

Agilent Technologies (A)

\$74.21 (As of 05/01/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: C

Summary

Agilent expanding product portfolio and end-market strength are key growth drivers. However, weak China market remained a concern in the fiscal first quarter. Nonetheless, the acquisition of BioTek Instruments served as a tailwind. Further, the company's focus on aligning investments toward more attractive growth avenues and innovative high-margin product launches is a positive. Notably, shares of Agilent have outperformed the industry it belongs to over a year. However, macro weakness in some regions served and unfavorable foreign exchange remain concerns. Also, higher expenses are making margin expansion difficult for Agilent.

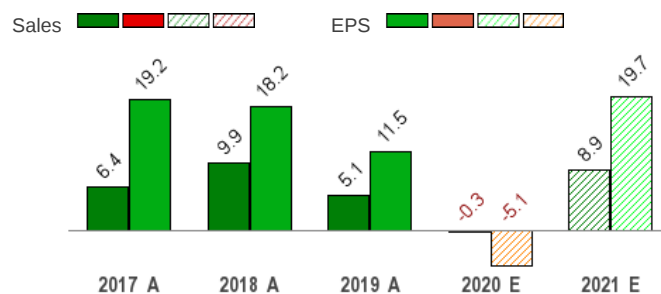
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$90.64 - \$61.63
20 Day Average Volume (sh)	2,004,827
Market Cap	\$23.0 B
YTD Price Change	-13.0%
Beta	1.10
Dividend / Div Yld	\$0.72 / 0.9%
Industry	Electronics - Testing Equipment
Zacks Industry Rank	Top 30% (77 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-8.1%
Expected Report Date	05/21/2020
Earnings ESP	-12.1%
P/E TTM	23.4
P/E F1	25.2
PEG F1	2.1
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,435 E	1,280 E	1,362 E	1,478 E	5,609 E
2020	1,357 A	1,177 E	1,201 E	1,415 E	5,149 E
2019	1,284 A	1,238 A	1,274 A	1,367 A	5,163 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$0.77 E	\$0.85 E	\$0.97 E	\$3.53 E
2020	\$0.81 A	\$0.58 E	\$0.62 E	\$0.93 E	\$2.95 E
2019	\$0.76 A	\$0.71 A	\$0.76 A	\$0.89 A	\$3.11 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

Palo Alto, CA-based Agilent Technologies, Inc. was originally a spin-off from Hewlett-Packard. The company is an original equipment manufacturer (OEM) of a broad-based portfolio of test and measurement products serving multiple end markets.

On Nov 1, 2014, Agilent completed the spinoff of its electronic measurement segment into a new company named Keysight Technologies, making it an independent, publicly traded company.

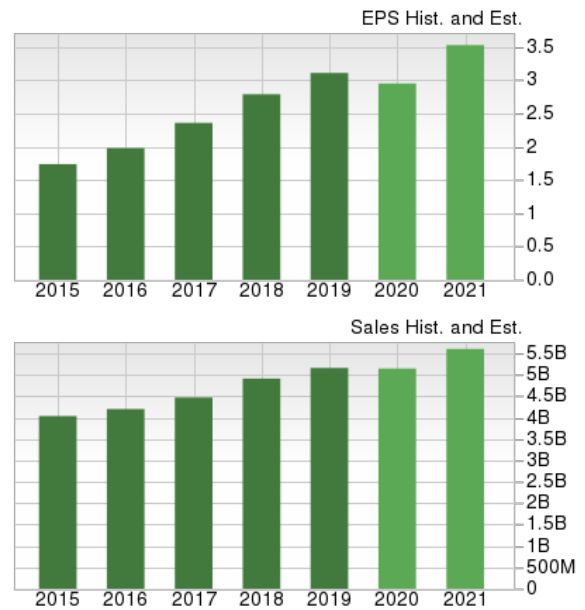
Over the last three years, the company has diversified into new end markets, namely industrial, chemical and electronics markets. The company has three business segments, including Life Sciences & Applied Markets Group (LSAG), Diagnostics and Genomics Group (DGG) and Agilent Cross Lab Group (ACG).

The company uses a direct sales model for the distribution of its products, which is supplemented by distributors, resellers, manufacturers' representatives, telesales and electronic commerce, as necessary.

Agilent reported revenues of \$5.16 billion in fiscal 2019, up 5% from fiscal 2018. The company generated 71% of revenues from markets outside the United States. Almost 20% were derived from China, including Hong Kong.

LSAG accounted for 45% of fiscal 2019 revenues (up 1% from fiscal 2018), DGG contributed 20% (which increased 8% from fiscal 2018) and ACG represented the remaining 35% (improving 8% from fiscal 2018).

Most of the competition for these three segments comes from Bruker Corp., Danaher Corp, Affymetrix, GE Healthcare, Life Technologies Corp., Thermo Fisher Scientific, Waters Corp., Illumina, Inc., Life Technologies Corp., Abbott Laboratories, Sakura, Roche, Perkin Elmer Corp., Shimadzu Corp, Heidenhain Corp., Malvern Instruments, Seiko Instruments, Veeco Instruments and Zygo Corp.



Reasons To Buy:

▲ Agilent's focus on innovation is a key catalyst. The company has consistently introduced new and improved products that have enabled it to secure customer loyalty and capture additional market share. Generally, the launch of new platforms and acceptance of new standards indicate significant testing opportunity and Agilent's leadership position ensures top-line growth. The spending level appears sufficient for maintaining its technology lead and enabling the company to develop products for the life sciences, operational surveillance and nano technology areas.

The improving healthcare environment, acquisitions and leading position in key emerging markets will help Agilent generate solid revenues.

▲ Agilent has been supplementing organizational growth with strategic acquisitions. The recent buyout of BioTek Instruments will likely expand the company's presence in the life science research space. This will further strengthen Agilent's offerings related to live cell analysis, as these product lines aid in quantification of biomolecules, biomolecular interactions and cellular structure. In addition, the buyouts of Multiplicom NV, Cobalt Light Systems, Seahorse Bioscience and iLab Solutions have expanded its product portfolio.

▲ Agilent has entered into a number of strategic partnerships. The company has collaborated with many companies to expand in the healthcare market. Currently, the healthcare sector is undergoing a revolution and companion diagnostics or personalized medicine is taking the center stage as it could improve patient care and better manage health care costs by administering the most appropriate treatment to individuals. Agilent has signed several other collaborative agreements with the likes of Pfizer, AstraZeneca, Bristol-Myers Squibb, Merck & Co., and Eli Lilly on companion diagnostics for the treatment of cancer and other diseases and Cell Signaling Technology to develop antibodies in the growing field of companion diagnostics.

Reasons To Sell:

- ▼ Agilent's operating margin remains challenged. While expenses appear to be focused on the SG&A side, R&D is also on the rise. Moreover, the increase has been so significant that margins did not show any noticeable increment despite strong growth in all the reporting segments.
- ▼ Lingered macroeconomic concerns are affecting the spending environment, which other test equipment providers, such as Teradyne and Advantest are also seeing. This may impact Agilent, as it remains one of the largest providers of spectrum analyzers, network analyzers, signal sources and oscilloscopes into these markets.
- ▼ Agilent holds a strong position in China and this region represents Agilent's second-largest customer market. New regulations in China are a concern for Agilent. The recent reorganization of multiple food agencies into NMSA (National Market Supervision Administration) by the Chinese government could be a pain for Agilent as it might continue to impact its sales in the near to medium term. Moreover, the ongoing trade dispute between the United States and China could continue to impact the company.

Continued acquisitions are expected to keep Agilent's expenses high. Also, new regulations in China and weak economy will impact results

Last Earnings Report

Agilent Q1 Earnings In Line With Estimates, Revenues Top

Agilent Technologies' fiscal first-quarter 2020 earnings of 81 cents per share were inline with the Zacks Consensus Estimate. The bottom line decreased 9% sequentially but increased 7% year over year.

Fiscal first-quarter 2020 revenues of \$1.36 billion increased 5.7% year over year (up 2.4% on a core basis). Also, the reported revenues — which came in above management's guided range of \$1.340-\$1.355 billion — surpassed the Zacks Consensus Estimate by 0.2%.

The year-over-year revenue growth was driven by strength in all revenue segments.

Agilent was optimistic about the acquisition of BioTek Instruments, Inc., a provider of life science instrumentation. This deal expanded the company's presence in the life science research space. It will further strengthen Agilent's offerings related to live cell analysis, as these product lines aid in quantification of biomolecules, biomolecular interactions and cellular structure.

However, management expects delays in new equipment purchases in the near term. In addition, it expects a slower uptake of consumables and services due to reduced number of selling days resulting from the extension of Lunar New Year, including other operational factors.

Revenues by Segment

Agilent has three reporting segments — Life Sciences & Applied Markets Group (LSAG), Agilent Cross Lab Group (ACG), and Diagnostics and Genomics Group (DGG).

In the reported quarter, LSAG was the largest contributor to total revenues. The segment accounted for \$638 million or 47% of its total revenues, reflecting a 5% increase from the prior-year quarter. The strong performance of the company's biopharma and cell analysis business aided the results.

Revenues from ACG came in at \$470 million, accounting for 35% of total revenues. The reported figure reflects a 6% year-over-year increase, driven by growth across all regions and market segments.

Revenues from DGG came in at \$249 million, accounting for the remaining 18% of total revenues. The segment's revenues were up 6% from the year-ago quarter.

Operating Results

Gross margin in the quarter was 53.3%, down 180 basis points (bps) year over year. The decrease was due to an unfavorable product mix.

Operating expenses (research & development as well as selling, general & administrative) were \$508 million, 11.2% higher than the year-ago quarter.

As a result, adjusted operating margin was 15.8%, down 370 bps from the year-ago quarter.

Balance Sheet

At the end of the fiscal first quarter, inventories totaled \$706 million, up from \$679 million in the prior quarter. Agilent's long-term debt was \$1.79 billion at the end of the quarter. Cash and cash equivalents were \$1.23 billion compared with \$1.38 billion in fiscal fourth-quarter 2019.

Guidance

Agilent provided guidance for the fiscal second quarter and 2020.

For the fiscal second quarter, the company expects revenues between \$1.28 billion and \$1.32 billion, and earnings per share in the range of 72-76 cents.

For fiscal 2020, Agilent maintained its revenue guidance in the range of \$5.50-\$5.55 billion, indicating core growth of 4-5%. Non-GAAP earnings are projected in the range of \$3.38-\$3.43 per share.

Quarter Ending 01/2020

Report Date	Feb 18, 2020
Sales Surprise	0.17%
EPS Surprise	0.00%
Quarterly EPS	0.81
Annual EPS (TTM)	3.17

Recent News

On **Nov 25, 2020**, Agilent raised its quarterly dividend to 18 cents per share, reflecting an increase of 10% from the previous quarter's dividend. The new dividend, which has been approved by the board of directors, will be paid to investors on Jan 22, 2020.

On **Oct 10, 2019**, Agilent opened a state-of-the-art facility at the Harwell Science and Innovation Campus in Oxfordshire, U.K. Spanning 710 acres, the new facility at the Harwell Campus strengthens research and development capabilities of Agilent in the field of spectroscopy. The center will also incorporate Agilent's Raman spectroscopy business that was formerly known as Cobalt Light Systems.

Valuation

Agilent shares are down 13.4% in the year-to-date period and 6.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 16% and 5.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 9.3% and the sector is up 3.4%.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 22.87X forward 12-month earnings, which compares to 21.99X for the Zacks sub-industry, 22.31X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.39X and as low as 17.1X, with a 5-year median of 22.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 24.04X forward 12-month earnings.

The table below shows summary valuation data for A

Valuation Multiples - A					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.87	21.99	22.31	20.18
	5-Year High	29.39	26.26	22.31	20.18
	5-Year Low	17.1	18.3	16.71	15.19
	5-Year Median	22.49	22	19.23	17.44
P/S F12M	Current	4.27	3.51	3.41	3.19
	5-Year High	5.02	4.12	3.59	3.44
	5-Year Low	2.63	2.63	2.32	2.54
	5-Year Median	4.08	3.51	3.1	3.01
EV/EBITDA TTM	Current	16.79	13.92	10.89	9.75
	5-Year High	27.63	19.06	12.7	12.87
	5-Year Low	8.85	8.83	7.56	8.27
	5-Year Median	14.66	14.93	10.62	10.78

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Eli Lilly and Company (LLY)	Outperform	1
Abbott Laboratories (ABT)	Neutral	3
Danaher Corporation (DHR)	Neutral	3
Merck & Co., Inc. (MRK)	Neutral	3
Novartis AG (NVS)	Neutral	3
PerkinElmer, Inc. (PKI)	Neutral	3
Thermo Fisher Scientific Inc. (TMO)	Neutral	3
Waters Corporation (WAT)	Neutral	4

Industry Comparison Industry: Electronics - Testing Equipment				Industry Peers		
	A	X Industry	S&P 500	DHR	TMO	WAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	F	-	-	D	F	F
Market Cap	22.98 B	10.42 B	20.61 B	112.04 B	131.54 B	11.02 B
# of Analysts	8	6	14	8	9	8
Dividend Yield	0.97%	0.54%	2.11%	0.45%	0.27%	0.00%
Value Score	F	-	-	D	D	F
Cash/Price	0.05	0.06	0.06	0.17	0.02	0.03
EV/EBITDA	19.74	17.30	11.87	25.44	21.32	15.49
PEG Ratio	2.12	1.54	2.47	2.58	2.22	2.22
Price/Book (P/B)	4.74	4.28	2.67	4.03	4.61	NA
Price/Cash Flow (P/CF)	19.33	17.07	10.66	26.31	18.51	16.78
P/E (F1)	24.96	23.62	19.01	32.74	27.77	22.24
Price/Sales (P/S)	4.39	3.73	2.10	5.62	5.13	4.68
Earnings Yield	3.98%	4.24%	5.05%	3.05%	3.60%	4.50%
Debt/Equity	0.37	0.37	0.72	0.75	0.67	-7.62
Cash Flow (\$/share)	3.96	3.96	7.01	6.21	18.08	11.14
Growth Score	F	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	12.32%	12.32%	10.88%	2.72%	13.78%	10.59%
Proj. EPS Growth (F1/F0)	-5.06%	-5.92%	-7.32%	11.12%	-3.83%	-10.93%
Curr. Cash Flow Growth	9.85%	9.31%	5.92%	1.84%	6.99%	-4.57%
Hist. Cash Flow Growth (3-5 yrs)	-2.46%	9.18%	8.55%	5.87%	10.08%	5.07%
Current Ratio	1.64	1.64	1.23	5.19	2.32	2.22
Debt/Capital	26.93%	26.93%	43.84%	41.54%	40.24%	91.94%
Net Margin	14.59%	16.70%	11.08%	15.09%	14.31%	22.77%
Return on Equity	20.49%	17.58%	16.44%	11.50%	17.25%	374.83%
Sales/Assets	0.57	0.57	0.54	0.35	0.44	0.89
Proj. Sales Growth (F1/F0)	-0.27%	-4.12%	-1.42%	2.25%	-1.47%	-6.53%
Momentum Score	C	-	-	D	D	B
Daily Price Chg	-2.62%	-3.26%	-2.39%	-0.92%	-0.28%	-2.93%
1 Week Price Chg	-4.78%	-0.02%	-1.74%	5.46%	-0.87%	-3.13%
4 Week Price Chg	6.05%	17.05%	17.07%	19.81%	16.39%	0.52%
12 Week Price Chg	-9.62%	-15.01%	-18.53%	-0.32%	0.81%	-15.04%
52 Week Price Chg	-1.97%	-1.97%	-9.82%	22.43%	20.47%	-13.46%
20 Day Average Volume	2,004,827	1,661,425	2,641,413	3,345,656	1,910,059	497,828
(F1) EPS Est 1 week change	0.08%	0.00%	0.00%	0.00%	0.00%	-3.94%
(F1) EPS Est 4 week change	-8.06%	-8.06%	-6.62%	-4.20%	-8.14%	-10.85%
(F1) EPS Est 12 week change	-13.47%	-14.57%	-13.28%	-10.37%	-12.79%	-18.82%
(Q1) EPS Est Mthly Chg	-12.24%	-5.82%	-11.97%	-4.25%	-21.08%	-31.76%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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