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Revvity, Inc. NYSE:RVTY

Earnings Call

Tuesday, May 5, 2026 12:30 PM GMT

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Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to the Q1 2026 Revvity Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Steve Willoughby, SVP, Investor Relations. Steve, please go ahead.

Stephen Barr Willoughby

Senior VP of Investor Relations & Head of ESG

Thank you, operator. Good morning, everyone, and welcome to Revvity's First Quarter 2026 Earnings Conference Call. On the call with me today are Prahlad Singh, our President and Chief Executive Officer; and Max Krakowiak, our Senior Vice President and Chief Financial Officer.

Before we begin, I'd like to remind you that today's call may include forward-looking statements that are subject to risks and uncertainties. Actual results may differ materially from our expectations. Please refer to the safe harbor statements in our earnings release and to our SEC filings for a detailed discussion of these risk factors. We assume no obligation to update these forward-looking statements in the future.

Additionally, we will refer to certain non-GAAP financial measures during this call. Reconciliations to the most directly comparable GAAP measures are available in our earnings release.

I'll now turn it over to our President and Chief Executive Officer, Prahlad Singh. Prahlad?

Prahlad R. Singh

CEO, President & Director

Thank you, Steve, and good morning, everyone. I have several important developments to discuss today. First, I'm really excited to report that Revvity delivered strong first quarter results with 3% total company organic growth, demonstrating the resilience and strength of our business. Our adjusted operating margins came in at 23.6%, which was above our 23% outlook. These results are a good start to the year and position us well to achieve our full year expectations, which Max will update you on in a bit.

The better-than-anticipated revenue and margin performance in the quarter led to our adjusted earnings per share in the quarter being \$1.06, which was solidly above the \$1.02 to the \$1.04 outlook that was implied in our guidance.

I next want to highlight a transformative strategic decision we have made that will accelerate our growth trajectory, improve our financial profile and allow for even more focused investments. Following an extensive review, we have decided to divest our immunodiagnostics business in China, which represented approximately 6% of total company revenue last year. This decision reflects our commitment to focusing resources where we can generate the highest returns for shareholders going forward.

The health care market in China, particularly diagnostics, has faced persistent policy-induced headwinds that have dramatically impacted both customer demand and pricing dynamics. Unfortunately, we see these challenges continuing over the medium term.

To maintain our position in this space, it would require us to make substantial investments, including fully localizing manufacturing, supply chains and regulatory capabilities. This would require meaningful capital allocation, resulting in a deprioritization of other higher potential return initiatives available to us.

Rather than deploying material dollars and management attention to address the structural challenges in the China immunodiagnostics market, we are choosing to concentrate our efforts on business areas where we have clear competitive advantages and see healthy growth trajectories. This is an intentional strategic allocation of our resources towards higher value opportunities that will drive and further improve our future performance. In fact, this selective approach is being validated by our performance in other parts of our China business.

For example, our Life Sciences business in the region, which was larger in absolute revenue dollars last year than the immunodiagnostics business we will be divesting, continued to perform well with reagents growing solidly above our overall reagents performance last year. We anticipate a continuation, if not acceleration, of our strong Life Sciences performance in China as we move through 2026, demonstrating our ability to succeed and grow meaningfully in China with the right products, market positioning and appropriate policy backdrop.

We have signed a letter of intent with a local management-led buyer group for the purchase of this business and expect to reach a definitive agreement within the next 2 months, which would include our retaining a minority interest in the new company. The transaction is anticipated to close by the end of next year, allowing time for the buyer to establish local manufacturing capabilities and obtain necessary regulatory approvals.

Until closing, we will continue to report the financial impact of these operations, but will exclude them on a pro forma basis to provide clear visibility into our ongoing business performance.

The financial benefits of this planned divestiture are meaningful. On a pro forma basis, China will now only represent approximately 8% to 9% of our total revenue with approximately 7% being Life Sciences. If you were to exclude this business, our pro forma organic growth in the first quarter would have been 6%, while our pro forma adjusted operating margins would have been an even better 24% overall.

We expect this change to improve our 2026 total company organic growth by approximately 100 basis points and enhance our operating margins by approximately 30 basis points. This move reflects the removal of a lower growth, lower margin business that has been a significant drag on our cash flow conversion over the last several years and was also consuming disproportionate management focus and capital resources. More importantly, this move further supports our long-range plan, which calls for 6% to 8% organic growth and double-digit EPS growth.

As it pertains to our updated pro forma guidance for 2026, which now excludes the immunodiagnostics business in China, we are now looking for organic growth of 3% to 4%, adjusted operating margins of 28.4%, and adjusted earnings per share of \$5.20 to \$5.30, which includes a \$0.20 reduction related to the planned divestiture, offset by \$0.05 of benefit from improved operational execution throughout the year. This move will result in a more focused business with cleaner financial metrics that better reflects our core growth drivers.

Turning to our end markets. We saw a modestly improved pharma and biotech spending environment in the first quarter, which led to positive low single-digit year-over-year organic growth from these customers. This was the strongest year-over-year growth we've had for reagents and instrument sales to this customer group since the first half of 2023. While customer behavior continues to remain somewhat measured as customers work through budget cycles, we are seeing early indicators that we believe should lead to future improvement.

On the academic and government side, there have been some promising developments from a budget and policy perspective, which also bodes well as we look ahead. I'm encouraged by the positive mid-single-digit growth overall in the first quarter from our academic customers. And in the U.S., we also saw positive growth from these customers for the first time since the second quarter of 2023. So while we are pleased by the first quarter trends in this end market and recent policy developments, we remain mindful of the world we live in today and how quickly policies and regulations can change. Consequently, until we see a bit more consistent performance from both our pharma and academic customer bases, we plan to remain prudent with our forward-looking assumptions across each of these end markets.

As it pertains to diagnostics, we had a fantastic quarter within reproductive health as it grew in the low double digits organically overall. This was driven by a combination of continued success in our newborn screening business despite continued challenging global birth rate trends and a better-than-expected contribution from our Genomics England contract.

Within immunodiagnostics, we saw challenging conditions in China as anticipated, while the business outside of China performed in line with our expectations. During the first quarter, we also continued

to demonstrate strength in our ability to drive innovation, a consistent priority of ours. In our Signals software business, we introduced Xynthetica in December. Our AI models as a service platform that serves as a secure marketplace, connecting computational capabilities to wet-lab research.

Last month, we introduced BioDesign, our cloud-native molecular design platform for biologics development. Upon its official launch at a major industry trade show next week, BioDesign will be the only cloud-based offering of its type, addressing a critical need for molecular biology teams developing the next generation of antibody, cell and gene therapies. Then towards the end of this year, we'll introduce LabGistics, a novel AI-first drug discovery to drug development workflow offering, rounding out an impressive year of software innovation that demonstrates our ability to rapidly bring new capabilities to market.

In our instruments business, we have been highlighting to you for several quarters that we have been seeing stronger demand for our high-content screening portfolio, driven by increases in GLP-1-related research, new approach methodologies, including organ-on-chip development work and data generation for AI model creation and training, amongst other validation-related work.

Our launch earlier this year of our new flagship Opera Phenix OptIQ system will only further build on this momentum. The OptIQ's enhanced confocal imaging capabilities, advanced 3D cell analysis and automated phenotypic profiling aligned perfectly with current market trends focused on complex disease modeling and precision medicine research. This is another great example of one of our key product lines, which we believe will meaningfully benefit from increasing AI adoption by our customers in their preclinical R&D work.

I think it is important to clearly address the transformational impact of artificial intelligence on life sciences research. AI is dramatically accelerating scientific discovery, enabling researchers to identify and design exponentially more therapeutic compounds and biological targets than ever before. This acceleration means more discoveries to validate and more insights to unlock through physical experimentation than ever before.

To understand the opportunity, let me provide you an example to consider in where we believe we are in the AI adoption cycle. Today, we are in what would be called the infrastructure build-out phase. Similar to the early days of the Internet, when companies were laying fiber optic cables and building foundational systems that would support the digital transformation. After that Internet infrastructure was established, we witnessed an explosion of value creation. Companies like Google, Amazon and Meta built entirely new business models that created fundamentally new ways of organizing information and commerce.

AI in life sciences is following a similar trajectory. We expect our consumables, instruments and software to see significant increases in demand in the future as they are utilized by our customers to create new insights at an accelerating rate in order to capitalize on the new capabilities that AI provides. Our offerings are used by our customers to actually uncover and translate the new data that the AI models and infrastructure can then learn from.

This value creation phase is only just beginning, and this is where the real opportunity lies for Revvity. Every AI-generated discovery will still require physical validation through wet-lab experimentation. One cannot approve a drug based solely on computational predictions. It must be synthesized, tested, screened and validated through rigorous laboratory work given that only a small fraction of human biology is well understood. We believe that as more compounds are designed and combined with new ways to develop and refine them, a continuous loop of innovation and improvement will be created. That is likely to result in a demand bottleneck in validation related work for our customers. As AI generates more promising therapeutic hypotheses at an unprecedented rate, the downstream demand for laboratory tools, reagents, and instruments to validate these discoveries will grow substantially. This inflection point sits squarely within Revvity's core strengths, providing the critical technologies that translate AI-driven insights into real-world biological validation.

Looking ahead, I anticipate a third phase emerging after value creation, which is value capture. This is where our customers will begin realizing substantial returns on their AI investments through faster development time lines and higher success rates. These gains will incentivize even greater investments

in research capabilities, creating a virtuous cycle that expands the entire market for scientific research tools. Beyond our external AI strategy, we are dramatically transforming our internal operations through AI adoption that I believe is quite differentiated and includes appropriately repositioning our employees and their roles.

The well-known research from Gartner recently published a research paper highlighting our internal AI deployment, which stands out across the industries that they've researched. They noted how our structured approach has accelerated software delivery and enabled impactful initiatives that previously would not have been feasible. With our unique rollout of multiple leading LLMs to the entirety of our global employee base, we are seeing employee adoption rates of AI well above corporate averages. And we are doing so at a fraction of the cost of traditional AI corporate implementations.

We also continued to execute on our operational efficiency initiatives that we discussed on our fourth quarter call. Implementation is well underway and remains on pace to be fully completed around midyear, which will result in a greater impact on our financials starting in the second half of this year. These initiatives are a meaningful driver of the operating margin expansion we have communicated. Since the contributions from these actions will not anniversary until midyear next year, it positions us well for robust margin expansion in the first half of 2027 as well.

Before turning the call over to Max, I want to make you aware and invite you to our Investor Day in New York City on Friday, November 13. This will be an excellent opportunity for us to showcase the progress we've made across our business and share our vision for where Revvity is heading in the future. Software will be a central theme of that discussion, and we are excited to provide much deeper insights into how our offerings in this space will enable long-term growth.

I've never been more excited about the future potential of Revvity than I am right now. We are exceptionally well positioned in both the near and long term to lead the transformation of how preclinical research is performed, while delivering an outstanding opportunity for our shareholders as end market demand trends normalize.

With that, I will now turn the call over to Max.

Maxwell Krakowiak
Senior VP & CFO

Thanks, Prahlad, and good morning, everyone. As Prahlad highlighted, we started 2026 on a strong note as our first quarter organic growth, adjusted operating margin and adjusted earnings per share all came in ahead of our expectations, which sets us up well to achieve our full year expectations.

Additionally, the plan we have announced to divest our immunodiagnostics business in China is an extremely important strategic decision for the future of the company as it allows us to continue to refine Revvity so that we can focus on the areas that we believe have the highest returns for our shareholders in the years to come. This is a bold decision and one that has a multitude of benefits for the company, including improved financial performance metrics and returns, streamlined operations and management focus and reduced future uncertainty from a market, which has been challenging over the last several years and will likely remain pressured over the medium term as the impact from policy changes continues to unfold.

As Prahlad mentioned, we are actively working with a local management-led group and expect to reach a contractual agreement with them over the next few months with an expected closing of the transaction to occur by the end of next year as it will take them some time to receive the necessary regulatory approvals and to localize manufacturing.

Going forward, our guidance and reported organic growth will exclude the financial impact of this planned divestiture. We have provided historical financials for 2025 in a supplement that is available on our Investor Relations website, which excludes this business so that you are able to understand what the future of Revvity looks like and how we plan to provide guidance and report our results going forward.

For 2026, our plan to divest this business would result in the reduction of approximately 4.5% of our previously expected revenue. When combined with FX, which we now only expect to contribute approximately 50 basis points to our revenue growth, down from our previous 100 basis point expectation, these 2 factors represent the entirety of change in our updated 2026 total revenue outlook, which now calls for \$2.81 billion to \$2.84 billion in total revenue this year. We anticipate this planned divestiture will also positively impact our organic growth by approximately 100 basis points this year while also positively impacting our organic growth rate in the years to come.

For 2026, we are now estimating 3% to 4% organic growth overall, which excludes the impact and contribution of the China immunodiagnostics business. We also expect this change to positively impact our adjusted operating margins, leading to our adjusted operating margins this year now expected to be approximately 28.4%, up 40 basis points from our prior outlook. Finally, by excluding the financial impact of this business from our outlook, we also anticipate a net reduction of our expected adjusted EPS this year of approximately \$0.15, resulting in a new EPS outlook for this year of \$5.20 to \$5.30.

Another important benefit from this action is a dramatic further expected improvement in our cash flow conversion. For example, in fiscal year 2025, when excluding this business in China, our free cash flow conversion of our adjusted net income would have been approximately 300 basis points higher than the already solid 87% conversion we had reported. With these changes, I am confident that we are well positioned to be in an even stronger position to deliver accelerated top and bottom line growth in the future.

Now turning to the specifics of our first quarter performance. All of the figures I'm about to provide are on a total company basis and the same format that we provided guidance during our fourth quarter earnings call, which includes our immunodiagnostics business in China. I will then separately provide an update on a pro forma basis, demonstrating what our performance looked like when excluding the China immunodiagnostics business that we plan to divest.

Overall, the company generated revenue of \$711 million in the quarter, resulting in 3% organic growth with an approximate 3% tailwind from FX. We also had a 75 basis point incremental contribution from ACD/Labs, our recent software acquisition. As it relates to our P&L, despite known headwinds from FX, having an extra week this fiscal quarter, tariffs and the timing of our cost efficiency initiatives, we exceeded our expectations for the quarter by generating 23.6% adjusted operating margins.

Looking below the line, our adjusted net interest and other expenses were \$23 million in the quarter, and our adjusted tax rate was 18.3%, both in line with our expectations. We repurchased another \$86 million of our shares in the first quarter, resulting in an average of 111.9 million diluted shares in the quarter. Our adjusted EPS in the quarter was \$1.06, which exceeded the high end of our expectations due to the revenue and margin upside.

Moving beyond the P&L. We generated free cash flow of \$115 million in the quarter, resulting in a robust 97% conversion of our adjusted net income. Our balance sheet remains strong as we finished the quarter with a net debt to adjusted EBITDA leverage ratio of 2.8x, with 100% of our debt being fixed rate with a weighted average interest rate of 2.6% and weighted average maturity out another 6 years.

As we evaluate capital deployment, we still plan to pay off the roughly \$600 million we have outstanding on Eurobond, which is coming due in mid-July, which will leave us with a gross leverage of below 3x as we exit the year.

I will now provide some commentary on our first quarter business trends, which are also highlighted in the quarterly slide presentation on our Investor Relations website. Again, these results include our immunodiagnostics business in China and are comparable to the guidance we provided 90 days ago.

The 3% growth in total company organic revenue in the quarter was comprised of 3% growth in our Life Sciences segment and 4% growth in Diagnostics. Geographically, organic growth declined in the mid-single digits in APAC, with China being down double digits overall due to diagnostic pressures, grew in the low single digits in the Americas and continued to grow double digits in Europe.

From a segment perspective, Life Sciences generated revenue of \$362 million in the quarter. This was up 6% on a reported basis and 3% on an organic basis. From a customer perspective, sales in the pharma/biotech grew in the low single digits in the quarter, while sales in the academic and government grew in the mid-single digits in the quarter.

From a business perspective, Life Science Solutions grew in the low single digits organically in the quarter with low single-digit growth in reagents and mid-single-digit growth in instrumentation. Our Signals software business grew in the mid-single digits in line with our expectations. As it pertains to some of the software industry specific metrics, our SaaS pipeline continues to grow robustly with 40% ARR growth year-over-year, leading to the business, again, growing double digits from an APV perspective.

In our Diagnostics segment, we generated \$349 million of revenue in the quarter, which was up 8% on a reported basis and 4% on an organic basis. From a business perspective, our immunodiagnostics business declined in the low single digits organically in the quarter, which was in line with our expectations. Our performance was strong outside of China but was offset overall by meaningful declines in China as anticipated. Our reproductive health business had a great quarter and grew double digits organically with broad-based strength across the portfolio, including in newborn screening, which grew low double digits in the quarter. Reproductive health also benefited from an increasing contribution from our work with Genomics England, as sample volumes from this project are now running slightly ahead of our initial expectations.

I now also want to give you some perspective of what our first quarter performance looked like on a pro forma basis, which excludes our immunodiagnostics business in China that we plan to divest as this is how we will be providing guidance and reporting our results going forward. Overall, on a pro forma basis, we generated total revenue of \$687 million in the quarter. This equates to pro forma organic growth of 6%. While there is no impact from this change on the 3% growth in our Life Sciences segment, on a pro forma basis, our Diagnostics business grew 9% organically in the first quarter. There is no impact to our reproductive health performance, but our immunodiagnostics business grew in the mid-single digits on a pro forma basis.

Moving to the P&L. Our pro forma adjusted operating margins were 24% and our adjusted pro forma EPS would have been \$1.04. Now moving to our updated guidance for the year. Our updated guidance is on a pro forma basis as it excludes the business we are planning to divest as this is the most appropriate view of what the company and its performance will look like going forward. As Prahlad discussed, we are pleased with our first quarter performance and believe key end markets may be starting to show signs of moving in the right direction, though we want to remain prudent in our outlook until we see more sustainable signs of concrete improvement.

With this backdrop, we are now expecting our pro forma organic growth this year to be in the 3% to 4% range. FX is now expected to positively contribute approximately 50 basis points to growth, while we still expect the ACD/Labs acquisition to add approximately 75 basis points to our revenue growth this year. We expect this all to result in our 2026 pro forma total revenue to be in a range of \$2.81 billion to \$2.84 billion overall.

We performed well from a margin standpoint in Q1, and our cost efficiency programs are in flight and progressing as planned. Consequently, we now expect our pro forma adjusted operating margins this year to be 28.4% with 30 of the 40 basis points of the improvement versus our prior guidance reflecting the impact of excluding the business in China that we plan to divest.

Our outlook for net interest expense and other is now approximately \$90 million and we continue to anticipate our adjusted tax rate for the full year will be approximately 18%. We also still expect our diluted average share count to continue to be approximately 112 million. This all results in us expecting that our pro forma adjusted earnings per share will now be in the range of \$5.20 to \$5.30.

For the second quarter, we expect our pro forma organic growth to be in the 2% to 3% range, which is an improvement from our prior assumption as it no longer includes the immunodiagnostics business in China. Assuming FX rates as of the end of March and the incremental contribution from the ACD/Labs acquisition, this puts our expected total pro forma revenue for the second quarter in the range of \$699 million to \$707 million.

million. We continue to expect an improvement in our margins as we progress throughout the year and anticipate them being approximately 27% in the second quarter on a pro forma basis. With net interest and other expected to be similar to the first quarter and an assumed 19% tax rate, this should all result in our pro forma adjusted EPS in the second quarter being approximately 23% of our updated full year pro forma outlook.

Overall, we had a good first quarter to start the year and are on track for our full year expectations. Our decision to divest our immunodiagnostics business in China is the right one for our company and will benefit our performance going forward while removing a business that required a disproportionate amount of internal and external focus, as well as requiring near-term capital investment for what has become an increasingly small contributor to our overall company.

I'm extremely excited about the direction in which Revvity is headed, and I look forward to sharing more with you in person at our Investor Day in November.

With that, operator, we would now like to open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Patrick Donnelly with Citi.

Patrick Bernard Donnelly

Citigroup Inc., Research Division

Prahlad, maybe on the software SaaS piece, helpful to get some data there. Can you just talk about the recent conversations with customers? I know you talked a lot about your offering with all the focus on that business. Would be curious just the recent trends.

And then Max, on that business, I know there's some comp dynamics. So if you'd be able to talk through just the cadence of the software as we work our way through the year would be helpful.

Prahlad R. Singh

CEO, President & Director

Sure, Patrick. On the software side, as we've talked about both -- you heard in the prepared remarks and even during some of the investor conferences, the excitement and the engagement with our customers continued to remain high. We announced the Lilly TuneLab's partnership, which is a great launch pad for Xynthetica, leveraging the ecosystem that Lilly brings to the table.

But more importantly, I think as we talk to our big pharma/biotech customers, the question really is not really how AI is going to impact, but how are we going to leverage AI in the development of the software into bringing Xynthetica early on. As Signals continues to be on the plan of record, the excitement level around Xynthetica, BioDesign, LabGistics, as you know, these are 3 of the biggest launches that could have happened in the software business, and all of them are coming in this year. So the engagement level and excitement level continues to remain very high for that business.

Maxwell Krakowiak

Senior VP & CFO

Yes. And then, Patrick, on the OG cadence piece, I think a couple of things to mention. First, I would say, as you look at our software business, organic growth is not always the best measure to look at the performance of this business. As we mentioned, we always quote the APV, which sort of normalizes for rev rec and that again was strong double digits in the first quarter here and a trend that we expect will continue and has been playing out over the past couple of years, especially as we bring a lot of these new products to market.

It was also encouraging in the first quarter, we continue to see robust growth from a SaaS and ARR perspective, and that was north of 30% in the quarter. And then I think when you look at it from an organic growth standpoint, for the full year for this business, we are calling for positive mid-single digits organic growth. If you look at the cadence over the course of the year, it was positive mid-single here in the first quarter. In the second quarter, we do have tougher comps. And so we expect that business to be down approximately 20% in the second quarter. However, those comps eased in the second half of the year. And for the second half of the year for this business, we expect it to grow in the high teens. That's how I think about it from a cadence perspective.

Patrick Bernard Donnelly

Citigroup Inc., Research Division

Okay. Okay. That's helpful. And then maybe just on the reagents business, it sounds like that was improving a little bit, Prahlad. Can you talk about -- it sounds like Ac and Gov got a little bit better. Are you seeing the recent biotech funding start to show up a little bit? What do those conversations look like? Would love just some more color on the reagents business and how you're feeling there.

Prahlad R. Singh

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CEO, President & Director

Yes, Patrick. I would say that I would characterize it as positively stable. We expect -- we experienced better performance from this customer segment in the first quarter as our revenue was up positive mid-single digit. There might -- there has been in this market a continuation of soft trend last year, but we are definitely starting to see signs of improvement, both around the instrument and on the reagent side. And as we continue to see this uptick in the reagent behavior from our customers, it will build on the optimism that we are starting to see in this end market.

Operator

Your next question comes from the line of Puneet Souda with Leerink.

Puneet Souda

Leerink Partners LLC, Research Division

First one, actually, both of them high-level questions, I would say, on the portfolio side, you've obviously taken important steps early on, and this appears to be another important step for -- on the China Dx side. Does this change your appetite for further M&A and capital deployment in the space? I mean I appreciate the deal hasn't closed yet. And -- but when we look at the broader tools multiples, they took a step down further after a larger peer recently reported, but you guys are clearly showing stronger momentum versus that peer.

Prahlad R. Singh

CEO, President & Director

Yes, Puneet. I think this is the journey that we have taken in the portfolio transformation. We are starting to see the differentiation in our performance on the end markets versus our peers. This was the intent and the idea of setting up what we have today. If you look at our performance, especially in pharma/biotech and in academia, we are diverging from the peer group in terms of what we are seeing in growth. But the journey doesn't get over.

Obviously, with the China divestiture, it is a challenging and uncertain end market environment there, particularly in Diagnostics. And this was a strategic direction to address that. It brings us back to what I would say our China business would be 8% to 9% of our total revenue, of which 7% is now in Life Sciences, which is a strong growth market there, and about 1% to 1.5% is reproductive health, which we've already localized. So we feel very good with the way we have set up the portfolio.

In terms of capital deployment, we'll continue to be an acquisitive company. But when we look at our share buyback performance, if you see what we've done over the last year, we'll continue to be aggressive and opportunistic on the stock buyback too. So we have enough avenues to deploy capital in both ways.

Puneet Souda

Leerink Partners LLC, Research Division

Got it. Super helpful. And then on the software side, great to see the progress. But I just wanted to understand a bit more about the AI corporate implementation. What are some of the steps there that you're taking that could yield sort of an immediate or near-term result? And how are you thinking about margin uplift from that this year?

Prahlad R. Singh

CEO, President & Director

Yes, Puneet. And some of this I addressed in my prepared remarks. From an internal operations perspective, the AI adoption, I would say, is going very well and is quite differentiated. I referred to the Gartner research paper that was recently published that sort of laid out what we are doing in that.

We've tried to use a much more structured approach and we are starting to see the benefits of it primarily around the software development component. It is enabling initiatives in the company. We are rolling out

multiple leading LLMs to our total employee -- global employee base. And the adoption rate is well above what we are seeing in terms of peers' metrics out there from corporate averages perspective.

But I think most importantly, we are doing this at a fraction of a cost that you would see from traditional AI corporate implementation. So we feel really good about it. And the feedback that we are getting from an employee -- our employee base in terms of productivity and efficiency initiatives. And in the mid- to longer term, the cost-out impact that it will have on the business will be remarkable.

Operator

Your next question comes from the line of Dan Brennan with TD Cowen.

Daniel Gregory Brennan

TD Cowen, Research Division

Maybe just starting on the quarter for reproductive health. Can you just unpack a little bit the strength there? You mentioned GEL strength in the quarter, you're running samples. So just kind of what's now incorporated for the full year for GEL? And just speak also on the underlying ex-GEL reproductive health for the full year.

Maxwell Krakowiak

Senior VP & CFO

Yes. I'd say from a reproductive health perspective, it was a very strong quarter. It grew double digits versus our expectation of high single digits. And I think when you look at the drivers of it, it was really a multitude of factors.

One, we did just have stronger underlying performance from a reagents perspective but also benefited from some additional instrument placements, which will bode well for us in the years to come? And then secondly, GEL, the Genomics England, partnership was a little bit stronger than what we had anticipated. I think just to answer your question on what that looks like for the rest of the full year, there's been really no change in our assumption to contributing about \$20 million for us in the first year, obviously, for this year. First quarter was obviously a little bit stronger than we had anticipated, but we'll see how the rest of the quarters play out from a sample volume perspective.

But just stepping back, I would say, on reproductive health, it continues to be a really strong business for us. And I think when you look at even with the challenging birth rate environments, the performance, not only in the first quarter, but over the past several years has well outpaced that and has been growing above its LRP. That's really due to the fact of, I would say, the execution of our commercial pillars where there's still 100 million babies born every year that don't get any level of testing. There continues to be differing levels of testing menus across different geographies and countries around the globe. And we continue to come out with new assays where we can test for different rare diseases. And so that business continues to have, I would say, a lot of Revvity-specific tailwinds that should allow us to well exceed whatever happens from a birth rate perspective.

Daniel Gregory Brennan

TD Cowen, Research Division

Great. And then maybe as a follow-up, just on the ImmunoDx business in China. Just can you speak to a little bit of like the deal itself? I mean you're kind of pulling this business out of your guide. The deal hasn't closed yet. Like what kind of protection do you have certainty of closing, things like that, if you could?

Maxwell Krakowiak

Senior VP & CFO

Yes. Look, I think as we mentioned in the prepared remarks, we have engaged in a letter of intent to divest our immunodiagnosics business in China. We expect definitive agreements to be completed here within the second quarter. So I do think we have a high degree of confidence in our ability to get this done. It is being led by an internal management group as part of the buying consortium. And so obviously,

we've got a lot of strong coordination there and communication. And I think we are confident in our ability to get this deal closed in 2027.

Operator

Your next question comes from the line of Vijay Kumar with Evercore ISI.

Vijay Muniyappa Kumar

Evercore ISI Institutional Equities, Research Division

Maybe Prahlad, on your Q1 pro forma organic of 6%, that came in quite nicely, excluding China, was certainly well above expectations. But when you look at the annual guide, pro forma 3% to 4% implies, I think, a step down to 3% for the remainder of the year. Why -- your comps don't necessarily get harder, right? So maybe talk about why the 6% slows down. Was there anything one-off in Q1? Anything that stood out?

Maxwell Krakowiak

Senior VP & CFO

Vijay, thanks for the question. Yes, I think as you -- maybe just speaking holistically on our 2026 organic growth guidance and the cadence over the course of the year, the way I would think about it is with our updated guidance, we're now calling for, again, 3% to 4% for the year and with us doing about 6% here in the first quarter on a pro forma basis and a guidance in the second quarter of 2% to 3%, we essentially are averaging about 4% in the first half of the year. So then if you look what's required for us to hit our 3% to 4% organic growth for the full year, that would imply about a 3% to 4% growth in the back half of the year.

I think when you look at our assumptions, I would say for 2 of our business units for Life Science Solutions and Diagnostics, we do have [conservatism] assumed in the back half of the year versus the trends we're seeing for the first half. I already talked about the software cadence as a result of Patrick's question. But I do look -- expect us to have, I would say, a strong performance here in the first half of the year and continued trends on that in the second half. And should markets maintain where they are, if not, even improve, we would expect to see potential opportunity for upside versus our current organic growth guidance of 3% to 4%.

Vijay Muniyappa Kumar

Evercore ISI Institutional Equities, Research Division

Understood. And maybe one more sort of guidance-related questions, Max. Organic was raised by 100 basis points. EPS came down by \$0.15. So one, is the organic raise, is that all driven by removal of China immunodiagnostics or did base go up? And on EPS, does it include any contribution from proceeds -- from sale proceeds?

Maxwell Krakowiak

Senior VP & CFO

Yes. So on the organic growth, the only change of that 100 basis points was a result from the removal of the China immunodiagnostics business. So you're correct in that. Secondly, as you look at the EPS for 2026, it does not include any benefit from proceeds, as we mentioned in the prepared remarks, the deal won't close until 2027, which is when we would expect to see the proceeds.

Operator

Your next question comes from the line of Mike Ryskin with Bank of America.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Great. Let me just pick up exactly where you left it with Vijay there on impact of the divestment in the model and how to think about it going forward. So you talked through the bridge for this year. I want to dig a little bit into the future years. So I mean, I realize you haven't even announced the deal yet, so hard

to talk about cash incoming proceeds, use of proceeds, anything like that. But just any high-level thoughts on how we should think about dilution in future years? You've got \$0.20 impact this year, but what about future years?

And the same thing on the margins and on the top line, it's 100 bps uplift this year. I think it's -- you said it's 30 bps impact to margins. Is that -- should that relatively flow through the future years as well? Or any other moving pieces we need to think about in the out years for adjusting the model for this? And I got a follow-up.

Prahlad R. Singh
CEO, President & Director

Yes, Mike, let me start by addressing it at the higher strategic level, right, and then Max will give you more color. This definitely further fortifies our LRP. Let me start with that, right? This was one of the overhangs, and we were over-indexed on China, especially in the end market around Diagnostics, which was in a challenging market environment. That takes away that overhang. It further fortifies our LRP.

More importantly, I think from the question around what we would do with the proceeds, share buyback is a great opportunity to leverage the proceeds that we would get. And from an EPS impact perspective, the cost efficiency initiatives that we are putting that will be fully implemented starting in the second half of this year will also go a long way in offsetting the earnings-related dilution as we move into the next year. And we'll continue to see the impact from their impact throughout the first half of next year and 2027. Max?

Maxwell Krakowiak
Senior VP & CFO

Yes, I think that's right. I mean maybe the only other color I would add is in terms of the operating margin adjustment, that is going to be a permanent change. The pro forma results are meant to represent what our business would look like excluding this business. And as a result, we're calling for 28.4%. So that is sort of, I would think, the new baseline exiting this year, Mike, just to add that point on.

Michael Leonidovich Ryskin
BofA Securities, Research Division

Okay. And then I want to dig in on 2Q a little bit as well. I think you're guiding for 2% to 3%. You previously talked to flat, give or take. Obviously, the change is China. So I want to dig into that. Did anything change ex-China? If maybe you could give us that bridge? I think one point you called out, I think with Patrick's question was you said you expect software to decline 20% in the second quarter now, and you previously talked down mid-teens. So can you just talk about the moving pieces in the 2Q guide?

Maxwell Krakowiak
Senior VP & CFO

Yes. Thanks, Mike. Look, I would say on its surface for the second quarter, the biggest change is really the removal of the China IDx business. And so again, we're calling 2% to 3% organic growth here. I mean some things might have moved around on the edges, but I would say fundamentally, the underlying business assumptions more or less remain the same.

And just to provide a little bit of color on what those splits look like. So if you look at the 2% to 3% overall organic growth for the company in the second quarter, Life Sciences, we expect to be sort of roughly flattish with Life Science Solutions, which again, comprises our reagents and platforms business growing in the low single digits in the second quarter. And then software, we have down, as I mentioned, about 20% expectations for the second quarter. And conversely, if you look on the Diagnostics side of things, we expect Diagnostics to be up mid- to high single digits in the period with relatively similar results across immunodiagnostics and reproductive health.

Operator

Our next question comes from the line of Tycho Peterson with Jefferies.

Tycho W. Peterson

Jefferies LLC, Research Division

I want to dig in a little bit more on bio/pharma. Some of the signals you're seeing, you talked about working through budgets. When do you think you're really going to see a turn here? Maybe just unpack what it is you're seeing? Is it instrument demand, just more discussions, funnel activity? And I think there's also been a view that spending on upstream is going to go up to train the model. So how do you think about that kind of layering in over the next couple of years?

Prahlad R. Singh

CEO, President & Director

Yes, Tycho. I mean if you look on the instrument side and on the reagent side, we already started seeing modest improvements in the fourth quarter from these customers, which has continued into the first part of 2026. Our Life Science Solutions were up low single digit from pharma/biotech in Q1, which was the strongest growth we've seen on both instruments and platforms from these businesses from this customer group since the second quarter of 2023.

Low single digit is obviously not where we want to be, but it appears to be slowly moving in the right direction. And I think that is more important that this is coming back to what normal should look like. We would like to obviously continue to see even greater pickup in the reagents before we can say things are on a clear path to improvement. But I'm optimistic that these customers are now starting to move on the right path.

Tycho W. Peterson

Jefferies LLC, Research Division

Okay. And then for the follow-up, just on operating margins. Max, can you maybe just talk about some of the gives and takes in the quarter, cost inflation, incremental spending? And then maybe get us comfortable with the bridge from where you are now to 28.4% target?

Maxwell Krakowiak

Senior VP & CFO

Yes, sure. Look, I think as we look at the first quarter results, obviously, we are encouraged by the margin performance on a pro forma basis. We finished at 24%, which is about 40 basis points above what we had in our underlying assumptions going into the quarter. I would say that was really driven by the strong incrementals we got on the additional volume that we had in the period. Again, we were slightly above the higher end of our expectations. And so that flew through at about 45% incrementals, which is really where the beat in the first quarter came from.

I think as you look over the cadence of the rest of the year from an operating margin standpoint, we will see an improvement here from the first quarter to the second quarter, going from 24% to 27% on a pro forma basis. That step-up between Q1 and Q2 is really driven by half from not having the extra week and a little bit of FX benefit. And the other half is just from the incremental revenue as you do get a seasonal pickup from Q1 to Q2.

I think then when you look between the jump of 2Q to 3Q, we do expect our margins to go up about from 27% in the second quarter to 29% in the third quarter. That step-up is really driven by the cost productivity initiatives that we've put into place. We've talked about those being completed by the end of the second quarter. We're still on track to drive those costs out on that time line. And I think when you look at some of the dynamics of it, again, the majority of this is really headcount driven by us driving further integrations, additional -- new centers of excellence, and just a general sort of delayering of management and layers across the organization.

And there's about 1/4 of it that's from sort of non-labor operational initiatives, whether that be around footprint consolidation, sourcing, whether it be in-sourcing, renegotiating with vendors, freight optimization. And so I think we're really starting to see a lot of the Revvity business model on our

playbook come through here. We have a high degree of confidence in our ability to execute on those cost initiatives.

And the last leg of this is then from 3Q to 4Q, again, I would encourage you to remember that we do have a seasonal step up between 3Q and 4Q from a volume perspective. And really, all you're seeing there from the margin step-up is really just a matter of that incremental volume leverage from the seasonal revenue increase.

Operator

Your final question comes from the line of Catherine Schulte with Baird.

Catherine Walden Ramsey Schulte

Robert W. Baird & Co. Incorporated, Research Division

I know we're sitting here in May, so we shouldn't be talking about '27, but you did bring it up regarding the robust margin expansion that we could see. So just hoping we could unpack your comments a bit more just to frame the opportunity there? Maybe how should we think about the margin jumping off point for next year, just given the cost initiatives that you have underway?

Maxwell Krakowiak

Senior VP & CFO

Catherine, yes, I appreciate your caveat there upfront, too, that we are in May '26 here and aren't giving any guidance for 2027. But I think as you look at things from an operating margin standpoint, what I'd encourage you to think about is if we're talking about the cost actions being completed by the end of the second quarter here and us getting the benefit in the second half, that will mean that we will get the annualization benefit of that in the first half of '27. And so again, we're not providing formal guidance, but yes, there should be an additional catch-up from a margin perspective in the first half of '27 once we exit this year.

Catherine Walden Ramsey Schulte

Robert W. Baird & Co. Incorporated, Research Division

And then maybe just back to Puneet's question on capital deployment. Are there other parts of the portfolio you think could be pruned? And then from an M&A standpoint, what are your priorities here? Should we just expect tuck-ins going forward? Or would you be open to larger deals as well?

Prahlad R. Singh

CEO, President & Director

Yes, Catherine. I mean, if you look at our track record, we continue to be acquisitive and we will continue to be acquisitive to ensure that if there are any gaps in the portfolio, we fill. We don't see anything that is really compelling either from an opportunity perspective that might be large in scale. You might see some tuck-ins here and there. But really, the biggest opportunity for us continues to be the share buyback. Right now, we continue to be opportunistic on that element. But we have a fertile pipeline on the M&A side, and we look at opportunities on both sides.

Operator

There are no further questions at this time. I will now turn the call back to Steve for closing remarks.

Stephen Barr Willoughby

Senior VP of Investor Relations & Head of ESG

Thank you, Nicole, and thank you, everyone, for your time this morning. I know it's a busy day, but we look forward to touching base with you later today and over the next few weeks. Have a good day.

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