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HOLX.OQ - Q3 2024 Hologic Inc Earnings Call

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Company Summary

JULY 29, 2024 / 8:30PM, HOLX.OQ - Q3 2024 Hologic Inc Earnings Call

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Please stand by for streaming text.

Operator

Good afternoon, and welcome to the Hologic Third Quarter Fiscal 2024 earnings conference call. My name is Cynthia, and I am your operator for today's call. Today's conference is being recorded. All lines have been placed on mute. I would now like to introduce Ryan Simon, Vice President, Investor Relations, to begin the call. Please go ahead.

Ryan M. Simon - *Hologic Inc - VP of IR*

Thank you, Cynthia, and good afternoon, and thank you for joining Hologic Third Quarter Fiscal 2024 earnings call. With me today are Steve MacMillan, the company's Chairman, President and Chief Executive Officer, Karleen Oberton, our Chief Financial Officer, and Alex Mitchell, our Chief Operating Officer. Our third quarter press release is available now on the Investors section of our website.

We will also post our prepared remarks to our website shortly after we deliver them as well as an updated corporate presentation. And a replay of this call will be available on our website for the next 30 days. Before we begin, we would like to inform you that certain statements we make today will be forward looking statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied by such factors include those referenced in the Safe Harbor statement included in our earnings release and SEC filings.

Also during this call, we will discuss certain non-GAAP financial measures. A reconciliation to GAAP can be found in our earnings release. Two of these non-GAAP measures are one organic revenue, which we define as revenue, excluding divested businesses and revenue from acquired businesses owned by Hologic for less and one year and to organic revenue excluding COVID-19, which further excludes COVID-19 assay revenue, other revenue related to COVID-19 and sales from discontinued products and diagnostics.

Finally, any percentage changes we discussed will be on a year-over-year basis and revenue growth rates we'll be in constant currency unless otherwise noted. Now I'd like to turn the call over to Steve MacMillan, Hologic's CEO.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Thank you, Ryan, and good afternoon, everyone. We are pleased to discuss our financial results for the third quarter of fiscal 2020. For total revenue for Q2 through three was 1.01 billion and non-GAAP earnings per share was \$1.6, both again above the high end of our guidance. Importantly, we are excited that with COVID now mostly in the rearview mirror, our reported revenue has returned to growth.

Our strong performance goes beyond the top line and shines throughout the P&L. For the quarter, we delivered a solid 31.2% operating margin and deployed \$100 million during the quarter to repurchase 1.4 million shares. All in the dollar six in EPS translates to a 14% growth on the bottom line, a very strong result and also very encouraging as we flip the script now to reported revenue and EPS growth.

Again, looking back to the start of our fiscal year, we knew there were still certain questions on some investors' minds about the true strength and durability of our underlying business. These were questions that surfaced as we exited at a period of uncertainty created by the pandemic, followed by the global chip shortage.

While we had many long-term investors understood the power and potential of our transformed much stronger business. We acknowledge these unanswered questions created barriers for some of those newer to Hologic as usual, rather than rely on words, we knew it would be our performance that would emphatically answer these questions and clearly demonstrate that we are indeed a bigger, faster, stronger Company than before the pandemic.

Our third quarter performance should make this very clear. In Q3, we beat the top line curve to green after 11 quarters of COVID-driven declines. Our top line reported revenue returned to growth at 3.1% versus last year.

Organic ex-COVID, we delivered healthy 5.8% growth, and we achieved these strong results on top of exceptionally strong 18.4% organic ex COVID growth last year.

Turning to our themes for today. First, we would like to recap our performance since the start of the fiscal year by answering five key questions, which were on many investors' minds.

Second will pass the call over to Alex, who will highlight certain overlooked elements of our broad-based international growth as well as provide an update on M&A activities.

On to our first theme, the top five questions which have been out there, one will pass their utilization, continued to grow Telfer full strength and maintain market leadership.

three will Hologic return to delivering industry leading 30% plus operating margins for the \$2.4 billion cash position will whole logic be successful in deploying capital.

And finally, five Cannell logic maintain its cervical cancer screening leadership, USPSTF issues and adverse cervical cancer screening guidelines.

The short answer to all five is without a doubt, yes, we will continue to thrive from here will take each question in order first, our molecular diagnostics business continues to deliver and is so much bigger and stronger than it was prior to the pandemic.

Our global installed base of Pampers now exceeds 33 hundred and is rock solid. More importantly, our customers continue to praise and utilize our platform. Panthers, superior workflow automation, ease of use and constantly expanding menu continues to drive demand and differentiate us in a competitive environment.

And quite simple terms, revenue per Panther and number of assays run per Panther continue to grow with the simple metric being our molecular diagnostics growth rate. In Q. three, our molecular business, excluding COVID, grew 10.5% on top of 12.9% growth in the prior year period.

We've now delivered high single to double digit performance in 13 of the last 15 quarters. Quarter after quarter year over year, we continue to deliver by expanding utilization, and our outlook remains bright.

Second, our Breast Health results continue to demonstrate a profound strength in breast cancer screening are gantry business is well on pace to fully recover from the chip shortage, and we continue to maintain our leadership position.

Supply chain is much improved and now fortified from successfully navigating the chip shortage experience over a decade from the initial launch of our breakthrough 3D mammography customers still view whole logic as leaders in performance, including image quality and scan time leaders and service and leaders in customer satisfaction, leading the numbers speak for themselves.

In Q3, we delivered 7.1% growth in Breast Health on top of 27.5% growth in the prior year period. The business is more diverse than ever and continuing to add an even more recurring revenue with our end Dometic Endo magnetics acquisition.

Third, operating margins, as Karleen will share more detail later. We delivered a 31.2% operating margin in our third quarter, a 230 basis point improvement from the prior year period and an 80 basis point improvement sequentially. At the high level. We are now back to delivering pre-COVID margins, even with our international business being over 40% larger than it was in 2019.

Consistent with our expectations. We recaptured our strong sector margin profile by maintaining focus on operational efficiency and moving past the amortization of higher priced chips purchased during the chip shortage for more on capital deployment, our balance sheet and cash flow remain incredibly robust.

As announced last week, we recently closed the Endo magnetics acquisition, a transaction that we view as straight down the fairway in terms of execution and our broader M&A strategy.

Energy overall deals, a prudent investment of capital that we expect to add revenue margin and EPS accretion over time.

Together, we have an incredible opportunity to improve interventional breast care for women.

On top of closing the Intermec deal, we continue to demonstrate that we are willing to bet on ourselves and repurchase shares as a baseline.

We are looking to offset dilution from our internal shared our plans and from there with our strong cash position, we look to layer on additional share repurchases.

Fiscal year to date, we have repurchased 10.5 million shares for 750 million. We plan to continue on our capital allocation path and fully intend for our deployment strategy to include both M&A and share repurchases.

And finally, before turning the call over to SXUSPSTF., as we've done for nearly 30 years and cervical cancer screening no matter the direction the USPSTF may take for cervical cancer guidelines, we will navigate the landscape and remain strong.

Overall, we achieved our strong results by maintaining our long-term focus, focus and commitment to women's health. As we shared on our Q2 call, the strength of whole logic lies in the some of our parks. We expect our results to continue to answer the call and speak for themselves.

While we continue to demonstrate our durable strength quarter after quarter year over year. With that, I'll turn the call over to Essex to share insight on international growth drivers and more on Endo magnetics pledges be overall.

Our third quarter performance speaks to the successful implementation of our growth strategy, building multiple durable growth drivers into our franchises around the world.

Today, we'd like to quickly highlight three specific growth drivers from international Diagnostics and Surgical. These drivers are sometimes overlooked because of their strong market share in the US.

However, we still have a great growth opportunities outside of the United States that then internationally, molecular SDI. assessing cytology and modular.

This underscores the power of the some of our parts and reinforces our opportunity and ability to grow by expanding market. Let's start with SDI. affecting the largest category and our global molecular diagnostic business.

In the USSDI. testing is our largest category yet earn and maintain leadership 40 years. Internationally. We are still in the early days of leveraging our expanded Panther install base.

We have a sizable opportunity to increase our share, not only an SCR testing, but across all the categories where we offer testing. We have a long runway ahead of us as we continue to build the new markets we've entered with several irons in the fire.

We expect to later in more contribution over time, driven by more assays and more volume on our Panther systems. The same can be said for cytology and cervical cancer screening in some regions of the world.

We are bringing liquid based Pap tests to the market for the first time and subsequently growing the market while overshadowed by the US revenue international cytology, like as the testing at the meaningful revenue that move the needle overtime. Shifting to surgical and miles or while miles store is still growing strong in the US, the MyoSure international growth rate is even higher.

This is possible because international market are vastly underpenetrated in demand remains high for our minimally invasive of option for treating uterine polyps and fibroids in many regions where the first and only minimally invasive alternative to a complete hysterectomy.

And it's our belief for all women should have access to the minimally invasive option all in.

While it is clear that certain products across our portfolio more established in the US, what is not as obvious is that there are meaningful market expansion opportunity for the same products internationally. As leaders in these areas and champions for women's health, we are well positioned to capitalize on the growth global growth opportunity.

And finally, before turning the call over to Karli provide more detail on inbuilt magnetics. As Steve mentioned, we are pleased to welcome the IndyMac team to Hologic 150 employees strong and with seasoned management and R&D capability. The Company has done an incredible job growing the business to what it has become today.

Essex Mitchell - Hologic Inc - COO

That includes 500,000 plus women treated and adoption by over 1,300 hospital in over 45 countries. Indihome ag products include Maxine markers for wireless lesion localization, max rates for lymphatic tracing and symptomatic, a simple, easy-to-use Haynesville device for visualized.

Both IndyMac portfolio enabled us to provide robust and differentiated offerings to meet demand in the growing interventional breast surgery market.

From an investment perspective, business directly aligns with our Breast Health franchise has proven on-market products that are well accepted into the workflows.

With our established deep-rooted sales sales, we expect to amplify revenue growth well above our corporate average and also expect both margin and earnings accretion over time. Overall, we are excited to join forces and determine to go even further together. Now I'll turn the call over to Karli.

Karleen Oberton - Hologic Inc - CFO

Thank you, Alex, and good afternoon, everyone.

In my statements today, I'll provide an overview of our revenue results, lock down our income statement, showcasing strong performance, touch on certain key financial metrics and finish with our guidance for the fourth quarter and full fiscal 2024.

Our third quarter financial results for a robust once again exceeding our expectations on revenue and profitability, helping on the momentum from the first half of the year. To recap high-level results. Total revenue came in at 1.11 billion, exceeding the midpoint of our prior guidance by 11 million.

We delivered 3.1% revenues around organic revenue growth of 5.8% excluding COVID. In addition, non-GAAP earnings per share were \$1.6, growing 14%, exceeding the high end of our prior guidance by \$0.01.

Before moving on to our franchise results, we want to highlight the continued strength balance sheet. In Q3, we generated over \$400 million in cash from operating activities, ending the quarter with \$2.4 billion on the balance sheet, deployed \$100 million on share repurchases announced the acquisition of Endo magnetics.

We continue to demonstrate our strong cash balance leverage ratio well below our target range. The ability to generate cash consistently provided that flexibility to fund innovation and pull both levers of our capital allocation strategy, tuck-in M&A and share repurchases.

At the same time moving forward, we still have significant firepower to continue to deploy capital diligently as opportunities arise.

Turning to our franchise result in diagnostics, third quarter revenue of 440,800,000.0, 2.7%. Excluding COVID assay and related revenue, worldwide diagnostics grew by 6%.

Within diagnostics, molecular diagnostics continues to contribute significantly, growing 10.5% excluding COVID.

We continue to see underlying strength in DBCVTV., which continues its outstanding growth trajectory and has become our second largest assay globally. Additionally, as expected, non-COVID respiratory assay sales declined sequentially from Q2 in line with the flu season.

However, year over year growth remains strong, highlighting the continued adoption of our four plex COVID flu A. Flu B in our the assay.

And finally, Biotheranostics continues to be accretive to growth for our molecular business, branding and diagnostics.

Cytology and perinatal declined 2.9% globally with U.S. declined, partially offset by solid international growth at Essex highlighted earlier.

As a reminder, in fiscal 3Q 23, customers built up psychology inventory levels in the U.S. to very high shipping constraints in Q2 23, leading to elevated sales.

Again, plasma cytology business has largely returned to normal year over year growth rates for impacted.

Looking ahead, we expect flat to modest growth in the psychology. Moving on to breast health, total Q3 revenue of 385 million increased by 7.1% or 8.2% when excluding SSI.

Within Breast Health growth was primarily driven by breast imaging with solid domestic and international results, contributing 7.2% and 12.1% growth, respectively.

Excluding at this time, third quarter performance was driven largely by increased gantry shipments and robust service revenue growth that continues to contribute meaningfully continuing extra surgical third-quarter revenue of 166.6 million increased 6.2%.

Surgical growth continues to be fueled by my offshore net related Fluent fluid management system. I left discussing business which Place Mall and grew significantly in the quarter and continues to progress nicely.

Additionally, international continues to be a bright spot for just under 20% in the quarter. Finally, in Escelsa business, third-quarter revenue of 19 million declined 29.7% due to lower horizon that coming from a temporary stop ship related to a nonconformance tissue.

We are working with our suppliers to resolve the situation expected resumed shipments during the first quarter of fiscal 2025. Now let's move on to the rest of the non-GAAP P&L for the third quarter.

Gross margin was 61.1% for the quarter. A 30 basis point improvement from the prior year period. Even though COVID assay revenue declines continue to be a headwind.

Additionally, gross margin expanded 40 basis points sequentially from fiscal Q2, primarily driven by favorable product mix. Total operating expenses of \$302.8 million in the third quarter decreased by 3.5%. This decrease was driven primarily by elimination of expenses related to the divested assets side businesses.

Operating margin was 31.2% for the third quarter. The year-over-year increase of 230 basis points was driven by top line growth, expanding gross margins and lower operating expenses sequentially, as expected, operating margins expanded 20 anti 80 basis points from Q2, largely from lower operating expenses and higher gross margin in Q3 below operating income.

Other income net represented an expense of nearly 3 million in our fiscal third quarter. Interest income is lower due to lower cash balances from the significant share repurchases we have completed throughout the fiscal year.

Additionally, interest expense is up due to higher interest rates. Finally, our tax in Q3 was 19.75% as expected. Now let's move on to our non-GAAP financial guidance for the fourth quarter.

For Q4 2024, we are expecting total revenue in the range of 970 to 985 million and EPS of \$0.97 to \$1.4. For the full year fiscal 2020 for our guidance assumes revenue of 4.012 to ZAR4.027 billion and EPS of \$4.4 to \$4, an \$0.11.

Unpacking the siding, we lowered the midpoint of our prior revenue guidance by \$5 million. This represents about a \$20 million headwind related to the temporary Skeletal Health stop ship previously mentioned, partially offset by strong performance in Q three in the inclusion of an estimated 4 to 5 million of revenue from Endo magnetics.

Now that we have closed the acquisition with respect to foreign exchange, we are assuming Q4 we'll have a headwind of about 3 million for the full year.

We now expect a slight tailwind of about 3 million. Turning to our franchises, we expect diagnostics, Breast Health and surgical to grow mid-single digits in Q4 and full year fiscal 2024.

Excluding the impact of COVID. As a reminder, fiscal 24 has four fewer selling days compared to fiscal 23, which we estimated to be a headwind of more than 100 basis points for the full year.

Staying with diagnostics. In Q4, we expect molecular diagnostics business to drive high single-digit growth excluding COVID.

As customers continue to adapt and drive utilization of our broad Panther maintenance and cytology and perinatal. We expect growth in the mid single digits for the fourth quarter sequentially, however, we expect the business performed flat to Q3 in Q4 last year, sales dropped below typical ordering patterns due to the inventory buildup in Q3 of 23.

Please expect cytology and perinatal costs to stabilize in fiscal year '25. Closing out on non-COVID diagnostics, we expect LED revenue of approximately \$6 million in Q4 and 20 million for the year.

In terms of COVID revenue, we expect COVID assay sales to be about 7 million in Q4 24 and about 70 million for the full year.

Covid related items are expected to be about \$25 million in the fourth quarter and approximately 105 million for the full year. Moving on to Breast Health, we remain on pace to grow the business mid single digits for the fourth quarter.

We expect to see solid gantry placements in Q4, continuing the steady performance we have delivered year to date. The demand for our portfolio of products and services remains strong.

We have solid visibility into gantry orders. Further, our confidence in delivering more gantries than last year remains high.

We are successfully managing resource availability among both our install teams and our customer as customers balanced the need to meet elevated demand for screening and staffing constraints.

Finally, in surgical, we anticipate Q4 revenue to grow mid-single digits. The growth continue to come from Isha fluent in LFS coffee division fitness. Moving next to Martin. Our guidance continues to assume a cadence of improvements moving into Q4.

For both gross margin and operating margin. We remain on pace to exit the fiscal year in the low 60s for gross margin.

Our guidance also assumes the Q4 operating margins in the low 30s, and we are on pace to finish fiscal 24 between 30% to 31%, which includes the stub period of Endo magnetics. Below operating income.

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We estimate fiscal 24 other income net expense of approximately 8 million in Q4 11 million for the full year. Our guidance is based on an annual effective tax rate of approximately 19.75% to 19.75%, and diluted shares outstanding are expected to be approximately \$230 million for the full year.

To conclude, Q3 was another strong quarter for Hologic. We continue to deliver robust growth in quality earnings as we approach the end of fiscal year 2024 and look ahead to 2025.

We are excited by performance across all our franchises in the additional strength provided by a pristine balance sheet. As always, our stakeholders can count on us to deliver while also advancing the state of women's health around the world.

With that, we ask the operator to open the call for questions.

Operator

Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. You are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We ask that you please limit yourself to one question and one follow-up question again, press star one to ask a question and we'll pause for just a moment to assemble the queue.

We'll take our first question from Patrick Donnelly with Citi. Please go ahead.

Patrick Donnelly - Citi - Analyst

Hey, guys, thank you for taking the questions. On the part of the biggest inbound is just on the 4Q guide on to come and talk to that there. On the part of the biggest inbound is just on the 4Q guide on to come and talk to that there. It seems like a lot of it is around the skeletal piece.

I guess just when you think about the core business going into 4Q, has anything changed relative to a few months ago? There was anything not worse? It seems like it's all scalable.

I just want to talk through the core business and how you're feeling about it and talk to you here.

Stephen Macmillan - Hologic Inc - President, Chairman of the Board & CEO

You know, with Patrick, it is it's probably a little alarming because of the skeletal piece. But the three core businesses are all going great and it is completely a reflection of that. And we just had a little hiccup with the supplier issue in our scalable business. It is our non-core. But for diagnostics, Breast Health surgical, we are feeling really, really good.

Karleen Oberton - Hologic Inc - CFO

Yes. And just Patrick, just to add a final point to any of the 20 million headwind, about 15 million is related to the fourth quarter specifically.

Stephen Macmillan - Hologic Inc - President, Chairman of the Board & CEO

Okay, that's helpful. And then Karlee, maybe one question we get broadly on the margin, the margin profile as we work our way forward here, I think there's some fear that you guys could be a little more kind of heading towards the peak margin.

Patrick Donnelly - Citi - Analyst

Can you talk about, I guess, the 4Q piece of moving pieces and talk a little bit about negative rate there and just how you think about the build going forward when we think about the algorithm on the key to getting that margin continuing to expand as we go forward? And just broadly how you're thinking about the jumping off point as we look to 25. Thanks so much.

Karleen Oberton - Hologic Inc - CFO

Yes, I think we like its ground people on the pre pandemic, operating margins of 31.5%. And I think as you see as we exit Q4 will be right in that range. And really thinking about that, we've added a lot of revenue growth drivers that have a lower operating margin profile than the legacy business available.

Good about achieving that as we exit 24 after the full year 24 will be a little bit below that, as we said in our prepared remarks, between 30 to 31. But yes, I have a good confidence. As we look to 25, we will be squarely for the full year at pre-pandemic levels.

And just to walk through some of the components. Again, as I mentioned, the recent acquisitions will have lower margin profile. The international business has a lower motor margin profile, and we're still working through some of the higher supply chain costs, primarily related to chips as well as as we integrate term facilities.

We have double cost per se, the prime, Carolyn Burke through over the cost, of course, a 25.

Operator

We will take our next question from Tejas Savant with Morgan Stanley. Please go ahead.

Tejas Savant - Morgan Stanley - Analyst

Hey, guys, thanks for the time. We are calling them. I just want to follow up on Patrick's line of questioning now in the second question, can you just help us think through sort of underlying algorithm for EPS growth in oh five to 7 for the top line? Presumably it stays intact for next year as well as you've seen through the different buckets. You are right between the margin expansion piece.

But you said genome, it sounds like you are on track to achieve, but then you've also got repos. And then you've got a little bit of dilution from potential tuck-ins computing once you might do in the next 12 months or so. So as we think about those multiple pieces in the context of EPS growth next year is sorry, of high single digit, essentially a fair way to think about it or could it be a little bit better than that?

Karleen Oberton - Hologic Inc - CFO

Yes. So I'll take that out there that we have. We're not giving guidance for 2025 at this point. We're still working through upfront budget cycle and we'll be doing that income totality in the November call. What I would say at a high level, we think about earnings yesterday, one of our earnings faster than revenue.

So again, that five to seven would lead you to the high single digits, low double digit earnings growth. And we do think about that and bounce using the whole P&L, not just margin expansion by share repurchase and potentially some favorability on the tax line as well.

But again, we will be giving that full guidance on the November call.

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Tejas Savant - Morgan Stanley - Analyst

Got it. Fair enough. And then a quick follow up on some of the recent tuck-in. Joe Alsop, a bolder, Ashley, perhaps for you, Steve, could you just give us an update on where things stand and expanding from the pediatric setting that the OB/GYN channel?

Obviously, it's slide and then a similar sort of question in the early days and Demag. But how should we be thinking about this status school in that market that Endo, Matt can really help displays, particularly in the US where it's underpenetrated? And what's the feedback been like from physicians from any early conversations?

I had have deal close very clear that right. The asset sale, great.

Stephen Macmillan - Hologic Inc - President, Chairman of the Board & CEO

Yes, I'll start with a bolder. And so we're seeing great success expanding outside of the pediatric channel. I would say our fastest growth area is actually in thoracic with the Reveal product.

So we're seeing nice it's an open product. We're getting to new customers really honing in on focusing similar to our strategy that we've utilized with gynecology, where we are focused on specialty, really understand our differentiated position with the product and expand from there. So feel really good about success thus far.

But Boulder from and still quite a bit of meat on the bone level, I would say with pediatric as we look to focus better moving forward with regard to Endo mag very early days, I would say we just closed. So really great about that theme and excited to have them as part of the Hologic family and know that will do great things together.

As far as feedback from customers don't have anything, but a comment on that right now, but feel really good about the prospects of this business, especially with the strong channel relationships that we have today.

Operator

We will take our next question from Jack Meehan with Nephron Research. Please go ahead.

Jack Meehan - Nephron Research - Analyst

Thank you. Good afternoon. Wanted to focus on the diagnostic business here. I'm starting with Panther. So I think I heard over 33 hundred in the field now. So it feels like that's stepped up a little bit pre-COVID, replacing about 50 a quarter.

Just wondering if you felt like you see any signs might be getting back to those levels are still a bit of a COVID hangover on placements?

Stephen Macmillan - Hologic Inc - President, Chairman of the Board & CEO

Yes, still lower on the placements. You are clearly this chapter of our growth. Jack is expanding the utilization per Panther, but we are still seeing a modestly moving up, which we consider to be good, but not back at that every pre COVID level.

Jack Meehan - Nephron Research - Analyst

Got it. Okay. And then on PBCBTV., think I also heard second largest assay globally. Would that put it in the quarter kind of a floor, \$40 million or so? And would you care to wager where you know where this could land in terms of the overall size it some point, what's driving the growth?

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Essex Mitchell - *Hologic Inc - COO*

Yes, I think that's a fair estimate of where it is. And I think I think we would that would be comfortable saying that it could be our largest asset someday soon and put it in perspective, there's still room for growth there.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Great. Okay. Operator, next question.

Operator

We will take our next question from Vijay Kumar with Evercore. Please go ahead.

Vijay Kumar - *Evercore ISI - Analyst*

Hi, Steve, and good afternoon. Congrats on nice print and thanks for taking my question. Um, I guess my first one on the south on the skeletal come in a shipowner ratio, how is that in the backlogs gave services could now be a tailwind for fiscal 25?

Or are those more like a lost revenues? It could potentially be a little bit of a it won't be lost revenue. I think we feel pretty good, albeit a couple of tiny ones. But overall, I think we feel pretty good. So it might be a modest tailwind for next year, but I wouldn't want to get too far ahead of ourselves, but we're fixing it and feel very good.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

And we'll be back in place by the beginning of 25.

Vijay Kumar - *Evercore ISI - Analyst*

That's helpful. Steve concurrently, maybe one for you on the margins here from Q4 from, did that expectation changed versus prior and mostly because of the deal and not perhaps some revenue push out if so on what is the underlying jump-off point and NAM minorities at a relevant number should be thinking of her to be modeling the Company?

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Yes. I think as I talked about the and we'll end the full year between 30 to 31, which would give you something higher than 31 in the fourth quarter, I would say are winning from an annualized basis. I'd jump off the midpoint of the 30 to 31.

Karleen Oberton - *Hologic Inc - CFO*

And I think that we're going to get back to 5,001.5 range, but there is some seasonality to margins. And typically Q1 is our is our lowest operating margin course. I wouldn't link spring off of Q4 to a higher number in Q1.

Anthony Petrone - *Mizuho Securities - Analyst*

We'll take our next question from Anthony Petrone with Maxim Group. Please go ahead.

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So thanks and congrats on the quarter here. I'll just throw to out there quick just on cytology testing. I know the comps were a little bit bifurcated the last two quarters, but the business itself just generally has been a little bit lumpy. So maybe just what you're seeing there. Do you think there's any changing patterns ahead of the Preventative Task Force role? You also have the upgrade cycle with a digital platform? So just a little bit on the lumpiness and cytology?

And then the second one on on Panther utilization, can you actually provide the range of assays used in the post pandemic systems? I know the averages to, but what does that range set? What is the upper end of that range? And and what is the lower end of that range work at the trend over time? Thanks.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

If we take the first part of that, the first part is we are not seeing any shift in the market in terms of cytology used to Germany. It is really it's more because we changed a third party vendor last year, kind of made a little bit of lumpiness between the Q2 to Q3 last year comparisons.

But the underlying is very, very key consistent. And the initial stages on our digital cytology, which is further ahead in Europe, are looking very good. And we're in the early stages of some very positive consumer ramps, our customer acceptance of that in the United States, I think we continue to feel good about our cytology business on capacity utilization.

So yes, so we have down the P&L utilization on the new customers that we talked about over 55% are running to a more assays. Boeing look at US in total that we look at over a third of our customers have been running for a more assets to I would kind of anchor into that for four to six is the likely a target range.

That's a little over a third party at the end of 23 compared to just under 20% Ascent at the end of 19. So you can see that growth that we're able to achieve achieved as we drive utilization on the Pampers that are out there.

Anthony Petrone - *Mizuho Securities - Analyst*

Thank you. Great. Thanks.

Operator

We will take our next question from Mike Matson with Needham & Co., please go ahead.

Mike Matson - *Needham - Analyst*

Yes, thanks of. So I want to ask one on Com, the cytology business, OUS of sounds like that as a growth driver for you guys. But just wanted to understand what's happening in those markets and was striving to grow with them in kind of what you're seeing there with pops versus primary screening testing in the different regions of the world?

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Yes, we're seeing some nice acceptance to our digital cytology. one of the challenges outside the United States is not as many psychologists around. And so the ability to help on the workflow is a big win.

And so it growing out our DigiTest, our digital set-top energy and the Genius cytology there is good, and we continue to work with guidelines. I think that the hidden piece that's been missed for everything that we did in the pandemic to provide the COVID test. We established much stronger relationships across the for having more dialogues.

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Really that's going to benefit so much of our businesses, including our surgical businesses, our breast interventional business and really just shifting guidelines into that more discussions you have Germany's has gone to a co-testing model in cytology and HPV. over the last few years that we're benefiting from and working those those angles really country by country.

Mike Matson - *Needham - Analyst*

Okay, thanks. And then I think I heard correctly and call out on tax rate as a kind of opportunity or the next two years. So your tax rate is a little bit on the higher side relative to the larger companies. So can you maybe elaborate on that?

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Yes. I think as we look at our operations and supply chain and even more specifically to continue to lever leverage, Costa Rica for manufacturing, especially as we acquire new companies and optimize their supply chain, lead times, leverage those points to contribute to favorability. I'm sorry.

Operator

So we'll take our next question from Casey would dream with JP. Morgan. Please go ahead.

Casey Woodring - *J.P. Morgan - Analyst*

Great. Thank you for taking my questions. And so I wanted to talk about the strong molecular growth in the quarter here that 10.5% number one of the larger players in the molecular space that fits more in the point of care markets been seeing strong growth rates on the non respiratory side as well now for several quarters in a row on this competitors called out.

Karleen Oberton - *Hologic Inc - CFO*

And so I wanted to talk about the strong molecular growth in the quarter here that 10.5% number one of the larger players in the molecular space that fits more in the point of care markets been seeing strong growth rates on the non respiratory side as well now for several quarters in a row on this competitors called out sexual health and urology.

Casey Woodring - *J.P. Morgan - Analyst*

Specifically as areas of growth, just given your menu overlap, can you help frame up how the Panther is coexisting in the market now with some of these growing point of care platforms? And just your latest thoughts around any potential share shifts one way or the other in that market? And then I have a follow-up. Thanks.

Karleen Oberton - *Hologic Inc - CFO*

Yes, I think we continue to feel really, really good that most of the screening is a symptomatic at standard testing that the economics are still going to work very well for the overlaps. And so I think we love our position and there's always going to be people function around on the hedges that will help expand the market probably as well.

But we feel really good about where we're going.

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Casey Woodring - *J.P. Morgan - Analyst*

That's helpful. And then just my follow-up here quickly on that 5% to 7% top line algorithm, you previously talked about surgical is probably at the higher end of that range, breast on the lower and diagnostics somewhere in the middle one, including cytology. So just is that the right way to think about 2025 on an aggregate basis? Maybe just walk through the moving parts there as you see in for next year. Thank you.

Essex Mitchell - *Hologic Inc - COO*

Yes, probably not quite ready to give by individual line forecast for 2025. But I think we feel good overall as to any given year, any given quarter, any given business maybe slightly above slightly below. But I think we like where we're headed. So we'll give you more of that detail, Casey, when we guide in November.

Operator

Thank you. We'll take our next question from Michael Ryskin with Bank of America. Please go ahead.

Michael Ryskin - *Bank of America Merrill Lynch - Analyst*

Thanks for taking the question, guys. Just a couple kind of some more sense for me. I'm going back to the skeletal some of the stop ship. Why don't you talk about confidence that that's getting resolved in fiscal 1Q? I guess can you talk about 15 million in the fourth quarter or just any sense of timing when in the quarter you're going to have it resolved?

And just sort of if you could frame of the range of outcomes layer to this extent a little bit longer? Or do you really have good line of sight on the resolution? We do have good line of sight would not expect it to go out far into Q1 of 25. So you spill account again, we'll guide by that point, but we fully expect to be back in the market by them.

Karleen Oberton - *Hologic Inc - CFO*

Okay. On the capital deployment side, you talked about balance sheet strong free cash flow year to date. I mean, obviously you've got both from share buybacks and M&A kind of going on at the same time.

You just remind us sort of how you frame those two options right now. Obviously just got a couple of deals under your belt recently, but still in a good position going forward, our priorities between the two and how you see that trading off.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Yes, the currently as we look at our cash flow generation with a very strong balance sheet in a very competitive credit agreement as focuses on deploying that free cash flow as well as the cash that we've built on the balance sheet at this point in time, the priority continues to be tuck-in M&A, you know, acquisitions that give us confidence in our ability to grow our revenue, hopefully accretive to our current growth rate, and then it would be share repurchase, as we said, that in a minimum to manage dilution from our equity grants.

And then opportunistically as we seek disconnect, evaluation the market.

Operator

We'll take our next question from the volatile with BNP Paribas. Please go ahead.

Andrew Brackmann - *William Blair - Analyst*

Hi, thanks for taking my question. And I wanted to ask about the M&A pipeline. With your EUR2.5 billion cash available for acquisition, what are you seeing at the moment? And then also if you could discuss the innovation, including the next generation gantry system in Breast Health. And I thank you.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

So I think I may on the M&A front. We obviously were very pleased. We closed the Endo back deal last week. We continue to look at other deals in that size, a little bit vague or whatever.

But again, you can only make them when they're available is that we said last quarter, we'd love to do kind of want to Endo mag every day quarter doesn't always work out that way.

So we're in this great position of being able to be disciplined buyers as we continue to watch things shake out and also being able to redeploy onto our own cash by buying back our own shares along the way. So it's not an either or given the incredible cash position we have.

So we like where we are on that.

Yes. In regards to innovation, you certainly we've talked about a next-generation gantry that really continues to focus on workflow, patient experience and image quality. Those are the key drivers of innovation in that space.

And certainly layer on a I mean, how can we help the radiologist in assessing risk within those images in again, assessing are helping improve workflow is used today now in breadth, but also in our Genius digital cytology.

Operator

We'll take our next question from Ryan Zimmerman with BTIG. Please go ahead.

Ryan Zimmerman - *BTIG LLC - Analyst*

Thanks for taking the questions. Many Karleen. Just to follow up on your next-gen gantry, I mean, you made the comment today that you're on pace to grow gantries this year.

And I don't know, feel comfortable answering this yet, but do you expect to grow gantries and 25 and not coincidentally, can you just give any color on kind of timing of a next-gen gantry?

Karleen Oberton - *Hologic Inc - CFO*

Yes. I think we're going to give any specifics on timing. I think likely, as we look towards our S&A would be a time that we would highlight that 4% of our customers and gives a little more specifics on what we're expecting for 2025 and beyond.

Ryan Zimmerman - *BTIG LLC - Analyst*

Okay. Just some follow-up. two quick questions. one, what's the status or impact that you're seeing from the bios are recall dynamics? How does that impact with no magnetic, if there, if any, at all?

And then the second thing I wanted to ask about unrelated was you've had a number of these deals and go back to kind of earlier margin question. Is there an opportunity in any way for some facility integration or manufacturing integration that has been kind of contemplated or discussed yet as it would seem like with the number of deals you've done on over the past few years, there could be some some low hanging fruit there.

And I don't recall you guys are really talking too much about that, but thus far Thanks for taking my questions.

Essex Mitchell - *Hologic Inc - COO*

Yes, this is Essex. I'll jump in on the bios are question. So Indo Magnum vials are completely unrelated from each other and number one.

But number two, I would say is that the bios are I recall was more of an administrative recall where we needed to update from our RPIR. language in our insert.

So we are still selling our product, feel great about it and are working through that. With regards to facility integration, I don't know if currently with the jump on that. Yes. And so as we've highlighted, we're doing some facility integration and Breast Health business right now.

From each of the acquisitions. They all have different profiles. Some makes sense to stand alone as they are another do make sense to integrate and then various stages of integration. And we, as we always do always look at our supply chain, look at our network content, continue to focus on opportunities for optimization.

And I would say over the next five years, I think we'll continue to realize those opportunities.

Operator

We'll take our next question from Mason correct with Stevens. Please go ahead.

Mario Carrico - *Stephens - Analyst*

Hey, thanks for taking the questions on on the molecular business, could you provide some color on how adoption is trending for Fusion sidecar? Recently, you doubled the Panther install-base during COVID. How has adoption really been among those those new customers?

And then as a follow-up, what are your expectations for where that Fusion attach rate can can move longer term? Yes. We're seeing steady adoption of the Fusion sidecar, which is done with because it really opens up the menu. We're focusing on customer by customer. So what we're seeing is quarter over quarter more customers adopting the Fusion as we go along.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

It doesn't necessarily mean every Panther needs a fusion. And in fact, it will probably end up being, I don't know, maybe even a third of our total Panthers, even if that what it really comes down to is does each customer has the capability. And so that's been our big focal point. We're seeing good adoption and steady growth.

Operator

So we'll take our next question from Andrew Cooper with Raymond James. Please go ahead.

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Andrew Cooper - Raymond James - Analyst

Hey, everybody, especially the time a lot's been asked. Hey, everybody, especially the time a lot's been asked. So maybe just one a little bit nitpicky on margins.

But could you give us a little bit more flavor for the pretty modest change for the year, but just how much of the driver is Endo mag flowing in worse, maybe a little bit of a decremental from the cyclical headwind in versus anything in the core in terms of as we think about that for you for Q2 operating margin and full year operating margin for fiscal 24?

Stephen Macmillan - Hologic Inc - President, Chairman of the Board & CEO

Yes. So I would say it's more geared toward the stop ship on the telecom versus and domain thing about end demand is very small revenues following two months, but certainly stop ship on even another core franchise is going to have an impact on margins.

The way to think about it. With that, I think our margins are still working really, really good now, David, and then just one more again, kind of on margins, but clearly, I just want to make sure I caught something you said correctly. I think you said something about working through chip costs and integrating facilities or the elevated cost, I should say and integrating facilities through fiscal 25.

Andrew Cooper - Raymond James - Analyst

Just wanted to get a sense, has anything changed in terms of how quickly are working through those higher costs chips and when you expect to be at a more normal levels in terms of the chip costs themselves?

Essex Mitchell - Hologic Inc - COO

Yes, I think we are substantially through them, you know, as we exit 24 and via the paddy a little bit into 25. But I think what we're having is as we increase productions overall, getting more favorable absorption than what we had prior when manufacturing was really a reduced because of the chip supply.

Andrew Cooper - Raymond James - Analyst

Okay, great. I'll stop there. Thank you so much.

Karleen Oberton - Hologic Inc - CFO

The integration of the other facility integration in the breast business specifically will go through at least the first half of 25.

Operator

We'll take our next question from Lou Lee with UBS. Please go ahead.

Dan Leonard - UBS - Analyst

Quick one on thoughts on I think you mentioned the of placement was pretty strong. Potential placement is pretty strong this quarter. I'm wondering if you can get like specific number on on to Page 9. And then also, is it mainly that QDR them one by cleaning up colectomy? Thank you.

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Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

So yes, I don't think we've given specific numbers on gantries. Again, we've grown we have real confidence that the total gantries is going to grow year over year were not quite back to pre-pandemic levels that will be in at those levels in 2025.

We are placement tight.

Dan Leonard - *UBS - Analyst*

I'm sorry, can you repeat that content?

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

Yes. And on any regional, a comment that you want to call out in the country placements. And now that specifically.

Operator

and we will take our last question from Puneet Souda with Leerink Partners. Please go ahead.

Puneet Souda - *Leerink - Analyst*

Hey, thanks, Steve, and thanks for spending in there. Just I'll just round it out. I'll round it out with one question on the skeletal. I just wanted to confirm, when you look at the market for bone density measurement and fracture assessment, it has anything changed there competitively in your view? I just wanted to confirm that and get a view about the scope. So be it out of a push out that you're seeing in the quarter? We still feel great about the Mark and Graham is really a supplier do pick up on our smallest business and will be through it with another quarter, right back to what we expected. In the meantime, obviously that the core businesses are all delivering very, very well.

Stephen Macmillan - *Hologic Inc - President, Chairman of the Board & CEO*

So that's the total very strong. So but yes, nothing different than a no concern about.

Puneet Souda - *Leerink - Analyst*

Okay. Okay. Silver. Okay. Thank you. All right. Thank you.

Operator

This does conclude today's question and answer session. And this now concludes Hologic's Third Quarter Fiscal 2024 earnings conference call. Have a great evening. Thanks. Thanks. Thanks. Thanks. Thanks. Thanks. Thanks. Thanks. Thanks. Thanks.

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