



Keysight Technologies First Quarter 2023 Earnings Conference Call  
Prepared Remarks

**JASON KARY**

Thank you, and welcome everyone to Keysight's First Quarter Earnings Conference Call for Fiscal Year 2023.

Joining me are Keysight's President and CEO, Satish Dhanasekaran, and our CFO, Neil Dougherty. In the Q&A session we will be joined by Senior Vice President of Global Sales and Chief Customer Officer, Mark Wallace.

The press release and information to supplement today's discussion are on our website at [investor.keysight.com](http://investor.keysight.com) under the financial information tab and quarterly reports. Today's comments will refer to non-GAAP financial measures. We will also make reference to "core" growth, which excludes the impact of currency movements and acquisitions, or divestitures completed within the last twelve months. The most directly comparable GAAP financial metrics and reconciliations are on our website, and 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. We assume no obligation to update them. Please review our recent SEC filings for a more complete picture of these risks and other factors.

As a reminder, we are hosting our 2023 investor day on March 7th at the New York Stock Exchange. Management is also scheduled to participate in the Morgan Stanley Investor Conference on March 8th.

And now I will turn the call over to Satish.

**SATISH DHANASEKARAN**

Thank you, Jason. Good afternoon, everyone and thank you for joining us today.

Keysight delivered exceptional first quarter financial results, posting revenue and earnings above the high end of our guidance against a backdrop of moderating demand. Our performance and consistent execution demonstrate the resilience of our business, and despite the challenging macro dynamics, we believe Keysight is well-positioned to build on our success and expand our leadership across our end-markets.

I will focus my comments today on three key headlines.

- First, we achieved strong financial results. Revenue was a first quarter record and grew 14 percent on a core basis, driven by strength in both business segments and across all geographies. We again demonstrated the durability of our financial model and delivered 2 dollars and 2 cents in earnings per share.
- Second, we started to see a normalization of what has been a robust and prolonged period of investment by our customers. Over the past two years, significant demand for Keysight's solutions resulted in 15 percent compound order growth rate and a book-to-bill of 1.09. As demand slows in the near-term, Keysight's exposure to multiple end markets, its differentiated portfolio, and our strong operating discipline position us well to weather the current macro dynamics.
- Third, we remain confident in the secular, long-term growth trends across our markets. Our software-centric solutions strategy is well-aligned with the needs of our customers, which we expect will enable us to outperform the market. We look forward to providing you a more comprehensive update on our long-term growth strategies and financial objectives at our upcoming Investor Day.

Now let's take a deeper look at our first quarter results.

Orders declined 13 percent year-over-year against a strong compare of 22 percent growth in the last year's first quarter. The slowing demand and business specific headwinds that we anticipated last quarter materialized largely as expected. These included the year-over-year impact of currency, our exit of Russia, and incremental China trade sanctions, which together contributed to a 6-point drag on the compare.

We saw customers exercise caution in response to macroeconomic uncertainty. This was most notable among our largest customers in Commercial Communications, who were impacted by sharp demand decline in consumer electronics and computing segments. They are restructuring and reassessing their near-term priorities as the industry digests excess inventory, while at the same time maintaining investments across key, strategic programs. While the duration is difficult

to predict, we expect these dynamics to weigh on our customers for at least the next couple of quarters.

Despite macro challenges, revenue grew 10 percent, or 14 percent on a core basis. Strong execution and operational discipline resulted in gross margin of 65 percent, operating margin of 30 percent, and earnings per share growth of 22 percent.

Turning to our business segments...

The Electronics Industrial Solutions Group revenue grew 19 percent and delivered double-digit revenue growth for the tenth consecutive quarter, which underscores the diversity of our industry exposure.

In automotive, we achieved record revenue and strong double-digit growth across all regions. Sales of electric vehicles continued to grow significantly in 2022, further fueling investment in EV and AV technologies and manufacturing. This quarter we secured multiple strategic wins with large OEMs and Tier 1 suppliers across a breadth of applications such as 5G, autonomous driving emulation, battery and charging infrastructure design, and in-vehicle networks. To strengthen our position in this market and capitalize on this growing, decades-long opportunity, we continue to expand our portfolio of solutions. An example is our current collaboration with Jiyun Technologies to develop a high-efficiency, compact battery test system to help accelerate the launch of new electric vehicles.

In general electronics, double-digit revenue growth was driven by continued strength in emerging verticals such as digital health and IoT. We also secured wins in advanced research, as R&D investment remains robust in quantum, photonics, and Beyond 5G.

Semiconductor solutions revenue growth was driven by continued fab investments in new wafer capacity and advanced nodes. While the inventory adjustments are pacing demand, foundries continue to execute their longer-term plans to globalize their production. We see significant opportunities in this market, and are investing in solutions for emerging semiconductor applications such as silicon photonics, high-power semis, and millimeter wave.

Turning to our Communications Solutions Group, revenue grew 7 percent, with growth across both end markets and all regions.

Commercial Communications revenue grew 11 percent on a core basis, to reach a record Q1, which was driven by ongoing, strategic investments in the communications ecosystem. We saw strength in 5G R&D and deployments, O-RAN, and datacenter networking, with increased focus on 800 gigabit and terabit communications solutions. These programs remain a priority and are driving demand for Keysight's first-to-market solutions.

As a trusted advisor, we remain actively engaged with our customers as they adapt to the current macro environment. We recently announced our collaboration with Qualcomm to accelerate 5G

non-terrestrial network communications for broadband in remote areas, and enable device makers to speed development and verification of 3GPP Release 17 compliant designs. We continued to support the progression of standards and submitted the first 3GPP Release 16 protocol conformance test, enabling new use cases such as private and industrial networks, and autonomous vehicles.

Investment in early 6G research is underway and Keysight joined forces with sixteen organizations to create 6G-SANDBOX, a pan-European testbed for 6G experimentation and validation of 5G-Advanced and 6G capabilities. Nokia recently selected Keysight's sub-Terahertz testbed to validate D band and E band technology to accelerate R&D critical to 5G-Advanced and 6G use cases in millimeter wave and sub-terahertz frequency spectrum. We also announced the industry's first and highest density network cybersecurity test platform, which provides data center network infrastructure and cloud providers with leading 400 gigabit ethernet security validation capabilities. These solutions reinforce our leadership across wireless and wireline ecosystems.

We are also looking forward to Mobile World Congress in Barcelona next week. Keysight will be engaged with many customers and industry leaders, and showcasing our solutions for advancing 5G standards including Release 17, early research in 6G, and intelligent automation.

Turning to our government, defense, and aerospace business, record Q1 revenue grew 9 percent on a core basis, achieving its second highest revenue quarter driven by increased U.S. government spending, and strength in space and satellite, including new applications for non-terrestrial networks. We recently won a 5-year contract with the U.S. Army who chose Keysight's Field Fox handheld spectrum analyzer for field use. We expect U.S. government budget appropriations to ramp spending in new programs in the second half of this year. We also anticipate an increase in defense budgets worldwide, and growing investment in new technologies such as 5G, space and satellite, quantum, and advanced research.

Consistent with our strategy, we continue to expand our software capabilities. We recently completed the acquisition of ClioSoft, whose data and IP management software tools enhance our portfolio of electronic design automation solutions. In addition, Eggplant's test automation platform was recently recognized as a leader by The Forrester Wave. At about one third of total revenue, the growing mix of software and services is integral to the durability of our financial model.

Keysight's differentiation is a function of our software-centric solutions strategy, collaboration with our customers, and investments we are making to ensure that we address the most challenging technology needs of today, and into the future. We are prioritizing high-conviction growth opportunities to solidify our competitive position for the long-term, while at the same time accelerating initiatives to drive further efficiencies consistent with our financial model.

We remain committed to creating long-term value for business stakeholders, and positively impacting the global community. I'm proud that Keysight has been named to the Dow Jones Sustainability Index for the fourth year in a row. I'd like to thank all Keysight employees for their dedication and relentless execution, which drives our strong track record of performance and is a testament to Keysight's Leadership Model, our values, and our people.

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. Q1 was a strong quarter and a solid start to the year.

We delivered revenue of \$1 billion 381 million, which was above the high end of our guidance range, and grew 10 percent, or 14 percent on a core basis.

As we anticipated, macroeconomic uncertainty moderated demand in the first quarter. Orders of \$1.3 billion were down 13 percent, or 10 percent on a core basis. Even with revenue outpacing orders by \$80 million, we ended the quarter with over \$2.5 billion in backlog.

Turning to our operational results for Q1, we reported gross margin of 65 percent and operating expenses of \$492 million, resulting in operating margin of 30 percent.

We achieved net income of \$363 million and delivered 2 dollars and 2 cents in earnings per share, which was above the high-end of our guidance. Our weighted average share count for the quarter was 180 million shares.

Moving to the performance of our segments, our Communications Solutions Group generated revenue of \$939 million, up 7 percent, or 10 percent on a core basis. Commercial Communications revenue of \$629 million was up 8 percent, with double-digit revenue growth in the Americas. Aerospace, Defense and Government revenue of \$310 million benefited from increased U.S. government spending, which we believe will continue to ramp through FY23. Altogether, CSG delivered record gross margin of 67 percent, and operating margin of 29 percent.

The Electronic Industrial Solutions Group generated first quarter revenue of \$442 million, up 19 percent, or 23 percent on a core basis, with double-digit revenue growth in automotive and general electronics, demonstrating the diversity of our markets. Growth was strongest in the Americas and Europe. EISG reported gross margin of 61 percent, and operating margin of 32 percent.

Moving to the balance sheet and cash flow, we ended our first quarter with \$2.2 billion in cash and cash equivalents, generating cash flow from operations of \$366 million, and free cash flow of \$306 million, or 22 percent of revenue.

Shares repurchases this quarter totaled approximately 700 thousand shares at an average share price of \$176, for a total consideration of \$125 million.

Now, turning to our outlook...

We're navigating the same evolving macro and industry dynamics that others have noted. As Satish mentioned, we expect it will take at least a couple of quarters for customers to work through their near-term challenges. If the current demand environment persists through our fourth quarter, we would expect to deliver low single-digit revenue and earnings per share growth for the year, achieved through steady backlog conversion, strong cost discipline, and the flexibility of our financial model.

Turning to our second quarter guidance, we expect revenue to be in the range of \$1 billion 370 million to \$1 billion 390 million, and Q2 earnings per share to be in the range of 1 dollar 91 cents to 1 dollar 97 cents, based on a weighted diluted share count of approximately 179 million shares.

While near-term uncertainties are moderating the demand environment, Keysight's secular, long-term growth trends remain intact. Our differentiated, first-to-market solutions, durability of our financial model, steady cash generation, and strong balance sheet position us well to deliver on our commitments to our customers and shareholders. We look forward to sharing more with you about the compounding nature of our business at our upcoming Investor Day.

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