



The Silver Word

Agilent Technologies, Inc.

So far, Agilent seems to be enjoying independence from its parent, Hewlett-Packard (HP). The company was spun off last November, and thus far seems to be holding its own splendidly.

Headquartered in Palo Alto, California, Agilent Technologies, Inc. is a diversified company focused on the high-growth markets of communications, electronics, life sciences, and healthcare. Agilent applies measurement technologies to develop products that sense, analyze, display, and communicate data. With 43,000 employees worldwide, and offices in forty countries, the company sells its products through a direct sales force, distributors, resellers and eCommerce. Agilent's customers include leading high-tech firms, such as AT&T, Cisco, Lucent, IBM, Exxon, Nokia, Ericsson, and Bayer AG. Agilent's added value comes from its ability to create operational efficiencies, maintain high volume production, and provide superior quality precision manufacturing for its customers.

The company operates four businesses: 1) Test and Measurement provides test, measurement, and monitoring instruments for the design, manufacture, and support of electronics, communication devices, and software; 2) Semiconductor Products include fiber optic communications devices, integrated circuits and image sensors; 3) Healthcare Solutions provides patient monitoring, ultrasound imaging, and cardiology products and systems; and 4) Chemical Analysis provides analytical instruments, systems, and services for chromatography, spectroscopy, and bioinstrumentation. All business sectors are supported by the technical expertise of Agilent Technologies Laboratories.

In a strategic realignment of the company initiated in March, 1999, HP's Board of Directors decided to create two distinct companies – one focused on HP's computing and imaging business, and the other on Agilent. The board approved a spin-off transaction that entailed transferring the assets and liabilities of HP's Measurement Organization to Agilent Technologies on November 1, 1999, the separation date. Agilent then launched an IPO of roughly 16% of its common stock on November 18, 1999. At the time, the company's \$2.1 billion initial public offering was the largest in Silicon Valley.

Just this quarter, HP's Board approved the distribution of 380 million shares its Agilent stock, representing 84% of shares outstanding, to HP shareholders by means of a dividend. Specifically, shareholders will receive, as a dividend, 0.3814 shares of Agilent common stock for each share of HP they own. After these dividends are distributed on

June 2, 2000, HP will no longer be a major shareholder, thereby making Agilent a fully independent, publicly traded company.

More significant was the news in March, when Agilent introduced a revolutionary and cost-effective optical technology, the Agilent Photonic Switching Platform, which routes communications traffic without the costly conversion between photons and electrons. This technology allows information (voice, data, or video) to be switched as optical signals, and can generate significant capacity improvements and cost reductions. The stock price surged 47% on this news, soaring to \$159 from \$108 on March 6.

Agilent has been swift to prove itself to Wall Street. Earlier this year, Agilent acquired The Silicon Valley Networking Lab, Inc., a leading networking-industry test lab. This company offers a range of services for performance, benchmarking, interoperability, functional, and conformance testing.

In April, Agilent acquired American Holographic Inc., a manufacturer of holographic diffraction gratings and spectral sensor modules. American Holographic's components and modules are used in fiber-optic communications, optical test equipment, laser tuning, spectrographs, and a wide variety of other industrial, research, and scientific applications. Under the terms of the agreement, American Holographic became a wholly owned subsidiary within Agilent's Communication Solutions Group.

Agilent's fiscal 1999 (ended October 31) revenues increased 5% from fiscal 1998, to \$8.3 billion. Net income doubled to \$512 million, while earnings per share increased to \$1.35, from \$0.68 in 1998. In the second quarter of fiscal 2000, revenues increased by almost 11% sequentially, to \$2.5 billion, versus \$2.2 billion in 1Q00, and net income increased by almost 27%, to \$452 million. The extraordinary growth in the optical, wireless, and transmission-test markets was the driving force behind the 17% increase in orders at Test and Measurement. Orders for Semiconductor Products increased 11%, as demand was strong in the networking, mobile communications, and imaging markets.

Given strength in orders and improved production capacity, the company expects net revenues of around \$10 billion for fiscal 2000, representing year-over-year growth of 20%. Although costs and expenses related to Agilent's branding and operating independently are projected to be between \$250 and \$300 million for fiscal 2000, Agilent continues to show signs of healthy financial and cash flow management. Long-term debt to equity has hovered around 11% for the last 2 quarters, working capital has steadily increased, and the current ratio (current assets/current liabilities) has ranged between 2.1 and 2.4 for the past three quarters.

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