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HOLX - Q4 2017 Hologic Inc Earnings Call

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OVERVIEW:

Co. reported 4Q17 revenue of $802.9m and non-GAAP EPS of $0.50. Expects FY18 sales to be $3.20-3.28b and non-GAAP EPS to be $2.10-2.15. Expects 1Q18 revenues to be $775-790m and non-GAAP diluted EPS to be $0.48-0.50.

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PRESENTATION

Operator

Good afternoon, and welcome to the Hologic Inc. Fourth Quarter Fiscal 2017 Earnings Conference Call. My name is Noah, and I am your operator for today's call. Today's conference call is being recorded. (Operator Instructions)

I would now like to introduce Mike Watts, Vice President, Investor Relations and Corporate Communications, to begin the call.

Michael J. Watts - *Hologic, Inc. - VP of IR & Corporate Communications*

Thank you, Noah. Good afternoon, and thanks for joining us for Hologic's fourth quarter fiscal 2017 earnings call. With me today are Steve MacMillan, the company's Chairman, President and Chief Executive Officer; and Bob McMahon, our Chief Financial Officer. Steve and Bob both have some prepared remarks, then we'll have a question-and-answer session.

Our fourth quarter press release is available now on the Investors section of our website. We also will post our prepared remarks to our website shortly after we deliver them. Finally, a replay of this call will be archived through November 24.

Before we begin, I'd like to inform you that certain statements we make during this call 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 that's included in our earnings release and in our filings with the SEC. Also during this call, we will be discussing certain non-GAAP financial measures. A reconciliation to GAAP financial measures can be found in our earnings release.

Finally, any percentage changes that we discuss will be on a year-over-year basis and revenue growth rates will be expressed 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 and President*

Thank you, Mike, and good afternoon, everyone. We're pleased to discuss Hologic's financial results for the fourth quarter of fiscal 2017.

We posted strong results overall with revenue exceeding our guidance and earnings per share finishing at the high end of our expectations. And we redeployed more than $300 million of capital to buy back shares and retire convertible notes.

Our fourth quarter results capped off a very productive fiscal 2017. Over the last 12 months, we made excellent progress toward building a sustainable growth company, with emphasis on that word, sustainable. In the short term, we delivered solid mid single-digit revenue growth, excluding acquisitions and divestitures, as we said we would at the beginning of the year. But at the same time, we took 3 important steps to solidify our growth profile for the long term.

First, we laid the foundations for sustainable growth internationally. Second, we shifted our business portfolio toward higher growth segments, with the divestiture of blood screening and the acquisition of Cynosure. And third, we began to launch new products that reflect increasing innovation from our revitalized research and development pipeline.

In short, 2017 was a year in which we delivered on our near-term financial commitments and did what we said we would do to build sustainable long-term growth. With that introduction, let's review our fourth quarter results.

Revenue of $802.9 million grew 10.5% on a reported basis or 9.9% in constant currency. Excluding the impact of the Cynosure acquisition and the blood screening divestiture, fourth quarter revenue increased 5.0% or 4.4% in constant currency, as all our legacy divisions grew on a global basis. We are pleased with this solid mid-single-digit growth rate on the top line, which represents sequential acceleration compared to the 3.1% growth we posted in the third quarter.

One factor underpinning this acceleration is growing sales of new products, which totaled more than $50 million in the quarter, nearly 5x the level of a year ago. Obviously, this is not all incremental growth, but the rejuvenation of our product portfolio bodes well for the future.

In terms of geography, international sales drove most of the growth in the fourth quarter. OUS revenue of $189.9 million increased 24.7%, helped by the contribution of Cynosure. Even excluding Cynosure and blood, international sales increased a robust 17.5% as a result of very focused and deliberate efforts that began with new leadership less than 2 years ago.

Reflecting back on early 2016, we described our international businesses as a start up, and this was a major concern among investors and analysts, one that dominated our conversations with many of you.

By the first quarter of 2017, the international business grew mid single-digits. One quarter after that, it grew double digits. And this quarter, it grew 17.5%. So while we thought that international would be a double-digit grower by 2018, we've actually delivered on that promise a year earlier than anticipated. Yes, we achieved double-digit international growth in fiscal 2017.

We hope you remember this success story, a complex one that occurred across divisions and geographies as you think about the more straightforward efforts we have underway today to build a stronger, better Cynosure 2.0. We'll talk more about these in a moment.

In terms of divisional performance in the fourth quarter, we're pleased that growth accelerated in our 2 largest businesses, Breast Health and Diagnostics, compared to the third quarter. In addition, we believe that Cynosure sales bottomed out and should start to grow on a sequential basis from here. Growth slowed in surgical, but skeletal reversed recent trends and posted very good results. Now let us provide a little more detail on each of these divisions.

Diagnostics has clearly emerged as a sustainable growth driver for the company. In the fourth quarter, excluding the divested blood screening franchise, we posted sales of $273.7 million, an increase of 6.6%. This compares favorably to the 5.4% growth we posted in the third quarter. Fueling this growth again was molecular diagnostics, where sales of $153.5 million increased 13.8%. Molecular sales did benefit from $9.5 million of nonrecurring royalty revenue in the quarter compared to $5 million in the prior year period. But if you back out all these royalties, underlying molecular sales still increased 10.9% globally.

The business was also very strong internationally, posting growth of 10.3% against a very tough prior year comparable of roughly 15%. This marks the sixth consecutive quarter of double-digit growth for molecular internationally.

Global growth was driven by the Panther system, our fully automated molecular diagnostics instruments. By the end of 2017, we had shipped about 1,300 Panthers to diagnostics customers, with about 800 of these in the United States. Importantly, we actually shipped slightly more Panther systems in 2017, the seventh year after our launch, than we did a year ago. This illustrates the strength of our competitive position and bodes well for future growth.

Based on increasing usage of our Aptima women's health assays and our growing menu of virology tests, the average Panther system generated more than $200,000 of assay revenue on a global basis in 2017, nearly a high single-digit increase in utilization per system compared to the prior year. And we expect further improvement in utilization in the future based in part on new assays that will emerge from an R&D pipeline that is healthier and more global than it's ever been.

For example, in recent weeks, we received FDA clearance for the first 2 respiratory assays that will run on our revolutionary new Panther Fusion system.

Before we leave diagnostics, we want to mention that while sales of cytology and perinatal products declined slightly to $120.2 million in the fourth quarter, this was mainly due to lower perinatal sales. Sales of psychology products, mainly our ThinPrep liquid Pap tests, increased at a low single-digit rate as strong international growth offset modest declines in the U.S.

We also want to mention that we've been encouraged to see various professional societies and patient groups speak out against the draft USPSTF surgical cancer screening guidelines, which represents bad science. Although primary HPV testing has been FDA-approved for 3 years, it is rarely used in the United States as studies have shown it can miss nearly 20% of cervical cancers, reversing decades of progress we've made against the disease. As a result, we do not expect these draft USPSTF guidelines will have much effect on our business in the near term. Instead, we believe that co-testing for cervical cancer will remain the gold standard.

Now let's turn to Breast Health. As foreshadowed in our August call, several encouraging signs have begun to emerge in this business last quarter, ranging from new products to new indications to increased insurance coverage. And in the fourth quarter, these positive factors continue to build, helping us regain market momentum and extend our leadership position.

Global Breast Health sales totaled $300.9 million in the quarter, an increase of 2.4% compared to the prior year period and a sequential acceleration compared to the 0.9% growth we saw in the third quarter. The U.S. business declined 1.2%, while this was -- although this was largely due to a tough comp in the prior year period, when sales increased at a high single-digit rate.

International sales grew a strong 20.6%, reflecting the tremendous progress we have made in building a sustainable growth engine through both organic and inorganic means.

For all those a bit concerned about a potential cliff in domestic 3D placements, our results this quarter further prove that we have broken that boom and bust cycle, based on strategic plans we put in place years ago.

In the United States, we had a record quarter of 3D shipments, again, exceeding the 300 mark based on strong initial uptake of our recently launched 3 dimensions and 3D performance systems. In addition, we continue to gain market share and our backlog increased, which bodes well for future growth.

Importantly, although we now -- have now sold roughly 4,700 3D units in the United States, this still represents just over half of our uninstalled base. And MQSA data statistics suggests that 3D still represents well less than half the overall market. So we still have many quarters of solid performance ahead of us.

At the same time, other growth drivers continued to emerge in Breast Health. In the fourth quarter, service revenue again exceeded $100 million and grew at a mid-single-digit rate. Sales of our Affirm Prone table increased nicely. And we also launched Brevera, our revolutionary, new, real-time biopsy system, which should contribute to growth in 2018. Now let's turn to surgical, where sales of $104.7 million increased 2.7%, slower growth than we have seen in recent quarters.

MyoSure continued to perform well, with sales increasing 17%. And we recently launched MyoSure MANUAL, which will help us penetrate the growing in-office market. NovaSure sales declined 7.2% due to a number of factors, including the annualization of a competitive withdrawal, increasing competition and some softness in overall surgical volumes.

Although our skeletal business is small, we were pleased to see it reverse recent trends and return to growth in the fourth quarter, driven by better portfolio selling, strong performance from our Horizon bone densitometry system, and stabilization of our Fluoroscan franchise. Skeletal sales totaled $24.2 million, an increase of 12.9%.

Now let me discuss our new Medical Aesthetics division. Cynosure sales were $81.4 million in the quarter. As expected, this was down significantly from the prior year, period when Cynosure was stand-alone company. We estimate that the 2 hurricanes in the Southern United States reduced Cynosure's sales by $3 million to $4 million in the quarter as sales events were canceled and purchase decisions were delayed.

We want to make 2 big picture points about Cynosure that are very different than today's prevailing discourse among investors and analysts, but they illustrate how we're building this business for the long term and why we are confident that we will succeed and grow in Medical Aesthetics.

First, we'd like to remind you why we bought Cynosure in the first place. Medical Aesthetics is a great growth market, one of the best in Medtech. By divesting blood screening where volumes and price are declining and purchasing Cynosure, we fundamentally shifted our portfolio toward higher growth segments.

The many tailwinds boosting Cynosure's market include increasing social acceptance of aesthetics procedures, high levels of disposable income among patients, decreasing reimbursement for physicians that is prompting interest in cash-pay services, improving treatments that minimize patient downtime, and growing interest among younger women, as well as men. These tailwinds have been driving market growth rates in the high single to low double-digit range.

Our second point is that we are making good progress toward building what we call Cynosure 2.0, which we expect to include the greatest commercial organization that the laser industry has ever seen. This is a bullish comment, especially in contrast to recent results. But we want you to know that our goals are high and we intend to achieve them.

This process starts with great leadership just as it did with our international business in 2016. We have already put in place outstanding leaders as Cynosure's President and the heads of sales and marketing. We have stopped the voluntary turnover in the field and rehired a handful of high performing reps. We've instituted a new screening and recruiting methods to ensure that new hires share our commitment and values to winning as a team, to winning the right way, and to winning in partnership with our customers over the long term.

We have upgraded our structure and compensation programs to ensure that sales reps have the ability to prosper by selling our entire portfolio, which is the broadest in our industry. We're hired new leaders to revitalize the customer experience and build the same kind of customer loyalty that we see in our other divisions. And we are implementing across the division a robust sales model that has been proven to work by Cynosure's best reps.

Based on all these factors, we are confident that Cynosure sales bottomed in the fourth quarter and are poised to grow from here. Not only will we execute better with our existing portfolio of products, we will effectively launch new products such as the submental indication for SculpSure, which is receiving positive early feedback from customers.

While we still have a ton of work to do, we are making good progress. As early indicators of this, our international performance remains solid and some domestic sales regions are performing very well. And overall, sales so far this quarter are tracking ahead of their pace in the fourth quarter. We are confident that Cynosure will make steady progress in the coming quarters, like our international business did, and become an important growth driver for the company in 2018 and beyond, like our international business is today.

Before I turn the call over to Bob, let me summarize by saying that we posted a very good fourth quarter that exceeded expectations and capped off a productive fiscal year. Not only did we execute against our short-term financial commitments, we made important progress in building a sustainable growth company for the long term by growing international, strengthening our portfolio of businesses and launching new products. I'm proud of our team and all that we have accomplished together, and I'm eager to drive even greater successes in 2018 and beyond.

Now I'll hand the call over to Bob.

Robert W. McMahon - *Hologic, Inc. - CFO*

Thank you, Steve, and good afternoon, everyone. I'm going to review the rest of our income statement, cover some balance sheet and cash flow items, and then, discuss our financial guidance for 2018. Unless otherwise noted, my commentary will focus on non-GAAP results.

As Steve mentioned, we closed out our fiscal 2017 with a strong fourth quarter. Revenue exceeded our guidance and EPS came in at the high end of expectations. During the quarter, we also strategically redeployed capital. And as we head into 2018, we see new growth drivers emerging. With that introduction, let's move down our fourth quarter income statement.

Gross margins of 64.1% decreased 160 basis points compared to the prior year period due primarily to the divestiture of our blood screening business and sales of Cynosure products, which carry a lower margin. However, it's important to note that gross margins improved by about 60 basis points on a sequential basis even if you strip out the royalty income that Steve discussed.

Total operating expenses of $275.8 million increased 17.1% in the fourth quarter, primarily due to the inclusion of Cynosure expenses. If you back these out, our efforts to drive strong operating leverage continue to bear fruit with operating expenses declining 3%.

Our operating margin of 29.8% declined 360 basis points due to product and geography mix as well as the divestiture of our blood screening business. Yet, we continue to maintain one of the best profit profiles in medical technology, with multiple levers to drive expansion going forward.

And finally, net margins of 17.8% decreased 220 basis points as the negative mix factors just discussed were partially offset by improvements in our effective tax rate. All this led to non-GAAP earnings per share of $0.50, hitting the high end of our guidance range.

Now before we move on to our 2018 guidance, I'll quickly touch on a few other key financial metrics. First, we had a very productive few months as we continue to optimize our debt structure and allocate capital in accordance with our stated priorities.

During the fourth quarter, we took advantage of weakness in our share price to opportunistically reduce our convertible debt and repurchase our common stock. Specifically, we retired $86 million in principal of our convertible notes for a total purchase price of $106 million. In addition, we repurchased 5.3 million of our outstanding shares for a total of $200 million. So in total, $306 million in productive capital deployment.

In addition, in early October, we announced 2 positive changes to our debt structure, beginning with an amended 5-year secured credit agreement. Through this agreement, we extended the maturities by 2 years, increased our financial flexibility and upsized our revolver.

In addition, we also issued, in early October, $350 million worth of senior notes maturing in 2025 at a very attractive interest rate of 4 3/8. Together, the larger revolver and the senior notes will provide us with the capacity to retire our remaining convertible notes when they become callable in December and March of fiscal 2018.

This quarter was certainly a very productive one for our financial organizations, following on the heels of the blood screening divestiture and the Cynosure acquisition earlier in the year. So I want to take this opportunity to publicly thank the finance teams for all the hard work that made these successes possible.

An at the end of the fourth quarter, our leverage ratio, net debt over EBITDA, stood at 2.7x, slightly below our year ago level, despite all the capital allocation activities that occurred in fiscal 2017.

And finally, in the fourth quarter, adjusted EBITDA of $262.7 million declined slightly compared to a prior year as improvements in our base business were offset by the divestiture of blood screening. Now I'd like to cover our non-GAAP financial guidance for fiscal 2018.

First, as a housekeeping item, I will make references to organic revenue, which is defined as total revenue, less blood screening and Medical Aesthetics for the first 2 quarters of fiscal 2018. Said differently, Medical Aesthetics is included in our organic numbers for the third and fourth quarters of fiscal 2018. Organic results also adjust for the 3 fewer selling days in 2018 versus 2017, which we estimate has a sales impact of roughly $20 million. And finally, organic revenue adjust for the $9.5 million of royalty revenue that we don't expect to reoccur in 2018, which is similar to how we excluded discontinued product lines in last year's guidance.

We anticipate fiscal 2018 to be a good year for Hologic overall. At the highest level, we are forecasting continued mid single-digit organic revenue growth with faster organic EPS growth. Specifically, we anticipate sales of $3.20 billion to $3.28 billion in 2018, with reported growth rates between 4.6% and 7.2%.

Based on recent exchange rates, this translates to constant currency growth of 4% to 6.6%, with organic constant currency growth in the mid single-digits. As you update your forecasts, we would encourage you to model at the middle of our guidance ranges at this stage as we've tried to set realistic ranges that incorporate both potential upsides and downsides.

In terms of divisional growth in 2018, our guidance contemplates low single-digit growth in breast and skeletal health; mid single-digit growth in Diagnostics, excluding blood screening; mid single-digit growth in surgical; and double-digit pro forma growth in Medical Aesthetics.

In Diagnostics, molecular should continue to lead the charge behind Panther and an expended menu, including the full suite of urology assays, which we expect to have in the U.S. with the approval of our HPV test around the middle of the fiscal year. We anticipate continued strong international growth in Diagnostics as well, plus $25 million to $30 million of revenue related to the blood screening transition services, which will have little to no benefit on earnings.

In Breast Health, growth will be driven by new products like the Affirm Prone Biopsy System in Brevera, our international business and a growing service annuity. And in surgical, we expect growth to be driven by continued market expansion efforts behind Myosure, new products like MyoSure MANUAL, the stabilization of NovaSure and our international business.

And in Medical Aesthetics, we expect strong growth from a stabilized and fully productive sales force and new products, including the submental indication for SculpSure and our new RF platform.

Now in terms of profitability, I would remind you that our non-GAAP margin profile in the second half of fiscal 2017 represents a new baseline for the business post blood screening and Cynosure. So from gross margin levels of roughly 63.5%, we forecast solid improvement from continued operational efficiencies tempered somewhat by the rapid growth of our international business.

In addition, we expect to continue to show strong leverage in operating expenses. So from a baseline of roughly 29.5%, operating margin should expand faster than gross margins.

Now below the line, we expect net nonoperating expenses to be materially higher in fiscal 2018 than the $122 million we posted in 2017. This will result from higher forecasted interest rates and the refinancing activities I mentioned earlier, which are tied to the anticipation retirement of the remaining convertible notes in December and March.

All of this leads us to forecasted earnings per share of between $2.10 and $2.15 in 2018. This represents reported growth of between 3.4% and 5.9% with double-digit organic growth after adjusting for the blood screening divestiture. This guidance assumes a full year tax rate of approximately 31% and diluted shares outstanding of about 284 million for the year. Our guidance does not assume any capital deployment beyond calling the convertible notes and excludes the possible reinstatement of the medical device excise tax.

Now let's cover guidance for the first quarter of fiscal 2018. As a reminder, we will have 4 fewer selling days this quarter than we did a year ago, which translates into more than $20 million of revenue. We expect revenues of $775 million to $790 million, down on a sequential basis, as we see a normal seasonal decline due to our global sales meetings and the RSNA Conference in Breast Health. In addition, we'll be missing the $9.5 million in diagnostic royalty revenue that Steve discussed.

Compared to the prior year period, which included those extra selling days, this range reflects reported revenue growth of 5.5% to 7.6%, and constant currency growth of 4.7% to 6.7%.

We forecast non-GAAP diluted earnings per share of $0.48 to $0.50 in the first quarter. This anticipates a decline of 7.7% to 3.8% on a reported basis, but double-digit growth, excluding the $0.10 in the first quarter of last year related to blood screening.

Before we open the call for questions, let me just conclude by saying that our fourth quarter capped off a successful and productive year for the company. Externally, we are encouraged by the productivity of our R&D investment and the building product pipeline, the impact that organizational changes have made on the international business and the overall shift in our portfolio to higher growth markets. Internally, we continue to exercise tight expense controls, improve our debt structure, and strategically redeploy capital. Overall, we feel confident in our foundation heading into 2018, and have the leverage to deliver healthy revenue and EPS growth.

With that, I will ask the operator to open up the call for questions. (Operator Instructions) Operator, we are ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question today from Isaac Ro with Goldman Sachs.

Isaac Ro - *Goldman Sachs Group Inc., Research Division - VP*

I wanted to ask a couple of questions about Cynosure. First off, can you tell us a little bit about why the business declined sequentially? And what's going to take it back this coming quarter? Just sort of a near-term trend question.

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

Yes, why it declined sequentially? If you recall, Isaac, we changed out the President -- basically, changed out the whole leadership team in the July/August time period. So we gave them one quarter after we did the acquisition. Obviously, it wasn't our shining moment. And then, we put the new team in. And during the new team, obviously, a little bit more transition. But I will tell you, we also -- as you know, we had said we expected a fairly significant decline in the quarter. It was by a little worse. Can't believe them what we would have hoped. But I'll tell you, having just spent a lot of time with their sales organization and their leaders over the last couple of weeks, it's a very different place than it was even 30, 45 days ago.

And so I feel very good about where we're headed. And I feel very confident that we can now declare the bottom, and it's going to get stronger and stronger from here.

Isaac Ro - *Goldman Sachs Group Inc., Research Division - VP*

Okay, that's helpful. And then, maybe, just on the forward. You talked about a lot of things that are going to get better in Cynosure. But I'm interested a little bit around the innovation side. I mean, the product cycles in this sector tend to have pretty high velocity, right? They turn over pretty fast. So can you tell us a little bit about what's coming in the pipeline that will help you guys -- with a better sales force, better management, deliver better growth?

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

Sure. Great question, Isaac. And I'd clarify a couple of additions to that. One is we did just get the submental approved right at the end of the quarter. So that will be kicking in for this quarter. We have the RF platform that we've talked about. That is very much on schedule, and I think you will likely see that being launched in early calendar year 2018. And it's very important to note that all the leaders in the R&D organization and all the managers are all intact. So the inside of the company has not been affected, while the outside of the sales force in the U.S. was. So we have a lot of pockets and stability called the International Selling Organization, but particularly, the R&D organization, very intact. It's a big part of what we loved about this business. They've been great innovators for a long time, and we expect to continue that pace of innovation.

Robert W. McMahon - *Hologic, Inc. - CFO*

Isaac, this is Bob. The other thing around that pace of innovation is really one of the competitive advantages, I think, we have is also our clinical profile. And so one of the things, with the submental that came out was not only that we got it approved slightly ahead of where it was initially, but also with superior claims to competitive products out there with a superior -- a wider BMI range and so forth. And so we're thinking about that to be able to have it serve the broadest amount of customers. So there's also that element as well.

Operator

And we'll take our next question from Jack Meehan with Barclays.

Jack Meehan - *Barclays PLC, Research Division - VP and Senior Research Analyst*

So just wanted to pick a little bit more on your conviction in this quarter as the bottom and what's going to get to growth in the fourth quarter. You mentioned regionally in the U.S. some areas are showing strength. Can you maybe just talk matching it up in terms of where the sales force is a little bit more mature, if that was a trend you noticed. And then, just a little bit more discreetly. What we should be thinking for the first quarter would be helpful.

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

Sure, Jack. I think, clearly, to your point, we saw pockets of strength. Our West Coast team was largely intact and has delivered, actually, growth in the quarter. What we had is we had several teams that largely left on mass when the transition occurred and it's filling those pockets back up. But we know how to do that. We're frankly, being -- we're building for the long haul. We could have easily gone out and just grabbed a bunch of people that had left and offer them a bunch of money like this industry typically does, just to bring them back. But we're building it for the long-haul. So I think what we feel really good about now is we've looked at what has made the regions that are successful doing well and really starting to emulate and pick up from there as we add the people. But this is going to be like international. I know everybody wants to see the immediate turnaround. I just go back to build things sustainably, it takes a period of quarters. We could easily do a one-hit wonder and go out and just hire some people and slam some stuff through. It's not what we're about. We didn't buy this business for 2017. We didn't buy it for the beginning of 2018. We are building it. And I've got so much confidence in the leaders that we have in place now and it's a combination of some from the outside, and frankly, a lot of real stars that were in the company that are stepping up, in the company being Cynosure, stepping up. So that will give us the sequential improvement. There's just a little doubt in our minds that we bottomed out. And we'll build from here.

Robert W. McMahon - *Hologic, Inc. - CFO*

Jack, this is Bob. Another couple of points there. So we did have some impact with the hurricanes and the weather-related that we obviously don't anticipate happening in the fourth calendar quarter or first quarter. In addition, submental came in at the very tail end of Q4. We've seen very positive early pickups. We'll obviously have a full quarter of that to be able to sell that. So that -- those are 2 other additional points that should drive. In the fourth quarter, fourth calendar year quarter, it's typically the highest volume quarter of the Medical Aesthetics industry. So we've got a number of things here that both from a macro perspective, but also, internally, in addition to what Steve was saying, that give us some confidence that we will grow sequentially from the fourth quarter, fiscal fourth quarter.

Jack Meehan - *Barclays PLC, Research Division - VP and Senior Research Analyst*

Is there a number or a range that you have in mind for the December quarter?

Robert W. McMahon - *Hologic, Inc. - CFO*

I would say it's up sequentially, but still down materially from prior year.

Operator

And we'll take our next question from Tycho Peterson with JPMorgan.

Tycho W. Peterson - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I'll give you a break from Cyno questions for a minute. And maybe just shifting over to Breast Health. How are you thinking about the Breast Health setup for '18? And maybe if you could just talk a bit on uptake of the 2 different products. I'm just wondering about kind of pricing dynamics, given you've got a new low end system and a new high end system. How pricing is going to settle out, you think, for '18?

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

Sure, at the highest level, Tycho, I feel a lot better about where our Breast Health business is headed as we go into 2018 than we probably did going into 2017. And certainly, materially better than how we felt 6 months ago. I think our team has gotten their mojo back. And the 2 new products are really going to help us a lot. What we're seeing is 3 dimensions on the high end is coming off to a very nice reception. And the 3D performance is probably going to be a little bit bigger than I think a number of our reps felt. And that is going to be at a lower price. But having said that, it's similar margin in our existing business. The greatest part about that is it's allowing us to compete. As you know, some of the big boys are being very aggressive on price. We don't want to get into a price battle. But it did does give us a chance to have an offering it for some of the smaller hospitals where they don't need all the bells and whistles that come in our traditional dimensions in a 6,000, 9,000 and then the 3 dimensions. So it really gives us a very good menu of an offering. And I think that really, we already saw a nice uptick there in the fourth quarter in terms of placements. We've also got Brevera coming. Affirm is building. And frankly, if I look at -- we don't report orders. But it was a very nice uptick in our fourth quarter orders. And I think just there's a lot of things coming together in that business right now. Now we've come a long way in just avoiding the clip. It's not going to be a super growth business in the U.S. just given how far we've come. Having said that, internationally, internationally is looking very, very good then you can see the numbers there, 20%-ish Breast Health growth internationally. And everybody remember, a big part of that growth is Kevin Thornal, who is redeployed to Cynosure. And his first few quarters internationally looked pretty ugly. And today, we're in a very different place. And it's what gives me tremendous confidence, both about our ongoing Breast Health business, our international business, but also Cynosure.

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes. Tycho this is Bob. Just to give us a little additional flavor and color. So in our prepared remarks, we talked about having record shipments over 300, roughly 2/3 of those were the existing products. So said differently, maybe 1/3 of those were both a combination of 3D performance and 3 dimensions. So it talks about the uptake has been very good. And that gives us, as Steve said, the broadest portfolio to really supply and support any customer out there. And so we're really excited about that going forward.

Tycho W. Peterson - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. And then, for a follow-up. Just a question on Fusion, I guess, as we think about the install base of Panther's, can you maybe comment on what you think the attach rate might look like? And do you have enough out there to maybe make an impact on the flu season this year? With the Fusions you do have out there.

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

No, I'll answer the second half of the question first. No, we won't have any impact this year on Fusion -- on the flu season. It just came a little bit late and we still have one more assay that we want to prove. I think it does bode well for next year's flu season. I think the initial feedback from Fusion has been phenomenal. And the magic to me is the fact that we just placed more systems in 2017 than we did in 2016. And it's too early to fully predict an attach rate, but we think it will be very high. And we're seeing just increased throughput. Everybody that gets Panther into their hands likes it. And Fusion is that much more of a game changer. So over time, we would certainly expect the majority of those, and hopefully, as we get into -- well into 2018 and beyond, hopefully, most of the systems we ship will actually be Panther fusions as opposed to Panther's. But we'll be basically taking it on a case-by-case basis, whatever is best for our customers. But I think they'll increasingly see the broader value of Fusion as well.

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes. I was going to say, just to add on to that, Tycho, we've said before that we see Fusion as really being the cornerstone of the lab for the future, and are conviction only grows with customer feedback.

Operator

And we'll take our next question from Dan Leonard with Deutsche Bank.

Daniel Louis Leonard - *Deutsche Bank AG, Research Division - Research Analyst*

I guess, moving on to surgical. How confident are you in your mid-single growth outlook for surgical? And specifically, what are the plans in place to stabilize the NovaSure product.

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

Sure, Dan. Good question. Now we continue to feel great about MyoSure and it continues to grow at rates far beyond what we probably would have predicted. A little disappointed with NovaSure. Obviously, there was the competitive. We have done a great job turning that business around.

Then we benefited from the competitive withdrawal. But I think we might have taken it a little easy. Maybe that business came a little too easy to us. And I don't think we've doubled down as firmly as we need to. We have put a new sales leader and some new leadership into that division to kind of step it up a little bit. And we're looking at some comp changes for that sales force. And I think I put them a little bit of where our Breast Health business was about 6 months ago, where I think they just slightly took their foot off the pedal, and we're going to get that foot back on the pedal.

Robert W. McMahon - *Hologic, Inc. - CFO*

I think with the addition of the new products, MyoSure MANUAL, that will also help continue to propel the Myosure business, and as that becomes a bigger part of the overall surgical business, that will drive the overall growth rates as well. So we feel still very early days on that. But that will really help us get a stronger foothold into the office-based procedures, which is really kind of virgin territory for us. So that will help expand that market.

Daniel Louis Leonard - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. And just a quick follow-up on Cynosure. I appreciate the comment that there's no more voluntary turnover in the sales force. But can you give us at a higher level, kind of how many heads you have on The Street today? Or how many feet on The Street versus maybe where you were 6 months ago versus where this business was with 12 months ago, so we'll know how much more additions you need to get that back up to par?

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

Sure. We are well below where they were a year ago, and particularly in some key regions. So consider that double-digit percentages down. And that's where I think as we start to add bodies back into a lot of these territories, and we're doing that now, that, that will drive some very nice growth. We are materially below where they were at this time last year.

Operator

And we'll take our next question from Doug Schenkel with Cowen and Company.

Chris Lin - *Cowen and Company, LLC, Research Division - Research Associate*

This is actually Chris Lin on for Doug. I wanted to come back to Cynosure. You noted that some sales force left in that mass after the leadership change. You also know that the Q4 revenue was weaker than expected. So one, was this the sole driver of the weaker-than-expected Cynosure performance? Or did you see any change in the competitive dynamics here?

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

No real change in the competitive dynamics, I think. We lost -- as we were down people we've got to put territories back in. There's always little pieces in that business where one company might get a little hotter for a quarter or 2, but nothing fundamentally different.

Chris Lin - *Cowen and Company, LLC, Research Division - Research Associate*

Okay. And then, maybe, for the follow-up question. Sorry if I missed this. But did you -- or are the new hires completed for Cynosure now? And I think previously, we talked about a 6-month period you get sales reps to optimal productivity. So as we think about the phasing of Cynosure revenue growth in 2018, should we think growth is likely second half weighted for Cynosure?

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

Yes, I think we are -- hiring is not complete. We're hiring as we speak. And I've got -- we've got some just some great leaders in that business that are talent magnets. So filling those spots. But I think they will be filling through, through time. We'll start to see some growth here in the coming quarters, and I think build sequentially through the year. I think it will be a big driver of growth in the second half of the year for us.

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes. And Chris, this is Bob. When we look at first half, back half, there was certainly -- would be more growth in the back half of the year as we get that stabilized. As we mentioned, the first quarter, we expect that business to be down. We expect growth in the second quarter and beyond.

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

Down versus a year ago, but up sequentially.

Robert W. McMahon - *Hologic, Inc. - CFO*

Versus a year ago. That's correct.

Operator

We'll take our next question from Raj Denhoy with Jefferies.

Rajbir Singh Denhoy - *Jefferies LLC, Research Division - MD, Equity Research and Senior Equity Research Analyst*

Maybe I'll ask sign a Cyno question just to keep going on that. But can you maybe comment...

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

I figured you'd come with Breast Health.

Rajbir Singh Denhoy - *Jefferies LLC, Research Division - MD, Equity Research and Senior Equity Research Analyst*

Well, that will be my second question. Wholly unrelated, but I'll ask that as well. So you made a comment sort of in mid-call about the higher standard in a sense for hiring these folks back, the -- having them at the value standard in a sense of Hologic. And I guess I'm curious how much of a disadvantage that's proving to be, given some of the selling practices in this industry? Are you disadvantaged because you're holding your folks to a higher standard here in aesthetics?

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

You know what, I'll say no, and we believe that. Ultimately, I believe you hire great people who can work hard and outwork orders, you will win over time. Yes, I think all of you know, the Medical Aesthetics industry has been probably not quite of the same character and values. We think we can do it, and we can do it the right way. It may not be as easy, but there is 0 doubt in my mind that we can do it. And I'll tell you, the existing Cynosure sales leaders who stayed with us, it's what they want. And frankly, there's a lot that the Hologic name is going to bring to this space that will play out over time. It may not be playing out in the first 3, 6, 9 months. But what we can do for this industry, and I always believe, ultimately, you do what's right for the customers, you hire great people and you treat them right and build a more enduring relationship, it will prevail. And that's what we're setting out to do. And again, you may not always see it in the short term, right, it's like athletes can win doing steroids or other things. But ultimately, who's the enduring winner, are going to be the people that do it right. And that's exactly what we're out to do. And we will do it.

Rajbir Singh Denhoy - *Jefferies LLC, Research Division - MD, Equity Research and Senior Equity Research Analyst*

Well, just as a follow-up. And I'm sorry, I won't get to the breast question. But for my follow-up, I guess, just in terms of what a we think about the recovery in this business then, as you still have a lot of open spots. But perhaps, just a little harder to get those quality folks in because of the standard. When is this business going to get back to where it can grow to the rates that we thought it could when you acquired it?

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

Sure. It's not a barrier to hiring quality people. Let me be really clear about that. There's a lot of quality people who want to come in. It's just not necessarily people with a ton of industry experience. We are getting very good quality people. And I think we see this being back to a double-digit grower in 2018, Raj. So we will deliver that. And therefore, it will be accretive to our company growth rate.

Operator

We'll take our next question from Brian Weinstein with William Blair.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

I hate to continue the trend on this. But can you just talk about the accretion that you now expect from Cynosure this year? I think you had talked about $0.10 to $0.15 on a higher revenue number previously. So are you still contemplating that range? And if so, is it because you are seeing additional synergy opportunities or would you be pulling forward some of those synergies?

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

Yes. Go ahead, Bob.

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes. Brian, this is Bob. Yes, we, at the time of the acquisition, we said that we expected to have accretion of $0.13 to $0.15, and we are still in line with that. Obviously, up probably a slightly lower sales base. But we have been able to identify synergies faster and that pulled some of those in. So we're still -- and that's what's baked into our estimates right now.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Okay. And then, as a follow-up. Within diagnostics, can you talk a little bit about the components there, specifically, how things like your CT/NG tests are doing? Any share gains there? Growth rates? And then, same on HPV?

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

Yes, I think in simple terms, given the growth rate of our molecular business, we're probably not going to go in assay by assay. But we think they're growing faster than the market, and taking market share particularly in the U.S, but also reasonably encouraged, obviously, off a much smaller base, internationally.

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes. I mean the fact that our growth -- certainly, in the fourth quarter, Brian, the fact that our molecular business grew x the royalties at a double-digit rate would suggest that we have very strong growth in all of those markets, both CT/GC, HPV and Trich. We believe they're growing faster than the overall market and we are gaining share.

Operator

We'll take our next question from David Lewis with Morgan Stanley.

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

A couple of quick questions for me. Maybe Bob, this the one for you. Just thinking about the fiscal '18 guidance, the range at 2.5 points is almost twice the range of last year. Can you just kind of give us a sense of what's driving sort of the wider range? What are the 2 or 3 flex factors? One, obviously, I think, I know. But what are the flex factors that made for a wider range in '18 versus '17. And I know you're obviously still guiding to the midpoint, but why the wider range?

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes, a couple of things. To be fully honest, we're still getting our arms around the pacing of the Cynosure business to a higher capital business that has a little more volatility and we're recognizing that fact. So I think that is one of the reasons that we probably got a broader range than we had historically. We haven't been to a full year cycle of what that business can do. And I think the fact that as we have that capital component of it, we're trying to recognize that piece. That also is the swing factor, that and the new products. And so the uptake of new products, we'll probably get more new products in our 2018 forecast than we've ever had. That's a good thing. But this also creates a little more potential for upside as well as some variability in terms of the uptake and so forth. But those are probably the 2 elements, David.

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

And at the midpoint of your range, Bob, assuming you're forecasting double-digit medical sales at the midpoint. Then my follow-up for Steve is, Steve, you're still maintaining your synergy guidance, $0.13 to $0.15 for next year, can you just -- or for this year now. Can you explain sort of the logic of that decision I sort of feel like, given the sales erosion and the size and scale of your primary competitor, this is probably not the year to drive earnings synergies. This is the year to reinvest to get the growth rates turned around. And maybe that was 2 quick follow-ups.

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

Yes. Thanks, David. I think you're exactly right. And we won't be silly to chase that to an extreme. But I think what we're seeing is there are more synergies, say, on the operational site and maybe some of the G&A side while we reinvest in sales, marketing and R&D. So we're probably getting, getting that accretion in a different way than we might have anticipated. But if we feel we need to spend a little bit more and the base business is delivering, we would certainly contemplate that.

Robert W. McMahon - *Hologic, Inc. - CFO*

I mean, we've done that in the past and we will do that again.

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

Yes. Yes.

Operator

We'll take our next question from Richard Newitter with Leerink Partners.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

I was just wondering, is there anything that you're seeing specifically in either the women's related to Cynosure in the women's health markets? And can you comment on your ability to kind of leverage your GYN sales force there? And then, also, is there anything underlying going on, on the body contouring space in the U.S. just given that those are the market that's been developed for a few years now. Is it getting saturated at all on the capital side?

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

Yes. Thanks. We still think there's big opportunities on the body contouring side. In the grand scheme, while there's been competitors and product's out for 5 or 6 years, when you look at the full range of possibilities and installed base, there's still a lot of opportunity there. On the women's health side, we also think there's much better opportunities, particularly for MonaLisa Touch in the women's health. Then, frankly, what Cynosure had done over its last years as a stand-alone company and probably what we've done in the first quarter and a half, 2 quarters of owning it. And we're putting a more dedicated effort into, particularly, the women's health side. So without -- we also want to be careful not to distract our surgical organization because they've got 2 great products and still a lot of growth potential as well. So it's like anything you find other ways, and I think frankly, it's going to be more through the Cynosure sales organization with a refocus on the opportunity.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies and Devices and Senior Analyst*

I guess, just as a follow-up there, Steve. Is that a different strategy than you envisioned when you purchased the assets whereas you need to rely a little bit more on the Cyno build-out within Women's health to leverage that channel where you already have kind of a dedicated sales force? Or...

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

No. We're still using referrals. What I should say, our basic approach here is use the GYN surgical sales force for referrals to key customers, but have the Cynosure sales reps still close them. But I think building that relationship can be better.

Operator

We'll go to Bill Quirk with Piper Jaffray.

William Robert Quirk - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Two questions. I guess, first off, is just thinking about the, I guess, at some point here, we may start to hit a bit of a replacement cycle on tomo. I realize that we're about a little over about 6.5 years out now from the FDA approval. So I guess, first and foremost, maybe we can just -- I would love your thoughts on when we might start to see some initial replacements.

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

Sure. We think we're probably still a few years away from that. And the magic of it, to your point, is we think we've still got, probably, 3 to 4 years of runway with tomo itself still establishing itself into our customers that haven't flipped yet. And by that point, we'll be needing some new revenue and then, the early adopters will be starting to come up and it'll probably work out very well that they'll be ready for some new stuff, call it in that 2020, 2021 time period. So it should really be key to helping us break this whole boom bust cycle that, really, when you look at it, I go back 2 years ago, every meeting we had with investors was about the cliff. And then, shortly after that, every meeting was about international. Right now, everyone is about Cynosure. We just keep knocking it up. There's issues that pop-up, very proud of what we've done to ward off the cliff. Very proud of what we've done in international. And frankly, we'll be sitting here 12 months from now having shown the same with Cynosure. I feel very confident about it.

Robert W. McMahon - *Hologic, Inc. - CFO*

Yes. And Bill, just to kind of fame in kind of the opportunity. We're still roughly half penetrated into our existing base. And there's still roughly about 65% based on our estimates of the installed base in the market in the U.S. that still has an opportunity to upgrade to 3D. The other thing is, we continue to get 3D incremental reimbursement. We now have roughly almost 90% of all women covered for incremental 3D reimbursement. So there's still a runway there. And then, couple that with those -- if in fact there is somebody next year I would think would be the exception, certainly not the rule, the 3 dimensions, that high end product, would be a perfect opportunity for that early adopter. But we still have a long way to go with the existing products.

William Robert Quirk - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. Got it. And then, maybe, just lastly. And Steve, you kind of touched on this early, regarding hitting the bottom on Cyno and starting to see a recovery here in the calendar fourth quarter. Is -- what's -- I guess, talk to us a little bit about the strength of why you feel like that. Is this because you're seeing more product getting shipped out to customers? Is it because the deal funnel is getting stronger? Are we seeing less product at resellers? Just curious kind of some of the bits and pieces that give you the confidence there.

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

Sure. I go back to my -- probably my core management philosophy. The reason I feel better is because of the team that we have in place. And we have a better, more engaged leadership team, then the regional leaders under them are strong and motivated. They lost their way for a little bit earlier this year. They are back, completely reengaged. I just -- there's always recency effect, but I was just with the entire sales organization a couple of weeks ago for their national sales meeting. Just hearing comments like, "Hey, this place is even completely different than it was 30 days ago. We're jazzed. We're ready to go." And there's -- it's the leading qualitative factor. And this is where I'll go back to, I think you've heard me say it, sometimes an organization is better than its numbers, and sometimes it's worse than its numbers. And I think -- but oftentimes, when you're in the midst of changing something out, you can start to see it and feel it qualitatively, before the numbers start to show up. Having said that, we are partway into this quarter, and we're starting to see some uptick. So I don't want to get into the process of talking about quarterly updates. But because this call is particularly later into a quarter, starting to feel, certainly, on a better trajectory than where we've been.

Operator

Thank you. That is all the time we have for questions today. This now concludes Hologic's Fourth Quarter Fiscal 2017 Earnings Call. Have a good evening.