

Agilent Technologies (A)

\$99.09 (As of 08/03/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Agilent's expanding product portfolio and end-market strength are key growth drivers. However, both Life Sciences & Applied Markets Group (LSAG) and Agilent Cross Lab Group (ACG) revenues declined in second-quarter fiscal 2020 due to the pandemic. Nonetheless, ACG grew in the high-single-digit range in China as customers began to return to normal activities post relaxations on coronavirus-induced lockdown. Also, the acquisition of BioTek Instruments is 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 and unfavorable foreign exchange remain concerns.

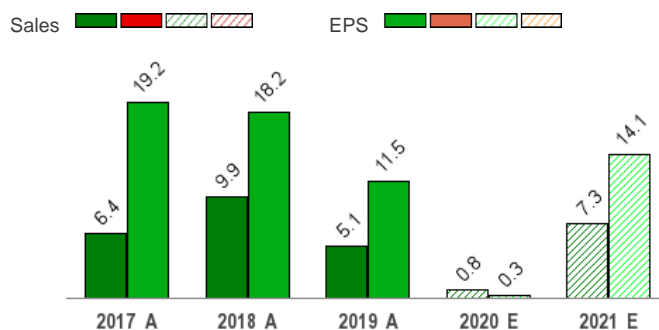
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.36 - \$61.63
20 Day Average Volume (sh)	1,515,591
Market Cap	\$30.6 B
YTD Price Change	16.2%
Beta	1.12
Dividend / Div Yld	\$0.72 / 0.7%
Industry	Electronics - Testing Equipment
Zacks Industry Rank	Top 22% (56 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.4%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	08/18/2020
Earnings ESP	5.0%
P/E TTM	31.3
P/E F1	31.8
PEG F1	2.7
P/S TTM	5.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,406 E	1,347 E	1,355 E	1,483 E	5,587 E
2020	1,357 A	1,238 A	1,214 E	1,397 E	5,206 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	\$0.87 E	\$0.83 E	\$0.85 E	\$0.97 E	\$3.56 E
2020	\$0.81 A	\$0.71 A	\$0.66 E	\$0.89 E	\$3.12 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 08/03/2020. The reports text is as of 08/04/2020.

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.

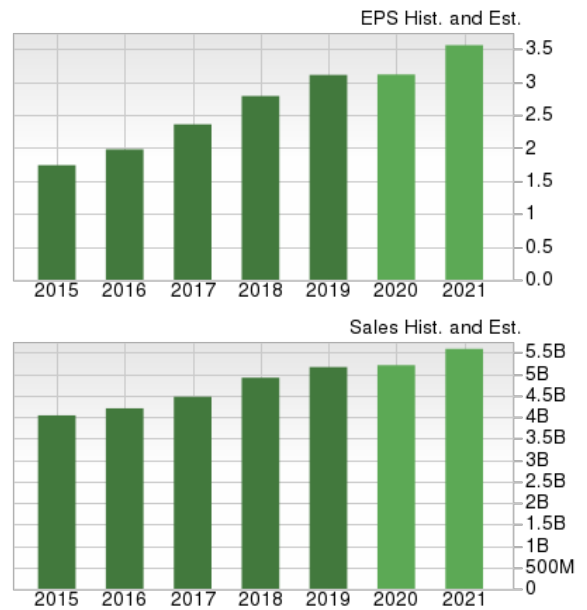
Over the last three years, the company has diversified into new end markets, namely industrial, chemical and electronics markets. The company has three business segments, including Life Sciences & Applied Markets Group (LSAG), Diagnostics and Genomics Group (DGG) and Agilent Cross Lab Group (ACG).

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:

- ▼ 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. Moreover, economic downturn due to coronavirus outbreak is a major concern in the near term.
- ▼ 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.
- ▼ Agilent' balance sheet remains leveraged. As of Apr 30, 2020, the company's net debt amounted to \$1.16 billion, compared with \$1.24 billion as of Jan 31, 2020. Moreover, total debt-to-total capital was 34.3% as of Apr 30, 2020 compared with 33.7% as of Jan 31, 2020.

Economic downturn due to coronavirus outbreak is a headwind in the near term. New regulations in China and a leveraged balance sheet are major concerns for Agilent.

Last Earnings Report

Agilent's Q2 Earnings Beat Estimates, Revenues Down Y/Y

Agilent Technologies' reported second-quarter fiscal 2020 earnings of 71 cents per share that beat the Zacks Consensus Estimate by 22.4% but remained flat on a year-over-year basis.

Core revenues decreased 3.3% year over year (down 2% including forex effect) to \$1.20 billion.

Americas, Asia-Pacific and Europe accounted for 37%, 36% and 27% of revenues in the reported quarter. Moreover, 60% of revenues were generated from Consumer Services Informatics. Instruments contributed the remaining 40% of revenues.

In terms of major markets, Analytical Laboratory generated 84% of second-quarter top line. Dx & Clinical accounted for the remaining 16%.

Segment Top-line Details

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 \$485 million or 40.5% of its total revenues, down 8.3% year over year negatively impacted by the coronavirus outbreak.

Revenues from ACG came in at \$449 million, accounting for 37.5% of total revenues. However, the top line declined 1.3% year over year. Except Pharma and Environmental & Forensics all other markets declined due to coronavirus-related headwinds.

ACG grew in the high-single-digit range in China as customers began to return to more normal operations post coronavirus relaxations.

DGG revenues increased 3.5% year over year to \$263 million, accounting for the remaining 22% of total revenues. The segment benefited from continued strong Pharma results.

Notably, the U.S. FDA approved use of Agilent's Dako Omnis platform to deliver PD-L1 IHC 22C3 pharmDx as a companion diagnostic to identify patients with non-small cell lung cancer, who are appropriate for first-line monotherapy with Merck's KEYTRUDA.

Operating Results

In the quarter under review, LSAG gross margin contracted 250 basis points (bps) on a year-over-year basis to 58.1% due to lower volumes.

DGG gross margin expanded 30 bps on a year-over-year basis to 55.1%. ACG gross margin also expanded 120 bps to 52.5%.

GAAP gross margin was 53.1%, down 100 bps year over year.

Operating expenses (research & development as well as selling, general & administrative) were \$555 million, up 22.5% year over year.

As a result, GAAP operating income declined 52.8% year over year to \$102 million.

LSAG segment operating income declined 8.4% year over year to \$98 million.

DGG segment operating income increased 16.3 on a year-over-year basis to \$57 million. ACG operating income was \$122 million, up 6.1% year over year.

Balance Sheet

As of Apr 30, 2020, Agilent's cash and cash equivalents were \$1.32 billion, while total debt was \$2.49 billion.

Operating cash flow was \$313 million in the reported quarter. Agilent paid \$55 million in dividends and repurchased 1.66 million shares for \$126 million.

Outlook

Agilent withdrew its fiscal 2020 guidance in mid-April due to uncertainty surrounding the duration and severity of the coronavirus pandemic and its negative impact on economy. The company didn't provide third-quarter guidance due to lack of visibility.

Nevertheless, Agilent anticipates China's economic recovery will be much faster compared with rest of the world. The company also expects Pharma and contracted services to remain resilient.

Agilent expects revenues to decline between 5% and 15% on a core basis.

Quarter Ending **04/2020**

Report Date	May 21, 2020
Sales Surprise	5.23%
EPS Surprise	22.41%
Quarterly EPS	0.71
Annual EPS (TTM)	3.17

Recent News

On Jun 2, 2020, Agilent announced its intention to offer a series of senior notes. The interest rate, principal amount, maturity date and other terms of the notes are yet to be determined. The offering is subject to market and other conditions.

On May 20, Agilent announced that it will pay out a quarterly cash dividend of 18 cents per share on Jul 22 to its shareholders of record Jun 30.

On Apr 23, Agilent announced that the U.S. Food and Drug Administration has approved its PD-L1 IHC 22C3 pharmDx as a companion diagnostic (CDx) to identify patients with non-small cell lung cancer who are appropriate for first-line monotherapy with KEYTRUDA (pembrolizumab) on the Dako Omnis platform.

On Mar 31, Agilent expanded its Raman technology portfolio. The new Agilent Vaya Raman raw material identity verification system is a handheld instrument that accelerates quality control testing in the pharmaceutical and biopharmaceutical industries.

On Mar 30, Agilent introduced the Agilent K6460S Clinical Edition TQ LC/MS system, which has been designed to improve in vitro diagnostic workflows in clinical labs.

Valuation

Agilent shares are up 16.1% in the year-to-date period and up 50.5% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 3.5% and the Zacks Computer & Technology sector is up 18.1% in the year-to-date period. Over the past year, the Zacks sub-industry is up 25% and the sector is up 36.7%.

The S&P 500 index is up 1.6% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 27.51X forward 12-month earnings, which compares to 27.32X for the Zacks sub-industry, 25.93X for the Zacks sector and 22.84X 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 22.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 28.8X 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	27.51	27.32	25.93	22.84
	5-Year High	29.39	27.32	25.93	22.84
	5-Year Low	17.1	18.3	16.72	15.25
	5-Year Median	22.7	22.06	19.39	17.52
P/S F12M	Current	4.51	3.65	3.5	3.21
	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	4.09	3.52	3.1	3.01
EV/EBITDA TTM	Current	17.7	15.33	10.55	10.23
	5-Year High	27.63	19.06	12.82	12.87
	5-Year Low	8.65	8.83	7.55	8.27
	5-Year Median	14.56	14.94	10.58	10.78

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	1
PerkinElmer, Inc. (PKI)	Outperform	1
Thermo Fisher Scientific Inc. (TMO)	Outperform	2
Abbott Laboratories (ABT)	Neutral	3
Eli Lilly and Company (LLY)	Neutral	3
MerckCo., Inc. (MRK)	Neutral	3
Novartis AG (NVS)	Neutral	3
Waters Corporation (WAT)	Neutral	3

Industry Comparison Industry: Electronics - Testing Equipment				Industry Peers		
	A	X Industry	S&P 500	DHR	TMO	WAT
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	1	2	3
VGM Score	B	-	-	F	B	B
Market Cap	30.60 B	13.27 B	22.67 B	146.73 B	165.79 B	13.19 B
# of Analysts	6	7	13.5	8	8	7
Dividend Yield	0.73%	0.42%	1.77%	0.35%	0.21%	0.00%
Value Score	C	-	-	F	B	C
Cash/Price	0.04	0.06	0.07	0.04	0.04	0.03
EV/EBITDA	25.23	18.59	13.08	36.24	25.72	17.36
PEG Ratio	2.72	3.18	2.94	3.28	1.87	6.86
Price/Book (P/B)	6.42	4.09	3.10	4.45	5.55	NA
Price/Cash Flow (P/CF)	24.99	19.33	12.34	33.28	23.17	19.12
P/E (F1)	31.98	30.50	21.71	38.13	28.02	25.82
Price/Sales (P/S)	5.84	4.29	2.46	7.51	6.32	5.79
Earnings Yield	3.15%	3.28%	4.38%	2.62%	3.57%	3.87%
Debt/Equity	0.38	0.38	0.75	0.68	0.69	-8.40
Cash Flow (\$/share)	3.96	3.96	6.94	6.21	18.08	11.14
Growth Score	B	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	14.42%	14.42%	10.46%	2.68%	14.10%	10.01%
Proj. EPS Growth (F1/F0)	0.22%	-14.45%	-7.08%	22.71%	21.09%	-8.22%
Curr. Cash Flow Growth	9.85%	9.31%	5.47%	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	1.63	2.08	1.32	2.20	2.62	1.82
Debt/Capital	27.27%	27.27%	44.21%	38.15%	40.86%	NA
Net Margin	13.04%	18.48%	10.25%	17.73%	14.12%	22.61%
Return on Equity	20.76%	16.22%	14.72%	11.88%	18.18%	-349.31%
Sales/Assets	0.57	0.57	0.52	0.30	0.45	0.87
Proj. Sales Growth (F1/F0)	0.82%	-4.82%	-1.79%	6.73%	9.77%	-6.83%
Momentum Score	A	-	-	D	B	B
Daily Price Chg	2.87%	1.64%	0.27%	1.49%	1.24%	-0.05%
1 Week Price Chg	1.60%	0.99%	0.14%	4.37%	1.86%	-4.44%
4 Week Price Chg	10.95%	4.10%	2.96%	13.02%	9.63%	15.56%
12 Week Price Chg	21.93%	14.94%	10.90%	27.90%	23.12%	12.54%
52 Week Price Chg	50.46%	18.07%	2.35%	52.42%	56.11%	4.28%
20 Day Average Volume	1,515,591	1,365,098	2,043,624	2,476,967	1,252,832	679,345
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	1.76%
(F1) EPS Est 4 week change	0.11%	0.21%	0.82%	10.94%	22.06%	2.52%
(F1) EPS Est 12 week change	5.56%	5.56%	0.59%	11.08%	25.92%	3.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.25%	7.54%	34.72%	-3.67%

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	C
Growth Score	B
Momentum Score	A
VGM Score	B

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.

Disclosures

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