

## Keysight Technologies First Quarter 2021 Earnings Conference Call

### Prepared Remarks

#### **JASON KARY**

Thank you, and welcome everyone to Keysight's First Quarter Earnings Conference Call for Fiscal Year 2021.

Joining me are Ron Nersesian, Keysight's Chairman, President and CEO, and Neil Dougherty, our CFO. Joining us in the Q&A session will be Satish Dhanasekaran, Chief Operating Officer, and Mark Wallace, Senior Vice President of Global Sales.

You can find the press release and information to supplement today's discussion on our website at [investor.keysight.com](https://investor.keysight.com). While there, please click on the link for quarterly reports under the financial information tab. There you will find an investor presentation along with Keysight's segment results. Following this conference call, we will post a copy of the prepared remarks to the website.

Today's comments by Ron and Neil will refer to non-GAAP financial measures. We will also make references to "core" growth, which excludes the impact of currency movements and acquisitions or divestitures completed within the last twelve months. You will find the most directly comparable GAAP financial metrics and reconciliations on our website. All comparisons are on a year-over-year basis unless specifically noted otherwise.

We will make forward-looking statements about the financial performance of the company on today's call. These statements are subject to risks and uncertainties and are only valid as of today. The company assumes no obligation to update them. Please review the company's recent SEC filings for a more complete picture of our risks and other factors.

Lastly, I would note that management is scheduled to participate in upcoming virtual investor conferences in March hosted by Susquehanna, Credit Suisse, and UBS.

And now I will turn the call over to Ron.

## **RON NERSESIAN**

Thank you, Jason, and thank you everyone for joining us.

Keysight delivered another outstanding quarter. Our consistent performance illustrates the strength of our differentiated solutions, broad-based momentum across diverse end markets, and the durability of our business model.

Today, I'll focus my comments on three key headlines.

- First, we achieved record first quarter orders driven by growth across all regions, despite China trade headwinds.
- Second, strong execution by the Keysight team delivered revenue and earnings growth above guidance.
- Third, we entered the year with solid momentum across multiple end markets and confidence in our revenue and earnings growth trajectory for the year. Despite a short-term expectation of elevated expenses from variable compensation, which is due to high near-term revenue growth, we expect to achieve mid-to-high teens earnings growth in fiscal 2021.

Now let's take a deeper look into our first quarter results. We delivered record first quarter orders of \$1.2 billion, which again exceeded revenue and grew 7 percent. First quarter revenue grew 8 percent to \$1.2 billion. As previously discussed, we faced strong year-over-year headwinds in the first quarter due to China trade restrictions. Adjusting for this impact, both orders and revenue grew solid double digits.

We continue to make strong progress towards our long-term financial targets with consistent execution and enabled by the strength and discipline of the Keysight Leadership Model. We delivered first quarter gross margin of 64 percent, operating margin of 27 percent, which increased 210 basis points, and free cash flow of \$267 million.

Turning to our markets, aerospace, defense and government achieved record first quarter orders and revenue. 20 percent revenue growth was driven by continued investment in electromagnetic spectrum operations, space, and new commercial technologies like 5G and early 6G research.

In commercial communications, we achieved all-time record orders in total, as well as for 5G, while revenue declined 3 percent. Adjusted for the transient impact of unfavorable trade restrictions, commercial communications orders grew double-digit and revenue grew high-single digits. Strength was driven by on-going global 5G deployments and the roll-out of new 5G devices, and continued investments in 400G and 800G ethernet for data centers. Keysight's end-to-end solutions portfolio is enabling the rapid progression of new technologies, both in the wireless and wired systems of the communications network, where our value proposition remains strong.

Keysight continues to lead the industry in 5G, powered by years of close collaboration with market leaders and standards bodies. We are advancing our 5G strategy to capture emerging opportunities in the application layer as momentum builds ahead of deployments in 2021. We made great progress this quarter as broad industries embrace our 5G platform and new applications emerge. For example, Open Radio Access Network (O-RAN) continues to be an area of active investment for our customers. We recently introduced a suite of end-to-end solutions for O-RAN vendors and mobile operators. Our solutions are used to verify the interoperability, performance, conformance, and security of multi-vendor 5G networks. We also announced strategic partnerships in the expanding O-RAN space with industry leaders like Xilinx, Radisys, Arraycom and AltioStar. In addition, we continue to accelerate Keysight's capability to provide industry-leading solutions through strategic acquisitions. In Q1, we acquired Sanjole – a leader in wireless test and measurement solutions for protocol decoding and interoperability. Sanjole's offerings complement our end-to-end solutions portfolio, providing problem-solving tools that extend from inside the wireless network out through over-the-air analytics.

Record revenue for our Electronic Industrial Solutions Group was driven by double-digit growth in semiconductor and general electronics solutions. Record semiconductor revenue was fueled by ongoing investment in next-generation process technologies, bolstered by new customer wins in China as we successfully redeployed our sales force to capitalize on new opportunities. General electronics strength reflected continued economic recovery with growth across all regions and improvement in the advanced research education market.

In automotive, despite ongoing macro challenges, end demand is stabilizing as strategic investments in advanced technologies have accelerated in Asia and the Americas. In Europe, we continue to expand our presence and recently announced a collaboration with ElringKlinger, one of the world's leading system partners to the automotive industry. They chose Keysight's Battery Test Solution to advance e-mobility in the field of battery development for electric vehicles.

Software and services each delivered double-digit order and revenue growth. Combined, they were approximately one third of total Keysight revenue, contributing significantly to our software-centric solution strategy and differentiation, and further strengthening the durability of our business model with increasing recurring revenue.

In summary, I'd like to thank our Keysight employees around the world who have reacted dynamically to a challenging environment to deliver exceptional results for our customers and shareholders. We are pleased with our first quarter performance, and encouraged by the broad-based momentum across our markets entering the year.

Now, I would like to turn it over to Neil to discuss our financial performance and outlook in more detail.

## NEIL DOUGHERTY

Thank you, Ron, and hello, everyone.

As Ron mentioned, the Keysight team delivered an outstanding first quarter, as continued economic recovery drove a steady improvement in demand across all major regions.

First quarter revenue of \$1 billion 180 million was above the high end of our guidance range, and grew 8 percent, or 6 percent on a core basis. Q1 revenue growth was driven by broad strength across multiple end markets and geographies.

Total Keysight orders again exceeded revenue in Q1, with a book-to-bill just over 1. We achieved first quarter orders of \$1 billion 223 million, up 7 percent, or 5 percent on a core basis, successfully overcoming increased trade restrictions.

Turning to our operational results for Q1, we reported gross margin of 64 percent and operating expenses of \$439 million were well-managed, resulting in operating margin of 27 percent, an increase of 210 basis points year-over-year.

We achieved net income of \$270 million and delivered 1 dollar 43 cents in earnings per share, which was well above the high-end of our guidance. Our weighted average share count for the quarter was 188 million shares.

Moving to the performance of our segments, our Communications Solutions Group generated record first quarter revenue of \$852 million, up 4 percent, while delivering gross margin of 65 percent and operating margin of 26 percent.

In Q1, Commercial Communications achieved all-time record total and 5G quarterly orders. First quarter revenue declined 3 percent to \$558 million with Commercial Communications disproportionately impacted by the China trade restrictions.

Aerospace, Defense and Government achieved record first quarter revenue of \$294 million, an increase of 20 percent versus a strong compare in Q1 last year. Growth was driven by robust year-end spending across all major regions. In the US, growth was driven by prime contractor spending, offsetting slightly lower spending from direct government customers, as we saw less-than-expected disruption from the US administration transition.

The Electronic Industrial Solutions Group generated record revenue of \$328 million, up 18 percent, or 13 percent on a core basis. Orders and revenue for our semiconductor and general electronics measurement solutions both grew double-digit for the second quarter in a row, with strong revenue growth across all regions, particularly in Asia Pacific. EISG reported gross margin of 63 percent and operating margin of 29 percent.

Moving to the balance sheet and cash flow, we ended our first quarter with \$1.9 billion in cash and cash equivalents and reported cash flow from operations of \$295 million and free cash flow of \$267 million, or 23 percent of revenue.

Under our share repurchase authorization, during the quarter we acquired approximately 137,000 shares on the open market, at an average price of \$145.14, for a total consideration of \$20 million.

Before moving to our guidance, I'd like to remind everyone of my comments last quarter in which I stated that flexible spending and variable compensation is expected to increase in FY21, with Q2 expenses seasonally higher than all other quarters. The principal driver is variable compensation, which is a function of organic revenue growth and operating margin. Just as we flexed expenses down last year in response to a decline in revenue, they will flex up this year, particularly in quarters with soft revenue comps, notably Q2 and Q3. We believe our variable compensation is an important element of not only our flexible cost structure, but our human capital philosophy in which employees are engaged and participate in both the ups and downs of the business.

Now, turning to our outlook and guidance ...

We expect second quarter 2021 revenue to be in the range of \$1 billion 190 million to \$1 billion 210 million, which represents 34 percent revenue growth at the midpoint. We expect Q2 earnings per share to be in the range of 1 dollar 29 cents to 1 dollar 35 cents, based on a weighted diluted share count of approximately 188 million shares.

In closing, we are entering the year with order momentum, a solid backlog position and strong operational execution. We are pleased with the trajectory of the business and expect to achieve mid-to-high teens earnings growth for the full fiscal year.

With that, I will now turn it back to Jason for the Q&A.

**JASON KARY:**

Thank you, Neil. Operator, will you please give the instructions for the Q&A?