

Agilent Technologies (A)

\$89.46 (As of 01/16/20)

Price Target (6-12 Months): **\$94.00**

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:C

Value: D

Growth: B

Momentum: C

Summary

Agilent expanding product portfolio, end-market strength and robust performance in Americas, China and Europe are key growth drivers. Moreover, the company's decision to divest/wind up underperforming businesses is beneficial for its core operations. Further, the company's focus on aligning investments towards more attractive growth avenues and innovative high-margin product launches are positive. Notably, shares of Agilent have underperformed the industry it belongs in the past year. However, macro weakness in some regions and unfavorable foreign exchange remain concerns. Also, higher expenses are making margin expansion difficult for Agilent.

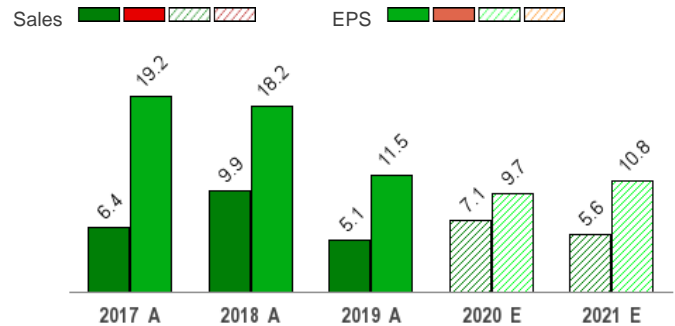
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$90.10 - \$65.35
20 Day Average Volume (sh)	1,232,389
Market Cap	\$27.7 B
YTD Price Change	4.9%
Beta	1.42
Dividend / Div Yld	\$0.72 / 0.8%
Industry	Electronics - Testing Equipment
Zacks Industry Rank	Top 20% (52 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	28.7
P/E F1	26.2
PEG F1	2.2
P/S TTM	5.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,442 E	1,417 E	1,453 E	1,538 E	5,838 E
2020	1,355 E	1,331 E	1,374 E	1,469 E	5,529 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	\$0.91 E	\$0.90 E	\$0.94 E	\$1.03 E	\$3.78 E
2020	\$0.81 E	\$0.78 E	\$0.85 E	\$0.97 E	\$3.41 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 01/16/2020. The reports text is as of 01/17/2020.

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.

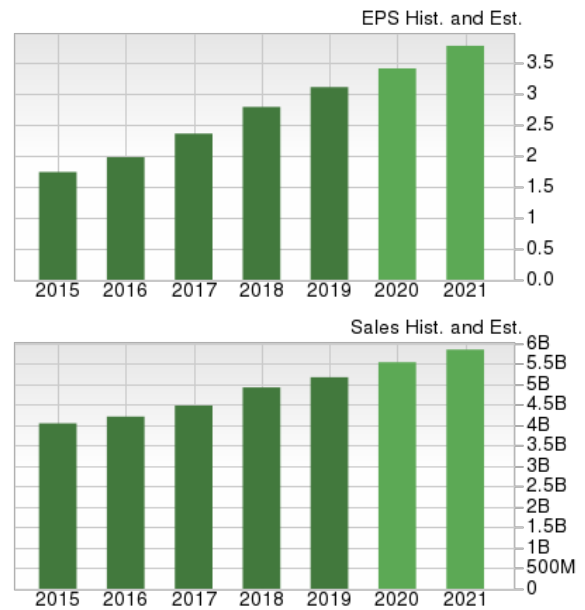
On Nov 1, 2014, Agilent completed the spinoff of its electronic measurement segment into a new company named Keysight Technologies, making it an independent, publicly traded company.

Over the last three years, the company has diversified into new end markets, namely industrial, chemical and electronics markets. In 2018, Agilent announced a change in organizational structure designed to better serve its customers. The company re-organized its operating segments, and moved the microfluidics business from the life sciences and applied markets operating segment to the diagnostics and genomics operating segment. The company now 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 \$4.91 billion in fiscal 2018, up 10% from fiscal 2017. The company generated 71% of revenues from markets outside the United States. Almost 20% were derived from China, including Hong Kong.

LSAG accounted for 46% of fiscal 2018 revenues (up 9% from fiscal 2017), DGG was 19% of revenues (up 10% from fiscal 2017) and ACG accounted for the remaining 35% of revenues (up 11% from fiscal 2017), respectively. Most of the competition for these three segments comes from Bruker Corp., Danaher Corp, Affymetrix, GE Healthcare, Life Technologies Corp, Thermo Fisher, among others.



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 buyout of Multiplicom NV, Cobalt Light Systems, Seahorse Bioscience and iLab Solutions expanded its product portfolio. Multiplicom deal expanded Agilent's genetic testing technology and product offerings. The Cobalt deal strengthened the company's presence in the high-growth Raman spectroscopy market. The iLab Solutions acquisition enabled the company to provide cloud-based laboratory management software. Moreover, Seahorse Bioscience's technology was a strategic fit for Agilent's market-leading separations and mass spectrometry solutions, especially those that cater to metabolomics and disease research in pharma.

▲ 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.
- ▼ Lingering 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 Earnings and Revenues Surpass Estimates in Q4

Agilent Technologies' fiscal fourth-quarter 2019 earnings of 89 cents per share surpassed the Zacks Consensus Estimate by 3 cents. In addition, the bottom line increased 17.1% sequentially and 9.9% year over year.

Fiscal fourth-quarter 2019 revenues of \$1.37 billion increased 6% year over year (up 4% on a core basis). Also, the reported revenues — which came in above management's guided range of \$1.31-\$1.33 — surpassed the Zacks Consensus Estimate of \$1.33 billion.

The year-over-year revenue growth was driven by strength in pharma, diagnostics, environmental and forensics markets.

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

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 \$622 million or 46% of its total revenues, reflecting a 4% increase from the prior-year quarter. The demand in pharma, environmental and forensics markets was strong, offset by weakness in the food market.

Revenues from ACG came in at \$476 million, accounting for 34% of total revenues. The reported figure reflects a 8% year-over-year increase, driven by growth across all regions and market segments.

Revenues from DGG came in at \$269 million, accounting for the remaining 20% of total revenues. The segment's revenues were up 5% from the year-ago quarter.

Operating Results

Gross margin in the quarter was 53.9%, down 80 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 \$487 million, 5% higher than the year-ago quarter.

As a result, adjusted operating margin was 18.3%, down 60 bps from the year-ago quarter.

Balance Sheet

At the end of the fiscal fourth quarter, inventories totaled \$679 million, up from \$660 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 \$1.38 billion compared with \$1.8 billion in fiscal third-quarter 2019.

Guidance

Agilent provided guidance for the fiscal first quarter and 2020.

For the fiscal first quarter, the company expects revenues between \$1.340 billion and \$1.355 billion, and earnings per share in the range of 80-81 cents.

For fiscal 2020, Agilent expects revenues 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 **10/2019**

Report Date	Nov 25, 2019
Sales Surprise	2.98%
EPS Surprise	3.49%
Quarterly EPS	0.89
Annual EPS (TTM)	3.12

Recent News

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.

On **Sep 10, 2019**, Agilent announced an underwritten public offering of senior notes aggregating \$500 million. The notes carry an interest rate of 2.750% and are scheduled to mature on Sep16, 2029.

On **Jul 11, 2019**, Agilent agreed to acquire Winooski, VT-based BioTek Instruments, Inc., a provider of life science instrumentation, in a bid to expand presence in life science research space further.

On **Jun 14, 2019**, Agilent announced that FDA has forwarded its approval on the expanded use of the company's PD-L1 IHC 22C3 pharmDx assay. The assay was developed in collaboration with Merck & Co.

Valuation

Agilent shares are up 27.5% in the 6-month period and 26.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 16.9% and 14.5% in the 6-month period, respectively. Over the past year, while the Zacks sub-industry is up 29.5%, the sector is up 32.1%

The S&P 500 index is up 10.5% in the 6-month period and 23.8% in the past year.

The stock is currently trading at 25.64X forward 12-month earnings, which compares to 24.39X for the Zacks sub-industry, 22.78X for the Zacks sector and 18.96X 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 22.51X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$94 price target reflects 26.9X 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	25.64	24.39	22.78	18.96
	5-Year High	29.39	26.26	22.78	19.34
	5-Year Low	17.1	18.3	16.86	15.17
	5-Year Median	22.51	22.02	19.24	17.44
P/S F12M	Current	4.74	3.92	3.42	3.38
	5-Year High	5.02	4.12	3.44	3.41
	5-Year Low	2.63	2.63	2.29	2.54
	5-Year Median	3.97	3.48	2.97	3
EV/EBITDA TTM	Current	24.41	18.61	11.78	11.73
	5-Year High	26.76	18.66	12.58	12.86
	5-Year Low	7.2	8.52	7.67	8.49
	5-Year Median	13.91	14.72	10.45	10.64

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Top 20% (52 out of 254)



Top Peers

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

Industry Comparison Industry: Electronics - Testing Equipment				Industry Peers		
	A Neutral	X Industry	S&P 500	DHR Neutral	TMO Neutral	WAT Neutral
VGM Score	C	-	-	F	C	D
Market Cap	27.75 B	10.84 B	24.61 B	116.01 B	135.03 B	15.31 B
# of Analysts	9	6	13	2	9	8
Dividend Yield	0.80%	0.45%	1.74%	0.42%	0.23%	0.00%
Value Score	D	-	-	D	C	D
Cash/Price	0.05	0.04	0.04	0.13	0.01	0.03
EV/EBITDA	22.87	22.37	14.24	25.20	27.16	19.33
PEG Ratio	2.24	2.10	2.07	2.57	1.98	2.53
Price/Book (P/B)	5.83	5.13	3.38	3.67	4.60	132.56
Price/Cash Flow (P/CF)	22.56	22.56	13.75	25.09	20.00	23.93
P/E (F1)	26.33	24.02	19.09	29.85	24.77	24.09
Price/Sales (P/S)	5.37	4.47	2.68	5.68	5.35	6.37
Earnings Yield	3.81%	4.16%	5.24%	3.35%	4.04%	4.15%
Debt/Equity	0.38	0.38	0.72	0.52	0.56	11.40
Cash Flow (\$/share)	3.96	3.96	6.94	6.44	16.84	9.93
Growth Score	B	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	9.28%	12.80%	10.56%	2.97%	13.25%	10.49%
Proj. EPS Growth (F1/F0)	9.72%	10.67%	7.57%	15.97%	10.29%	11.96%
Curr. Cash Flow Growth	9.85%	15.50%	14.73%	10.54%	16.70%	5.99%
Hist. Cash Flow Growth (3-5 yrs)	-2.46%	8.83%	9.00%	6.62%	17.85%	7.84%
Current Ratio	1.53	2.05	1.24	3.43	1.80	2.25
Debt/Capital	27.39%	27.39%	42.99%	33.25%	35.83%	91.94%
Net Margin	20.74%	20.74%	11.14%	12.13%	14.24%	23.98%
Return on Equity	20.13%	18.69%	17.16%	11.42%	17.16%	77.73%
Sales/Assets	0.57	0.57	0.55	0.38	0.45	0.78
Proj. Sales Growth (F1/F0)	7.08%	6.32%	4.16%	10.51%	5.77%	3.79%
Momentum Score	C	-	-	F	B	D
Daily Price Chg	0.95%	1.07%	0.89%	0.44%	0.46%	1.39%
1 Week Price Chg	3.57%	0.50%	0.39%	2.58%	1.83%	-0.06%
4 Week Price Chg	5.86%	2.71%	2.65%	7.36%	4.17%	2.48%
12 Week Price Chg	19.28%	11.50%	7.55%	18.37%	14.76%	10.08%
52 Week Price Chg	26.32%	31.89%	22.12%	52.99%	41.39%	17.43%
20 Day Average Volume	1,232,389	1,005,505	1,536,375	3,628,485	902,994	394,065
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	0.00%	-2.80%	0.04%	0.04%
(F1) EPS Est 12 week change	-0.26%	0.09%	-0.40%	-5.19%	0.33%	-2.75%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-10.26%	-0.56%	0.00%

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	D
Growth Score	B
Momentum Score	C
VGM Score	C

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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