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HOLX.OQ - Q3 2024 Hologic Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2024 / 8:30PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Ryan Simon** *Hologic Inc - Vice President - Investor Relations*

**Stephen Macmillan** *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

**Essex Mitchell** *Hologic Inc - Chief Operating Officer*

**Karleen Oberton** *Hologic Inc - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Patrick Donnelly** *Citi Investment Research - Analyst*

**Tejas Savant** *Morgan Stanley & Co. LLC - Analyst*

**Jack Meehan** *Nephron Research LLC - Analyst*

**Vijay Kumar** *Evercore ISI Institutional Equities - Analyst*

**Anthony Petrone** *Mizuho Securities US, LLC - Analyst*

**Mike Matson** *Needham & Company, LLC - Analyst*

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

**Michael Ryskin** *BofA Global Research - Analyst*

**Navann Ty** *BNP Paribas Securities Corp. North America - Analyst*

**Ryan Zimmerman** *BTIG, LLC - Analyst*

**Mason Carrico** *Stephens Inc. - Analyst*

**Andrew Cooper** *Raymond James & Associates, Inc. - Analyst*

**Puneet Souda** *Leerink Partners LLC - Analyst*

## PRESENTATION

### Operator

Good afternoon, and welcome to the Hologic's 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. (Operator Instructions)

I would now like to introduce Ryan Simon, Vice President, Investor Relations, to begin the call. Please go ahead.

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### Ryan Simon - Hologic Inc - Vice President - Investor Relations

Thank you, Cynthia. Good afternoon, and thank you for joining Hologic's 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 Essex 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. These statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied. 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 than one year. And two, organic revenue excluding COVID-19, which further excludes COVID-19 assay revenue, other revenue related to COVID-19, and sales from discontinued products in diagnostics.

Finally, any percentage changes we discuss will be on a year-over-year basis, and revenue growth rates will be in constant currency unless otherwise noted.

Now, I'd like to turn the call over to Steve MacMillan, Hologic's CEO.

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Ryan, and good afternoon, everyone. We are pleased to discuss our financial results for the third quarter of fiscal 2024.

Total revenue for Q3 was \$1.01 billion and non-GAAP earnings per share was \$1.06, both again above the high end of our guidance. Importantly, we are excited that with COVID now mostly in the rear view 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 \$1.06 in EPS translates to 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 a period of uncertainty created by the pandemic, followed by the global chip shortage. While we and many long-term investors understood the power and potential of our transformed, much stronger business, we acknowledged that 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 bent the topline curve to green after 11 quarters of COVID-driven declines. Our topline 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, we'll pass the call over to Essex, 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 Panther utilization continue to grow? Two, will Breast Health return to full strength and maintain market leadership? Three, will Hologic return to delivering industry-leading 30%-plus operating margins? Four, with a \$2.4 billion dollar cash position, will Hologic be successful in deploying capital? And finally, five, can Hologic maintain its cervical cancer screening leadership if USPSTF issues an adverse cervical cancer screening guideline?

The short answer to all five is, without a doubt, yes. We will continue to thrive. From here, we 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 Panthers now exceeds 3,300 and is rock solid. More importantly, our customers continue to praise and utilize our platform. Panther's superior workflow, automation, ease of use, and constantly expanding menu continues to drive demand and differentiate us in a competitive environment.

In 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 Q3, 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. Our gantry business is well on pace to fully recover from the chip shortage, and we continue to maintain our leadership position. Our 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 Hologic as leaders in performance, including image quality and scan time, leaders in service, and leaders in customer satisfaction.

Letting 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 in even more recurring revenue with our Endomagnetics acquisition.

Third, operating margins, as Karleen will share in 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 highest 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.

Fourth, on capital deployment, our balance sheet and cash flow remain incredibly robust. As announced last week, we recently closed the Endomagnetics acquisition, a transaction that we view as straight down the fairway in terms of execution within our broader M&A strategy. Overall, the deal is 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 Endomag 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 share 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 Essex, USPSTF, as we've done for nearly 30 years in cervical cancer screening, no matter the direction the USPSTF may take for its cervical cancer guidelines, we will navigate the landscape and remain strong.

Overall, we achieved our strong results by maintaining our long term focus and commitment to women's health. As we shared on our Q2 call, the strength of Hologic lies in the sum of our parts. 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 Endomagnetics.

**Essex Mitchell** - Hologic Inc - Chief Operating Officer

Thank you, Steve. 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 shares in the US. However, we still have a great growth opportunity outside of the United States.

That said, internationally, molecular STI testing, cytology, and MyoSure, all delivered nice growth in the quarter. This underscores the power of the sum of our parts, and reinforces our opportunity and ability to grow by expanding markets.

Let's start with STI testing, the largest category in our global molecular diagnostics business. In the US, STI testing is our largest category and we have earned and maintained leadership for years. Internationally, we are still in the early days of leveraging our expanded Panther installed base. We have a sizeable opportunity to increase our share, not only in STI testing but across all 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 layer 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 STI testing, adds meaningful revenue that moves the needle over time.

Shifting to Surgical and MyoSure, while MyoSure is still growing strong in the US, the MyoSure international growth rate is even higher. This is possible because international markets are vastly underpenetrated, and demand remains high for our minimally invasive option for treating uterine polyps and fibroids. In many regions, we are the first and only minimally invasive alternative to a complete hysterectomy. And it's our belief that all women should have access to minimally invasive options.

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

And finally, before turning the call over to Karleen, I'd like to provide more detail on Endomag. As Steve mentioned, we are pleased to welcome the Endomag team to Hologic. 150 employees strong, and with seasoned management and R&D capabilities, the company has done an incredible job growing the business to what it has become today. That includes 500,000-plus women treated and adoption by over 1,300 hospitals in over 45 countries.

Endomag products include Magseed markers for wireless lesion localization, Magtrace for lymphatic tracing, and Sentimag, a simple, easy-to-use handheld device to visualize both. The Endomag portfolio enables us to provide robust and differentiated offerings to meet demand in the growing interventional breast surgery market.

From an investment perspective, the business directly aligns with our breast health franchise and has proven on-market products that are well accepted into clinical workflows. With our established, deep-rooted sales channels, 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 determined to go even further together.

Now, I'll turn the call over to Karleen.

**Karleen Oberton** - Hologic Inc - Chief Financial Officer

Thank you, Essex, and good afternoon, everyone. In my statements today I will provide an overview of our revenue results, walk 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 were robust, once again exceeding our expectations on revenue and profitability, building on the momentum from the first half of the year. To recap high level results, total revenue came in at \$1.011 billion, beating the midpoint of our prior guidance by \$11 million. We delivered 3.1% revenue growth and organic growth of 5.8%, excluding COVID.

In addition, Non-GAAP earnings per share were \$1.06, growing 14.0% and 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 of our 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, and announced the acquisition of Endomagetics.

We continue to demonstrate that our strong cash balance, leverage ratio well below our target range, and ability to generate cash consistently provide us the 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 results, in diagnostics, third-quarter revenue of \$440.8 million grew 0.7%. 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 BV CV/TV, 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 4-plex COVID, Flu A, Flu B, and RSV assay. And finally, Biotheranostics continues to be accretive to growth for our molecular business. Rounding out diagnostics, cytology and perinatal declined 2.9% globally, with US declines partially offset by solid international growth, as Essex highlighted earlier.

As a reminder, in fiscal 3 '23, customers built up cytology inventory levels in the US due to third-party shipping constraints in Q2 '23, leading to elevated sales in the prior year period. While the cytology business has largely returned to normal, year-over-year growth rates were impacted. Looking ahead, we expect flat to modest growth from the cytology business.

Moving on to breast health, total third-quarter 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 SSI. Third-quarter performance was driven largely by increased gantry shipments and robust service revenue growth that continues to contribute meaningfully.

Continuing next to surgical, third-quarter revenue of \$166.6 million increased 6.2%. Surgical growth continues to be fueled by MyoSure and the related Fluent fluid management system. Our laparoscopy business, while smaller in dollars, grew significantly in the quarter and continues to progress nicely. Additionally, international continues to be a bright spot, growing just under 20% in the quarter.

Finally, in our skeletal business, third-quarter revenue of \$19 million declined 29.7% due to lower Horizon DXA shipments resulting from a temporary stop-ship related to a non-conformance issue. We are working with our suppliers to resolve this situation and expect to resume 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 expense 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 SSI business. 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 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 rate in Q3 was 19.75% as expected.

Now let's move on to our Non-GAAP financial guidance for the fourth quarter and full year fiscal 2024. For Q4 2024, we are expecting total revenue in the range of \$970 million to \$985 million and EPS of \$0.97 to \$1.04. For the full year fiscal 2024, our guidance assumes revenue of \$4.012 billion to \$4.027 billion and EPS of \$4.04 to \$4.11.

Unpacking this guidance, we lowered the midpoint of our prior revenue guidance by \$5 million, which represents about a \$20 million headwind related to the temporary skeletal health stop-ship previously mentioned, partially offset by our strong performance in Q3 and the inclusion of an estimated \$4 to \$5 million of revenue from Endomagetrics, now that we have closed the acquisition.

With respect to foreign exchange, we are assuming Q4 will 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 estimate to be a headwind of more than 100 basis points for the full year.

Starting with diagnostics, in Q4, we expect molecular diagnostics business to drive high single-digit growth, excluding COVID, as customers continue to adopt and drive utilization of our broad Panther menu. In cytology and perinatal, we expect growth in the mid-single digits for the fourth quarter. Sequentially, however, we expect the business to perform flat to Q3. In Q4 of last year, sales dropped below typical ordering patterns due to inventory buildup in Q3 of '23. We expect cytology and perinatal comps to stabilize in fiscal year '25.

Closing out on non-COVID diagnostics, we expect blood revenue of approximately \$6 million in Q4 and \$29 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, and 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 customers, as customers balance the need to meet elevated demand for screening and staffing constraints.

Finally, in surgical, we anticipate Q4 revenue to grow mid-single digits. We expect the growth to continue to come from MyoSure, Fluent, and laparoscopy business.

Moving next to margins, our guidance continues to assume a cadence of improvement moving into Q4, for both gross margin and operating margin, we remain on pace to exit the fiscal year in the low-60% for gross margin. Our guidance also assumes Q4 operating margins in the low-30%, and we are on pace to finish fiscal '24 between 30% to 31%, which includes the stub period of Endomagetrics.

Below operating income, we estimate fiscal '24 other income, net, to be an expense of approximately \$8 million in Q4 and \$11 million for the full year. Our guidance is based on an annual effective tax rate of approximately 19.75% and diluted shares outstanding are expected to be approximately 238 million for the full year.

To conclude, Q3 was another strong quarter for Hologic. We continue to deliver robust growth and quality earnings. As we approach the end of fiscal year 2024 and look ahead to 2025, we are excited by the performance across all our franchises and 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.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Patrick Donnelly, Citi.

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### Patrick Donnelly - Citi Investment Research - Analyst

Hey, guys. Thank you for taking the questions. Steve, probably the biggest inbound is just on the 4Q guide, obviously, Karleen talked a little bit 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? Has anything done worse? It seems like it's all skeleton, but just want to talk through the core business and how you're feeling about it into 4Q here?

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### Stephen Macmillan - Hologic Inc - Chairman of the Board, President, Chief Executive Officer

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

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### Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah. And just, Patrick, just to add a final point to it, of the \$20 million headwind, about \$15 million is related to the fourth quarter specifically.

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### Patrick Donnelly - Citi Investment Research - Analyst

Okay. That's helpful. And then, Karleen, maybe one of the questions we get broadly is on 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. Can you talk about, I guess, the 4Q piece, the moving pieces? You talked a little bit about the exit rate there. And just how you think about the build going forward when you think about the algorithm, the keys to getting that margin continuing to expand as we go forward and just broadly how to think about the jumping off point as we look to '25? Thanks so much.

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### Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah, I think we'd like to ground people in the pre-pandemic operating margins of 31.5%. And I think as you see, as we exit Q4, we'll 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. So feel really good about achieving that as we exit '24.



After the full year '24, we'll be a little bit below that, as we said in our prepared remarks, between 30% to 31%. But I have good confidence as we look to '25, we will be squarely for the full year at those pre-pandemic levels.

And just to walk through some of the components, again, as I mentioned, the recent acquisitions will have lower margin profiles. The international business has a lower margin profile, and we're still working through some of the higher supply chain costs, primarily related to chips, as well as we integrate certain facilities, we have double costs. We'll see those primarily work through over the course of '25.

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**Operator**

Tejas Savant, Morgan Stanley.

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**Tejas Savant** - *Morgan Stanley & Co. LLC - Analyst*

Hey, guys. Thanks for the time here. Karleen, I just want to follow up on Patrick's line of questioning on the second question. Can you just help us think through sort of underlying algorithm for EPS growth, 5% to 7% for the top line? Presumably, it stays intact for next year as well. As you've seen through the different buckets here, right, between the margin expansion piece, which you said -- 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, including 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 high-single digit essentially a fair way to think about it or could it be a little bit better than that?

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah. So first of all, Tejas, I'll say that we have -- we're not giving guidance for 2025 at this point. We're still working through our budget cycle and we'll be doing that in totality in the November call. What I would say at a high level when we think about earnings, yes, we want to grow earnings faster than revenue. So again, that 5% to 7% would lead you to the high-single-digit, low-double-digit earnings growth. And we do think about that as balance 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 & Co. LLC - Analyst*

Got it. Fair enough. And then a quick follow up on some of the recent tuck-ins here. I'll start with Bolder actually, perhaps for you, Steve. Could you just give us an update on where things stand on expanding from the pediatric setting there to the OB/GYN channel? Obviously, you flagged a lot more lap procedures there in the OB/GYN side. And then a similar sort of question, early days on Endomag, but how should we be thinking about status quo in that market that Endomag can really help displace, particularly in the US, where it's underpenetrated? And what's the feedback been like from physicians from any early conversations ahead of due course.

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Great. We'll kick that right to Essex to handle.

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**Essex Mitchell** - *Hologic Inc - Chief Operating Officer*

Great. Yeah, 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

and 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 with Bolder. And still quite a bit of meat on the bone left, I would say, with pediatric as we look to focus there. moving forward.

With regard to Endomag, very early days. I would say, we just closed, feel really great about that team, and excited to have them as part of the Hologic family and know that we'll do great things together. As far as feedback from customers, don't have anything to comment on that right now, but feel really good about the prospects of this business, especially with the strong channel and relationships that we have today.

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**Operator**

Jack Meehan, Nephron Research.

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**Jack Meehan** - *Nephron Research LLC - Analyst*

Thank you. Good afternoon. Wanted to focus on the diagnostic business here. Starting with Panther, so I think I heard over 3,300 in the field now. So it feels like that's stepped up a little bit. Pre-COVID, you were placing about 50 a quarter. Just wondering if you felt like you -- are you seeing any signs you might be getting back to those levels or still a bit of a COVID hangover on placements?

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, still lower on the placements. Clearly, this chapter of our growth, Jack, is expanding the utilization for Panther, but we are still seeing a modestly moving up, which we consider to be good. But yeah, not back at that pre-COVID level.

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**Jack Meehan** - *Nephron Research LLC - Analyst*

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

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

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

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**Operator**

Vijay Kumar, Evercore.

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**Vijay Kumar** - *Evercore ISI Institutional Equities - Analyst*

Hi, Steve. Good afternoon. Congrats on nice sprint and thanks for taking my question. I guess my first one on the skeletal [shipowner] ratio, how -- is that in the backlog, Steve? So is this -- could this now be a tailwind for fiscal '25? Or are those more like lost revenues?

**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

It could potentially be a little bit of a -- it won't be lost revenue. I think we feel pretty good. There will be a couple of tiny ones. But overall, I think we feel pretty good. So it might be a modest tailwind for the next year, but we don't want to get too far ahead of ourselves, but we're fixing it and feel very good. And we'll be back in place by the beginning of '25.

**Vijay Kumar** - *Evercore ISI Institutional Equities - Analyst*

That's helpful, Steve. And Karleen, maybe one for you on the margins here for Q4. Did that expectations change versus to prior and mostly because of the deal and perhaps some revenue push out? If so, what is the underlying jump-off point and is that a relevant number to be thinking of to be modeling the company?

**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yes. I think I talked about 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, from an annualized basis, I'd jump off the midpoint of the 30% to 31% and I think that we're going to get back to probably that 31.5% range. But there is some seasonality to margins. And typically, Q1 is our lowest operating margin quarter. I wouldn't like spring off of Q4 to a higher number in Q1.

**Operator**

Anthony Petrone, Mizhuo Group.

**Anthony Petrone** - *Mizuho Securities US, LLC - Analyst*

Thanks and congrats on the quarter here. Maybe I'll just throw two 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 rule? You also have the upgrade cycle with the digital platform, so just a little bit on the lumpiness in cytology.

And then the second one on Panther utilization. Can you actually provide the range of assays used in the post-pandemic systems? I know the average is two, but where does that range sit? What is the upper end of that range and what is the lower end of that range? Where could it trend over time? Thanks.

**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

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 usage, Anthony. It is -- really, it's more because we changed a third-party vendor last year, it kind of made a little bit of lumpiness between the Q2 to Q3 last year comparisons. But the underlying is very 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 -- or I'm sorry, customer acceptance of that in the United States. So I think we continue to feel good about our cytology business.

On the capacity utilization, I'll turn to Karleen.

**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah, sure. So Anthony, on the Panther utilization on the new customers, we talked about over 55% are running two or more assays. But when we look at US in total, that we look at over a third of our customers are running four or more assets. So I would kind of anchor into that four -- four to six is the likely target range.

That over a third at the end of '23 compares to just under 20% at the end of '19. So you can see that growth that we're able to achieve as we drive utilization on the Panthers that are out there.

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**Operator**

Mike Matson, Needham & Company.

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**Mike Matson** - *Needham & Company, LLC - Analyst*

Yeah, thanks. So I want to ask one on the cytology business, OUS. Sounds like that is a growth driver for you guys. But just wanted to understand what's happening in those markets and what's striving to grow and kind of what you're seeing there with PAF versus primary HPV testing in the different regions of the world?

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, we're seeing some nice acceptance to our digital cytology. One of the challenges outside the United States is not as many pathologists around, and so the ability to help on the workflow is a big win. And so rolling out our digital cytology, the Genius cytology there is good. And we continue to work with guidelines. I think the hidden piece that's been missed or everything that we did in the pandemic to provide the COVID test is we established much stronger relationships across the world with ministries of health and everything else.

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

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**Mike Matson** - *Needham & Company, LLC - Analyst*

Okay, thanks. And then I think I heard Karleen call out tax rate as a kind of opportunity over the next few 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?

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

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

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**Operator**

Casey Woodring, JPMorgan.

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

Great. Thank you for taking my questions. So I want 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 sits more in the point of care market has been seeing strong growth rates on the non-respiratory side as well now for several quarters in a row. This competitor has called out sexual health and virology 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

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, I think we continue to feel really, really good that most of the screening is asymptomatic. It's standard testing that the economics are still going to work very well for the labs. And so I think we love our position and there's always going to be people punching around on the edges 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 Securities LLC - Analyst*

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

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, probably not quite ready to give individual line forecasts 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. Thank you.

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**Operator**

Michael Ryskin, Bank of America.

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**Michael Ryskin** - *BofA Global Research - Analyst*

Thanks for taking my question, guys. Just a couple kind of loose ends for me. Going back to the skeletal, the stop ship, I think you talked about confidence that that's getting resolved in fiscal 1Q. I think you talked about \$15 million in the fourth quarter. Just any sense of timing when in the quarter you're going to have it resolved? And just, sort of, if you could frame the range of outcomes there? Could this extend a little bit longer? Do you really have good line of sight on resolution?

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

We do have good line of sight. We're not expected to go out far into Q1 of '25, so you should be able to count on it again. We'll guide by that point, but we fully expect to be back in the market by then.

**Michael Ryskin** - *BofA Global Research - Analyst*

And on the capital deployment side, you talked about balance sheet, strong free cash flow year to date, and then obviously, you've got both share buybacks and M&A kind of going on at the same time. Just remind us 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. So just going forward, priorities between the two and how you see that trading off?

**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah. Certainly, as we look at our cash flow generation with a very strong balance sheet and a very competitive credit agreement, our focus is 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 stated in our remarks, at a minimum to manage dilution from our equity plans and then opportunistic as we see disconnects and valuation in the market.

**Operator**

Navann Ty, BNP Paribas

**Navann Ty** - *BNP Paribas Securities Corp. North America - Analyst*

Hi. Thanks for taking my question. I wanted to ask about the M&A pipeline with your \$2.5 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 AI? Thank you.

**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. I think on the on the M&A front, we -- obviously, we're very pleased we closed the Endomag deal last week. We continue to look at other deals in that size, a little bit bigger, whatever. But again, you can only make them when they're available.

As we said last quarter, we'd love to do kind of one Endomag every 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.

**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah, in regards to innovation, 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 AI, how can we help the radiologist in assessing risk within those images? And again, assessing or helping improve workflow is the use of AI not only in breast, but also in Genius digital cytology.

**Operator**

Ryan Zimmerman, BTIG.

**Ryan Zimmerman** - BTIG, LLC - Analyst

Thanks for taking the questions. Maybe Karleen, just a 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 if you'll be comfortable answering this yet, but do you expect to grow gantries in '25? And, coincidentally, can you give any color on timing of next-gen gantry?

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**Karleen Oberton** - Hologic Inc - Chief Financial Officer

Yeah, I don't think we're going to give any specifics on timing. I think likely as we look towards RSA would be a time that we would highlight that for certain of our customers and probably give a little more specifics on what we're expecting for 2025 and beyond.

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**Ryan Zimmerman** - BTIG, LLC - Analyst

Okay. Just a follow-up, two quick questions. One, what's the status or impact that you're seeing from the BioZorb recall dynamics? How does that impact with Endomagetics, if at all?

And then the second thing that I wanted to just ask about, unrelated, was you've had a number of these deals. And to go back to the earlier margin question, is there an opportunity in any way or some facility integration or manufacturing integration that hasn't been contemplated or discussed yet? Because it would seem like with the number of deals you've done over the past years, there could be some low-hanging fruit there. And I just don't recall you guys really talking too much about that thus far. Thanks for taking the questions.

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**Essex Mitchell** - Hologic Inc - Chief Operating Officer

Yeah, this is Essex. I'll jump in on the BioZorb question. So Endomag and BioZorb are completely unrelated from each other, number one. But number two, I would say is that the BioZorb recall was more of an administrative recall where we needed to update our PI or language in our insert. So we are still selling their product, feel great about it, and are working through that.

With regard to facility integration, I don't know if Karleen wants to jump on that.

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**Karleen Oberton** - Hologic Inc - Chief Financial Officer

Yeah. Sure. So as we've highlighted, we're doing some facility integration in our breast health business right now. From each of the acquisitions, they all have different profiles. Some makes sense to stand alone as they are and others do make sense to integrate and they're in various stages of integration. And as we always do, we always look at our supply chain, look at our network and 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.

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**Operator**

Mason Carrico, Stephens.

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**Mason Carrico** - Stephens Inc. - Analyst

Hey. Thanks for taking the questions. On the molecular business, could you provide some color on how adoption is trending for the Fusion sidecar recently? You doubled the Panther installed base during COVID. How has adoption really been among those new customers? And then as a follow up, what are your expectations for where that Fusion attach rate can move longer term?

**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

We're seeing steady adoption of the Fusion sidecar, which is dynamite 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.

It doesn't necessarily mean every Panther needs a Fusion. And in fact, it'll 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 each customer have the capability. And so that's been our big focal point. We're seeing good adoption and steady growth.

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**Operator**

Andrew Cooper, Raymond James.

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**Andrew Cooper** - *Raymond James & Associates, Inc. - Analyst*

Hey, everybody, thanks for 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 a driver is Endomag flowing versus maybe a little bit of the decremental from the cyclical headwinds versus anything in the core in terms of as we think about that 4Q operating margin and full-year operating margin for fiscal '24?

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah. So I would say, it's more geared towards the stop ship on the skeletal versus the Endomag. Think about Endomag as very small revenue for only two months, but certainly stop ship on even a noncore franchise is going to have an impact on margins.

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**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

The way to think about it, too, is with that, I think our margins are still looking really, really good.

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**Andrew Cooper** - *Raymond James & Associates, Inc. - Analyst*

No, agreed. And then just one more again, kind of, on margins, but Karleen, I just want to make sure I caught something you said correct. I think you said something about working through chip costs and integrating facilities with the -- elevated chip cost, I should say, and integrating facilities through fiscal '25. Just wanted to get a sense, has anything changed in terms of how quickly you're working through those higher-cost chips and when you expect to be at more normal levels in terms of the chip costs themselves?

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah. I think we're substantially through them as we exit '24 and probably be a little bit into '25. But I think what we're having is as we increase production overall, getting more favorable absorption than what we had prior when manufacturing was really reduced because of the chip supply.

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**Andrew Cooper** - *Raymond James & Associates, Inc. - Analyst*

Okay. Great. I'll stop here. Thank you so much.



**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah, the facility integration in the breast business specifically will go through at least the first half of '25.

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**Operator**

[Lu Lee], UBS.

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**Unidentified Participant**

Great. Thank you for taking my question. I think just a quick one on breast. I think you mentioned the [placement] is pretty strong. Against your placement is pretty strong in the quarter. I'm wondering if you can give like specific number on the placement. And then also, is it really back to the one way, pre-COVID one way? Thank you.

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

Yeah, I don't think we've given specific numbers on gantries. Again, we've grown. We have real confidence that the total gantries are going to grow year over year. We're not quite back to pre-pandemic levels but we'll be at those levels in 2025.

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**Unidentified Participant**

(inaudible) placements, sorry.

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

I'm sorry. Can you repeat that?

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**Unidentified Participant**

I'm sorry, yeah. And any regional comment that you want to call out in the gantry placement?

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**Karleen Oberton** - *Hologic Inc - Chief Financial Officer*

No, not specifically.

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**Operator**

Puneet Souda, Leerink Partners.

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**Puneet Souda** - *Leerink Partners LLC - Analyst*

Hey. Thanks, Steve. Thanks for squeezing me in there. Just -- I'll just round it out with -- I'll round it out with one question. On the skeletal, just wanted to confirm, when you look at the market for bone density measurement and fracture assessment, has anything changed there competitively in your view? Just wanted to confirm that and get a view about the skeletal push-out that you're seeing in the quarter.

**Stephen Macmillan** - *Hologic Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, we still feel great about the market, great about our products. This is truly a supplier [induced] tick-up on our smallest business, and we'll be through it within another quarter and right back to what we expect. And in the meantime, obviously, that the core businesses are all delivering very, very well. So the totals are very strong. But yeah, nothing different, Puneet. No concerns.

All right. Thank you.

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**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.

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