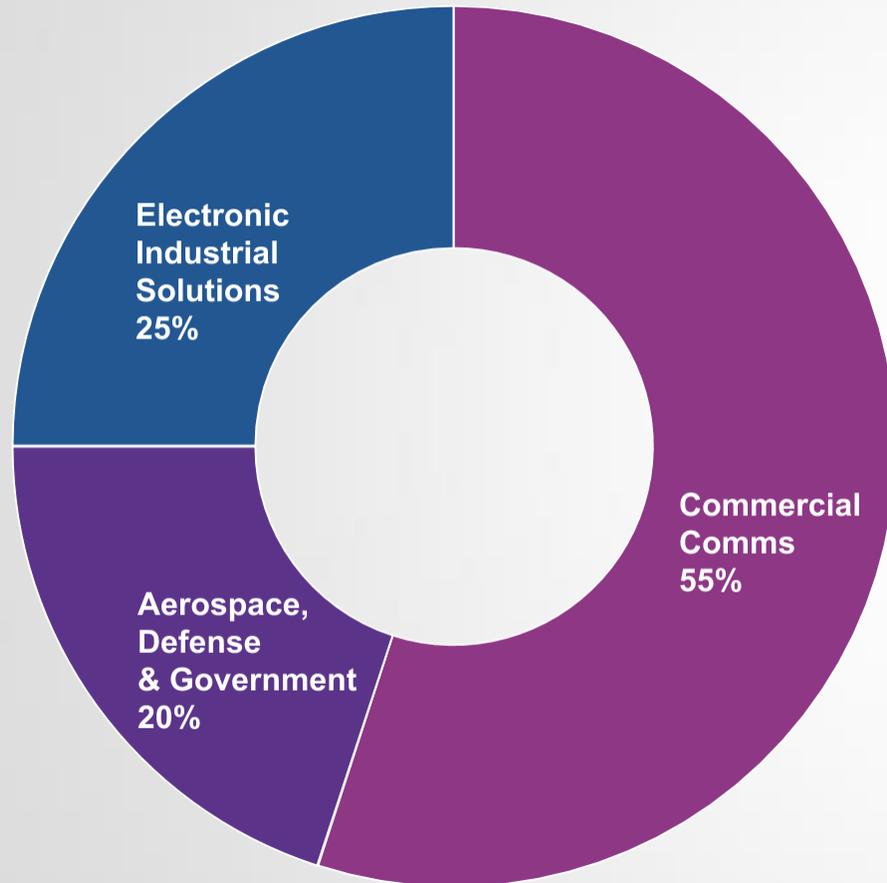
EISG Revenue



EISG Income from Operations



Q3'20 Non-GAAP Revenue By End Market



End Market	Revenue	YoY %
Commercial Communications	\$559M	+2%
Aerospace, Defense & Government	\$201M	-17%
Electronic Industrial Solutions	\$251M	-15%
Total*	\$1,011M	-7%

Guidance and Financial Considerations

Q4'20 Guidance

Revenue	\$1,170 - \$1,190M
Revenue Growth	+4% to +6%
Non-GAAP Earnings per share	\$1.42 - \$1.48

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 \$110-120M

Investor Resources & Links

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

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

	Three months ended	
	July 31,	
	2020	2019
Income from operations, as reported	\$ 182	\$ 197
Amortization of acquisition-related balances	54	56
Share-based compensation	19	16
Acquisition and integration costs	8	3
Restructuring and related costs	1	1
Others	-	2
Non-GAAP income from operations	\$ 264	\$ 275
 GAAP Operating margin, %	 18.0%	 18.2%
Non-GAAP Operating margin, %	26.1%	25.2%

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

	Three months ended July 31,			
	2020		2019	
	Net Income	Diluted EPS	Net Income	Diluted EPS
GAAP Net income	\$ 176	\$ 0.93	\$ 159	\$ 0.83
Non-GAAP adjustments:				
Amortization of acquisition-related balances	54	0.28	56	0.30
Share-based compensation	19	0.09	16	0.08
Acquisition and integration costs	7	0.04	3	0.02
Restructuring and related costs	1	0.01	1	0.01
Others	(9)	(0.04)	(3)	(0.03)
Adjustment for taxes	(22)	(0.12)	7	0.04
Non-GAAP Net income	\$ 226	\$ 1.19	\$ 239	\$ 1.25
Weighted average shares outstanding - diluted	190		191	

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

Year-over-year compare			
	Q3'20	Q3'19	Percent Inc/(Dec)
GAAP Revenue	\$ 1,011	\$ 1,087	(7)%
Amortization of acquisition-related balances	-	1	
Non-GAAP Revenue	\$ 1,011	\$ 1,088	(7)%
Adjustments:			
Revenue from acquisitions or divestitures included in segment results	(7)	-	
Currency impacts	3	-	
Non-GAAP Core Revenue	\$ 1,007	\$ 1,088	(7)%

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

<u>Revenue by Segment</u>	Year-over-Year								
	GAAP Revenue			Amortization of acquisition-related balances		Non-GAAP Revenue			
	Q3'20	Q3'19	YoY % Chg.	Q3'20	Q3'19	Q3'20	Q3'19	YoY % Chg.	
Communications Solutions Group ^(a)	\$ 760	\$ 792	(4)%	\$ -	\$ 1	\$ 760	\$ 793	(4)%	
Electronic Industrial Solutions Group	251	295	(15)%	-	-	251	295	(15)%	
Keysight	<u>\$ 1,011</u>	<u>\$ 1,087</u>	(7)%	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,011</u>	<u>\$ 1,088</u>	(7)%	

<u>Revenue by Region</u>	Year-over-Year								
	GAAP Revenue			Amortization of acquisition-related balances		Non-GAAP Revenue			
	Q3'20	Q3'19	YoY % Chg.	Q3'20	Q3'19	Q3'20	Q3'19	YoY % Chg.	
Americas	\$ 365	\$ 443	(17)%	\$ -	\$ 1	\$ 365	\$ 444	(18)%	
Europe	159	182	(13)%	-	-	159	182	(13)%	
Asia Pacific	487	462	6%	-	-	487	462	5%	
Total Revenue	<u>\$ 1,011</u>	<u>\$ 1,087</u>	(7)%	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,011</u>	<u>\$ 1,088</u>	(7)%	

^(a) Restated for the 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										
Revenue by Segment	Non-GAAP Revenue			Revenue from acquisitions or divestitures		Currency Adjustments	Non-GAAP Core Revenue			
	Q3'20	Q3'19	YoY % Chg.	Q3'20	Q3'19	Q3'20	Q3'20	Q3'19	YoY % Chg.	
Communications Solutions Group ^(a)	\$ 760	\$ 793	(4)%	\$ 4	\$ -	\$ (3)	\$ 759	\$ 793	(4)%	
Electronic Industrial Solutions Group	251	295	(15)%	3	-	-	248	295	(16)%	
Keysight	\$ 1,011	\$ 1,088	(7)%	\$ 7	\$ -	\$ (3)	\$ 1,007	\$ 1,088	(7)%	

Revenue by Region	Non-GAAP Revenue			Revenue from acquisitions or divestitures		Currency Adjustments	Non-GAAP Core Revenue		
	Q3'20	Q3'19	YoY % Chg.	Q3'20	Q3'19	Q3'20	Q3'20	Q3'19	YoY % Chg.
Americas	\$ 365	\$ 444	(18)%	\$ 3	\$ -	\$ (1)	\$ 363	\$ 444	(18)%
Europe	159	182	(13)%	2	-	(1)	158	182	(14)%
Asia Pacific	487	462	5%	2	-	(1)	486	462	5%
Total Revenue	\$ 1,011	\$ 1,088	(7)%	\$ 7	\$ -	\$ (3)	\$ 1,007	\$ 1,088	(7)%

^(a) Restated for the 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>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 1,087	\$ 1,120	\$ 1,095	\$ 895	\$ 1,011
Amortization of acquisition-related balances	1	2	-	-	-
Non-GAAP/Segment Revenue	<u>\$ 1,088</u>	<u>\$ 1,122</u>	<u>\$ 1,095</u>	<u>\$ 895</u>	<u>\$ 1,011</u>

Communications Solutions Group^(a)

	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 792	\$ 836	\$ 818	\$ 653	\$ 760
Amortization of acquisition-related balances	1	2	-	-	-
Segment Revenue	<u>\$ 793</u>	<u>\$ 838</u>	<u>\$ 818</u>	<u>\$ 653</u>	<u>\$ 760</u>

Electronic Industrial Solutions Group

	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 295	\$ 284	\$ 277	\$ 242	\$ 251
Amortization of acquisition-related balances	-	-	-	-	-
Segment Revenue	<u>\$ 295</u>	<u>\$ 284</u>	<u>\$ 277</u>	<u>\$ 242</u>	<u>\$ 251</u>

^(a) Restated for the organizational change to manage our Ixia Solutions Group within our Communications Solutions Group, effective Q1'20.

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

Keysight

	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 1,087	\$ 1,120	\$ 1,095	\$ 895	\$ 1,011
Amortization of acquisition-related balances	1	2	-	-	-
Non-GAAP Revenue	<u>\$ 1,088</u>	<u>\$ 1,122</u>	<u>\$ 1,095</u>	<u>\$ 895</u>	<u>\$ 1,011</u>

Americas

	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 443	\$ 453	\$ 447	\$ 330	\$ 365
Amortization of acquisition-related balances	1	1	-	-	-
Non-GAAP Revenue	<u>\$ 444</u>	<u>\$ 454</u>	<u>\$ 447</u>	<u>\$ 330</u>	<u>\$ 365</u>

Europe

	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 182	\$ 173	\$ 186	\$ 145	\$ 159
Amortization of acquisition-related balances	-	-	-	-	-
Non-GAAP Revenue	<u>\$ 182</u>	<u>\$ 173</u>	<u>\$ 186</u>	<u>\$ 145</u>	<u>\$ 159</u>

Asia Pacific

	<u>Q3'19</u>	<u>Q4'19</u>	<u>Q1'20</u>	<u>Q2'20</u>	<u>Q3'20</u>
GAAP Revenue	\$ 462	\$ 494	\$ 462	\$ 420	\$ 487
Amortization of acquisition-related balances	-	1	-	-	-
Non-GAAP Revenue	<u>\$ 462</u>	<u>\$ 495</u>	<u>\$ 462</u>	<u>\$ 420</u>	<u>\$ 487</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		
	Q3'20	Q3'19	Percent Inc/(Dec)	Q3'20	Q3'19	Q3'20	Q3'19	Percent Inc/(Dec)
Aerospace, Defense & Government	\$ 201	\$ 243	(17)%	\$ -	\$ -	\$ 201	\$ 243	(17)%
Commercial Communications ^(a)	559	549	2%	-	1	559	550	2%
Electronic Industrial	251	295	(15)%	-	-	251	295	(15)%
Total Revenue	\$ 1,011	\$ 1,087	(7)%	\$ -	\$ 1	\$ 1,011	\$ 1,088	(7)%

^(a) Restated for the organizational change to manage our Ixia Solutions within our Commercial Communications, effective Q1'20.

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

	Q3'20
Net cash provided by operating activities	\$ 183
Less: Investments in property, plant and equipment	(32)
Free cash flow	<u>\$ 151</u>

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.

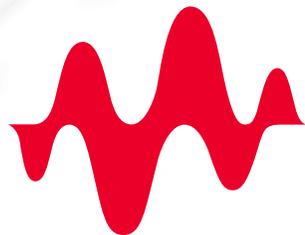
Non-GAAP Core Revenue is non-GAAP revenue (see *Non-GAAP Revenue* above) excluding the impact of foreign currency changes and revenue associated with businesses acquired and divested within the last twelve months. We exclude the impact of foreign currency changes as currency rates can fluctuate based 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 acquirers’ 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 fourth 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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KEYSIGHT
TECHNOLOGIES