Hologic Q4FY24 Financial Results

Conference Call Prepared Remarks

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Note: May Change Slightly When Delivered

Ryan M. Simon
VP, Investor Relations

Thank you, . 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 Karleen Oberton, 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 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.

Steve MacMillan
Chairman, President & CEO

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 $1.01. 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, 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:

1. 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.
2. In Breast Imaging, we maintained our market-leading position while effectively navigating through the impact of the global semiconductor chip shortage.
3. From an operating margin perspective, we finished the year at 30%, maintaining profitability in the top tier of our peer group with opportunities to further improve in 2025.
4. Regarding our M&A strategy, we have been patient, disciplined and notably more active recently as opportunities we've been cultivating have become actionable. More specifically, we acquired Endomagnetics in July and signed a definitive agreement in October to acquire Gynesonics. 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, Hologic 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 markets and unexpected macro conditions over the years, 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 healthcare.

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 DXA, our ThinPrep liquid-based Pap 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 Cytology, AI in mammography, Fluent and Acessa – 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 addition in Endomagnetics, 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, positioning Hologic for even greater long-term success.

Now, I will pass the call over to Essex.

Essex Mitchell
COO

Thank you, Steve. Good afternoon, everyone.

In my remarks, I will highlight where we are as a business today, including division 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 customers' 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's performance continues to be powered by our BV CV/TV assay and Biotheranostics business, both of which have runway for future growth. The division's respiratory 4-plex COVID, Flu A/B, RSV assay also contributed growth for the quarter.

For the full year, Molecular posted excellent global growth of 9% ex-COVID. This performance was again driven by BV CV/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 accretive 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 onto the platform.

Shifting to our Cytology and Perinatal business within Diagnostics, we posted 0.7% growth in our fourth quarter. Since the FDA approval of our Genius Digital Diagnostics System, or digital pap test, we've worked closely with our early adopting customers and they've given us great positive feedback on the new system.

This platform represents a significant improvement to current pap test workflows. It combines AI and advanced digital imaging to provide customers more sensitive disease detection and streamlined efficiency – a digital, AI assisted pap test.

We are proud to announce that our first U.S. Genius Digital Diagnostics 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 SSI and Endomagnetics. 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 MyoSure and the platform's complementary Fluent Fluid Management System, helping to offset declines in our legacy domestic NovaSure 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 Skeletal business, fourth quarter revenue of $12.7 million, decreased (54.9%). This result was expected based on the Horizon DXA 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 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 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 opportunities, which we expect to be accretive to total company growth rates for years to come.

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 fit nicely 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 a global, durable growth product 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 and the years ahead.
With that, I'll hand the call over to Karleen.

Karleen Oberton
CFO

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 and 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, ex- COVID. In addition, our 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 ex-COVID, and non-GAAP 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 accretive, tuck-in M&A deal in Endomagnetics, while also repurchasing 11.2 million shares for $808 million, which includes a $500 million ASR 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 the new $250 million ASR.

With our strong operating cash flow, we are in 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 will 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 Gynesonics. We anticipate closing this deal in the first half of calendar 2025.

Now, on to the non-GAAP 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 higher 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 Endomagnetics in our fourth quarter results, as well as stronger local currencies in our international business. Excluding the impact of Endomagnetics and FX, our operating expenses were approximately flat compared to the prior year.

Altogether, fourth quarter operating margin 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 and EPS of $1.00 to $1.03. For the full year 2025, our guidance assumes revenue of $4.15 to $4.20 billion, and EPS of $4.25 to $4.35.

To 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-shipment 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 to the 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 Biotheranostics BCI test. Further, as Essex mentioned, we successfully launched Genius Digital Cytology in the U.S. during the fourth quarter. We are 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 4-Plex respiratory assay in our base Molecular business. In 2025, we anticipate lapping the benefit of this conversion.

In terms of COVID revenue, we expect COVID assay sales to be 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 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, though partially offset by the recent withdrawal of BioZorb products from the market.

Lastly, in Surgical, we expect broad-based progress across our portfolio to offset anticipated domestic NovaSure 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 bps over the course of the year. Additionally, we expect Q1 operating margins around 30%, with an expected increase of 50 to 100 bps throughout the year. We are in 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 the Endomagnetics business in our fiscal ’25 guidance.

Below operating income, we estimate fiscal ‘25 other income, net, to be an expense of $10 to $15 million in Q1 and an expense between $50 to $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.