Agilent Technologies, Inc. (A)

Updated September 4th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$137	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$40 B
Fair Value Price:	$146	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	10/02/24
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.4%	**Dividend Payment Date:**	10/24/24
Dividend Yield:	0.7%	**5 Year Price Target**	$225	**Years Of Dividend Growth:**	12
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Agilent Technologies, Inc. (A) offers instruments, software, and services to the life sciences, diagnostics, and applied chemicals markets. It is a global company with operations in the Americas (which accounted for 40% of Q3 2024 revenue), Asia Pacific (33%), and Europe (27%). The company is separated into three segments: Life Sciences & Applied Markets Group (LSAG), Agilent CrossLab Group (ACG), and Diagnostics and Genomics Group (DGG). LSAG makes up half of its total revenue (50% of Q3 2024), with DGG (24%) and ACG (26%) making up the other half. Its end markets are primarily Chemicals and Advanced Materials, and Pharma, with Diagnostics and Clinical, Environmental & Forensics, Food, and Academia & Govt making up the remainder. Agilent has a market capitalization of $40 billion.

On August 21st, 2024, Agilent reported third quarter 2024 results for the period ending July 31st, 2024. For the quarter, the company generated net revenue of $1.58 billion, which was 5.6% lower year-over-year. Adjusted net income equaled $385 million or $1.32 per share, an 8% decline compared to Q3 2023. The company's LSAG and DGG segments saw revenue declines of 8% and 9% year-on-year, while ACG grew 4%.

Leadership narrowed its full year outlook, now expecting revenue to be $6.45 billion to $6.50 billion, which would represent a 4.9% to 5.6% decline compared to 2023. Adjusted EPS is expected to be $5.21 to $5.25, and we have set our 2024 estimate at the midpoint.

Agilent's new $2.0 billion share repurchase program went into effect on August 1st, 2024, and the company intends to purchase $750 million worth of its common stock by the end of fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Adj.EPS	$1.65	$1.74	$1.98	$2.36	$2.79	$3.11	$3.28	$4.34	$5.22	$5.44	***$5.23***	***$8.05***
DPS	$0.53	$0.40	$0.46	$0.53	$0.60	$0.66	$0.72	$0.78	$0.84	$0.90	***$0.94***	***$1.26***
Shares[1]	338.0	335.0	329.0	326.0	325.0	318.0	312.0	307.0	300.0	296.0	***290.0***	***268.9***

Agilent Technologies has grown at a fairly even pace over the last decade and half decade, boasting a 5- and 9-year EPS CAGR of 14.2% and 14.3%, respectively. The company's earnings trajectory was largely unimpacted by the pandemic. Furthermore, Agilent has generated higher adjusted EPS for more than a decade.

At the same time, it has reduced its share count on a consistent basis, by about -1.5% per year, which we expect to continue.

Agilent has diversified end markets, totaling $65 billion in available market, and believes it can achieve 4% to 6% long-term growth across these markets. Its largest addressable markets are Pharma & Biotech ($21B), Clinical & Diagnostics ($15B), and Academic & Government ($13B), with Environmental & Forensics ($6B), Food ($5B), and Chemicals & Advanced Materials ($5B) also contributing significantly. Biopharma is Agilent's primary growth opportunity, accounting for 43% of its pharma revenue mix in FY23, up from 22% in FY19. Furthermore, the target patient population for these products is steadily increasing. Additionally, Agilent expects an increase in PFAS "forever chemicals" testing as a result of

[1] In millions.

new regulations. The company also has exposure to semiconductors and batteries, which are used to power Generative AI, 5G, Cloud Computing, and Automotive Electronics, and are growing rapidly.

The company reported excellent results in the last three years, but management is expecting weaker results in fiscal 2024, which is likely to end its impressive EPS growth streak. We are forecasting $5.23 in earnings-per-share and a 9.0% intermediate-term growth rate.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	27.9	34.8	32.5	31.9	68.8	25.4	51.5	40.5	35.9	33.0	***26.1***	***28.0***
Avg. Yld.	1.3%	1.0%	1.1%	0.8%	0.9%	0.8%	0.6%	0.5%	0.6%	0.7%	***0.7%***	***0.6%***

Agilent Technologies stock has traded at a lofty premium over the past decade. The company's average PE ratio over the last ten and five years has been 38.2 and 37.3, respectively. Shares currently trade at a much more reasonable 26.1 times EPS, while we believe fair value is 28.0X, but it remains an expensive stock when compared to its peers in the space. We believe the current projected earnings growth forecast does not support a PE as high as its historical averages. The company has increased its dividend every year since its inception in 2012. During that time, it tripled its quarterly dividend from $0.071 to $0.236. Still, considering its EPS growth has been very strong, its payout ratio has actually decreased over the last decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	23%	23%	22%	22%	21%	22%	18%	16%	17%	***18%***	***16%***

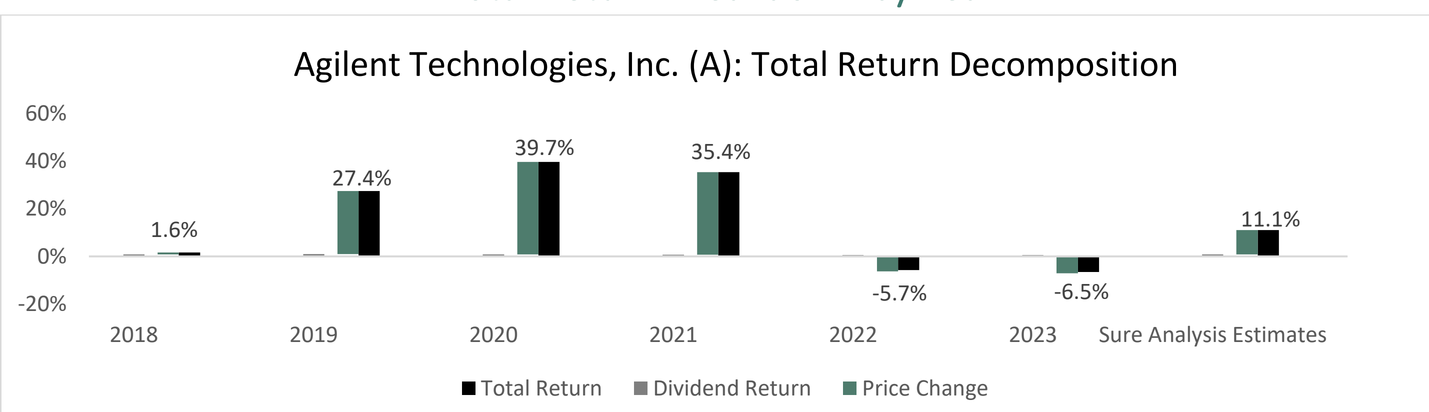
Agilent is a global market leader with a diverse product portfolio. Furthermore, much of its business is subject to regulations, which raises the barrier to entry for potential competitors. Still, Agilent invests extensively in R&D to maintain its market share in its end markets, which change constantly. It spent $481 million on R&D in FY 2023.

As of the most recent quarter, Agilent held $1.8 billion in cash and equivalents, $4.3 billion in current assets and $11.0 billion in total assets compared to $2.4 billion in current liabilities and $5.1 billion in total liabilities.

Final Thoughts & Recommendation

Shares of Agilent have declined by 1% year-to-date, which compares unfavorably to the S&P 500 Index's 16% gain. The company has produced an enviable earnings record, with more than a decade of straight growth. We are forecasting 11.1% total return potential stemming from 9.0% earnings-per-share growth, the 0.7% dividend yield, as well as a 1.4% valuation tailwind. Agilent maintains its buy rating.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,048	4,038	4,202	4,472	4,914	5,163	5,339	6,319	6,848	6,833
Gross Profit	1,976	2,041	2,197	2,399	2,680	2,805	2,837	3,407	3,722	3,465
Gross Margin	48.8%	50.5%	52.3%	53.6%	54.5%	54.3%	53.1%	53.9%	54.4%	50.7%
SG&A Exp.	1,199	1,189	1,253	1,251	1,389	1,460	1,496	1,619	1,637	1,634
D&A Exp.	384	253	246	212	210	238	308	321	317	271
Operating Profit	419	522	615	807	904	941	846	1,347	1,618	1,350
Operating Margin	10.4%	12.9%	14.6%	18.0%	18.4%	18.2%	15.8%	21.3%	23.6%	19.8%
Net Profit	549	401	462	684	316	1,071	719	1,210	1,254	1,240
Net Margin	13.6%	9.9%	11.0%	15.3%	6.4%	20.7%	13.5%	19.1%	18.3%	18.1%
Free Cash Flow	526	414	654	713	910	865	802	1,297	1,021	1,474
Income Tax	(3)	42	82	119	630	(152)	123	150	250	99

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	10,815	7,479	7,794	8,426	8,541	9,452	9,627	10,705	10,532	10,763
Cash & Equivalents	2,218	2,003	2,289	2,678	2,247	1,382	1,441	1,484	1,053	1,590
Accounts Receivable	626	606	631	724	776	930	1,038	1,172	1,405	1,291
Inventories	574	541	533	575	638	679	720	830	1,038	1,031
Goodwill & Int. Ass.	3,156	2,811	2,933	2,968	3,464	4,700	4,433	4,956	4,773	4,435
Total Liabilities	5,511	3,309	3,548	3,591	3,970	4,704	4,754	5,316	5,227	4,918
Accounts Payable	302	279	257	305	340	354	354	446	580	418
Long-Term Debt	1,663	1,655	1,904	2,011	1,799	2,407	2,359	2,729	2,769	2,735
Shareholder's Equity	5,301	4,167	4,243	4,831	4,567	4,748	4,873	5,389	5,305	5,845
LTD/E Ratio	0.31	0.40	0.45	0.42	0.39	0.51	0.48	0.51	0.52	0.47

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.1%	4.4%	6.0%	8.4%	3.7%	11.9%	7.5%	11.9%	11.8%	11.6%
Return on Equity	10.4%	8.5%	11.0%	15.1%	6.7%	23.0%	14.9%	23.6%	23.5%	22.2%
ROIC	7.3%	6.3%	7.7%	10.5%	4.8%	15.8%	10.0%	15.8%	15.5%	14.9%
Shares Out.	338.0	335.0	329.0	326.0	325.0	318.0	312.0	307.0	300.0	296.0
Revenue/Share	11.98	12.05	12.77	13.72	15.12	16.24	17.11	20.58	22.83	23.08
FCF/Share	1.56	1.24	1.99	2.19	2.80	2.72	2.57	4.22	3.40	4.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.