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#### ANALYST QUICK NOTES

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#### Hologic Inc. (NGS: HOLX: BUY)

Target Price: \$43

David Toung

6/17/2015

- Reiterate my conviction in the investment thesis following upbeat management presentations at recent investment conferences.
- Thesis is based on upgrade cycle in 3-D Tomosynthesis and improving cycle in women's diagnostics.
- HOLX +8.9% over past 30 days, vs. 0.1% for med-tech index. Investors are buying into the story.

#### Catalysts

- 3D upgrade cycle opportunity.
- Inflection point in Diagnostics business.

#### Large addressable market in mammography

- Big upgrade opportunity. 13,000 digital mammography systems in U.S. 60% of this are HOLX units, consisting of 6,000 2-Ds and 1,800 3-Ds.
- Just 25% of HOLX's installed base has been converted to 3-D and 14% of the national market.
- The bigger the installed base, the larger the service revenue. Of the \$945 million in Breast Health revenue in 2014, 40% is service revenue that is an annuity stream.
- Key driver for adoption is Medicare coverage (and private insurance) of 3-D began Jan. 1 with incremental reimbursement (\$57) above 2-D procedures.
- Overseas opportunity is larger, with even lower penetration of digital systems as many are still using film-based analog systems. Addressable market - 25,000 mammography systems in the top 10 countries HOLX are targeting.

#### Diagnostics opportunity

- Segment revenue hit inflection point two quarters ago and continues to move in right direction, after several years of decline.
  - Testing volumes among GP practices have stabilized.
  - Labs want higher-tech, higher-volume diagnostics equipment to detect STDs.
  - HOLX developing next generation of diagnostic assays to measure viral loads as well as presence of viruses such as HPV.
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