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Hologic adopts poison pill to combat takeover drive

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When Jack Cumming, Hologic's relatively new chief executive, said earlier this month that he expected fiscal 2014 to be "a transitional year" for the company, he could not have known just how right he was. Activist investor Carl Icahn has taken a 12.6% stake in the imaging specialist and appears to be angling for a sale.

Hologic had already acknowledged that it was in trouble, posting losses in five of the last six years and reducing its 2014 guidance. It is now guarding itself against takeover bids by adopting a one-year shareholder rights plan, but it could take more than a poison pill to deter Icahn from trying to force a buyout or, at the very least, asset sales.

Sale or split

Hologic's businesses are focused on diagnostics, mammography technology, gynaecological surgery and skeletal health. The company had also been involved in transplant diagnostics but shed this unit, called Lifecodes, in January for just under $100m (*Reimbursement or bust for Hologic's 3D mammography tech, January 11, 2013*).

The company was already working through a plan to improve performance, announcing a $250m share repurchase plan and promising to avoid large M&A, analysts at Morgan Stanley said. They were also planning to link executive pay to the company's long-term performance and had begun a portfolio review with an eye towards eventual divestitures.

But, reporting its fourth quarter results this month, the company warned that its diagnostics and gynaecology divisions would perform poorly in the coming year. It said that its first quarter revenues would be $600-610m, a decrease of 6% from the first quarter of fiscal 2013.

With a market cap of $6.1bn and debt of $5bn, the company was already in a far-from-ideal position. It had also come in for criticism for paying over the odds when it bought molecular diagnostics firm Gen-Probe for $3.8bn last year.

Hologic is a good candidate for a sale. Similarly diverse companies such as Siemens or Philips could be interested in purchasing it whole, while a spinoff of its diagnostics or surgical units might attract companies such as Danaher or C.R. Bard, for example. However, the company needs revenues to pay down its debt, so smaller divestments may be the way to go.

Various analysts say that Hologic could fetch between $27 and $32 per share in a buyout; its shares are currently worth $22.32. The first indication of how likely a sale or divestment is will come with the deadline for nominations for Hologic's board, December 5, analysts from Morgan Stanley said. Mr Icahn is determined to get a seat at the table.

Hologic's management knows that it must take steps to placate its investors. It is possible that shareholder activism will prompt it to optimise its assets, improve growth and return more cash to shareholders, but it is looking likely that more drastic changes are coming.

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