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HOLX.OQ - Q4 2024 Hologic Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon and welcome to the hologics fourth quarter, fiscal 2024 earnings conference call. My name is Shelley 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.

Ryan Simon - Hologic Inc - Vice President - Investor Relations

Thank you, Shelley. Good afternoon and thank you for joining hologic's fourth quarter. Fiscal 2024 earnings call with me today are Steve Macmillan, the company's Chairman, President and Chief Executive Officer Essex Mitchell, our Chief Operating Officer and Carlene Overton, our Chief Financial Officer, our fourth 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 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 nongAAP 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 and 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 mcmillan Logic, CEO.

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 fourth quarter of fiscal 2024 total revenue was \$987.9 million and non-GAAP earnings per share were a dollar one.

We closed the fiscal year with another solid quarter with revenue above the high end of our previous guidance range and EPS at the midpoint, our fourth quarter results underscore the durable growth of our business and our ability to consistently deliver for the full fiscal year. 2024. We posted \$4.03 billion in revenue and non-GAAP EPS of \$4.08.

Before discussing our themes for today, we'd like to first reflect on the fiscal year we just completed in 2024 we made great progress, strengthening and growing our business by leveraging our leading brands. We drove diverse revenue growth and delivered industry leading margins all while generating exceptional cash flow.

This enabled us to achieve broad based growth and expand our end markets. Thanks to our intense focus on workflow, automation and identifying opportunities for better solutions.

At the same time, we executed our M&A strategy effectively while delivering differentiated solutions for our customers and further solidifying our durable competitive advantage as champions of women's health, we also continue to make progress and are still in the early innings of the large international opportunity that lies ahead going a level deeper. We have four highlights to share that reflect our progress.

What for the full year, our molecular diagnostics business grew 9% excluding COVID continuing its strong growth. These results should put to rest any concerns regarding panther utilization in a post COVID environment.

Two in breast imaging, we maintained our market leading position while effectively navigating through the impact of the global semiconductor chip shortage.

Three from an operating margin perspective, we finished the year at 30% maintaining profitability in the top tier of our peer group with opportunities for further improvement in 2025.

Regarding our M&A strategy or we have been patient disciplined and notably more active recently as opportunities we've been cultivating have become actionable.

More specifically we acquired endo Matics in July and signed a definitive agreement in October to acquire Gyno SOIC. Both are tuck in deals that are straight down the fairway as it relates to our M&A strategy and fit nicely into our global portfolio.

We are the right partner to maximize these business opportunities, helping to benefit more women with the innovative products from these deals from a broader capital allocation perspective. In 2024 we fully funded key organic initiatives and continued to reduce our share count.

Additionally, as part of our release today, we announced our intention to launch a new \$250 million accelerated share repurchase program.

Overall, we have the ability to consistently deliver value to our shareholders through solid top line growth, operating and net margin expansion and strong cash generation and deployment.

Now, moving to our two themes for our call, one reinforcing who we are and how we got here and two shedding more light on where we are today and where we're headed in 2025 and beyond.

As we've said before, Palogic is a company you can count on over the past 10 years. Our non-GAAP EPS compound annual growth rate is over 10%. A meaningful achievement.

Despite changing, we have consistently delivered.

Looking ahead there will be ups and downs challenges and headwinds but we expect to deliver as we have over the past decade since joining Hologic in 2013, we have dramatically transformed our business through two important phases.

First, we steadied the ship and firmly rooted our leadership brands across our three main franchises, diagnostics, breast health and surgical.

Second, during the COVID pandemic, we added several growth drivers across each of our franchises both organically and through acquisitions.

Today, we have industry leading platforms in each franchise and some of the strongest commercial channels in health care.

The common theme across these two phases of transformation is our ability to create markets, establish market leading positions and drive growth by generating new opportunities.

Looking back products such as the Panther Horizon, Dexa our thinprep Liquid Based Path test, 3d, mammography, novasure and myosure all represented improvements on the standard of care and therefore new markets. At the time of their introduction, these trailblazing product lines generated new opportunities which we continue to capitalize on today.

Building on our foundation products such as the Panther fusion, breast cancer index, genius Digital Psychology AI in mammography, fluent and assessor leverage our established core businesses and enable more growth through market, creating innovation that said as an organization, we are never satisfied and consistently aim to create new essential innovations to make the best even better.

Our culture and leadership have never been stronger as we continue to make a profound impact on women's health. Globally.

Looking ahead to fiscal 2025 we are excited about our durable revenue base, diverse mix of growth drivers including our latest edition in Endo matics and the opportunity to further strengthen our new product pipeline through organic and inorganic opportunities.

We anticipate 2025 to be another year. We deliver on our commitments position, Hologic positioning, Hologic for even greater long term success. Now I will pass the call over to Essex.

Essex Mitchell - *Hologic Inc - Chief Operating Officer*

Thank you, Steve. Good afternoon. Everyone. In my remarks, I will highlight where we are as a business today including divisional level revenue performance and share insights into where we are headed.

As Steve discussed, our success. Transforming Hologic has been underpinned by our ability to excel as market creators. Over time, our products and solutions become integral to our customers operations across our franchises. We provide solutions that enhance our customer success by incorporating industry leading workflow automation as our products significantly improve our customers operational efficiency. We are more than just a supplier. We become a partner today. Our portfolio includes several new products with considerable potential.

These products span our franchises and geographies creating multiple layers of sustainable future growth. Coupled with our strong balance sheet, we have the firepower to add new growth drivers both organically and inorganically. We are confident that our robust portfolio along with future additions will enable us to grow sustainably and navigate the evolving market landscape with agility and resilience.

Now shifting gears to our divisional revenue results for the fourth quarter in diagnostics, fourth quarter, global revenue of 443.3 million grew 6.2% and 9.2% organically excluding COVID molecular diagnostics remains a pillar of strength for the division growing 9.1% and 13.2% excluding COVID molecular performance continues to be powered by our BBC V TV, Essay and Bio Aeronautics business. Both of both of which have runway for future growth.

The divisions respiratory four plex COVID flu A BRSVS A also contribute growth for the quarter for the full year. Molecular posted excellent global growth of 9% ex COVID. This performance was again driven by BBC B TV. As we continue to grow this market, moving testing for vaginitis to our FDA approved assays on our highly automated high throughput panther system. In addition, we continue to see a creative growth from our Biotheranostics business as we drive adoption and expand coverage for the breast cancer index test.

And finally, we are expanding the global footprint of our panther fusion system allowing us to meet the need for high throughput molecular diagnostic respiratory testing while also setting us up nicely as we build additional menu on the platform.

Shifting to cytology and our perinatal business within diagnostics. We posted 0.7% growth in our fourth quarter since the FDA approval of our genius Digital Diagnostic System for digital path test. We've worked closely with our early adopting customers and they've given us great positive feedback on the system.

This platform represents a significant improvement to the current past test work flow. It combines A I and advanced digital imaging to provide customers more sensitive disease detection and a streamlined efficiency. A digital A I assisted path test.

We are proud to announce that our first us genius digital diagnostic customers went live in the fourth quarter. This milestone is yet another example of Hologic understanding the needs of our customers and responding to changing market dynamics with essential innovation.

Turning to breast health total fourth quarter revenue of \$375.5 million increased 6.2% or 5.3% organically, when excluding S SI and endo matics, organic growth in the fourth quarter was primarily driven by increased breast imaging service revenue along with contributions from our gantry business and interventional products.

In surgical fourth quarter revenue of \$156.5 million increased 5.4% compared to the prior year.

The period's growth was once again led by core miles and the platform's complementary fluent fluid management system helping to offset declines in our legacy domestic Nova Shore business.

In addition, our international surgical business continues to drive strong broad based performance as we expand access to our technologies into new markets.

And finally, in our scalable business, fourth quarter revenue of 12.7 million decreased 54.9%. This result was expected based on the horizon. Dexa stop ship we announced on our third quarter earnings call as a reminder, this is a temporary headwind and we expect to resume shipping in the back half of our first quarter, moving next to where we're headed. I'll f I'll first comment on our international business and close with comments on our M&A strategy from an international perspective.

Our efforts to expand globally have been broadly successful.

Our international business is nearly 50% larger compared to 2019 with an accretive annual revenue growth that said the full potential of our international business remains largely untapped while we have taken key steps and are more direct in international markets than ever before. There is a vast international opportunity available to us that we are still in the early stages of realizing over a multi year horizon, we see meaningful

growth prospects for our international business as we continue to penetrate new regions and enhance our presence in existing ones by leveraging our innovative products and strong brand reputation. We are well positioned to capture emerging markets, markets opportunities which we expect to be accretive to total company growth rates for years to come.

Yeah, shifting now to M&A it should come as no surprise that a combination of organic and inorganic innovation will add fuel for our future growth.

Our M&A strategy continues to focus on pursuing tuck in deals that align with our three franchises. We aim to identify and acquire assets that leverage our existing strengths, drive top line growth and add accretion to earnings over time going deeper. We prioritize assets that nicely fit into our current market segments or near adjacent markets. We target strategic and high growth areas across our franchises to enhance our current market position and to build global durable growth portfolio.

In summary, our M&A strategy is designed to identify and integrate valuable assets that drive incremental growth, reinforce our market leadership and deliver sustained value to our shareholders by maintaining focus on our core markets, exploring adjacent opportunities and driving essential innovation. We believe we are well positioned to navigate 2025 in the years ahead with that. I'll hand the call over to Carlene.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Thank you, Essex and Good afternoon. Everyone in my comments today, we will begin with an overview of our solid fourth quarter and full year financial results providing more color on margin and capital deployment in closing. We will finish with our fiscal 2025 guidance for Q1 in the full year.

We are pleased to close fiscal 2024 by continuing to meet or exceed our commitments on both the top and bottom line in our fourth quarter, total revenue was \$987.9 million growing 4.2% over the prior year period and 5% organically excluding COVID.

In addition, our not Q4 non-GAAP earnings per share were \$1.01 growing 13.5% for the full fiscal 2024 total revenue was \$4.03 billion. Declining 0.2% while growing 5.3% organically excluding COVID.

In Nongaap earnings per share were \$4.08 growing 3%.

Given the revenue headwind of the Skeletal stop ship in Q4, we view these results as solid more notably for the second quarter in a row, we returned to top line growth for our total business as we continue to bend the revenue curve in a positive direction.

Before moving on to the income statement, we'd like to highlight the continued strength of our balance sheet as well as our commitment to our capital allocation strategy in fiscal 2024 we pulled both levers of our capital allocation strategy by completing a revenue creative tuck in M&A deal in Endo matics while also repurchasing 11.2 million shares for \$808 million which includes a \$500 million a sr completed in the second quarter over the course of fiscal 2024 we reduced our diluted share count by over 10 million shares.

Demonstrating our commitment to leveraging our strong balance sheet and cash flow to manage our share count and deliver EPS growth starting off 2025. As Steve mentioned, we remain confident in our business.

We continue to leverage our ability to repurchase shares with the announcement of our intention to enter into a new \$250 million. A sr with our strong operating cash flow. We are in an excellent position to continue funding our priority organic investments as well as our capital allocation strategy.

We exited the year with over \$2.4 billion in cash and investments on the balance sheet and we'll continue to pursue growth opportunities in fiscal 2025.

As mentioned earlier on this call, we are off to a great start by signing a definitive agreement in October to acquire GNA SOIC.

We anticipate closing this deal in the first half of calendar 2025.

Now on to the Nongaap P&L for the fourth quarter, starting at gross margin in Q4, gross margin increased to 61.5% up 110 basis points year over year driven by broad based domestic revenue growth.

We are pleased with this performance having achieved steady expansion throughout the year while overcoming several headwinds including the amortization of high cost inventory of semiconductor chips and the headwind from the skeletal stop ship.

Moving down the P&L fourth quarter, operating expenses of \$311 million increased approximately 2.4%.

This increase was primarily driven by the inclusion of Endo matics in our fourth quarter results as well as stronger local currencies in our international business, excluding the impact of enom matics and FX. Our operating expenses were approximately flat compared to the prior year.

All together fourth quarter operating margins finished at 30% and net margin was 24%.

Both representing a modest increase over the prior year below operating income. Other income net represented a loss in our fiscal fourth quarter of slightly less than \$1 million better than previously anticipated due to lower net interest expense.

Finally, our tax rate in Q4 was 19.75% as expected.

Now, let's move on to our non-GAAP financial guidance for the first quarter and full fiscal year of 2025 in the first quarter of fiscal 2025 we are expecting total revenue in the range of 1.025 to \$1.035 billion an EPS of \$1 to \$1.03 for the full year 2025. Our guidance assumes revenue of 4.15 billion to \$4.20 billion in EPS of \$4.25 to \$4.35 help with constant currency modeling. We are assuming a foreign exchange tailwind of slightly less than \$10 million for Q1 and \$30 million for the full year.

Our guidance assumes the recent trend of strengthening local currencies in our international markets continues in fiscal '25 overall for the full fiscal year. Our guidance assumes organic ex COVID growth of approximately 4% at the midpoint.

We expect revenue growth to build throughout the year.

In Q1, we will be impacted by several transitory headwinds such as the stop ship in our Skeletal business as well as strong prior year. Comparisons in breast health and surgical.

We are also planning conservatively around the respiratory season and the residual impact from recent hurricanes including the saline IV fluid shortage that we anticipate will be a headwind to our more elective breast and surgical procedures.

Now, moving on to assumptions underlying our revenue guidance at the division level for core diagnostics. We expect mid single digit growth for the full year driven by our BV CV TV assay and the ongoing adoption of our biodiagnostics BC I test further. As Essex mentioned, we successfully launched genius digital cytology in the US during the fourth quarter.

We're excited to continue this rollout and the growth opportunity it represents regarding COVID and respiratory assay assumptions, given the inherent variability of the respiratory season, we continue to plan conservatively for both while maintaining capacity to aggressively meet any surges in demand.

In addition, fiscal 2024 saw COVID revenue transitioning to our four plex respiratory assay in our base molecular business.

In 2025 we anticipate lacking the benefit of this conversion.

In terms of COVID revenue, we expect COVID assay sales to about \$10 million in the first quarter and approximately \$25 million for the full year. COVID related items are expected to be about 24 million in the first quarter and approximately \$95 million for the full for the full year closing out our diagnostics business. We expect blood screening revenue of about \$5 million in Q1 and about \$20 million for the full year.

Turning to breast health over the past two fiscal years, we experienced elevated growth rates as we gradually recovered from the global chip shortage.

Moving past this dynamic in fiscal 2025 we expect the gantry business within breast health to return to more normal growth. Ahead of our anticipated next generation gantry launch in our interventional breast segment. We expect continued strong performance from our portfolio of disposable needles and markers so possible, partially offset by recent withdrawal by absorb products from the market.

Lastly, in surgical, we expect broad based progress across our portfolio to offset anticipated domestic nova shore declines.

We also foresee strong international surgical growth in fiscal '25 driven by deeper market access and market penetration opportunities.

Moving next to margins.

Our fiscal '25 guidance assumes both gross margin and operating margin expansion, highlighting our strong operational discipline and commitment to shareholder value.

Thus, we expect Q1 gross margins around 60% and expect improvement of roughly 50 basis points over the course of the year.

Additionally, we expect Q1 operating margins around 30% with an expected increase of 50 to 100 basis points throughout the year.

We are in an outstanding position. Given the current macro environment working down the P&L we expect Q1 to represent our highest quarter of operating expense in fiscal '25 this is due to normal seasonal expenses including larger marketing campaigns, as well as sales and trade meetings for the balance of the year. We anticipate quarterly operating expense to represent a modest increase over fiscal '24.

As we include the addition of endo matics business into our fiscal '25 guidance below operating income. We estimate fiscal '25 other income net to meet expense of approximately 10 to \$15 million in Q1 in an expense between 50 \$60 million for the full year.

Our guidance is based on an annual effective tax rate of approximately 19.5% and diluted shares outstanding are expected to be approximately 235 million for the full year to conclude our solid fourth quarter completes another successful year for Hologic.

As always, our focus remains on advancing women's health globally and delivering durable long term results.

Entering fiscal '25 we are excited about the opportunities ahead with that. We ask the operator to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Patrick Donnelly, Citi.

Patrick Donnelly - Citi - Analyst

Hey, guys, thanks for taking the questions. Carlene, maybe to start where you finished that. Hey, hey, how are you just on the, on the margins? Carlene? Can you talk through how to think about the year? Obviously, a lot of folks are anchored to kind of the 31.5% for the year. And I know there was a lot of focus, you know, as COVID finally gets cleaned up land on that number. Can you talk about the moving pieces on the margin front for the year and, and, and kind of where we should be thinking about the year and then the expansion potential off of this as well?

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yes. So you're talking about fiscal '25 Patrick moving forward?

Patrick Donnelly - Citi - Analyst

Yes. Correct.

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah. Yeah. So I think we talked about certainly some headwinds in the first half of the year that we think those are transitory in nature. And certainly when we talk about the IV fluids, shortage, impacting surgical, you know, our most profitable business that gives you some of the, first half challenges that we think are again transitory and we'll work through those over the course of the year. I think as we also think about the year we've talked about network optimization opportunities that have been underway. We'll start to see more of a benefit from those as we exit the fiscal year. So those are some of the key key items that we look to over the course of the year. And again, if you look at the full year revenue guidance, 4% at the midpoint for the full year lower than that. Certainly in Q1 as we start off, that gives you a sense of accelerated revenue growth in the back year. That's going to help that margin expansion at the end of the year.

Patrick Donnelly - Citi - Analyst

Okay. That's helpful. And then Steve maybe just on the breast health business. Can you talk about the outlook for the year? You know, it sounds like maybe a new launch looming here on the gantry side, how to think about, you know, there's always a risk of maybe a little bit of a pause before that or a replacement cycle on the back of it. So, so maybe just frame up how to think about breast health with some new products coming and, and what the growth could look like there. Thank you guys.

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

Yeah, thanks Patrick. I think, you know, the reality of the new gantry is that's going to be more impacted in kind of 26 27 28 from revenue. We are in that year prior to the launch that it might be a touch slower on pure gantries. The flip side is as our service business as the interventional business and particularly things like Endo Ma coming through. It's the magic of continuing to deliver. So probably a little bit lower than the last couple of years as Carlene mentioned. But still very solid and we still feel really good about the, the existing gantries and the customers we still have to go, but probably just a little bit lower than last year before re accelerates.

Operator

Jack Meehan. Nephron Research

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

Hello, Jack.

Jack Meehan - *Nephron Research - Analyst*

Thank you. Hello, Steve Goldberg.

Had a couple.

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

Of questions, I'm sure.

Jack Meehan - *Nephron Research - Analyst*

Yeah.

No backwards. Leaps over players here. Okay.

First question now that it is the end of the year, I was wondering, you know, it sounds like Biotheranostics, BBC V TV. You know, two of the key growth drivers here. Could you just give us a mark to market, you know, for the year ballpark of what the sales were and then what your view is on kind of how much the level of growth we should expect in 2025?

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, so I would say a couple of points on BBC V. I think we've talked about that is approximately our second largest assay. So it's going to be several \$100 million in revenue. Biotheranostics is, is not at that level, it's probably closer to the \$100 million plus level. I would think about those as BV CV, very strong double digit grower in 24. We continue to grow double digits in 25 probably at a little lesser rate given the increasing base and biotheranostics, a solid double digit grower in 24. And we expect a similar in 25.

Jack Meehan - *Nephron Research - Analyst*

Great.

And then Carlene, you also talked about the transition you saw this year to the respiratory panel. And it just trying to read through the lines. It sounds like you're expecting your at least your initial assumption is that declines this year. Any chance you could give us a ballpark, what that sales contribution was in 2024 and just assumptions there. Thanks.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, I mean, it was definitely in the several tens of millions of dollars for, for the four plus assay. And so I think at this point again, that was a, a transition from COVID revenue to to this product. And so I think we're don't expect another transition year if you will. So that's why it's a little bit of a headwind here as we think about the first half of 25.

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

Thanks Jack.

Operator

Anthony Petrone, Mizuho Group.

Anthony Petrone - Mizuho Securities - Analyst

Thanks and congrats on the quarter here, maybe one on breast health and one on Disonics. The acquisition announced a couple of weeks ago on breast health just in terms of, you know, gantry roll out post RSN A and we think about next fiscal year, you know, should we be thinking that, you know, sort of the, you know, 2014 to 27 sort of installs from the 3D tomosynthesis, initial product cycle, those would be up for renewal, beginning next year or is there a bigger portion of that install base that potentially is eligible for an upgrade? And then just on G and SOIC, the Sonata system, maybe just a little bit on, you know, how many systems are already out there in the marketplace and just synergies with the existing gy and surgical portfolio. Thanks.

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

Yeah, on the on the breast health piece, I would think you know, it's going to be a rolling I wouldn't expect some big bolus of the 2014 to all 2,017 coming due. I think we're going to be phasing it out and, and frankly, again, looking for more durable growth than the quick bonus of uptake. And then on Gno Soic,

Essex Mitchell - Hologic Inc - Chief Operating Officer

I can answer the guy out of question. So first we will go to two new details on install base or anything like that. So we actually closed. But what I will say is that we believe this really complements our portfolio and really aligns with what our surgical team is doing every day. So the same customers doing the same type of procedures that are hyper hysteroscopic or trans cervical, which really aligns where our strength is that so excited about it, we'll have a little bit more information once we close.

Anthony Petrone - Mizuho Securities - Analyst

I appreciate that. Thank you.

Operator

Vijay Kumar, Evercore ISI.

Vijay Kumar - Evercore ISI - Analyst

Hey guys, thanks for taking my question. Steve. Sorry from if you're you know, I missed the first part of the call. The, the when I look at the guidance here 33.4 to 4.7 XX ex COVID, the, the, I guess how do we make the bridge to the LRP of 57 is skeleton still a headwind here in fiscal '25. Anything else that we need to be aware of? To, to draw the bridge from, from, from your current guide to the 5 to 7.

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yes. So what you missed BJ is talking about what we call transitory headwinds that we're experiencing here and let's say Q1 and potentially into Q2. Both the skeletal again that we in our prepared mock said we'd start shipping that at the latter half of Q1. So it's definitely a headwind here. And then we talked about being conservative on our respiratory products again, given the seasonality of flu and then finally, the IV fluid shortages that as a result of the hurricanes, we do anticipate that this is going to be a headwind for our surgical and breast businesses that need those fluids

here in Q1 and it could creep into Q2. So if you take all those as transitory headwinds for the first half, you look at the midpoint of our guide for the full year at 4%. Much lower growth rate here in Q1 that gives you a sense that the back half is going to have accelerated growth on the revenue.

Vijay Kumar - *Evercore ISI - Analyst*

Understood, Steve maybe on, on this I vlu shortage, none of the other me companies have called us. So I'm curious, are you seeing something now or is this more of a modern assumption? Thank you.

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

A bit of both. I think a few have a few have mentioned it. And I think the other piece is Canada, I'd remind you, we were the first ones that called out the chip shortage. We've been the first to call out a lot of things BJ as you well know, because we're very close to the business and we are seeing little pockets. I think the other part is our surgical business is very highly elective. And so part of what is happening is clearly, Baxter is prioritized or, you know, hospitals are prioritizing the emergency and non elective procedures. So we expect we probably do have a slight more, you know, short term, clearly transitory impact that again, nothing, nothing lurking beyond that as soon as we come bouncing back and we'll probably, you know, frankly could be a headwind that could turn into a tailwind. But we always want to be conservative going into starting the year.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah. VJ, I would say at least 3 to 4 other med tech companies have called it out specifically. So we're, we're not, not alone in this.

Operator

Ben Leonard, UBS.

Benjamin Leonard - *UBS Securities - Analyst*

Thank you. This is Lou on how I just wanted to going back to the transitory head. Is it possible to kind of like quantify like what's the magnitude in the shortages? And then what is in the kind of like conservatism and the respiratory? Very new? Just any more color? That would be great.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, I mean, we, we haven't quantified it specifically. You know, I think from a, we've talked about the skeletal shop stop ship is roughly \$5 million a month. So that might give, we talked about returning to shipment in the back half. So that gives you a sense of what that could be. Certainly conservatism and the respiratory you know, could be in a range of at least 10 to \$20 million and on the IV fluid, I think that's still evolving and we really don't have a sense of that quite yet.

Benjamin Leonard - *UBS Securities - Analyst*

Okay. Got it. And then I wanted to touch a little bit on the share repo that you mentioned the 250. Is that going to happen entirely in one quarter or is that like a year or multiyear program?

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, we expect we're going to kick that off in the next couple of weeks here and it should finish within our fiscal second quarter.

So we'll have a pro rated benefit if you will within the fiscal 2025 full year.

Operator

Casey Woodring, JPMorgan.

Casey Woodring - JPMorgan - Analyst

All right, great. Thanks for taking my questions. Was curious if you could break out the one Q guide by business segment. Just to help us understand the growth acceleration expected over the course of the year between segments. And then also curious what you're expecting in terms of international business growth versus you know, domestic sales in 25 and what the outlook is you know, across the different businesses internationally.

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah, I mean, it we, we haven't provided the specific detail but if you think about we talked about those transitory headwinds, least impact probably in diagnostics. So you think about diagnosis is in the mid single digit growth for the first quarter and you have the other businesses below that.

Casey Woodring - JPMorgan - Analyst

And then just internationally as well. How, how are you thinking about that?

Essex Mitchell - Hologic Inc - Chief Operating Officer

Yeah, we expect international to grow at a faster rate than our domestic business.

Casey Woodring - JPMorgan - Analyst

Got it. Okay. And then just maybe if I can fit in one quick last one. So, you know, you talked about leveraging you know, some supply chain costs moving around to give you some tax benefit. Just wondering if there. If there's anything baked in there from a supply chain perspective that 19.5% tax rate for 25 or if there's some upside to that number. Thank you.

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yes, Casey. I would remind you that the 19.5 is lower than fiscal '24. We're taking it down 25 basis points. Primary, primarily related to, you know, limiting some of our foreign losses that weren't deductible. And of course, we're always looking at other supply chain opportunities or business opportunities to drive the rate. But I, I wouldn't say that we're ready to commit to anything lower than the 19.5 that's already lower than 24 steady progress.

Operator

Mike Matson, Needham & Company.

Michael Matson - *Needham & Company - Analyst*

Yeah, thanks. So, so I want to ask one on the surgical business. So Nova sure sounds like it's declining in the US. So you talk about why and you know, whether or not that's something that could be stabilized and maybe even return to growth or is it going to be a professional decline?

Essex Mitchell - *Hologic Inc - Chief Operating Officer*

Yeah. What I would say is that, you know, for, for a number of years, the volumes of global endometrial operation across the market have been a slow decliner. We've continued to maintain our market share and do well in the space. But we do see alternatives versus competitors become more prevalent such as IU Ds and other things to control hormonal abnormal uterine bleeding. So as of right now, we do expect that to continue on a on a slow decline, feel great about our ability to continue to grow internationally, which is expanding and it has a nice growth rate with Nova Shore. So expecting all in to still put up market leading results, but we do see it declining in the US.

Michael Matson - *Needham & Company - Analyst*

Okay? Got it. And then just another one on the GNO SOIC deal. I understand it hasn't closed. So I don't know if you can or if you're willing or able to answer this. But I guess, you know, it looks like it's for fibroid similar to myosure. So I guess why won't, why isn't this something that will cannibalize myosure to some degree? Is it used for, you know, different patients or different types of fibroids or something like that? Is that why it will?

Essex Mitchell - *Hologic Inc - Chief Operating Officer*

Yeah, it sounds like you're right on it. It is for different fibroids. So we have a large fibroids on the outside and in the wall of the uterus with assess a small polyps and it's only up to type two fibroids with myosure.

There are six different types of fibroids, GNO SOIC. So the sonata system fills the GAAP in between both sonata or both assessor and myosure. So it is attacking a different type of fibroid using a different technology than myosure.

Operator

Navann Ty, BNP Paribas.

Navann Ty - *BNP Paribas - Analyst*

Hi, thank you for taking my question. I have one on M&A if you could discuss recent M&A environment in college three segments and maybe more broadly, you kept your education priorities in 2025. Thank you.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, I would say that, you know, at logic, you know, M&A is within each division, so each division has their own business development teams that are out there, identifying assets, cultivating relationships and hopefully we're able to acquire assets, you know, be before they jump into a process. And hopefully assets that, you know, we're kind of the rightful owner of. And so I'd say there's no priority between divisions at this time. It's really about what is the best deal for Hologic. And I think we gave some examples on how Omnes and Ghana SOIC fit nicely into our current portfolio. We bring a point of expertise and I would say, as we look at 2025 I think it's probably more of the same of what we saw in 24 a balance of M&A and share repurchase is what we're looking to do.

Operator

Michael Ryskin, Bank of America.

Michael Ryskin - Bank of America - Analyst

Hello, this is John on for Michael.

I wanted to ask about the Panthers. I, what I believe is one of your manufacturing partners recently missed their results and was wondering if that has something to do with how the plant panther placements are going. I know that utilization and then the assay menu expansion is the, is the way to the growth. But, and I'm sure I'm sure the level of placements is far different from what it used to be pre pre pandemic. But so I wanted to ask how that's been trending.

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah, absolutely. I think this is something we've talked about for the last couple of years. We have an installed base of over 3,300 panthers worldwide, which is significantly higher. So what we had prior to the pandemic and we had obviously an accelerated placement of panthers during that time. And as we expected, those placements have slowed but no impact on the growth of the business. As we said, molecular diagnostics excluding COVID grew 9% in fiscal '24. Many years after the end of the, you know, post the pandemic. So continued strength with that business.

Michael Ryskin - Bank of America - Analyst

Got you then in.

Yeah, go ahead, please go ahead.

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

No, you go ahead.

Michael Ryskin - Bank of America - Analyst

Oh, well, I mean, if you wanted to give me more color, but I would have taken that. But.

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

As you know, Michael and you know, not some people, I think sometimes forget is we make all of the revenue on the assays, not on panthers. So I know that we've gotten some questions from investors that are thinking gee if we sell less panthers, is that showing a downturn? But as you know, it's a reagent rental model. So frankly, right now, the next few years are largely driving that assay adoption without having to even place a lot of panthers which is even better on the CapEx side. So it's a very good story for us.

Michael Ryskin - Bank of America - Analyst

Got it. And yeah, and on the, on that related note, any update to the statistics you provided in the past about 55 users having, using two or more essays and a third having four or more.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

We haven't provided an update to that and just in general, I would say that those trends continue to prove improve, move in the right direction.

Operator

Mason Carrico, Stephens.

Mason Carrico - *Stephens - Analyst*

Hey, thanks for taking the questions. This is Harrison on for Mason.

It looks like so last quarter, I believe you talked about some facility integrations within the breast health business. Could you maybe talk a little bit about the cadence or time line of how those integrations?

We play out this year and then the margin impact as we progress through the year? Thanks.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, we expect that migration to be completed over the course of 25. You know, which, which is great, not only from a manufacturing but also R&D will be seated there and in some great synergies with the R&D teams, but we haven't provided specific improvements, but it is part of the improvement. We will see over the course of the year.

Mason Carrico - *Stephens - Analyst*

Got it. Yes. So sounds great. And then so within breast health, have we largely moved past the high, the higher cost of chips at this point? Are we at a more normalized level, you know, heading into 25 or is the, is there still a drag on margin earlier in the year relative to the back half? Thanks.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah, we, we're probably on the tail end of that. You know, you know, there was, it wasn't just one ship, there was, you know, many, many different ships that had, had the issue. So there could be still a few you know, working their way through the system. But you know, I think as we go through 25 we will move past that.

Operator

Tejas Savant, Morgan Stanley.

Tejas Savant - *Morgan Stanley - Analyst*

Hi, this is Jason A pages. Thank you for taking our questions. So, so just a few modeling related questions. So in skeletal health, do you expect the supply chain issue to be resolved by the end of F one Q? So how much if any of these sort of \$15 million per quarter, that loss, can we expect to be recouped in fiscal year? 2025 on top of the base sales expectations? And then on a bio, could you quantify the financial impact from removing this product for fiscal year? 25? Thank you.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah. The buy absorb impact is, is de minimis. It really, you know, it was a revenue line item that was, you know, less than less than \$10 million.24. So, so pretty de minimis.

And I think on, on the skeletal, you know, I, I think what we're really focused on is getting this back on the market and satisfying our customer demand. You know, I, I wouldn't project right now that there'll be some level of pick up. Again, we, we need to get it back to shipping status here in the first quarter.

Operator

Conor McNamara, RBC Capital Markets.

Conor McNamara - *RBC Capital Markets - Analyst*

Hi, Ricardo Moreno for Conor. Thank you for taking the question.

I had a question about as normal growth returns to the gantry business. How does that coincide with earlier the chip shortage of his experience with the Cantry business intersecting with equipment upgrades and replacement cycles?

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

So, so what I would say is as, as we're, we're kind of through the chip issue and I think we covered that in the prepared comments that as we get into 25 we expect more normalized growth rates with potentially a little bit of headwind again as we anticipate this next gen gantry. But as Steve talked about, we don't expect a significant increase in that conversion cycle given that technology improvements, software improvements A I has been available to customers in our installed base over the past several years, it's been very intentional that our R&D efforts were producing upgrades that were backwards compatible to the installed base so that we didn't create this pent up demand. So I think we're really going to move into a more normalized replacement cycle or ongoing replacement cycle here in the US. Which is, which is a great business to have, you know, that steady state.

Conor McNamara - *RBC Capital Markets - Analyst*

Fantastic. And coming from ESIC comments earlier about the international business and focus there. How does that roll in terms of reaching the pre pandemic operating margin, goal of 31.5%? Usually those traditionally those margins have been a bit lower than 30.

Karleen Oberton - *Hologic Inc - Chief Financial Officer*

Yeah. Well, I think as we've talked about our guide here for fiscal 2025 starting at 30 expecting some improvement of 50 to 100 basis points over the course of 25. I think you see a really nice balance of us continue to drive improvement in margins where we can while we know that international is getting bigger and that's usually diluted to the margins. But you know, there's as international continues to grow, they have their own opportunities to create leverage on their operating margin line. So, you know, it's an ongoing balance and we see we're really pleased about what we expect for 2025.

Operator

Andrew Brockman, William Blair.

Unidentified Participant

Hi, everyone. This is Maggie. On for Andrew today. Thanks for taking our questions. Maybe you went on Biotheranostics. I know you spoke to earlier. You're expecting kind of that double digit growth that you saw in fiscal '24 for fiscal 2025. But how should we be thinking about the contribution from that to growth moving forward and just where do you feel like you are in terms of that opportunity?

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah, I think we think it's still early innings on that opportunity. You know, I think there's a, it's pretty low market penetration at this point, but we haven't given guidance beyond 25 but to say that it's still early innings.

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

It certainly seems a creative to our company for many years to come. As are most of the acquisitions we've been doing over the last few years?

Unidentified Participant

Great. Thank you so much.

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

Thank you.

Operator

Andrew Cooper, Raymond James.

Andrew Cooper - Raymond James - Analyst

Hey, everyone. Thanks for squeezing me in. Maybe just one more on the margin side to the degree you can help sort of frame the swing factors of adding that 50 to 100 bits over the course of the year. How much of that is just these transitory items, you know, getting lapsed by the time or, or, or resolved by the time you get to the fiscal fourth quarter versus the network optimization and, and other things you called out in one of your earlier answers.

Karleen Oberton - Hologic Inc - Chief Financial Officer

Yeah. We haven't quantified them specifically, but certainly, they're contributing to, you know, kind of lower margins here in the beginning the first half of the year. But again, we view this as transitory and as they clear, we'll reap that margin benefit.

Andrew Cooper - Raymond James - Analyst

Okay, I will. I'll stop there. Thank you.

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

Great, thanks, Andrew.

Operator

Thank you. And this now concludes hologic's third quarter, fiscal 2024 earnings conference call. Have a good evening.

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