

Hologic - Investor Relations

Hologic Announces Financial Results for Third Quarter of Fiscal 2017

-- Company Posts Revenue of \$806.1 Million, GAAP Diluted EPS of \$0.21, and Non-GAAP Diluted EPS of \$0.50 --

-- Organic Revenue Growth Led by Molecular Diagnostics and International Businesses --

MARLBOROUGH, Mass., Aug. 2, 2017 /PRNewswire/ -- Hologic, Inc. (Nasdaq: HOLX) announced today the Company's financial results for the fiscal third quarter ended July 1, 2017. GAAP diluted earnings per share (EPS) of \$0.21 decreased (30.0%) compared to the prior year period, while non-GAAP diluted EPS of \$0.50 decreased (2.0%). Revenue of \$806.1 million increased 12.4%, or 13.1% in constant currency terms.

"Hologic posted solid results in the third quarter, with revenues exceeding our guidance," said Steve MacMillan, Hologic's Chairman, President and Chief Executive Officer. "Our molecular diagnostics and international businesses are clearly emerging as new growth drivers, and both grew organically at a low-double-digit rate in constant currency. In addition, Cynosure revenue finished in line with our guidance, driven by strong international performance."

Key financial results for the fiscal third quarter are shown in the table below. Results were affected by the divestiture of the blood screening business and the acquisition of Cynosure, both of which closed in the second quarter. Excluding these businesses, base business revenue increased 2.4%, or 3.1% in constant currency terms, while non-GAAP diluted EPS increased 11.9%.

	GAAP			Non-GAAP		
	Q3'17	Q3'16	Change Increase (Decrease)	Q3'17	Q3'16	Change Increase (Decrease)
Revenues	\$806.1	\$717.4	12.4%	\$806.1	\$717.4	12.4%
Gross Margin	50.8%	54.8%	(400 bps)	63.1%	65.7%	(260 bps)
Operating Expenses	\$294.6	\$253.7	16.1%	\$274.9	\$229.2	19.9%
Operating Margin	14.3%	19.4%	(510 bps)	29.0%	33.8%	(480 bps)
Net Margin	7.4%	11.8%	(440 bps)	18.0%	20.2%	(220 bps)
Diluted EPS	\$0.21	\$0.30	(30.0%)	\$0.50	\$0.51	(2.0%)
<i>Base Business EPS</i>	<i>\$0.30</i>	<i>\$0.25</i>	<i>20.0%</i>	<i>\$0.47</i>	<i>\$0.42</i>	<i>11.9%</i>

Throughout this press release, all dollar figures are in millions, except EPS. Some totals may not foot due to rounding. Unless otherwise noted, all results are compared to the corresponding prior year period. Non-GAAP results exclude a number of cash and non-cash items as discussed under "Use of Non-GAAP Financial Measures."

Revenue Detail

On a global basis, organic revenue growth in the third quarter was led by molecular diagnostics, interventional breast solutions and the GYN Surgical division.

\$s in millions	Q3'17	Q3'16	Reported Change	Constant Currency Change
<i>Cytology & Perinatal</i>	\$121.0	\$122.2	(1.0%)	0.2%
<i>Molecular Diagnostics</i>	\$144.1	\$131.8	9.3%	10.3%
<i>Blood Screening</i>	\$19.0	\$55.9	(66.0%)	(66.0%)
Total Diagnostics	\$284.1	\$309.9	(8.3%)	(7.4%)

<i>Breast Imaging</i>	\$236.5	\$239.3	(1.2%)	(0.7%)
<i>Interventional Breast Solutions</i>	\$45.0	\$41.3	9.0%	9.4%
<i>Other</i>	\$2.2	\$2.0	12.7%	15.8%
Total Breast Health	\$283.7	\$282.5	0.4%	0.9%
<i>Body</i>	\$36.7	-	-	-
<i>Skin</i>	\$45.4	-	-	-
<i>Women's Health/Other</i>	\$28.0	-	-	-
Total Medical Aesthetics	\$110.0	-	-	-
GYN Surgical	\$106.5	\$102.0	4.4%	5.2%
Skeletal Health	\$21.8	\$23.0	(5.3%)	(5.0%)
Total	\$806.1	\$717.4	12.4%	13.1%

Other quarterly revenue highlights:

- U.S. revenue of \$618.5 million increased 9.5%, and international revenue of \$187.6 million increased 23.0%, or 26.5% in constant currency. Growth benefited from a full quarter of Medical Aesthetics revenue and strong molecular sales globally. Internationally, growth also was driven by increased sales of Breast Health and GYN Surgical products.
- Excluding blood screening and Medical Aesthetics, U.S. revenue increased 1.3%, while international revenues increased 6.8%, or 10.5% in constant currency.
- GYN Surgical revenue of \$106.5 million increased 4.4%, or 5.2% in constant currency. MyoSure® system revenue of \$49.0 million increased 20.1%, or 20.8% in constant currency, while NovaSure® revenue of \$57.5 million decreased (5.8%), or (5.0%) in constant currency.
- Breast Health revenue totaled \$283.7 million, an increase of 0.4%, or 0.9% in constant currency. Revenue in the United States decreased (1.7%), as lower sales of Genius™ 3D Mammography™ systems were partially offset by increases in service and new product revenue. International revenue increased 10.6%, or 13.0% in constant currency, due primarily to increases in sales of mammography systems, service and new products.
- In Diagnostics:
 - Molecular diagnostics sales of \$144.1 million increased 9.3%, or 10.3% in constant currency, driven primarily by continued strength across Aptima® women's health products on the fully automated Panther® and Tigris® platforms, both in the United States and internationally.
 - Cytology and perinatal sales of \$121.0 million decreased (1.0%), but increased 0.2% in constant currency.
- In Skeletal Health, revenue of \$21.8 million decreased (5.3%), or (5.0%) in constant currency.

Segment revenue highlights by geography are shown below:

	U.S. Change	International	International Change
		Change (Reported)	(Constant Currency)
<i>Increase (Decrease)</i>			
Diagnostics	(2.2%)	(25.5%)	(22.1%)
<i>Diagnostics ex. Blood</i>	3.5%	7.4%	12.3%
Breast Health	(1.7%)	10.6%	13.0%
Medical Aesthetics	-	-	-
GYN Surgical	4.4%	4.6%	9.8%
Skeletal Health	0.8%	(16.8%)	(16.1%)
Total Revenues	9.5%	23.0%	26.5%
<i>Total Revenues ex. Blood and Medical Aesthetics</i>	1.3%	6.8%	10.5%

Expense Detail

Gross margin was 50.8% on a GAAP basis, and 63.1% on a non-GAAP basis. GAAP gross margin declined by 400 basis points, while non-GAAP gross margin declined 260 basis points. These declines were due primarily to product sales mix, mainly the divestiture of the higher-margin blood screening business and a full quarter of sales of lower-margin Cynosure products. These factors were partially offset by strong pricing trends in Breast Health and increased sales of Aptima® women's health assays.

Operating expenses were \$294.6 million on a GAAP basis, and \$274.9 million on a non-GAAP basis. GAAP operating expenses increased 16.1%, while non-GAAP operating expenses increased 19.9% primarily due to the inclusion of Cynosure expenses for the full quarter.

Hologic's quarterly effective tax rate was 20.1% on a GAAP basis, and 29.5% on a non-GAAP basis.

Other Key Financial Results

GAAP net income for the third quarter was \$59.5 million, a decrease of (29.8%). Adjusted non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA) for the third quarter was \$260.7 million, a decrease of (0.7%).

Operating cash flow for the third quarter was (\$411.7) million. Free cash flow, defined as operating cash flow less capital expenditures, was (\$435.9) million. Operating and free cash flows declined primarily as a result of \$616.0 million in federal and state tax payments related to the gain on the divestiture of the blood screening business. Excluding these tax payments, free cash flow for the quarter would have been \$180.1 million.

Total debt outstanding at the end of the quarter was \$3.2 billion, a decrease of (\$0.2) billion compared to the prior year period. During the quarter, Hologic repurchased \$100 million principal of each of its 2012 and 2013 convertible notes for a total of \$269.1 million.

The Company ended the quarter with cash and equivalents of \$0.6 billion, and a leverage ratio (net debt over adjusted EBITDA) of 2.6 times.

Strong profit growth and lower debt have continued to improve Hologic's adjusted return on invested capital (ROIC). On a trailing 12 months basis, adjusted ROIC of 12.6% improved 30 basis points compared to the prior year period.

Financial Guidance for Fiscal 2017

Hologic's financial guidance for fiscal 2017 is shown in the two tables immediately below. As a reminder, the Company's current guidance includes partial-year contributions from both the divested blood screening business and the acquired Cynosure business. This guidance is based on a full year non-GAAP tax rate of approximately 30.5%, and diluted shares outstanding of about 288 million for the full year. Constant currency guidance assumes that foreign exchange rates are the same in fiscal 2017 as in fiscal 2016. Current guidance assumes that recent foreign exchange rates persist for all of fiscal 2017.

	GAAP			
	Revenue		EPS	
	Reported % Increase (Decrease)	Guidance \$	Reported % Increase (Decrease)	Guidance \$
Current Guidance for Fiscal 2017	7.3% to 7.8%	\$3,040 to \$3,055 million	119.8% to 121.6%	\$2.55 to \$2.57

Previous Guidance for Fiscal 2017	7.7% to 8.7%	\$3,050 to \$3,080 million	110.3% to 113.8%	\$2.44 to \$2.48
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	Non-GAAP					
	Revenue			EPS		
	Constant Currency % Increase (Decrease)	Reported % Increase (Decrease)	Guidance \$	Constant Currency % Increase (Decrease)	Reported % Increase (Decrease)	Guidance \$
Current Guidance for Fiscal 2017	7.9% to 8.4%	7.3% to 7.8%	\$3,040 to \$3,055 million	3.0% to 4.1%	2.0% to 3.1%	\$2.00 to \$2.02
Previous Guidance for Fiscal 2017	8.4% to 9.5%	7.7% to 8.7%	\$3,050 to \$3,080 million	2.3% to 4.4%	1.0% to 3.1%	\$1.98 to \$2.02

Hologic's financial guidance for the fourth quarter of fiscal 2017 is shown in the two tables immediately below. As a reminder, the Company's current guidance includes a reduced contribution from the blood screening business associated with raw material and instrument supply, versus a full-quarter contribution in the prior year period. In contrast, the current guidance includes a full-quarter contribution from Cynosure, versus none in the prior year period.

	GAAP			
	Revenue		EPS	
	Reported % Increase (Decrease)	Guidance \$	Reported % Increase (Decrease)	Guidance \$
Current Guidance for the Fourth Quarter of Fiscal 2017	8.0% to 10.1%	\$785 to \$800 million	(36.4%) to (30.3%)	\$0.21 to \$0.23

	Non-GAAP					
	Revenue			EPS		
	Constant Currency % Increase (Decrease)	Reported % Increase (Decrease)	Guidance \$	Constant Currency % Increase (Decrease)	Reported % Increase (Decrease)	Guidance \$
Current Guidance for the Fourth Quarter of Fiscal 2017	8.3% to 10.3%	8.0% to 10.1%	\$785 to \$800 million	(7.2%) to (3.4%)	(7.7%) to (3.8%)	\$0.48 to \$0.50

To assist with "apples to apples" analyses of Hologic's ongoing, base business, the historical contributions of blood screening to Hologic's quarterly revenues and EPS are shown below:

	GAAP							
	2016					2017		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Revenue	\$60.7	\$62.2	\$55.9	\$56.6	\$235.4	\$65.2	\$38.3	\$19.0
EPS	\$0.06	\$0.06	\$0.05	\$0.05	\$0.22	\$0.06	\$1.62	\$0.01

	Non-GAAP							
	2016					2017		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Revenue	\$60.7	\$62.2	\$55.9	\$56.6	\$235.4	\$65.2	\$38.3	\$19.0
EPS	\$0.10	\$0.10	\$0.09	\$0.09	\$0.37	\$0.10	\$0.04	\$0.01

Use of Non-GAAP Financial Measures

The Company has presented the following non-GAAP financial measures in this press release: constant currency revenues; non-GAAP gross profit; non-GAAP gross margin; non-GAAP operating expenses; non-GAAP income from operations; non-GAAP operating margin; non-GAAP interest expense; non-GAAP pre-tax income; non-GAAP net margin; non-GAAP net income; non-GAAP diluted EPS; adjusted EBITDA and return on invested capital. Constant currency presentations show reported period operating results as if the foreign exchange rates remain the same as those in effect in the comparable prior year period. The Company defines its non-GAAP net income, EPS, and other non-GAAP financial measures to exclude, as applicable: (i) the amortization of intangible assets; (ii) additional depreciation expense from acquired fixed assets and accelerated depreciation related to business consolidation and closure of facilities; (iii) additional expense resulting from the purchase accounting adjustment to record inventory at fair value; (iv) non-cash interest expense related to amortization of the debt discount from the equity conversion option of the convertible notes; (v) restructuring and divestiture charges, facility closure and consolidation charges and costs incurred to integrate acquisitions (including retention, transaction bonuses, legal and professional consulting services) and separate divested businesses from existing operations; (vi) transaction related expenses for divestitures and acquisitions; (vii) gain on disposal of business; (viii) debt extinguishment losses and related transaction costs; (ix) the unrealized (gains) losses on the mark-to-market of forward foreign currency contracts for which the Company has not elected hedge accounting; (x) litigation settlement charges (benefits) and non-income tax related charges (benefits); (xi) other-than-temporary impairment losses on investments and realized (gains) losses resulting from the sale of investments; (xii) interest expense accrued related to amounts owed to Cynosure shareholders who did not tender shares; (xiii) other one-time, non-recurring, unusual or infrequent charges, expenses or gains that may not be indicative of the Company's core business results as detailed in our reconciliations of such adjustments; and (xiv) income taxes related to such adjustments. The Company defines adjusted EBITDA as its non-GAAP net income plus net interest expense, income taxes, and depreciation and amortization expense included in its non-GAAP net income.

These non-GAAP financial measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP. The company's definition of these non-GAAP measures may differ from similarly titled measures used by others.

The non-GAAP financial measures used in this press release adjust for specified items that can be highly variable or difficult to predict. The company generally uses these non-GAAP financial measures to facilitate management's financial and operational decision-making, including evaluation of Hologic's historical operating results, comparison to competitors' operating results and determination of management incentive compensation. These non-GAAP financial measures reflect an additional way of viewing aspects of the company's operations that, when viewed with GAAP results and the reconciliations to corresponding GAAP financial measures, may provide a more complete understanding of factors and trends affecting Hologic's business.

Because non-GAAP financial measures exclude the effect of items that increase or decrease the company's reported results of operations, management strongly encourages investors to review the company's consolidated financial statements and publicly filed reports in their entirety. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP financial measures is included in the tables accompanying this release.

Future Non-GAAP Adjustments

Future GAAP EPS may be affected by changes in ongoing assumptions and judgments, and may also be affected by non-recurring, unusual or unanticipated charges, expenses or gains, which are excluded in the calculation of the Company's non-GAAP EPS guidance as described in this press release.

Conference Call and Webcast

Hologic's management will host a conference call at 4:30 p.m. ET today to discuss its financial results for the third quarter of fiscal 2017. Approximately 10 minutes before the call, dial 877-780-3379 (U.S. and Canada) or 719-325-2435 (international) and enter access code 9898213. A replay will be available starting two hours after the call ends through August 25, 2017 at 888-203-1112 (U.S. and Canada) or 719-457-0820 (international), access code 9898213, Pin 9876. The Company will also provide a live webcast of the call at <http://investors.hologic.com>.

About Hologic, Inc.

Hologic, Inc. is an innovative medical technology company primarily focused on improving women's health and well-being through early detection and treatment. For more information on Hologic, visit www.hologic.com.

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Forward-Looking Statements

This news release contains forward-looking information that involves risks and uncertainties, including statements about the Company's plans, objectives, expectations and intentions. Such statements include, without limitation: financial or other information included herein based upon or otherwise incorporating judgments or estimates relating to future performance, events or expectations; the Company's strategies, positioning, resources, capabilities, and expectations for future performance; and the Company's outlook and financial and other guidance. These forward-looking statements are based upon assumptions made by the Company as of the date hereof and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated.

Risks and uncertainties that could adversely affect the Company's business and prospects, and otherwise cause actual results to differ materially from those anticipated, include without limitation: the ability of the Company to successfully manage leadership and organizational changes, including the ability of the Company to attract, motivate and retain key employees; U.S., European and general worldwide economic conditions and related uncertainties; the Company's reliance on third-party reimbursement policies to support the sales and market acceptance of its products, including the possible adverse impact of government regulation and changes in the availability and amount of reimbursement and uncertainties for new products or product enhancements; uncertainties regarding healthcare reform legislation, including associated tax provisions, or budget reduction or other cost containment efforts; changes in guidelines, recommendations and studies published by various organizations that could affect the use of the Company's products; uncertainties inherent in the development of new products and the enhancement of existing products, including FDA approval and/or clearance and other regulatory risks, technical risks, cost overruns and delays; the risk that products may contain undetected errors or defects or otherwise not perform as anticipated; risks associated with strategic alliances and the ability of the Company to realize anticipated benefits of

those alliances; risks associated with acquisitions, including, without limitation, the Company's ability to successfully integrate acquired businesses, the risks that the acquired businesses may not operate as effectively and efficiently as expected even if otherwise successfully integrated, and the risks that acquisitions may involve unexpected costs or unexpected liabilities; the risks of conducting business internationally; the risk of adverse exchange rate fluctuations on the Company's international activities and businesses; manufacturing risks, including the Company's reliance on a single or limited source of supply for key components, the need to comply with especially high standards for the manufacture of many of its products and risks associated with utilizing third party manufacturers; the Company's ability to predict accurately the demand for its products, and products under development, and to develop strategies to address its markets successfully; the early stage of market development for certain of the Company's products; the Company's leverage risks, including the Company's obligation to meet payment obligations and financial covenants associated with its debt; risks related to the use and protection of intellectual property; expenses, uncertainties and potential liabilities relating to litigation, including, without limitation, commercial, intellectual property, employment and product liability litigation; technical innovations that could render products marketed or under development by the Company obsolete; and competition.

The risks included above are not exhaustive. Other factors that could adversely affect the Company's business and prospects are described in the filings made by the Company with the SEC. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any such statements presented herein to reflect any change in expectations or any change in events, conditions or circumstances on which any such statements are based.

Contact

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HOLOGIC, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF
 INCOME
 (Unaudited)

(In millions, except number of shares, which are reflected in
 thousands, and per share data)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>July 1, 2017</u>	<u>June 25, 2016</u>	<u>July 1, 2017</u>	<u>June 25, 2016</u>
Revenues:				
Product	\$ 674.1	\$ 601.3	\$ 1,882.3	\$ 1,771.5
Service and other	132.0	116.1	373.6	334.3
Total revenues	<u>806.1</u>	<u>717.4</u>	<u>2,255.9</u>	<u>2,105.8</u>
Cost of revenues:				
Product	249.3	191.1	648.1	561.2
Amortization of intangible assets	79.1	77.9	217.9	222.2
Service and other	68.1			

Services and other	55.3	186.8	165.2
Gross profit	409.6	393.1	1,203.1
Operating expenses:			
Research and development	62.5	58.8	172.3
Selling and marketing	145.4	109.0	358.8
General and administrative	65.5	62.5	252.7
Amortization of intangible assets	15.2	21.9	47.3
Gain on sale of business	—	—	(899.7)
Restructuring and divestiture charges	6.0	1.5	10.8
Total operating expenses	294.6	253.7	(57.8)
Income from operations	115.0	139.4	1,260.9
Interest income	1.1	0.2	3.3
Interest expense	(39.1)	(39.1)	(117.1)
Debt extinguishment loss	(2.6)	—	(2.6)
Other income (expense), net	0.1	0.6	13.7
Income before income taxes	74.5	101.1	1,158.2
Provision for income taxes	15.0	16.3	485.4
Net income	\$ 59.5	\$ 84.8	\$ 672.8
Net income per common share:			
Basic	\$ 0.21	\$ 0.31	\$ 2.40
Diluted	\$ 0.21	\$ 0.30	\$ 2.35
Weighted average number of shares outstanding:			
Basic	280,824	277,853	279,901
Diluted	287,638	282,302	285,957

HOLOGIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions)

	<u>July 1, 2017</u>	<u>September 24, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 588.4	\$ 548.4
Accounts receivable, net	520.3	447.0
Inventories	357.0	274.7
Other current assets	70.3	56.5
Total current assets	1,536.0	1,326.6
Property, plant and equipment, net	485.5	460.2
Goodwill and intangible assets	6,000.8	5,446.5
Other assets	—	—

	95.7	83.7
Total assets	<u>\$ 8,118.0</u>	<u>\$ 7,317.0</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,013.3	\$ 296.0
Accounts payable and accrued liabilities	617.3	444.5
Deferred revenue	182.2	161.4
Total current liabilities	<u>1,812.8</u>	<u>901.9</u>
Long-term debt, net of current portion	2,207.6	3,049.4
Deferred income taxes	1,032.0	982.6
Other long-term liabilities	200.0	240.4
Total stockholders' equity	<u>2,865.6</u>	<u>2,142.7</u>
Total liabilities and stockholders' equity	<u>\$ 8,118.0</u>	<u>\$ 7,317.0</u>

HOLOGIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH
FLOWS
(Unaudited)
(in millions)

	Nine Months Ended	
	<u>July 1, 2017</u>	<u>June 25, 2016</u>
OPERATING ACTIVITIES		(a)
Net income	\$ 672.8	\$ 238.7
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	63.5	61.3
Amortization	265.2	289.5
Non-cash interest expense	38.9	38.8
Stock-based compensation expense	53.4	45.1
Deferred income taxes	(304.6)	(104.2)
Net gains on sale of marketable securities	(3.6)	(25.1)
Fair value write-up of inventory sold	22.3	—
Debt extinguishment loss	2.6	4.5
Gain on disposal of business	(899.7)	—
Other adjustments and non-cash items	1.8	1.2
Changes in operating assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(29.7)	(10.8)
Inventories	(20.2)	2.1
Prepaid income taxes	(4.5)	1.9
Prepaid expenses and other assets	(4.4)	(16.2)
Accounts payable	(28.3)	14.4
Accrued expenses and other liabilities	15.4	34.7
Deferred revenue	0.8	(6.2)
Net cash (used in) provided by operating activities	<u>(158.3)</u>	<u>569.7</u>
INVESTING ACTIVITIES		
Acquisition of businesses, net of cash acquired	(1,478.9)	—

Net proceeds from sale of business	1,865.0	—
Purchase of property and equipment	(35.8)	(27.0)
Increase in equipment under customer usage agreements	(38.2)	(35.8)
Proceeds from sale of available-for-sale marketable securities	87.1	31.1
Purchases of insurance contracts	—	(5.2)
Sales of mutual funds	—	5.2
Purchase of intellectual property	—	(4.0)
Increase in other assets	(5.6)	(0.4)
Net cash provided by (used in) investing activities	<u>393.6</u>	<u>(36.1)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	(56.3)	(56.2)
Repayment of amounts borrowed under accounts receivable securitization program	(48.0)	—
Proceeds from accounts receivable securitization agreement	48.0	200.0
Payments to extinguish convertible notes	(290.1)	(311.5)
Proceeds from amounts borrowed under revolving credit line	125.0	50.0
Repayment of amounts borrowed under revolving credit line	—	(225.0)
Repurchase of common stock	—	(250.0)
Net proceeds from issuance of common stock pursuant to employee stock plans	42.5	27.4
Payment under capital lease obligations	(0.4)	—
Payment of minimum tax withholdings on net share settlements of equity awards	(19.3)	(16.1)
Net cash used in financing activities	<u>(198.6)</u>	<u>(581.4)</u>
Effect of exchange rate changes on cash and cash equivalents	3.3	(2.0)
Net increase (decrease) in cash and cash equivalents	<u>40.0</u>	<u>(49.8)</u>
Cash and cash equivalents, beginning of period	548.4	491.3
Cash and cash equivalents, end of period	<u>\$ 588.4</u>	<u>\$ 441.5</u>

(a) The statement of cash flows from the 2016 period has been recasted to reflect the adoption of ASU 2016-09 as the Company has retrospectively adopted the presentation requirement of the excess tax benefit related to equity awards. As a result, cash provided by operating activities increased \$9.2 million with a corresponding increase in cash used in financing activities.

HOLOGIC, INC.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS
(Unaudited)
(In millions, except earnings per share and margin percentages)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>July 1, 2017</u>	<u>June 25, 2016</u>	<u>July 1, 2017</u>	<u>June 25, 2016</u>
Gross Profit:				
GAAP gross profit	\$ 409.6	\$ 393.1	\$ 1,203.1	\$ 1,157.2
Adjustments:				
Amortization of intangible assets (1)	79.1	77.9	217.9	222.2
Incremental depreciation expense (2)			0.8	

Incremental depreciation expense (2)	0.2	0.5	0.8	1.5
Integration/consolidation costs (3)	0.2	—	0.8	—
Fair value write-up of acquired inventory (11)	19.9	—	22.3	—
Non-GAAP gross profit	<u>\$ 509.0</u>	<u>\$ 471.5</u>	<u>\$ 1,444.9</u>	<u>\$ 1,380.9</u>
Gross Margin Percentage:				
GAAP gross margin percentage	50.8 %	54.8 %	53.3 %	55.0 %
Impact of adjustments above	12.3 %	10.9 %	10.7 %	10.6 %
Non-GAAP gross margin percentage	<u>63.1 %</u>	<u>65.7 %</u>	<u>64.0 %</u>	<u>65.6 %</u>
Operating Expenses:				
GAAP operating expenses	\$ 294.6	\$ 253.7	\$ (57.8)	\$ 755.6
Adjustments:				
Amortization of intangible assets (1)	(15.2)	(21.9)	(47.3)	(67.3)
Incremental depreciation expense (2)	(0.8)	(0.9)	(1.7)	(2.6)
Transaction expenses (4)	(0.7)	—	(22.7)	—
Non-income tax benefit (charge) (12)	12.4	—	(16.4)	—
Integration/consolidation costs (3)	(9.4)	(0.2)	(14.0)	(0.7)
Restructuring and divestiture charges (3)	(6.0)	(1.5)	(10.8)	(7.5)
Gain on sale of business (10)	—	—	899.7	—
Other (5)	—	—	—	(6.0)
Non-GAAP operating expenses	<u>\$ 274.9</u>	<u>\$ 229.2</u>	<u>\$ 729.0</u>	<u>\$ 671.5</u>
Operating Margin:				
GAAP income from operations	115.0	139.4	1,260.9	401.6
Adjustments to gross profit as detailed above	99.4	78.4	241.8	223.7
Adjustments to operating expenses as detailed above	19.7	24.5	(786.8)	84.1
Non-GAAP income from operations	<u>\$ 234.1</u>	<u>\$ 242.3</u>	<u>\$ 715.9</u>	<u>\$ 709.4</u>
Operating Margin Percentage:				
GAAP income from operations margin percentage	14.3 %	19.4 %	55.9 %	19.1 %
Impact of adjustments above	14.7 %	14.4 %	(24.2) %	14.6 %
Non-GAAP operating margin percentage	<u>29.0 %</u>	<u>33.8 %</u>	<u>31.7 %</u>	<u>33.7 %</u>
Interest Expense:				
GAAP interest expense	\$ 39.1	\$ 39.1	117.1	117.4
Adjustments:				
Non-cash interest expense relating to convertible notes (6)	(4.4)	(5.2)	(14.4)	(17.3)
Interest expense relating to Cynosure dissenting shareholders (15)	(1.5)	—	(1.5)	—
Non-GAAP interest expense	<u>\$ 33.2</u>	<u>\$ 33.9</u>	<u>\$ 101.2</u>	<u>\$ 100.1</u>
Pre-Tax Income:				
GAAP pre-tax earnings	\$ 74.5	\$ 101.1	1,158.2	307.8
Adjustments to pre-tax earnings as detailed above	125.0	108.1	(529.1)	325.1
Debt extinguishment loss (7)	2.6	—	2.6	4.5
Gain on sale of available-for-sale marketable securities (8)	—	—	(3.7)	(25.1)

Unrealized losses (gains) on forward foreign currency contracts (9)	3.5	(0.2)	(1.1)	(0.6)
Non-GAAP pre-tax Income	<u>\$ 205.6</u>	<u>\$ 209.0</u>	<u>626.9</u>	<u>611.7</u>
Net income:				
GAAP net income	\$ 59.5	\$ 84.8	\$ 672.8	\$ 238.7
Adjustments:				
Amortization of intangible assets (1)	94.3	99.8	265.2	289.5
Fair value write-up of acquired inventory (11)	19.9	—	22.3	—
Non-cash interest expense relating to convertible notes (6)	4.4	5.2	14.4	17.3
Interest expense relating to Cynosure dissenting shareholders (15)	1.5	—	1.5	—
Restructuring, divestiture and integration/consolidation costs (3)	15.6	1.7	25.6	8.2
Non-income tax (benefit) charge (12)	(12.4)	—	16.4	—
Transaction expenses (4)	0.7	—	22.7	—
Incremental depreciation expenses (2)	1.0	1.4	2.5	4.1
Debt extinguishment loss (7)	2.6	—	2.6	4.5
Gain on sale of available-for-sale marketable securities (8)	—	—	(3.7)	(25.1)
Unrealized losses (gains) on forward foreign currency contracts (9)	3.5	(0.2)	(1.1)	(0.6)
Gain on sale of business (10)	—	—	(899.7)	—
Other charges (5)	—	—	—	6.0
Income tax effect of reconciling items (13)	(45.7)	(47.6)	294.2	(126.6)
Non-GAAP net income	<u>\$ 144.9</u>	<u>\$ 145.1</u>	<u>\$ 435.7</u>	<u>\$ 416.0</u>
Net Income Percentage:				
GAAP net income percentage	7.4 %	11.8 %	29.8 %	11.3 %
Impact of adjustments above	10.6 %	8.4 %	(10.5) %	8.4 %
Non-GAAP net income percentage	<u>18.0 %</u>	<u>20.2 %</u>	<u>19.3 %</u>	<u>19.7 %</u>
Earnings per share:				
GAAP earnings per share - Diluted	\$ 0.21	\$ 0.30	\$ 2.35	\$ 0.83
Adjustment to net earnings (as detailed above)	0.29	0.21	(0.83)	0.62
Non-GAAP earnings per share – diluted (14)	<u>\$ 0.50</u>	<u>\$ 0.51</u>	<u>\$ 1.52</u>	<u>\$ 1.45</u>
Adjusted EBITDA:				
Non-GAAP net income	\$ 144.9	\$ 145.1	\$ 435.7	\$ 416.0
Interest expense, net, not adjusted above	32.2	33.8	97.9	99.5
Provision for income taxes	60.6	63.8	191.2	195.7
Depreciation expense, not adjusted above	23.0	19.8	61.0	57.2
Adjusted EBITDA	<u>\$ 260.7</u>	<u>\$ 262.5</u>	<u>\$ 785.8</u>	<u>\$ 768.4</u>

Explanatory Notes to Reconciliations:

- (1) To reflect non-cash expenses attributable to the amortization of intangible assets.
- (2) To reflect non-cash fair value adjustments for additional depreciation expense related to the fair value write-up of fixed assets acquired from Gen-Probe and accelerated depreciation expense related to facility closure and business consolidation.
- (3) To reflect restructuring and divestiture charges, and certain costs associated with the Company's integration and facility consolidation plans, which primarily include retention and transfer costs, as well as costs incurred to integrate acquisitions including consulting, legal and accounting fees, and expenses incurred to separate the divested blood screening business from the molecular diagnostics operations. These costs do not include those incurred to provide transition services to Grifols.
- (4) To reflect expenses incurred with third parties related to acquisitions and divestitures prior to when such transactions are completed. These expenses primarily comprise broker fees, legal fees, and consulting and due diligence fees.
- (5) To reflect the net impact from miscellaneous transactions during the period, including legal settlements.
- (6) To reflect certain non-cash interest expense related to the amortization of the debt discount from the equity conversion option of the Company's convertible notes.
- (7) To reflect losses for the repurchases of \$200.0 million principal of the 2012 and 2013 Convertible Notes in fiscal 2017 and \$226.6 million principal of the 2010 and 2012 Convertible Notes in fiscal 2016.
- (8) To reflect realized gains on the sale of available-for-sale marketable securities.
- (9) To reflect non-cash unrealized losses (gains) on the mark-to market on outstanding forward foreign currency contracts, which do not qualify for hedge accounting.
- (10) To reflect the gain realized on the sale of the Blood Screening business to Grifols.
- (11) To reflect the fair value step up of inventory sold during the period related to acquisitions.
- (12) To reflect a non-income tax benefit in the third quarter of fiscal 2017 of \$12.4 million, net from refunds received from amending the Company's Medical Device Excise tax filings, and a charge recorded in the second quarter of fiscal 2017 of \$28.8 million as the Company determined during the second quarter that a loss became probable associated with a non-income tax issue currently under audit.
- (13) To reflect an estimated annual effective tax rate of 30.50% and 32.0% for fiscal 2017 and 2016.
- (14) Non-GAAP earnings per share was calculated based on 287,638 and 285,957 weighted average diluted shares outstanding for the three and nine months ended July 1, 2017 and 282,302 and 287,377 for the three and nine months ended June 25, 2016.
- (15) To reflect interest expense accrued as required by law related to the value owed to the Cynosure shareholders who dissented and did not tender their shares as they are challenging the value of the acquisition.

Reconciliation of GAAP to non-GAAP EPS Guidance:

	Guidance Range		Guidance Range	
	Quarter Ending September 30, 2017		Year Ending September 30, 2017	
	Low	High	Low	High
GAAP Net Income Per Share	\$0.21	\$0.23	\$2.55	\$2.57
Amortization of Intangible Assets	\$0.33	\$0.33	\$1.25	\$1.25
Amortization of Debt Discount	\$0.01	\$0.01	\$0.06	\$0.06
Restructuring, Integration and Other Charges / (Benefit)	\$0.03	\$0.03	\$0.18	\$0.18
Transaction Expenses	\$-	\$-	\$0.08	\$0.08
Cynosure Inventory FV Adjustments	\$0.06	\$0.06	\$0.14	\$0.14
Gain from Sale of Blood Screening	\$-	\$-	\$(3.12)	\$(3.12)
Tax Impact of Exclusions	(\$0.16)	(\$0.16)	\$0.86	\$0.86
Non-GAAP Net Income Per Share	\$0.48	\$0.50	\$2.00	\$2.02

Reconciliations of Reported to Constant Currency

Revenue:

\$s in millions	Q3'17	Q3'16	Reported Change	Foreign Currency Effect		Constant Currency Change
				\$	%	
<i>Cytology & Perinatal</i>	\$121.0	\$122.2	(1.0%)	\$1.5	1.2%	0.2%
<i>Molecular Diagnostics</i>	\$144.1	\$131.8	9.3%	\$1.3	1.0%	10.3%
<i>Blood Screening</i>	\$19.0	\$55.9	(66.0%)	-	-	(66.0%)
Total Diagnostics	\$284.1	\$309.9	(8.3%)	\$2.8	0.9%	(7.4%)
<i>Breast Imaging</i>	\$236.5	\$239.3	(1.2%)	\$1.0	0.5%	(0.7%)
<i>Interventional Breast Solutions</i>	\$45.0	\$41.3	9.0%	\$0.2	0.4%	9.4%
<i>Other</i>	\$2.2	\$2.0	12.7%	\$0.1	3.1%	15.8%
Total Breast Health	\$283.7	\$282.5	0.4%	\$1.2	0.5%	0.9%
<i>Body</i>	\$36.7	-	-	-	-	-
<i>Skin</i>	\$45.4	-	-	-	-	-
<i>Women's Health/Other</i>	\$27.9	-	-	-	-	-
Total Medical Aesthetics	\$110.0	-	-	-	-	-
GYN Surgical	\$106.5	\$102.0	4.4%	\$0.8	0.8%	5.2%
Skeletal Health	\$21.8	\$23.0	(5.3%)	\$0.1	0.3%	(5.0%)
Total	\$806.1	\$717.4	12.4%	\$5.3	0.7%	13.1%

	U.S. Change	International Change (Reported)	Foreign Currency Effect		International Change (Constant Currency)
	<i>Increase (Decrease)</i>				
Diagnostics	(2.2%)	(25.5%)	\$2.7	3.4%	(22.1%)
<i>Diagnostics ex. Blood</i>	3.5%	7.4%	\$2.7	4.9%	12.3%
Breast Health	(1.7%)	10.6%	\$1.2	2.4%	13.0%
Medical Aesthetics	-	-	-	-	-
GYN Surgical	4.4%	4.6%	\$0.8	5.2%	9.8%
Skeletal Health	0.8%	(16.8%)	\$0.1	0.7%	(16.1%)
Total Revenues	9.5%	23.0%	\$5.3	3.5%	26.5%

	Trailing Twelve Months ended July 1, 2017	
Return on Invested Capital:		
Adjusted Net Operating Profit After Tax		
Non-GAAP net income	\$	581.4
Non-GAAP provision for income taxes		256.7
Non-GAAP interest expense		134.0
Non-GAAP other income		(14.1)
Adjusted net operating profit before tax	\$	958.0
Non-GAAP average effective tax rate (1)		30.63 %
Adjusted net operating profit after tax	\$	664.5
Average Net Debt plus Average Stockholders' Equity (2)		
Average total debt	\$	3,321.5
Less: Average cash, cash equivalents and restricted cash		(514.9)
Average net debt	\$	2,806.6
Average stockholders' equity (3)	\$	2,486.3
Average net debt plus average stockholders' equity	\$	5,292.9
Adjusted ROIC		
Adjusted ROIC (adjusted net operating profit after tax above divided by average net debt plus stockholders' equity above)		12.56 %

(1) ROIC is presented on a TTM basis; non-GAAP effective tax rate for the three months ended September 24, 2016 was 31.03%, the three months ended December 31, 2016 and April 1, 2017 was 31.00%, and the three months ended July 1, 2017 was 29.48%.

(2) Calculated using the average of the balances as of July 1, 2017 and June 25, 2016.

(3) Adjusted (increased) to eliminate the effect of the impairment of intangible assets of \$32.2 million in fiscal 2014.

	As of July 1, 2017	
Leverage Ratio:		
Total principal debt	\$	3,259.7
Total cash		(588.4)
Net principal debt, as adjusted	\$	2,671.3
EBITDA for the last four quarters	\$	1,049.6
Leverage Ratio		2.55

Other Supplemental Information:

	Three Months Ended		Nine Months Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Geographic Revenues				
U.S.	76.7 %	78.7 %	78.1 %	78.7 %
Europe	9.4 %	10.6 %	9.9 %	10.3 %
Asia-Pacific	8.7 %	7.5 %	7.9 %	7.6 %
All Others	5.2 %	3.2 %	4.1 %	3.4 %
Total Revenues	100.0 %	100.0 %	100.0 %	100.0 %

Revenue Composition

	Q3'17
Disposables	52.8 %
Capital Equipment	30.8 %
Service & Other	16.4 %
Total Revenues	100.0 %

SOURCE Hologic, Inc.

<http://investors.hologic.com/2017-08-02-Hologic-Announces-Financial-Results-for-Third-Quarter-of-Fiscal-2017>