



ANALYST QUICK NOTES

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Hologic Inc. (NGS: HOLX: BUY)

Target Price: \$52

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Overview

- HOLX is down 6.9% since reporting earnings on May 10. We think there is very good value in the stock.

Growth drivers

- Diagnostics and Women's Surgical both had solid double-digit sales growth in 2Q17.
- Acquisition of Cynosure moves Hologic into the fast-growing medical aesthetics business.
- To be sure, there was some noise in the quarter as the sale of the blood screening business lowered the gross margin. Breast Health sales slowed as installation of 3-D mammography has slowed.

Here is why we like the Cynosure acquisition.

- Cynosure makes systems for body sculpting, fat removal, skin revitalization, tattoo removal and vaginal wall restoration.
- Cynosure addresses people's desire for appearance enhancement.
- The business had \$433 million in sales (+24%) in 2016.
- Cynosure is a great fit for Hologic's OB/GYN sales channel. Women's health practices want the Cynosure systems to add a cash-based revenue generator for their practices. Hologic already sells surgical and diagnostics products into this channel.
- We expect strong rebound in aesthetics sales in rest of 2017 after sales hiccup in first quarter. Hologic opens new channels for the aesthetics products.

Conclusion

- We think the market has undervalued these growth assets of Hologic.
 - Perhaps the Cynosure deal was not what the market was looking for in Hologic's first major M&A deal in five years.
 - Still, we think it is a great deal for the company and it has a terrific growth profile.
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