



Keysight Technologies Second Quarter 2022 Earnings Conference Call  
Prepared Remarks

**JASON KARY**

Thank you, and welcome everyone to Keysight's second quarter earnings conference call for fiscal year 2022.

Joining me are Satish Dhanasekaran, President and CEO, and Neil Dougherty, our CFO. In the Q&A session we will be joined by 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](http://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 Satish 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 otherwise noted.

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 investor conferences hosted by J.P. Morgan, Baird, and UBS.

And now I will turn the call over to Satish.

**SATISH DHANASEKARAN**

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

Welcome to the second quarter 2022 earnings call, and my first as CEO of Keysight. I'm humbled and honored to be Keysight's CEO and am excited about the future. I would like to thank Ron Nersesian for his visionary leadership of the company, which has provided us a solid foundation to build on. Over the last decade, I had the honor to work closely with Ron and benefitted greatly from his experience in the many different roles I've held since joining the company 16 years ago. This is a great time to be at Keysight as we remain focused on our core purpose of accelerating innovation to connect and secure the world.

Keysight delivered exceptional results in Q2 driven by strong execution and broad-based demand across the business. The team focused on innovating and solving customers' design and test challenges, while successfully navigating the ongoing supply chain and geopolitical challenges.

I will focus my comments today on three key headlines.

- First, we delivered record Q2 orders capitalizing on robust end-market demand for Keysight's high-value, differentiated solutions. Our focus on delivering first-to-market solutions is enabling us to uncover new emerging applications, adding to our momentum.
- Second, we achieved record revenue and strong operating margin performance resulting in record earnings per share, which grew 27 percent, demonstrating the durability and resilience of our business.
- Third, we are raising our outlook for the year based on our strong performance in the first half and continued momentum. We now expect to achieve revenue growth approaching 8 percent and earnings per share growth in the range of 14 to 15 percent for the fiscal year.

Let's now take a deeper look at our results for the quarter.

Second-quarter orders grew 9 percent to \$1.46 billion, and outpaced revenue, which grew 11 percent to a new record of \$1.35 billion, and was \$41 million above the high-end of our guidance. We achieved gross margin of 65 percent, operating margin of 29 percent, and record EPS of 1 dollar 83 cents, exceeding the high end of guidance by 14 cents. Also, with the ongoing equity market volatility, we again capitalized on the opportunity to accelerate share repurchases.

These results are a reflection of our strong portfolio and our global teams' application of the Keysight Leadership Model, which enables us to deliver consistent value to all stakeholders. We delivered these results despite many headwinds, including geopolitical challenges, inflationary pressures, and continued supply chain disruptions.

We continue to advance our software-centric solutions strategy. As the rapid pace of technology accelerates, our customers across end markets are seeking deeper engagements earlier in the design cycle and are adopting our software solutions. The capabilities of our Pathwave software platform facilitate a continuous stream of releases that matches the innovation cadence of our

customers. This enables us to secure enterprise agreements with market leaders for high-value R&D solutions. Orders for software and value-added services like KeysightCare again grew double-digits, as we continued to grow recurring revenue this quarter.

Turning to our business segments, the Communications Solutions Group delivered record second-quarter orders and all-time record revenue.

Within CSG, commercial communications achieved all-time record orders and revenue, with double-digit order growth for the third consecutive quarter. Ongoing innovation and investment in our end markets, spanning both the wireless and wireline segments, remained strong driven by adoption of 5G, 400G, 800G, terabit, and optical technologies.

In wireless, the increase in the number of 5G device types continues to drive test and certification requirements. With our leading solution portfolio, we expect to benefit from the continued investment in the evolution of 5G standards including standalone 5G, Release 16, and beyond. In Q2, Keysight announced collaborations with leading companies, such as NTT Docomo, Telefonica, and Analog Devices, to enable a wide range of 5G applications, including O-RAN, which continues to gain momentum.

In wireline, we are enabling the digital transformation driven by cloud computing and telecom stack virtualization through our end-to-end solutions. We recently launched the industry's first 800G solution to enable data center design workflows for ultra-high data rates and energy efficiency.

Aerospace, defense and government achieved record Q2 revenue, driven by double-digit growth in the Americas and strength in signal monitoring, cyber, and space and satellite solutions, as well as 5G and 6G applications. Complex scenario emulations continue to drive the need for modeling and digital twin solutions with increasing software content. Our leading networking analyzer platform and phased array test solutions enable increasingly complex satellite communication design and test requirements. Increasing defense budgets in the U.S. and Europe are expected to provide support for higher spend going forward.

CSG is well positioned to capitalize on growth by enabling innovation in our end markets through our broad and synergistic portfolio, including wireline, wireless, cybersecurity, satellite and space solutions.

The Electronics Industrial Solutions Group delivered double-digit order and revenue growth for the seventh consecutive quarter, driven by automotive and semiconductor solutions.

In automotive, all-time record revenue was driven by strong demand for our expanding portfolio of EV and AV applications. Keysight is capitalizing on strategic investments in the automotive and energy space, providing industry-first solutions that support new capabilities and use cases, such as our recently launched protocol test solution for in-vehicle networking. During the quarter we secured EV wins with major OEMs across all regions. In addition, we are excited by

the recognition of our new Radar Scene Emulator solution, including the 2022 Tech.AD Europe award.

We saw strong demand for our semiconductor solutions, which delivered double-digit order and revenue growth. Investments in advanced semiconductor technologies, along with capacity expansion for existing nodes, remained robust. Over the next 3 to 5 years, we see solid customer R&D roadmaps for ICs for a broader set of applications. As an example, in Q2, we sold our first on-wafer silicon photonics parametric test solution to a major semiconductor fab to develop and manufacture next-generation data center transceivers. We believe this trend presents long-term opportunities for Keysight's R&D solutions portfolio.

Our general electronics business achieved all-time record revenue, as investments continued in manufacturing and device development for consumer and industrial IoT, digital health, and advanced research. We are seeing active investments globally in fundamental research in terahertz and quantum technologies. For example, we recently announced a collaboration with the National Research Foundation of Singapore's Quantum Engineering Programme to accelerate research, development, and education in quantum technologies. The strength of our general electronics business reflects the broad nature of applications for our solutions.

Before I wrap up, I'd like to acknowledge and thank our more than 14,000 employees worldwide for their commitment to our customers around the globe, and for their passion in delivering market-leading solutions. I am proud to share that Keysight was recently named as one of Fortune's 100 Best Companies to Work For in 2022. This is a recognition of our inclusive and diverse culture, exhibiting value for collaboration, high performance, and innovation.

Our culture also places a high value on corporate social responsibility. We recently released our 2021 CSR report, highlighting our progress in environmental, social and governance efforts worldwide, and announcing new goals to track throughout 2022 and into 2023.

I believe Keysight has a bright future ahead. I look forward to working with the team to execute our strategy and continue to deliver greater value for our customers, shareholders, and employees.

With that, I'll now turn the call over to Neil to discuss our financial performance and outlook.

## **NEIL DOUGHERTY**

Thank you, Satish, and hello, everyone. Our performance this quarter once again demonstrated the resilience of our business. We delivered on our commitments and exceeded expectations as we powered through multiple challenges and new headwinds in the quarter.

In the second quarter of 2022, we delivered revenue of \$1 billion 351 million, which was above the high end of our guidance range, and grew 11 percent, or 12 percent on a core basis.

We generated \$1 billion 458 million in orders, up 9 percent, or 11 percent on a core basis. During the quarter we suspended our operations in Russia and cancelled our entire backlog of Russian orders. Core growth adjusted for Russia was 13%. Demand again outpaced supply as we ended the quarter with over \$2.4 billion in backlog.

Turning to our operational results for Q2, we reported gross margin of 65 percent and operating expenses of \$489 million, resulting in operating margin of 29 percent. The strength of our results highlights the resiliency of our business, and our team's ability to execute, despite significant supply, cost, and currency headwinds within the quarter.

We achieved net income of \$334 million and delivered 1 dollar 83 cents in earnings per share, which was above the high-end of our guidance. Our weighted average share count for the quarter was 183 million shares.

Moving to the performance of our segments, our Communications Solutions Group generated record revenue of \$963 million, up 10 percent, or 11 percent on a core basis. CSG delivered gross margin of 66 percent and operating margin of 28 percent.

Within CSG, Commercial Communications generated revenue of \$672 million, up 11 percent, with double-digit revenue growth in the Americas, driven by strong demand for 5G device and component development, as well as network test, O-RAN, and terabit R&D.

Aerospace, Defense and Government revenue of \$291 million grew 7 percent. Our backlog for this end market remains strong, and we reported solid growth in the Americas and Europe.

The Electronic Industrial Solutions Group generated second quarter revenue of \$388 million, up 13 percent, or 15 percent on a core basis, driven by strong revenue growth in automotive and semiconductor. EISG reported gross margin of 62 percent, and operating margin of 30 percent.

Moving to the balance sheet and cash flow, we ended the second quarter with \$1.9 billion in cash and cash equivalents, generating cash flow from operations of \$298 million, and free cash flow of \$245 million, or 18% of revenue.

Share repurchases this quarter totaled 1.9 million shares at an average price per share of \$153.78, for a total consideration of \$289 million. Year to-date, we have purchased approximately 3 million shares for a total consideration of \$495 million.

Now, turning to our outlook and guidance ...

The demand environment remains strong for Keysight's solutions. As in recent quarters, our revenues continue to be constrained by tight supply conditions; however, we have demonstrated our ability to effectively navigate through this environment. And, we remain confident in our ability to execute and deliver on our commitments.

We expect third quarter 2022 revenue to be in the range of \$1 billion 330 million to \$1 billion 350 million, and Q3 earnings per share to be in the range of 1 dollar 74 cents to 1 dollar 80 cents, based on a weighted diluted share count of approximately 181 million shares.

We now expect full-year revenue growth to approach 8 percent, which given the recent strengthening of the US dollar, now includes a 2-point year-over-year headwind from currency. We're also raising our earnings growth expectations to 14 to 15 percent. Despite quarter-to-quarter dynamics being difficult to predict, we have confidence in our raised expectations for the year.

In closing, we have a strong track record of execution, our backlog is at an all-time high, and we are well-positioned to capitalize on the growth opportunities across our diverse set of end markets.

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