



ANALYST QUICK NOTES

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Hologic Inc. (NGS: HOLX: BUY)

Target Price: \$52

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Thesis

- We reaffirm our BUY rating following HOLX's sell-off post-earnings. Our price target is \$52.
 - Here is why we think the sell-off represents good investment opportunity and why the market got it wrong. Hologic reported 2Q16 results on April 27.
 - HOLX organic sales grew 7.0% (ex. discontinued products). This is one of the best quarterly rates in our coverage universe of med-tech stocks. U.S. sales grew 10.6%. Sales growth driven by 3-D mammography, Panther diagnostics systems, and gynecological surgery products.
 - Favorable product mix drives 240 bp gain in gross margin. Not all of it fell to bottom line as operating margin expanded by 40 bps. Reinvestments in R&D and product marketing to drive future growth.
 - Market share gains in placements of 3-D mammography systems and Panther systems drives future revenue streams from consumables and service.
 - Larger portion of revenue comes from consumables and service as more 3-D and Panther units are placed. 3-D Tomo generates \$400 million annually in service revenue. Panthers generate \$170,000 annually for consumables and service. Growth in placements of 3-D and Panthers sets up nice annuity stream.
 - Hologic raised 2016 guidance for EPS and revenue. 3Q revenue guidance was below Street consensus because of impact of discontinued products and tough comp against 3Q15. New orders for 3-D Tomo and Panthers remain strong.
 - These are reasons why HOLX's growth is sustainable.
 - Additional catalyst: Hologic has reduced debt, strengthened debt and now has more flexibility to do M&A.
 - Another illustration of how the market initially gets it wrong on HOLX: Stock fell 15% in April 2012 on initial reaction to GenProbe acquisition. HOLX +99% since deal announcement in April 2012. GenProbe expanded Hologic's diagnostics capability.
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