

## Hologic Announces Financial Results for Fourth Quarter of Fiscal 2016



- GAAP Diluted EPS of \$0.33 Increases 266.7%, Non-GAAP Diluted EPS of \$0.52 Increases 20.9% -
- Revenue of \$726.8 Million Grows 3.4%, 3.8% in Constant Currency -
- In Fiscal 2017, Company Expects Mid-Single-Digit Revenue Growth, EPS Growth Roughly Double this Rate -

Hologic, Inc. has announced the Company's financial results for the fiscal fourth quarter ended September 24, 2016. GAAP diluted earnings per share (EPS) of \$0.33 increased 266.7% compared to the prior year period, while non-GAAP diluted EPS of \$0.52 increased 20.9%. Revenue of \$726.8 million increased 3.4%, or 3.8% in constant currency terms.

"We closed out a very successful fiscal year with another strong performance in the fourth quarter," said Steve MacMillan, Hologic's Chairman, President and Chief Executive Officer. "Our results demonstrate that we are making good progress in building a sustainable growth company, and we look forward to more successes in 2017 based on the strength of our product franchises and the dedication of our people."

Key financial results for the fiscal fourth quarter are shown below. 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 prior year period. Non-GAAP presentations exclude a number of cash and non-cash items as discussed below under "Use of Non-GAAP Financial Measures."

	GAAP			Non-GAAP		
	Q4'16	Q4'15	Change <i>Increase (Decrease)</i>	Q4'16	Q4'15	Change <i>Increase (Decrease)</i>
Revenues	\$726.8	\$702.8	3.4%	\$726.8	\$702.8	3.4%
Gross Margin	55.9%	54.0%	190 bps	65.7%	64.6%	110 bps
Operating Expenses	\$259.0	\$253.7	2.1%	\$235.5	\$218.7	7.7%
Operating Margin	20.2%	17.9%	230 bps	33.3%	33.5%	(20 bps)
Net Margin	12.7%	3.6%	910 bps	20.0%	18.1%	190 bps
Diluted EPS	\$0.33	\$0.09	266.7%	\$0.52	\$0.43	20.9%

### Revenue Detail

Revenue growth in the fourth quarter was led by the GYN Surgical division, while the molecular diagnostics and breast imaging franchises also performed well. Growth rates were affected by strong revenue growth in the prior year period.

\$s in millions	Q4'16	Q4'15	Reported Change <i>Increase (Decrease)</i>	Impact of Foreign Currency		Constant Currency Change <i>Increase (Decrease)</i>
				<i>Increase (Decrease)</i>		
				\$	%	
<i>Cytology &amp; Perinatal</i>	\$121.0	\$120.8	0.2%	\$(0.9)	(0.7%)	0.9%
<i>Molecular Diagnostics</i>	134.3	123.2	9.0%	(0.7)	(0.6%)	9.6%
<i>Blood Screening</i>	56.6	60.2	(6.0%)	-	-	(6.0%)
Total Diagnostics	\$311.9	\$304.2	2.5%	\$(1.7)	(0.6%)	3.1%
<i>Breast Imaging</i>	248.8	241.6	3.0%	\$(0.7)	(0.2%)	3.2%
<i>Interventional Breast Solutions</i>	40.9	42.4	(3.7%)	(0.1)	(0.2%)	(3.5%)
<i>Other</i>	2.6	2.3	18.1%	0.0	0.4%	17.7%
Total Breast Health	\$292.3	\$286.3	2.1%	\$(0.7)	(0.2%)	2.3%
GYN Surgical	\$101.5	\$86.8	16.9%	\$(0.7)	(0.7%)	17.6%
Skeletal Health	\$21.1	\$25.5	(17.1%)	\$0.0	0.2%	(17.3%)
Total	\$726.8	\$702.8	3.4%	\$(3.0)	(0.4%)	3.8%

Other quarterly revenue highlights:

- U.S. sales of \$578.0 million increased 7.4%, continuing strong recent trends.
- International sales of \$148.9 million decreased (9.6%), or (7.8%) in constant currency, compared to strong results in the prior year period.
- Total revenues increased 3.4%, or 3.8% in constant currency. Excluding a \$3.9 million headwind from sales of discontinued products, total revenue would have increased 4.0%, or 4.4% in constant currency.
- The GYN Surgical business continued to perform well. Divisional revenue of \$101.5 million increased 16.9%, or 17.6% in constant currency. MyoSure® system sales of \$42.6 million increased 32.7%, or 33.4% in constant currency. NovaSure® sales of \$58.6 million increased 7.9%, or 8.7% in constant currency.
- Breast Health revenue totaled \$292.3 million, an increase of 2.1%, or 2.3% in constant currency. Revenue in the United States increased 7.2%, driven by increases in service revenue and new product sales that supplemented continued adoption of Hologic's Genius™ 3D Mammography™ systems.
- In Diagnostics:
  - Molecular diagnostics sales of \$134.3 million increased 9.0%, or 9.6% in constant currency. Growth was 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. In addition, sales benefited from a royalty payment of \$5.0 million.
  - Cytology and perinatal sales of \$121.0 million increased 0.2%, or 0.9% in constant currency.
  - Blood screening revenue totaled \$56.6 million, a decrease of (6.0%) on both a reported and constant currency basis that was driven, as expected, mainly by ordering patterns by Hologic's partner Grifols.
- In Skeletal Health, revenue of \$21.1 million decreased (17.1%), or (17.3%) in constant currency, due to lower sales of mini C-arm products.

Segment revenue highlights by geography are shown below:

	U.S. Change	International Change (Reported)	Impact of Foreign Currency on International Revenues	International Change (Constant Currency)
			\$ %	

	<i>Increase (Decrease)</i>				
Diagnostics	6.0%	(6.5%)	\$(1.7)	(2.0%)	(4.5%)
Breast Health	7.2%	(17.8%)	\$(0.7)	(1.3%)	(16.5%)
GYN Surgical	16.7%	18.4%	\$(0.7)	(5.6%)	24.0%
Skeletal Health	(14.4%)	(21.5%)	\$0.0	0.4%	(21.9%)
Total Revenues	7.4%	(9.6%)	\$(3.0)	(1.8%)	(7.8%)

#### **Fourth Quarter Expense Detail**

Gross margin was 55.9% on a GAAP basis, and 65.7% on a non-GAAP basis. GAAP gross margin improved by 190 basis points, while non-GAAP gross margin improved by 110 basis points, mainly due to strong domestic sales growth, favorable product mix, and operational improvements.

Operating expenses were \$259.0 million on a GAAP basis, and \$235.5 million on a non-GAAP basis. GAAP operating expenses increased 2.1%, while non-GAAP operating expenses increased 7.7%, mainly due to increased investments in research and development, higher general and administrative and selling and marketing expenses, and an increase to stock-based compensation from a change in the retirement provisions of the Company's equity compensation plan.

Hologic's effective tax rate was 14.3% on a GAAP basis, and 31.0% on a non-GAAP basis.

#### **Other Key Financial Results**

GAAP net income was \$92.2 million. Adjusted non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA) were \$263.9 million, an increase of 5.2%.

Operating cash flow was \$226.7 million and free cash flow, defined as operating cash flow less capital expenditures, was \$194.9 million. For the full year, the Company generated operating cash flow of \$787.2 million and free cash flow of \$692.7 million, 109.4% higher than GAAP net income and 23.3% higher than non-GAAP net income.

Total debt outstanding at the end of the quarter was \$3.3 billion, a decrease of (\$0.3) billion compared to the prior year period. During the quarter, the Company repurchased \$47.6 million of its 2010 convertible notes for \$81.3 million, reducing the future dilutive effect of these securities.

The Company ended the quarter with cash and cash equivalents of \$548.4 million.

The combination of lower debt and EBITDA growth helped improve Hologic's leverage ratio (net debt over adjusted EBITDA) to 2.8 in the quarter.

Strong profit growth and lower debt have continued to improve Hologic's adjusted return on invested capital (ROIC). On a trailing 12 months basis, ROIC of 12.7% improved 180 basis points.

#### **Financial Guidance for Fiscal 2017**

"We expect to post good financial results in fiscal 2017 that reflect our emergence as a sustainable growth company," said Bob McMahon, the Company's chief financial officer. "We forecast mid-single-digit revenue growth in constant currency, and EPS growth at roughly double this rate on both a GAAP and non-GAAP basis, as new products and higher international sales supplement continued commercial execution in the United States."

The guidance below is based on a full year non-GAAP tax rate of approximately 31%, and diluted shares outstanding of between 289 and 291 million for the full year. As shown below, 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.

For fiscal 2017, Hologic expects:

	GAAP		Non-GAAP		
	Current Guidance	Current Guidance	Current Guidance (Constant Currency)	Current Guidance	Current Guidance
Revenues	3.8% to 5.2%	\$2.94 to \$2.98 billion	4.0% to 5.5%	3.8% to 5.2%	\$2.94 to \$2.98 billion
EPS	6.0% to 9.5%	\$1.23 to \$1.27	8.5% to 10.6%	8.2% to 10.2%	\$2.12 to \$2.16

For the first quarter of fiscal 2017, Hologic expects:

	GAAP		Non-GAAP		
	Current Guidance	Current Guidance	Current Guidance (Constant Currency)	Current Guidance	Current Guidance
Revenues	3.6% to 5.0%	\$720 to \$730 million	3.8% to 5.2%	3.6% to 5.0%	\$720 to \$730 million
EPS	(10.3%) to (6.9%)	\$0.26 to \$0.27	9.1% to 11.3%	8.7% to 10.9%	\$0.50 to \$0.51

#### **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; and adjusted EBITDA. 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 and impairment of goodwill and intangible assets; (ii) additional depreciation expense from acquired fixed assets and accelerated depreciation related to consolidation and closure of facilities; (iii) non-cash interest expense related to amortization of the debt discount from the equity conversion option of the convertible notes; (iv) restructuring and divestiture charges and facility closure and consolidation charges; (v) debt extinguishment losses and related transaction costs; (vi) the unrealized (gains) losses on the mark-to-market of forward foreign currency contracts for which the Company has not elected hedge accounting; (vii) litigation settlement charges (benefits); (viii) other-than-temporary impairment losses on investments and realized gains and (losses) resulting from the sale of investments; (ix) 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 (x) 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 will 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.

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