

KEYSIGHT TECHNOLOGIES, INC.
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KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In millions, except per share data)
(Unaudited)
PRELIMINARY

	Three months ended		
	April 30,		
	2022	2021	Percent Inc/(Dec)
Orders	\$ 1,458	\$ 1,332	9%
Revenue	\$ 1,351	\$ 1,221	11%
Costs and expenses:			
Cost of products and services	492	484	2%
Research and development	210	209	1%
Selling, general and administrative	319	297	7%
Other operating expense (income), net	3	(4)	-
Total costs and expenses	1,024	986	4%
Income from operations	327	235	39%
Interest income	1	-	-
Interest expense	(19)	(19)	-
Other income (expense), net	(2)	(8)	(75)%
Income before taxes	307	208	47%
Provision for income taxes	49	22	123%
Net income	\$ 258	\$ 186	38%
Net income per share:			
Basic	\$ 1.42	\$ 1.01	
Diluted	\$ 1.41	\$ 0.99	
Weighted average shares used in computing net income per share:			
Basic	181	185	
Diluted	183	187	

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In millions, except per share data)
(Unaudited)
PRELIMINARY

	Six months ended April 30,		Percent Inc/(Dec)
	2022	2021	
Orders	\$ 2,953	\$ 2,555	16%
Revenue	\$ 2,601	\$ 2,401	8%
Costs and expenses:			
Cost of products and services	938	957	(2)%
Research and development	420	408	3%
Selling, general and administrative	645	598	8%
Other operating expense (income), net	-	(9)	-
Total costs and expenses	2,003	1,954	3%
Income from operations	598	447	34%
Interest income	2	1	63%
Interest expense	(39)	(39)	-
Other income (expense), net	10	(6)	-
Income before taxes	571	403	42%
Provision for income taxes	84	45	88%
Net income	\$ 487	\$ 358	36%
Net income per share:			
Basic	\$ 2.67	\$ 1.93	
Diluted	\$ 2.65	\$ 1.91	
Weighted average shares used in computing net income per share:			
Basic	182	185	
Diluted	183	188	

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)
PRELIMINARY

	Three months ended		Six months ended	
	April 30,		April 30,	
	2022	2021	2022	2021
Net income	\$ 258	\$ 186	\$ 487	\$ 358
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on derivative instruments	36	22	40	40
Amounts reclassified into earnings related to derivative instruments	-2	-	-2	-
Foreign currency translation	-65	(14)	-86	17
Net defined benefit pension cost and post retirement plan costs:				
Change in net actuarial loss	8	17	16	31
Change in net prior service credit	-	-	-	-
Other comprehensive income (loss)	(23)	25	(32)	88
Total comprehensive income	<u>\$ 235</u>	<u>\$ 211</u>	<u>\$ 455</u>	<u>\$ 446</u>

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(In millions, except par value and share data)
(Unaudited)
PRELIMINARY

	<u>April 30, 2022</u>	<u>October 31, 2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,886	\$ 2,052
Accounts receivable, net	803	735
Inventory	810	777
Other current assets	387	270
Total current assets	<u>3,886</u>	<u>3,834</u>
Property, plant and equipment, net	664	650
Operating lease right-of-use assets	208	227
Goodwill	1,605	1,628
Other intangible assets, net	228	272
Long-term investments	81	70
Long-term deferred tax assets	673	711
Other assets	419	389
Total assets	<u>\$ 7,764</u>	<u>\$ 7,781</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 313	\$ 287
Employee compensation and benefits	318	355
Deferred revenue	538	478
Income and other taxes payable	52	74
Operating lease liabilities	40	41
Other accrued liabilities	99	74
Total current liabilities	<u>1,360</u>	<u>1,309</u>
Long-term debt	1,792	1,791
Retirement and post-retirement benefits	141	167
Long-term deferred revenue	196	187
Long-term operating lease liabilities	176	191
Other long-term liabilities	320	352
Total liabilities	<u>3,985</u>	<u>3,997</u>
Stockholders' Equity:		
Preferred stock; \$0.01 par value; 100 million shares authorized; none issued and outstanding	-	-
Common stock; \$0.01 par value; 1 billion shares authorized; 198 million shares at April 30, 2022 and 197 million shares at October 31, 2021 issued	2	2
Treasury stock at cost; 18.1 million shares at April 30, 2022 and 15.1 million shares at October 31, 2021	(1,920)	(1,425)
Additional paid-in-capital	2,254	2,219
Retained earnings	3,917	3,430
Accumulated other comprehensive loss	(474)	(442)
Total stockholders' equity	<u>3,779</u>	<u>3,784</u>
Total liabilities and equity	<u>\$ 7,764</u>	<u>\$ 7,781</u>

KEYSIGHT TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)
PRELIMINARY

	Three months ended		Six months ended	
	April 30,		April 30,	
	2022	2021	2022	2021
Cash flows from operating activities:				
Net income	\$ 258	\$ 186	\$ 487	\$ 358
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	29	29	59	57
Amortization	26	56	53	115
Share-based compensation	27	21	77	64
Deferred tax expense (benefit)	4	(19)	13	(18)
Excess and obsolete inventory-related charges	7	7	13	14
Loss on settlement of pension plan	-	16	-	16
Other non-cash expense (income), net	17	-	22	7
Changes in assets and liabilities:				
Accounts receivable	(109)	(23)	(84)	(61)
Inventory	(22)	(23)	(54)	(23)
Accounts payable	35	14	31	18
Employee compensation and benefits	76	105	(41)	51
Deferred revenue	62	39	90	89
Income taxes payable	(40)	8	(26)	7
Retirement and post-retirement benefits	(5)	5	(14)	4
Other assets and liabilities	(67)	(19)	(104)	(1)
Net cash provided by operating activities ^(a)	298	402	522	697
Cash flows from investing activities:				
Investments in property, plant and equipment	(53)	(33)	(95)	(61)
Acquisition of businesses and intangible assets, net of cash acquired	(10)	(40)	(17)	(136)
Purchase of investments	(30)	-	(30)	-
Net cash used in investing activities	(93)	(73)	(142)	(197)
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock plans	-	1	31	29
Payment of taxes related to net share settlement of equity awards	(2)	(2)	(74)	(51)
Treasury stock repurchases	(278)	(220)	(484)	(240)
Payment of acquisition-related contingent consideration	-	-	-	(2)
Net cash used in financing activities	(280)	(221)	(527)	(264)
Effect of exchange rate movements	(17)	(2)	(21)	6
Net increase (decrease) in cash, cash equivalents and restricted cash	(92)	106	(168)	242
Cash, cash equivalents and restricted cash at beginning of period	1,992	1,903	2,068	1,767
Cash, cash equivalents and restricted cash at end of period	\$ 1,900	\$ 2,009	\$ 1,900	\$ 2,009
^(a) Cash payments included in operating activities:				
Interest payments	\$ 37	\$ 37	\$ 37	\$ 37
Income tax paid, net	110	33	122	55

KEYSIGHT TECHNOLOGIES, INC.
COMMUNICATIONS SOLUTIONS GROUP (CSG)
(In millions, except where noted)
(Unaudited)
PRELIMINARY

	FY 2022				
	Q1	Q2	Q3	Q4	Total
Revenue	\$ 878	\$ 963			\$ 1,841
Gross margin, %	67.3%	66.2%			66.7%
Income from operations	\$ 237	\$ 271			\$ 508
Operating margin, %	26.9%	28.2%			27.6%

	FY 2021				
	Q1	Q2	Q3	Q4	Total
Revenue	\$ 852	\$ 877	\$ 875	\$ 919	\$ 3,523
Gross margin, %	64.6%	64.7%	65.7%	66.1%	65.3%
Income from operations	\$ 224	\$ 222	\$ 224	\$ 262	\$ 932
Operating margin, %	26.3%	25.4%	25.6%	28.5%	26.5%

Segment revenue and income from operations is consistent with the respective non-GAAP financial measures as discussed on last page.

KEYSIGHT TECHNOLOGIES, INC.
ELECTRONIC INDUSTRIAL SOLUTIONS GROUP (EISG)
(In millions, except where noted)
(Unaudited)
PRELIMINARY

	FY 2022				
	Q1	Q2	Q3	Q4	Total
Revenue	\$ 372	\$ 388			\$ 760
Gross margin, %	62.6%	62.0%			62.3%
Income from operations	\$ 114	\$ 118			\$ 232
Operating margin, %	30.7%	30.3%			30.5%

	FY 2021				
	Q1	Q2	Q3	Q4	Total
Revenue	\$ 328	\$ 344	\$ 371	\$ 375	\$ 1,418
Gross margin, %	63.4%	64.0%	63.7%	65.7%	64.2%
Income from operations	\$ 96	\$ 98	\$ 115	\$ 135	\$ 444
Operating margin, %	29.4%	28.4%	31.0%	36.1%	31.3%

Segment revenue and income from operations is consistent with the respective non-GAAP financial measures as discussed on last page.

KEYSIGHT TECHNOLOGIES, INC.
NON-GAAP GROSS PROFIT AND OPERATING MARGIN RECONCILIATIONS
(In millions, except where noted)
(Unaudited)
PRELIMINARY

Reconciliation of Gross Profit to non-GAAP Gross Profit

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Gross Profit, as reported	\$ 859	\$ 737	\$ 1,663	\$ 1,444
Amortization of acquisition-related balances	13	41	25	86
Share-based compensation	6	6	14	13
Acquisition and integration costs	-	1	-	1
Restructuring and others	-	2	-	2
Non-GAAP Gross Profit	\$ 878	\$ 787	\$ 1,702	\$ 1,546
GAAP Gross margin, %	63.6%	60.4%	63.9%	60.1%
Non-GAAP Gross margin, %	65.0%	64.5%	65.4%	64.4%

Reconciliation of Income from Operations to non-GAAP Income from Operations

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Income from operations, as reported	\$ 327	\$ 235	\$ 598	\$ 447
Amortization of acquisition-related balances	26	56	52	114
Share-based compensation	26	22	77	65
Acquisition and integration costs	2	3	5	6
Restructuring and others	8	4	8	8
Non-GAAP income from operations	\$ 389	\$ 320	\$ 740	\$ 640
GAAP Operating margin, %	24.2%	19.3%	23.0%	18.6%
Non-GAAP Operating margin, %	28.8%	26.2%	28.4%	26.7%

Please refer last page for details on the use of non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
NON-GAAP OPERATING EXPENSES RECONCILIATIONS
(In millions)
(Unaudited)
PRELIMINARY

Reconciliation of research & development expenses to non-GAAP research & development expenses

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Research & development expenses, as reported	\$ 210	\$ 209	\$ 420	\$ 408
Share-based compensation	(5)	(4)	(16)	(13)
Restructuring and others	-	(1)	-	(1)
Non-GAAP research & development expenses	<u>\$ 205</u>	<u>\$ 204</u>	<u>\$ 404</u>	<u>\$ 394</u>

Reconciliation of selling, general & administrative expenses to non-GAAP selling, general & administrative expenses

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Selling, general & administrative expenses, as reported	\$ 319	\$ 297	\$ 645	\$ 598
Amortization of acquisition-related balances	(13)	(15)	(27)	(28)
Share-based compensation	(15)	(12)	(47)	(39)
Acquisition and integration costs	(2)	(2)	(5)	(5)
Restructuring and others	(1)	(1)	(1)	(5)
Non-GAAP selling, general & administrative expenses	<u>\$ 288</u>	<u>\$ 267</u>	<u>\$ 565</u>	<u>\$ 521</u>

Reconciliation of other operating expense (income), net to non-GAAP other operating expense (income), net

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Other operating expense (income), net, as reported	\$ 3	\$ (4)	\$ -	\$ (9)
Restructuring and others	(7)	-	(7)	-
Non-GAAP other operating expense (income), net	<u>\$ (4)</u>	<u>\$ (4)</u>	<u>\$ (7)</u>	<u>\$ (9)</u>

Reconciliation of operating expenses to non-GAAP operating expenses

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Operating expenses, as reported	\$ 532	\$ 502	\$ 1,065	\$ 997
Amortization of acquisition-related balances	(13)	(15)	(27)	(28)
Share-based compensation	(20)	(16)	(63)	(52)
Acquisition and integration costs	(2)	(2)	(5)	(5)
Restructuring and others	(8)	(2)	(8)	(6)
Non-GAAP operating expenses	<u>\$ 489</u>	<u>\$ 467</u>	<u>\$ 962</u>	<u>\$ 906</u>

Please refer last page for details on the use of non-GAAP financial measures.

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

	Three months ended				Six months ended			
	April 30,				April 30,			
	2022		2021		2022		2021	
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS
GAAP Net income	\$ 258	\$ 1.41	186	\$ 0.99	\$ 487	\$ 2.65	\$ 358	\$ 1.91
Non-GAAP adjustments:								
Amortization of acquisition-related balances	26	0.14	56	0.30	52	0.29	114	0.61
Share-based compensation	26	0.15	22	0.11	77	0.42	65	0.35
Acquisition and integration costs	2	0.01	3	0.02	5	0.03	6	0.03
Restructuring and others	18	0.10	18	0.10	21	0.11	25	0.13
Adjustment for taxes ^(a)	4	0.02	(15)	(0.08)	(3)	(0.02)	(28)	(0.15)
Non-GAAP Net income	<u>\$ 334</u>	<u>\$ 1.83</u>	<u>\$ 270</u>	<u>\$ 1.44</u>	<u>\$ 639</u>	<u>\$ 3.48</u>	<u>\$ 540</u>	<u>\$ 2.88</u>
Weighted average shares outstanding - diluted	183		187		183		188	

^(a) For both the three and six months ended April 30, 2022 and 2021, management uses a non-GAAP effective tax rate of 12%.

Please refer last page for details on the use of non-GAAP financial measures.

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

Year-over-Year									
<u>Revenue by Segment</u>	Revenue			Revenue from acquisitions or divestitures		Currency Adjustments ^(a)	Core Revenue		
	Q2'22	Q2'21	YoY % Chg.	Q2'22	Q2'21	Q2'22	Q2'22	Q2'21	YoY % Chg.
Communications Solutions Group	\$ 963	\$ 877	10%	\$ 3	\$ -	\$ (12)	\$ 972	\$ 877	11%
Electronic Industrial Solutions Group	388	344	13%	-	-	(8)	396	344	15%
Total Revenue	\$ 1,351	\$ 1,221	11%	\$ 3	\$ -	\$ (20)	\$ 1,368	\$ 1,221	12%

<u>Revenue by Region</u>	Revenue			Revenue from acquisitions or divestitures		Currency Adjustments ^(a)	Core Revenue		
	Q2'22	Q2'21	YoY % Chg.	Q2'22	Q2'21	Q2'22	Q2'22	Q2'21	YoY % Chg.
Americas	\$ 563	\$ 484	16%	\$ 3	\$ -	\$ -	\$ 560	\$ 484	16%
Europe	217	199	9%	-	-	(6)	223	199	12%
Asia Pacific	571	538	6%	-	-	(14)	585	538	9%
Total Revenue	\$ 1,351	\$ 1,221	11%	\$ 3	\$ -	\$ (20)	\$ 1,368	\$ 1,221	12%

^(a) We compare the year-over-year change in revenue excluding the effect of foreign currency rate fluctuations to assess the performance of our underlying business. To determine the impact of currency fluctuations, current period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the actual exchange rate in effect during the respective prior periods.

Please refer last page for details on the use of non-GAAP financial measures.

KEYSIGHT TECHNOLOGIES, INC.
REVENUE BY END MARKETS
(In millions)
(Unaudited)
PRELIMINARY

	Q2'22	Q2'21	Percent Inc/(Dec)
Aerospace, Defense and Government	\$ 291	\$ 271	7%
Commercial Communications	672	606	11%
Electronic Industrial	388	344	13%
Total Revenue	\$ 1,351	\$ 1,221	11%

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

	Three months ended April 30,		Six months ended April 30,	
	2022	2021	2022	2021
Net cash provided by operating activities	\$ 298	\$ 402	\$ 522	\$ 697
Less: Investments in property, plant and equipment	(53)	(33)	(95)	(61)
Free cash flow	<u>\$ 245</u>	<u>\$ 369</u>	<u>\$ 427</u>	<u>\$ 636</u>
Free cash flow as a percentage of Revenue	18%	30%	16%	26%

Please refer last page for details on the use of non-GAAP financial measures.

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 generally relates to an acquisition and 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. We may not have non-GAAP revenue in all periods.

Core Revenue is GAAP/non-GAAP revenue (as applicable) excluding the impact of foreign currency changes and revenue associated with material acquisitions or divestitures completed 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.

Free cash flow includes net cash provided by operating activities adjusted for investments in property, plant & equipment.

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 acquiree’s 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.
- *Restructuring and others:* 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 also exclude “others”, not normal, recurring, cash operating income/expenses 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 do not anticipate occurring as part of our normal business. While not all-inclusive, examples of such items would include net unrealized gains on equity investments still held, significant non-recurring events like realized gains or losses associated with our employee benefit plans, costs and recoveries related to unusual events, gain on sale of assets/divestitures, etc. 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 quarter of fiscal 2022 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.