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HOLX.OQ - Q3 2025 Hologic Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Mike Watts** *Hologic Inc - Corporate Vice President, Investor Relations*

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Doug Schenkel** *Wolfe Research - Analyst*

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

**Patrick Donnelly** *Citi - Analyst*

**Vijay Kumar** *Evercore ISI - Analyst*

**Lu Li** *UBS Securities LLC - Analyst*

**Anthony Petrone** *Mizuho Securities - Analyst*

**Andrew Brackmann** *William Blair - Analyst*

**Navann Ty** *BNP Paribas - Analyst*

**Casey Woodring** *JP Morgan - Analyst*

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

## PRESENTATION

### Operator

Ladies and gentlemen, good afternoon and welcome to Hologic's third quarter fiscal 2025 earnings conference call. My name is Lisa, and I'll be your operator for today's call. (Operator Instructions) I would now like to introduce Mike Watts, Corporate Vice President, Investor Relations, to begin our call.

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**Mike Watts** - *Hologic Inc - Corporate Vice President, Investor Relations*

Thank you, Lisa. Good afternoon and thank you for joining Hologic's third quarter fiscal 2025 earnings call. With me today is Stephan MacMillan, the company's Chairman, President and Chief Executive Officer; Essex Mitchell, our Chief Operating Officer; and Karleen Oberton, our Chief Financial Officer.

Our third quarter press release is available now on the Investors Section of our website. We will also post our prepared remarks to our website shortly after we deliver them, and a replay of this call will be available for 30 days.

Before we begin, we'd 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 organic revenue, which we define as revenue excluding divested businesses and revenue from acquired businesses owned by Hologic for less than one year.

Also organic revenue excluding COVID-19, which further excludes COVID-19 asset revenue and other revenue related to COVID-19. Finally, any percentage changes that we discussed 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 Stephen MacMillan, the Hologic's CEO.

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

Thank you, Mike, and good afternoon, everyone. Thanks for joining us to discuss our financial results for the third quarter of fiscal 2025. We're pleased with our performance in the quarter as we delivered both revenue and non-GAAP earnings per share that exceeded our guidance.

We've admittedly hit a few speed bumps in the last couple of quarters, but we view our results as clear evidence of the significant progress we have made in putting these bumps behind us as we return to higher growth while improving women's health.

We have more work to do, but we believe our performance in the third quarter has us very well positioned for better results as we close out fiscal 2025 and move into next year.

Specifically, total revenue for the third quarter was \$1.024 billion. This represented slight growth of 0.4% and exceeded the high end of our guidance range by about \$14 million.

Our diagnostics business continued to grow nicely compared to the prior year, and our breast health business improved sequentially as planned. Surgical met expectations, and we got a positive contribution from our skeletal franchise as previous supply constraints lifted.

These solid revenue results helped non-GAAP earnings per share reach \$1.08 in the third quarter. This was a slight increase of 1.9% compared to a year ago and a penny above the high end of our guidance range. We maintained a very strong non-GAAP operating margin just above 30% as we controlled expenses across the organization and mitigated some tariff impacts.

Importantly, our third quarter financial results have us squarely on the path toward accelerating growth that we described in our last call. In fact, we completed our annual strategic planning process earlier this summer and are optimistic that we will return to solid mid-single digit organic revenue growth next year and over our strap plan horizon.

A key reason we are confident in this outlook is the strengthening of our breast health business. I want to spend a little time on this today since it has understandably been a focus for investors.

Although breast health revenues declined in the third quarter versus the prior year, this was expected. In fact, quarterly sales finished slightly ahead of our internal expectations. I want to highlight three areas that underpin this performance and excite us about our future.

First, better commercial execution both in imaging and interventional. In the third quarter, we shipped more 3D gantries than in the prior quarter, validating the sequential improvement we had forecast.

In the United States especially, our new commercial leadership team began to build on the bifurcated sales structure and tighter processes they established earlier in the year. Based on this foundation, we rolled out a new strategy to upgrade older end of life gantries, which we expect to bear more fruit in the fourth quarter and into 2026.

As we have previously discussed, gantry replacement cycles have become longer, but we remain encouraged that our leading market share remains intact, and we believe this has been validated by competitive gantry winds in recent quarters.

And while all this was happening in mammography, interventional sales increased 6% organically, reflecting an easier comparable, but also the early benefits of our more focused domestic sales force. The second reason we are excited about breast health and a major reason we continue to win competitively, is our consistent delivery of both clinical and product innovation.

For example, a retrospective study we published recently with physicians from Sanford Health in South Dakota, evaluated more than 180,000 mammograms conducted over 10 years.

This real world study found that high resolution 3D mammography conducted with our Clarity HD software was associated with higher cancer detection rates than our standard resolution 3D.

This is one of scores of clinical studies published by our radiology customers that demonstrate the value of our technologies, creating by far the deepest body of evidence in our category.

In terms of product innovation, this quarter we are launching our latest artificial intelligence solution, Genius AI Detection Pro, which will extend our leadership and breast focused software. This cloud-based solution developed with our partner Therapixel is essentially an all in one AI assistant for the radiologist.

It analyses prior and current mammograms through a 2D and 3D deep learning algorithm for increased accuracy and faster throughput. A single streamlined interface boosts efficiency up to a 24% reduction in reading time. By capturing all key information in one place this includes breast density scores, patient history, and lesion and case scores.

The software will even check image quality and automatically pre-populate the radiologist's report with key findings. It is being sold as an upgrade on our three dimension system now and will be available on our next generation instrument and vision when it launches next year.

Third, we're really excited about Endomag which we acquired last summer. Endomag expands our portfolio of breast surgery products as we offer additional value across the entire breast cancer continuum of care.

As a reminder, Endomag markets two primary disposable products. Magseed, a tiny wireless seed that enables breast surgeons to quickly find and remove a tumour. And Magtrace, a radiation-free tracer that finds and maps target lymph nodes to be removed or biopsied during surgery. Both products operate with a small piece of capital called the Sentimag system.

In the third quarter, Endomag contributed nearly \$20 million of revenue at a very healthy gross margin. The business has been exceeding our deal model and will begin adding to organic growth rates in August.

Before I turn the call over to Essex, let me conclude by saying that the operative word for Hologic in the third quarter was progress.

Progress in exceeding our near-term financial commitments, progress in strengthening our breast health business and progress toward accelerating overall company growth in the fourth quarter as well as '26 and beyond.

All in all, we are confident in our path and optimistic about our future. Now I will turn the call over to Essex.

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

Thank you, Steve, and good afternoon everyone. In my remarks today, I will first review our divisional revenue performance in the third quarter. Then I'll provide an update on the positive progress we have made in mitigating tariffs.

As Steve said, our results in the third quarter were strong, with revenue of \$1.024 billion exceeding the high end of our guidance. While we face several challenges this year, we believe they would be temporary, and we're excited to see the momentum building across the business as we look toward FY26.

Starting in diagnostics.

Third quarter revenue of \$448.9 million grew 0.9% or 2.9% organically excluding COVID-related sales. As a reminder, much of the geopolitical turmoil we've discussed this year affects our diagnostics business. Specifically, funding cuts to US aid in Africa and the challenging operating environment in China lowered otherwise solid growth in the third quarter.

As our team navigates these headwinds. The underlying growth drivers and diagnostics remain strong. We're still in the early innings of vaginitis and Biotheranostics opportunities worldwide panther utilization continues to reach new all-time highs. And our cytology customers are excited about the rollout of our genius digital cytology platform.

Molecular diagnostics continue to lead the way in the third quarter, with global growth of 2.4% or 5.2% excluding COVID. In the United States, molecular growth molecular grew 7.3%, excluding COVID.

Growth was driven by strong sales of our BV CV/TV and our portfolio of Panther fusion assays. Our diagnostics team has done an outstanding job taking BV CV/TV from a new product in 2019 to what is now our second largest asset.

Much of the growth we realized at this point has been from converting existing manual testing to our fully automated high throughput panther system. There's still meaningful op opportunity to convert more of this testing demonstrated by several key account wins this quarter.

But the larger opportunity will be to reach the estimated 60% of women in the US who aren't tested at all when they experience vaginitis symptoms.

To this end, we've deployed our physician sales force to provide education and awareness at the provider level, leveraging the same strategy we use to grow testing for sexually transmitted infections.

Before moving on, I'd like to highlight our panther fusion sidecar and how it will play a key role in diagnostics growth moving forward. As we emerged from the pandemic, two things became clear across our customer base.

Customers loved the workflow advantages of the panther, and labs were looking to consolidate their testing onto fewer platforms. The latter is the opportunity for Panther fusion, fusion uses PCR technology to unlock our full menu of 23+ assays spanning across several testing categories.

Currently, fusion is mainly used for respiratory testing, but we've been seeing good traction this year as customers adopt more menus. In particular, our open access testing kits contributed to solid fusion growth in the third quarter. Open access gives labs the flexibility to run their own lab developed tests on our fusion platform.

In addition, over the next several years, we plan to further diversify our menu by launching IBD tests for GI and hospital acquired infections. As we continue to deliver this innovation, it further [cementshologic] as an indispensable presence in the molecular lab.

Turning to our cytology and perinatal businesses, third quarter revenue declined 2.2%. This result was expected given the reduction in our China forecast that we discussed the last quarter.

Excluding China, cytology would have grown low single digits for the quarter, a solid result that was fuelled by the rollout of our genius digital diagnostic system. As we implement Genius at more laboratories around the world, we received resoundingly positive feedback.

Genius transforms the traditional manual review of past slides, which was previously conducted on glass under a microscope by capturing a digital image of the slide. This digital image can then be reviewed remotely from anywhere in the customer's network on our review station.

Using our proprietary artificial intelligence algorithm, Genius identifies pre-cancerous lesions and cervical cancer cells for examination by lab professionals, enabling a faster, more accurate diagnosis.

These workflow advantages not only address the growing labour shortages our customers face, but also enable cervical cancer screening in areas of the world where infrastructure is limited.

Because the genius system requires an overhaul of the traditional pat screening workflow, we expect the full roll out to be a multi-year process contributing to growth for the next several quarters.

Moving to breast.

Revenue of \$365.2 million declined 5.8% or 10.8% organically excluding Endomagnetics and SSI. The decline versus prior year was expected as the third quarter of FY24 presented our toughest comp of the year. Importantly, as Steve mentioned, revenue grew sequentially. Compared to the second quarter and finished slightly ahead of our internal goal.

We were encouraged to see the progress in Q3 that gives us confidence this business is rebounding and will return to growth in Q4. Most apparent in the third quarter results was the strong interventional performance, growing 31.8%. Endomagnetics played a big role in this growth.

And turns organic in Q4, but even excluding Endomagnetics, organic interventional sales grew 6%, showing the immediate impact of our refocused sales force.

Turning to surgical, third quarter revenue of \$178.4 million increased 6.3% or 1.2% organically excluding Gynesonics. Growth continues to be led by an international which grew 24.8%. The investments we've made in our commercial and market access capabilities outside the United States have significantly expanded the reach of our minimally invasive surgical products.

International surgical growth was driven by two key factors in the third quarter. Adoption in markets where reimbursement has recently been established and expanding into new markets altogether.

And we're encouraged by the strong momentum across our entire surgical portfolio. For example, NovaSure, which has faced challenges in the US, has consistently delivered double digit growth internationally over the past several quarters. This highlights the significant opportunity we still have to elevate women's health globally.

Finally, in our skeletal business, third quarter revenue of \$31.3 million grew 62.1% as we resumed shipping our final DXA model in the quarter.

Sales were roughly in line with our expectations but higher than historic levels as we continue to meet pent up demand from the prior shipping hole.

Before I turn the call over to Karleen, I wanted to provide an update on the positive progress we have made in mitigating the impact of global tariffs on our business.

As a reminder, last quarter we shared a worst case tariff estimate of \$20 million to \$25 million per quarter. We anticipated that approximately 2/3 of this amount would come from the 10% tariff on imports from Costa Rica.

Where we manufacture most of our surgical and interventional breast health products. Shipments of both shipments of products to and from China represent the next largest portion, accounting for roughly 15% of the total.

Our team has been hard at work over the last 90 days evaluating options to reduce this tariff impact through changes to our global supply chain and operating model and various procurement efforts, we expect to mitigate roughly half of the amount we originally provided.

This means we now expect to incur \$10 million to \$12 million in tariffs per quarter. Of course, this is based on tariffs as they stand today and is subject to change. With that, I'll hand the call over to Karleen.

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

Thank you Essex, and good afternoon everyone. In my comments today, I will start by walking through the rest of our non-GAAP income statement. Then touch on several key financial metrics and finish with our guidance for fiscal Q4 in the full year.

In the third quarter, we delivered EPS of \$1.08 growing modestly versus the prior year and exceeding the high end of our guidance range. Strong execution on the top line helped to achieve these results with all our global divisions meeting expectations in the quarter.

Now to the rest of the income statement.

Non-GAAP gross margin closed the quarter at 60.3%, representing an 80 basis points decline compared to the prior year.

This decrease was driven by product mix, but also by a reserve recorded in our skeletal health division based on our plan, discontinue sales of our flu scan insight system at the end of the fiscal year. This is a strategic decision based on the product's low gross margin and growth potential and limited fit in our portfolio.

Laura scan is expected to generate about \$18 million of product and service revenue in fiscal 2025 before we stop selling it next year. I should also mention that cost of goods sold included about \$1.4 million of tariff expense in the third quarter. Less than anticipated, in part as a result of our mitigation efforts.

Moving down the P&L.

Third quarter operating expenses of \$309.6 million increased 2.2%. This increase was driven by the inclusion of Endomag and Gynasonics in our results, as well as increased expense related to our deferred compensation plan.

Excluding these acquisitions, operating expenses would have declined 4.3%. Underscoring our commitment to disciplined expense management and operational efficiency across the organization. Third quarter operating margin finished at 30.1%, representing a decrease of 110 basis points compared to the prior year but still best in class relative to our peers.

This decrease reflects the dilutive impact that Endomag and Gynasonics currently have on our bottom line. As we continue to integrate these acquisitions, however, we do expect their profitability to improve, especially since both already have gross margins that are creative to our corporate average.

Below operating income, other income net was a loss in a fiscal third quarter of slightly less than \$6 million. This was better than anticipated as the increasing value of investments related to our deferred compensation plan largely offset the increase we saw in G&A expense from strong equity market performance in the quarter.

Finally, our tax rate in Q3 was 19.25% as expected. Altogether, net margin for the quarter was a very healthy 23.8%, decreasing 100 basis points compared to the prior year, but increasing 60 basis points sequentially.

Combined, these results led to non-GAAP earnings per share of \$1.08 slightly exceeding our bottom line commitment. Our strong profitability helps to drive excellent cash generation as we delivered \$343 million of operating cash flow in the third quarter.

We finished the quarter with \$1.88 billion in cash and short term investments on our balance sheet and a net leverage ratio of 0.6 times.

We also refinanced our credit agreement earlier this month, so we continue to enjoy tremendous financial and strategic flexibility.

Now let's move on to our updated non-GAAP financial guidance for the full fiscal year and fourth quarter. For the fourth quarter, we're expecting total revenue of \$1.03 billion to \$1.04 billion in non-GAAP EPS in the range of \$1.09 to \$1.12.

I would point out that based on our good performance in Q3, the sequential step up that is required in Q4 is much less than we previously forecasted. At the midpoint of these ranges, we expect mid-single digit revenue growth and high single digit EPS growth in the fourth quarter.

This would mark a return to our longer term goals for financial performance. For the full year, we are also calling up the midpoints of our guidance ranges for revenue and EPS based on our strong performance in the third quarter, as well as lower tariff headwinds.

We now expect revenue in the range. Change of \$4.081 billion to \$4.091 billion in non-GAAP EPS of \$4.23 to \$4.26. All in all, remain on the financial improvement path that we outlined earlier this year, stabilization in Q2, progress in Q3 and a return to growth in Q4.

As our teams continue to execute on this plan, our divisional outlook from our prior guidance remains largely unchanged. However, there are a few trends worth calling out for the fourth quarter.

In breast health, as Steve and Essex discussed, we expect to return to slight top line growth in the 4th quarter.

Compared to the prior year, our diagnostics business outside the United States will continue to be affected by the difficult operating environment in China and reduce funding for our HIV tests in Africa. In surgical, we expect to benefit from an easy comparable period in Q4 of fiscal '24, coupled with better commercial execution.

As a result, we anticipate in the fourth quarter will be our strongest quarter of revenue growth for the year. In skeletal, we anticipate outsized growth in the fourth quarter as we'll be competing against a full quarter of the DXA stop ship in the prior year period.

In 2026, however, skeletal revenue will be less than in recent quarters, as we will have fulfilled pent up demand and stopped selling our flu scam product. To help with a few other modelling items based on recent foreign exchange rates, the weaker US dollar should represent a tailwind of approximately \$6 million in the fourth quarter.

We expect COVID assay sales to be about \$5 million in the fourth quarter and sales of COVID-related items to be about \$25 million.

Finally, we expect blood screening revenue of about \$5 million in Q4. As a reminder, both COVID-related sales and blood screening revenue are backed out of our organic growth calculations.

Moving to the rest of the P&L.

Our full year expectations for growth and operating margins in the low 60s and low 30s respectively remain unchanged. In the fourth quarter, we do expect to incur about \$8 million of tariff expenses, and as Essex said, this number will increase to \$10 million to \$12 million on a quarterly basis in fiscal 2026.

While this is roughly half what we originally expected, it will still represent a headwind to gross margin of almost 100 basis points compared to this year.

Below operating income, we estimate that other income net to be an expense of approximately \$20 million in the fourth quarter.

Our annual effective tax rate of 19.25% and diluted share account of \$228 million shares for the full year are both unchanged from our previous guidance.

To conclude, our strong third quarter results were an important step in the right direction as we delivered revenue and non-GAAP EPS above our guidance ranges. We expect to build on this momentum in the fourth quarter, and we believe we are well positioned to finish the year from a position of strength as we enter fiscal '26.

With that we ask the operator to open the call for questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Doug Schenkel, Wolf Research.

### Doug Schenkel - Wolfe Research - Analyst

Hey, good afternoon. Thank you for taking my questions. So just I'll throw up two. First, you talked about continued progress you made in fiscal Q3. And you're expecting around 4.5% organic growth in Q4, which would be the strongest since the pandemic. The Street is modelling a continuation of trends in fiscal '20 recognizing we have to wait another quarter for formal guidance. Are there any dynamics we should be contemplating in our models, either tailwinds or headwinds that could move you off trend towards continued progress and continued momentum into fiscal '26.

And then just the second question is, we have heard about some China DRG impact in the quarter for other diagnostic companies. I don't think this would be a meaningful factor for you guys, but I just want to make sure there was nothing there that had impact for you guys in the quarter.

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

Yeah, Doug, I'll just start off with the outlook for '26. Agreed, I think we sent our prepared remarks that we're expecting mid-single digit growth for '26. I think a couple of things that I would call out is the flu scan discontinuation. We talked about that.

It's not terribly significant but call that out. And the other piece is that the headwinds that we are realizing this quarter and next quarter related to China and HIV will also impact the first half of fiscal '26. So, I would factor that, implications into your outlook for next year.

### Operator

Jack Meehan, Nephron Energy.

### Jack Meehan - Nephron Research - Analyst

Thank you and good afternoon.

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

Hey, Jack.

### Jack Meehan - Nephron Research - Analyst

I want, I wanted to ask you about capital allocation in the quarter. It was a very strong quarter cash flow didn't expect the balance sheet cash to tick up. I was curious what your thoughts are around M&A. Are there any larger things in the funnel that you were considering?

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

No, not particularly. I think the way to think about it, Jack, is through the year-to-date we spent over \$750 million on buybacks and you know it's sometimes a little more than a quarter, sometimes a little less overall feel good about what we have done, and certainly we'll continue both to focus on M&A and buybacks, but there was nothing, gearing up to do something big.

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**Jack Meehan** - Nephron Research - Analyst

Got it. And then wanted to follow up on the breast health business. Good to see the progress. I agree that was the key word here. Was just curious, you feel like within the overall company context looking into 2026, how you feel about the reception around the new product launch and also just durability against replacement, continuing to progress in the next year.

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

Yeah, I think really as we think about not only next year but the next few years starting to feel like we've really got the hiccups behind us in that business and we're going to be end of lighting a lot of the older gantries will be launching vision and, very excited about what that's going to bring, and that's really a, call it second half later '26 before that really starts to be meaningful and that's going to be a big driver probably in '27, '28, '29.

As you well know, and the other part I would keep your eyes on will be the interventional business. Yeah, you might notice that hit \$100 million this quarter for the first time and it's starting to become a really nice driver and really starting to pay off that vision we put in place years ago of the breast care continuum and really starting to get that business which is both recurring revenue and better margins, and we're feeling really excited about where that's headed.

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**Operator**

Patrick Donnelly, Citi.

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**Patrick Donnelly** - Citi - Analyst

Hey guys, thanks for the question. Steve, maybe a follow up there on, hey, maybe a follow up there on the breast side. (technical difficulty) Can you just talk about the visibility into 4Q, certainly a big focus from investors in our conversations, just the progress there, the step up, it sounds like you guys are confident in the rebound here.

It sounds like maybe some of the sales changes are bearing fruit, but can you just talk about the (technical difficulty) building blocks [32 to 42] to get back to growth? Sounds like interventional you're feeling pretty good about, but just curious how you're thinking about the visibility here into the 4Q return to growth on the breast side.

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

Yeah. It starts with the sales force and the rigor and discipline and processes and leadership that's been put in there where just as we're coming into the quarters now, we've got much more clarity around where we're headed. We're getting off to better starts in the quarter and feeling really good.

And that team now has hit what they've said they're going to hit each of the last few quarters and just our degree of confidence and belief in them has gone really high. So I think we're feeling really good about that.

The other part that will be nice is Endomag as we said, is running well ahead of plan in the final two months of this quarter, that starts to flip into organic revenue because we've just actually closed it just about a year ago today almost. And so we're really excited about how that continues to go. So it's just one of these that I think we went through a little rough period on Breast Health. Again, it's going to be continuing to show me, but we can see the trends and really starting to feel so much better about that business. Proof of be one, obviously, we want to put back real growth in the coming quarter and then have that really accelerate.

I think we see our Breast Health business being even stronger next year than where we'll even finish this year. But before we move up --- Yeah, go ahead.

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**Patrick Donnelly** - Citi - Analyst

No, after you. Sorry, I was just going to say, Karleen, maybe on the margins, can you just talk about, obviously there's some move pieces, right, with the tariffs and even this product discontinuation, can you talk about where we're going to be on 4Q?

It sounds like below 30 is a good place to be, and then what the right launching point is as we think about just progressing into '26. I know it's usually not the exit rates. I just want to make sure we're thinking about it correctly. Thanks so much.

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

Yeah. We are expecting a step up Q3 to Q4 on gross margins. It starts for us the revenue with higher revenue and similar to the product mix with the higher gantry portion of the revenue. Those are margin accretive. And then coupled with Q4 is always seasonally our lowest operating expense quarter.

And then we won't have the onetime charges that we had here in Q3. I think the outlook I would say the Q2 operating margin is not our jumping off point for the full year, '26. I would look to the full year of '25 as more of the jumping off place for margins. We would expect that as we absorb the incremental tariffs, we will be in line with '25 in that range.

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

Hey Patrick, sorry I interrupted there, but I wanted to just come back to Doug's question a couple questions ago we kind of got interrupted there.

Yeah, on China. So sorry about that. We're not directly exposed to a lot of the specific issues that some of our peers are in China, but as we talked about last quarter, it has become a pretty challenging environment for us for a number of reasons. So as we predicted, total China was less than a \$10 million business for us in the third quarter and was down more than 50% compared to prior year. So I just wanted to tie that one up.

Alright, next --.

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**Operator**

Vijay Kamar, Evercore.

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**Vijay Kumar** - Evercore ISI - Analyst

Hi, Steve. Thanks for taking my question. Helpful color on fiscal year '26 returned back to a solid mid-single. The -- are we -- excluding, -- is COVID had been, Steve, are we backing that up when you say mid singles, and I know floors can, that's moved to disc ops, should we be removing that and then and then calculating organic, excluding COVID and, disc ops or how you think you were organic, when you say solid mid singles the 4,4 plus or is that more of a 5,5 plus.

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

Yeah, no, yeah, we, when we talk about the mid-single digits, I would say the ex-COVID is really inconsequential at this point, so I wouldn't push the number up, because of that.

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**Vijay Kumar** - *Evercore ISI - Analyst*

I'm sorry on floor skin, Karleen is that should be back that out when we're calculating organic.

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

Yeah, we do organic if that's a discontinued product I'd back that out.

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**Vijay Kumar** - *Evercore ISI - Analyst*

Yeah, understood. And Steve, one on Endomag, I think that this business grew like 100% and a quarter rate, was it, was there any timing I mean I think you're analyzing at \$80 million. If this thing can grow like strong double digits, right this, it could be in, sizable organic contributor. So was there any one-off in NCQ like what is driving this, strength in the business?

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

No. It's really our commercial execution. We took it over fully in the United States. If you recall, when we acquired this, it was going through a different party that had the distribution rights in the United States. We took it over at the very end of our previous quarter, and it looked a little sloppy last quarter because we had an inventory adjustment as we bought back inventory this and that.

This -- the magic of this business right now, I would tell you just from watching daily sales is it's just incredibly steady and growing. And I think it's where we feel really, really good.

Our whole team was just over in the UK about a month ago. with the team over there that had developed the products and no one-offs. And I think both domestically and internationally, we feel really good about where it's headed.

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**Vijay Kumar** - *Evercore ISI - Analyst*

Yes sir.

Thank you.

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

Great, thanks Vijay.

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**Operator**

Lu Li, UBS.

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**Lu Li** - UBS Securities LLC - Analyst

Great, thank you for taking my questions. I think the first one on the molecular diagnostic, I think you mentioned that you're going to have a test menu expansion on fusion. I wonder if you can comment a little bit on the timing and the potential revenue contribution down the road. Thank you.

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

Yeah, I would think that those assays will come online probably later in '26, early in '27, so probably not meaningful contribution next year more in the '27, '28, but I would just caution that these are what I'll call incremental assays to the menu. They're not a BV CV/TV type opportunity.

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

A good example of that is the open channel product that's available now did contribute to growth in the quarter but is relatively small in the grand scheme of things.

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**Lu Li** - UBS Securities LLC - Analyst

Got it. And Karleen, I think one of the questions I wanted to follow up on is the size of the China impact and HIV impact in 2026. So you mentioned there will be some residual happens in the first half. I wonder, can you quantify what will be the magnitude of that?

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

Yeah, so I think in the in the first half of '25, our China business was more on track to be a \$60 million to \$70 million business. We're exiting more at a \$10 million a quarter, so that's the ruffle difference in the first half of the year.

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

And I'm trying and then there's the HIV. The HIV business was stronger in our first quarter and a half, really our first two quarters, and we're assuming that's going to, the minimus numbers, in the next year.

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**Lu Li** - UBS Securities LLC - Analyst

All right, got it. Thank you.

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**Operator**

Anthony Petrone, Mizuo Group.

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

Hey Anthony.

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**Operator**

Anthony, you will need to a mute for us to hear you.

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**Anthony Petrone** - Mizuho Securities - Analyst

Sorry, hopping between, hi, apologies for that. I was on mute. Thanks and congrats on a solid quarter here. I think I want to maybe just focus on fusion for a moment there and you gave some good updates.

Last quarter and the prepared remarks here and the goal is to get fusion of 100% of Panther. Maybe could we get an update on, the fusions that are out there today just where is their utilization intensity versus a non-fusion platform and then how does pricing on a fusion platform stack up the non-fusion assays and I'll have one quick follow up thanks.

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

Yeah, so let me start off to clarify that the goal is not for every panther to have a fusion. It's really for every customer or every lab to have a fusion capability within the lab. We never anticipated that it'd be a one for one situation, but I would say is, I think it's still plenty of run room in rolling out more fusions to our customers probably over a third of our customers have a fusion.

At this point and that will continue to grow over our strategy horizon period and I would say just from a pricing perspective, of course the women's health assays, the legacy assays are obviously the least pricing, on the legacy panthers so we would expect that as the menu rolls out on fusion it'll probably it'll be a pricing premium.

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**Anthony Petrone** - Mizuho Securities - Analyst

That's helpful and then just on the mammography side gantry obviously next year 2026 looking for more of a meaningful ran but just maybe on the inventory build.

And working capital, should we expect to see, working capital uptake here in the second half of the year as the company prepares, more for that full launch next year. Thanks.

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

No Anthony, I would not anticipate an increase in inventory to support that launch at this period of time. Yeah, I think we're well positioned to handle that. Many of the components are similar to our legacy, 3D gantry, so, I wouldn't expect any meaningful change.

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**Operator**

Andrew Brackmann, William Blair.

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**Andrew Brackmann** - William Blair - Analyst

Great, hi everyone, good afternoon. Thanks for taking questions. Steve, you opened the call sort of discussing your confidence and returning to that mid-single digit growth, not just for '26, but it sounded like over the entire strap plan?

So can you maybe talk about that target in the context of how international plays into the build up there and then as my follow up maybe just talk about how pricing, and your ability to take price plays into that as well? Thanks.

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

Yeah, I think as we look over the strap plan horizon we see international being accretive to that growth rate with kind of again, probably some caveats. The beginning of next year might be a little squirrely because of the Africa stuff because of China, but in general over both really the bulk of '26 and beyond, we see international continuing to be a really nice grower. To that point and then, regarding pricing, we probably see it a little bit more of our opportunities is in mix and new product innovation versus actual, kind of year over year price increases we're looking at, targeted price increases here or there where we can, but in general it's much more about the innovation curve, so it's more of a mixed game than a price game.

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**Andrew Brackmann** - *William Blair - Analyst*

Great, thanks for that.

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

Thank you.

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**Operator**

Navann Ty, BNP Paribas.

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**Navann Ty** - *BNP Paribas - Analyst*

Hi, thank you. Just a clarification on breast health, so have the updated end of life strategy and refocused Salesforce been fully implemented in Q3? So we have most results in Q4 and minimal impact in in Q3, and then on the M&A, side, can you discuss the M&A environment in in what for? Thank you.

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

Sure, on the breast health piece, I think what we're really encouraged by is typically when you reorganize the salesforce, you have to take a step back or two, and I think our team implemented really the Salesforce restructure largely in our second quarter and if we would have seen the disruption, it usually would have been in this third quarter -- and the teams have really settled in very nicely.

On that, so we feel very good and it was really just this quarter where they began the end of life strategy. So that's in the early stages, but with some very good early wins, and I think we've already seen some lined up here for this quarter, which is our fourth quarter and then looking into next year. In terms of the M&A environment, we, I'd say there's two pieces.

One is we continue to be patient and looking for more things like the Endomag's and the Gynesonics is. On the Biotheranostics that have been on more recent deals and we've also dramatically strengthened our own capabilities over the last few years and both in the divisional area and corporately to where we feel really good about those last few, and we've continued to walk away from more things than we're acquiring, but I feel like the deal, the funnel of size deals that we like is very good right now, but actionability, we'll continue to see and we're going to be patient and do it from a position of strength.

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**Navann Ty** - *BNP Paribas - Analyst*

Thank you, that's very helpful.

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

Right, thank you.

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**Operator**

Ryan Zimmerman, BTIG.

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**Unidentified Participant**

Hi everyone, this is [Izzy] on for Ryan. Thank you for taking the question. Just one for me on tariff impacts. It's great to see that you guys have been able to mitigate about half of what you called out last quarter. I was just curious if you, or if you could provide a little bit more color on the steps you took that allowed you to get to this rate, and if you have any more levers as we move into next year just given the fact that this is still a pretty dynamic situation. Thanks for taking the question.

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

Yeah, well, we certainly continue to evaluate the situation and to your point this can change daily, but basically we leveraged operational efficiencies within our supply chain to drive those changes, and just for competitive reasons we're not going to comment any anything more specifically.

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**Operator**

Casey Woodring, JP Morgan.

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**Casey Woodring** - *JP Morgan - Analyst*

Hi guys, thanks for taking my questions. Maybe the first one, can you just unpack the breast imaging revenue number in the quarter you mentioned 3D gantry placements grew sequentially, but imaging revenue declined sequentially, so just maybe, some more color there and then you know how you're thinking about gantry placements and imaging revenues stepping up in in 4Q.

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

Yeah, so, it's within that imaging line there's more than just the 3D Gantry, so the 3D Gantry line itself did sequentially increase quarter over quarter. There were some other components that were down quarter on quarter, but definitely the 3D was up. And I think to Steve's comments, looking into Q4 we're absolutely expecting another sequential uptake in the number of gantry 3D Gantry shipped in Q4, and we, feel really confident and we have a much better visibility at this point in this core than we even did in Q3 so that's what gives us confidence that we'll be able to deliver that uptick in gantry.

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**Casey Woodring** - *JP Morgan - Analyst*

Got it. That's helpful. And then if I can just squeeze one more in, just how should we think about the diagnostic set up, for fiscal '26, molecular is becoming a larger part of the base here, as is BV CV/TV and Biotheranostics within that revenue line item.

So just curious at one at what point that, you'll run into the law of large numbers there and ultimately where do you think diagnostics growth will shake out, relative to that mid single digit range for next year. Thank you.



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

Yeah, I'll start off, for next year I think we expect diagnostics to be within that mid-single digit range and primarily because of that first half headwinds that we talked about that are pressuring. The growth in both cytology and molecular because of China and the HIV. So we feel really great about the diagnostics business. I think we called out BV CV/TV still lots of runway there, just a couple of headwinds in the first half of '26, but over the longer term we expect diagnostics to be a strong contributor to our growth.

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

Yeah, the core business of our molecular, our panthers, the expand expanding Panthers with our fusions and then bringing more menu on there, we've got a really good. Short and midterm outlook for the diagnostics business and even our genius digital diagnostics has been, breathing some life into cytology, keeps that, from certainly declining and very low growth, but overall, continue to be very excited about the opportunities despite it getting much bigger.

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**Casey Woodring** - *JP Morgan - Analyst*

Thank you.

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

Great thanks Kate.

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**Operator**

Mason Carrico, Stephens.

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**Unidentified Participant 1**

Good afternoon. This is Harrison on for Mason. Thanks for taking the questions. Could you talk about the benefits you're seeing so far selling Endomag through your direct sales force? How's that initial transition played out and could you talk about the demands you're seeing from your customers there?

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

Yeah. I think we're feeling really good based on the fact that we sold on is \$20 million of Endomag in the quarter. And the other benefit that we have is by bifurcating the sales force. As we also indicated, we saw organic growth of about 6% in the interventional line. So, what we've got now is more dedicated sales force is able to really focus in on that customer group and feeling really good about where that's headed.

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**Unidentified Participant 1**

Great and in the breast health business, are you seeing early signs from the commercial reorg starting to bear fruit there and how is demand shaped up following instituting that initiative?

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

Yeah, sure, so I think as we said in our prepared remarks and you highlighted here that we're seeing great traction early on. Typically, when you have a disruption in the sales force reorg, you might take a step back, but clearly, we have not taken a step back here in the third quarter. and feel good about the commercial leadership in a lot of the plans they've put in place from reorg of the sales team to the end-of-life strategies and getting ready listen vision launch in '26.

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**Operator**

Tyco Peterson, Jeffrey.

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**Unidentified Participant 2**

Yeah, hi, this is Jack on for Tyco. I appreciate you taking our question. Just on genius cytology which you touched on the call. It would be great if you could share some metrics that you're seeing regarding penetration or growth that can sort of help frame the contribution of the new product and sort of its contribution to the second level growth.

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

Yeah. So we haven't really put out any metrics that we're going to share publicly, but I'll just offer a couple of comments. One, from a -- from a revenue model perspective, a lot of the elements of the cytology selling the collection kit do not change. What does change is that we get an uptick on the digitization of the image, which enables the AI capabilities within our Genius platform. What I'd also say is that this is a significant workflow change within the lab.

So the rollout has been slow and measured given the significance of the change. But despite that, the feedback is overwhelming positive of what this enables from an efficiency.

And hopefully, at some point, clinically, we'll be able -- will support further detection of cancers and the like. So I just feel really good about this product and what it's doing for the Cytology business.

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**Unidentified Participant 2**

Okay. Then I guess sticking on this theme of cytology and HPV here. You've seen a fair bit of news on HPV self-collect lot of the reference labs are coming out of commercialized offerings for self-collection that use competitor collection systems and I'm just curious how you guys are viewing this development, if it's a greenfield opportunity that would be nice down the road to have or if you're looking at it like necessity that might be taking some share away from the in-office volumes that you.

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

Yeah, I think at the highest level we view this as expanding the market and getting more testing out there to women that maybe don't have access to a gynecological exam and to have a speculum exam to capture the specimen appropriately. So we have, we partner with some of the labs to have select as well. So again, we view this as expanding the market.

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**Mike Watts** - *Hologic Inc - Corporate Vice President, Investor Relations*

Operator, I think we have time for maybe one more question.

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**Operator**

Puneet Souda, Leerink Partners.

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**Puneet Souda - Leerink Partners - Analyst**

Yeah. hi, Steve, Karleen. The first one -- thanks, Steve. So first one, maybe on the Gantry side, I mean, 2,000 legacy units that you have out there, with the change in the commercial strategy and the actions you're taking, can you elaborate a little bit about how do you see that conversion in the last quarter here and then '26? And how should we think about maybe on an annual basis? I know Steve used to give that number for sort of Panther, but I just wanted to know on this side of the business, how do you think about these legacy gantries getting replaced?

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

Yeah. I think we see them kind of steadily improving is the way I would keep thinking about it, Puneet, that we'll sell more this quarter than last quarter and then I think continuing to strengthen next year. Candidly, the end-of-life ones are more ones that will convert to our existing product and then envision because by definition, are a lot of the older ones that people hadn't upgraded or whatever had for a while and might not have been the leading adopters. And then we see Envision really kicking in on top of that later next year. really for a lot of the thought leaders and being exciting.

So I think, again, we view that our worst days in Breast Health, we had the speed bumps. But as we have both better commercial execution and the new product coming next year, feeling really good about where we're headed.

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**Puneet Souda - Leerink Partners - Analyst**

Got it. And then, I mean, if I may ask about -- again, I don't think you were expecting a USPSTF question, but the USPSTF members, as you saw, the committee has been first and there's an expectation new members are going to come in. Just wanted to get your thoughts on the legacy assays, if there's an impact to that is the co-testing fully intact as a result. And how are you thinking about this change, which sort of happened recently?

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

I think at the end of the day, we're looking at it as women's health and the tests that we're involved with are all going to be very important and there. And it's positive for women's health, positive for the payers and economically makes a lot of sense. So the short-term machinations and turmoil there, as you've watched USPSTF with us for years and years, doesn't have much of a quarterly impact or even an annual impact on us because of fundamentally what we're doing. So we just kind of keep our heads down. We get the payers covered and feel good about where we're headed.

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**Puneet Souda - Leerink Partners - Analyst**

So, thanks.

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**Operator**

And ladies and gentlemen, that concludes today's conference call. Thank you everyone for your participation. You may now disconnect.

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