
Hologic Announces Financial Results for Third Quarter of Fiscal 2017



-- Company Posts Revenue of \$806.1 Million, GAAP Diluted EPS of \$0.21, and Non-GAAP Diluted EPS of \$0.50 --
-- Organic Revenue Growth Led by Molecular Diagnostics and International Businesses --

Hologic, Inc. has announced the Company's financial results for the fiscal third quarter ended July 1, 2017. GAAP diluted earnings per share (EPS) of \$0.21 decreased (30.0%) compared to the prior year period, while non-GAAP diluted EPS of \$0.50 decreased (2.0%). Revenue of \$806.1 million increased 12.4%, or 13.1% in constant currency terms.

"Hologic posted solid results in the third quarter, with revenues exceeding our guidance," said Steve MacMillan, Hologic's Chairman, President and Chief Executive Officer. "Our molecular diagnostics and international businesses are clearly emerging as new growth drivers, and both grew organically at a low-double-digit rate in constant currency. In addition, Cynosure revenue finished in line with our guidance, driven by strong international performance."

Key financial results for the fiscal third quarter are shown in the table below. Results were affected by the divestiture of the blood screening business and the acquisition of Cynosure, both of which closed in the second quarter. Excluding these businesses, base business revenue increased 2.4%, or 3.1% in constant currency terms, while non-GAAP diluted EPS increased 11.9%.

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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 a number of cash and non-cash items as discussed under "Use of Non-GAAP Financial Measures."

Revenue Detail

On a global basis, organic revenue growth in the third quarter was led by molecular diagnostics, interventional breast solutions and the GYN Surgical division.

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Other quarterly revenue highlights:

- U.S. revenue of \$618.5 million increased 9.5%, and international revenue of \$187.6 million increased 23.0%, or 26.5% in constant currency. Growth benefited from a full quarter of Medical Aesthetics revenue and strong molecular sales globally. Internationally, growth also was driven by increased sales of Breast Health and GYN Surgical products.
- Excluding blood screening and Medical Aesthetics, U.S. revenue increased 1.3%, while international revenues increased 6.8%, or 10.5% in constant currency.
- GYN Surgical revenue of \$106.5 million increased 4.4%, or 5.2% in constant currency. MyoSure® system revenue of \$49.0 million increased 20.1%, or 20.8% in constant currency, while NovaSure® revenue of \$57.5 million decreased (5.8%), or (5.0%) in constant currency.
- Breast Health revenue totaled \$283.7 million, an increase of 0.4%, or 0.9% in constant currency. Revenue in the United States decreased

(1.7%), as lower sales of Genius™ 3D Mammography™ systems were partially offset by increases in service and new product revenue. International revenue increased 10.6%, or 13.0% in constant currency, due primarily to increases in sales of mammography systems, service and new products.

- In Diagnostics:
 - Molecular diagnostics sales of \$144.1 million increased 9.3%, or 10.3% in constant currency, driven primarily by continued strength across Aptima® women's health products on the fully automated Panther® and Tigris® platforms, both in the United States and internationally.
 - Cytology and perinatal sales of \$121.0 million decreased (1.0%), but increased 0.2% in constant currency.
- In Skeletal Health, revenue of \$21.8 million decreased (5.3%), or (5.0%) in constant currency.

Segment revenue highlights by geography are shown below:

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Expense Detail

Gross margin was 50.8% on a GAAP basis, and 63.1% on a non-GAAP basis. GAAP gross margin declined by 400 basis points, while non-GAAP gross margin declined 260 basis points. These declines were due primarily to product sales mix, mainly the divestiture of the higher-margin blood screening business and a full quarter of sales of lower-margin Cynosure products. These factors were partially offset by strong pricing trends in Breast Health and increased sales of Aptima® women's health assays.

Operating expenses were \$294.6 million on a GAAP basis, and \$274.9 million on a non-GAAP basis. GAAP operating expenses increased 16.1%, while non-GAAP operating expenses increased 19.9% primarily due to the inclusion of Cynosure expenses for the full quarter.

Hologic's quarterly effective tax rate was 20.1% on a GAAP basis, and 29.5% on a non-GAAP basis.

Other Key Financial Results

GAAP net income for the third quarter was \$59.5 million, a decrease of (29.8%). Adjusted non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA) for the third quarter was \$260.7 million, a decrease of (0.7%).

Operating cash flow for the third quarter was (\$411.7) million. Free cash flow, defined as operating cash flow less capital expenditures, was (\$435.9) million. Operating and free cash flows declined primarily as a result of \$616.0 million in federal and state tax payments related to the gain on the divestiture of the blood screening business. Excluding these tax payments, free cash flow for the quarter would have been \$180.1 million.

Total debt outstanding at the end of the quarter was \$3.2 billion, a decrease of (\$0.2) billion compared to the prior year period. During the quarter, Hologic repurchased \$100 million principal of each of its 2012 and 2013 convertible notes for a total of \$269.1 million.

The Company ended the quarter with cash and equivalents of \$0.6 billion, and a leverage ratio (net debt over adjusted EBITDA) of 2.6 times.

Strong profit growth and lower debt have continued to improve Hologic's adjusted return on invested capital (ROIC). On a trailing 12 months basis, adjusted ROIC of 12.6% improved 30 basis points compared to the prior year period.

Financial Guidance for Fiscal 2017

Hologic's financial guidance for fiscal 2017 is shown in the two tables immediately below. As a reminder, the Company's current guidance includes partial-year contributions from both the divested blood screening business and the acquired Cynosure business. This guidance is based on a full year non-GAAP tax rate of approximately 30.5%, and diluted shares outstanding of about 288 million for the full year. Constant currency guidance assumes that foreign exchange rates are the same in fiscal 2017 as in fiscal 2016. Current guidance assumes that recent foreign exchange rates persist for all of fiscal 2017.

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Hologic's financial guidance for the fourth quarter of fiscal 2017 is shown in the two tables immediately below. As a reminder, the Company's current guidance includes a reduced contribution from the blood screening business associated with raw material and instrument supply, versus a full-quarter contribution in the prior year period. In contrast, the current guidance includes a full-quarter contribution from Cynosure, versus none in the prior year period.

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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:

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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 net margin; non-GAAP net income; non-GAAP diluted EPS; adjusted EBITDA and return on invested capital. Constant currency presentations show reported period operating results as if the foreign exchange rates remain 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) additional depreciation expense from acquired fixed assets and accelerated depreciation related to business consolidation and closure of facilities; (iii) additional expense resulting from the purchase accounting adjustment to record inventory at fair value; (iv) non-cash interest expense related to amortization of the debt discount from the equity conversion option of the convertible notes; (v) 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; (vi) transaction related expenses for divestitures and acquisitions; (vii) gain on disposal of business; (viii) debt extinguishment losses and related transaction costs; (ix) the unrealized (gains) losses on the mark-to-market of forward foreign currency contracts for which the Company has not elected hedge accounting; (x) litigation settlement charges (benefits) and non-income tax related charges (benefits); (xi) other-than-temporary impairment losses on investments and realized (gains) losses resulting from the sale of investments; (xii) interest expense accrued related to amounts owed to Cynosure shareholders who did not tender shares; (xiii) 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 (xiv) 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 third quarter of fiscal 2017. Approximately 10 minutes before the call, dial 877-780-3379 (U.S. and Canada) or 719-325-2435 (international) and enter access code 9898213. A replay will be available starting two hours after the call ends through August 25, 2017 at 888-203-1112 (U.S. and Canada) or 719-457-0820 (international), access code 9898213, Pin 9876. The Company will also provide a live webcast of the call at <http://investors.hologic.com>.

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