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# EDITED TRANSCRIPT

HOLX - Hologic Inc at Stifel Healthcare Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Jonathan D. Block** *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

## PRESENTATION

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Hologic is a diversified women's healthcare company with businesses across 4 main divisions: Diagnostics, Breast Health, Medical Aesthetics and Surgical. We have with us Mike Watts, Vice President, Investor Relations and Corporate Communications, and Justin Gaudreau, Senior Manager, Investor Relations. We're going to go into a bunch of different topics. I'm going to try to keep it streamlined and go by division.

I am going to turn it over to Mike just for a couple of minutes of a high-level overview of latest developments at Hologic.

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

Sure. Thanks, Jon, and thanks to Stifel for having us. So as Jon said, if you don't know the story well, Hologic is innovative medical technology company. We're primarily focused on improving women's health and well being through early detection and early treatment.

As Jon said, we have 4 primary divisions. Our 2 largest divisions, Breast Health and Diagnostics are each on a quarterly basis between 35% and 40% of revenue, and we have market-leading products in both of those segments. And then our 2 smaller divisions, Surgical -- GYN Surgical and Cynosure, each represent about 10% to 15% of revenue on a quarterly basis. And again, market-leading products there.

I think from -- I should mention about 70% of our business in terms of revenue is recurring revenue, either consumable sales, assay sales in Diagnostics or surgical consumables or service in our Breast Health business, and about 30% of our business is capital, mainly the sale of 3D mammography machines in Breast Health.

I think from an investment-story perspective, the recent history of Hologic really starts at the very end of 2013, when Steve MacMillan joined the company. And the first couple of years of his tenure had really been focused on commercial execution, primarily in the U.S. The story has diversified a bit in the last year or so, adding to that commercial execution, a couple of other topics. One -- I'm sure we'll talk about all these things today. One is our international growth, which was a really underrepresented part of the business in the past and now it's growing very nicely for us. Secondly is increasing productivity from our R&D pipeline. There really wasn't an R&D pipeline when Steve joined a few years back. Now we're just beginning to see the output coming out of each of our divisions.

And then finally, our efforts to deploy capital. We sold the business earlier this year, which was our blood screening business. We acquired Cynosure which, I'm sure, we'll get into. And I think as we go forward, small tuck-in acquisitions will continue to be a key part of this story to supplement top line growth. Just reported last week, gave guidance for 2018, so it's a great time to be here talking with you and happy to take your questions or how you want to...

## QUESTIONS AND ANSWERS

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. Guys, I'll start firing away and, again, just feel free to jump in with any questions you may have. I am going to start with Medical Aesthetics, Cynosure. On the call, Mike, there was a good amount of time spent on Cynosure 2.0 and I-View, that is sort of having 3 main components behind



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it. New leadership, new products and sort of revamping the sales organization. Maybe if you can talk about, is that a good way to think about things? And if you can briefly talk to each one of those -- each one -- each of those components?

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

Yes. I think that's a good framework, Jon, and obviously, you've covered legacy Cynosure, so know that space well as well as Hologic. I guess the one thing I might add to that is same market and maybe we'll start there. I think one of the things that attracted us to Aesthetics in the first place was the growth orientation of the market. I mean, this has been a market growing as you know in the high single to low double digits for a while. We see those very positive trends continuing. It's driven by a number of different factors. One, just an increasing medical -- increasing acceptance of Medical Aesthetic procedures. Younger people are getting the procedures. More men are getting the procedures. Clearly, positions are under a lot of pressure from reimbursement cuts and looking for ways to diversify their income with more cash-based procedures.

So we see a lot of secular tailwinds that should continue. So nothing has really changed in the market. But as it relates to Cynosure 2.0, let me see if I can hit on each of your 3 points.

In terms of new leadership, I mean that's really where it all starts. Recognize it's very hard to kind of find that cell in your spreadsheet and say upgrade leadership or turn the volume up to 11 on the scale. Anybody get that reference? Few people. But really, all starts with -- it really all starts -- you get it?

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

I do get it.

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

Okay, good. You're old enough. Really all starts with leadership. And what we've done there is really brought in 3 key leaders at the top of the organization. One, a fellow named Kevin Thornal is now running the business as President -- as the President. We have a President for each of our major divisions. Kevin, as some of you may have heard, is the person that led the turnaround of our European Breast Health business about 1.5 years ago. I think today, a lot of -- most of our meetings with you guys are dominated by questions about Cynosure. 1 year, 1.5 years ago, it was all about Europe and how is the climbing, et cetera, et cetera. And we'll get into that in a minute, I'm sure. But now that's a business growing double digits, maybe even 20% in the case of Breast. So he really led that turnaround. Prior to that, he was leading the Breast Health service business in the U.S. So really strong leader heading that business. And he has also brought in new Heads of Sales as well as Marketing. The Head of Sales, (inaudible) Erik Anderson, who was a Regional Director in our Breast Health business before, really terrific sales leader. And then Bill Fruhan, who was running marketing for Surgical. So have really put in place a senior team that we're super excited about. And they have now begun to build out their team around them with new regional folks, new head of customer experience, several other key hires. In fact, even hiring some people back who had left the company to go to competitors. So feel really good about the leadership. And although, it's hard to quantify, that's really where the change process starts. Second piece was...

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

New products.

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

New products. And actually maybe I'll go to your third piece first, if that's okay, which is the new sales structure. Because it does tie to what Kevin and Erik and Bill have put in place. Really a tremendous amount of effort to revitalize and strengthen the commercial organization. Everything, from changing the products that are in the sales reps bags. So now, basically every product gets to carry every product -- every rep gets to carry



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every product across the portfolio and we have the widest portfolio of products in the industry. We've tweaked compensation going forward a bit to incentivize above quota performance. We have hired back, as I mentioned, some top performers from other organizations. We put in place new training methods. I mean, this was a sales force that really wasn't trained before in the past. They all learned through on-the-job training. So we're training. Everyone now has been trained that we saw the first module. We're changing the way. We're bringing in new people and profiling new recruits differently. So under Kevin's leadership, really tremendous amount of change in solidifying that commercial organization. And it's not just about filling up a number of open positions, that's certainly part of it. But it's more about really building what we think is going to be the best commercial organization in the laser industry in (inaudible)

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And another thing, I don't think you guys ever gave specific numbers on reps. But if I remember correctly, Cynosure legacy was in and around a 140 North American reps. Steve mentioned on the call, you've hired some back, but you're still below where legacy Cyno was. So any numbers that you can put to that point? In other words, where are you maybe today versus legacy Cynosure?

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

Yes, you're right. I mean, we haven't quantified that with a super amount of detail. I mean, we actually don't quantify that for any of our businesses. We consider that pretty proprietary. But I mean, Steve did say in the call that we're down double digits from the peak. I do think now there is a critical mass that's back on board and I think we can -- we're still in a hiring mode, to be sure. But I think we can see how the business evolves and see where the needs are as we hire new folks. I would point out too that the attrition that we experienced, we think, is in the rear-view mirror. I mean that happened really in 2 tranches, in the very early part of the calendar year and then in June timeframe. That, now, we think has stabilized and is behind us under Kevin and Erik's leadership. But we are going in ourselves and upgrading talent and bringing in new people. And some of the leaders that we have are really talent magnets for people from other organizations. So a lot of the change that we're seeing now is normal turnover, healthy turnover that we're stimulating.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And then just a pivot, new products. Maybe if you can just touch on some new products?

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

Sure. So our new products -- I think, there's a couple of things that I would highlight there. One is the submental indication for SculpSure, so that's the double chin. And this puts us, of course, on par with Zeltiq in terms of the parts of the body that can be treated with SculpSure. The main areas are the flanks, your love handles, your abdomen and then also we think that submental is really important. That was just recently approved at the very end of last quarter. So that will be a contributor to growth going forward starting this quarter. And we do think that's an area where we have some nice competitive advantages versus the competition. In fact, we were approved for a wider range of BMIs than Zeltiq/Allergan.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And that's an additional piece of hardware, just to be clear that goes into the install base?

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

It is. It's a different piece of hardware and it's also some different pad keys that drive that. So we think that will be a contributor to growth going forward. And then secondly, as you mentioned is the RF or the radio frequency platform. That will be launched hopefully very end of this quarter, probably more likely beginning of next quarter. So start to contribute in the second quarter or early in the calendar year. And that is a new platform



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that has multiple indications over time. First will be Aesthetic procedures. So this would be wrinkles, for example, cellulite, et cetera. Similar to a product, Jon, that you probably know (inaudible) which is an RF platform that Cynosure has on the market today. But over time, we would expect that other applications would include some women's health applications that would be complementary to MonaLisa Touch as well as a little bit further down the road, some surgical -- general surgical procedures as well. So a nice platform on which we can build over time. And it's really the combination of those things, both the new structure, the new leadership and then these new products as you put it, combined with a still-growing market that lead us to believe that Cynosure sales really bottomed in our most recent quarter that we just reported last week at around \$81 million. We think we should see some nice sequential growth in there as the year goes on.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And just maybe a couple more on Cynosure, and then I do want to pivot, but a couple of key ones. Can you help me out a little bit, Mike, with the ASP, so if I think about -- aesthetics back in the day, it's hard to sell boxes -- verily the boxes carry ASPs south of 70,000 or 80,000, sometimes it can be up to 150,000. So is there a target area that we should think in terms of that ASP associated with the RF box?

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

Yes, I think in the prevailing market, I think most RF platforms are a little bit less than that level. So I think that would be the expectation here as well.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Below the 70s?

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

Well we haven't launched the product yet. So that's certainly below the larger numbers that you described. There is also consumables, there are reusables that are attached to that as well over time. So that should help us. But I think generally, you're talking about lower initial price point than, say, a SculpSure.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. Okay. And then just lastly on the ASP specific to submental application. I go back to the Zeltiq days and some of those additional hair pieces where they were a lot. I mean there were 5,070 for a \$110,000. Is that the right way to think about the submental indication specific to SculpSure?

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

I think you should think higher than that. Certainly, it's not like we're selling a new instrument. We do think that as new instruments going to -- into the field, all of those would hopefully include the submental application, which will drive the price up in some of the headgear. But just for those that are already in the field, it is well less than the new instrument beehive than where you were.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And then last 2 on Cyno and then I'm going to pivot. But I've been getting some questions on, hey, how are they getting to the \$0.13 to \$0.15 accretion? Your (inaudible) that they gave at the time of the deal, clearly the revenues are lower. I think some of our check show, if you're a SculpSure user and MonaLisa Touch, you wanted more advertising in the company to help stimulate and drive patients in and out of the door. So how are you balancing that? How are you hitting the accretion on the lower revenue base while adhering to advertising (inaudible)?



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

Yes. So, I think the feedback that we've heard is very consistent. In that regard, certainly, this is not a time to be driving maximal accretion out of that business. We want to build this. We want to build it the right way for long-term sustainable growth. And a piece of that is the DTC type activities that we are pursuing now that Cynosure really hasn't had any expertise with in the past. And if you think about some of the things that we have done in our Breast Health business, where we are driving interest in consumers to certain facilities that have 3D using very targeted internet-type advertising, that's a similar model that we're using for Cynosure, and those programs are underway now. And we would look to potentially expand those over time and also expand in the other areas as we see the returns coming in, in terms of sales.

Now the second piece of that question is obviously, the synergy piece. I think what we are finding is that we are able to fund that by getting additional synergies out of the Cynosure business in other areas. Don't forget that Cynosure was a pretty small company a couple of years ago. I think what we're finding is what is ways to help them scale more effectively to grow more efficiently, in addition to the very concrete synergies have taking out, public company cost, corporate overhead, G&A and those kind of things, that have already been baked in. So we are coming out a little bit ahead in that regard and finding nice ways to help them grow but do in a more efficient fashion and that's funding some of the new initiatives.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

There are a lot of investments, if I remember correctly, in that '15, '16 timeframe that they were adjacent to your point, helping them do that in a more efficient manner.

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

Exactly.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And then a very last one on Cyno, I just want to make sure I've got my arms around it from a modeling perspective. You talked about double-digit pro forma. So that's double-digit off of what full year Cyno did, is that correct? Or is it double-digit specific to the 2 quarters that you had in your ownership in (inaudible)?

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

Yes. So we were talking about the pro forma year for Cynosure. So I think that was around \$390 million last year, and we would target something in the neighborhood of low double digits on top of that, so in the low 400s. Now clearly, as the business stabilizes, we would expect that growth to be higher in the second half of the year than in the first half of the year as the business becomes organic as part of Hologic.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And then I'm just running some rough numbers, I remember you also talked about being down considerably in 1Q year-over-year, up sequentially, but down considerably year-over-year. So to hit that double digit for full year, you've got to have pretty big fiscal 2Q, 3Q, 4Q growth? Fair -- I mean, 20% plus to hit the low double-digit number?



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

Yes, it's not a huge base, right. So I think we're in the range you are -- can sort of make a difference in those assumptions. But I think the way we would look at it is, clearly in Q1, I think that was the biggest quarter that Cynosure as a stand-alone ever reported. Just before the acquisition by Hologic, I think it was like a \$122 million or something like that in that quarter. So clearly, markedly down, off of that level on a year-over-year basis. But I think you should see some nice kind of sequential growth after this (inaudible) and then building over the course of the year.

**Jonathan D. Block** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Okay. Great. Then pivot to sales, I think maybe I got a little lost in the quarter what I thought were very solid Breast Health results. Revenue reaccelerated to over 2% to 0.4% in the quarter. Tomo units, you guys specifically called out above 300. Seems to be some good traction from some of the new introductions or maybe that's a good place to start, Mike. Some of these new products that you rolled out, specific to tomo at the high-end and the low-end. How is it allowing you to effectively attack the market?

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

Sure. And I think -- when I open things up, talked a little bit about the increasing productivity of the R&D pipeline and this is exactly the kind of things that are helping. So if you're not that familiar with it, we've recently introduced 2 -- or in the process of introducing 2 new products to kind of bracket our existing 3D portfolio. As you said Jon, one at the high-end of the market that really is for those early adopters that want the best thing all the time. You know new detector, new patient comfort features, new 3D reconstruction, 2D reconstruction software, new breast density software, et cetera. We call that 3 dimensions. And then at the kind of a lower volume part of the market, I think of it as kind of defeated 3D that has the same clinical benefits and has the same detector. But maybe doesn't have all the bells and whistles that a high-volume site might need. Doesn't have power, ergonomics and touch screens and things like that. So what that enable us to do is particularly the low-end is sell into a segment that we haven't been as strong in the past, without cutting price on our based systems and do that at a very comparable margin relative to some of our other products. So those new gantries certainly began to help in the quarter. They might have represented 25% or so of installations in the quarter, and really help us better segment the market. The other piece to that, in addition to the new gantries, is introducing new products around the gantry portfolio that help leverage that install base, and I'm sure we'll talk about Brevera and Affirm here in a bit.

**Jonathan D. Block** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Okay. And just to -- considering down the road of tomo, you give more color on your annual calls and you talk about the install base, I think you had at year-end '16 and year-end '17, you can do some pretty easy implied math. I believe within your base, tomo is now roughly 50% penetrated, it was approximately 40% penetrated a year ago. Steve, sort of stronger for longer, has played out effectively where you guys have avoided the cliff?

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

Yes.

**Jonathan D. Block** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Tomos is going to be standard of care. How do we think about those numbers of the penetration for the next 2, 3 or 4 years? In other words, is it in a linear 10 percentage points per annum out into '18, '19 and beyond?



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

Yes. So I mean, we have, I think, broken that cycle, right. And it seems like there's always kind of an issue du jour around Hologic. Today at Cynosure, a year ago, it was international. That's doing pretty well these days. And before that, it was the Breast Health cliff which is, as you point out, really hasn't happened. And that -- that's due to the very deliberate strategic efforts that we started 3, 4 years ago to kind of break that cycle. We do have upwards of 4,000 units in the field that are still 2D. If you think about a placement rate of 250, 300 a quarter going forward, there is a lot of good runway ahead of us for that business to continue to be solid. Now you're probably not going to see the kind of go-go growth that we saw back in the 2015 timeframe when the business, I think, in imaging itself was up 20%. But to give you some perspective, we guided to Breast Health growth in total in 2018 in a low double-digit range, and hopefully we can outperform that.

**Jonathan D. Block** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Okay. I do want to talk a little bit on -- spent some time on Affirm and Brevera. For Affirm, it seems like good results to date. Is there any way to think about sort of the amount that Affirm had? Steve outlined the \$15 million from new products. You also alluded to earlier in terms of that R&D pipeline becoming stronger. Not all of it's incremental, but I would assume Affirm's got a pretty big chunk of that. So can you talk to Affirm's contribution to overall Breast Health? And how do we think about Affirm within the context of the \$50 million from new products?

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

Yes. So the \$50 million number is the number that we started talking about a year ago when we were introducing new products for the first time, right. We had that number, before that it had been 0. So it was nice to actually have a positive indicator there. I think about a year ago, it's a quarterly number, it was about \$10 million. We did say in this call, it was in excess of \$50 million, that didn't even include the new gantry. So if you included those, it would be higher than that. But the biggest products there to your point are not incremental. They are new surgical products, MyoSure reach, NovaSure advance that were recently introduced. But Affirm is probably the biggest Breast Health product in that bucket. And we had talked about Affirm as being about a \$20 million, \$25 million product on an annual basis. So to be clear, I've now compared an annual number to a quarterly number. And that was growing over the course of -- that did at least that, probably a little bit higher than that over the course of 2017, and had a nice build over the course of the year. We would also expect that to be a higher number and therefore, a contributor to growth in '18 versus '17.

**Jonathan D. Block** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Okay. And then pivoting to Brevera, just high-level view of how to frame the opportunity for Brevera? And any color that you can give in terms of its contribution to 2018 revenue growth? Let me talk about the product rollout which is going to be much more in '18 versus rather '17?

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

Yes. So I mean, if you're not familiar, let me tell you a little bit about the product itself. So this is a real time breast biopsy system. And the way that the breast biopsies are done today is you know can be very tough. The woman's breast is under compression. The needle is inserted and then the nurse or the doctor needs to figure out whether they hit the sample or not, whether they got the right sample in the needle. Often times that sample is literally taken to another room to be x-rayed, either on a specimen radiography machine or on a mammography machine. And what happens if the mammography machine is actually being used. What if somebody is getting a mammogram. So really a revolutionary product from a workflow perspective, from a patient comfort perspective. Because what it does is an automated -- automates that entire process. So you get in real time the sample acquisition and then the sample identification, not to see, hey, as a cancer or not, but rather to see the micro classifications and say, hey, we got the tumor or we did not. And as opposed to that being done over a course of several minutes, it can be done in like a minute or 2. And it also even prepares the samples, so it can be sent off to the pathology lab in a very automated way without any hands-on intervention. So tremendous benefit both for the patient as well as for the workflow of the radiology suite. In terms of revenue, it's a little bit of a different model. I might just compare it a little bit to Affirm. It is both a piece of upfront capital that will be sold at a materially lower price than Affirm. And then over time, most of the revenue would come from the use of the needles, the biopsy needles. And if Affirm was a, I said, a \$20 million, \$25 million



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products in year 1, then we would expect Brevera to be less than that, certainly, but also a nice contributor to growth compared to 0 in 2017. And also one that should be a grower and a contributor to growth for the next few years.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And then eventually also maybe default over to a higher margins versus some revenue growth as the capital gets out there and people are reordering it?

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

Yes. I think over time, it wouldn't surprise me if those 2 products are a similar size or just going to get to in -- get there in different ways because of the capital mix versus the disposables.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And from a competitor standpoint, any of your competitors have anything similar to Brevera in terms of real time biopsy? Or...

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

No, nothing underway.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Significant lead time versus anything better.

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

Yes.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And then...

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

We have it on the floor as RSNA coming up in a couple weeks. So if anyone is going to be in Chicago for that, I can see you.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Got you. Okay. And then on the international, there has been solid momentum, increasing momentum, I think to call the year-over-year growth rates the past 3 quarters, from 5% to 13% to 20%. Talk about the sustainability of double digit going forward. I don't want to say 20% to 25% to 30%. But just Steve was very clear on that was a big achievement for you guys as a company. You got there in fiscal '17, maybe even a year earlier than what the expectations were. So when we look forward over the next 12 to 24 months, what's the opportunity in international Breast where we can continue to see that low double digit going forward?



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

Yes. So still tremendous runway there. I mean, I would agree with you, Jon that I think we were 20% in the quarter. I mean that's a little bit of a function of easy comps in the prior year. So as that base gets bigger, those are going to moderate. But we think that certainly international, as a whole, can be accretive to our overall growth rates going forward in that high single-digit range or a low double-digit. And then if you kind of break that down, I think the infrastructure and the capabilities that Kevin Thornal who's now running Cynosure put in place for Breast have the ability to keep going for a long time. And that is both organic development, some of these new products that we talked about that are market development infrastructure. And also inorganic things as well, we acquired, as you know, Medicor, which is our German distributor of products, couple of quarters ago. So definitely I think that can be a significant growth driver for us going forward. If you look at the competitive situation, we compete against the same players. We compete against the GEs and the Siemens and the Philips of the world, yet, in the U.S., where we might have a 60% plus market share. In Europe, that might be 25% or 30%. So what's the difference, right? It's the same products, it's the same competitor. It's really a question of focus and execution for us, and we think it will be a nice growth driver for a while.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And I know I'm asking these questions across many, many different international markets. But broadly, what are you selling OUS for Breast Health? In other words, what's going out the door that's 3D today, 3D upgrade versus more of the legacy 3D machine?

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

Yes, it's different than the mix in the U.S. I mean, as you pointed out, the U.S. is a market that -- given the clinical data, given the insurance coverage, given medical practice, we are clearly headed toward a 3D market in the U.S. As you're thinking about either getting your own mammogram or your wife's or your girlfriend's or your sister's or your mother's, you know make sure that you request a 3D mammogram because it really is better care across-the-board. The global environment is a little different as you can imagine, based on medical practice and reimbursement. So what we're selling now is roughly 50-50. So about half 2D and about half 3D depending on the quarter. So we'll sell into the market what the market is demanding.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And now I'm going to pivot over to Diagnostics. And again guys, if you have any questions, just feel free to go ahead and yell those questions out. But to pivot over to Diagnostics, first, another clarification. The mid-single-digit fiscal '18 growth that you guys gave, I mean it wouldn't change all too much but that does reflect the comping of the \$9.5 million?

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

Yes. That's not a huge effect.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Yes. Not a huge effect, but okay. And that's done with that or...

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

Yes. So we had -- periodically, we have some royalty revenue that comes in particularly through our Diagnostics business and we talked about this actually a year ago because the last tranche which was about \$5 million was in our Q4 of '16. This year, that \$5 million turned into \$7 million as we expected. We actually talked about that as you might remember in our third quarter call to let you guys know that it was coming. And then we



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had a kind of onetime or on top of that, that was unrelated, there was about \$2.5 million. So if you kind of compare '17 to '16, we had, what is that, \$9.5 million in Q4 of '17, we had about \$5 million in Q4 of '16. So about a \$4.5 million delta. All of that \$9.5 million goes away as we go into 2018.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

So help us with that mid-single-digit build, specifically Diagnostics. Is it sort of that similar formula that we've seen over the past year where, hey, it's sort of that flattish cytology perinatal number, molecular high single digits, low double digits. Maybe just help us with the build throughout Diagnostics.

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

Yes, I think that's right. Look it's early in the year, we just gave our guidance. I'm sure that if we look back at last year's guidance, things are always going to shift a little bit. But generally, there are and we're not talking about blood screening now, we've kind of stripped that out, it's inorganic. But there are 2 pieces of that business, if you are not familiar. The molecular piece is a little bit larger than the cytology and perinatal piece. There are some headwinds still in the cytology piece from changes in intervals several years ago. And we would expect that to be a flattish kind of product line going forward. And then, molecular has been doing great. And it's been doing great both domestically as well as internationally. I think it's been double digits 1 or 2 quarters recently, probably more high single digits, little bit more realistic. But when you average that out altogether, something in that mid-single-digit range for the business as a whole.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And how about before getting into the viral, just the runway that's brought with core Aptima and what you guys are doing from a company standpoint to help drive greater adherence to some of the guidelines out there? And then I'd like to pivot over to the virals?

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

Yes. So the portfolio today where most of the revenue is generated is through a suite of women's health assays, so that the biggest test would be our dual test for chlamydia, gonorrhea which is called Aptima Combo 2. Second biggest would be our HPV test, that's human papillomavirus, which causes cervical cancer. And then third and the fastest growing would be Trichomonas, which is another parasitic STD. And those diseases tend to be concomitant. So if you're testing for one, you probably ought to be testing for the other 2. And I think that has been an important part of how we're driving growth there. Our shares are already very high, 60% plus depending upon the category. In some cases, way more than that. But what we are doing -- what are our reps are doing very efficiently is partnering with our customer, the lab to do 2 things: one, if they're testing for chlamydia, gonorrhea in a 25 year old sexually-active patient -- woman, then are they really thinking through the other test that should be done on that same sample? Because you can do all the test from a single sample, you're not taking another sample, you're not inconveniencing the patient in any way. So I think that is one piece of it because those STDs do tend to coexist in individual patient. The second piece is really, again, working with that customer to ensure that their customers, so the docs are testing according to the state-of-the-art guidelines issued by the CDC or other organizations. So if, say, a woman is between the ages of X and Y and they're sexually active, are they being tested once a year, for example, like the guideline say? Most are not. And to have that patient tested is really beneficial for everybody. It's beneficial for the patient, it's better healthcare because then she -- the reason I keep focusing on women is the sequelae of these diseases tend to be worse in women. You can get ectopic pregnancy, you can have infertility, you can have other serious consequences. So more frequent testing enables those infections to be treated very easily with an antibiotic, better medical care for the women. In addition, the physician gets paid for that test, the lab gets paid for running. I mean, we do well as well. So it's really a win-win situation for everybody involved to drive utilization according to the guidelines. And that's why, even for a product like Aptima Combo 2, which is a multi-hundred-million-dollar product with very high market shares, that has continued to grow even in recent quarters.



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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Is any of the benchmark roughly where you are relative to guidelines? I mean, I remember seeing some past \$60 million, it was well below. But I guess where I'm trying to go with this is, there seem to be still a lot of room to run, even if you only incrementally move higher towards where the guideline should be.

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

Yes. It is hard to benchmark that, Jon, across-the-board. You certainly see with individual customers well less than 50% or being tested to guidelines. So we do think there's some room to run there. That combined with the international growth is what will drive us.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. But to your point, from a market-share perspective, you're already pretty dominant, close to 2/3 market share. So it would be a utilization component? Additional Panthers going out in the international opportunity.

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

Yes, exactly. We haven't really talked much about Panther, I'm sure we'll get to this in the context of the viral loads. But Panther is -- remains today a very state-of-the-art instrument for the lab customer. Fully automated, high throughput, but yet very small footprint. So in an environment when labs are trying to do more with less and do that in a very efficient manner, Panther can really become the center of their molecular lab. What's new about Panther today is if you think about the menu that's onboard that system in addition to the powerful engineering that's there, the menu historically has mainly been these women's health assays. So chlamydia, gonorrhea, HPV, HPV genotyping trick, we got Herpes recently approved in the U.S., Mgen is approved OUS. So there's 5 or 6 different test that generate a lot of revenue, both for the lab and for us. And those are some of the largest markets in molecular diagnostics. What's interesting now going forward is we're now adding the viral load assays. So these are quantitative test to monitor for the amount of HIV in the blood stream. So you know the patient is infected with HIV, you're trying to monitor viral load to figure out what their treatment regimen is going to be. So that HIV, Hepatitis C and Hepatitis B, all 3 of those test are approved outside the United States. And that's a really compelling menu for the lab. I mean, that really enables Panther to be at the heart of the lab. In addition, we've added an instrument called Panther Fusion, which is a side card that gets added on to Panther that enables the lab to do respiratory test as well. That's also approved -- fully approved OUS and approved in the U.S. as well. So the menu here is very, very broad. And those viral load assays themselves are almost as large in terms of the market size as the women's health assays are. Now we're coming into the market late there and we certainly don't anticipate getting 60%, 70% share anytime soon. But from a market potential standpoint, we can now consolidate a significant portion of the testing done by a molecular laboratory on board that single instrument.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

And so can you talk to when you get the full menu approved and we look out couple of more quarters. What would be the low hanging fruit? I mean, to your point, you're a little late. No one's going to go ahead and hand you share. But do you have current customers today, Panther customers that currently on running the viral, they're outsourcing that to a different lab, where, they would say, hey, that's a relatively easy conversion? Maybe walk us through the potentials over the next 12 to 24 months there.

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

Yes, I think that's a good way to look at it, John. I think that's very accurate. Anytime you have an existing Panther system, customer generally likes that very much. Can you then have a dialogue with that customer about adding viral load or even adding respiratory, in the form of the Panther Fusion. So that is where the low hanging fruit is. Diagnostics tests are ones that kind of build over time, right? It never quite goes as vertical as quickly as you think, and it always kind of lasts a little bit longer. So as we roll out those assays, we would expect them to be good growth contributors.



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I would point out that in the U.S., we have 2 of the 3 vital loads assays approved today. So we have HIV and we have Hepatitis C. We do not yet have Hepatitis B approved. And most labs would want to test for all 3 bugs before things really take off and we would expect that to happen around the middle of this year.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

So there's any -- since you've had the full portfolio approved internationally. I think that we can learn from OUS that you've seen and how it's played out that would enable us to extrapolate that over to the U.S.?

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

Well, our presence OUS is so much less developed than it is in the U.S., right? I mean clearly, from an installed base standpoint, from the market sophistication standpoint, so I'm not sure that you could drive too many parallels there. I will say the response, you know clinically and from a workflow perspective, to the virus OUS has been very, very good. And we would expect that to continue in the U.S. But having said that, these are customers that are typically under contract. So not like you can just go into the market and have access to a 100% of the market at one time. You might be getting 1/3 or so in the market.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

A mocking.

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

Yes, in each year. But given the market size, as I mentioned, we think it'll be a good contributor.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

But I remember when we upgraded, which I think is slowly coming up, and 2 years ago, we did some work specific to Panther in the workflow and you still feel like you've got the best system out there in terms of throughput, accuracy, feed, et cetera.

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

It's a combination of all those metrics, yes.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay, okay. And maybe just to pivot as best we can with 2 minutes left. Over to Surgical, because I promised we would get to all 4. Just maybe update us Mike, NovaSure has been sort of a little bit of a wild ride where it was problematic when Steve came in. You guys quickly fixed it up and you had the benefits of a competitor leaving the market. And it depends on (inaudible) back the other way as new competitions come into place. So how do we think about NovaSure growth looking at over the next several quarters?

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

Yes, so -- that's absolute correct. There was a competitive product, that was the number 2 product in the market, that was withdrawn maybe 5 or 6 quarters ago, something like that, roughly, it sounds about right. And obviously, doctors needed an immediate alternative. They did turn to



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NovaSure as the market leader. And that drove a significant amount of growth over the course of 2016 -- fiscal 2016. We've now over the last couple of quarters lack that, so we're going against those tough comps. And that has been a contributor to the significance slowdown in NovaSure growth. Still the market-leading product, but we would look at it as kind of a flattish sort of product going forward. MyoSure on the other hand, which is the second product in that division for removal of fibroids and pallets from the uterus continues to be very strong. Introducing some new products there as well, product called while MyoSure Rache was introduced couple of quarters ago, that enables the physician to remove abnormalities in different parts of the uterus that couldn't be reached before. And then most recently, we introduced a product called MyoSure Manual, which will enable us to penetrate better the in-office market. We are very strong in hospitals, but many of these now procedures are moving more to the office environment. So this is a manual product that can be more easily used in that setting. And when we net those 2 things out together, we would expect that surgical probably grows net-net consistent with the overall growth of the company.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Okay. And any last minute high-level thoughts just on balance sheet? Obviously, you hit the gas in the share report recently. You want to end -- you've now got the ability to sort of take out the conversant as we work away through our fiscal '18? Maybe what are the tax rates? Any opportunities there? But Bob guided 31%, it's actually a little bit higher than we were in fiscal '18. So any opportunity to bring down even absent reform here in the U.S. and holding their breath on that to bring that down the tax rate over the next couple of years?

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

Yes, certainly. You know either through federal reform efforts or through our own efforts, we did guide the 31%. But there's a bunch of things, puts and take that go into that in an individual year. But certainly over the next several years, we would expect that tax rate to go materially down from that 31% level. And in terms of capital deployment which you also alluded to, we did do some financing month or so ago in preparation for getting rid of the convertible debt that's on our balance sheet. Still 2 tranches of that left I want to say about \$450 million in principal, something like that. Take us more than \$600 million to take it out. But that -- those notes are callable in December and in March. So as we look forward, just 5 months from now, that convertible debt will be off our balance sheet, we'll be super excited about that.

**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Great. Guys, thanks very much for your time. I appreciate it.

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

Thank you.

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