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HOLX.OQ - Hologic Inc at JPMorgan Healthcare Conference

EVENT DATE/TIME: JANUARY 09, 2024 / 9:30PM GMT

OVERVIEW:

Company Summary

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Casey Rene Woodring *JPMorgan Chase & Co, Research Division - Research Analyst*

PRESENTATION

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

All right. Great. Thanks everybody for joining us today. Welcome to the JPMorgan Healthcare Conference. My name is Casey Woodring from the life science tools and diagnostics team. I'm pleased to join -- I'm pleased to be joined here today by the Hologic management team, CEO, Steve MacMillan; CFO, Karleen Oberton. So I'll turn it over to them in a second for the corporate presentation. They'll do the presentation, then we'll have the standard Q&A session afterwards.

So with that, Steve, take it away.

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

Great. Casey, thank you for having us. And some of you may know, I just recently had my tenth anniversary at Hologic last month. And I thought I'd start with a quick quote that one of our employees posted on our website with it, which was from the Carl Icahn dumpster fire to the juggernaut we are today, well done.

And while we wouldn't probably quite call ourselves a juggernaut, I will say that I think our understated nature and trying to post the results before we really declare ourselves to be at that level is kind of what we're all about. And if anything, I think maybe that understated nature has had our story and the dramatic transformation that's occurred in this company not fully understood and appreciated by all. Certainly, those who've been with the story for a long time, get it and have watched it. But for those from the outside, we get, especially with COVID and everything else, it's been harder to fully figure out.

So today, as we talk about the new Hologic, 3 simple words. And again, for an understated company, don't take these words lightly, because they do feel pretty bold, bigger, faster and stronger going through the safe harbor. And in simple terms, the overview here, and we'll run through all of these, but our purpose-driven, results-driven organization that is very engaged and very dependable, has become bigger, faster and stronger, and importantly, poised for additional success going forward.

Now we'll go through these in a little more detail. And it really starts with what we call our virtuous circle. And this is at the core of our employees. And back in the old days, Jim Collins, will talk about a flywheel, this and that. This is really what it's about for Hologic that we start on the top side by innovating here. But as we innovate and bring new products, it does grow our sales and profits.

But the rest of this wheel is, I think, a magical piece that is not as fully understood, that because women's health tends to be underdeveloped globally, as we have success, we are investing in championing women's health on more of a global basis. That, in turn, is expanding the policy and the access and ultimately helps more women. And as we go through that full cycle and do it well, it just fuels the additional revenues to start the cycle over again and keep building it.

And I think things like our Women's Health Index, Project Health Equity, sponsoring the WTA, but importantly, I think a big part is this bottom point here, which is driving core growth and creating new markets. And I think we've always gotten the questions through the years of what's the TAM form MyoSure, what's the TAM for this or that? And I would tell you, in all cases, the TAMs are far larger than what we have ever fully understood, because we keep growing the markets.

And I'll give you one quick anecdote. We're going to release next week at the World Economic Forum, the latest global Women's Health Index. And if you look at one simple data point, less than 12% of all the women, who are sexually active on this planet last year were tested for an STI. That folks is market opportunity. And that's what we've been doing in things like fibroids, endometrial ablation, our STI panels, and ultimately, even mammography. As we grow, we've been creating these markets.

And it's resulted in a very strong financial profile, where we're projecting, obviously, 5% to 7% growth that we put out during COVID time and have only delivered that or above since stating that goal. Strong margin profile. We're able to use the entire P&L for our EPS growth. And certainly, a fortress balance sheet was a far cry from what it was a decade ago.

And this is something I'm very proud of, which is our Board of Directors. And a lot of companies would be out screaming, "Hey, we're 50% women, this or that." At the end of the day, the way I look at this board, is it's an incredibly talented board, that makes me and our management team better, because they're able to ask us the right questions. It's a very diverse board in terms of experiences and thoughts, but very strong in health care and real-world experience, and I love this Board, also love our employee base.

And at the end of the day, we are very proud of a lot of the decisions and actions we took during COVID and how of anything, they strengthened the bonds with our employee base, especially over the last few years, when for many folks that's been a more difficult challenge. Now admittedly, in health care, we have a leg up, because we all have strong purposes, but the extra purpose of what we've done in women's health, and what we did during COVID has been dramatic.

And I always laugh internally when we do our annual employee engagement survey, because the first year we did it was back in 2015. And you can see we topped the results at a whopping 36% engagement. And at that point in time, many of our employees said, "Yes, that they won't repeat that." But in fact, we've done it and you see we've been topping out in the high 90s for the last few years.

But rather than resting on our laurels, we continue to look, even in those 96 and 97s, there are always, just like in every one of our businesses, there are always areas and little pockets that can be improved. And it's that relentless focus on every level of detail, whether it's the engagement survey, whether it's our product lines, whether it's our performance by geography, that all leads to that objective assessments of our own abilities and how we can keep getting better year-over-year. And that's part of what I love about the team that we have in place that there's a lot of confidence but also humility in how we approach everything and staying objective and grounded.

Last year, we had guided and said we would actually grow at a double-digit rate. And we said that we were confident that all 3 of our core franchises would grow at double-digit rates. And in fact, we ended up at 15.6% organic growth. Again, because of the COVID drop off over time, I think at the headline, you don't necessarily see this. But again, when you look business by business, this is what we posted and something, frankly, that we're very proud of and well above, obviously, that 5% to 7% that we've guided to.

During this time, everybody is looking at us to try to raise the guidance and everything else. But at the end of the day, we always want to be very careful and modest and make sure that we are going to continue to deliver rather than getting caught up in the moment, and they needed to cut later.

We ended the year with $2.7 billion on our balance sheet. And really for the last 10 quarters, and we are very proud of this, consistently delivering that robust revenue and EPS guidance, all through all the changes and everything that was hitting a lot of people around the world last year, whether it's China, the geopolitical situations, everything else, you can count on us to deliver. And to that point on the financial strength, we just announced in our last earnings call a $500 million share repurchase on top of some fairly aggressive repurchases that we did during the year. We continue to think one of the best acquisitions of our cash is acquiring something that we've done a lot of due diligence on, and we have a lot of confidence in, and that is ourselves.

So we're poised for future success, bigger, faster, stronger. That really has been forged during COVID time. And again, lots of companies around the world said they were going to come out of COVID stronger. Some have, many have, but many have not. And we said we would, and we clearly have. Our balance sheet very strong and positioned very well for the future here.

Now we just pre-reported our first quarter, and you'll see it was 5.2% overall growth. The thrilling part for us is this was in a quarter of 13 weeks versus a 14-week quarter a year ago. So on an adjusted basis, this is really more like a 9% increase. And this was the quarter we wanted to get through, because we knew the optics would be look a little weird to the outside world. We have to deal with it with every 6-ish years, plus or minus, where you have the extra week in the year. And we're thrilled to start with a 5% actual reported against a 5% to 7% guide for the year, and this was in the toughest quarter that we would have.

Moving to bigger. Here's a simple little snapshot. All of this excludes COVID. But what you can see here is we've added almost $1 billion, $800-ish million of revenue from where we were in 2019 to 2023. So the company is 25% larger. But I think as you look franchise by franchise, this is where you'll start to see I think, some real strength emerge. And that is you look at our global diagnostics revenue here on the left. So that's our molecular plus our cytology perinatal and Biotheranostics business is all looked into that. It's about 40% larger.

But the most compelling number on this page, and I think within the presentation, and I would encourage many of you to look at, is the part on the right. And that is early in COVID. We like many companies placed far more instruments. In our case, our Panther instruments as we ramped up and solve the world's needs for COVID tests. And at the end of the day, the big lurking question was always going to be yes, but are they going to be used post COVID. This folks is the answer, that our molecular business today has grown 80% from $557 million to $998 million last year, that's all excluding COVID.

So what that tells you is more Panthers running more menu with more customers globally. And the magic of Panther is to try it as customers got their hands on it, it is such a great instrument from a workflow automation and an ease of use and combined with the sensitivity specificity, the incredible results it generates, that we're in still early as we're bringing more of these customers starting to ramp up more of the assays.

So this, when everybody tries to peel out, okay, how many assays are running per Panther, this, that or everything else. At the end of the day, this is the answer, which is the revenue is growing. And what we're seeing is the Panthers everywhere are getting more uptake. So we're incredibly proud of that.

As you see there, that global installed base increased dramatically. It also put us on the map, frankly, in many places where we were a very small or niche player, pre-pandemic. There are a lot of countries, particularly across Western Europe, across the globe, where Hologic was really this tiny little women's health company. And when we responded and met every nation's needs for COVID molecular tests, it put the Panthers in these labs, where they got -- it's basically free trial for us. And to try the Panther leads to greatness over time. So we've now almost doubled the installed base and the years ahead are all about getting more assays put on to this installed base.

Meanwhile, there's another product we're incredibly excited about that we haven't talked as much about, and that is our Genius digital cytology system. And that is something we got cleared in Europe and is hopefully coming soon in the United States. And in real simple terms, when you think about the Pap test, one of the great tests in history in terms of driving cervical cancer rates from the #2 killer of women 2 generations ago to out of the top 10, all driven by the advent of the Pap test.

And historically and really still today in the United States, if you think about the workflow issue, we are taking the Pap, and it's known as the Pap smear because we've taken a smear on a glass slide, it is then stared at through a microscope individually. As soon as you can digitize those images and run them on the computer, that ultimately this is pattern recognition. And we've talked about it as machine learning as we've developed it through the years. But to use the later buzzword, this is AI all over, which is pattern recognition and an incredible workflow as well as efficiency standing.

You think about fundamentally a human being looking at slides all day. There is a fatigue factor and everything we work at. And so do they miss something maybe late in the day, it is possible. We are talking about human beings, who are working very hard. The computers and once this is digitized, something very, very strong. So we feel great just as we've brought some of this to the breast screening business. So our team is working and really continuing to both enhance workflow for our customers, but also improve the diagnostic capabilities.

Shifting to Breast Health. I think another little part that's been not as fully understood through the years is the dramatic transformation from what was a gantry business and kind of a boom bust to a much more repeatable revenue story. So today, the bottom part there is our service business. It might be harder to see, but the single largest part of our Breast Health business, is recurring revenue service. Then it's the gantries on top of that. And then the top 2 bars are also recurring revenue of our interventional as well as accessories equipment. So you've got a business now that is far more recurring revenue than it ever had been.

And then our Surgical business, which hasn't always gotten as much attention, but has been a great grower and one we're incredibly excited about for the future, both domestically and especially internationally, where it's been underdeveloped, but really starting to take off right now. And that is it's 40% larger, but to take a look at the pieces here, this is the classic example of organic innovation, being fueled by inorganic innovation, and how those come together to drive a very high-growth business, our Surgical business last year was north of 13% growth and continuing to do very well. And that is we've added these additional growth engines, which is the laparoscopy, which is the Acessa product. And then also we have Bolder that we acquired.

So those things now are still in the early innings of little bars that over time will become much bigger bars on top and keep driving that growth. So the more that we can feed our surgical sales teams the stronger our business becomes, because they have the great relationships with the customers, the ability to educate the customers and the ability, therefore, to drive our business.

Speaking to the faster part. If you think about the building blocks of the company, and I think another thing that's a little bit hard sometimes to fully get your mind around when you think about Hologic. People are looking for the 1 or 2 whiz-bang things. This is a company that's built brick by brick, geography by geography, franchise by franchise.

So it's incredibly strong foundation built on the existing businesses of the ThinPreps, Aptima, 3D mammography, NovaSure, MyoSure, we have these incredible installed bases that drive incredible growth and the ability to surround those products with more products, right? In the case of breast health, we have 3D mammography, but then we get the workstations. We get the AI, the other components that come along with it. The biopsy needles, everything else, so you start with this core and then we add to it.

The new growth drivers in new markets. So back as we've been talking about both the organic and organic creating markets. One of our best launches within the Diagnostics business recently has been our BV/CV product that is really taking off and doing incredibly well. We launched Brevera, which is a great biopsy system in our Breast Health business, all organically developed. Fluent also our R&D team and our surgical business, developing that, then supplemented again with some external ideas like Acessa, Bolder, and then back on the internally generated digital cytology.

And the other underappreciated part is how dramatically different our international business looks today versus what it looked like 10 years ago and even 5 years ago, where it was largely a dealer-driven business. And frankly, most of the focus was breast health to where today, we are direct in most of our key markets on all of our franchises and generating very strong growth. We said back in kind of 2017-ish, I think, Karleen, right, that we saw double-digit growth coming out of our international business for many years to come. And it's what we've been doing and it's what we continue to expect to do.

So when you think about that overall 5% to 7% international continues to be accretive to that. And if international outperforms, there's even more upside to our general numbers, but we feel great about our international teams and the way our international teams are working with their colleagues in the United States as well. And that is what gives us that confidence to grow.

And I think another simple way as we think about the hurdle we threw out there this year, we're going to grow 5% to 7% this year in a year with 1 less week than we had last year, and on top of the 15.6% last year. So for those of you, who love the stacked comp basis, that's -- those 2 years average is a double-digit number, right? So we're growing this off of a much bigger base than we even expected to have when we first put that 5% to 7% out there. So feeling very, very good about the opportunities here. And again, I think part of what gives us the confidence is it's no one thing other than great operational and executional excellence everywhere.

On that stronger side, you talk about a balance sheet that I think Karleen, if we went back a year or even prior to this, we were about 5.5x leverage. I think if we go back to 2012, clearly helped during the pandemic. We had already under Karleen's leadership, done an amazing job of reducing our debt and reducing the leverage ratio over time and certainly over the last few years as we spun off tremendous cash during the COVID time, getting that net leverage ratio down very, very low.

And we've also, as we mentioned earlier, while we still prefer acquisitions as being able to add additional growth drivers to the company and over time, being a big part of our growth. When you really look at it, we have also opportunistically as well as strategically been taking our share count down and using some of that cash, because we have felt that investing in ourselves has also been a great use of our cash. And I think ultimately, as we always look at the ROIC on those purchases, those have worked out pretty well for us as well. So you could see here, just the diluted shares outstanding. And our general principle has been to offset the dilution each year. But you can see clearly, we've gone over and above that and especially the recent share repurchases.

When you do look at the cash flow, so think about this, $5.9 billion generated in free cash flow over the last 4 years. We've deployed about $4.2 billion of that, and it's -- the math works out that really 1/3 of that has been external and 2/3 has been on ourselves. And the rest is really sitting on the balance sheet, allowing us the flexibility to go forth. And we've really done a series of tuck-in deals across the various businesses that are all contributing now to the growth of those businesses as well.

And so really, in conclusion, as we come back, this organization truly purpose driven. It's what drives our employees. And frankly, in this day and age, we feel we have a huge competitive advantage of younger employees and others wanting to come work for us because they feel an incredible connection. And our recruiting is so different even today than it was 5 years ago or 10 years ago because they've seen the impact that we're making in the world.

And then when you start to get the best and the brightest, they're generating better results, and they're very engaged. And obviously, we want to be very dependable and feel like we have earned that right as well. Larger company, more durable revenue, the improved growth algorithm and very diversified and obviously, a strong balance sheet and strong cash flow and poised to continue doing the great things we've been doing and really poised to continue to make a big difference in women's health around the world, which by definition means we're making a bigger difference in global health, and all of that is benefiting our shareholders and our employees.

So thank you with that, Casey. We'll kick it over and take questions.

QUESTIONS AND ANSWERS

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Great. Thanks for that overview, Steve. Maybe just to start. So you preannounced fiscal first quarter revenue growth of greater than 9% on an organic ex-COVID basis when excluding the selling day impact, 9% above the LRP and the full year guide for the year. Can you just maybe walk through the performance in the quarter that you saw by segment where each of your businesses kind of shaped up relative to your expectations, and where maybe you saw some outperformance?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Sure. Yes, I'll start with Breast Health. I think that is from a growth perspective, we see the continued recovery from the supply chain challenges that initiated in 2022 and feel good about working through the backlog for that segment over the course of '24. When we look to diagnostics, we saw a strong performance from our newer assay, BV/CV as well as our respiratory menu continue to perform nicely. We saw an uptick in that towards the end of the quarter as we see respiratory illness increase here in the U.S. And then in Surgical, we continue to see a fantastic performance from our MyoSure and Fluent platforms as well as the recently acquired Acessa and Bolder. So all 3 divisions performing really nicely in the quarter.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Yes. Maybe just following up, like you said, breast came in better than expected, I think, 14% organic growth there. I know you're lapping some easier comps given the chip dynamic from last year. But is there upside to the breast guide for the year following 1Q? And maybe just talk about sort of that backlog that you talked about.

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes. So I don't think we'll ever have an outsized quarter in Breast Health, given the logistics of the install of the gantry. So think about the field service engineers that maintain our installed base, also conduct the install of new gantries, which usually takes several days. And I would say, Casey, we're looking at that backlog very strategically both internally and with our customers to manage that business for the long haul.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

And then just on the Diagnostics side, ex-COVID came in below the full year range, 2% organic, I think. How much does the selling day impact affect the diagnostics business? And do you still think that diagnostics will come in, in that 5% to 8% range for the year?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes, sure. So if you look at total diagnostics if you adjust for -- the selling days is closer to a 4% to 5% for the quarter. Molecular Diagnostics, if you adjust for the selling days, is closer to an 8% for the quarter. Again, in the molecular, I talked about our growth drivers. I would say one of the headwinds in this quarter was cytology, was a little below expectations as we had some inventory customer adjusting some inventory levels, but otherwise, we feel good about that division for the full year, absolutely.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Okay. Maybe to follow up on molecular. So you guys are coming off of a year where you grew 19% ex-COVID in that business. How should we think about growth in 2024 within the context of that total diagnostics unit growth rate of 5% to 8%, given that comp dynamic? And then longer term, do you think you can sustain the outperformance in molecular given the scale you've built? Steve, you kind of touched on it during the presentation.

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

Yes. I think we continue to feel great, obviously, growing on top of the 19%, not easy. But by definition, the molecular business will probably still be growing faster than the total division, given the cytology perinatal pieces. So we feel just very good as the new products taking off, the new geographies, the Panther is getting used. And again, I think just coming out of the gates, it's a great start to the year.

Karleen M. Oberton - *Hologic, Inc. - CFO*

And I'll just build off that Casey and just reiterate, the new Panther placements since the pandemic are very sticky. New customers are really loving the Panther instrument, workflow automation, the great test results that they get. And one of the -- a couple of the metrics that we point out is that of new Panthers placed since April 2020 with new customers in the U.S., over 90% are running at least one other assay and over 55% are running at least 2 other assays. So just a testament to the stickiness of that Panther and the menu that we offer.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Can you walk us through the supply and pricing contracts in place for Panthers? A lot of Panthers in the field now, you probably placed during COVID, as you talked about, are those supply contracts coming up for renewal soon? Is that something you guys are working through or yes, any sort to cover there?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes. So let me just build off what the last metrics that I provided. So when we placed the Panthers during COVID, they actually weren't contracted for COVID, because we actually couldn't supply everyone's demand, but we did contract for the newer assays. And so we typically contract an assay for about 5 years. And so that metric of those customers running one other assay beyond COVID, that's at least 5 years. And those with 2 other, those contracts are now longer than 5 years. As we add the menu, we typically also extend the contract. So we stay engaged with our customers, make sure they understand the menu that we offer and the value that the Panther brings to their labs.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. And then in terms of ramping adoption of newer assays and getting customers to add additional menu on Panther, is BV/CV still the lion's share of growth here? Curious on how many of your women's health customers are adding virology? Maybe just kind of talk about where you're seeing growth on the menu adoption side?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes. Certainly, BV/CV is the leader. I think we had another year of new assays being signed up in fiscal '23. And so -- but I think it is beyond BV/CV, I think we're seeing take up across the entire menu. But BV/CV is a leader for sure.

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

And especially on a global basis, we still got so many opportunities assays being picked up here and there by different customers. So it's part of this ongoing thing that each quarter, we see new assays being picked up by new customers, different places that just keep they help you this year, but then you get the full year next year, and it just keeps building beyond that. So that's part of the huge strength that we see.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got you. A couple more on diagnostics. Who are you taking competitive share from in molecular? And what would you say in response to some of the smaller throughput platforms that maybe offer faster turnaround times that are looking to go after the centralized testing market? Is there room for both where maybe centralized platforms like Panther runs a symptomatic volume and point of care take symptomatic? Just any sort of color around how you're thinking about the market evolution there?

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

Yes. I want to take. I think the way we keep thinking about the market is less about who we're taking market share from and more about still market share creation that a BV/CV is magically exactly what we do. It's created a great assay, get work on reimbursement, work on guidelines, and we develop the market. So we're far more focused on developing markets, creating markets, as we did with 3D mammography, as we do time and time again. I do think at the end of the day, the numbers would suggest we're probably a bit of a winner over time.

I also think the whole focus on point of care and people -- because we are so big, particularly in women's health, a lot of folks, I think, oftentimes coming up with ways that they're going to get at us. But when we look -- we've looked at so many things in COVID time of some of the point of cares, this and that, and you still have to better understand the marketplace, that for a physician to start to run point-of-care tests in STIs, it's typically not as critical to get the answer that day. And the economics and the workflow are going to be more expensive for them, and they're going to have to staff up and change it.

So even if there's a machine it may not be the best answer for the product. So we continue to look at everything, and we've got our own platforms in development even with Mobi and other things. But I think we continue to feel really good about the STI business. And for all the folks that have talked about it, it's back to -- we like to just generate results and not a lot of hype. But I would tell you our confidence in our ability to continue to grow our business, and with what we're doing even with our customers, continues to be that much stronger.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. That's helpful. And then maybe just on the Breast Health side, can you elaborate on the international opportunity to convert 2Ds into 3Ds outside the U.S.? Why has that market been slower to adopt 3D, and from an international opportunity standpoint, how do you -- how would you frame that up?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes. I think there's still plenty of opportunity outside the U.S. as Steve talked about, opportunities for even us to go direct. I think some of the rate-limiting factors is lack of radiologists in some of the health care infrastructure that we have here in the U.S. compared to outside the U.S. that really feel good about our share and where we're headed.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Is there more runway for further mix shift in breast towards recurring revenues? You talked about it in the presentation, and it's been a focus for some time now. And then what's that runway look like? How can you shift that business maybe even more towards a recurring revenue model?

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

Yes, it's kind of steady evolution. If you look at any 1 year, it's this modest shift, but over time, it just kind of keep so. I think as we find more products that can be disposables and recurring revenue, that will help, but we also don't want to underplay selling the gantries as well. So it's -- I think it will continue a gradual shift that will work very well, both for us and the customers.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. Maybe shifting over to the model. How would you characterize margin growth in 2024? What's the main driver there? Is it simply just the semi price inflation rolling off? And then curious, do you see Hologic exiting the year at above pre-pandemic operating margin of 31.5%, kind of what are the puts and takes for Hologic to come in above or below that number?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes, sure. So let me just frame that. Our margin profile at the kind of, what I'd say, the base case, that 31.5% is very rich, right? And so we are focused on getting back to that, and that will happen kind of over the course of '24. I think we will be approaching that low 30s or in that low 30% operating margin profile. I think the main driver of that margin headwind is what you talked about is the chip -- higher chip costs and as we work through the backlog in the 3D gantry, we'll work through the backlog of the higher-cost chips. And so we have line of sight to that. We have a line of sight of some network optimization as well that will play out over the course of '24 and give us confidence that we'll exit the year in the low 30s.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got it. That's helpful. And then maybe can you walk through your expectations for interest next year income and expense? I think there was a little confusion on the guide following the call just -- I think your interest guide assumes $1 billion of cash to be deployed next year. Maybe just some details around the puts and takes on that line?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes, sure. So we took a conservative approach to forecasting our interest income with a line of sight to what we have talked about, the priority of M&A that, that a significant portion of that cash would be deployed. So as we get into announcing our Q1 results and updating our forecast, we'll likely update with a higher interest income number, because now we see the majority of that cash is not being as deployed as soon as we had thought. So no change to the interest expense, just a little higher interest income. So think of it as just we approach the forecast from a conservative perspective.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got you. I'll stop here in case anybody in the audience has any questions. Looks like we have 1, down below.

Unidentified Analyst

We had tremendous progress in deleveraging the balance sheet for all practical purposes, you're debt free. If you look at your EBITDA leverage ratio, and should we talk to the rating agencies on a regular basis, what stands between you and them in an investment rating? Because if we stuck at (inaudible) quite a while despite showing very good results in terms of the balance sheet and cash flow.

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes, we've been really comfortable with our mixed rating.

Unidentified Analyst

(inaudible)

Karleen M. Oberton - *Hologic, Inc. - CFO*

Oh sure. I think to summarize, the question was what is standing in our way with the rating agencies of a higher rating. And what I would just say is that we're not uncomfortable with our mixed rating that we have now. We do talk with the rating agencies on a regular basis. We've talked to them about under normalized circumstances, expecting a leverage ratio of 2 to 3x. That's what we were about 2.5 before the pandemic. They're very comfortable with that. but I wouldn't be surprised if we had a higher rating sooner than later.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

I wanted to ask one on the M&A environment. Just kind of curious how you guys would characterize that. You've mentioned a few times that the best way to spend your money recently has been to buy back your own stock. But curious if this is a sustainable way to spend cash. And just how are you kind of thinking about the market environment? What's out there? Is there anything catching your eye?

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

Yes. I think that the biggest thing we've probably been very proud of is all the stuff we've said no to over the last few years that I think is -- we've been really good. Yes, it's funny. We look back and one thing we always ask ourselves is, "Gee, are there some deals that we wished we had done." And honestly, that answer right now is no. That we don't feel like we're missing out anything. We think the '24, '25 time period, there will still be a lot of good stuff actually come out, whether it's parts of bigger corporations that may get spun off.

We like to be in a position where our core business is performing well. And then we can look at whole companies, parts of companies, private companies. I do think deep down, I'm not sure the private company resets on valuations have yet matched the public markets. We've seen some massive corrections, all these companies that, by the way, many of which were going to disrupt our STI business during the pandemic that had $1 billion-plus valuations that are now bankrupt. There's a lot of that carnage out there.

We think there will be a lot of other opportunities over time, but we've got the luxury of being disciplined and patient right now so that we're not having -- when your core business is performing well, it gives you that incredible thing. And having said that, we don't want to just buy back our own stock forever. We like the deals we've done certainly over the last few years and want to be able to find more of those.

Karleen M. Oberton - *Hologic, Inc. - CFO*

No agreed, well said.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

Got you. We have 1 more minute here. Just we haven't touched on the Surgical business, saw impressive growth in 2023. Can you parse out what drove strength there? Was that pent-up demand really, all organic performance and then touch out kind of 1Q performed relative to expectations?

Karleen M. Oberton - *Hologic, Inc. - CFO*

Yes. So I look at the Surgical business in 2023, we had some innovation. We had a line extension with our NovaSure V5 that guard some higher pricing that drove some growth. I think the standout continues to be MyoSure and Fluent. Their performance is astounding, as Steve talked about. I think the market is much bigger than we ever envisioned it to be. And then it's been the inorganic, the Acessa and Bolder acquisitions, which are also contributing to the growth. And I would say, for the most part, that all played out in Q1, except for NovaSure, actually was a little bit of a decline as we lapse that higher pricing from a year ago.

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

That, and we have the incredible surgical leadership team sitting in about the fourth row. They're the dynamos driving it all.

Casey Rene Woodring - *JPMorgan Chase & Co, Research Division - Research Analyst*

There you go. All right. Well, it looks like we're out of time. So thank you guys for presenting today. Really appreciate it. Thank you, everybody, for coming. Enjoy the rest of the conference.

Karleen M. Oberton - *Hologic, Inc. - CFO*

Thank you.

Stephen P. MacMillan - *Hologic, Inc. - Chairman, CEO & President*

Thanks, Casey.