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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon, and welcome to the Hologic's Third Quarter Fiscal 2023 Earnings Conference Call. My name is Cynthia, and I am your operator for today's call. Today's conference is being recorded. (Operator Instructions)

I would now like to introduce Ryan Simon, Vice President, Investor Relations, to begin the call. Please go ahead.

Ryan M. Simon - *Hologic, Inc. - VP of IR*

Thank you, Cynthia. Good afternoon, and thank you for joining Hologic's Third Quarter Fiscal 2023 Earnings Call. With me today are Steve MacMillan, the company's Chairman, President and Chief Executive 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 as well as an updated corporate presentation. And a replay of this call will be available on our website for the next 30 days.

Before we begin, we would like to inform you that certain statements we make today will be forward-looking. These statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from those expressed or implied. Such factors include those referenced in the safe harbor statement included in our earnings release and SEC filings.

Also during this call, we will discuss certain non-GAAP financial measures. A reconciliation to GAAP can be found in our earnings release. Two of these non-GAAP measures are: one, organic revenue which we define as revenue excluding the divested blood screening business and revenue

from acquired businesses owned by Hologic for less than 1 year; and two, organic revenue, excluding COVID-19, which excludes COVID-19 assay revenue, revenue related to COVID-19 and sales from discontinued products in Diagnostics.

Finally, any percentage changes we discuss will be on a year-over-year basis and revenue growth rates will be in constant currency unless otherwise noted. Now I'd like to turn the call over to Steve MacMillan, Hologic's CEO.

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

Thank you, Ryan, and good afternoon, everyone. -- we are pleased to discuss our financial results for the third quarter of fiscal 2023. Our results were solid. Total revenue was \$984 million, and non-GAAP earnings per share were \$0.93. Revenue exceeded our prior guidance and EPS finished at the high end of our range. These results showcase the power of our transformed business and demonstrate that Hologic is built for the long term with the broadest, strongest foundation we've ever had. On top of this transformation, with our strong cash flow and outstanding balance sheet, we continue to operate from a position of strength, with strong operational discipline as we forge ahead.

Once again, the proof is in the numbers.

Total company organic growth, excluding COVID, was rather remarkable at 18.4%. By division, we posted 11.8% organic diagnostics growth ex COVID and 14.5% growth in Surgical. Standing alone, these growth rates are impressive. Given a wider context, we view these performances as exceptionally strong because we delivered these results on top of 15% growth in Diagnostics and 9.7% growth in Surgical in Q3 of 2022, both very high bars from a year ago.

And in Breast Health, as expected, we delivered another strong quarter of 27.5% growth as chip supply and gantry availability continue to improve and track to our expectations. For this fiscal year, we remain on pace to achieve or exceed our 2023 low double-digit organic growth targets, excluding COVID. In fact, our expected growth rate for fiscal '23 is now more than double our 5% to 7% long-term growth target.

Based on our strong performance for a number of quarters now, combined with our continued confidence in our growth ahead, we've recently given serious consideration to raising our long-term target. But given the uncertain macro environment we face, 5% to 7% is still very much a solid long-term outlook. Put simply, there are 2 reasons why. First, -- as you all well know, growing 5% to 7% on top of double-digit growth is clearly more challenging than growing 5% to 7% against single-digit comps. For example, in fiscal 2024, we will lap several prior periods of double-digit growth throughout the year.

Net, we'll be entering 2024 already much bigger and stronger than when we first set the goal.

And second, there are macro business and geopolitical challenges that persist today, which did not exist back in 2021 when we first set our guide. We will expand on this aspect later in today's call.

Taken together, overcoming this combination of challenges while maintaining 5% to 7% growth is, in some ways, an even last year goal than when we first established it. On that note, let's move on to our focus for today. First, we will highlight the strengths of our business that underpin our strong Q3 results. Our strengths are diverse and durable. And second, with a discussion of the unique advantages we provide our customers, we hope you'll share our confidence that Hologic is built for the long term.

Moving forward to our Q3 growth drivers. As mentioned, excluding COVID, each division posted double-digit organic growth for the quarter. Equally impressive is the year-over-year consistency of our growth drivers, a direct result of execution against our business strategy.

In Diagnostics, the division's overall 11.8% organic growth rate, excluding COVID, was again driven by strong performance in molecular. For the quarter, Molecular Diagnostics posted approximately 13% growth ex COVID, on top of growing over 20% a year ago. Growth in molecular was driven by a combination of both newer assays like BV/CV, TV and contributions from Amgen and HSV, each growing well into the double digits as well as strong growth from our long-standing women's health menu.

Rounding out Molecular Diagnostics, our Biotheranostics acquisition continues to shine, being both accretive to our top and bottom lines.

Cytology & Perinatal led by cytology, also contributed strong growth this quarter, growing nearly 10%. Cytology's elevated growth for Q3 was driven by the timing of a few large orders placed in the last week of the quarter before the extended July 4 holiday. We view this as a onetime lift as opposed to a shift in the trajectory of the business.

That said, co-testing, which includes the Pap+HPV continues to be the preferred cervical cancer screening method for medical practitioners. These are the same practitioners who are on the front lines who know the science and who have seen the overwhelmingly positive impact of the Pap and co-testing firsthand.

By our estimates, nearly 99% of cervical cancer screening today in the United States is performed using a combination of the Pap alone or co-testing. Why? The reason is clear. The Pap test has been the most successful cancer screening test in history. Since the Pap was introduced over 80 years ago, the rate of cervical cancer which was the leading cause of death among women has fallen by more than 70%.

As an advocate of women's health for over 35 years, we continue to support best-in-class care for women, and for cervical cancer screening, the gold standard is co-testing with ThinPrep, the Pap+HPV.

Shifting to Breast Health. As expected, we posted another exceptional quarter, growing revenue 27.5%. This strong performance was driven primarily by the ongoing return of our Mammography business as well as solid contributions from service. In Mammography, as we guided in May, we delivered more gantries in Q3 than Q1 and slightly less than in Q2. Demand for our clinically differentiated gantries remains high. In addition, our backlog is still at historically elevated levels. We are in great shape to work down this backlog to more normal levels throughout our fiscal 2024 and possibly beyond.

In breast service, our business continues to grow and is becoming an even larger part of the division's mix. Our strong service performance represents stable contracted recurring revenue and demonstrates deepening relationships with our customers.

Now moving on to Surgical and our International business. The newer pillars of growth for our company that may not be fully appreciated. In Surgical, the business continues to grow stronger for longer, growing 14.5% in Q3. Revenue growth was again driven by MyoSure and the Fluent Fluid Management System. With contributions from NovaSure V5 and our newer laparoscopic portfolio. Specifically, while still early days in smaller dollars, Bolder continues its strong growth as we leverage our relationships with our GYN customers and explore adjacent Surgical channels.

The transformation of our Surgical business over recent years has been phenomenal. It underscores the value of both internal innovation plus product line additions through M&A, a winning formula across Hologic. In Surgical, the sum of both strategies has injected new life into the business and transformed it into a meaningful growth driver for the company. Our international business also continues to impress, growing 20.9% in the quarter, excluding COVID.

In May, our global leadership team traveled to our Brussels office as part of our annual strategic planning process, spending a week in Brussels reinforced a sense of pride within our leadership team. We are proud of the strides we've made expanding our global footprint and even more important, we are proud of the energy and culture we've built around the world. Coupled with a strong base of talent we have developed over the past few years. We firmly believe our highly engaged workforce and purpose-driven culture truly set us apart.

As we've said before, the revenue growth rate for our international business is accretive to our overall growth rate. We expect this trend to continue throughout our long-term horizon. Related, earlier in today's call, we referenced persistent macro challenges in the context of our long-term guide. When we first announced our 5% to 7% guide, we were expecting tailwinds in places like China and Russia, rather than the headwinds they have become.

Despite these challenges, we remain committed to our targets and with strong performance in other geographies where we operate, our international growth remains on track. This is a testament to the commitment, grit and determination of all our employees that support and drive our efforts around the world.

Now shifting gears to discuss the advantage we provide to our customers, and how we are poised for long-term success. To fully appreciate where we're going, we must reflect on where we've been. From there, we will shed light on our unwavering patient and customer focus, which sets the stage for our bright future. Our transformation has been years in the making. It started even before COVID and as we know, accelerated during the pandemic.

In the early days of COVID, when fear and uncertainty led to closures and shutdowns, we delivered our highly accurate COVID molecular diagnostic tests around the globe, playing a pivotal role in helping get the world back on its feet. With COVID surges and high testing volumes now further in the rearview mirror, our ongoing performance shows that we are much more than a great pandemic story. Without a doubt, we are a bigger, stronger company with more durable and diverse growth drivers and positioned well for the long haul. On top of this transformation, with our strong cash flow and exceptional balance sheet, we operate today from a position of strength and continue to exercise operational discipline.

As we look ahead, we are laser focused on our purpose, passion and promise and never lose sight of the needs of our patients and our customers. This is the magic within our business.

Today, our customers face the challenge of navigating this new operating environment. They seek vendors who can help them operate as efficiently as possible. For labs and hospitals, pressures from inflation and labor shortages remain despite recent improvement.

With efficiency a priority, when our customers think of Hologic, they see opportunity. The opportunity to consolidate around our portfolio of products in Diagnostics, Breast Health and Surgical that offer innovative solutions to dramatically improve their operational efficiency. Seconds can turn to minutes and days of time and labor savings throughout the course of a year.

In each of our businesses, we feature products that streamline workflows and create real advantages that our customers not only love, but need. From our sophisticated automation with Panther and advances in AI with digital cytology and Diagnostics to our industry-leading gantry scan speed, and streamlined biopsy process with Brevera in Breast Health.

And finally, our efficient fluid management approach with Fluent in Surgical. Workflow efficiency is in the DNA of our entire portfolio. In addition, the fact that we have specialized service teams to focus on the unique needs of our customers adds to our competitive advantage. Our customers know that when they choose Hologic, they not only receive world-class products but also world-class service. Between our robust portfolio of industry-leading products and specialized service capabilities, we create a very attractive opportunity for our customers. We offer real and measurable efficiencies that improve their bottom lines. And more importantly, improve the standard of care for patients.

This combination sets us up well to meet our customers' needs, both today and into the future, and creates an incredible pathway for Hologic's success.

In closing, there are many companies that can sell products. There are fewer who can consistently deliver so many leadership brands and sector-leading margins over the long term and there are even fewer who can succeed financially while also helping the world. At Hologic, we do all three. We are tremendously proud to continue our journey, delivering outstanding top line growth and profitability. Driving value for all our stakeholders and further enabling our ability to make a profound impact on patients' lives and women's health around the world.

With that, I will now turn the call over to Karleen.

Karleen M. Oberton - Hologic, Inc. - CFO

Thank you, Steve, and good afternoon, everyone. In my statements today, we will briefly revisit our divisional revenue results, walk down our income statement and speak to a few balance sheet and cash flow items. We will wrap up with our guidance for the full year and fourth quarter of fiscal 2023. As Steve highlighted, our third quarter financial results were strong, showcasing the durability of our business and the diversified contributions to our growth.

Total revenue came in at \$984 million, exceeding our estimates, and non-GAAP earnings per share were \$0.93, meeting the high end of our previous guidance range.

Now starting with our divisional revenue performance. In Diagnostics, global revenue of \$439.7 million declined 21.3% and However, excluding COVID assay and related ancillary revenues, the division grew 11.8% in the quarter. We are once again thrilled by the solid performance, which reinforces the underlying strength of our Diagnostics business.

As Steve shared, Molecular Diagnostics grew approximately 13% during our third quarter, excluding the impact of COVID. Additionally, the Cytology & Perinatal business posted nearly 10% growth in our fiscal third quarter. For reasons previously discussed, when modeling, we would advise not to extrapolate this level of growth going forward to our Cytology & Perinatal segment.

Moving to Breast Health. Total third quarter revenue of \$360.3 million increased 27.5%. In conjunction with our Q2 performance, these results provide further evidence of strong demand for the division's portfolio of products and services. While the current care revenue growth rate was assisted by supply chain headwinds in the prior year, we are encouraged by the trajectory of the business and the increasing predictability of our semiconductor chip supply.

Moving next to Surgical. Third quarter revenue of \$157.3 million increased nearly 15% compared to the prior year. Our internal R&D efforts, international execution and recent laparoscopic acquisitions have contributed to an increasingly diverse and robust business.

And finally, in our Skeletal business, revenue of \$27.1 million was also very strong, increasing 25%.

Now let's move on to the rest of the non-GAAP P&L for the third quarter. Gross margin of 60.8% was driven by strong performance in our base business, and COVID-19 testing revenues, which came in slightly above our expectations. Total operating expenses of \$313.9 million in the third quarter increased nominally by 0.9%. This increase was driven by higher sales and R&D expenses, but partially offset by lower marketing spend.

Below operating income, other income once again represented a gain in our fiscal third quarter. We continue to benefit from higher interest rates as interest income from our cash balance of nearly \$2.8 billion and the favorable impact of our interest rate hedge has more than offset higher interest expense on our floating rate debt.

Our tax rate in Q3 was 21.4%, higher than previously anticipated. The increase in this quarter's effective tax rate represents a cumulative catch-up in the current period to increase our annual tax rate from 19% to 19.75%. The increase in our tax rate for fiscal 2023 is driven by stronger than forecasted domestic performance and losses outside the U.S., which we cannot claim benefit from at this time. Putting these pieces together, operating margin for Q3 came in at 28.9% and net margin was 23.5%. Non-GAAP net income finished at \$231.3 million and non-GAAP EPS was \$0.93.

Finally, while up to this point, we have discussed non-GAAP financial metrics, we feel it's important to call out a noncash impairment charge related to Mobidiag, which is excluded from our non-GAAP results. To be clear, we continue to be excited about Mobidiag and its long-term potential. As we've previously shared, due to various challenges our entry to the U.S. market will be materially beyond our initial deal model expectations.

During our annual strategic planning process in Q3 the need to lower the carrying value of primarily Mobidiag intangible assets became evident. As a result, we booked a GAAP write-down of \$197 million in the quarter specific to Mobidiag, which primarily impacts cost, but also operating expenses.

Moving on from the P&L. Cash flow from operations was \$332.7 million in our third quarter. We ended the quarter with \$2.77 billion of cash on our balance sheet and a net leverage ratio of 0.1x. In addition, we repurchased 1.4 million shares of \$114 million in the period. Year-to-date, we have proposed 3.6 million shares for \$264 million.

As it relates to our longer-term capital allocation strategy, we continue to operate from a position of strength with underlying strong organic growth in each of our businesses. With the growth and margin profile we have today, our hurdle rate to achieve accretion is notably higher than

in years past. In addition, we want to make clear that while we are now open to looking at transactions that could be slightly larger, these are by no means the only targets in our funnel. We are prioritizing the right deals not necessarily larger deals and continue to be active, diligent and patient.

Now let's move on to our updated non-GAAP financial guidance for the fourth quarter and full year fiscal 2023. For the full year fiscal 2023, we are again increasing our guidance at midpoint and expect total revenue in the range of \$3.995 billion to \$4.035 billion and EPS of \$3.87 to \$3.94. With only one quarter remaining in our fiscal year, this annual guidance implies revenue of \$910 million to \$950 million and EPS of \$0.80 to \$0.87 for our fiscal fourth quarter.

With respect to foreign exchange, we are assuming an FX headwind of slightly less than \$40 million for the full year, a marginal improvement compared to our previous guidance.

Turning to our divisions. We want to reiterate that each business should grow double digits in our fiscal 2023, excluding the impact of COVID. However, it is important to remember that 2023 is a unique fiscal year. As a reminder, part of our elevated growth this year has been due to weak comps from supply chain headwinds and COVID's impact on procedural volumes in fiscal 2022. In addition, 2023 is a 53-week fiscal year. Therefore, as we move closer to our fiscal 2024, as Steve discussed, it is appropriate to model our base business revenue growth within our previously outlined 5% to 7% long-term range.

Reinforce Steve's comments, this growth is even more impressive than when we introduced the target given our recent base business outperformance and headwinds from the macro environment.

Starting with Diagnostics. We expect to close out the year with another strong quarter led by molecular. Our growth continues to be driven by improving utilization and menu expansion on Panther, coupled with increasing contribution from Biotheranostics. Closing out non-COVID diagnostics, we expect blood revenue approximately \$35 million for the year.

In terms of COVID revenue, we expect COVID assay sales to be approximately \$10 million in our fourth quarter of 2023 and slightly more than \$235 million for the full year. COVID related items are expected to be slightly more than \$25 million in the fourth quarter and slightly less than \$120 million for the full year. As we look forward with COVID testing revenue, demand and public concern for the disease continue to abate. Therefore, although we plan financially conservative in our COVID estimates, areas of significant upside to our COVID guidance are likely in the rearview mirror.

It is also key to recognize that COVID is an accretive product and therefore, as COVID testing revenue shift lower in the next several quarters, this will represent a headwind to margins.

Moving to Breast Health. In Q4, we anticipate similar performance to Q3, delivering double-digit revenue growth aided by strong demand as weak comps in the prior period -- as well as weak comps in prior periods.

Finally, in Surgical, we expect healthy double-digit growth for the full year, but assume growth rates will start to moderate in Q4 given the elevated comparable period revenue we generated in the prior year.

Moving down the P&L. For the full year, we expect our non-GAAP gross margin percentage to be in the low 60s and our non-GAAP operating margin percentage to be approximately 30%. Within this operating margin profile, we have again incorporated temporary elevated cost pressures in our guidance. On this point, we remind everyone that our elevated cost profile is less related to current movements in spot prices, which have been receiving.

For example, one of the primary drivers of our higher assumed costs is semiconductor chips, we have previously procured at higher prices. As we work down our backlog in Breast Health, we'll see this higher cost amortized through the P&L over the next several quarters and persist into our fiscal 2024.

We continue to work down the P&L. We expect operating expenses in Q4 to be relatively flat compared to Q3. Below operating income, we assume that other income net to be an expense of slightly more than \$10 million in Q4.

Our guidance is based on an annual effective tax rate of approximately 19.75%, and diluted shares outstanding are expected to be approximately 249 million for the full year.

To conclude, our strong third quarter results highlights a durable business that is poised to sustainably grow over the long term. Our growth in the quarter was diverse, with each business again growing double digits organically, excluding COVID. As we close out our fiscal 2023 and look to 2024, we are excited about the unique growth drivers in each of our franchises and the optionality provided by our pristine balance sheet. Our stakeholders can count on Hologic to deliver against our financial commitments while also advancing the global state of women's health.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Will take our first question from Patrick Donnelly with Citi.

Patrick Bernard Donnelly - Citigroup Inc., Research Division - Senior Analyst

Steve, maybe we can start on the molecular side, obviously, started to come up against some more difficult comps here. You guys have put up some good numbers. Can you just talk about the underlying performance here? I know you've called out a few growth assays, the Panther usage on non-COVID assays a bit. any metrics? I know you guys don't want to talk utilization anymore, but any metrics you can point to just in terms of the future growth, obviously a big contributor to that 5% to 7% next year as well, I'm sure. I just wanted to dive into that a little bit.

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

Yes. I think the big piece. We've got, obviously, the core women's health menu continues to do well. And I think what keeps getting not fully appreciated, Patrick, is all those additional Panthers we placed during COVID. We kept saying many of those are going to be adopting our new menu, and that's exactly what we're seeing playing out. So the core women's health menu, frankly, some of the virals especially outside the United States, and then the new products, the organic growth of BV/CV, which has really just been off to a tremendous start. And while that's not going to exactly replace COVID, certainly not at its peak, it rapidly will become one of the largest assays we've ever developed organically. So I think we just keep seeing tremendous growth for really years to come as they keep ramping up. Karleen?

Karleen M. Oberton - Hologic, Inc. - CFO

Yes. And I would just add that Biotheranostics continues to be a strong double-digit grower contributing to the molecular performance.

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

Yes. Almost turned that (inaudible)

Patrick Bernard Donnelly - *Citigroup Inc., Research Division - Senior Analyst*

Yes. And then, Karleen, maybe one on the margins. You talked a little bit about some of the headwinds, whether it's pandemic COVID or the chip cost. Second half, I think the second half is 28% and change in terms of the out margins. I believe the Street is almost 31% next year. So what's the right way to think about just the cadence as we work our way into next year. You obviously talked a little bit about the growth, but on that margin side, do some of those headwinds alleviate or should we be resetting next year a little closer to what we're seeing the exit rate at here on the margin side?

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

Yes. So a couple of comments. First, we haven't provided guidance for fiscal '24, and we're not doing that on this call. I would say that what we're seeing here in Q3 and Q4 for operating margins in that range are probably the trough of the low, and we do expect margins to improve over the course of '24. Again, we haven't given that exact percentage, but would expect them to improve from here as some of the inflationary pressures do abate over time.

Operator

We will take our next question from Mike Matson with Needham & Company.

Michael Stephen Matson - *Needham & Company, LLC, Research Division - Senior Analyst*

Yes. Let's see here. So I guess just starting with the comments on China and Russia, maybe you can provide a little more detail there. Can you talk about, I guess, Russia exposure? How much is that? Is that going to 0 because of the latest sanctions? And then China, do you think there's kind of a longer-term slowdown in your business there?

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

Yes, Mike, I think Russia for us was really opportunistic. When we developed our strat plan, we went to the 5% to 7%. We were virtually nonexistent in Russia, but we had big plans to expand. So the good part is we're not losing business. It's really the lack of the opportunity and the upside.

China, frankly, we're pretty happy that only 2% to 3% of our revenue comes from China right now given all of the issues going on there. So again, I think we've been able to weather that storm reasonably well. And again, it's just not going to be the growth that we would have expected. So I think that the higher way to think about this is when we put out the 5% to 7%, we saw China and Russia becoming clearly accretive to that. They're now -- Russia is effectively flatlined at 0, and China is not the headwind or the tailwind that we had hoped. So what it really means is our core businesses and our core geographies are growing even faster than what we had originally modeled at that time.

Michael Stephen Matson - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. And just in terms of your operating margin, I have to go back pretty far because of the Aesthetics deal, but I think it was like '20 -- fiscal 2016, it was kind of in the 33% to 34% range. Is there any reason in the longer term that you can't get back to those levels and that decline from the kind of low 30s to the high 20s that you're at now. Obviously, we have COVID in between you, but I mean, is that decline for the kind of non-COVID business really all due to inflation? Or are there other factors? Because the business mix didn't really look that different back then.

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

Yes. So I'll tackle this with a couple of points. So one, from an earnings growth. If we talk about the 5% to 7% top line we ground ourselves in growing EPS faster than that and likely in that double digit, low double-digit range. If we want to ground ourselves in operating margins, we point you to

Q2 '20, which was 31.5%. I think compared -- going back to 2016, I think the business is a little more diversified and probably a growing business outside the U.S. compared to 2016.

So as we know, OUS has been growing double digits on the top line, but there is kind of diluted from the total margin perspective. And then as we kind of move out of 2030 into '24, as I talked about, it looks like this back half of '23 is kind of the low point of the 29%. We would expect continuing improvement into '24 as higher costs on the semiconductor as well as other higher inflationary pressures such as freight continue to abate over the course of the year. So I think what we try to manage, again, growing EPS low double digit and still investing in things like R&D and marketing initiatives to grow the top line, not exactly driving to that historical operating margin percentage.

Operator

We will take our next question from Jack Meehan with Nephron Research.

Jack Meehan - *Nephron Research LLC - Research Analyst*

Steve. So the #1 question I've been getting on Hologic is actually related to Illumina. So I was wondering if you could just share some brief thoughts on your decision to join as Chairman there and just comment on your ongoing commitment to Hologic as Chairman and CEO?

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

Yes, sure. Let's be really clear. I'm at Hologic through the end of my useful life in terms of what I've worked for, built for. And as a reminder to everybody, I am personally a top 15 shareholder in Hologic. So this is my day job. This is my passion. This is my love. What I have to see is the company 5 minutes away, that's troubled that I thought, frankly, I could also help out in a different role, which is as Chairman of the Board. And I'm very proud that I think I can do both. If I didn't have the great team around me at Hologic wouldn't be able to. Frankly, over there, it's going to be about also just getting a great CEO in place. And we're making a couple of key decisions there, which are probably pretty obvious. And then it's going to be a normal chairmanship from there. So this is my love and my passion and frankly, where I'm fully engaged. Sometimes more than my teams would like.

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

I would add. (inaudible) Jack, that last week, we had all the teams together for our quarterly business reviews and Steve was as engaged as ever.

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

(inaudible)

Jack Meehan - *Nephron Research LLC - Research Analyst*

I love it. That's what I want to hear. Sounds good. Okay. And then another question, I think get a lot from investors is just on guidelines as it pertains to co-testing. So it was good to see the strong cytology quarter, but I was just hoping you could share your latest thinking on the USPSTF. If you have a sense for when some update might come on cervical cancer screening and how -- just latest thinking on how that may or may not impact the business?

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

Yes, Jack, I think the interesting stuff on the USPSTF guidelines, as they relook at cervical cancer screening, is we don't have an exact time line. It could be months from now. It could be any time, could be late this year, early next. You're never quite sure where that plays out. I think the biggest piece, the way I look at all of this is there's the headline the day any of those guidelines, whether it's breast cancer or cervical cancer screening guidelines get tweaked. And then there's the reality of how it plays out in the marketplace with the physicians.

And I think just as when USPSTF raised the age of Mammography years ago and said, women should really wait until they're 50 instead of 40 and you have those kind of shifts, medical practice didn't change that much. And now when they reversed it and came back to 40 just like that, it's not going to dramatically change because it never changed that much in the first place.

We think that is very true as well in cervical cancer. The Pap test has truly been one of the gold standards, as we've said, probably has had more impact on women's health and changing cervical cancer from one of the #1 killers of women to going way down the food chain in terms of that because of how well it's been -- how well it's performed over time. And so while not necessarily the greatest procedure for somebody to have to have. It has worked out incredibly well over time, and we think it's going to continue to be strong. So it will be a little headline stuff.

We still hope that, frankly, patient groups and the medical community's opinions will properly be listened to. And then frankly, the guideline shouldn't change much. But even if they do, I think very little impact to our business over certainly a several year period.

Operator

We will take our next question from Vijay Kumar with Evercore ISI.

Vijay Muniyappa Kumar - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Medical Supplies & Devices and Life Science Tools & Diagnostics Team*

Steve, so maybe my first one on -- just so I understand this fiscal '24 commentary, what you're saying is the base business, ex COVID should be 5% to 7%, inclusive of headwinds. Are Russia and China headwinds to fiscal '24, if they are, could you perhaps give some color on how much of a headwind there are. And when you give that 5% to 7%, should we be perhaps thinking about the bottom half just given some of the macro commentaries you made?

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

Yes. The 5% to 7% as we related it to Russia and China, which I answered earlier is they're basically like Russia is just a lack of growth opportunity. So it's not a headwind -- yes, it's not an headwind. It's just the lack of what could have been a tailwind in our strat plan. So I think we feel very good about being in that range. We'll give guidance on our November call.

Vijay Muniyappa Kumar - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Medical Supplies & Devices and Life Science Tools & Diagnostics Team*

Sorry, is China a headwind, Steve, for next year?

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

Not additionally to this year, in our minds probably. (inaudible)

Vijay Muniyappa Kumar - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Medical Supplies & Devices and Life Science Tools & Diagnostics Team*

Understood. Understood.

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

We feel very good. I think the gist that we keep trying to say here is we feel better and better about the growth of our base businesses in all of our core geographies today.

Vijay Muniyappa Kumar - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Medical Supplies & Devices and Life Science Tools & Diagnostics Team*

Understood. Karleen, one for you. Gross margin here sequentially came down. You're talking about inventories flowing through the P&L. So it looks like this could flow through to the first half of next year. Are we -- just given the P&L dynamics, is there some cost controls, any offsets to this at the OpEx line item? Or how should we think about margins? Should we be expecting any expansion next year?

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

Yes. So I think as I had -- if you go from Q2 to Q3, the gross margin declines primarily lower COVID revenue. So again, we had over \$70 million of COVID assay revenue in Q2 and just under \$30 million here in Q3. So that's probably the bigger as well as lower gantry revenue, which our gantries in our Breast Health business, their gross margins are accretive to the corporate average. So that explains the sequential. As I had talked about operating margins, we feel that here in the second half of '23, this roughly 29% operating margin is probably the low point and as we move through '24, we should see improvement as we have on revenue growth in the base business, but also some of those headwinds on higher costs will abate over the course of the year. And again, we'll give guidance on the November call.

Operator

We will take our next question from Tim Daley with Wells Fargo.

Timothy Ian Daley - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

So Steve, in the prepared remarks, you called out tough comps along with macro factors is the reason for not raising the long-term growth outlook. So just hoping to get a bit more color on this dynamic specifically to breast. I think the guidance gets to around \$350 million or so for the fourth quarter. And just curious if that's like a clean run rate for quarterly revenues to think about? Or is that still impacted by the chips on the high end or maybe backlog work down on, I guess, on the upside case. Just curious about how we should kind of think about that moving forward as a kind of a clean quarterly number we can grow from?

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

Yes. I would say it's not an unreasonable number. It's probably still a little low from historical levels. I think prior to the chip supply headwind, we would, in each quarter do roughly 1,100 to 1,200 gantries a quarter. This is below that level seemed in Q3 and Q4. I think as we look into '24, I think we're still having recovery in the breast business as we believe our backlog will be worked through over the course of '24.

Timothy Ian Daley - Wells Fargo Securities, LLC, Research Division - Associate Analyst

All right. Helpful. And then just wanted to touch on Mobidiag. So the write-down equated to nearly 1/4 of the acquisition price just rough calculations. So can you give us an update on either, I guess, how the European dynamics are going? Or any update on the USA launch time line of Nova.

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

Yes. I think overall, as you know, we did about 6 acquisitions in COVID time, feeling really good that certainly 5 of them are delivering good growth for us right now. Mobi is just a little more work, frankly, to get it to the U.S. market. As we dug in deeper, a little more redesign is required of both the cartridge and the machine and what we got. We still like the technology. But as we dug in, it's just going to be further out, and that just affected the cash flows, combined with the interest rates and all of that. But we still are very excited about what that will bring. And frankly, the positive is in a weird way, it's going to hit a little later in our strat plan horizon, and the growth for the next few years looks so good anyway, but it will come in at a really good time for us.

Operator

We will take our next question from Tejas Savant with Morgan Stanley.

Tejas Rajeev Savant - Morgan Stanley, Research Division - Equity Analyst

So Steve, Jack stole my question on your side hustles becoming your full-time hustles. I'm glad to hear you stay at the Hologic. My question is maybe one on M&A. I know you guys sort of mentioned being open to deals of all sizes in your prepared remarks. And I think Karleen called out the tuck-in pipeline also being pretty active here. But any color you can share on the pipeline for those larger needle-moving assets and on a related note, you've called out the success you've had in Biotheranostics, a bunch over the last few quarters. Could that be a precursor for us seeing you making a bigger push in cancer testing, perhaps not sort of the NGS-based testing that people often think about, but like PCR-based approaches?

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

Yes, Tejas, I think the way to think about our M&A strategy right now and Karleen and I have been out with some of our largest shareholders over the last month-ish, and I think they've all reminded us that as you look at our fundamental growth rate and our margin profile, reminding us that, that alone looks pretty damn good. And it's hard to find deals that are really going to enhance either our growth rate as it's accelerated or our margin structure. And so we are being cautious. And I would tell you, I think it's the beauty of a strong base business, so we are looking in those areas, but we sort of have that luxury right now of time on our side because of the base performance.

So more likely to just stay more cautious here, continuing to drive the good deals that we've done. Obviously, with the Biotheranostics in the portfolio, it opens up the aperture to look at certain things, but nothing wildly dilutive by any stretch. And I think we like things that already have a little bit of an established revenue base like a Biotheranostics that we can then turbocharge with our operational efficiencies and our sales forces and our marketing in those areas. So I think it will be in those areas.

Tejas Rajeev Savant - Morgan Stanley, Research Division - Equity Analyst

Got it. Makes sense. And then a quick follow-up on GYN Surg. Any update on the hospital staffing situation just on a quarter-over-quarter basis. And you talked about sort of that low double-digit growth moderating here in fiscal '24. I mean outside of tough comps, is there anything else to be thinking about? I think, Steve, in the past, you've talked about I think it was almost 1/4 of that portfolio is now outside of MyoSure and NovaSure. And presumably, that's growing better than 7% for you guys. So just curious as to any color you can share there.

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

Yes. I think clearly, we figure there's probably earlier this year, some catch-up in procedures, this and that. But overall, I think there's still some of that to come. Hospital staffing is clearly tight. But I think in general, the hospitals are figuring out how to manage that. We're figuring out how to manage it and help again as, frankly, so many of our products add efficiencies, including things like Fluent. And so we're really kind of a go-to partner for the hospitals, and I think just feel really good about having both a -- now a laparoscopic portfolio in addition to the hysteroscopic.

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

Yes. I would just add on the Surgical business. We've really seen probably over the last 4 or 5, 6 quarters, international turbocharge for the Surgical business, a small base, but really starting to take traction.

Operator

We will take our next question from Puneet Souda with Leerink Partners.

Puneet Souda

Steve. So first on Panther utilization. It's talked about quite a bit, and I know you've given percentages for customers that are using 2 tests versus 3 tests. But wondering what you're seeing today versus a year ago in terms of customers? Are they -- are certain customers that are using it more aggressively versus those that are not? Maybe just help us sort of understand the landscape out there in reference labs versus hospital labs. Where are you seeing some of the more utilization? Because I totally understand some of those percentage numbers that you provided in the past, those are average. But -- just trying to get a bit more color on where you stand today because this is more of a cleaner picture for utilization at this point in time past COVID.

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

It's pretty broad-based between both our hospital customers, the smaller labs and the big labs. It's remarkably broad-based and also in terms of the menu and increasingly the geographic footprint that so many of the Panthers we placed during COVID were also international. And so we're seeing that as well. So it's hard to fully -- it's not like we can sit there and say, hey, 50% of the additional has come from a few customers or just an area. It's really remarkably broad-based.

Puneet Souda

Okay. Good to hear. And if I -- if I may ask a bit of a broader question, this is regarding AI, you talked a little bit about it. Just given the some momentum that we're seeing in Medtech essentially for AI technologies. Just trying to understand how do you expect to utilize AI, where does AI augment Hologic's product. Maybe just walk us through a bit. Obviously, there's quite a bit of discussion out there on AI. So I just want to get a sense of how Hologic is looking at that.

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

Yes. I think the simplest thing is we've had a number of -- I go back to when we refer to really things as machine learning. When you think about both cytology as well as breast, a lot of it is pattern recognition. And that's what the technology that underlies some of the computer-rated design programs that we've got within our Mammography system, but also our digital psychology that's now been approved in -- basically [EC] mark or got the mark for the EU. And we're working to get that cleared by FDA as well in the United States.

Again, it's pattern recognition. And doing the same thing really within the Breast Health space. And I think it's where our installed base, our knowledge, just the sheer sample size is big. There's a lot of complexities, clearly in terms of getting them through the agency and owning the data to be able to get some of those. But I think we feel really good about the partnerships that we've been able to get and our ability to play strong roles, particularly in those 2 areas.

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

Yes. I would just add that we're also, even in our field service organization, using predictive analytics to predict certain part failures that allow us to coordinate with our customers to prevent unscheduled downtime, unscheduled visits, which is great for the customers and creates operational efficiency for us.

Operator

We will take our next question from Anthony Petrone with the Mizuho Group.

Anthony Charles Petrone - *Mizuho Securities USA LLC, Research Division - MD & Senior Medical Devices, Diagnostics and Therapeutics Equity Research Analyst*

And maybe a high-level one, Steve, and then a modeling question for Karleen. Maybe, Steve, you mentioned aspirational top line, 7% to 9%, but you called out macro headwinds to some extent here, both just geographically as well as operational to some of the businesses. If those were not there, is it feasible that the profile is a low double-digit sustainable year, right? The organic profile has been there, excluding COVID. So just maybe thoughts on if we didn't have some of these headwinds here, how could it have settled out in the next 2 to 3 years? And then I'll have a follow-up for Karleen on the model.

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

Yes. Anthony, I'd like to correct you. There was no reference at all of an aspirational number. We feel really good about the 5% to 7%. This year, we are delivering double that, is what we said, but we feel great about the 5% to 7% in this environment to be a company and people can count on for that.

Anthony Charles Petrone - *Mizuho Securities USA LLC, Research Division - MD & Senior Medical Devices, Diagnostics and Therapeutics Equity Research Analyst*

That's helpful. And then Karleen, maybe just couple of quick ones on the model. Can you give us an idea of what the Breast Health backlog recapture was in the quarter? And then when we think about earnings growth, do you need lower nonoperational costs to achieve the low double-digit earnings profile?

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

Yes. So we haven't given specifics on backlog recapture. I think what we have said is that the backlog continues to be high. It's something that will work through over several quarters to come. I think we're always looking at operational efficiencies to drive earnings results. As I think about '24, I think we'll kind of hit the whole P&L between higher revenue growth, probably some improvement at gross margins and always looking at how do we best manage our operating expenses to deliver that earnings growth.

Operator

We will take our next question from Ryan Zimmerman with BTIG.

Ryan Benjamin Zimmerman - *BTIG, LLC, Research Division - MD & Medical Technology Analyst*

I'll try and keep it as tight as I can. Just a quick point of clarification. If you look at next year's revenue growth, I think the Street is looking at about 4.1%. And it's like 3.7% organic. So is it unreasonable to think that we would be below your long-term guidance in capacity. Again, I appreciate what you said about the 5% to 7%, but I just want to make sure the Street is clear that at the low end, 5% to 7% or 5%, excuse me, is the right number relative to kind of where the Street is at today?

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

Yes. We kind of run our business as opposed to the Street estimates. My hunch is there's a lot more COVID still in people's numbers for next year. I think what we feel really good about is the base.

Ryan Benjamin Zimmerman - *BTIG, LLC, Research Division - MD & Medical Technology Analyst*

Okay. All right. I appreciate that, Steve. And then one last one for me. Talked about M&A, we're mostly focused on diagnostics, but I'm a simple Medtech analyst. You're doing well in Bolder, you're doing well in laparoscopic. But help us understand, I mean, with all the shift to robotic surgery, particularly in women's health, I mean, is your aperture beyond, say, a laparoscopic tuck-in in that arena? I mean, is it unreasonable to think that there are robotic technologies that could 1 day make it into Hologic's portfolio on the GYN Surgical side?

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

We're looking at our Surgical business, both within the GYN world, but also things like Bolder have kind of gotten us into thinking about sort of more specialty surgery because it's getting us into pediatrics in addition to traditional guidance. So I think we're opening our aperture and to your point is understanding the Medtech world way, I think about our company right now is we're able to generate a lot of cash flow out of Diagnostics or Medtech and the ability to spend it where it could possibly give the better return as we've done with things like Bolder and Medtech. There'll probably be some other areas in that space that we will be looking at, whether -- and robotics is a piece. But frankly, they've spent a lot of money chasing robotics right now. That's also -- every once in a while that reminds me a little bit of some of the NIPT spaces or other things. So we're going to continue to be looking for where the profits can be generated.

Operator

We will take our next question from Andrew Cooper with Raymond James.

Andrew Harris Cooper - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I know we're at the end here. So I'll try to be quick. Maybe just one on sort of the chip supply and the visibility here. I fully understand you're not going to guide for '24 at this point. But when you sit here today on July 31 versus a quarter ago or a couple of quarters ago when you think about how comfortable you are in out quarters. Can you just give us a sense for sort of where you are from that visibility perspective, what you're hearing from the suppliers and how we should think about maybe the trajectory there and the sustainability of that backlog work down, over the course of the end of this year and next year?

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

Yes, we're incredibly comfortable with where we stand right now on the chip supply. So feel really good.

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

Yes, we've deepened our (inaudible).

Andrew Harris Cooper - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Is that safe to assume that, that translates to getting the allocations that you are looking for?

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

Yes. Yes.

Operator

We'll take our next question from Andrew Brackmann with William Blair.

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

And (inaudible). Yes. So we'll take this question and one more to close out the call for today.

Andrew Frederick Brackmann - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. I'll keep it to one. But maybe just going back to Jack's question around USPSTF for cervical cancer guidelines. Steve, you mentioned Mammography guidelines. But I believe ACS updated their recommendations a few years ago, maybe just in the spirit of giving investors confidence around whatever USPSTF said. Can you maybe just sort of talk about what you saw in the market following that decision, what you saw sort of from customers and their utilization patterns?

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

Yes. I think all of these changes create headline -- much more headline noise that I know investors look at. I go back to even recently, was it in May when the new Breast Health guidelines came out. And our stock moves like 7% in 20 minutes. At the end of the day, these things have very little impact one way or the other over the short term and are really much more -- the way -- I've been in health care now for about, 30-plus years, moves happen glacially. And even as any of these guidelines change, they get the headlines, but the reality in practice is very minimal slow changes. Final question.

Operator

We'll take our final question from Liza Garcia with UBS.

Elizabeth Cristina Mari Garcia - *UBS Investment Bank, Research Division - US Life Science Analyst*

Just to kind of quickly touch on (inaudible) since I know that. I just wanted to make sure I caught Steve comments that we're working through the backlog through fiscal 2024 and possibly beyond -- and just to kind of get some context, if that's correct, what could be the beyond factors and how to kind of think about that. And then if I could just parlay that into a bigger and broader modeling question since I know that now the 2024, but just to think about the long-term algo maybe and to think about segment mix and margins and how to think about that as we think about our models more broadly.

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

Yes, I think the big picture question on the backlog is, I think we'll -- as we currently look we've got pretty much a years-plus worth of backlog, and we'll continue to get more orders in the meantime. So that will keep pushing that backlog well out. So that's the highest level piece. And I'll hand the harder part of that question over to Karleen.

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

Yes. So I think when we think about the long-term growth rate, we talked about the 5% to 7%, we've talked about that all the divisions on a worldwide basis would be in that range and think about Breast Health kind to the lower end of the range, Diagnostics and Surgical to the higher end of the range. And as we talked about earlier, Molecular potentially even above that. So again, we feel good about all the businesses being in that growth range. We continue to see international being a bigger piece of the business growing faster than the U.S. And as I've talked about previously, we haven't given guidance for '24, but we believe that we're hitting the low mark of margins here at the back half of '23, and we'll see improvements as we work through that backlog and some of the inflationary pressures subside.

Operator

That concludes today's question-and-answer session. And this now concludes Hologic's Third Quarter Fiscal 2023 Earnings Conference Call. Have a good evening.

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