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OVERVIEW:

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PRESENTATION

Operator

Good afternoon, and welcome to the Hologic's First Quarter Fiscal 2024 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 First Quarter Fiscal 2024 Earnings Call. With me today are Steve MacMillan, the company's Chairman, President and Chief Executive Officer; Karleen Oberton, our Chief Financial Officer; and Essex Mitchell, our Chief Operating Officer.

Our first 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 the replay of this call will be available on our website for the next 30 days.

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

Also during this call, we will discuss certain non-GAAP financial measures. A reconciliation to GAAP can be found in our earnings release. Two of these non-GAAP measures are: one, organic revenue, which we define as revenue, excluding divested businesses, and revenue from acquired businesses owned by Hologic for less than 1 year; and two, organic revenue, excluding COVID-19, which further 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 first quarter of fiscal 2024. For the quarter, total revenue was $1.01 billion and non-GAAP earnings per share was $0.98. Both revenue and EPS came in above the high end of our guidance.

Before diving into our results, it is important to view our Q1 growth performance in proper perspective. Simply put, our first 2 quarters of fiscal '24 faced incredibly difficult comps. Despite Q1 '24, having 4 fewer selling days compared to the prior year and even against a prior year Molecular Diagnostics ex COVID revenue growth of 24.5% and a surgical revenue growth rate of nearly 15%, we grew total organic revenue ex COVID, a solid 5.2%.

Even more impressive, when adjusting for the 4 fewer selling days, our Q1 results stand taller. On an adjusted basis, we estimate the total company organic revenue growth ex COVID, was in the high single digits for the period. These are incredibly strong results against challenging comps as we continue to perform exceptionally well against our 5% to 7% ex COVID long-term target.

We continue to showcase our durability and broad strength across our divisions, both delivering on our short-term guidance and maintaining our long-term targets. Keep in mind that our long-term revenue targets are more impressive today given we are growing off a much larger base than we originally contemplated. As we've said before, you can count on us to deliver.

During our call today, we will focus on building upon our messaging from the JPMorgan conference 3 weeks ago. During our presentation, we highlighted that we are a new Hologic, bigger, faster, stronger and poised for continued success. As part of our discussion, Essex will share more insights about our high confidence in our future success. He will also shed light on what we view as underappreciated elements of our growth strategy, that are helpful to fully recognize the potential of our business.

Before then turning the call over to Karleen to discuss our detailed financial results, we will share reflections from our participation at the World Economic Forum in Davos. While we continue to make progress elevating women's health, it is clear we still have a long way to go.

Starting with our meetings at JPMorgan. We realize there are 2 camps of investors. There is one camp that understands our transformation and recognizes the drivers powering our current results and future growth potential. At the same time, there is another camp that quite frankly, does not. That said, we certainly appreciate the complexity.

Over the past 3 years, there have been many moving pieces, clouding the narrative of the force we've become, from revenues still normalizing following the ups and downs of COVID to moving past semiconductor chip supply challenges, to selling days dynamics only naming a few. Each has contributed to irregular comps that may be difficult to interpret and also challenging to model. We appreciate that each represents a layer of complexity that must be pulled back to fully appreciate the underlying strength of our business.

Looking beyond the quarterly nuances, our steady performance over time really shines. Above all, we are bigger, faster, stronger and poised for further growth. We are a durable and diversified growth company with disciplined operations, peer group-leading margins, an exceptionally strong balance sheet and above all, a talented and engaged employee workforce. We are poised to continue to drive top line growth while growing the bottom line even faster.

To shed more light on what gives us high confidence in our future, I'll pass it over to Essex.

Essex D. Mitchell - *Hologic, Inc. - COO*

Thank you, Steve, and good afternoon, everyone. As we commented over the past several quarters, we have dramatically transformed our business since 2019 through the challenges of the pandemic. More recently, as we've moved further away from the peaks of COVID testing and prevalence, we have posted exceptional ex-COVID results. These results back up our claims that we are much more than a COVID story and without a doubt, built for the long term.

At the same time, as Steve mentioned, there is a lot to unpack to fully understand our business. Many recognize that we are a new Hologic compared to where we were in fiscal 2019. Since then, we've grown our Molecular Diagnostics business approximately 80%, our Breast business nearly 10% and our Surgical business, nearly 40%. Yet there are still some on the fence and uncertain of our future growth potential. As some of our peers have also performed well over this time period, it's not easy to see the true wins. The underlying assumption is that winners must be exclusively taking share. In reality, there was much more to it.

In addition to competing and taking share, Hologic's growth is centered on innovation and making share. We then drive this innovation to commercial execution by leveraging our world-class sales teams. As we are positioned today, our future growth is much less about hand-to-hand combat in the trenches of the markets where we operate. Instead, our growth is derived from growing and expanding markets through education, awareness, innovative new products and tapping into underpenetrated markets.

As an example, our 3 largest revenue product lines launched since 2019 excluding COVID, our BV/CV/TV, Biotheranostics and Fluent. These 3 lines alone collectively delivered over $300 million in revenue in 2023. That was essentially nonexistent to start 2019. Moreover, each product line falls into one or more of our market-creating strategies, and each is still in their earlier stages of growth. Similarly, outside of the top 3, we have a number of other product lines in new since 2019, which could each individually represent $100 million revenue opportunity over time. And these lines are also still in their earlier innings of growth. To highlight a few, our respiratory assays, GYN scopes and laparoscopic surgical portfolio each delivered double-digit growth rate for fiscal '23.

On top of our market expansion activity, we continue to drive further growth by leveraging our large installed and user bases of core products in each division. Through the Panther, our gantry and our hysteroscopic surgical portfolio, we have incredibly deep customer relationships in each of our unique channels.

Post-COVID, our call points around the world are stronger than ever. Customers associate Hologic with industry-leading differentiated technologies, ongoing innovation, best-in-class workflow and automation solutions. Moreover, our strong reputation as leaders and champions for women's health continues to open doors. Earning this advantage provides us a unique opportunity to supercharge growth from products introduced into our channel.

While there are many out there that claim to be winners, even in categories, we continue to lead year-over-year. We are extremely confident in our ability to carve out and create opportunities for growth. Similarly, we are equally confident in our demonstrated ability to gain and maintain market share across our core product lines. With our core businesses incredibly healthy in many of our growth driving products still in early innings. All in, we believe we are well positioned for the future and well positioned to maintain our strong performance for the years to come. Steve?

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

Thank you, Essex. To close out the discussion of our growth prospects, while we continue to make significant progress outside of the U.S. we still have tremendous opportunity to grow and build a much greater presence internationally.

Shifting gears, before turning the call over to Karleen, we'd like to share reflections from our time at the World Economic Forum in Davos. For a third year in a row, we had the opportunity to participate at the Forum where we presented the results of our third annual Hologic Global Women's Health Index. The index, which is the largest study of its kind, examining the overall state of women's health and well-being, continues to generate tremendous support from major organizations dedicated to improving women's health.

As we've said before, over time, we believe the index may be the single greatest contribution to the world that we make at Hologic. This year's results show that we all need to stand behind women more than ever. The harsh reality is that women's health globally has not only stagnated over the past year, but is sadly moving in the wrong direction. The data shows that only 11% of women were screened for cancer and only 10% for STIs. Billions of women are not being screened, this must change, and we have a tremendous opportunity to lead the way with our women's health portfolio.

The key takeaway here is that in many ways, our markets are still in the early innings of reaching their potential. As we look ahead, we are even more inspired to live into our purpose, passion and promise. We continue to believe, and we have proven that we can drive results through our unwavering commitment to women's health. Our strong results come from our strong purpose.

And finally, in late breaking news, we are incredibly proud to announce that just last night, our new Genius Digital Diagnostic System with the Genius Cervical AI algorithm received clearance from the U.S. Food and Drug Administration. This accomplishment is only made possible by the creativity, focus and dedication of our outstanding diagnostics team. Continuing to trail blaze our path, our system is the first and only FDA-cleared digital cytology system that combines deep learning-based AI with advanced imaging technology. It can help more accurately detect cervical cancer, improved cytology workflow and ultimately enhance patient care. We continue to deliver and at a time when women need it most.

With that, let me hand the call over to Karleen.

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

Thank you, Steve, and good afternoon, everyone, and congratulations again to our diagnostics team. In my statements today, I will provide an overview of our divisional revenue results and walk down our income statement that highlights the broad-based strong performance across our business. I will also touch on a few additional key financial metrics and finish with our guidance for the second quarter of fiscal '24 and the full year.

Jumping right in, we are pleased to share that our first quarter financial performance was strong. We exceeded our expectations on both the top and bottom line. Total revenue came in at $1.013 billion, beating the midpoint of our guidance by about $40 million. As Steve mentioned, despite 4 fewer selling days in the quarter, we delivered organic revenue growth of 5.2%, excluding the impact of COVID in line with our long-term revenue growth target of 5% to 7%. In addition, non-GAAP earnings per share was $0.98, exceeding the high end of our guidance. Overall, we continue to deliver robust performance on both the top and bottom lines.

Before moving to our divisional results, we again want to emphasize that our balance sheet and willingness to deploy capital remain a core strength of our business in a macro environment that remains dynamic. As an example, in our first quarter, we initiated a $500 million accelerated share repurchase program. We purchased an additional $150 million of our stock and also paid down $250 million of floating rate debt. With a cash balance of $1.9 billion, a leverage ratio well below our target range, and roughly $350 million remaining on our current share repurchase authorization, we have significant firepower and flexibility to deploy further capital, should the opportunity arise.

Turning to our divisional results. In Diagnostics, first quarter revenue of $447.8 million declined 20.6%. Excluding COVID assay and related ancillary revenue, Diagnostics revenue declined 0.9%. Yet adjusted for selling days, we estimate we grew mid-single digits compared to the prior year. As a reminder, Q1 '23 was a very strong quarter for Diagnostics, posting 15.8% growth ex COVID and Molecular Diagnostics 24.5% growth ex COVID. And without a doubt, our Q1 '24 results was impacted by 4 fewer selling days compared to the prior year.

Within Diagnostics, our Molecular business continues to drive the division's results, delivering growth of 1.9% ex COVID or mid- to high single digits when adjusted for the impact of fewer selling days. We continue to see underlying strength in BV/CV/TV, which grew more than 20% in the quarter and is still in its early innings of adoption by our customers. More than 95% of our BV/CV/TV revenue is derived in the U.S., representing incredible longer-term opportunity internationally.

In addition, non-COVID respiratory revenue delivered ahead of our expectations as we experienced stronger-than-anticipated demand for our flu, RSV and 4-Plex assays. Our responding with published CDC data on respiratory virus positivity, sales ramped up in the final weeks of the quarter. Finally, Biotheranostics remains a positive driver of growth for our molecular business and delivered accretive revenue performance in the period.

Now moving to Breast Health. Total first quarter revenue of $377.7 million increased 12.2%, showcasing solid double-digit growth. Demand for our gantries remains robust, and our interventional business also delivered a strong quarter. In our gantry business, we continue to benefit from a strong cadence of orders and our elevated backlog continues to give us high confidence in the performance of this business going forward. Finally, as a reminder, Q1 '23 results were impacted by constrained supply.

In Interventional, we continue to see strong performance from our Brevera needles as well as from our Tumark markers used for marking biopsy sites in suspicious lesions in breast tissue. Leveraging strong performance in the quarter, we believe our Breast Health franchise remains well positioned to deliver on its financial targets in fiscal '24.

Continuing next to Surgical. Our first quarter revenue of $162.2 million increased 4.6% or high single digits when adjusted for selling days. The division's growth continues to be fueled by MyoSure in the related Fluent system with an increasing contribution from our laparoscopic portfolio. As anticipated, NovaSure declined in Q1 as we lapped the selling price contribution from the product's V5 extension introduced just before fiscal '23. And finally, in our Skeletal business, first quarter revenue of $25.4 million declined 5.6% from lower capital placement and upgrades.

Now let's move on to the rest of the non-GAAP P&L for the first quarter. Gross margin of 60.8% was driven primarily by strong performance in our base business and higher-than-expected COVID revenues, which carries a favorable impact to our margins. However, as anticipated, our gross margin results remains temporarily depressed due to the ongoing amortization of semiconductor chips purchased at higher costs during the chip supply headwind. As we continue to deploy gantries, we are moving farther away from this high-priced inventory. And as a result, we expect margins to continue to benefit from this inventory cycling as we progress through the year.

Shifting to operating expenses. Total operating expenses of $327.3 million in the first quarter decreased by 3.6%. This decrease in the period was driven by lower marketing spend, lower costs from fewer days and less expense due to the recently divested SSI business. For Q1 '23, this translates to a 28.5% operating margin, in line with our expectations. While we continue to deliver peer group-leading operating margins, we continue to exercise operational discipline and continuously seek to improve where it makes sense for our business.

Below operating income, other income net, represented a gain in our fiscal first quarter. As expected, we benefited from elevated cash balance and high interest rates, even though we deployed significant cash in the quarter. Finally, our tax rate in Q1 was 19.75% as expected.

Moving on from the P&L. Cash flow from operations was $220 million in the first quarter. In addition, as previously mentioned, during Q1, we repurchased 2.2 million shares for $150 million. This activity was above and beyond initiating a $500 million ASR, showcasing our high confidence in our business and willingness to bet on ourselves as well as our ongoing strategy to deploy capital.

Now let's move on to our non-GAAP financial guidance for the second quarter and full year fiscal '24. For our fiscal Q2 '24, we are expecting total revenue in the range of $990 million to $1.01 billion and EPS of $0.95 to $1.

For the full year '24, our guidance assumes revenue of $3.99 billion to $4.065 billion and EPS of $3.97 to $4.12. With respect to foreign exchange, we are assuming an FX tailwind of $2 million for Q2 and $12 million for fiscal '24. Much of this tailwind was realized in Q1. And therefore, we estimate that foreign exchange will remain neutral to marginally favorable throughout the remainder of the year.

Turning to our divisions. We want to reiterate that we expect each business to grow at least 5% to 7% for the full fiscal '24, excluding the impact of COVID. Starting with Diagnostics. We expect the business to grow within our 5% to 7% long-term framework for the remainder of fiscal '24. While performance was below this level in Q1, primarily due to the impact of fewer selling days compared to the prior year period. We expect the division to return to more normal growth in Q2 and for the remainder of our fiscal year. We expect improving utilization and menu expansion on the Panther coupled with ongoing contributions from Biotheranostics to continue to drive molecular growth.

Closing out on non-COVID diagnostics, we expect blood revenue of approximately $7 million in Q2 and $30 million for the year. In terms of COVID revenue, we expect COVID assay sales to be approximately $20 million in the second quarter of '24 and $60 million for the full year. COVID-related items are expected to be slightly less than $30 million in the second quarter and approximately $105 million for the full year fiscal '24.

Moving to Breast Health. We continue to expect fiscal '24 to showcase strong demand for our portfolio of products and services. While moving on, it's important to understand the comp dynamics that will impact the Breast business through fiscal '24. As previously noted, Q1 '23 was a softer comp due to shipped supply constraints.

As a reminder, in Q2 '23, we delivered a strong quarter of gantry placements to meet pent-up customer demand during these earlier days of chip supply recovery. And deliveries in Q3 and Q4 of '23 were both lower than Q2. We expect this dynamic to result in a lower breast health year-over-year growth rate in Q2 that will improve in the back half of fiscal '24. For the full year, we continue to expect to deliver more gantries in fiscal '24 than in '23 as we move further from the chip supply headwinds while maintaining excellent demand visibility.

Finally, in Surgical, we anticipate our full year fiscal '24 revenue growth to be at the high end of our 5% to 7% long-term target. Although impacted by fewer selling days, Q1 started the year strong, and we expect the business to perform well in Q2 and the remainder of the fiscal year.

Moving next to margins. Our guidance assumes a cadence of improvement throughout fiscal '24 for both gross margin and operating margin. For gross margin, we anticipate Q2 levels similar to Q1, exiting the fiscal year in the low 60s. As well, our guidance assumes Q2 operating margins approaching 30% with the Q4 '24 exit rate around 31%.

Continuing down the P&L. We expect Q2 operating expenses to step down from Q1. As a reminder, Q1 is typically our highest spend quarter seasonally as we kick off the fiscal year with our internal global sales meetings and major trade show events such as RSNA. For the balance of the year, we anticipate quarterly operating expenses to be about $300 million to $310 million.

Below operating income, we estimate fiscal '24 other income net to be in an expense of approximately $10 million in Q2 and an expense between $30 million to $50 million for the full year. Our current guidance assumes an increase in interest income relative to our previous guide as we expect to have a higher cash balance throughout the remainder of the fiscal year. Our guidance is based on an annual effective tax rate of approximately 19.75% and diluted shares outstanding are expected to be approximately 239 million for the full year.

To conclude, Q1 was a strong quarter across each of our businesses and sets us up nicely for the rest of the year. As we closed Q1, we moved forward to Q2 in fiscal '24 with good momentum. And as always, we remain focused on advancing women's health around the world while delivering on our promises and commitments to our shareholders, employees, customers and patients around the world.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Tejas Savant with Morgan Stanley.

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

Congrats on the solid performance here. Steve, I want to start with the Molecular Diagnostics franchise. I want to ask you a little bit about Aptima there. You've talked in the past about the benefits of co-testing, the time it will take for physicians to embrace any change. That said, if guidelines move to HPV testing alone, how do you think about the upside on Aptima? And what, if any, should be the gating factors to transitioning those volumes? Are there any sort of differences in competitive dynamics for ThinPrep versus the HPV franchise?

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

I think regardless of what happens with the guidelines, we see co-testing as being well entrenched. If anything, it's going to probably get stronger with the approval we just got last night of our digital cytology business, which I think is probably not as fully appreciated, but as we bring that to market, it's going to dramatically improve the workflow for our customers. It's going to improve the efficacy. It just -- it's probably the biggest improvement step forward in cytology in 40 years.

So we remain very committed and believing incredibly strongly. By the way, as a reminder, it's a single collection device that is used both for our Aptima HPV as well as cytology. So it's no additional work for the doctor or the patient and you get the results. So we continue to be very excited and if anything probably more excited about our cytology business combined with our HPV business going forward.

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

Got it. That's helpful. And then, Karleen, one for you on margins. So you talked about sort of exiting this year at about 31%. Can you just help us parse out the dynamics from the gantry chips with the higher cost coming through the backlog here versus your network optimization plans, what are the relative impacts of those 2 drivers? And as we look to fiscal '25, should we be thinking of that 31% as a good jumping off point, off of which you expect to see quarter-over-quarter expansion?

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

Yes. So let me take it in 2 parts. So on the gross margin line, the chips in the network optimization efforts are probably about a 50- to 75-point basis headwind to gross margins. And again, we see -- have line of sight to that improving over the course of the year. As we mentioned in our prepared remarks on operating expenses, if you looked at just Q1, if you took out the impact of kind of the seasonally high Q1 operating expenses -- operating margins would have been closer to 30%.

So just moving through the year, as we see those dynamics at the gross margin and the new step-down in operating expenses, we see line of sight to exiting the year at 31%. I do think that is a good jumping off point. I think I would caution from significant improvement over the course of '25 from there, given those are really, as we said, peer-leading operating expenses, and we always want to continue to make sure that we are investing the right amount back into our R&D and innovation and see the benefits like we saw last night with the approval of digital cytology.

Operator

We will take our next question from Patrick Donnelly with Citi.

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

Steve, maybe one for you on the Diagnostics business. It sounds like the rest of the year are going to kind of hang around that 5% to 7% framework inside there. I think one of the reasons for the uptick was improved utilization. Obviously, that utilization piece has been a big focus as we come out of COVID. Now that we're in a relatively -- hopefully, relatively stable environment on the testing side without COVID, can you just talk about utilization metrics that you're seeing? What gives you guys the confidence on that trajectory? Any metrics would be helpful there.

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

Yes. Sure, Patrick. I think the biggest metric, obviously, we track over time is just purely revenue. And I think we continue to feel good. But the internals on that are if you go customer by customer, we continue to grow our portfolio with a lot of our customers and not to be overlooked are our largest customers in the U.S. as they shift from TIGRIS to Panther, it is opening up additional menu opportunities for them to be adopting things like BV/CV and some of our other products.

So we see really good growth with our largest customers in the U.S. We're also continuing to see and what we're still in the early-ish innings is the international expansion and all those Panthers we placed internationally during COVID as those are coming online. And I think what I love about these businesses, frankly, is they bring on 1 or 2 assays at a time, they get more experience and then they bring more. And so it's not like a one-off pop that, frankly, might be better in the short term but harder to lap.

And so what we really have going on around the world are customers all over the place, just gradually bringing on either additional assays or as we come out with new menu being able to build that. And that installed base of Panthers that we're able to just drive more throughput through is what really makes us feel very good about the future.

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

I'll just add 2 points to that, Patrick. While we haven't given a per Panther utilization, I would say that we are seeing that per Panther utilization grow year-over-year. And the other metric I would give you is that we went back to 2019, around 20% of our customers were running 4 more assays that's probably close to double here at the end of '23. So those are the things that should give us confidence of the stickiness of the Panther and the customers are adding menu.

Operator

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

Jack Meehan - *Nephron Research LLC - Partner*

Steve, there's always next season soon enough.

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

That's right. Essex is also a big Eagle's fan.

Jack Meehan - *Nephron Research LLC - Partner*

Yes, the pain train. Well, I wanted to get your thoughts on the Diagnostics business at Biotheranostics. Could you just give us an update, talk about the growth runway for the Breast Cancer Index test? And I think, Karleen, you mentioned growth was accretive, but did it slow a little bit? Was that related to selling days? Or just any color would be great.

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

Yes. I think, Jack, the more we look at the BCI test and the opportunities ahead of us, I think we're still in the earlier innings on what that business can become. And there's -- since we've owned it, and watching the team operate. I think we just feel incredibly good about the long-term potential. So it was still well accretive and still growing nicely here. We just don't want to be breaking it out down to the level given the size of it, but feel really, really good about the opportunity.

Jack Meehan - *Nephron Research LLC - Partner*

All right. And then the cash on the balance sheet, continue to get a lot of questions around M&A priorities for Hologic. The recent questions we've got have been around interest in doing things in the med tech world. I was wondering if you could just comment on that. And then kind of on the

Biotheranostics team, just like the world of specialty labs kind of using that as a foray into that world. Just any color on M&A strategy would be great.

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

Yes. I think, Jack, I think the magic that because we are both diagnostics and med tech, to your first part of that question, it does open up the opportunity for additional things. And we're seeing some interesting things that would allow us to build on our surgical platform or our breast cancer, the breast surgery business areas. So we continue to look in those areas. And frankly, I think some of the valuations in those areas might be a little bit better than, say, for example, some of the diagnostics ones. So I think we certainly can shop in that aisle.

And coming back to the second part of your question, the other aisle we can shop in specialty labs. I think one of the things we're really proud of with Biotheranostics is it actually makes money, which you very well know that a lot of the specialty labs, there's a lot of great top line revenue, but a lot of expense and not much profit. And so I think we continue to want to be thinking about things that can be generating bottom line as Karleen is staring at me hard right now. I'm making part of that up, but I've worked with long enough to know her discipline.

So we're being very mindful and careful in that space and continuing to feel like what we know we're good at is taking existing assets that are on the market and operating them pretty well. We don't want to take on wildly dilutive things just because we have the cash, and we continue to, I think, be patient and the underlying performance of our businesses continues to give us that ability to be patient. So hopefully, that gave you the landscape here, Jack. Thank you.

Operator

We will take our next question from John Sourbeer with UBS.

John Sourbeer

Just a question on the -- to start off on the Breast Health business. Any updates on what the backlog looks like there? And how many quarters of backlog that you have? And just how would that compare to a normal backlog in that business?

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

Yes. I think we certainly have several quarters of backlog probably going into early '25 at what I'll call elevated levels. We, traditionally, have backlog for this business, given the capital nature of it, but we see it being elevated for probably the next 3 to 5 quarters as we work through that backlog and supply the gantries to our customers.

John Sourbeer

Got it. And then as a follow-up, on the Diagnostics business and the Panther, I appreciate that you're not providing pull-through there, I mean but a bit, just any way like quantitative or qualitatively, to provide on just what type of improvement on customer spending you're seeing with the addition of the Fusion sidecar?

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

So what I would say is that the respiratory menu is on the Fusion sidecar and that's where we see the most upside coming through in that respiratory menu. But certainly, as we've talked about, BV/CV is really leading the growth in the Molecular Diagnostics business at this point, primarily in the

U.S. longer term, that's a great opportunity internationally, but also seeing customers take on some of our legacy women's health assays as well. So feel good about that the whole menu is driving the growth, but led by BV/CV at this point.

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, maybe my first one for you here. It was helpful for you to talk about those growth drivers. I'm curious, what percentage of revenues do you think are growing high single sustainably? What percentage should be growing with mid-single-ish? And what percentage of your revenues are low singles? Have you looked at that analysis? I'm just curious on when you say 5% to 7%, how investors could get comfortable when they do the sum of the parts between on the business segments?

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

Yes. I think we think about it by business segment. And I think what we've really said, Vijay, is that each of our businesses this year should be within that 5% to 7%. So I think that has us feel really good. Obviously, within each of the businesses, we're not going to go down to product line by product line, right? But if you played it out, right? Surgical, you got MyoSure and Fluent growing faster than that, you have NovaSure lower than that, right? We've got that always across the businesses.

But I think the way to think about it is we feel really good about each of our businesses growing in that range. And I would tell you that internationally, each of those businesses is certainly at the higher end of that range, if not slightly beyond. So we've got it across, every business has growth drivers. And like any business, there's always a few that aren't growing as fast. And that's just the nature of the beast. But overall, I think what we're -- again, magically, every one of our businesses is in that frame.

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

Understood. And Karleen, maybe one for you on the guidance, like Q1 came in mid-singles despite the days headwinds, 2Q guidance is for about 3.5 why -- when I just think about the 3.5 versus the 5 you did in Q1, is it just the comps? What's driving 2Q? And when you think about the back half step up from first half to hit the annual guide is just days normalization in the back half? Or any other drivers we should be looking at for the back half?

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

Yes. The biggest issue here in Q2 is the comps that is driving that. So if you looked at Q2 of '23, Dx ex COVID grew almost 15%, Molecular within that, grew almost 24%, Breast over 25% and Surgical over 25%. So I think what we've been saying all along is that Q2 was just an outstanding quarter, proud of that quarter. As we went into Q3 and Q4, we have more normalized comps that were going against that drive that improved growth rate in the back half.

Operator

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

Dimitri Tahal - *Mizuho Securities USA LLC, Research Division - Associate*

This is Dimitri speaking for Anthony. Congratulations on great quarter. I just wanted to ask about like the Molecular Diagnostics ex COVID, it seems like it might have slowed down this quarter versus like year-over-year. And just a little bit more color on that this quarter and kind of like your expectations for Q2, you see like a stronger respiratory virus season? How should we think about that?

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

Yes. I think the big piece that affected Molecular in the quarter, the single biggest was the 4 fewer selling days. It's a disposable run rate business. And if you think about that, that knocked between 400 and 600 basis points off the quarterly growth rate, frankly, depending on exactly how the days fall. And both that quarter and this quarter that we're in now the second quarter are going against these ridiculously strong comps of over 20-ish percent Molecular growth from a year ago. But I think the overall run rate and the sheer size of the business is now, we feel very good about.

Dimitri Tahal - *Mizuho Securities USA LLC, Research Division - Associate*

Sounds great. And you guys gave full year guidance for COVID. Should we be thinking about that kind of the new baseline now going forward?

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

Yes. I think as we've talked about, we think of COVID as upside. So the guide would indicate is a continued step down each quarter. I mean, it's hard to really tell us the another flu season next year that drives a little elevated COVID. But again, we just -- we're looking at it as upside. And so I would maybe even think about something less than what we're anticipating for '24 and '25.

Operator

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

Puneet Souda - *Leerink Partners LLC, Research Division - Senior MD of Life Science Tools and Diagnostics & Senior Research Analyst*

Steve, so first one on Genius Digital Dx system Can you just remind me, and I apologize if I missed this, any changes to pricing or margins as a result? And maybe just -- I know ThinPrep remains the same, but can you just talk a little bit about how do you see the adoption of this in a market that's fairly established already? And then I have a follow-up for Karleen.

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

Sure. Thanks, Puneet. Yes, I don't assume any real change in the margin structure. I think the real win here is the workflow. I will tell you our key customers are incredibly excited. As you well know, right, one of the biggest issues right now running labs, everything else is workers and psychologists, especially trying to read these slides. It's been a very manual and labor-intensive process. I can tell you going back to one of my first meetings with Quest when I got in this role almost 10 years ago, I called that meeting 9 years ago with discussions around the workflow of cytology and it was one of the biggest concern.

So our team has gone out and really addressing that. And I think the magic is going to be unleashing that as we are internationally as well. It's been part of what's starting to drive the growth in our European business has been having that approval already over there. So feeling really good as well as, frankly, the reduction of the false negatives, so it's just that much more accurate and going forward. So I think it's going to bring -- we think it's going to bring some new life, particularly, it's been the excitement from our customers that I think has been the galvanizing part for us.

Puneet Souda - *Leerink Partners LLC, Research Division - Senior MD of Life Science Tools and Diagnostics & Senior Research Analyst*

Got it. That's super helpful. And then, Karleen, I wanted to ask about the tax rate. How are you thinking about the net result of the 15% global tax rate if that was implemented? And then R&D tax credit that just sort of came through with the tax bill passing in the house? Netting those effects, how should we think about the tax rate longer term for Hologic?

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

Yes. So let me first frame that to the extent the global minimum tax rate is in effect, for us, it doesn't impact us to fiscal '26. So we've got some time before we have to deal with that. But I would say given the lack of legislation here in the U.S., it's really hard to say what the impact is. But I would tend to think it would be more on the minimal side given that our tax rate is already over the 15%. And in regards to the change in the amortization for R&D expense, probably minimally favorable for us, but really a minimal impact given that's just a timing issue really in any event.

Operator

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

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

I want to start with Breast Health a little bit. I have the opportunity to spend some time with Erik and the team at RSNA. And I'm just curious because you mentioned the increase in gantries and just help us understand kind of where we're at in the placement of gantries relative to sockets. And just how much of the growth is coming from new software like Genius AI detection and things like that. And as we normalize for comps, what the right way to think about the growth of the Breast Health business is given this mix now that's moving maybe away from equipment to more software?

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

Yes, Ryan, I wouldn't underestimate that there's still going to be continued gantry placement. So a lot of it -- the core is actually still the gantry placements. And then it's the service in the revenue and the additional AI and other things that we sell underneath it. But I think we continue to feel very good about gantry placements really from a couple of standpoints.

First off, there's still kind of the tail end of going from 2D to 3D, but we're really into the mode now of also the early adopters of 3D. Their machines are now need to be upgraded. And with all the additional enhancements we've made to the system, we continue to place those gantries. So I think it's -- we've turned it into certainly a much more diversified business. But at the core, the gantries are still a very key foundational component of the strength of our business.

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

Okay. That's helpful, Steve. And then just piggybacking off that, I mean, love to get your assessment on the CapEx environment. We've heard from some of your peers already. We have some 340B money that's kind of making its way back to hospitals, which may or may not be making its way into capital equipment demand. But I'd love to get your view of kind of the year ahead on the CapEx demand from Hologic's perspective.

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

Yes. I think we continue to feel pretty good from most of our customers around the CapEx side. I think when people were more fearful, 1 year, 1.5 years ago, we kind of felt like it was still okay. If there's a little bits to dribble back in, that's fine, too. But I think overall, we think we're in a reasonable position and not seeing any dramatic changes one way or the other, at least affecting our business. And again, we're not the biggest capital component for the hospitals as are the ERP systems or certainly the big iron piece. So we continue to feel like regardless, we're in a good position.

Operator

We'll take our next question from Casey Woodring with JPMorgan.

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

Maybe one for Karleen. On the other income line, can you please be specific on what you're assuming for non-GAAP interest income, interest expense and other income for 2Q and the full year. By my math, I'm getting the $6 million of net interest and other income for 1Q and you're guiding to $30 million to $50 million of other expense for the year. So just trying to bridge 1Q through the rest of the year.

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

Yes. So 1Q is a little unique in 2 pieces. Our interest income was actually higher than our interest expense, given that we still had a favorable interest rate hedge in place, which actually expired at the end of December. So moving forward, our interest expense, our weighted average cost of debt will increase about 100 basis points through the balance of the year, which really drives that slip and that interest expense will be higher than interest income to the tune of roughly the $30 million to $50 million.

Also in Q1 is we had about $4 million to $5 million of benefit below the line from our mark-to-market investments which really are EPS neutral as they offset mark-to-market liability on deferred compensation. So we really don't forecast any benefit or expense related to that because again, this offset in operating expenses. So it's really maintaining a high cash balance and assuming some deployment as we exit the year, but it's really that expiration of that interest rate hedge contract that drives higher interest expense.

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

Got it. That's helpful. And then maybe just if I can sneak one more in. On the international piece, saw very strong growth there above the fleet average, I think, 33% constant currency in Breast. I know international revenue is inherently lower margin. You've talked about that before. But curious if you're doing anything there to drive that contribution margin higher, any investments you're making outside the U.S.? And how should we think about international margin expansion versus the fleet average kind of moving forward?

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

Yes. We're really proud of what the international team has been doing and looking at selective pricing opportunities. They've been very disciplined on the cost side. So that we're still dilutive -- our international growth is still dilutive certainly to the gross margin and a touch on the operating margin, but our teams are being very disciplined in trying to help lessen that gap over time.

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

Yes. And I think there's opportunities as we go direct in key markets, not only do we see better revenue performance, but that is usually typically accretive to the margin line as well.

Operator

We will take our next question from Derik De Bruin with Bank of America.

Derik De Bruin - *BofA Securities, Research Division - MD of Equity Research*

Sorry, I don't do -- I typically don't do sports references. So I won't make one. But just out of -- so I know you say that the market's not trench warfare. But I mean you do have -- I mean, you do have really strong competitors in viral load testing and STI testing. How should we sort of think about what your market shares are and what's around? Because I mean it is the market of the testing you're expanding for these? Or are they stagnant? I'm just sort of curious about sort of like market growth.

And then can you talk a little bit about what your pipeline beyond BV/CV/TV? And just what other sort of like molecular assays can be sort of be added? So it's a question on like what's the market expansion opportunities in some of these markets that are more, I would say, competitive and hadn't historically grown a lot and versus what's the new pipeline?

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

Derik, starting -- there's certainly -- we face very formidable competitors, and there's a lot of hand-to-hand combat. The flip side is, and I think it is the piece that people consistently miss is how much opportunity there is to expand our markets, right? And let's go to Surgical for a moment. Nobody ever would have imagined that MyoSure would have someday gotten to be as big as NovaSure when we first launched it. And now it dwarfs NovaSure and is still growing strongly. As we've come out with BV/CV, BV/CV may become our largest assay. It's -- sometimes it's hard to fully understand the impact and the size of the market creation that we're doing.

So we just want people to understand it, it's hard to fully identify because we're growing and building these markets. And when you look at even some of the data that we got from the Global Women's Health Index, where women's health sits and testing sits globally is still a fraction of what it should be, right? If you consider that only 10% of all women in the world got tested that should for STIs. That alone would say the market is probably 10x. Now we're not going to realize that in the next 5 years either.

So to call the total available market truly 10x because it's not quite accessible at that level, it's where we're in between. So I think that the gist is we continue to pioneer new products, new assays and grow and create these markets 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. I wanted to follow up on the earlier question just on the gantries in the mammography business. So I understand that you've made a number of enhancements and so forth. But I believe the platforms fairly been around for a while now. So I mean, is there any -- and I know you're not trying to be as capital focused, boom and bust and all that stuff. But it seems like every company has got to kind of launch a new platform every once in a while. So I mean is that something we could see in the near term maybe?

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

Yes, completely. So first, as a reminder, recall that we did launch our 3D performance and then our 3D, and what we've been doing is gradually improving and working on better imaging, better detection all through. So it's not like we're selling a 10-year-old product even though we had -- it's now 10 years a little -- 11 years since we got the 3D approved. But we've been selling newer products along the way. And having said that, we are working on additional hardware and gantry changes as well that will evolve here over the next few years.

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

Okay. And then just on M&A, I think there was another question kind of about the areas that you're looking at, but I guess I wanted to ask about just potential size of the deals, Steve, because I feel like you kind of hit it or maybe directly commented in the past that you are potentially open to larger deals if you found the right thing and by larger, I mean, kind of $1 billion-plus.

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

Yes, I think we would consider something in that range if it brings significant revenue and frankly, EBITDA. So we're not going to embark on something of that size for a science project or something early stage or something that's losing money. I would say you would only expect us to do something like that. We have the capacity but it would have to be a pretty special asset. There's not a lot of things, but there are a few things we're looking at in that range. And we continue to be incredibly disciplined, but it would be established businesses that we think we could improve upon in terms of their ability to contribute to us.

Operator

And we will go next to Navann Ty with BNP.

Navann Ty Dietschi - *BNP Paribas Exane, Research Division - Pharmaceuticals and Medtech Analyst*

Maybe my first question, if you can discuss your AI capabilities versus competition including in Breast Health versus the recent innovation with competitors? And a second question, following up on your comments regarding the vaginitis international that you're leading. Can you discuss the size of the long-term opportunity outside of the U.S. and any potential structural differences?

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

Yes. I think relative to the AI front as it relates to Breast Health, we've been on the leading edge for quite some time between our CAD programs and the Genius AI detection program. So we continue to feel very good particularly as it relates to the workflow advantages and the linkage to our workstations and our products.

And on the second question of international, I think, again, we've been generating, frankly, double-digit growth for our international business for the better part, excluding COVID-ish for the last 5 or 6 years and continue to see international being accretive to our overall growth rate here for years to come. So thank you very much.

Operator

This concludes today's question-and-answer session. And this now concludes Hologic's First Quarter Fiscal 2024 Earnings Conference Call. Thank you, and have a good evening.
