

Keysight Technologies Q2 Fiscal Year 2023 Results

May 16, 2023

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,” “assume,” “plan,” “estimate,” “expect,” “guidance,” “intend,” “implied,” “target,” “believe,” “outlook,” 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. 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. The forward-looking statements contained herein include, but are not limited to, predictions, guidance, projections, assumptions, beliefs, opinions, and expectations regarding the company’s future goals, revenues, financial condition, earnings, and operations that involve risks and uncertainties that could cause Keysight’s results to differ materially from those expressed in such statements. Such risks and uncertainties include, but are not limited to, impacts of global economic conditions such as inflation or recession, volatility in financial markets, reduced access to credit, increased interest rates, slowing demand for products or services, supply chain constraints and the availability of raw materials; impacts of US export control regulations; impacts of geopolitical tension and conflict; impacts related to net-zero emissions commitments; customer purchasing decisions and timing; order cancellations. For additional risks and uncertainties that could impact Keysight’s actual results, please see our latest Form 10-K filed with the SEC on December 15, 2022 and our latest Form 10-Q filed with the SEC on March 03, 2023, 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, and any one-time adjustments that may have a material effect on the Company’s expenses and income from operations calculated in accordance with GAAP. 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. For future periods, 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. This limits our ability to provide a reconciliation of the expected non-GAAP earnings per share to the GAAP equivalent. 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 last slide for more details on the use of non-GAAP financial measures.

Q2'23 Highlights

1	Strong second quarter financial results cap off a record first half performance	<ul style="list-style-type: none">• Record Q2 revenue of \$1.39B at high end of guidance range; up 3% y/y, 5% on a core* basis• Record gross margin* of 67%, operating margin* of 30%, and record FCF* of \$370M• Non-GAAP EPS of \$2.12 grew 16% y/y, above high end of guidance range
2	Demand consistent with expectations as orders of \$1.3B were in line with first quarter 2023	<ul style="list-style-type: none">• EISG record Q2 orders• Automotive all-time record orders and strong double-digit y/y growth• Aerospace, Defense, and Government record Q2 orders, and double-digit y/y growth
3	Record Q2 revenue of \$1.39B increased 3% y/y, or 5% on a core basis	<ul style="list-style-type: none">• EISG and general electronics all-time record revenue and double-digit y/y growth• Automotive and semiconductor record Q2 revenue and double-digit y/y growth• Aerospace, Defense, and Government record Q2 revenue
4	Remain confident in raised long-term financial targets as outlined at March Investor Day	<ul style="list-style-type: none">• 5% – 7% sustainable core revenue growth; 100-200bps above market• Gross margin* of 66% – 67%• Operating margin* of 31% – 32% by fiscal year 2026
5	2022 Corporate Social Responsibility Report and latest DEI Report published in May 2023	<ul style="list-style-type: none">• Highlight progress in environmental, social, and governance efforts worldwide and achievements in fostering an inclusive environment within Keysight and its communities• Surpassed many 2022 Corporate Social Responsibility Key Impact goals

Q2'23 Non-GAAP Financial Highlights

Orders

\$1.319B

-10%/y/y (-8% core*)

Revenue

\$1.390B

+3%/y/y (+5% core*)

Operating Margin

30.4%

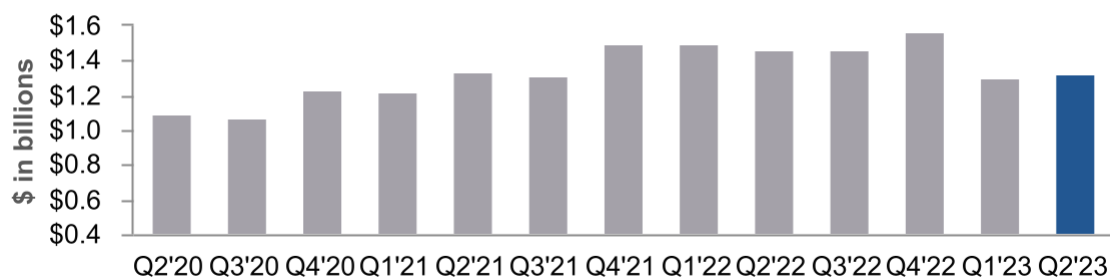
+160 basis points y/y

EPS

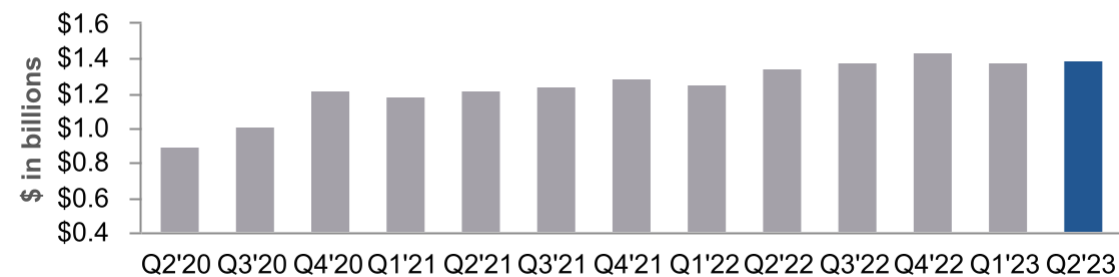
\$2.12

+16%/y/y

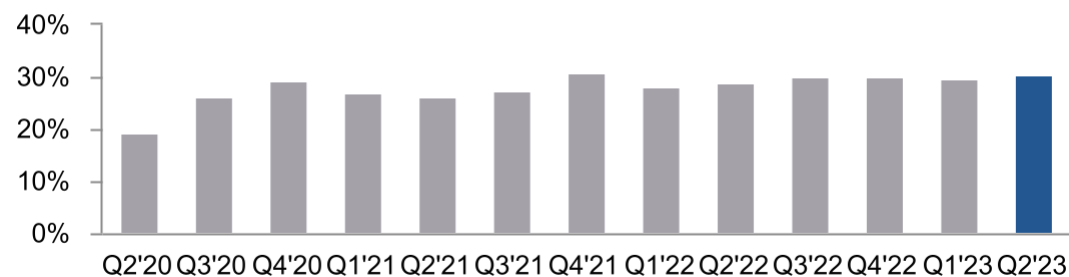
Orders



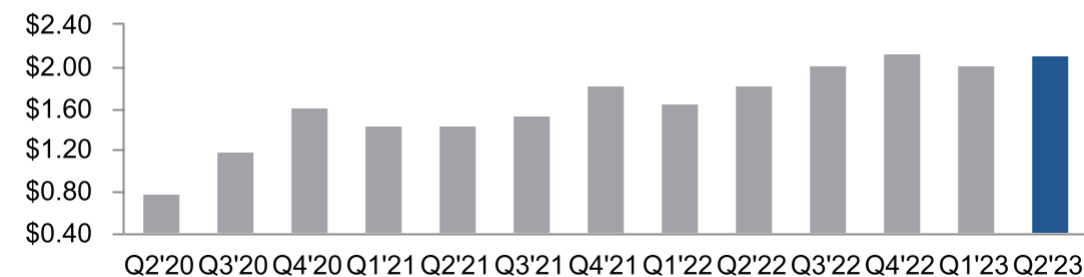
Revenue



Operating Margin



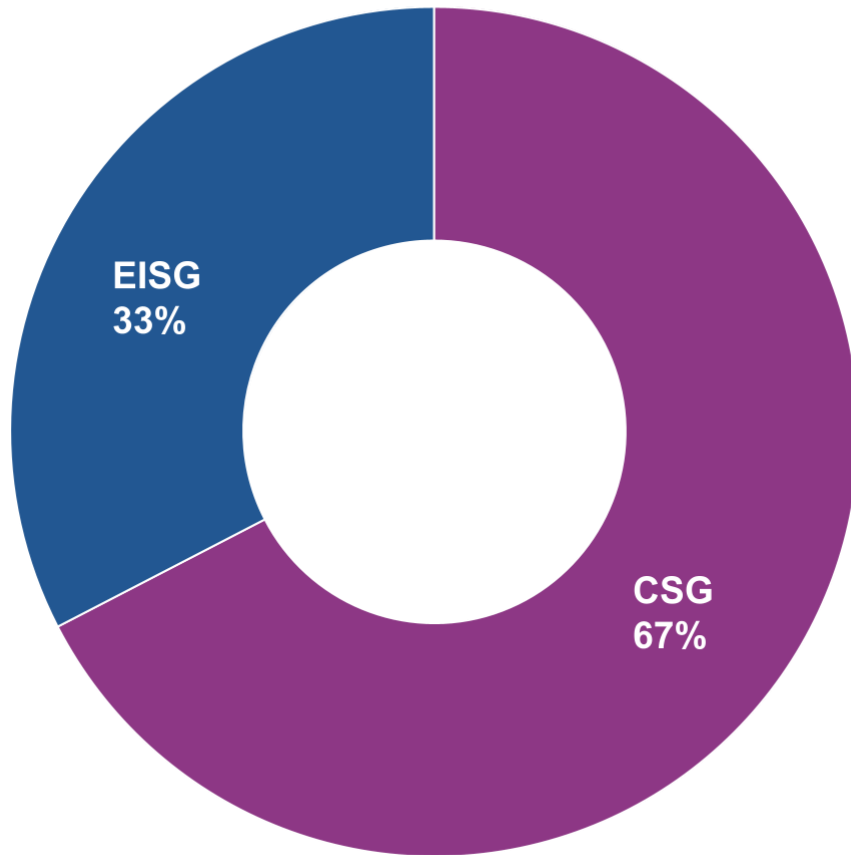
EPS



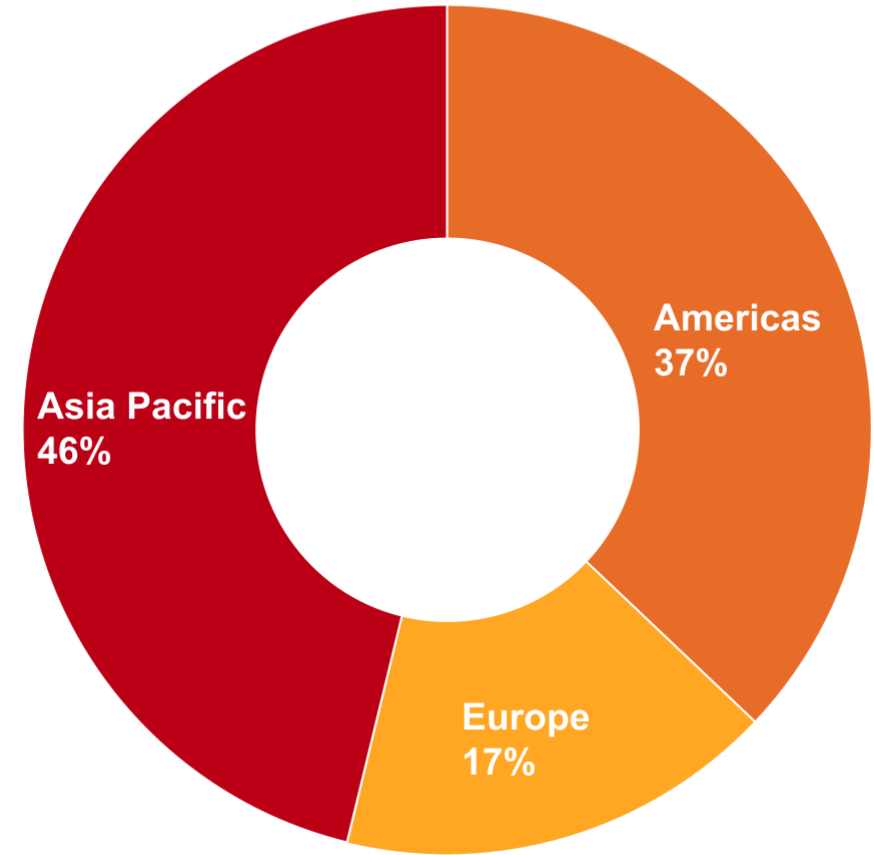
Revenue by Segment & by Region

Q2'23 Revenue: \$1.390B

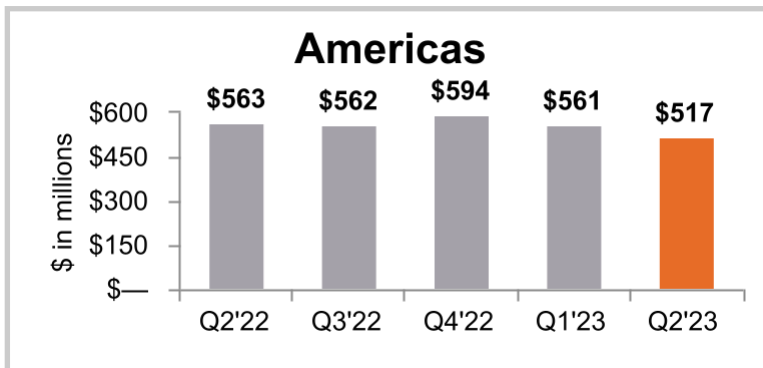
By Segment



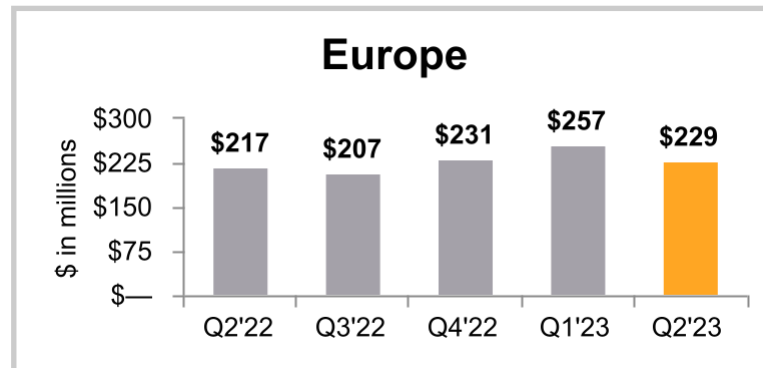
By Region



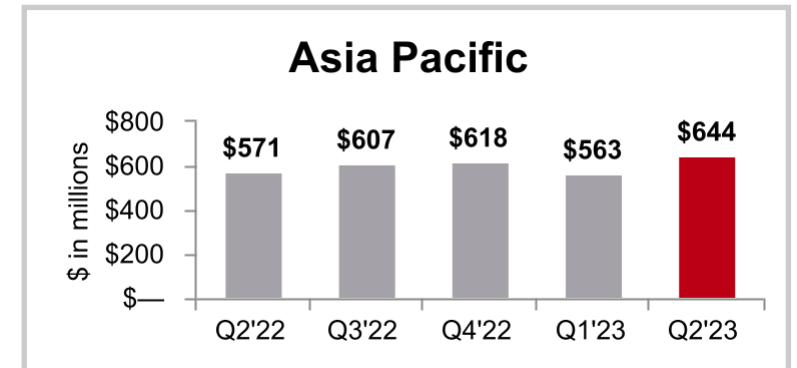
Revenue Trend by Region



-8% y/y (-9% core*): Soft revenue in CC, ADG, and EI; order strength in ADG and EI.



+5% y/y (+9% core*): Revenue growth in EI and ADG, partially offset by CC decline.



+13% y/y (+18% core*): EI and ADG revenue strength.

Q2'23 Communications Solutions Group Highlights



Revenue

\$937M

-3% y/y (-1% core*)

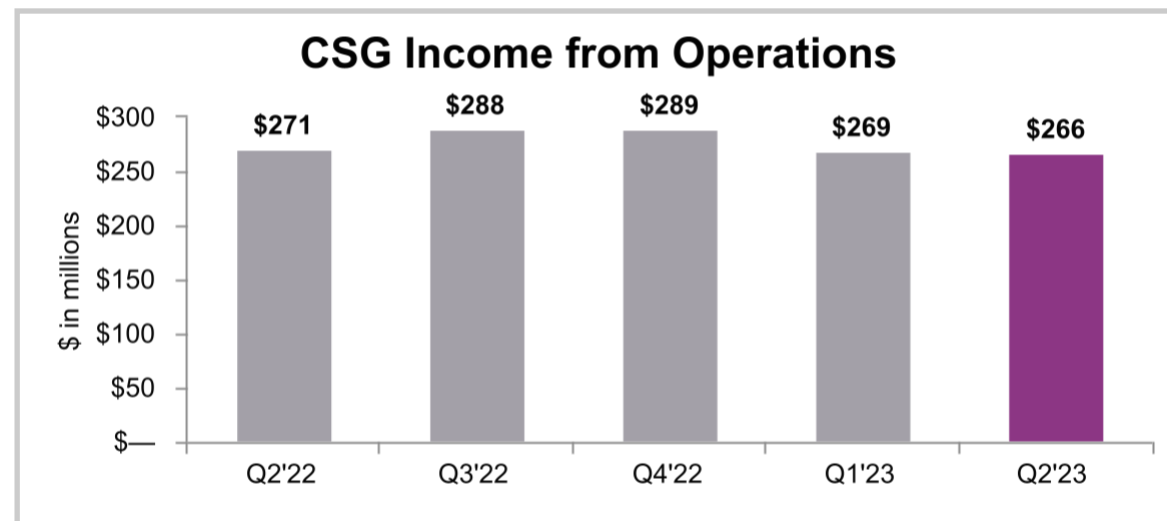
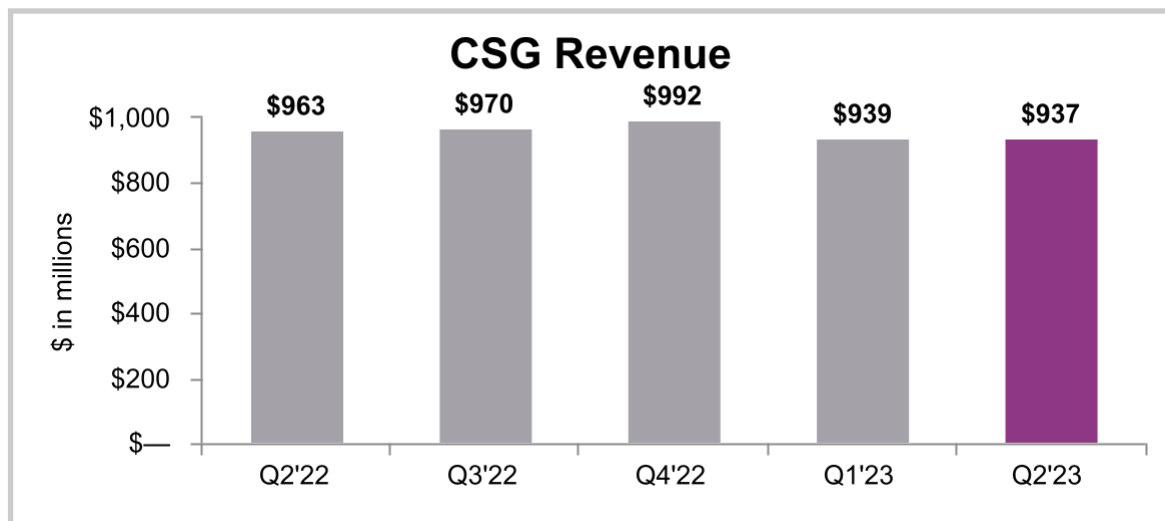


Operating Margin

28.4%

+20 basis points y/y

- Record gross margin of 68.1%
- **Commercial Communications:** Investment continues in strategic R&D for 5G Rel. 17, non-terrestrial networks, O-RAN, early 6G, and AI-ML data center networks, while broader wireless sector spending remains cautious.
- **Aerospace, Defense & Government:** Record second quarter revenue driven by radar system applications, spectrum operations use cases, space and satellite, and continued 5G and 6G research.



Q2'23 Electronic Industrial Solutions Group Highlights



Revenue

\$453M

+17% y/y (+19% core*)



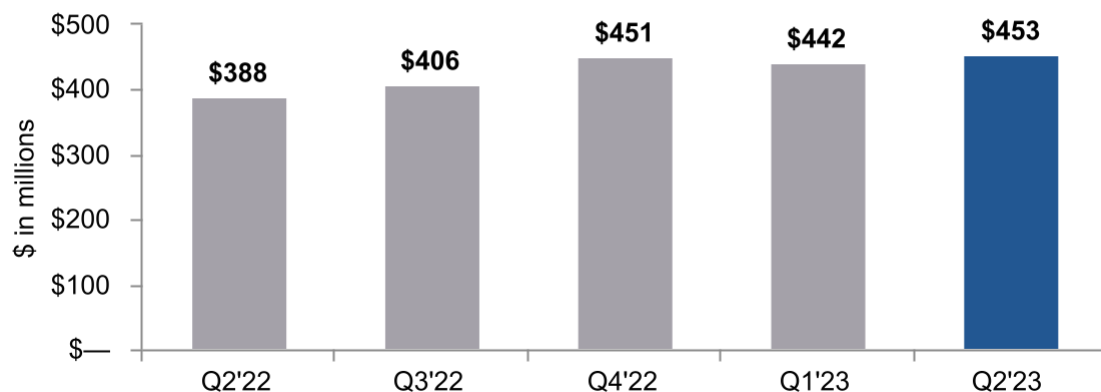
Operating Margin

34.5%

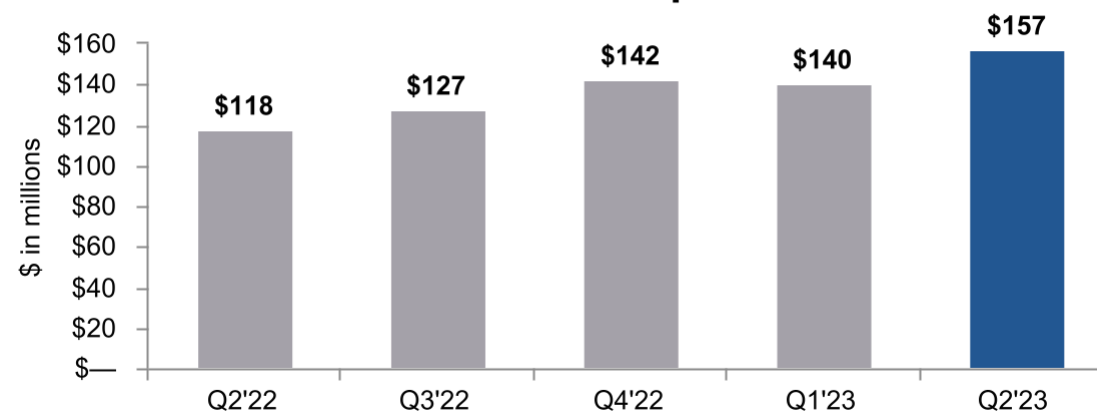
+420 basis points y/y

- All-time record revenue; 11th consecutive quarter of DD revenue growth
- **Automotive:** Record second quarter revenue driven by continued investment in new EV charging and battery test and validation, as well as AV technology.
- **Semiconductor:** Record second quarter revenue driven by continued investments in new wafer capacity and advanced nodes.
- **General Electronics:** All-time record revenue growth driven by advanced research, digital health, and industrial automation.

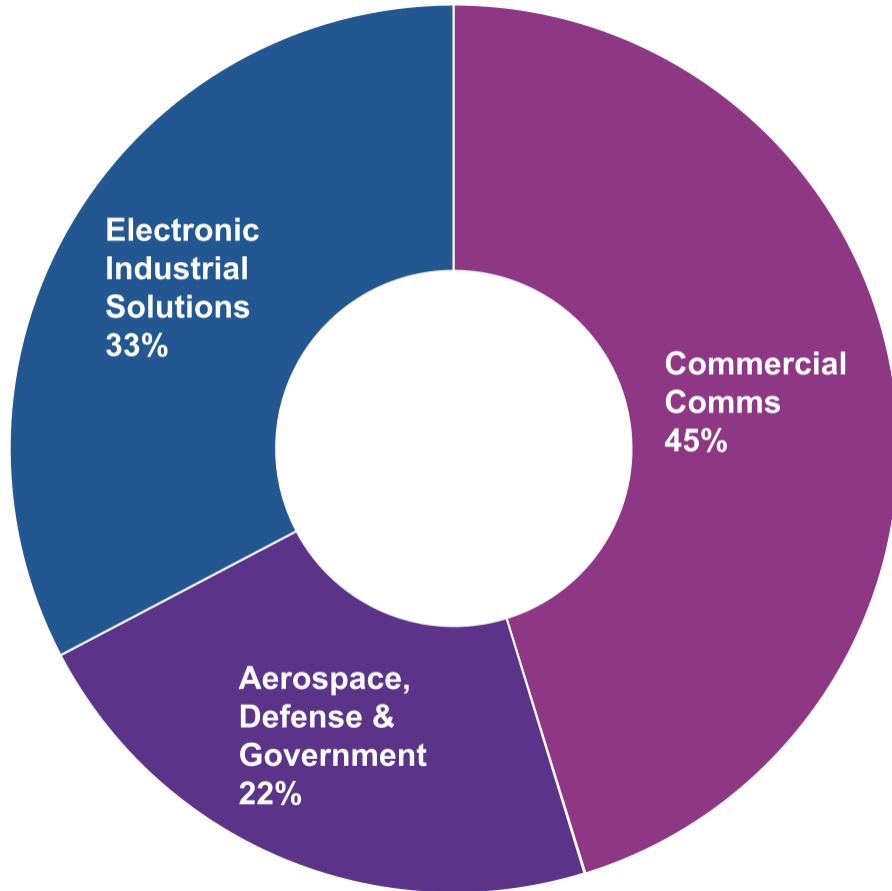
EISG Revenue



EISG Income from Operations



Q2'23 Revenue By End Market



End Market	Revenue	YoY %
Commercial Communications	\$627M	-7%
Aerospace, Defense & Government	\$310M	+7%
Electronic Industrial Solutions	\$453M	+17%
Total	\$1,390M	+3%

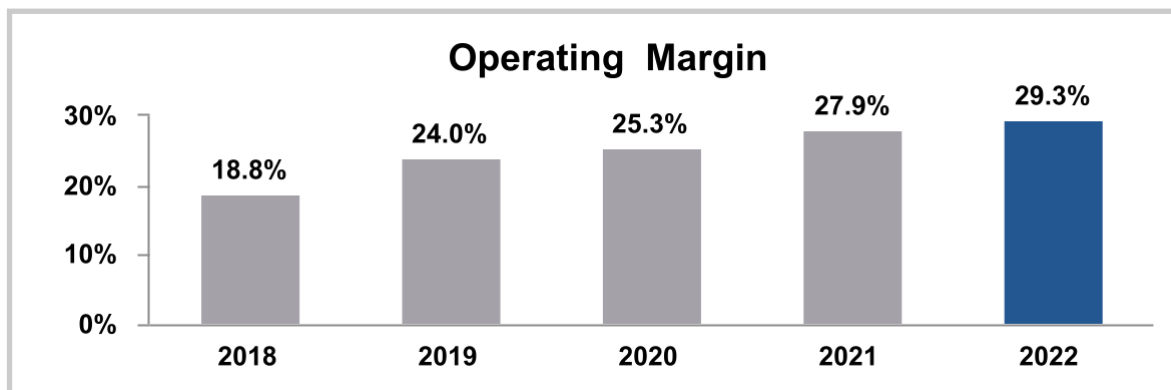
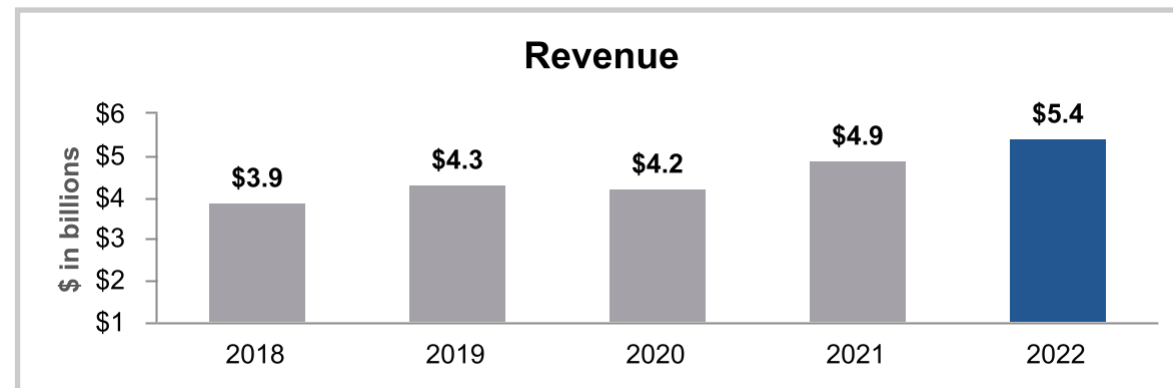
FY22 Non-GAAP Highlights and Annual Trend

Orders
\$5.984B
 10% CAGR

Revenue
\$5.420B
 8% CAGR

Operating Margin
29.3%
 +1,050 basis points

EPS
\$7.63
 24% CAGR



Guidance and Financial Considerations

	Q3'23 Guidance
Revenue	\$1.37B – \$1.39B
Revenue Growth	0% – 1%
Non-GAAP Earnings per share	\$2.00 – \$2.06

FY23 Financial Considerations

- Net Interest and Other Income/Expense: \$11M – \$13M net income / quarter
- Non-GAAP tax rate of 12%
- Guidance assumes Q3 weighted average diluted share count of approximately 179M shares
- Expected 2023 capital expenditures of approximately \$230M
- R&D Capitalization (Section 174): ~\$25M cash taxes paid in Q3 FY23 and in Q4 FY23

Corporate Social Responsibility – Building a Better Planet



Key Impact Goals

END FISCAL YEAR 2022 RESULTS

PROGRESS MADE toward net zero emissions in company operations by end fiscal year 2040 committed to Science Based Targets initiative (SBTi) in 2021	\$284M+ in value committed to strengthening communities	32.6% global new hires were women	Zero material negative impact to the income statement and institutional investments from CSR topics (met goal)
	798K+ students, future engineers, and technology skill learners engaged through STEM education (surpassed goals)	49.1% U.S. new hires were underrepresented minorities (surpassed underrepresented minorities goal)	

2023 CSR Awards and Recognition

Barron's 100 Most Sustainable Companies in America (March 2023)

Keysight Ranked #5 on *Forbes* [America's Best Midsize Employers](#) (February 2023)

Sustainalytics 2023 ESG Industry Top Rated, and ESG Regional Top Rated (February 2023)

Member [2023 Bloomberg Gender Equality Index](#) (January 2023)

[2023 JUST 100 Ranking of America's Most Just Companies](#) (January 2023)



Investor Resources

Recent Reports: May 2023



[2022 CSR Report:
Environmental Sustainability
Social Impact
Ethical Governance](#)



[2022 DEI Report: Year in Review](#)

Quick Links

[Why Keysight](#)

[Recent Investor Presentations and Webcasts](#)

[The Keysight Leadership Model](#)

[Corporate Social Responsibility](#)

Investor Day March 2023 Videos *(single-click access to each executive's presentation)*

[Company Overview and Strategic Direction](#) - Satish Dhanasekaran, President & Chief Executive Officer

[Culture: An Enduring Competitive Advantage](#) - Ingrid Estrada, Chief People & Administrative Officer

[Communications Solutions Group](#) - Kailash Narayanan, President, Communications Solutions Group

[Electronic Industrial Solutions Group](#) - Ee Huei Sin, President, Electronic Industrial Solutions Group

[Holistic Customer Solutions through Software, Services, and Sales](#) - Mark Wallace, Chief Customer Officer

[Financial Update](#) - Neil Dougherty, Chief Financial Officer

Reconciliations

NON-GAAP OPERATING MARGIN RECONCILIATION

(In millions, except where noted)

(Unaudited)

PRELIMINARY

	Three months ended		Six months ended	
	April 30,		April 30,	
	2023	2022	2023	2022
Income from operations, as reported	\$ 354	\$ 327	\$ 676	\$ 598
Amortization of acquisition-related balances	25	26	48	52
Share-based compensation	29	26	84	77
Acquisition and integration costs	3	2	5	5
Restructuring and others	12	8	19	8
Non-GAAP income from operations	\$ 423	\$ 389	\$ 832	\$ 740
GAAP Operating margin, %	25.4%	24.2%	24.4%	23.0%
Non-GAAP Operating margin, %	30.4%	28.8%	30.0%	28.4%

NON-GAAP GROSS MARGIN RECONCILIATION

(In millions, except where noted)

(Unaudited)

PRELIMINARY

	Three months ended		Six months ended	
	April 30,		April 30,	
	2023	2022	2023	2022
Gross Profit, as reported	\$ 909	\$ 859	\$ 1,792	\$ 1,663
Amortization of acquisition-related balances	11	13	20	25
Share-based compensation	7	6	16	14
Non-GAAP Gross Profit	\$ 927	\$ 878	\$ 1,828	\$ 1,702
GAAP Gross margin, %	65.4%	63.6%	64.7%	63.9%
Non-GAAP Gross margin, %	66.7%	65.0%	66.0%	65.4%

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,			
	2023		2022		2023		2022	
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS
GAAP Net income	\$ 283	\$ 1.58	\$ 258	\$ 1.41	\$ 543	\$ 3.02	\$ 487	\$ 2.65
Non-GAAP adjustments:								
Amortization of acquisition-related balances	25	0.14	26	0.14	48	0.27	52	0.29
Share-based compensation	29	0.16	26	0.15	84	0.47	77	0.42
Acquisition and integration costs	3	0.02	2	0.01	5	0.03	5	0.03
Restructuring and others	14	0.07	18	0.10	15	0.08	21	0.11
Adjustment for taxes ^(a)	26	0.15	4	0.02	48	0.27	(3)	(0.02)
Non-GAAP Net income	\$ 380	\$ 2.12	\$ 334	\$ 1.83	\$ 743	\$ 4.14	\$ 639	\$ 3.48
Weighted average shares outstanding - diluted	179		183		179		183	

(a) For both the three and six months ended April 30, 2023 and 2022, management uses a non-GAAP effective tax rate of 12%.

RECONCILIATION OF CORE REVENUE

(In millions)

(Unaudited)

PRELIMINARY

	Year-over-year		
	Q2'23	Q2'22	Percent Inc/(Dec)
Revenue	\$ 1,390	\$ 1,351	3%
Adjustments:			
Revenue from acquisitions or divestitures	(6)	—	
Currency impacts	35	—	
Core Revenue	\$ 1,419	\$ 1,351	5%

RECONCILIATIONS OF CORE REVENUE BY SEGMENT AND REGION

(In millions)

(Unaudited)

PRELIMINARY

Revenue by Segment	Year-over-Year								
	Revenue			Revenue from acquisitions or divestitures		Currency Adjustments	Core Revenue		
	Q2'23	Q2'22	YoY %	Q2'23	Q2'22	Q2'23	Q2'23	Q2'22	YoY %
Communications Solutions Group	\$ 937	\$ 963	(3)%	\$ 5	\$ —	\$ (23)	\$ 955	\$ 963	(1)%
Electronic Industrial Solutions Group	453	388	17%	1	—	(12)	464	388	19%
Total Revenue	\$ 1,390	\$ 1,351	3%	\$ 6	\$ —	\$ (35)	\$ 1,419	\$ 1,351	5%

Revenue by Region	Year-over-Year								
	Revenue			Revenue from acquisitions or divestitures		Currency Adjustments	Core Revenue		
	Q2'23	Q2'22	YoY %	Q2'23	Q2'22	Q2'23	Q2'23	Q2'22	YoY %
Americas	\$ 517	\$ 563	(8)%	\$ 6	\$ —	\$ —	\$ 511	\$ 563	(9)%
Europe	229	217	5%	—	—	(8)	237	217	9%
Asia Pacific	644	571	13%	—	—	(27)	671	571	18%
Total Revenue	\$ 1,390	\$ 1,351	3%	\$ 6	\$ —	\$ (35)	\$ 1,419	\$ 1,351	5%

REVENUE BY END MARKETS

(In millions)

(Unaudited)

PRELIMINARY

	<u>Q2'23</u>	<u>Q2'22</u>	<u>Percent Inc/(Dec)</u>
Aerospace, Defense and Government	\$ 310	\$ 291	7%
Commercial Communications	627	672	(7)%
Electronic Industrial	453	388	17%
Total Revenue	<u>\$ 1,390</u>	<u>\$ 1,351</u>	3%

FREE CASH FLOW

(In millions)

(Unaudited)

PRELIMINARY

	Three months ended	
	April 30,	
	2023	2022
Net cash provided by operating activities	\$ 423	\$ 298
Less: Investments in property, plant and equipment	(53)	(53)
Free cash flow	\$ 370	\$ 245

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 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.

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 2023 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.