

Hologic, Inc.

Few surprises given relative to preliminary results, FY24 guidance raised

Reiterate Rating: NEUTRAL | PO: 80.00 USD | Price: 74.41 USD

Upside F1Q24 despite fewer days, tough diagnostic comps

Hologic's (HOLX) F1Q24 top-line results were in line with its upside pre-announcement ([see our recap for details](#)), with core (i.e., ex-COVID) business growing 5.2% organic constant currency (CC) despite 4 fewer selling days. Adj. EPS for the quarter were \$1.03 vs BofAe \$0.98 (and preliminary guide of "high end" of the range \$0.92-0.97).

Good execution, solid demand drive guidance raise

HOLX raised its FY24 guidance, which was expected given the upside F1Q and comments regarding capital deployment made during an investor conference in early January. On the top-line, HOLX now expects sales of \$3.99-4.07bn (up \$57.5mn at the midpoint; vs BofAe/Street \$4.03/3.99bn). This guide assumes 4.7-6.8% constant currency organic revenue growth ex-COVID, with each of the business segments still growing at least 5-7%, in-line with the company's long-term targets. Notably, in Diagnostics, utilization of Panther continues to increase, and now ~40% of customers are running 4 or more assays (vs ~20% in 2019). In Breast Health, gantry backlog remains elevated, providing visibility into early 2025. COVID-related sales will also contribute an additional +\$20mn (for ~\$165mn in FY24), while the improving F/X environment will now be a tailwind of \$12mn (vs prior \$20mn of headwind). Adj. gross margin (GM) and Adj. operating margin (OpM) are expected to sequentially improve throughout the year, still exiting FY24 in the low 60's and low 30's, respectively. Net interest expense will also improve from the prior guide due to changes in capital deployment plans. During F1Q, HOLX executed a \$500mn accelerated share repurchase (ASR) agreement, repurchased 2.2mn of shares for \$150mn, and paid down \$250mn of debt. This flows down to a new Adj. EPS guide of \$3.97-4.12 (up 4.5c at the midpoint; vs BofAe/Street \$4.12/3.99).

Updating estimates, reiterate Neutral and PO

We update estimates. Overall, we think HOLX has done a good job in refocusing the business and expanding the company's markets and global footprint, but shares seem fairly valued as they trade in-line with the MedTech group median. As such, we reiterate our Neutral rating and \$80 PO.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.02	3.96	4.09	4.45	4.90
GAAP EPS	5.13	1.84	3.69	4.04	4.48
EPS Change (YoY)	-28.4%	-34.2%	3.3%	8.8%	10.1%
Consensus EPS (Bloomberg)			3.99	4.33	4.72
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	12.4x	18.8x	18.2x	16.7x	15.2x
GAAP P/E	14.5x	40.4x	20.2x	18.4x	16.6x
EV / EBITDA*	9.6x	15.0x	14.4x	13.4x	12.6x
Free Cash Flow Yield*	11.8%	5.5%	6.3%	9.5%	10.1%

* For full definitions of *IQmethod*SM measures, see page 4.

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 01 February 2024 10:51PM EST

01 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,030.0	4,010.0
2025E Rev (m)	4,245.0	4,225.0
2026E Rev (m)	4,485.0	4,465.0
2024E EPS	4.12	4.09
2025E EPS	4.50	4.45
2026E EPS	4.95	4.90

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Stock Data

Price	74.41 USD
Price Objective	80.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-2-9
52-Week Range	64.02 USD - 87.88 USD
Mkt Val (mn) / Shares Out (mn)	17,466 USD / 234.7
Free Float	98.7%
Average Daily Value (mn)	120.92 USD
BofA Ticker / Exchange	HOLX / NAS
Bloomberg / Reuters	HOLX US / HOLX.OQ
ROE (2024E)	17.5%
Net Dbt to Eqty (Sep-2023A)	1.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price

iQprofileSM Hologic, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	19.7%	11.8%	11.0%	10.4%	9.9%
Return on Equity	33.6%	19.9%	17.5%	15.4%	14.0%
Operating Margin	41.1%	30.0%	30.0%	30.7%	31.2%
Free Cash Flow	2,055	959	1,100	1,664	1,764

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.1x	1.2x	1.7x	1.6x
Asset Replacement Ratio	0.2x	0.3x	0.2x	0.2x	0.2x
Tax Rate	21.0%	19.8%	19.7%	19.7%	19.7%
Net Debt-to-Equity Ratio	9.9%	1.9%	-9.2%	-23.8%	-34.9%
Interest Cover	24.0x	10.9x	12.3x	13.9x	17.9x

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,863	4,030	4,010	4,225	4,465
% Change	-13.7%	-17.1%	-0.5%	5.4%	5.7%
Gross Profit	3,311	2,481	2,449	2,591	2,750
% Change	-18.9%	-25.0%	-1.3%	5.8%	6.1%
EBITDA	2,104	1,342	1,401	1,502	1,594
% Change	-28.8%	-36.2%	4.4%	7.2%	6.1%
Net Interest & Other Income	(65)	19	18	11	16
Net Income (Adjusted)	1,528	983	979	1,049	1,131
% Change	-30.1%	-35.6%	-0.4%	7.2%	7.8%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,302	457	884	953	1,035
Depreciation & Amortization	430	323	417	439	464
Change in Working Capital	(180)	(646)	(500)	(14)	(21)
Deferred Taxation Charge	(166)	(109)	61	61	61
Other Adjustments, Net	739	1,026	319	309	314
Capital Expenditure	(71)	(92)	(80)	(85)	(89)
Free Cash Flow	2,055	959	1,100	1,664	1,764
% Change	-8.0%	-53.3%	14.7%	51.2%	6.0%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(533)	(15)	(15)	(15)	(15)

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,340	2,723	3,373	4,554	5,834
Trade Receivables	618	626	879	926	979
Other Current Assets	905	836	739	763	791
Property, Plant & Equipment	482	517	501	484	466
Other Non-Current Assets	4,728	4,438	4,438	4,438	4,438
Total Assets	9,071	9,139	9,930	11,165	12,508
Short-Term Debt	15	287	287	287	287
Other Current Liabilities	923	920	549	565	583
Long-Term Debt	2,808	2,531	2,516	2,501	2,486
Other Non-Current Liabilities	449	384	384	384	384
Total Liabilities	4,195	4,122	3,737	3,738	3,740
Total Equity	4,876	5,017	6,193	7,427	8,767
Total Equity & Liabilities	9,071	9,139	9,930	11,165	12,508

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Medical Technology

Company Description

Hologic is a leading manufacturer of medical device products focused on the healthcare needs of women. The company's portfolio includes products for mammography, breast biopsy, early stage breast cancer treatment, diagnostics, menorrhagia treatment, the removal of uterine fibroids, and medical aesthetics products.

Investment Rationale

HOLX's core mammography and diagnostic businesses have been delivering solid performance, and we believe that the company is now on a steadier footing with significantly expanded molecular diagnostics (MDx) installed base due to COVID-19 testing demand. That said, with the looming specter of a recession and lower CapEx spending, F/X headwinds, supply chain constraints, limited opportunities for further margin expansion, and peer multiple compression, upside seems limited.

Stock Data

Average Daily Volume 1,633,961

Quarterly Earnings Estimates

	2023	2024
Q1	1.07A	0.98A
Q2	1.06A	1.02E
Q3	0.93A	1.02E
Q4	0.89A	1.07E

Price objective basis & risk

Hologic, Inc. (HOLX)

Our PO of \$80 is based on 18x our calendar 2024 EPS estimate, which is in-line with the company's blended life sciences and diagnostic tools and medical technology peer group average. We believe this multiple is justified given Hologic's improved competitive position exiting the COVID-19 pandemic.

Upside risks to our PO are: Stronger than expected product demand, faster than expected resolution of supply chain issues, stronger than expected COVID-19 diagnostic tailwinds beyond FY22, tailwinds from capital deployment, and the acquisition of the company.

Downside risks to our PO are: Competitive pressures, lingering supply chain issues, slower uptake and reimbursement of new products, market challenges related to the COVID-19 pandemic, unfavorable changes to clinical practice guidelines, regulatory risks, deal integration risks, and limited core margin expansion.

Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Align Technology	ALGN	ALGN US	Michael Ryskin
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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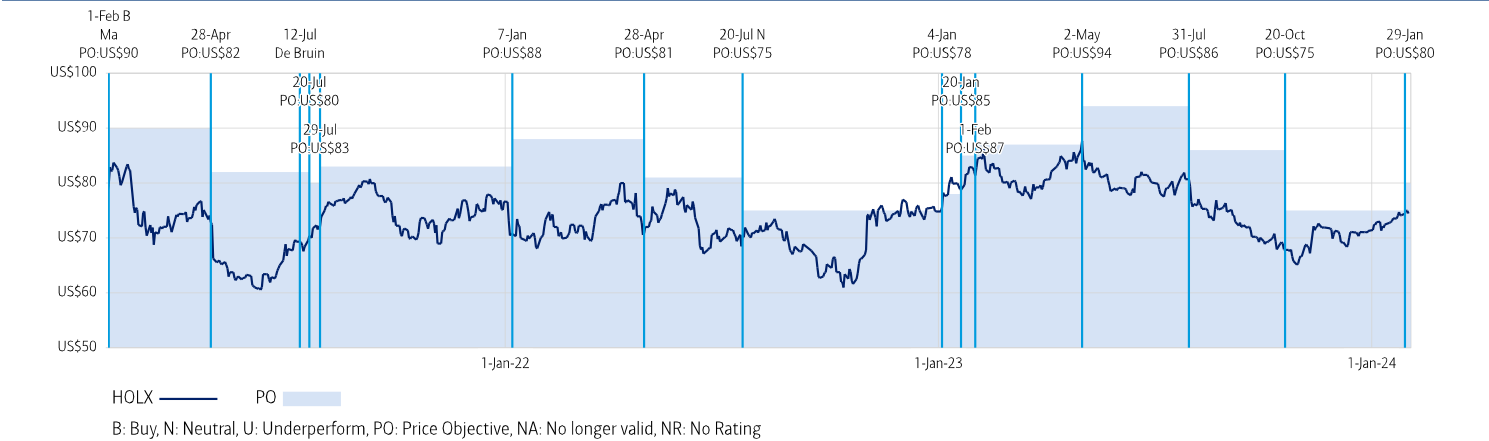
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Hologic (HOLX) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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