

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

EVENT DATE/TIME: NOVEMBER 29, 2017 / 4:00PM GMT



NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

Good morning, excuse me, everyone. Welcome to the 11:00 session. I'm Bill Quirk, I'm the tools and diagnostics analyst here at Piper Jaffray, and it's my great honor to introduce a couple of members of the management team from Hologic. To my left, your right, is the Chairman, President and CEO, Steve MacMillan. And to Steve's left is the Vice President of Investor Relations and Corporate Communications, Mike Watts.

I'm going to hand the floor over to Steve to say a few introductory comments, then I'm going to roll into Q&A. Steve?

---

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

Great. Thanks, Bill. Thanks for having us. And obviously, we are very excited about our future. I was just joking with Mike, it's going to be 4 years next week since I joined the company. And as many of you know, when we came into the company, our first goal was to break the boom and bust cycle that the company had really in terms of Breast Health, things like that, and become a sustainable growth company.

And we feel very good about the progress we've been making on that front. And yet as we look to future, I think in many ways, we're just getting started because where we sit today is we now have an international business that is starting to thrive. We have a pipeline coming. We paid down the debt, so we can really do tuck-in acquisitions and probably for the first time in my tenure here, start to feel like we've got all the various avenues and arrows in our quiver.

The flip side is, and I totally acknowledge it, the stock continues to occasionally, I think, be overreacting. And what I hope over time and what we aspire to as a management team is where the stock price over time will reflect the underlying fundamentals of the business and less the vagaries of the latest, what I'll call, issue du jour. We've been through a couple years ago after great Breast Health numbers, all about the cliff that was coming in Breast Health. We said at the time, we were going to break that cycle and didn't see a cliff. And 2 years later, I feel very good that we've exactly shown that.

Shortly thereafter, it was the international business as a train wreck. International is going to be derailed for a long time, and that was just really at the beginning of 2016. And for those of you who didn't watch in 2017, we actually just grew our international business at a double-digit rate so -- and what we believe will be the first of many, many years of that international business really starting to kick in and be a big contributor.

Most recently it's been the Cynosure acquisition, and I know Bill has some questions on that. But again, we feel like it's a great business that is going to absolutely be accretive to our growth rate over time as we put the right leadership into that business. It's a great market dynamic. It's a great business. And I think it was an over -- it became an over-obsession with the stock over the last 6 months. So someday, we aspire to -- when the questions and the sentiment reflects our underlying performance and results, over time as opposed to still a little more volatile than, frankly, I realized. And really, we own that, and we are very committed to breaking some of those overreactions, I think.



NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

## QUESTIONS AND ANSWERS

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

Very good. Thanks for the overview, Steve. And certainly, they're a nice remind about the history lesson, kind of how far certain elements of the business have really come under your leadership. You just got back from ASCO. Any burning observations you'd like to share with the group?

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

Sure, or RSNA.

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

RSNA, I'm sorry. RSNA.

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

So you know what, I feel really, really good about RSNA. And I think the fascinating part, back to a quick little history lesson, if you go back 3 years ago at RSNA at this time, this is the Radiological Society of North America, a big digital imaging show and all that stuff. It was at this meeting 3 years ago GE was rolling out the launch of their 3D product. And we were very aggressive in our marketing responses. We've started to create the Genius 3D Mammography system. If you look at both our pricing per gantry and our market share over the last 3 years with GE coming on to the market, with Siemens that came on 3, 4 months later after GE, and most recently, Fuji a year ago, we continue to gain a way disproportionate market share in the 3D space. And just watching the traffic at our booth, watching the gimmicks, frankly, that some of our competitors, who tend to be very good companies but resorting, I think, a little more to marketing gimmicks than underlying product performance, we feel really, really good. And just to put it in perspective, we get more average selling price today per gantry than we did 4 years ago when we were alone on the market. So in a price-competitive environment, where our main competitors (inaudible) competed on price, we have maintained pricing and gained market share significantly. We also, frankly, we're just -- for the first time, we were launching a slew of new products. So we have 2 new gantries, a high-end gantry that takes our imaging to the highest level with our 3Dimensions product. We also have a performance platform, that's been launched really to go after the lower tier and more price-sensitive customers without cannibalizing the pricing of our highest products. And we just launched Brevera, which is revolutionary biopsy system. So at our booth, there was a ton of activity, a lot of flow. We've also got software products and other things. So I feel really good that what we set out to do by breaking the boom and bust cycle, we said part of it was going to be a series of incremental innovations that we would bring as well as ancillary products in biopsy, in the Affirm Prone Biopsy System and everything else so that we could build a stronger, more enduring Breast Health business. And I feel like that's exactly what's playing out and I really enjoyed being at the show, seeing both what we had going on as well as what our competitors'.

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

And Steve, just thinking about the 2 new gantries and your existing penetration or conversion, rather, of 2D into 3D, where can the -- I guess, the combined arsenal of 3D options get your penetration to? And how should we think about that trending over the next couple of years?

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

Sure. I start with 4 years ago, we had about 56% of the United States market, plus or minus a touch. And at the time, I said we felt like we could end up incrementally maybe a little bit higher when the 3D curve played out. When you started from 56% share, and you're going against some really formidable competitors, the prospect of growing at 56% share is pretty daunting. Having said that, I think we're clearly moving into that 60% and plus range. And if you really look in the 3D world, I think, Bill, those numbers are significantly higher than the total market share. So I think we're going to end up meaningfully higher than where we started. And every day that goes by, we have the clinical superiority. As a reminder, GE has yet to prove that their 3D is any better than their 2D. We have the clinical claims that our 3D is superior. We recently, just a few months ago, got



NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

the only dense breast claim, where we have been proven our 3D is superior to anybody else's and superior to 2D on dense breast, which affects almost 50% of women in the target audience. All the state legislations, everything, there's been so much more, awareness around dense breasts. We have the clinicals to prove it. So we just keep innovating and staying a step ahead. And even though they're competing increasingly on pricing and trial leverage, the bundle, we've really been able to get the radiologists to do a lot of carve-outs and say, by far, this is the better technology. So we -- frankly, the way we ultimately think about it is every gantry put in should be a Hologic gantry. If you care about your patients, and our team has adopted a not one woman, not one gantry should go -- they're basically shouldn't be treated by anything other than a Hologic. So I'm not saying that we should be 100%, but we'd get to 100% market share. But we -- and obviously, those numbers don't quite work, but that's where we think we ought to win every case. And we're trying to do it. So I feel pretty good about the product offerings we have, and it just keeps getting better. If anything, we're as differentiated today as we've probably ever been at any point in the history of our company.

---

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

Helpful. You mentioned in your prepared comments that -- your opening comments, rather, I may have a question or 2 on Cynosure. So you're correct. And Steve, obviously, it's been a challenging first couple of quarters with Cynosure under Hologic's overall umbrella. You called the bottom in Cyno on the most recent conference call, suggested that you're starting to see a lift in some of those trends. Are you feeling confident today as you were on that conference call?

---

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

Yes. And increasingly day by day, we'll feel better. It's going to be qualitative at first. Then it moves into quantitative. Yes, I'll remind you. Cynosure was a bet to get into a higher-growth business, medical aesthetics, that we think is going to be one of the great growers over the next decade. Nothing has changed about that. We bought Cynosure because we believe they had the broadest and best-performing product line. All of our diligence suggested they had the best product line. There is nothing that's changed in that. By the way, I would tell you that R&D organization that we acquired there is as engaged, if not more engaged, than ever. They're being highly productive, working on next-generation products. We feel good about the product flow that is coming through there. And there was a huge hiccup in the U.S. sales organization. We have addressed that. We put our new president in. And the scary part is time -- sometimes things always take a little longer. But if you think about it, we put Kevin Thornal, who's the guy that turned around our Breast Health business. We put him in as president really at the beginning of August. So for all intents and purposes, he's only been on the role 3 to 4 months at this stage in time. He put in a new VP of Sales later on in August. That VP of Sales has been assessing the organization and really starting to strengthen it and started with great leaders that we've developed and now building the sales force back up. But this is absolutely stuff we know how to do. It's an isolated situation. We just called it our U.S. sales organization. That's a big deal because there's a lot of revenue that comes out of there. But it's far better than if there was product problems and there was R&D problems. International is performing fine. It's been unaffected by this. So what I feel really good about is as we rebuild the organization, I'm seeing the people that have stayed are the great ones, the people we're bringing in are of incredible caliber. And that will just play out over time to strength quarter-over-quarter going forward. And this last quarter that we just reported, Kevin wasn't even in the role for the full -- he came in mid-quarter. The VP of Sales came in later in the quarter. There's no way they could really impact that. But they're already to impact this quarter but it's really more, you start to look out 12 months from now. And I feel really good. Just as the cliff got put in the rearview mirror, the international that was the -- we've got 80% of our questions -- no, probably 95% of our questions 2 years ago were on international and the Breast Health cliff. And again, we know words are cheap. It resolves the matter. We're just going to keep putting the results on the board, and we'll show that over time here as well. And we had some rocky quarters in international after we -- it got worse before it got better that. The people may forget about that because we knew things were coming. Now it's humming along really well.

---

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

And so Steve, you highlighted that Kevin went in, took hold of the organization, identified clearly that sales turnover was the principal issue. Certainly, some of our diligence has turned up some third party kind of laser resellers. To what extent you're having some kind of additional products -- I don't want to say in the channel per se, but reselling that could potentially create some competitive disruption as well? Was that favorable in any of this? And if it did, how are you feeling about at that level?



NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

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

Probably a little bit. What it really shows is the way the old organization was probably operating was slam stuff in instead of building a strong relationship. And I think there were some customers -- part of what we've discovered is some disengaged customers that felt like they were slammed in a system. It wasn't supported. They felt like they were promised things that weren't necessarily there, and they may have said, you know what, I don't need this and would offer it off that way. So it's -- then somebody can buy one on the secondary market. In the grand scheme, fairly small, but they're out there, and I think you'll see that go down over time because it comes down to price, I'd say. It's at the root of the sales force issues that we've been changing. And it's where I feel great about, and we're hearing from customers. They want the longer-term relationships, which is what we know how to build and drive the business forth in the right way.

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

Questions from the audience? Shifting over to Diagnostics, one of the bright spots in the portfolio currently. We're coming off of a really, really strong 2017, not just internationally, domestically as well. You also have a whole host of new products coming from some of the respiratory assays and some smaller market add-on products to that. And of course, everyone's kind of waiting for the hepatitis B virals to get out to kind of reinforce that overall package. So help us think a little bit, Steve, about the trends in Diagnostics. Can we sustain these high growth rates with these new product launches, and obviously, ongoing market share gains as well?

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

Sure. I think it's been the quiet success of the last couple of years. While people have been focused on breast health, everything else probably has really been our Diagnostics business, and as you see. And I think it's driven off of a couple of things. One is, still fairly late in the existence of Panther. We actually had a record number of Panther placements last year. So it apparently peaked in 2014 and was typically coming back down. We actually placed more Panthers globally last year. And we actually placed more in the U.S. last year than we did in the previous year. So what's happening there is Panther is getting increasingly adopted. As Panther goes in, we start to put the assays on it, and those things build over time. So I think that's given us just great feelings of what's going on there. Then we've added just recently the Panther Fusion, which is going to open up the PCR capability as well as open channel. The early days of the respiratory stuff will be pretty small, and we will miss this season. Even next year, relative to the magnitude of the rest of our businesses, respiratory will be pretty small, but it will be opening up more avenues over time. We do think the HPV will be approved here, cleared at some point in 2018, probably mid-calendar year, something like that in '18. So by the time we're exiting 2018, we will have the full load of virals in the U.S., which effectively doubles the total available market to us relative to right now. So there's some strong entrenched competitors. We're not going to come in and flip that business overnight. But increasingly, as the throughput for Panther and the satisfaction with Panther grows, that should really shape up very good, especially probably '19 and '20. But in the meantime, we still have some nice momentum on our base businesses carrying us out of '17 and into 2018. And again, I think that it's probably the part of the business that gets some of the least attention, but it's just been quietly -- as you pointed out, growing very nicely. It's also the part of the business -- I think at the molecular business, but even our cytology business that we've started really to grow outside the U.S. And that was one of the first major leadership changes we made a couple of years ago was putting a European leader in over our Diagnostics business. And again, the way I look at it is performance over the first 12 months, it was a lot of cleanup, there was a lot of purging in the sales team, rebuilding sales teams. Look over the last 12-plus months, our international molecular business has been posting very nice double-digit growth, and a lot of that is on the heels of what he's been doing, particularly in Europe, but also starting to build in Asia as well.

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

So Steve, staying on Diagnostics, a topic that I don't think really comes up all that regularly for manufacturers, but PAMA really something suspecting a lot of their customers. A 2-part question, I guess. One, coming out of AMP a few weeks ago, there was an expectation that as certain labs come under some budgetary pressure associated with that, there may be less of an appetite to look at new capital deployment or just new instruments in general, looking at things, a little tighter around return on investment. Help us think about: one, are you hearing that for any of your reps, realizing



## NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

it's early days, PAMA doesn't go into effect here for another month or so? And then secondly, how do you kind of tend to operate within that environment given the menu building that you're doing on Panther Fusion?

---

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

Yes. Clearly, and we have incredibly strong relationships with our largest customers and even the smaller ones. And anything that affects them, we want to help them through it. I think what we feel really good about is it's going to make Panther and workflow. Workflow inefficiency is one of the single biggest bugaboos. They've got to continue to focus on efficiency in their organizations. You're looking at both procurement, but you're looking at total cost to operate. And I think in so many ways, we represent a great option on total cost of ownership because of the incredible throughput, very little downtime, the random batch access. Everything that Panther offers is a great option to help our customers. We're also helping to build their businesses. If you look at what we've done quietly, [take] actually transmitted infections, we have been driving better compliance and adoption from the physician community to get the full panel of tests ordered as an example. And so even where we have high market shares, we've been helping to grow the market. I think our key customers realize we're helping to drive additional volume in the areas. We're not just a supplier. We are driving market adoption of our products. And I think that puts us in kind of the top tier of hopefully their customers and working in partnership with them. But again, we all compete. Every product we compete in, we know our customers, whether it's hospitals, anybody, they're all price constrained. And we're trying to make sure we add the value in the ways that we can.

---

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

About a year ago, if my memory serves me correctly, the comment was that Panther utilization was at something around 30%, if I remember that number correctly. Where are we now? And given this series of new assays coming out, (inaudible) more capability to Fusion 2. How should we think about the utilization trending over the coming years?

---

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

It is certainly moving up. Another way to look at it is dollar annual revenue per Panther, which, I think a year ago, we said was 1 77.

---

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

1 90.

---

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

Yes. And it has gone up almost 10% over a year ago. And the good part is we keep placing new Panthers, so they come in at a lower utilization rate. But the existing Panthers just keep moving up. I think it is truly one of the most loved. If you've been -- when you talk to the technologists or the operators in the lab, Panther -- if there's a favorite child, I think in many cases, Panther is the one that they like and they want to be able to put more on. So as we build out the menu, I feel really good that in a consolidating world, fewer boxes, and that's where the add-on of Fusion, which is PCR-based to go along with our TMA-based with a very small incremental footprint to our existing Panther system, I think just keeps building. And the more people that get experience with Panthers, the fascinating part is as even Quest, for example, has bought some of the smaller labs that had Panthers and Quest has been operating on our TIGRIS system. There are more Quest folks who've gotten experience with Panther and I think even saying, hey, wait, this is a really good system. So in a lot of ways, all roads are leading to continue to make Panther even an additional driver at the time when typically there's just like in Breast Health, there's that uptake that you typically see in a new instrument like Panther that it apparently peaked in 2014 started to ramp back down in '15, and then in both '16 and '17, kind of reverse that curve as well in placing more systems.



NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

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

Fantastic. We just have a couple of minutes left here, Steve. I wanted to pivot to a comment that you made on the third quarter call. You previously said...

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

Was it a good comment?

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

It was a good comment, yes. (inaudible) related to that question as we thought it may have. You talked about the number of additional levers for operating efficiencies. Can you expound on that and help us think about how many of those you have to pull in here in 2018?

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

Sure. It's still on the margin. As you see, what we try to do is, I'm not a big fan of deep cuts here or there, but just constantly getting better on so many fronts. And I think particularly as we drop Cynosure into the world, into our world, we see opportunities frankly on both the gross margin front for that business as well as SG&A and the operating -- the OpEx line. And then across the rest of the business, we continue to look for efficiencies in the businesses, running the manufacturing plants better, being smarter about procurement, all these kinds of things. Now the additional gross margin expansion probably won't be as much even though we're now starting to grow the international business faster, which is generally coming at a slightly lower gross margin so I don't think you'll necessarily see those effects play out with the huge increases we had in gross margin over the early years because that will now be more offset. But like everything, as you get in, you just keep finding new things that we can be doing better, managing inventory, all these things.

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

A cultural shift essentially is what you're driving to in the organization. You keep looking at that.

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

Yes, yes. And you just keep knocking things off. A lot of -- a big part of what we're talking about is everybody that comes into the company sees all these opportunities like, okay, folks, just let's focus on 3 or 4 right now, get those knocked off and then the B priorities will move up and become A priorities for next year and then just kind of keep tackling them in sequence as opposed to try to unnecessarily to do everything all at once, kind of like rebuilding the Cynosure business. So a stepwise approach, and you build it -- the foundation, and just as we've been doing for the company, building a strong foundation for the future.

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

Fantastic. Steve, Mike, thank you so much for joining us today.

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

Great. Thanks, Bill. Good to see you.



NOVEMBER 29, 2017 / 4:00PM, HOLX - Hologic Inc at Piper Jaffray Healthcare Conference

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

You too.

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

Thank you.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2017, Thomson Reuters. All Rights Reserved.