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Agilent Technologies, Inc. (A) CEO Michael McMullen on Q3 2019 Results - Earnings Call Transcript

Aug. 14, 2019 10:45 PM ET | 1 Like
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FQ3: 08-14-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.76 beats by $0.04 | Revenue of $1.27B (5.90% Y/Y) beats by $35.21M

Earning Call Audio

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Agilent Technologies, Inc. (NYSE:A) Q3 2019 Earnings Conference Call August 14, 2019 4:30 PM ET

Company Participants

Ankur Dhingra - VP, IR

Michael McMullen - CEO, President & Director

Robert McMahon - SVP & CFO

Samraat Raha - SVP

Mark Doak - SVP

Jacob Thaysen - SVP

Conference Call Participants

Derik De Bruin - Bank of America Merrill Lynch

Ross Muken - Evercore ISI

Tycho Peterson - JPMorgan Chase & Co.

Brandon Couillard - Jefferies

Puneet Souda - SVB Leerink

Catherine Schulte - Robert W. Baird & Co.

Doug Schenkel - Cowen and Company

Patrick Donnelly - Goldman Sachs Group

Stephen Willoughby - Cleveland Research Company

Daniel Brennan - UBS Investment Bank

Operator

Good afternoon, and welcome to the Agilent Technologies third quarter earnings conference call. [Operator Instructions]. And now I'd like to introduce you to the host for today's conference, Ankur Dhingra, Vice President of Investor Relations. Sir, please go ahead.

Ankur Dhingra

Thank you, Mike, and welcome, everyone, to Agilent's third quarter conference call for fiscal year 2019. With me are Mike McMullen, Agilent's President and CEO; and Bob McMahon, Agilent's Senior Vice President and CFO. Joining in the Q&A after Bob's comments will be Jacob Thaysen, President of Agilent's Life Science and Applied Markets Group; Sam Raha, President of Agilent's Diagnostics and Genomics Group; and Mark Doak, President of Agilent's CrossLab Group.

You can find the press release, investor presentation and information to supplement today's discussion on our website at investor.agilent.com. Today's comments by Mike and Bob will refer to non-GAAP financial measures. You will find the most directly comparable GAAP financial metrics and reconciliations on our website. Unless otherwise noted, all references to increases or decreases in financial metrics are year-over-year. References to revenue growth are on a core basis. Core revenue growth excludes the impact of currency and the acquisitions and divestitures completed within the past 12 months. Guidance is based on exchange rates as of July 31.

We will also make forward-looking statements about the financial performance of the company. These statements are subject to risks and uncertainties and are only valid as of today. The company assumes no obligation to update them. Please look at the company's recent SEC filings for a more complete picture of our risks and other factors.

And now I would like to turn the call over to Mike.

Michael McMullen

Thanks, Ankur, and thanks, everyone, for joining our call today. Our Q3 results exceeded our expectations. The Agilent team delivered total revenues of $1.27 billion, up 6% on a core basis. Our EPS of $0.76 is up 13%. Both our top line revenue and EPS are above the high end of our guidance range. This marks our 18th consecutive quarter of adjusted operating margin expansion. In July, we also announced the pending acquisition of BioTek, which would be our largest acquisition since the 2015 launch of the new Agilent. We continue to invest for growth even amid market uncertainty. At the same time, our Agile Agilent business system continues to drive operational improvements.

Our excellent overall company growth is being driven by two factors. First, strength in the global pharma market in both small molecule and biopharma. Secondly, geographic strength in the U.S. across most end market segments. China growth was generally in line with expectations. Business unit performance is led by double-digit growth in our Agilent CrossLab and Diagnostic and Genomics Group. Let's take a closer look at the performance of all 3 of our business groups. I will start with ACG, our Agilent CrossLab Group. The ACG business continues its trajectory of consistently strong results with 11% core growth. This growth was broad based across all market segments and regions. Our service business grew at a double-digit rate as we continue to see higher demand for our expanding portfolio, both from current and new customers.

We see a continued secular trend of customers seeking to drive increased productivity and to outsource non-core services in the lab. Our services offering puts us in a leadership position to benefit from that trend. Our consumables business also grew double-digit. We continue to introduce highly differentiated consumables and address important customer challenges and a significantly improved user experience, especially in high-growth markets like biopharma.

I'm very pleased with the continuing positive impact on total company results from the Agilent's CrossLab strategy. Our consistent results speak to the strong execution from the Agilent team and the value we bring to our customers. We're meeting the ever-increasing demand from our customers, and we see the attach rates to our installed base of instruments consistently improving. Now turning to DGG, our Diagnostics and Genomics Group business. DGG's growth momentum continues with strong 13% core growth. The growth is broad based across pathology, genomics, and our NASD businesses. Let me share a few additional comments on our NASD business.

NASD turned in a very strong third quarter as we continued to see increasing demand from our customers' clinical trials. As a reminder, in June, we opened our second production facility located in Frederick, Colorado. We remain on track to start commercial shipments this quarter. We also announced that we purchased our previously leased site in Boulder, Colorado. These 2 facilities enable Agilent to meet the growing demand for development of RNA-based therapeutics and continue to be a partner of choice to both pharmaceutical and biotech companies.

Now moving on to our LSAG, our Life Sciences and Applied Markets Group business. LSAG's revenue is flat year-over-year on a core basis and in line with our expectations. Strength in the pharma, environmental, and forensics markets was offset by chemical energy declining against a very tough 12% compare and expected weakness in the China food market. As you know, in Q2, we discussed 3 areas that impacted LSAG's growth rates. Let me give you an update.

First, starting with the 4+7 initiative in China. We saw a sequential improvement in demand from generics manufacturers. This is driven by business coming from the winners of the first 4+7 pilot, resulting in growth in our instruments business. We have deep relationships and history with these customers. While the program is expected to expand over the rest of the calendar year, we see incremental regulatory clarity ultimately drive increased production volumes in a favorable long-term investment environment. Second, the China food market conditions remain the same as last quarter and in line with our expectations, with revenues flat to Q2. The business from government-owned labs remains muted, while commercial testing labs activity is increasing. We are expecting similar overall market conditions this coming quarter as well.

Finally, the global small molecule pharma business outside of China saw improvement in demand relative to Q2. We saw budgets free up and LC replacements taking place in some of our large accounts as well as the addition of new customers. While macroeconomic and political conditions are creating market uncertainty for capital investments, I am quite confident in our ability to take market share in whatever market environment we encounter. We have an industry-leading portfolio and are not sitting still. We continue to invest in new offerings and markets.

One of these new market investments is the pending acquisition of BioTek. As I mentioned earlier, this quarter, we announced our intent to acquire BioTek, a global leader in the design, manufacture, and distribution of innovative cell analysis instrumentation. I'm very excited by the significant step forward in strengthening our leadership position in the fast-growing cell analysis space. Our strategic focuses there began with the purchase of Seahorse Bioscience in 2015 and was followed by the acquisitions of Luxcel Biosciences and ACEA Biosciences in 2018. By combining BioTek's offering with Agilent, we will create a business with revenues greater than $250 million per year, up from zero four years ago, this business is growing double digits today.

Looking ahead, we will now be able to deliver a breadth of differentiated workflows, enabling customers to obtain deeper, more reliable insights across a variety of cell analysis applications. This is yet another example of how we're investing in new, high-growth markets where we can leverage core Agilent capabilities in our One Agilent culture. The culture and portfolio fit with BioTek are extremely well aligned. We share the same core values and have very similar cultures with a genuine focus on our customers and teams. I look forward to welcoming the BioTek team into the Agilent family. We expect the acquisition to close later this fiscal quarter.

We also continue to bring new and innovative offerings to the market across all of our businesses. These new offerings are consistently drawing very strong interest from both new and existing customers. For example, earlier this year, we launched major updates to our gas chromatography, spectroscopy, and genomics portfolio.

In addition, in Q3, we had an excellent showing at the ASMS Conference highlighted by the launch of a new Agilent Infinity Lab LC/MSD iQ system. This new system incorporates designed-in smart features, software, and hardware, developed specifically for chemists and chromatographers. Our new LC/MSD iQ system is a single-quad mass spec, built on the revolutionary Ultivo LC Triple Quad core technology platform.

We also launched a brand-new Agilent 6546 LC/Q-TOF system that provides analyst ability to simultaneously acquire high-resolute data across unprecedented dynamic range.

In addition, during the quarter, we introduced a new Agilent 6495 C Triple Quad LC/MS system that provides industry-leading precision in complex major Cs. And finally, we introduced a new Agilent Bravo sample prep system for metabolic analysis of human plasma samples. This new offering further strengthens our leading position in metabolomics.

We also brought to market the first outcome of our joint development work with a newly combined Agilent and ACEA teams. At the CYTO 2019 conference, we introduced the NovoCyte Advanteon flow cytometer. This new offering addresses today's high end and increasingly sophisticated multi-color flow cytometry assays. It provides unsurpassed sensitivity, resolution, detection speed, and the flexibility of resin channel.

In addition, the number of indications from our PD-L1 diagnostic assay continue to expand. In Q3, we received FDA approval for 2 new indications. Our PD-L1 diagnostic may now be used as an aid in identifying patients for treatment with KEYTRUDA in a total of 6 cancer types. While making all these investments and launching new products, we continued our trajectory of margin expansion by 90 basis points versus last year.

Our Agile Agilent system of continuous process improvement and disciplined cost management keeps the team focused on finding and executing on new opportunities. A few closing comments on our Q3 results and company transformation that has been underway for several years. Looking ahead, we continue to see uncertainty in a challenging market environment in some end markets for capital instrument purchases. This quarter's results again demonstrate Agilent's ongoing transformation towards higher growth markets in an increasingly resilient business model with a higher mix of recurring revenue streams. Given our Q3 results and outlook, we're raising our full year guidance for earnings as well as revenue growth at the midpoint of guidance, and Bob will describe this in more detail.

Before I turn it over to Bob, I'd like to leave you with a few -- a couple of thoughts here. At the close of our Q2 call, I commented that great companies do not just react to market conditions, they see market opportunity. At Agilent, we will continue to invest for growth and take market share in whatever market conditions we encounter. We're continuing to drive productivity and we're doubling down our efforts to be a more agile company. We will continue to leverage our strong balance sheet to invest in the business and return capital to our shareholders.

I'm quite confident that our company has never been stronger and that we're well positioned to drive continued growth and earnings expansion in an increasingly uncertain global economy.

Thanks for being on the call, and I look forward to answering your questions. I'll now hand off the call to Bob. Bob?

Robert McMahon

Thanks, Mike. And good afternoon, everyone. In my remarks today, I'll provide some additional detail in revenue, walk through the third quarter income statement and some other key financial metrics, and to discuss our capital deployment during the quarter. I'll then finish up with our updated guidance for Q4 and full year. Unless otherwise noted, my remarks will focus on non-GAAP results. As Mike said, our third quarter results were very good as we had strong execution across a number of fronts. Revenue for the quarter was $1.27 billion, with core revenue growth of 6.2%. Reported growth was 5.8%, with currency negatively impacting revenue by 1.9 points and acquisitions adding 1.5 points to growth.

In terms of end markets, pharma, diagnostics and clinical, and environmental and forensics, led the way for us in the third quarter. Pharma, our largest market, grew 13%. Strength was broad-based across instruments, services and consumables as well as NASD, our biopharma business continues to grow at double-digit rates, and we saw good growth in the small molecule business as well, both in instruments and recurring revenues.

Our Environmental and forensics business grew 15% on a core basis in the third quarter, albeit on an easier compare. As with the second quarter, our forensic strength is tied to demand for expanded lab capabilities. This is a result of the ongoing global opioid crisis, which is driving increased sample testing and broader screening requirements. Our environmental business grew high single digits. Again, driven by the ongoing expansion of testing in China. Diagnostics and clinical, core revenue grew 7% during the quarter, driven by strength of our pathology and genomics businesses. Chemical and energy revenue grew 1% against a very tough compare of 12% growth from Q3 of last year. Results were driven by continued strength in services and consumables.

Academia and government declined 5%, largely due to order timing and rounding out the discussion of end markets, food revenue declined 3%, driven by China coming in as we expected, and as Mike discussed.

On a geographic basis, we again saw growth in all regions, led by the U.S., growing at double-digit rates, with strength across all 3 businesses. China grew 1%, generally in line with our expectations, primarily due to the weakness in food. If you exclude food, growth in China was 6%; Asia, outside of China, also grew at a double-digit rate, driven by growth in Japan and South Korea. Europe grew 3%, in line with our expectations as the market environment remains subdued. Now turning to the rest of the P&L. Third quarter gross margin was 56.4%, essentially flat year-over-year, with tariffs impacting gross margin adversely by 30 basis points. We've been able to mitigate the impact to tariffs through discipline and cost management, and the ongoing focus on efficiency. Our operating margin was 22.8%, up 90 basis points as revenue growth outpaced growth in operating expenses. Year-to-date, our margins continue to expand as our teams have executed strong expense discipline.

And as a result, non-GAAP EPS for the quarter came in at $0.76, $0.03 higher than the top end of our guidance and representing 13% growth. In addition to our operating performance, we were very active in deploying capital during the quarter. In Q3, we returned $600 million to shareholders. We bought back shares worth $549 million, totaling 8 million shares, and paid $51 million in dividends. As Mike mentioned, we also signed a definitive agreement to acquire BioTek Instruments and expect the deal to close by the end of our current fiscal fourth quarter.

So year-to-date, including BioTek, we've committed to deploying over $2.2 billion in capital this year. Of that, $1.4 billion was spent in growth acquisitions with ACEA and BioTek, expanding our cell analysis franchise. We have also returned over $800 million through dividends and share buybacks. Our balance sheet today remains healthy and we continue to look for opportunities to add growth assets to our portfolio.

Now turning to the cash flow. We generated $242 million in operating cash flow and ended the quarter in an effectively cash neutral position. Now let's turn to our non-GAAP financial guidance for the year -- fiscal year. As Mike mentioned, with the strong results in Q3 and our outlook for the fourth quarter, we are raising our full year revenue and EPS guidance. Please note that our guidance does not include any impact from the expected BioTek acquisition. For the full year revenue guidance, we're increasing the lower end of our range. Thereby, increasing the midpoint, resulting in a new range of $5.105 billion to $5.125 billion, representing 3.9% to 4.3% reported growth. Currency is expected to be a headwind of roughly 200 basis points, partially offset by M&A contributing 150 basis points. As a result, we're now expecting core revenue growth in the range of 4.4% to 4.8% for the full year.

With the strong execution we've seen in terms of our business strategies, we're raising our full year earnings per share guidance to a range of $3.07 to $3.09. This represents growth of 10% to 10.8% for the year.

And now turning to the fourth quarter. We're expecting revenue in the range of $1.31 billion to $1.33 billion, representing reported growth of 1.2% to 2.8% and core growth of 1.5% to 3%. Currency is estimated to be a headwind of roughly 100 basis points partially offset by M&A contributing roughly 70 to 80 basis points of growth. Fourth quarter non-

GAAP earnings are expected to be in the range of $0.84 to $0.86 per share, which is 3.7% to 6.2% reported growth versus a year ago. Also of note, the newly announced tariffs on the additional $300 billion of U.S. imports from China is not expected to be material for us. And the share count for Q4 is expected to be 313 million shares.

Now before opening up the call for questions, I'd like to conclude by saying that Agilent's resilient business model is built for the long term. We believe we are focused on the right strategies that will continue to serve us well and ensure solid shareholder value long into the future.

And with that, Ankur, back to you for the Q&A.

Ankur Dhingra

Thank you, Bob. Mike, if you can please provide instructions for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from Derik De Bruin from Bank of America Merrill Lynch.

Derik De Bruin

Mike and team, can you talk a little bit more, obviously, the China number, the 4+7 tailwind -- hit, seemed to be a little less in the quarter. Can you talk a little bit more? You mentioned spending. And I guess, it's like how are you sort of thinking about spending patterns now that the second wave kicks in. Just a little bit more color in what you're seeing there. And then, as a correlated question, there's obviously a lot of changes going on in the drug manufacturing space right now with some consolidation going on. Obviously, some M&A into the ones that's like -- how are you sort of thinking about some of the changes going on in terms of the bigger generic players, some of the consolidation in the space? And I guess, how are you positioned in those markets?

Robert McMahon

Yes. Sure. Let me -- I'll take the first one, and Jacob, he can pass the second one to you. So, first of all, as we talked in the last call, we had seen a pause in our second quarter as it related to the rollout of the 4+7 initiative. But at the time, we said, listen, we've actually did a good thing, a long term and eventually will lead to increased divestments once we start to sort out who the winners are. So -- and that actually is how the quarter developed for us where we actually saw the winners starting to invest. And we think that level investment relative to Wave 1 will continue through our fiscal year.

As it relates to the core of your question, which is how about Round 2? Our view is that they're going through a process of doing the bidding and sorting out the winners over the latter part of this year, and the impact on the business is more an FY '20 kind of impact in terms of what we're going to see in China. But again, I'd just point to -- we think these are good long-term developments for our business here because of the strength of our relationships and their real emphasis on productivity and compliance. And Jacob, your thoughts around the -- questions about the industry consolidations and generics?

Jacob Thaysen

Yes. I think that's a really relevant question. And clearly, with some of the winners coming out now in China, I think we will see some consolidation. I think Agilent will be in a very good position in this space, both in China and in general as we have very strong relationship with many of the larger end winners in the generic space. So, when this happens, which is part of the normal pharma cycle, we are ready to support them and make them successful.

Robert McMahon

And Derik, I just meant to put a period of this one, which is whether the generic consolidations are happening in China or in other parts of the world, we think overall, the productivity message and real value we can deliver to this segment of market really, really resonates with them.

Operator

Your next question comes from Ross Muken from Evercore ISI.

Ross Muken

I guess maybe just digging in a bit on DGG, Rob. I think the performance there was kind of notably strong, and so you called out a couple things, including an NASD [ph], which seems like it's starting to ramp, but also a bit on opioids, and then on the sort of array side. But academic was weak. Just give us a little bit of a picture kind of the magnitude, maybe, of some of the outperformance in some of these pieces. And then, sort of how to think about that cadence maybe in the context of sort of the fourth quarter guide.

Robert McMahon

Sure, Ross. I'll make some initial comments here, then Sam, you can jump in and correct me if I'm off target here. But one of the messages that we were trying to convey in our earnings call, which is while the NASD growth was very strong in the quarter, that wasn't the only bright spot in DGG. It really was across the board whether it be in our pathology business, and we think we're putting up numbers that are growing faster than the market whether it be because of the increased acceptance for automation platform with the Omnis, the continued utilization and expansion of the PD-L1 assay on the genomics side. We saw good growth in our NGS related business, Sam. I think that was probably double-digit for us for the quarter...

Samraat Raha

It was.

Robert McMahon

And then lead for the NASD strength, which we think is here to stay. Looking into the fourth quarter, we're kind of thinking something like high-single digits, I think, for this business. And Sam, anything else you want to add there? Because the only message I want to get across was broad-based strength.

Samraat Raha

Now I think, Mike, you really outlined where the business is. And pathology, it's a business that's built over time, right? It's not just about a single quarter, but it is the combination of the assays that we have, the increasing number of indications, PD-L1 related that we announced 2 of them, approval from the FDA, but it's also the ongoing growth in our installed base, be it of Omnis, be it of other platforms. And our Companion Diagnostic business, which a lot of it feeds into that, is also -- it's performing in a really healthy way. The genomics business, also, as you said, it performed well, but that's broad-based around the world. So, we're pleased to see that both in terms of genomics-related instruments like the platforms that we have for TapeStation, Bioanalyzer, the AATI product category. So, we feel good about the performance in the coming quarter or two.

Robert McMahon

Thanks, Sam.

Ross Muken

And then, maybe, just on the C&E side, I mean, obviously, you called out a tough comp, but a lot of macro volatility in the last few weeks, a lot of things happening on the trade side. I guess, how are you trying to interpret sort of all the key leads in that subsegment as you've had some good underlying product cycle. But obviously, there's some instability just broadly. And so, how do you feel like, aside from sort of competing well in whatever market there is about sort of what that actual end market environment is going to look like for the next quarter or 2?

Michael McMullen

Yes. Great question, Ross. It's something we've spent a lot of time here inside the company talking about. And kind of entering into this year, we had some concerns about the chemical energy market just in terms of -- there's macro noise even coming into our physical year. So I think we got it, like kind of low singles coming into the year. But as you may recall, in our first guide, after we raised the guidance, hey, this could be a source of upside.

Well, clearly, that is not happening. So we're still assuming kind of low single digits, but probably negative growth in instruments because even though the product cycles are really strong, I think we're well positioned to win when money's there. But we're still going to assume for the -- at least the rest of this fiscal year that there will be growth in chemical energy. But overall, that will be driven by the strength of our ACG business, and we expect the demand to be pretty, pretty muted, if you will, in the C&E. And Bob, maybe you can take a quick look at this -- deep look at this, and maybe have some quick comments.

Robert McMahon

Yes. I think that's right, Mike. And Ross, thanks for the question. If you look at our Q4, I think we're trying to be prudent in our forecast certainly with continued strength in our ACG and DGG businesses. But yes, LSAG or the capital business is continuing to have slow growth and capital in the C&E areas, one of those markets that we're looking at. And certainly with PMIs, the way that they are and as you say, the uncertainty in the market certainly isn't helping. And so we think we've tried to take that into account for our fourth quarter.

The new products that Mike mentioned didn't have a material impact on the quarter. But the ones that we've launched, the gas chromatographs and so forth, continued to have very positive uptake. But it's -- the market is slower, kind of as -- and it's kind of playing out the way we expected at the very beginning of the year.

Michael McMullen

I guess if there's one silver lining in terms of -- which is the, again, back to this productivity message and the fact that we now have a fleet of really great new products and there's a real productivity benefit to the customer, they're in a stronger position to go to their management and get support for their investment because it does really help their P&L.

Operator

Your next question comes from Tycho Peterson from JPMorgan.

Tycho Peterson

Mike, can you talk a little bit about the global pharma picture? You said it delays last quarter. Now you're saying kind of budget's freed up. So how much of the 13% growth you saw was just kind of catch up from last quarter? And how you're feeling about sustainability of that going forward?

Michael McMullen

So I'll let Bob do a little math on the catch-up. But let me make some macro comments while you're doing your mental math. But as we pointed out in Q2, we said, hey, in Q2, biopharma really is quite strong. By the way, it was strong and even stronger this quarter. But we said, hey, we saw a pause in the small molecule side outside of China and we talked a lot already about the 4+7 but it really was kind of curious or something, what was going on with our large accounts in U.S. and Europe. And I think they were just being prudent in their budgeting process, and we saw a release of funds in the -- in our third quarter. And we're expecting that to continue.

So we don't see that as being a one-quarter phenomena, albeit that that's why we try to use the words in some end markets we're expecting some pretty challenging market conditions. So pharma, actually, we think is continuing to be a source of growth on the LSAG instrument side, while we expect some markets to actually be down year-over-year. And Bob, I don't know how we can parse out the catch-up?

Robert McMahon

Yes. I think, Tycho, the way I would talk about it is, as I mentioned, the pharma business grew 13% in the quarter. And if you look at small molecule, it was mid-single digits. So there was probably some catch-up, but I wouldn't say it was material that, that mid single-digits is kind of where it has been historically over the last several quarters. So I think it -- what we have said and kind of the hypothesis has been that's primarily a replacement cycle. They can hold off for a number of quarters but they can't do that forever if they want to keep their manufacturing processes in place.

And so we think we are in that. It wasn't a snapback. So there wasn't more in Q3 than what we saw. But I think it was now they're getting further in the fiscal year and they're actually spending that money.

Michael McMullen

Yes. Sort of back to historical run rates, wouldn't you agree, Jacob? Or...

Jacob Thaysen

Yes. I think that's correct. But we do see that the larger accounts are still very conservative in the procurement, while some smaller pharma actually is investing these days. So that's where we actually see some of the growth coming from also. And we are taking good share there.

Michael McMullen

Yes. Thanks for the build there because in my narrative, I talked about the business coming not only from existing customers, but new customers. And we've been very aggressive in that regards as well.

Tycho Peterson

And can you provide a little more color on the academic order signing that drove the decline in academic?

Michael McMullen

Bob, I'm not sure we have much more insight. And that business tends to be lumpy for us, right? And...

Robert McMahon

Yes. As you know, it's a relatively -- it's the smallest piece of our business and it goes up and down. And so we're not going to call out any one particular order or orders across the business. But we feel good about our position there going forward. And we're expecting that to return to growth in the fourth quarter. I will also say, back on the pharma business, when we look at our ability, I think one of the things that speaks well to our value proposition with our customers is when you look year-over-year, our pricing actually has held up pretty well. Our pricing is roughly -- it's slightly above on the LSAG business. So I think that speaks to the value that we are able to bring from a productivity standpoint to customers.

Michael McMullen

Hey, Bob, back on academia and government, maybe just to share a discussion we were having inside the company, which was we're not a little bit concerned about this because we still see the funding environment. It's actually being quite strong and stable. So it's just a timing issue. So we don't see anything happening materially different in the marketplace.

Robert McMahon

That's right.

Tycho Peterson

Okay. If I could ask one last clarification before hopping off. On China, 4+7, do you expect the impact to be the same magnitude next year as it is this year, given that it's different rules for Round 2? I wasn't sure from your comments earlier if you...

Michael McMullen

So Tycho, I'm going to resist the temptation to do an FY '20 guide. But I would say, directionally, it's going to be an increase.

Operator

You next question comes from Brandon Couillard from Jefferies.

Brandon Couillard

Mike, just starting with the China food business. Can you just sort of give us an update on where you stand as far as building out some of your commercial teams to go after that private lab channel in China? Sort of your general visibility now today relative to maybe where you were three months ago.

Michael McMullen

Yes. Happy to do so. So we're fully built out. So we've been working this probably well over 1-year, 15 months. Because I think the first time I started talking about this was Q2 '18 call. So from a channel reach, channel perspective, we're there both in terms of our direct reach, but also through some of our digital enablement of customers. So we feel really good about our channel reach and relationships with the commercial accounts. And we're seeing it in the numbers. So we're seeing really -- it's really a tale of two cities. And Jacob, I'll have you jumping on this one as well in a second, because I know you've been digging into this, but sort of tale of two cities. We're getting good growth on the commercial. There's just no real new investment happening on the government lab side of things. So...

Jacob Thaysen

Yes. That's true, Mike. And we do see double-digit growth on the contract labs these days, but coming from a smaller base. And while -- so we have our very large market share in the government account. So clearly, when the catch up is happening, I actually believe we will see a very strong growth in this business again.

Michael McMullen

Yes. If there's any silver lining, it would be as Q3 was as we expected. So we weren't surprised by the number, albeit down.

Robert McMahon

Yes. And as we're thinking about Q4, we're expecting Q4 to be -- kind of play out the way Q2 and Q3 did in terms of roughly flat at that $40-ish million revenue run rate.

Michael McMullen

Right. Which, looking at our -- I think we clocked a 16% growth overall in China Q4 last year. So I would say up against a tough compare.

Brandon Couillard

And then, maybe one more for Mark Doak. The gross margins in the CrossLab business are pretty substantially year-over-year. I think the new high at 52%. Sort of speak to the drivers of that gross margin improvement and sort of what you see is the midterm runway, midterm opportunity for gross margins.

Mark Doak

Sure. I'll be glad to. And if you pull us back, it's several things contributing to it. Over time, mix has been a play in terms of our consumables business being from a margin perspective, north of the company average. But also, a lot of work we're doing is relative to some of the Agile Agilent programs, but specifically looking at delivery efficiencies and our services team. We've been able to add a lot more revenue without a lot of proportional cost to that. And that comes to really what we're seeing increasing as a big factor in our margin expansion is scale. And we're in that position now where we can invest. Mike had talked about some of our digital capabilities, both in the channel, but also in the back office areas. And it starts to fuel these efficiencies. We can reinvest some of those profits to build even more strength in the area. So it's really eating off itself as you will. And when you pull it all together, between portfolio mix, continued move towards scale, and driving efficiencies through these digital capabilities. So those probably the big drivers behind it.

Operator

Your next question comes from Puneet Souda from SVB Leerink.

Puneet Souda

So first one on the cell analysis market. I mean with your recent acquisition of BioTek, and obviously, you've added Seahorse and ACEA before, do you think you have enough pieces here to sort of ultimately serve this growing and expected to be even further growing cell therapy developed in the market? And -- or do see more room for further capital deployment here? And I should say that this did increase your biologics exposure in some ways and it's likely to increase that. So just wanted to get a sense of what you have currently, and should we expect more here?

Michael McMullen

Yes. So let me start this off, and then, Jacob, feel free to chime in as well. So we think now at $250 million, we have a business with scale. And I think that's really important to say. We think we really compete. And really, we are really bullish on this space. And I think our investments dreams started several years ago. So whilst we are still in the process of digesting what we've just recently acquired, and then we have to bring the Agilent -- into the Agilent family, the new BioTek team. So we think we have a lot of really good scale once we close with the BioTek acquisition. But that being said, I think we have further aspirations to continue to build-out in that space as well.

Jacob Thaysen

Yes. And building on that, I think, first of all, we clearly have scale today. But what is very important here is that the strategy we started out some years ago, 4 years ago now, was not just to build scale in the cell analysis business, but build differentiated components that could build together into workflows that would really do differentiate -- really provide differentiating information for our customers. So not only have flow -- up against flow and some plate with [indiscernible] against paid, we will combine them together with a particularly important immuno-oncology space, and especially here in the CAR-T space. We've seen that already happening. So before actually the acquisition of BioTek, we used the Seahorse and the BioTek and collaborated between the two companies to provide a workflow that combine those two technologies together in the same software and the same micro type of plate, and we saw that, that actually grew the market opportunity significantly.

So now combining the Seahorse, ACEA, the BioTek and Luxcel together, I think we have a really, really strong differentiated position, but it also allows us to add more workflows into that space going forward. But our main priority right now is to integrate and be successful with BioTek.

Michael McMullen

And Puneet, I'd just say, that with revenue synergies often theoretical, when you do an acquisition, we've actually have real proof points already with customers and markets that we can do this, and there's real value to customers.

Puneet Souda

Okay. Great. And if I could touch on the NASD business. Just wanted to get a sense of if you could quantify how much was that and sort of in the quarter. And the current run rate that you have in sort of what -- what's your expectation longer term here? Has that changed from the sort of the earlier expectation in the comments that you gave around customers demanding the RNAi product and the overall long-term view of the business?

Michael McMullen

Yes. Much like avoiding the temptation of talking about FY '20 guide, I'll also avoid the temptation to talk about specific details on a product line level. But what I can do is give you a directional number. So I think we've been talking about this business hitting probably $100 million or so this year. And then, as we look into FY '20, we've added at least that much in terms of capacity. So we hope to be up to a larger number in the -- by the end of next year at the sort of a run rate level, at a higher number. We're not ready to kind of commit to what the number actually is, but it's going to be a pretty -- a nice step up for us. And Bob, I know you've been doing some modeling in this area as well already.

Robert McMahon

Yes. I think Puneet, I mean, nothing has changed. We had a very good quarter. We're expecting another very good quarter next year -- or next quarter, excuse me, largely in the back of our existing capacity. And the team has just done a fantastic job. As Mike said, we're on pace to delivering that $100 million consistent with what we said, really, since the beginning of the year. And we're excited about the new facility coming online. And as Mike mentioned, it's bringing on manufacturing capacity right now and look forward to '20 and beyond serving our customers

Michael McMullen

And by the way, don't interpret my comments as being any less bullish in this space. We just know that as we bring on the new facility, you have to time when you actually can start the batches up, but a lot of that is being driven by customers timing when they're doing the clinical trials. So we're much more specific when we do our FY '20 guide because we'll have a much better handle on the timing when these new customers will be coming into our new facility. I can tell you we've sold a good percentage of that capacity already.

Samraat Raha

Mike, maybe if I could just add one thing...

Michael McMullen

Of course, Sam, it's your baby.

Samraat Raha

One thing that we've already stated is the basis of this as the number of clinical trials and work being done here. We see the supplier opportunity for us going from $0.5 billion market to over $750 million over the next several years. So we're going to grow with that. And it is a fact, too, that we are doubling our overall capacity for manufacturing. But I just want to reemphasize what both Mike and Bob said that there is a ramp up process over a number of years. So just because we're doubling our capacity, doesn't mean we're going to be double our revenue there. Just to be explicit about that again. But we'll be very...

Michael McMullen

So it's not in year one.

Samraat Raha

Exactly, in year one.

Operator

Your next question comes from Catherine Schulte from Baird.

Catherine Schulte

First, I was just wondering, can you go into a bit more detail on your strong results in environmental and forensics? I think this is the fourth quarter in a row of high single-digit or double-digit growth there. So I'd just be curious to hear more details on the drivers in that end market.

Michael McMullen

I think I'm actually going to pass this to Jacob, who's here.

Jacob Thaysen

Yes. And again, it speaks to the portfolio we build up here over the past years on really robust reliable instrumentation that allow us to really go into -- of course, opioid is a big crisis here in U.S. So we have actually quite a large growth in that area. We also seen soil and water. Here in U.S, which have actually driven a lot of business. And the same token, China has actually continued to have strong growth in both those areas, specifically the environmental, which is heavily regulated. So we are doing very well in regulated spaces, and this has driven also the momentum and forensic this quarter.

Michael McMullen

Yes. And I think it's fair to say with specific I know there's -- go ahead, Mark.

Mark Doak

I was just going to say, if I could add to that too, in concert with Jacob, we've been working a lot on the environmental side in terms of the end market workflows and complementary consumables and services to go along with it. So that's clearly another driver of this end market for us.

Catherine Schulte

Okay. And then, we heard one of your peers talk about starting to see a bias against U.S. companies in some China tenders. Are you seeing signs of that dynamic as well?

Michael McMullen

Catherine, thanks for asking that question. Not at all. So that's always been the risk of the heightened tensions between U.S. and China as it relates to trade. We have not at all seen that in our business.

Operator

Your next question comes from Doug Schenkel from Cowen.

Doug Schenkel

I only have one question, but it has three or four parts. So I know -- I don't want to disappoint. So I know you're up against a tough comp in Q4, and I'm guessing there's some desire to be a bit more conservative in the current environment. That said, given the strength of really, ACG and DGG in Q3 and really the past few quarters, we would have expected Q4 revenue growth guidance to be a bit higher.

So one, were there any timing dynamics that benefited Q3 at the expense of Q4? Two, did you see any end market conditions weaken over the course of Q3? And if so, are you baking in an assumption into guidance that this continues in the fourth quarter? Three, are you assuming that LSAG growth is lower in Q4 versus the flat performance in Q3? Because it seems like you'd have to unless you're expecting ACG and/or DGG to moderate. And four, kind of building up on the last one, I'm just wondering if NASD is not expected to be as strong in Q4 as Q3, maybe just because things have to pause a little bit as you bring new capacity on.

Michael McMullen

Yes. So Doug, we've been waiting for these questions. So thanks for putting it out there. And I'll start off, and then have Bob share some of our guide velocity. So I really want to be really clear on this. We saw nothing unusual relative to pulling in from the fourth quarter. So our book-to-bill is solid. And so there's nothing unusual we have in terms of changing the seasonality business by pulling in from Q4 into Q3. When we look at our LSAG business, we actually expected a decline in Q4 off that tough compare. I think you're off 9% last year. And now there's two other parts. I only got two of the four parts.

Robert McMahon

Yes. I wrote some of them down. So Doug, I'll try to tag team with Mike. As Mike said, we didn't see any pull forward or any dynamic that took orders out of Q4 into Q3. And as you said, our backlog actually did not deteriorate. But that being said, you're seeing it. We saw it today, right, in the market. There's a tremendous amount of uncertainty. The trade resolution is nowhere -- it's no closer now than it was when we had our call back in Q2. And so we're de-risking Q4 a little bit relative to where we were. It is a tough comp. And there is a little more uncertainty in the marketplace today than it was even 3 months ago, and we're trying to be prudent there. That being said, we raised the full year on the top line and certainly on the bottom line, and feel good about that.

To your question about NASD, we are expecting that growth to moderate. It had a very strong Q4 of last year. But when you look at the run rate, we still feel very good about the run rate. So it's less about level loading and manufacturing and it's more about just comparables there. And we are expecting continued performance in both ACG and DGG, not necessarily at the double-digit rate. That would be good, but that's not built into our guide. And as Mike said, we are expecting a flattish to slightly down in LSAG just given the strong 9% compare that we had in Q4 of last year.

Operator

Your next question comes from Patrick Donnelly from Goldman Sachs.

Patrick Donnelly

Maybe one on ACG for you, Mike, and I'm sure Mark can chime in. It was right in there with the best growth you guys have ever put up in that segment, even while facing a high single-digit comp. So how are you guys continuing to drive that segment to these levels of growth? I mean, it's been years since you had that initial refocus. How are we still seeing follow through? What's really driving the reacceleration demand?

Michael McMullen

Yes. So I'll take the congratulations on behalf of Mark, but then pass it on to Mark. But you're exactly right. I can remember the early days. We were getting questions about when was this going to stop? And we said why would it stop? Because there's a number of things doing and there's also an expanding market underway. And as Mark pointed out, the strength was broad based across consumer services.

I mean, we really think we're playing into -- and I tried to highlight this into my script, that really playing into some real changing customer needs. They really want something that's going to help drive their productivity and they are also looking for at times vendors to take on some of the work they've been doing inside. And then, on the consumables front, they really want these integrated workflows. But I can't do the strategy justice. So Mark, why don't you fill in the pieces that I've missed.

Mark Doak

Thanks, Mike. And Patrick, I guess, maybe it's a little bit of the past, but also the future, and we're still very bullish about our potential to grow. But some of the drivers made really significant investments in the expansion of our portfolios. And from services, we've got breadth to now in more of our value-added services. And the enterprise capabilities that will not only have a rollout over the continuation this year and in the consumables business, it's an intentional drive to drive for more complete workflows for targeted end markets. And we called out biopharma in particular, a high-growth market, where we've really been focused around grabbing that.

So portfolio is a big driver. We're really getting some great results from expanding our reach and our ability to wallet share growth inside of our current accounts to reach and lease subscriptions, still a lot of opportunity there. We still have a significant opportunity to improve our attachment rates to the Agilent instruments. But I always like to come back and remind everyone, we view our market not only as the Agilent installed base, but also the competitions. And that adds a significant size and scale to the market opportunity. And not only we can take market share from our competitions on a multi-vendor perspective, we are.

So to kind to sum it up. A lot of work that's been done over the past, build a lot of capabilities from the standpoint of portfolio, digital, working on some fundamental basics around what we can do in the attachment rate from the sales channel and our big market opportunity out there. So hope that gives you a sense of where we've been, a little bit of where we're going too.

Patrick Donnelly

Yes. That's helpful color. And then maybe just a quick one for Bob, on the share repurchase front. It was encouraging to see you guys step in and be opportunistic with the $550 million this quarter. How should we think about it going forward. Obviously, the market has pulled back a decent amount, your stock along with it. So maybe just provide some perspective on that front.

Robert McMahon

Yes. Thanks, Patrick, and appreciate you acknowledging that. And we'll continue to evaluate the market. Obviously, our focus is first on growth, and we'll be closing the BioTek acquisition this quarter. And our M&A funnel continues to be strong, and we will be looking at that, but not afraid to go into the market if the price is right, so to speak. So I think the way that we are looking at that is first on M&A, and then looking to continue to deploy capital, where as I mentioned before, cash neutral right now with the acquisition of the BioTek, we'll probably be at net debt of roughly onetime. And so we still have plenty of capacity there.

Operator

Your next question comes from Steve Willoughby from Cleveland Research.

Stephen Willoughby

Most of my questions have been asked. Just 2 things, for you, I guess. First, Mike, I was just wondering if you could comment a little bit more and provide any more color on some of the new products you recently launched and how they're being accepted into the market, particularly the new GCs as well as the new iQ system. And then, I guess, secondly, for Bob or Mike if you want to take it, are you able to quantify how much you're expecting in terms of revenue in the fourth quarter from the new NASD facility you're starting up here?

Michael McMullen

Yes. So if you don't mind, I'll make some summary comments, then Jacob, you can just fill in some of the details. But last number, that's our view on our new GC family launch was actually ahead of where we thought we'd be. And I think we're doing well on the iQ as well. But -- and maybe you can kind of fill in some details there.

Jacob Thaysen

Yes. Certainly, I think we are -- despite some challenging market conditions, we're actually doing extremely well with the 88 series and in front of our -- on our own ramped volume. So I think that is working very well, and it's really the combination of what we call the smart instrument combined with our already proven -- well proven technology, GC technology. And that really resonates with our customers. The same can actually be said with our iQ, which of course, a little -- only was introduced a few weeks ago out at the ASMS and we start to ship here very soon. We have received the first orders. But what I can say there is that it has been very well received where we have been out introducing it and presenting it to customers. I think they very much like the ease-of-use intuitiveness of the detector itself. And also, all the self awareness that it have. So it really helps the customer to be successful, not only successful, but also allow them to be -- you have much more uptime in a laboratory. And this really addresses the QA QC labs, where it's all about being uptime and of course, get things with the laboratory. So it's been really well-received, but it's still early days for the iQ. So we have received orders, but we are shipping in this quarter here.

Michael McMullen

And Bob, you want to take the NASD question?

Robert McMahon

Steve, just on NASD, it's going to be, as we've said earlier in the year, it's not going to be material to the overall numbers. So it's going to be low single millions.

Operator

And we have time for one more question. The last question comes from Dan Brennan from UBS.

Daniel Brennan

Congrats on the quarter guys. I was hoping to ask a question back to China. Can you just provide some color on, like, what the actual generic business did in the quarter, like what the level of revenues was year-over-year? And then, while I appreciate, I think, to Tycho's question you don't want to give a specific number for 2020. But just given, I think, the investors in ourselves who are just trying to get some frame of reference, like directionally. Is there any help you can provide? Just as we go to 2020, I know you made a comment to Tycho, but just a little more help, if you could, directionally, on the food and the China generic side, how to think about that?

Michael McMullen

Yes. So happy to, let me take the second part of that question first, which is when you think about the outlook for '20 again, well you know I'm going to stay way from percentage changes in growth rates. But I think we have a lot more confidence around where the generic side of that marketplace is going because we only have some proof points.

We've already seen, which is -- the thesis was in the second quarter, hey, we think this is going to lead to, ultimately, more business. But there was a pause in business. We actually saw that play out in the third quarter. And we think it will play out in the fourth quarter, where the winners are going to be buying the equipment. We think the same thing is going to happen in Q2 -- I mean, excuse me, FY '20. It will be more an FY '20 event in terms of what impacts the P&L because we know what the process, we know what's going to happen. We know the winners who we have deep relationships with are going to invest.

So I think we have a level of confidence about where that market is going. I don't think the same thing can be said about the food market because that's why I used the word foreseeable future. What we do now is the commercial side of that segment will continue to grow.

That will continue to grow. It's unclear right now what's going to be happening relative to China's desire to invest in the government labs. As you heard from Jacob earlier, right now, they're prioritizing, for example, investments in environmental, and that's why we're seeing strong environmental growth. And Bob, maybe it's worth just kind of parsing out. I was just thinking how our business is in -- I can't give a specific number relative to generics. But just in terms of size of our pharma business in China, and then roughly how much of it is in the non-biopharma side.

Robert McMahon

Yes. So our -- maybe just to comment on the food, Dan, on the -- on Q4, as I said earlier, we're expecting it to be roughly that $40 million, which will be down year-on-year, pretty consistent with how we -- our results in Q2 and Q3. And the question is, over time, we do think that, that business will come back, not at the levels that had been in the past, just given the different dynamics. But the question is when and we're not ready to call that yet.

On the pharma side, the business actually did better in Q3 than it did in Q2. And of roughly China is roughly 20% of the overall business and pharma is about 30% of that -- 20%. So it's about 6% overall. And it's roughly 50-50 in terms of consumables and instruments. So it's roughly 2% to 3% of our overall company. And in Q3, it grew. As Mike mentioned, really on the back of the winners of the 4+7 and just kind of clarity on what this pilot meant going forward. So that's probably as much detail as we're going to get into relative to this. And we'll have another quarter under our belt for Q4 and then be better prepared to talk about it as things unfold for the fiscal year next, in November.

Daniel Brennan

Great. And if I could, since it is the last question. Just one more. Mike, obviously, a very strong quarter. You mentioned kind of similar to what you've been talking about. Obviously, we could see what's going on, with continued uncertainty out in the marketplace, especially for, I think, for cap equipment. And Bob, you talked about PMIs, but you also talked about good book-to-bills and you had a good quarter. So any way to help us think about, like, as we try to tease out all the noise that's out there in the marketplace, kind of what it means for Agilent on a go-forward basis, like PMIs, do we want that? Do we pay a lot to influence that? Or just any more color about the customer conversations you're having, and kind of how it relates back to these comments.

Michael McMullen

Sure. Yes. Happy to do so. So first thing I would do is I would set aside 60% of the business of Agilent, which is in the recurring revenue side of the business. And we talked a lot about the DGG business, the ACG business, and our view that we're going to have continued strength there. And then, what we've been trying to do is position the business. Hey, listen, there is this 40% of the business, which is instruments. And that does -- it's predicted by PMI. I think you may recall you and I have our conversation, but I think still some of the models still hold, which is the PMI trends do drive, to some extent, what's going to happen ultimately in the capital goods side. I think we've already seen it. PMI started dropping earlier this year. Albeit there are some areas of Jacob's business, which are still somewhat independent of that whether it will be the 4+7 initiatives, some policy changes, some of the things that happen in environmental, forensics.

So I think its sort of a -- it's a mixed model. So -- the first thing I'd do is start off by just saying, let's set aside 60% of the business over here, and then start talking about the 40%, and then parse out the cell analysis piece, which is by itself is a high growing business driven by certain dynamics there. And then parse out some of the policy driven stuff, then you're left with, primarily, chemical energy exposure. Bob how would you think about that?

Robert McMahon

No. Maybe I'd just leave it here. I mean, I think we feel very good about our portfolio. Obviously, we can't time the markets from the standpoint of market growth. But we think that we're able to gain share in any market, and I think this quarter proves that. Our portfolio is strong. We continued to invest in areas that are faster growing than the overall company, things like cell analysis and then also our biopharma businesses across all three business groups. So I think Mike mentioned it in the prepared remarks that the business is a lot different than it was five years ago. And I think we continue to invest in fast-growing areas, continuing to transform it and make it a much more resilient model. And I think we feel good about that certainly for not only Q4, but going forward.

Ankur Dhingra

All right. Thank you. With that, we will conclude today's earnings call. Thank you, everyone, for joining.

Operator

This concludes today's conference call. You may now disconnect.