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Hologic, Inc. (HOLX)

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Karleen Marie Oberton
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Mike Matson
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MANAGEMENT DISCUSSION SECTION

Mike Matson
Analyst, Needham & Co. LLC

Good morning. Thanks for joining us at the 23rd Annual Needham Healthcare Conference. I'm Mike Matson, and I lead the MedTech & Diagnostics Equity Research team at Needham & Company. I'm pleased to introduce Hologic. Presenting from the company today we have CFO, Karleen Oberton as well as Director of Investor Relations, Ryan McDowell. And instead of a standard presentation, we're going to do a Q&A session or fireside chat. If you do have any questions you would like to ask, you can submit them electronically through the Needham conference website, or you can feel free to email them to me at mmatson@needhamco.com, and I'll do my best to fit them in.

So with that said, we're going to dive right into the Q&A here.

QUESTION AND ANSWER SECTION

Mike Matson

Analyst, Needham & Co. LLC

Q

So I just wanted to start out talking about Hologic's fiscal first quarter, which you reported earlier in the year. You had really strong sales growth after adjusting for selling days. You also raised the guidance. So can you maybe just talk about what drove the results in the first quarter?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Sure. Well, thank you, Mike, and thanks for having us. It's our pleasure to be here today and talk a little more about Hologic. I think, the message that we've been trying to convey is that Hologic is a bigger, stronger, faster growing company than prior to the pandemic. And we see that playing out across all of our divisions, as you talked about, led by Molecular and Surgical and the continued recovery of our Breast business. So each of our businesses have growth drivers, both organic and inorganic. Both domestic and international, continues to be a faster grower for us than the US. And really pleased as you said about the performance out of the gate. I know there's a lot of noise around the Hologic name these days, but I think we're going to just continue to put points on the board each quarter.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay, thanks. And then I want to move on to talk about the Diagnostics business. So I think everyone's well aware that the Panther installed base increased dramatically during the pandemic due to all of the COVID testing demand. But your COVID testing has dropped pretty significantly. But I think you've done a pretty good job kind of driving your other test menu through those Panther systems. So can you just give us an update on kind of where things stand with utilization of the installed base?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah, sure. So we're so pleased about the level of Panther placements that we had throughout the pandemic. We're globally at about 3,250 Panthers placed worldwide. We have an updated utilization per Panther. That was a metric we gave prior to the pandemic. But what I would say is that it continues to improve each quarter. That level of utilization continues to grow.

And I think we've talked about a couple of different things, but certainly newer customers that were acquired during the pandemic, about 90% of them are running at least one other assay besides COVID. As you talked about, the COVID has come down significantly, but those Panthers are not coming back to Hologic. They're out there in the field in the labs, and we're continuing to drive the rest of our menu on to those Panthers. And I think about 55% of our customers are running at least two or more assays. And now when we kind of got post COVID, those are assays that are contracted that contracted for up to five years. And we have very good engagement with our customers, both from our lab, sales force and also partnering with our physician sales force, which goes out and educates physicians about guidelines and testing protocols.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And then, what about menu expansion for Panther and Fusion? So I know you have a pretty broad menu already, but are there additional tests that you're planning to launch on these platforms? Are there any other obvious holes in your menu that you can fill?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So with 20 assays approved between Panther and Panther Fusion, we pretty much have the full complement. I would say the newer assay, our BV/CV assay, which was approved in 2019, I think it was roughly \$10 million in revenue in 2019 is well into the \$100 million level at this point has been really a significant growth driver over the last couple of years. And we believe it's still in the early innings for that and the potential for that assay.

On the Fusion side, we have our 4-Plex that was recently approved. This is really the initial flu season for that. And we do have hospital acquired infections and then some other what I'll call complementary assays that are in the development pipeline. But I would say there, like I said, complementary, probably nothing as big as BV/CV. But we continue to even sell our core women's health assays that core STD portfolio. So we have the portfolio, people love the Panther, the utilization, the workflow automation. We'll continue to drive that menu on those Panthers.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And then, you may have partially answered this already, but the one question I've gotten from investors occasionally is just around the contracts that you have from when you placed some of the systems during the pandemic, how long are those contracts? And is there some sort of risk out there that, when those contracts are up that the utilization drops and that they – do return them to Hologic or you go back and you kind of pull them out of those customers' labs?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So, yeah, to that point, as COVID came down, we were intentional and very strategic with our sales force about selling non-COVID assays to those new customers. And as we talked, as I just mentioned couple of metrics, clear stickiness with 90%, at least one other assay and over 55%, two other assays. And now those are contracted, right. And so think about those contracts at typically three to five years, but we don't wait till the end of five year to approach the customer. We're ongoing, engaged with the labs. And so certainly those 55% that now have more than – two more than COVID are probably even longer than the five years, right.

So as – three years into the first additional assay, we go out and engage, they sign up for another assay that we usually extend the contract as well at that time. And so, again, ongoing engagement with the customers. Is stickiness once the assay is validated? No, it's not an easy switch, there's stickiness to that business on our Panther platform.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. All right. And then so the United States Preventive Services Task Force or USPSTF is updating its cervical cancer screening recommendations. They're currently recommending three types of testing, Pap, primary HPV and co-testing, sort of at different timing intervals. But there's obviously concern out there that the new recommendations could favor primary HPV and potentially even exclude Pap and co-testing. So what do you

think the outcome of this is going to be, just in terms of the recommendations? We'll talk more about what it means for Hologic in a minute but...

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So let me take it in a couple of parts. So, first, let me say that no new scientific data really of substance has been issued since the guidelines were finalized in 2018 that would give HPV primary any scientific prevalence. In fact, it's the opposite is that HPV primary misses one in five cancers, leads to more colposcopies and really just isn't the best medicine for women.

I would also say that HPV primary and co-testing have been given the same priority since 2018, but yet only 1% of physicians in the US actually practice HPV primary. Substantial majority of physicians practice Pap alone or co-testing. That is the preference. Third, USPSTF really covers Medicare, Medicaid. Majority of our business, our patient population is really in commercial insurance, right. So the commercial insurance doesn't need to follow the USPSTF on what they cover. So they could go that way over time. But there's no light switch effect, if you will, given the prevalent practice of co-testing today, as well as there's a secondary decision on the commercial insurance of whether they cover it or not.

So I think there's a multitude of iterations of what the outcomes could be, whether it's a prevalence or a prioritization of primary versus co-testing, whether it's a change in the age as to which when screening starts, we just don't know. But all we do know is there's no new scientific data that would suggest any type of change or support – sorry, type of change.

Mike Matson

Analyst, Needham & Co. LLC

Q

Got it. And then can you just quantify the exposure that Hologic has between, I guess, Pap, I mean, the cytology numbers, most of that cytology and perinatal business, but then it's a little less clear, I think, what portion is from your co-testing or the HPV portion of that in your Molecular business. So can you just tell us, roughly speaking, how much of those two make up in terms of your percentage of sales?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So think about as you can talk about cytology and Pap is about \$450 million globally, annually, about 60% of that is in the US. Our HPV business is probably about \$125 million roughly. I think that's a global number, probably a little less in the US. Again, based on the facts that I just talked about, even if there is a preference given to HPV primary, I think physician practice change would be slow to happen. And really, again, probably minimal change if we don't have a change in commercial insurance coverage based on the USPSTF. So if this did go negative, this would be something that wouldn't be a light switch, it would be something that would be more of a leaky bucket effect over time. And I think something that given the breadth and diversity of our business, our ability to deploy capital that certainly wouldn't affect our top line growth rate over the longer term.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And then the other question I've gotten from investors is about this topic, it's just around margins on that part of the business. So I know you're probably not going to give me a specific number, but can you just on a relative basis, how does the profitability of those tests compare to the rest of the business?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I would certainly say that the margin profile in that test is accretive to the corporate average.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And then finally, what would be involved if, let's say that they do move to primary HPV testing in the recommendation, would Hologic decide to pursue FDA approval for their HPV test for primary use? And if you did, how difficult would that be to get that and how long would it take?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So certainly, with 20 assays approved already in the US, that's something that we have a breadth of experience of doing and feel that we'd be readily capable to do that and actually do have primary indications outside the US. So I think it's something we have every confidence that we could obtain.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. All right. And then the other news in this business has been this, your AI enabled cytology system called Genius.

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah.

Mike Matson

Analyst, Needham & Co. LLC

Q

So can you just tell us more about this and maybe talk about what it means for the cytology business? And I mean, is this something that somehow could make cytology more competitive with primary HPV testing or it does not really factor in?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. This is something that it certainly worked – focuses on workflow in AI, right. So this is something, you think about today on cytology is basically a one for one slide as viewed under a microscope, right, cytology tested view each slide individually. What this does now is it digitizes the image and it allows more easier workflow to view the image. But then you layer on an AI algorithm that helps the cytologists prioritize what images that they actually are looking at and hopefully identify more cancers more readily.

So given lab shortages, labor shortages that we see in labs, we think this is significant for the lab in terms of workflow automation. And certainly as you think about lack of cytologists in the US and even outside the US, the ability to send an image digitally for someone in a different geographic location to look at that image really helps get more screening to more women.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. And then there was – you acquired Biotheranostics and the Breast Cancer Index test that they have has been, I think, performing really well, continue to see strong growth. So can you maybe just talk about that, how the test is used and then what the market opportunity is and kind of the penetration, how much runway there is left here for this test?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So we're certainly pleased with this acquisition. This has been a really great outcome from us. I think when we bought it revenue on a trailing 12 months was less than \$20 million. It is over \$100 million revenue item for us right now. We do think we're still in early innings that we're probably less than 10% penetrated from a market perspective.

So we feel like there's still some runway and Mike what this test does is gives a woman an indication someone who's had breast cancer whether or not she'll benefit from endocrine therapy. So think about endocrine therapy as a treatment that has a lot of negative side effects. And obviously it's more costly for the healthcare system. So if there's minimal benefit, the women can avoid those negative complications and save the healthcare system some money. So we feel really good about that potential.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. So I want to move on to the Breast Health business now. So you had some supply chain challenges there. I think you mainly moved past those now, you're working through the backlog. So can you just give us an update on where things stand and what point you expect to sort of be caught up and have the business sort of back to normal levels of growth?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So we're still working through that backlog as you talked about. I think, we were still in Q1 going against a constrained comp. I think Q2 here, we're going against probably more aggressive comps. So think about Q2 of last year was a quarter when we had a relief in some of the allocation and we're able to really satisfy some pent-up demand.

I would say, overall, we're not off complete allocation from suppliers, but we're probably at a more normalized allocation, where we feel comfortable when we guide for the year of the total pool of gantries we can deliver on, right. And so that will help us to continue to work down that backlog over the next probably three to four quarters.

I would tell you, this is a business that always has backlog. You can think about the capital nature of this business that the time from a health center, or a breast center orders mammography unit and maybe a quarter or two quarters before they can actually take it. So this is not a normal dynamic where we have a backlog, but it's just elevated at this point and gives us some good visibility over the next few quarters. But feel good about that business, feel good about the visibility the backlog gives us. And I think glad that we're able to satisfy customer demand at this point.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And you mentioned the comp. So I mean, I know you're going to be lapping some pretty strong growth rates there. I guess, the way I would look at it would be that you should be able to get back to kind of even against those comps, like the normal kind of 5% to 7% growth. But is there any reason to believe that it would maybe be below normal for a period just because of the comps?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I think Q2 might be a little more of a challenge, but certainly Q3 and Q4 are definitely back to normal, that 5% to 7% comp rates.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. And then, I know that Hologic's done a great job with this business over the years, kind of the Breast Health generally and making it more of a recurring revenue business and focusing on software upgrades and things like that. But I think it's been a while since you've launched a completely new gantry or mammography system. So, I mean, is that something that we could see anytime soon?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I mean, we certainly have the next-gen gantry in development. I wouldn't expect anything meaningful in 2024, but we could have something in 2025. Think about this as not a 2D to 3D, but more of improved workflow, always improved image quality. And then I'll also focus on patient experience as you think about the one reason a woman avoids the mammogram is how painful it is. And you think about, people in wheelchairs, hard to access. So those are some of the things that we try to address in this next generation and so we're really excited about this.

But again, it's not a 2D to 3D. I think it's – those leading edge institutions that want the latest and greatest. Will probably be the first step like we always see when we come out with this new gantry. But, to your point, we've been very intentional with software, other enhancements being backwards compatible to the installed base to avoid any pent-up demand. And so this next-gen will be part of kind of what is probably the ongoing capital replacement for 3D. If you think about really 3D approved in 2011, but really that uptake was in that 2014, 2015 timeframe. We're in units that are 9 to 10 years old and just entering a natural replacement cycle.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. And then, we talked about AI and cytology, but what is Hologic doing with AI in the Breast Health side of the business?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah, certainly we have AI is already incorporated into our Genius 3D mammography machine. We're always looking at ways that how can we identify more cancers and help the radiologist more easily identify more cancers. The fact of the matter is, is that less cancers are detected in the afternoon, right. So there is a human fatigue element. So what can we do with AI to assist the radiologist? So we already have it. We continue to make some

different investments in smaller stage companies to, how do we improve and get to the leading edge with AI. But we're also using it in our service business. So how can we use predictive analytics and algorithms to know when the units going to potentially go down, so we can address that proactively with the customer. And so you don't have units down and rescheduling patients for their mammograms.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And then Interventional Breast Solutions probably doesn't get as much attention, but I know it's definitely been a stronger, had stronger growth than the mammography side. So can you just give us an update there kind of, key products, any kind of new product launches you have planned or anything else?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. Interventional has to your point, we would expect over the longer term to be a faster grower than that base mammography business. I think we've had different supply chain hiccups here and there over the past couple of years. So there's some fluctuation in those growth rates. But to your point, over time, we would expect that to be a little faster grower.

We have things like our Brevera system, which does some real time imaging of samples to make sure we've got the right pathology and believe that will continue to grow faster over time.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And I think there was some type of a recall there, one of the breast markers or something like that, is that right or?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

I think, there was – I think on BioZorb is that maybe that what you're talking about...

Mike Matson

Analyst, Needham & Co. LLC

Q

Yeah.

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

...not the marker? Yeah. So, yeah, we had an FDA letter on that, but that product is still on the market. [ph] It was a – it's to address those (21:26) concerns. But we believe in the product. I think, it's something where surgeons that use it successfully, patients have great outcomes from the use of BioZorb.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. And then just in terms of the GYN Surgical business, so this has also been seeing some particularly strong growth lately, really strong growth in 2023. So what drove this growth? And is it reasonable to expect it's a little slower in 2024, just given you've got some tougher comps there?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So definitely as we've talked about, we've had some fluctuation in comps and certainly Surgical. I think if you looked at Q1 and Q2 of 2023 were strong double-digit growers, right, and because there was some recovery happening from the prior year. But I think Surgical, to step back a minute, it is clearly the story of organic and inorganic growth drivers in place. So organic investing our Fluent fluid management system is really an eloquent solution to the management of fluid those procedures. And then inorganic with Acesa and Bolder kind of comprising our laparoscopic franchise of that division also adding to growth growing faster than the core. But also MyoSure continues to be a solid grower. Probably later innings for potential but continues to throw up some nice numbers.

Mike Matson

Analyst, Needham & Co. LLC

Q

Yeah. And then you have done a few acquisitions in this business, so I guess Acesa and Bolder Surgical. Can you just talk about, give us a reminder what those products were and kind of how they fit and how they performed since the acquisitions?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So Acesa is a laparoscopic device to treat larger fibroids and fibroids that are potentially outside of the uterus. Think of it as complementary to MyoSure, which treats smaller fibroids inside the uterus. So you could actually have a physician using the MyoSure and the Acesa in one procedure, one patient. I think, Acesa continues to grow faster than the core division, I think this is a novel procedure. And think about we acquired this in 2020 in the pandemic. So a procedure where you really need to assist the physician for the first several times that they use it, so that they get comfortable with it. During the pandemic, probably less access to the OR to do that. So it's probably a little slower ramp than we would have liked, but it really related to the pandemic and not the device itself. And again, seeing some nice performance there.

And MyoSure is a vessel sealing device and with smaller thermal spread, which right now we acquired them, they're primarily pediatric. But think about the areas of a gynecologist operates in that this vessel sealing with less thermal spread is an attractive opportunity as well and performing again, growing faster than the division as a whole.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay, thanks. And I did have someone submit a question that's back on the Breast Health business. But can you – do you have a feel for how correlated your gantry sales are with mammography volumes? I guess, the mammography volumes look to be pretty strong lately. So I mean, does that drive gantry sales or maybe does that eventually if there's, diagnosis of breast cancer lead to more interventional breast sales or something like that? Or is it not really [indiscernible] (25:05) with your business?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

No, well, there's definitely correlation in our Interventional business to mammogram levels. Certainly, if there's something suspicious on a mammogram, women are pretty proactive about getting that addressed so that there is a direct correlation, and more screening is going to likely diagnose more cancers and therefore more potential biopsy activities.

I think on the overall screening, my sense is that, it probably is dependent on whether it's rural or city dynamic, whether it really drives demand. I don't think it drives significant incremental demand. I would think that the gantry installs that we have can satisfy even some uptick in screening activities. But it might drive some maybe accelerated replacement if the unit is getting heavily utilized.

Mike Matson

Analyst, Needham & Co. LLC

Q

Yeah. Okay. All right. And then just a few on the international business. So US is about three quarters of Hologic's revenue and that's pretty high relative to some of your larger cap peers. So I know there's been an effort to drive stronger growth in your international business, and I think it's been working pretty well. But maybe you could just talk about what you're doing there to try to grow that business and kind of which regions and products have been the biggest growth drivers in the international markets?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I mean, I think, at the highest level, if we're focused in women's healthcare, this is compared to our peers, there's definitely a lack of radiologists, cytologists, screening programs, if you will, outside the US compared to what we have in the US, and that's part of who we are. This is part of our purpose. And certainly as we grow internationally, more women are being served, right. So this is near and dear to our heart and why we have continued to invest commercially to develop our capabilities outside the US to grow that business to serve more women.

I think with those activities, while the percentage hasn't moved of our total business, the business is about 40% larger than it was in 2019. So the business is certainly gaining more traction because of those efforts. But I guess the good news is the US business is growing as well. So that dynamic on the percentage hasn't moved as much as we would like it to. But we continue to, again, invest in commercial capabilities. We continue to look at opportunities to go direct. So where we have dealers and we can go direct, typically those markets perform better with our capabilities. And certainly what we've done through the pandemic with the Global Women's Health Index, it really allows us to have higher level conversations with health ministries, with government officials, to talk about the benefits of screening programs and certainly what we've seen in the US and how these screening programs ultimately bring down healthcare costs for the system as a whole versus the initial investment in the screening program.

Mike Matson

Analyst, Needham & Co. LLC

Q

Yeah. Okay. And then what about emerging markets more specifically? I know Steve's been pretty cautious about China.

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah.

Mike Matson

Analyst, Needham & Co. LLC

Q

You're probably less exposed there than some of the bigger companies. But what are your thoughts? I mean, is there an opportunity there in China or Latin America, and Eastern Europe, et cetera?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I would say in regards to China, it is only probably now about 1% to 2% of our revenue. So it kind of allows us to be on the sidelines a little bit as we see how things play out in China. But we're flexible either way if we think it's somewhere we want to revamp an investment. But at this point, I think we're watching and waiting to see what happens. I think we have done some things like in sub-Saharan Africa with our HIV test, where we've partnered with the Clinton Foundation and other organizations to drive that business.

I think if we think about emerging markets, something like India or something like that, I think that's probably what it looks like. It's more of a partnership that we have to team up with some foundation or government agency to really be impactful, because even if we had mammograms in India, I don't know where a woman would go from there, right. And so it's really more of the maturity of that whole healthcare system versus our products.

Certainly, we have a presence in Latin America and potentially some in Eastern Europe. So it's an ongoing thing. We think it's a lot of potential for us, for sure. But some of the more meaningful opportunities are things that require partnerships and need more of a coordinated effort.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay, got it. And now I just want to touch on a few financial questions. So you've reiterated the 5% to 7% long-term growth target. At the same time, I mean, your organic ex-COVID growth's been above that for a while now, maybe not every single quarter, but kind of if you average it out. And we talked a lot about how Hologic is a stronger company post the pandemic. So why haven't you raised the 5% to 7%? And what would it take for you to do that?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. So I think certainly we still feel good about the 5% to 7% to your point when it's off a higher base than when we initially gave it. But I think, certainly some of what's come into play is comps with the chip supply issue, procedure volumes fluctuating in different recovery. So, I don't think it's a straight above 5% to 7% performance, right. So there's some dynamics there. But again, we feel good about the 5% to 7%. We feel delivering that is a strong performance coupled with the earnings we're delivering on that. So we put that guidance out till 2025 and when we feel it's appropriate, we will update it.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Fair enough. And then just in terms of margin improvement, you're in the fortunate position of having really high margins. But the downside of that, I guess, is it makes it tougher to push them even higher. So, can you drive gross and/or operating margin improvement in the next few years?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I mean, obviously, that's something that we're always looking at. How we like to talk about is if we're growing revenue 5% to 7%, we're going to be growing earnings faster than that. So think about earnings is going to be close to 10%. And when we use the whole P&L to do that, certainly if we're driving revenue at 6% with a little bit of margin expansion and then we look at things like tax rate and some share repurchase, those are all the elements that can get us to that double digit growth.

I think to your point, we have very rich margins as it is. And so there's this balance of growing margins, but still investing in R&D, still investing in market development, market access capability. So we're always trying to find that balance so that we continue to have organic growth opportunities as well.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. Got it. And then, I mean, you mentioned buybacks, but you do have – still have quite a bit of cash on the balance sheet. So can you just walk us through your capital allocation strategy?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah, I mean, our capital allocation strategy hasn't really changed despite the growing cash balance. I think you've seen us be certainly little more aggressive on the share repurchase where we've seen disconnects and valuation. And I think we'll look at share repurchase as an ongoing program. And it's certainly at a minimum to manage dilution. But again, taking the opportunities to be a little more aggressive when we feel like it's warranted. But I think we want – all our divisions have business development teams that are out there. They're active, identifying assets, cultivating relationships. And so if we can get some additional assets to your point supplement that 5% to 7% that's really the priority is how can we continue to do that. And I think it's going to be adjacencies, tuck-ins, things where we feel we have a point of expertise that we can bring commercial capabilities hopefully to accelerate growth for assets that are earlier stage. So it hasn't really changed. We just get a little more cash and I think we're excited about what we can do.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. And then to your point that most of the acquisitions you've done have been tuck-in deals. You have capacity to do something bigger. I feel like there's been times where Steve sort of seemed to have hinted at looking at maybe larger deals. But I don't know, I feel like it's kind of a mixed signal. So I just wanted to gauge your willingness to do something bigger billion-plus type acquisition. And I mean, is that something that's likely or not that likely at this point?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

A

Yeah. I would say there's nothing of that size in the near-term for sure. I think, again, I think we see much more success with things that are a little smaller. But I think if we did consider something of \$1 billion or bigger, it would definitely have to be something that has extremely high confidence in the revenue profile and accretive to earnings. So there would be a pretty high threshold to get over.

Mike Matson

Analyst, Needham & Co. LLC

Q

Okay. All right. And then I did have one more question that was submitted on the Breast Health business. I don't know if you're going to answer this, but I'll try. So you kind of said that Breast Health will be a little slower in the second quarter. But can it grow, I guess, in the second quarter given the comp?

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

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Yeah. What I would say is that we're going to grow this year, right, for sure. And we've got normalized comps in the back half of the year. So, are we going to see the growth we saw in the first quarter? No, we're not going to see that. But, I think we're going to be really pleased with the full year growth profile for that division.

Mike Matson

Analyst, Needham & Co. LLC

Okay. All right. Got it. Thank you. I think we're almost out of time, so we can wrap up here. Thanks.

Karleen Marie Oberton

Chief Financial Officer, Hologic, Inc.

Mike, thank you. Appreciate it.

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