

Hologic Announces Financial Results for Second Quarter of Fiscal 2018



-- Revenue of \$789.3 Million Grows 10.3%, 8.3% in Constant Currency --

-- Company Posts GAAP Diluted EPS of (\$2.46) Due to Non-Cash Charges, Non-GAAP Diluted EPS of \$0.53 --

Hologic, Inc. has announced the Company's financial results for the fiscal second quarter ended March 31, 2018 .

Revenue of \$789.3 million increased 10.3%, or 8.3% in constant currency, compared to the prior year period. Excluding the acquired medical aesthetics and divested blood screening businesses, revenue increased 4.8%, or 2.6% in constant currency.

GAAP diluted earnings per share (EPS) of (\$2.46) decreased \$4.30 compared to the prior year period, primarily due to non-cash impairment charges for goodwill and in-process research and development of \$685.7 million and \$46.0 million, respectively, related to Hologic's Cynosure business. In the prior year period, Hologic recorded an \$899.7 million gain related to the divestiture of the blood screening business. Non-GAAP diluted EPS of \$0.53 increased 6.0% compared to the prior year period.

"We posted solid financial results in the second quarter, as our breast health and international businesses performed well and drove total revenue above our guidance," said Steve MacMillan, Hologic's Chairman, President and Chief Executive Officer. "And while we are disappointed with the Cynosure write-down, we remain confident that the many changes we have made in that business are leading to a much stronger future."

Key financial results for the fiscal second quarter are shown in the table below. Comparisons to the prior year period are affected by the divestiture of Hologic's blood screening business, which closed in late January 2017, and the acquisition of Cynosure, which closed in late March 2017.

	GAAP			Non-GAAP		
	Q2'18	Q2'17	Change <i>Increase (Decrease)</i>	Q2'18	Q2'17	Change <i>Increase (Decrease)</i>
Revenues	\$789.3	\$715.4	10.3%	\$789.3	\$715.4	10.3%
Gross Margin	52.6%	54.3%	(170 bps)	62.7%	63.9%	(120 bps)
Operating Expenses	\$1,019.3	(\$611.1)	N.M.	\$266.9	\$223.0	19.7%

Operating Margin	(76.5%)	139.8%	N.M.	28.9%	32.7%	(380 bps)
Net Margin	(86.3%)	73.6%	N.M.	18.7%	19.9%	(120 bps)
Diluted EPS	(\$2.46)	\$1.84	N.M.	\$0.53	\$0.50	6.0%

Throughout this press release, all dollar figures are in millions, except EPS. Some totals may not foot due to rounding. Unless otherwise noted, all results are compared to the corresponding prior year period. Non-GAAP results exclude certain cash and non-cash items as discussed under "Use of Non-GAAP Financial Measures." Constant currency percentage changes show current period revenue results as if the foreign exchange rates were the same as those in the prior year period.

Revenue Detail

\$s in millions	Q2'18	Q2'17	Reported Change	Constant Currency Change
<i>Cytology & Perinatal</i>	\$117.7	\$115.6	1.8%	(1.4%)
<i>Molecular Diagnostics</i>	\$150.7	\$142.1	6.1%	4.4%
<i>Blood Screening</i>	\$11.3	\$38.3	(70.6%)	(70.6%)
Total Diagnostics	\$279.7	\$296.0	(5.5%)	(7.6%)
<i>Total Diagnostics ex. Blood</i>	\$268.4	\$257.7	4.2%	1.8%
<i>Breast Imaging</i>	\$247.2	\$234.0	5.7%	3.7%
<i>Interventional Breast Solutions</i>	\$49.7	\$44.3	12.2%	10.3%
<i>Other</i>	\$3.2	\$2.2	43.8%	24.6%
Total Breast Health	\$300.1	\$280.5	7.0%	4.9%
<i>Body</i>	\$20.0	\$3.6	N.M.	N.M.
<i>Skin</i>	\$40.2	\$6.9	N.M.	N.M.
<i>Women's Health/Other</i>	\$25.3	\$5.5	N.M.	N.M.
Total Medical Aesthetics	\$85.5	\$16.0	N.M.	N.M.
GYN Surgical	\$99.4	\$101.1	(1.7%)	(3.2%)
Skeletal Health	\$24.6	\$21.8	12.6%	9.9%
Total	\$789.3	\$715.4	10.3%	8.3%

Quarterly revenue highlights:

- U.S. revenue of \$588.5 million increased 3.3%. Excluding the acquired medical aesthetics and divested blood screening businesses, U.S. revenue decreased slightly.
- International revenue of \$200.8 million increased 37.8%, or 28.0% in constant currency. Excluding the acquired medical aesthetics and divested blood screening businesses, international revenue increased 26.4%, or 15.1% in constant currency.
- Breast Health revenue totaled \$300.1 million, an increase of 7.0%, or 4.9% in constant currency, driven by strong international sales, new products, and service revenue.
- In Diagnostics:
 - Molecular diagnostics sales of \$150.7 million increased 6.1%, or 4.4% in constant currency, driven primarily by continued strength across our Aptima® women's health products, and new product revenue.
 - Cytology and perinatal sales of \$117.7 million increased 1.8%, but decreased (1.4%) in constant currency.
 - Blood screening sales of \$11.3 million decreased (70.6%). This business was divested in the second quarter of fiscal 2017, but we continue to provide products and services under collaboration and manufacturing supply agreements.
- GYN Surgical revenue of \$99.4 million decreased (1.7%), or (3.2%) in constant currency. MyoSure® revenue of \$52.7 million increased 13.5%, or 12.3% in constant currency, while NovaSure® revenue of \$46.7 million decreased (14.5%), or (16.3%) in constant currency.
- Medical Aesthetics revenue was \$85.5 million, an increase of 11.5% compared to pro-forma, prior year sales of \$76.7 million, when Cynosure was an independent company for a majority of the quarter.
- Skeletal Health revenue of \$24.6 million increased 12.6%, or 9.9% in constant currency.

Segment revenue highlights by geography are shown below:

	U.S. Change	International Change (Reported)	International Change (Constant Currency)
	<i>Increase (Decrease)</i>		
Diagnostics	(8.5%)	5.7%	(4.1%)
<i>Diagnostics ex. Blood</i>	<i>(0.1%)</i>	<i>19.9%</i>	<i>8.8%</i>
Breast Health	0.1%	40.1%	27.6%
Medical Aesthetics	N.M.	N.M.	N.M.
GYN Surgical	(5.1%)	18.8%	8.1%
Skeletal Health	18.5%	3.6%	(3.2%)
Total Revenues	3.3%	37.8%	28.0%
<i>Total Revenues ex. Blood and Medical Aesthetics</i>	<i>(0.3%)</i>	<i>26.4%</i>	<i>15.1%</i>

Expense Detail

Gross margin was 52.6% on a GAAP basis, and 62.7% on a non-GAAP basis. GAAP gross margin declined by 170 basis points, while non-GAAP gross margin declined by 120 basis points, primarily due to geographic and product sales mix.

Operating expenses were \$1,019.3 million on a GAAP basis, and \$266.9 million on a non-GAAP basis. GAAP operating expenses increased \$1,630.4 million primarily due to the Cynosure impairment charges, compared to a prior year period that included a gain of \$899.7 million from the sale of our blood screening business, which was recorded as an offset to operating expenses. Non-GAAP operating expenses increased 19.7%, primarily due to the inclusion of Cynosure expenses.

Other Key Financial Results

Net loss for the second quarter was (\$681.4) million on a GAAP basis, compared to net income of \$526.8 million in the prior year period, due primarily to the Cynosure impairment charges and the gain in the prior year period on the sale of our blood screening business. Adjusted non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA) for the second quarter was \$248.2 million, a decrease of (3.0%).

During the second quarter, Hologic repurchased 2.8 million shares of its common stock for \$106.5 million.

Total debt outstanding at the end of the quarter was \$3.4 billion. The company ended the quarter with cash and equivalents of \$0.6 billion, and a net leverage ratio (net debt over adjusted EBITDA) of 2.7 times.

On a trailing 12 months basis, adjusted Return on Invested Capital (ROIC) of 12.6% declined 60 basis points compared to the prior year period.

Financial Guidance for Fiscal 2018

"We are lowering our full-year 2018 revenue guidance due primarily to a reset of our near-term sales expectations for Cynosure," said Bob McMahon, the Company's Chief Financial Officer. "But despite the reduction of our revenue forecast, we are reiterating our non-GAAP EPS guidance for the year."

Hologic's financial guidance for fiscal 2018 is shown in the two tables immediately below. The guidance is based on a full year non-GAAP tax rate of approximately 23%, and diluted shares outstanding of approximately 280 million for the full year. As a reminder, percentage changes versus the prior year are affected by the blood screening divestiture and the Cynosure acquisition, both of which closed in the second quarter of fiscal 2017. Constant currency guidance assumes that foreign exchange rates are the same in fiscal 2018 as in fiscal 2017. Current guidance assumes that recent foreign exchange rates persist for all of fiscal 2018.

	GAAP			
	Revenue		EPS	
	Reported % Increase (Decrease)	Guidance \$	Reported % Increase (Decrease)	Guidance \$
Current Guidance for Fiscal 2018	4.0% to 4.9%	\$3,180 to \$3,210 million	N.M.	(\$0.34) to (\$0.29)
Previous Guidance for Fiscal 2018	4.6% to 7.2%	\$3,200 to \$3,280 million	(10.6%) to (8.7%)	\$2.36 to \$2.41

	Non-GAAP				
	Revenue			EPS	
	Constant Currency % Increase (Decrease)	Reported % Increase (Decrease)	Guidance \$	Reported % Increase (Decrease)	Guidance \$
Current Guidance for Fiscal 2018	2.7% to 3.7%	4.0% to 4.9%	\$3,180 to \$3,210 million	9.4% to 11.8%	\$2.22 to \$2.27
Previous Guidance for Fiscal 2018	3.9% to 6.5%	4.6% to 7.2%	\$3,200 to \$3,280 million	9.4% to 11.8%	\$2.22 to \$2.27

Hologic's financial guidance for the third quarter of fiscal 2018 is shown in the two tables immediately below.

	GAAP			
	Revenue		EPS	
	Reported % Increase (Decrease)	Guidance \$	Reported % Increase (Decrease)	Guidance \$
Guidance for the Third Quarter of Fiscal 2018	(1.4%) to 0.5%	\$795 to \$810 million	38.1% to 47.6%	\$0.29 to \$0.31

	Non-GAAP				
	Revenue			EPS	
	Constant Currency % Increase (Decrease)	Reported % Increase (Decrease)	Guidance \$	Reported % Increase (Decrease)	Guidance \$
Guidance for the Third Quarter of Fiscal 2018	(2.8%) to (1.0%)	(1.4%) to 0.5%	\$795 to \$810 million	10.0% to 14.0%	\$0.55 to \$0.57

To assist with "apples to apples" analyses of Hologic's ongoing, base business, the historical contributions of blood screening to Hologic's quarterly revenues and EPS are shown below:

GAAP							
	2017					2018	
	Q1	Q2	Q3	Q4	Total	Q1	Q2
Revenue	\$65.2	\$38.3	\$19.0	\$18.0	\$140.5	\$12.6	\$11.3
EPS	\$0.06	\$1.62	\$0.01	\$0.01	\$1.70	\$0.01	\$0.01

Non-GAAP							
	2017					2018	
	Q1	Q2	Q3	Q4	Total	Q1	Q2
Revenue	\$65.2	\$38.3	\$19.0	\$18.0	\$140.5	\$12.6	\$11.3

EPS	\$0.10	\$0.04	\$0.01	\$0.01	\$0.16	\$0.01	\$0.01
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Use of Non-GAAP Financial Measures

The Company has presented the following non-GAAP financial measures in this press release: constant currency revenues; non-GAAP gross profit; non-GAAP gross margin; non-GAAP operating expenses; non-GAAP income from operations; non-GAAP operating margin; non-GAAP interest expense; non-GAAP pre-tax income; non-GAAP tax rate; non-GAAP net margin; non-GAAP net income; non-GAAP diluted EPS; adjusted EBITDA; and adjusted ROIC. Constant currency presentations show reported period revenue results as if the foreign exchange rates were the same as those in effect in the comparable prior year period. The Company defines its non-GAAP net income, EPS, and other non-GAAP financial measures to exclude, as applicable: (i) the amortization of intangible assets; (ii) impairment of goodwill and intangible assets; (iii) additional depreciation expense from acquired fixed assets and accelerated depreciation related to business consolidation and closure of facilities; (iv) additional expense resulting from the purchase accounting adjustment to record inventory at fair value; (v) non-cash interest expense related to amortization of the debt discount from the equity conversion option of convertible notes; (vi) restructuring and divestiture charges, facility closure and consolidation charges and costs incurred to integrate acquisitions (including retention, transaction bonuses, legal and professional consulting services) and separate divested businesses from existing operations; (vii) transaction related expenses for divestitures and acquisitions; (viii) gain on disposal of business; (ix) debt extinguishment losses and related transaction costs; (x) the unrealized (gains) losses on the mark-to-market of forward foreign currency contracts for which the Company has not elected hedge accounting; (xi) litigation settlement charges (benefits) and non-income tax related charges (benefits); (xii) other-than-temporary impairment losses on investments and realized (gains) losses resulting from the sale of investments; (xiii) the one-time discrete impact of tax reform primarily related to remeasuring net deferred tax liabilities and providing taxes for the deemed repatriation of foreign earnings (xiv) other one-time, non-recurring, unusual or infrequent charges, expenses or gains that may not be indicative of the Company's core business results as detailed in our reconciliations of such adjustments; and (xv) income taxes related to such adjustments. The Company defines adjusted EBITDA as its non-GAAP net income plus net interest expense, income taxes, and depreciation and amortization expense included in its non-GAAP net income.

These non-GAAP financial measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP. The Company's definition of these non-GAAP measures may differ from similarly titled measures used by others.

The non-GAAP financial measures used in this press release adjust for specified items that can be highly variable or difficult to predict. The Company generally uses these non-GAAP financial measures to facilitate management's financial and operational decision-making, including evaluation of Hologic's historical operating results, comparison to competitors' operating results and determination of management incentive compensation. These non-GAAP financial measures reflect an additional way of viewing aspects of the company's operations that, when viewed with GAAP results and the reconciliations to corresponding GAAP financial measures, may provide a more complete understanding of factors and trends affecting Hologic's business.

Because non-GAAP financial measures exclude the effect of items that increase or decrease the company's reported results of operations, management strongly encourages investors to review the company's consolidated financial statements and publicly filed reports in their entirety. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures is included in the tables accompanying this release.

Future Non-GAAP Adjustments

Future GAAP EPS may be affected by changes in ongoing assumptions and judgments, and may also be affected by non-recurring, unusual or unanticipated charges, expenses or gains, which are excluded in the calculation of the Company's non-GAAP EPS guidance as described in this press release.

Conference Call and Webcast

Hologic's management will host a conference call at 4:30 p.m. ET today to discuss its financial results for the second quarter of fiscal 2018. Approximately 10 minutes before the call, dial 800-239-9838 (in the U.S.) or +1 323-794-2551 (international) and enter access code 9419425. A replay will be available approximately two hours after the call ends through Friday, May 25, 2018. The replay numbers are 888-203-1112 (U.S.) or +1 719-457-0820 (international), access code 9419425, Pin 7605. The Company will also provide a live webcast of the call at <http://investors.hologic.com>.

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