

Hologic Announces Financial Results for Third Quarter of Fiscal 2016



- GAAP Diluted EPS of \$0.30 Increases 200%, Non-GAAP Diluted EPS of \$0.51 Increases 18.6% --
 -- Revenue of \$717.4 Million Grows 3.4%, 3.6% in Constant Currency --
 -- Company Raises Full-Year, Non-GAAP Diluted EPS Guidance --

Hologic, Inc. has announced the Company's financial results for the fiscal third quarter ended June 25, 2016. GAAP diluted earnings per share (EPS) of \$0.30 increased 200% compared to the prior year period, and non-GAAP diluted EPS of \$0.51 increased 18.6%. Revenue of \$717.4 million increased 3.4%, or 3.6% in constant currency terms.

"We posted very good results across the board in our fiscal third quarter," said Steve MacMillan, Hologic's Chairman, President and Chief Executive Officer. "Despite difficult comparisons in the prior year period, global sales grew in all four of our businesses, led by GYN Surgical. In addition, we continue to improve gross and operating margins, and our capital deployment efforts helped EPS increase significantly faster than revenue."

Key financial results for the fiscal third quarter are shown below. Throughout this press release, all dollar figures are in millions, except EPS. Unless otherwise noted, all results are compared to the prior year period.

	GAAP			Non-GAAP		
	Q3'16	Q3'15	Change Increase (Decrease)	Q3'16	Q3'15	Change Increase (Decrease)
Revenues	\$717.4	\$693.9	3.4%	\$717.4	\$693.9	3.4%
Gross Margin	54.8%	54.6%	20 bps	65.7%	65.2%	50 bps
Operating Expenses	\$253.7	\$262.7	(3.4%)	\$229.2	\$222.4	3.1%
Operating Margin	19.4%	16.7%	270 bps	33.8%	33.2%	60 bps
Net Income	\$84.8	\$29.4	188.1%	\$145.1	\$126.9	14.3%
Diluted EPS	\$0.30	\$0.10	200.0%	\$0.51	\$0.43	18.6%

Revenue Detail

Revenues grew in all four business segments globally, led by the GYN Surgical division. Growth rates were affected by exceptionally strong performance in the prior year period, when reported revenues increased by 9.7% on a year-over-year basis.

\$s in millions	Q3'16	Q3'15	Reported Change Increase (Decrease)	Impact of Foreign Currency Increase (Decrease)		Constant Currency Change Increase (Decrease)
				\$	%	
<i>Cytology & Perinatal</i>	\$122.2	\$118.1	3.5%	\$(0.4)	(0.4%)	3.9%
<i>Molecular Diagnostics</i>	131.8	124.6	5.7%	(0.3)	(0.3%)	6.0%
<i>Blood Screening</i>	55.9	64.2	(12.9%)	-	-	(12.9%)
Total Diagnostics	\$309.9	\$306.9	1.0%	\$(0.7)	(0.2%)	1.2%
<i>Breast Imaging</i>	239.3	234.1	2.2%	\$(0.2)	(0.1%)	2.3%
<i>Interventional Breast Solutions</i>	41.3	43.3	(4.8%)	0.1	0.1%	(4.9%)
<i>Other</i>	2.0	2.1	(6.3%)	0.1	2.1%	(8.4%)
Total Breast Health	\$282.5	\$279.5	1.1%	-	-	1.1%
GYN Surgical	\$102.0	\$85.5	19.3%	\$(0.5)	(0.5%)	19.8%
Skeletal Health	\$23.0	\$22.0	4.8%	-	-	4.8%
Total	\$717.4	\$693.9	3.4%	\$(1.2)	(0.2%)	3.6%

Other quarterly revenue highlights:

- U.S. sales of \$564.9 million increased 4.7%, continuing strong recent trends.
- The Company's international businesses continued to show signs of stabilization and improvement. International sales of \$152.5 million decreased (1.2%), or (0.4%) in constant currency, driven by inventory fluctuations in blood screening. Excluding sales of discontinued products, international sales increased slightly on a constant currency basis, driven by sales of GYN surgical and molecular diagnostics products.
- Excluding sales of discontinued products, global revenue increased 4.6%, or 4.8% in constant currency.
- The GYN Surgical business performed exceptionally well in the quarter. MyoSure® sales of \$40.8 million increased 29.4%, or 29.8% in constant currency. NovaSure® sales of \$61.0 million increased 13.9%, or 14.6% in constant currency.
- Breast Health revenue totaled \$282.5 million, an increase of 1.1%. In the United States, revenue increased 1.9%, as adoption of Hologic's GeniusTM3D MammographyTM systems continued to grow despite a difficult comparison in the prior year period. Internationally, Breast Health revenue declined (3.0%), or (2.9%) in constant currency. However, excluding sales of discontinued products, international Breast Health revenues increased slightly.
- In Diagnostics:
 - Molecular diagnostics sales of \$131.8 million increased 5.7%, or 6.0% 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.
 - Cytology and perinatal sales of \$122.2 million increased 3.5%, or 3.9% in constant currency, as sales grew both in the United States and internationally.
 - Blood screening revenue totaled \$55.9 million, a decrease of (12.9%) that was driven, as expected, primarily by inventory fluctuations and ordering patterns by Hologic's partner Grifols.
- In Skeletal Health, revenue of \$23.0 million increased 4.8%.

Segment revenue highlights by geography are shown below:

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

	<i>Increase (Decrease)</i>				
Diagnostics	3.5%	(5.5%)	\$(0.7)	(0.8%)	(4.7%)
Breast Health	1.9%	(3.0%)	-	(0.1%)	(2.9%)
GYN Surgical	17.0%	34.9%	\$(0.5)	(4.4%)	39.3%
Skeletal Health	2.7%	9.2%	-	0.2%	9.0%
Total Revenues	4.7%	(1.2%)	\$(1.2)	(0.8%)	(0.4%)

Expense Detail

Gross margin was 54.8% on a GAAP basis, and 65.7% on a non-GAAP basis. GAAP gross margin improved by 20 basis points, while non-GAAP gross margin improved 50 basis points, mainly due to strong domestic sales growth, favorable product mix, and operational improvements.

Operating expenses were \$253.7 million on a GAAP basis, and \$229.2 million on a non-GAAP basis. GAAP operating expenses decreased (3.4%), while non-GAAP operating expenses increased 3.1%, mainly due to planned investments in Breast Health and Diagnostics marketing, and increased selling expenses.

Hologic's effective tax rate was 16.1% on a GAAP basis, and 30.6% on a non-GAAP basis, reflecting changes in income mix and internal restructuring completed in fiscal 2015 and 2016. For the fourth quarter and all of fiscal 2016, the Company expects an effective tax rate of approximately 23% on a GAAP basis, or 32% on a non-GAAP basis.

Other Key Financial Results

Adjusted non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA) were \$262.5 million, an increase of 5.1%.

Operating cash flow was \$246.2 million, an increase of 1.6%. Free cash flow, defined as operating cash flow less capital expenditures, was \$225.1 million, 165.4% higher than GAAP net income and 55.1% higher than non-GAAP net income.

Total debt outstanding at the end of the quarter was \$3.4 billion, a decrease of (\$0.5) billion compared to the prior year period.

The Company ended the quarter with cash and cash equivalents of \$441.5 million.

The combination of lower debt and EBITDA growth helped improve Hologic's leverage ratio (net debt over EBITDA) to 2.97 in the quarter, the first time this ratio has fallen below 3.0 since the Gen-Probe acquisition.

Strong profit growth and lower debt have continued to improve Hologic's adjusted return on invested capital (ROIC), which was 12.3% on a trailing 12 months basis, an increase of 170 basis points.

During the quarter, Hologic repurchased 3.0 million shares of its common stock for \$101.2 million, exhausting the Company's prior \$250 million share repurchase program. The Company's board of directors recently authorized a new, five-year, \$500 million repurchase program.

Financial Guidance for Fiscal 2016

Based on its strong performance in the third quarter of fiscal 2016, Hologic is raising its non-GAAP EPS guidance for the full year, as shown in the table below.

The guidance below is based on recent foreign exchange rates, a full-year non-GAAP tax rate of approximately 32%, and diluted shares outstanding of approximately 288 million for the full year.

	Current Guidance	Previous Guidance	Current Guidance vs. Prior Year (As Reported)	Current Guidance vs. Prior Year (Constant Currency)

Revenues	\$2,820 to \$2,830 million	\$2,810 to \$2,830 million	4.3% to 4.6%	5.0% to 5.3%
Non-GAAP EPS	\$1.93 to \$1.94	\$1.89 to \$1.91	15.6% to 16.2%	16.9% to 17.5%

For the fourth quarter of fiscal 2016, Hologic expects:

	Current Guidance	Current Guidance vs. Prior Year Period (As Reported)	Current Guidance vs. Prior Year Period (Constant Currency)
Revenues	\$714 to \$724 million	1.6% to 3.0%	2.1% to 3.6%
Non-GAAP EPS	\$0.49 to \$0.50	14.0% to 16.3%	15.0% to 17.3%

Future Non-GAAP Adjustments

The Company does not provide GAAP EPS on a forward-looking basis because the Company is unable to estimate with reasonable certainty unusual or unanticipated charges, expenses or gains without unreasonable effort. These items are uncertain, depend on various factors, and could be material to Hologic's results computed in accordance with GAAP.

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 margin; non-GAAP operating expenses; non-GAAP operating margin; non-GAAP net income; non-GAAP EPS; adjusted EBITDA; and return on invested capital (ROIC). 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 and consolidation charges; (v) debt extinguishment losses and related transaction costs; (vi) unrealized gains/losses attributable to recording forward foreign currency contracts to fair value 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 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; 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. The Company defines ROIC as its net operating profit after tax on a non-GAAP, trailing 12-month basis divided by average net debt plus average stockholders' equity.

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.

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 2016. Approximately 10 minutes before the call, dial 888-504-7960 (U.S. and Canada) or 719-325-2434 (international) and enter access code 2142145. A replay will be available starting two hours after the call ends through August 26, 2016 at 888-203-1112 (U.S. and Canada) or 719-457-0820 (international), access code 2142145. The Company will also provide a live webcast of the call at <http://investors.hologic.com>.

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