

Agilent Technologies

Upside F1Q24, but FY24 guide reiterated as markets stay rough

Reiterate Rating: NEUTRAL | PO: 141.00 USD | Price: 132.55 USD

-6% core sales decline better than expected, EPS +7c ahead

Agilent (A) reported F1Q24 sales of \$1.658mn (-5.6% y/y, -6.4% core, +0.9% FX) above BoAe/Street \$1,580 (-9.9% core)/\$1,588mn. By segment, core sales in Life Science & Applied (LSAG) fell by -11% y/y, Agilent Cross Labs (ACG) grew +5% and Diagnostics & Genomics (DGG) was down -6%. Adj OpM of 25.8% was below BofAe 26.1%, on higher R&D and SG&A, leading to adj EPS of \$1.29 vs BofAe/Street \$1.22.

Guide maintained as markets show little sign of inflection

Agilent maintained prior sales and Adj EPS guide despite the F1Q beat and expectation for an incremental +\$20mn interest income. Mgmt. was encouraged by some early signs of stabilization in areas such as China, which outperformed even when adjusting for an estimated +\$15mn Lunar New Year related pull forward from 2Q. That said, the overall outlook remains decidedly cautious, with F2Q guidance coming in well below consensus as each end-market is expected to show another quarter of declines. Key segments such as small molecule (down high-teens) and instruments (-20%) continue to be choppy and mgmt. refrained from calling for an inflection in pharma. We see the maintained guide as prudent given the challenging markets facing Agilent and other Tools vendors will likely persist at least through C2Q. Like peers, A expects to see a significant 2H rebound largely driven by easier comps and some market improvement, but this is not a given.

NASD softens, now flat y/y vs up low-to-mid single digits

The low-double digit decline in the Nucleic Acid Synthesis Division (NASD) was a particular weak spot in an otherwise solid result. Mgmt. noted that they'd seen some clinical trial pushouts into FY25 but remained optimistic on NASD's long-term trajectory. While reasonable, we now see further risk to the low to mid-single FY24 growth outlook for NASD should volume trends continue.

Update estimates; PO to \$141; Reiterate Neutral

We update our forecasts, driving our PO to \$141 (from \$138, still based on 18x CY25 Adj EBITDA, in-line with peers). While we appreciate Agilent's improved product mix and secular growth drivers, valuation appears fair given higher China exposure and limited visibility into when markets may rebound. As such, we reiterate our Neutral rating,

Estimates (Oct) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.21	5.45	5.52	5.98	6.70
GAAP EPS	4.18	4.20	5.11	5.37	6.10
EPS Change (YoY)	20.0%	4.6%	1.3%	8.3%	12.0%
Consensus EPS (Bloomberg)			5.47	6.01	6.64
DPS	0.84	0.90	0.94	1.04	1.14
Valuation (Oct)					
P/E	25.4x	24.3x	24.0x	22.2x	19.8x
GAAP P/E	31.7x	31.6x	25.9x	24.7x	21.7x
Dividend Yield	0.6%	0.7%	0.7%	0.8%	0.9%
EV / EBITDA*	20.3x	20.1x	20.3x	18.8x	17.0x
Free Cash Flow Yield*	2.6%	3.7%	3.4%	4.7%	5.1%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 27 February 2024 10:16PM EST

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	138.00	141.00
2024E Rev (m)	6,725.0	6,755.0
2025E Rev (m)	7,065.0	7,115.0
2026E Rev (m)	7,550.0	7,599.7
2024E EPS	5.48	5.52
2025E EPS	5.95	5.98
2024E DPS	0.95	0.94

Derik de Bruin
Research Analyst
BofAS
+1 646 855 3100
derik.de_bruin@bofa.com

Michael Ryskin
Research Analyst
BofAS
+1 646 855 4373
michael.ryskin@bofa.com

Wolf Chanoff
Research Analyst
BofAS
+1 646 954 8482
wolf.chanoff@bofa.com

Avantika Dhabaria
Research Analyst
BofAS
+1 646 743 0170
avantika.dhabaria@bofa.com

John Kim
Research Analyst
BofAS
+1 646 855 3874
john.kim4@bofa.com

Stock Data

Price	132.55 USD
Price Objective	141.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-2-7
52-Week Range	96.80 USD - 145.44 USD
Mrkt Val (mn) / Shares Out (mn)	39,367 USD / 297.0
Free Float	99.6%
Average Daily Value (mn)	185.56 USD
BofA Ticker / Exchange	A / NYS
Bloomberg / Reuters	A US / A.N
ROE (2024E)	26.6%
Net Dbt to Eqty (Oct-2023A)	19.6%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating.

iQprofileSM Agilent Technologies

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.1%	18.2%	16.9%	16.8%	17.4%
Return on Equity	29.3%	28.9%	26.6%	26.0%	26.1%
Operating Margin	71.0%	71.5%	71.2%	71.6%	72.1%
Free Cash Flow	1,021	1,475	1,328	1,847	2,003

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.1x	1.1x	1.3x	1.2x
Asset Replacement Ratio	0.9x	1.1x	1.3x	1.0x	0.9x
Tax Rate	14.0%	13.7%	13.4%	14.0%	14.0%
Net Debt-to-Equity Ratio	31.8%	19.6%	17.8%	8.8%	-0.3%
Interest Cover	50.2x	NM	NA	NA	NA

Income Statement Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,848	6,833	6,755	7,115	7,600
% Change	8.4%	-0.2%	-1.1%	5.3%	6.8%
Gross Profit	3,844	3,825	3,796	4,020	4,324
% Change	9.1%	-0.5%	-0.8%	5.9%	7.6%
EBITDA	2,035	2,053	2,030	2,196	2,419
% Change	14.5%	0.9%	-1.1%	8.2%	10.2%
Net Interest & Other Income	(37)	(8)	21	20	20
Net Income (Adjusted)	1,565	1,610	1,617	1,734	1,915
% Change	17.5%	2.9%	0.4%	7.2%	10.4%

Free Cash Flow Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,565	1,610	1,617	1,734	1,915
Depreciation & Amortization	317	271	321	356	380
Change in Working Capital	(448)	(72)	(306)	(113)	(151)
Deferred Taxation Charge	0	(56)	(56)	(56)	(56)
Other Adjustments, Net	(122)	20	157	263	276
Capital Expenditure	(291)	(298)	(405)	(338)	(361)
Free Cash Flow	1,021	1,475	1,328	1,847	2,003
% Change	-21.3%	44.5%	-10.0%	39.1%	8.4%
Share / Issue Repurchase	(1,081)	(508)	(940)	(940)	(940)
Cost of Dividends Paid	(250)	(265)	(268)	(295)	(324)
Change in Debt	26	(35)	(35)	(35)	(35)

Balance Sheet Data (Oct)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,053	1,590	1,575	2,052	2,655
Trade Receivables	1,405	1,291	1,481	1,559	1,666
Other Current Assets	1,320	1,305	1,375	1,437	1,506
Property, Plant & Equipment	1,100	1,270	1,354	1,337	1,318
Other Non-Current Assets	5,638	5,307	5,525	5,615	5,605
Total Assets	10,516	10,763	11,309	12,000	12,750
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,861	1,603	1,303	1,350	1,406
Long-Term Debt	2,733	2,735	2,700	2,665	2,630
Other Non-Current Liabilities	633	580	975	1,000	1,000
Total Liabilities	5,227	4,918	4,978	5,015	5,036
Total Equity	5,289	5,845	6,331	6,985	7,714
Total Equity & Liabilities	10,516	10,763	11,309	12,000	12,750

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Life Sciences & Diagnostic Tools

Company Description

Headquartered in Santa Clara, California, Agilent Technologies is a leading supplier of analytical instrumentation and consumable products, which are used mainly for research and quality assurance applications by customers in the, life sciences, chemical analysis, and diagnostics industries. The company is known for being a leader in the Life Sciences industry with a long history of innovation and geographical expansion.

Investment Rationale

We rate Agilent Technologies Neutral. We believe Agilent is well positioned to benefit from secular positive growth trends and share gains in the life sciences tools market. Agilent has delivered above peer core sales growth and shown strong margin expansion despite in recent year, but we believe that rebound of China and constrained Pharma spend remain an overhang for the company. Although Agilent's portfolio is diversified vs. some peers, it is unclear when these macro headwinds reverse.

Stock Data

Average Daily Volume 1,399,944

Quarterly Earnings Estimates

	2023	2024
Q1	1.37A	1.29E
Q2	1.27A	1.20E
Q3	1.43A	1.48E
Q4	1.38A	1.55E



Price objective basis & risk

Agilent Technologies (A)

Our \$141 PO is based on about 18x our CY25E EV/EBITDA forecast. This is in-line with Agilent's closest life sciences tools peers. We think this target multiple is justified due to the company's strong execution, margin expansion, improving fundamentals, opportunities for capital deployment, and share gains.

Risks to our PO are economic risks, lingering COVID related headwinds, F/X risks, slower than expected uptake of new products or expansion into new markets, competitive risks, reductions in customer R&D spending, integration risks, geopolitical & trade war risks, and regulatory risks.

Analyst Certification

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US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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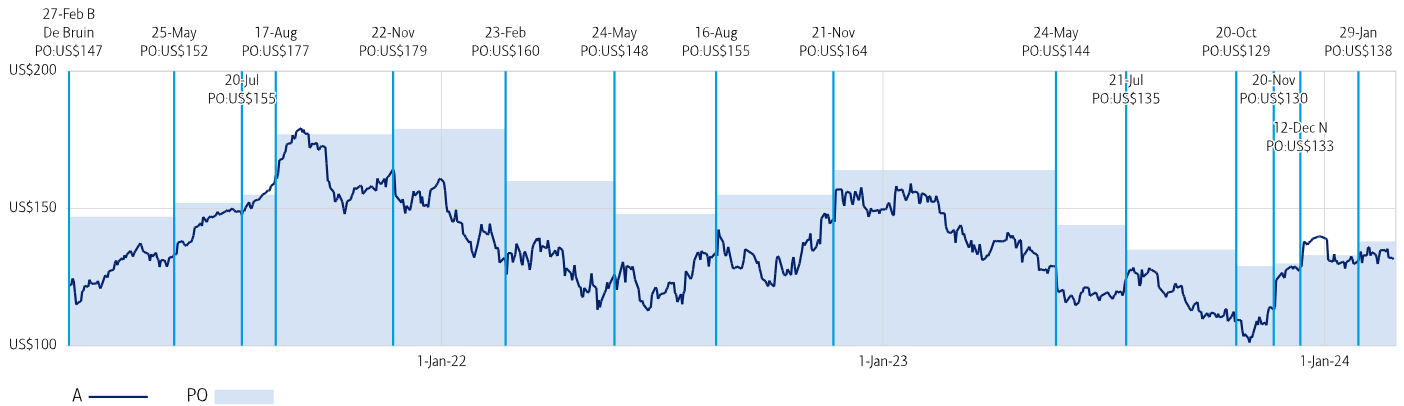
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Agilent (A) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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