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COO - Cooper Companies Inc at Robert W Baird Global Healthcare Conference

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PRESENTATION

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

(technical difficulty)

Any prepared remarks you want to make and then we'll go straight into Q&A.

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Thank you, Jeff. Great to be here. No, there's nothing in particular prepared to present. We just reported our earnings last week, had a pretty strong quarter, and I'm sure we'll talk through the questions today regarding the CooperVision growth and the impact from EMEA and CooperSurgical and PARAGARD also in particular. So why don't we just jump into the questions, probably easier.

QUESTIONS AND ANSWERS

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. Sure. Well, maybe we'll start at a high level and if anyone has questions please don't hesitate to raise your hand and ask. I'll repeat the question and we'll go from there. But just want to start first with the contact lens market. It's sales have been growing pretty nicely the last couple of years, probably somewhere around that 5-ish percent to midpoint of that 4% to 6% range we typically think about.

If I put your numbers alongside Alcon, J&J and Bausch, 90-some percent plus of the market in those 4 numbers we now get those. We have seen the market kind of slowdown over the last 2, 3, 4 quarters from maybe a 7% rate to closer to a 5%, just north of 5% here this past quarter.

So one, are you seeing anything underlying trends that tells you there's something going on in the market? And two, I have a theory on how we can't necessarily look at market growth rates based on product cycles of certain companies and that. But anything underlying that drives the market. Whether it be pricing, patient volumes, anything that is truly changing over the last couple of years?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

No, not really, from that perspective. Wearer base is expanding a little bit, more so in Asia-Pac than the rest of the world. Pricing has certainly at least stabilized through the rebate activity. And so forth as we were seeing in Americas and probably creeping up a little bit now as we've seen kind of base prices.

Underlying demand remained positive. If you look at the transition from ,ultimately, FRP wearers and the daily wearers and certainly daily-to-daily silicones, that has continued.



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So I think the core underlying dynamics within the contact lens industry have remained. At the end of the day though, the market is a 4% to 6% growing market, and we've seen that for a number of years. In 2009 when we had the recession, the contact lens industry grew 3%. But since then it's been in that 4% to 6% range. I think that's probably the best range to look at it. And I think frankly for the next 5 to 10 years or something, unless something crazy happens, we'll be in that 4% to 6% range.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

And what I think about a lot of times what this market is, there are product cycles. And one of the unique things about contact lenses and it's one of the things we love about the market is the recurring revenue stream nature of it. But what that also means is you can be bringing in new patients and pricing can go up a little bit, mix can be positive, but you've also got that weird dynamic that if the market leader, like the J&J or even you guys, so let's say J&J comes out with a new product and they're upgrading a lot of their base from \$250 a year lenses to \$350 a year [lenses] (added by company after the call) and they are 40% plus in the market, their growth can spike like you did 1.5 years ago to 9% or something.

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

It's not really anything underlying that has changed in the market as far as patients coming into the market, what they're paying for lenses and all that, but all of the sudden it makes the whole market look like it accelerated. Or in this case, J&J is coming up against some tough comps, you guys have come up against some tough comps. So it almost artificially looks like the market has slowed when really nothing underlying. Is that fair?

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes, that's absolutely fair, we've seen that for many years now. If you go back in time in the contact lens market and anyone of us, like 3 of us are the majority of the market right now, could come out with a product upgrade and go through a cycle over a couple of years where we're really pushing the market growth. But at the end of the day, all you're doing is taking away that you have and converting them to a higher price wearing modality or price point, and J&J is a good example of that. And frankly, you're starting to see a little bit of that right now, probably from Alcon. Alcon has some easy comps from some of the stuff they were going through. They posted a better quarter here as they roll out a new product and upgrade some wearers and so forth. I imagine, it will help their growth.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

All right. So tomorrow when (inaudible) tries to corner you on market growth and all that. You tell him that it doesn't matter. It's not (inaudible) will be all over that question down to the decimal points, so make sure you tell him. So yes, you mentioned Alcon now. And Alcon is launching PRECISION1 here over the coming months. It is same kind of thing. I think they'll have some good upgrades from some of their older technology, non-silicone dailies. They'll have some upgrades maybe even from their monthly product, things like that. So if we see their growth accelerate, what are the implications on your business? Good or bad?

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes. I'm not sure you'll really see frankly too much of an impact at all on our business. I think when you talk about the market growth of 4% to 6%, that's going to help support that 5% to 6% kind of growth. But there's different dynamics there that are pushing them versus what's pushing our growth. So I believe, we'll continue for the foreseeable future to put up market share gain and growth.



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Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. Okay. And this year, you guided 6% to 8%. By the middle of the year, you kind of pushed that to 7% to 8%. It looks like it'll come in somewhere within that 7% to 8% range. Then if your fourth quarter tracks to how you're guiding forward anyway, it sounds like then there's nothing really changing next year barring any kind of macro-type event or something. It sounds like you're still pretty comfortable in that 6% to 8%. I know you haven't guided the next year, but is that a reasonable way to think about next year?

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes. As I was saying, there are 2 dynamics that are really driving the contact lens market now. And I would say that for the next 5 to 10 years, I think the market's going to grow 4% to 6%. And I think you should look at CooperVision growing in that 6% to 8% kind of range. And that's coming from a trade up to daily silicones. And if we're going to get the same percentage of silicone usage that we have in the 2-week and the monthly market, we have in today's dollars around \$2 billion of sales of hydrogel lenses that need to convert over to silicones, and that'll happen with them. That will happen over 5 to 10 years.

The other interesting dynamic is, there was a point in time a few years ago where a lot of people were believing that we would be able, as an industry, to convert 2-week wearers and monthly wearers, as a trade up to a daily wearer, and that, that will happen and that was going to really reduce growth. And we haven't really seen that. What we've seen is those two-week and monthly wearers as they get older and stop wearing contact lenses, they exit the market, but the new wearer coming in is a daily wearer. So there's a trade up that's occurring as you shift from those FRP wearers to the daily wearers and that's a pretty positive trade up for the manufacturer, that's 2 to 3x more revenue per patient. But it's not happening and as many people thought it was going to happen, right? That's happening over kind of this 5- to 10-year period also. So you have 2 dynamics right now that are supporting a lot of the market growth, and that's without getting into some geographic expansion, wearer base expansion, better toric setting outside of the U.S. and so forth. Of those 2 key drivers of FRP wearers exiting, new wearers coming in as daily wearers and the conversion of existing daily hydrogel wearers to daily silicone hydrogel wearers.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

I'll like disagree with you on a lot of things but one thing. I mean I do think there are some 2-week and monthly wearers who are converting from 2-week monthly to daily. I mean at the end of 2, my wife, and I'm a cheap guy, we both converted to dailies over the last few years. I mean just as that technology is around longer and longer and as price points come down, clarity didn't exist a few years ago. PRECISION1 as an entry-level price if you're an Alcon Doc, now you can offer that to your patients. So I still think there's some growth there. But to your point, I think, as we think about the daily market and about what's 50% of the market by dollars today, that truly only means by wearers, it's probably less than 25%, given your (inaudible) price. So I mean there's still a lot of ramp whether it happens the way you think, whether it happens the way I think or the combination of 2.

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes. You're definitely right. There's definitely been wearers of 2-week and monthly who have converted to dailies. Now a lot of times that's more people who make money and can make that...

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

(inaudible)

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Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

How much money you guys make? But yes, I mean some of that has definitely happened and then some of it's happening over time.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. I mean to be -- and again, I think, just to complete the thought, I do think though as doctors get squeezed more and more as well on their optical, on their professional fees, on everything, they're also more incented to try to push that daily market. They're going to make more money as well. I mean everybody in the value chain, if you believe that convenience and comfort is how the patient wins, the doctor wins by making more money in his practice, you win by making money for your business, I mean it is a kind of a win, win, win as well.

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

And you're talking about an optometrist out there with a medical device. So people listen to their optometrist, exactly your point. So you're going in and the optometrist is saying to the new wearer who's coming and to that child of the parents, this is the lens your child should be wearing. You shouldn't be dealing with solutions and cleaning, you should be wearing a lens that you put in everyday and you throw out at the end of the day. And it should be a silicone lens and the best oxygen permeability and water content and so forth, and the parents listen to that. So you're exactly right, there is a number of reasons there that it's a positive for the optometrist to do it, that's a positive for us also. And by the way, I do believe that's a positive for the patient at the end of the day.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. And you also have talked the last few quarters and I think it's probably been true for the last few years about your share of the overall market, I think, is what 22%, 23%? 23% 24%?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

24%.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

24%, but your share of new users coming into the market higher. Obviously, that's a good leading indicator. Can you put any numbers around that where you're mainly winning that higher shares within dailies? How much bigger is it than that underlying 24% share, things like that?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. We haven't given too much detail on that, but we did hit this quarter an all-time new high for New Fit Data for wearers coming in daily silicone hydrogel's here in the Americas. So that was pretty cool. So without going into a lot of the detail behind that, I will say that our winning of new wearers in daily silicone hydrogel lenses just hit an all-time high this last quarter.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. And your overall share of new patients coming in across all modalities, all lens materials, everything, is still higher than your 24% as well.

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Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

That's correct.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Notably higher or at least a good number higher? I'm not asking how much, I mean I just -- but yes.

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. Yes.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

All right. I think I probably exhausted that one then, so...

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes, the only thing about the New Fit Data that I do always say kind of not warn people on, but I want to acknowledge is that a lot of that data is like GFK data and some countries in the U.S., it's really good data and then in other countries we're compiling information that we get from the marketplace. Now we do a pretty good job of it, I think. We have our own proprietary system on how we track all that kind of stuff. So I think we do a great job of it. But the reason I'm always hesitant to quote numbers is just because it is our data. It's not a specific source that I'm quoting.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, that's fair. And then I think one thing you talked about on the call as well which again we've kind of always known in the last few quarters or at least we've known for the last few quarters but maybe didn't fully appreciate until your report, is how capacity constrained you are on MyDay. So you're putting up these 6% this past quarter, 7% to 8% this year, hopefully, 6% to 8% next year. But all that is coming in the face of some capacity constraints that you could probably be selling a lot more and putting up even bigger growth.

So one, I know the answer to this but just remind investors why you can't get over those capacity constraints like tomorrow? And two, any way to quantify or help us understand what that might be constraining your growth?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. I'll tell you the first part is, you order a new manufacturing line, depending upon what product it is and so forth, but a lot of them will take 12 to 18 months from the date that you order that line to the date that you get that line in and is producing product.

And if you saw kind of as a general rule of thumb for the industry, we're on that boat. Now the other issue that we have is this is our customized equipment we're talking about. Huge pieces of machinery, all customized manufacturing. So you don't have a ton of these guys who are making it for you, they can only make so much equipment so fast, so if you want to order 10 new MyDay lines as an example, you can't just go order 10 of them and get 10 of them in 18 months because your manufacturers are busy. So you end up with a situation where it takes a little while to get new equipment in, right? And Alcon's talked about their capacity constraints. It's no surprise there's nothing new or different there. And I'm sure J&J is challenged with this also.

For us, we launched MyDay. It was going well. We launched MyDay toric and it was just fantastic. It was received incredibly well, which isn't surprising for us as we're pretty good toric shop. But what was a little bit more surprising was how much demand there was for MyDay's sphere when the



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toric came up and that kind of halo effect to bringing that family together and that really accelerated the demand. So we started ordering lines, and we're getting new lines and we have got number coming on, especially towards the tail part of next year. And you saw that in this quarter, our CapEx for this quarter was \$75 million, the highest we've ever had. So that's payments on lines that are coming in. So in my mind, there's no question. I mean demand for that product alone is significantly in excess of what our current capacity is. So we're trying to catch up to that. I go back to that statement I made earlier, in today's dollar amount, \$2 billion needs to trade up. That is a massive number. There is a huge amount of demand that's there. So that's going to go on for years for us.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

And if you also have clariti toric and they're both silicone hydrogel torics, why can't some of that demand just get sucked up by clariti and then it's not impacting growth. Obviously, I know MyDay has some great comfort data points and is kind of the more premium product. But I would think if there's more inexpensive product there that is a good toric run, daily silicone as well that may be that can be substituted. But it sounds like not all accounts are willing to substitute.

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes. It's tough to get someone to substitute, right? because they are different products.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Or go with clariti for now until they can get their hands on.

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes. So we're talking about that with people right now, and saying, hey guys, this is another great product. Different price point and so forth, but fantastic product. It's really hard to get anyone to want to switch over. They have wearers who like what they wear, as you know. And one of the fantastic things about this industry is massive annuity stream. When someone starts wearing a lens, they stick with it. So in general, the vast majority of people are MyDay, they love MyDay, and they want to stay in MyDay. So we are doing some increased promotional activity or sales and marketing activity around clariti right now because we need to, right? But to be fair, clariti's still doing really well in and of itself.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. And Brian, maybe for you, AI mentioned the \$75 million CapEx this quarter. Generally speaking, how much of CapEx a year per year for the last few years have you been spending just on manufacturing and maybe how much of that, AI for you or Brian, how much of that is helps create these high barriers to entry. Because we always hear about Hubble. We always hear about these other little companies. Nobody seems to be able to get traction outside of the 4 big guys, partly because it is a regulated prescription control device and all that. But I think there's a big barrier there on just how much CapEx you have to spend continuously on manufacturing.

Brian G. Andrews - The Cooper Companies, Inc. - Senior VP, CFO & Treasurer

Yes, that's a good question and that's absolutely true. When we look at the amount of CapEx that we spend on a regular basis, our maintenance CapEx is probably somewhere around \$100 million a year. So if we were to do, say, \$250 million this year in CapEx, which is probably in the ballpark of where we're going to end up, \$150 million of that CapEx is really going to expansion, particularly around daily silicones.



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So certainly when you hear about some of these smaller manufacturers in Asia-Pac that might be supplying private-label lenses to some other players out there, they've got to put an enormous amount of capital into their business in order to support the SKU ranges and the full range of products that we're able to offer to our customers.

So it's a massive barrier to entry. We've had an enormous head start. We acquired Sauflon back in 2014, and we launched MyDay soon thereafter and yet still, we're having trouble meeting demand. So it's a great problem to have that we've got locked in demand and there's durability with that demand but capacity is ramping up, productivity and output is improving, yields are improving. So we're doing all the right things on the manufacturing side to help [soften] (corrected by company after the call) some of that capacity issue. But it's certainly big barrier to entry.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, and you said \$150 million might be kind of a manufacturing expansion spend. Of that \$100 million maintenance CapEx, does any of that get allocated towards manufacturing to keep lines up and running, things like that...

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Yes. Yes. Yes. I mean that's your maintenance. A large percentage of that is retooling, making little tweaks, taking out some of the UV lights, putting in some new. So it's tweaking...

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Bigger than that \$150 million a year, I guess, is that would be the (inaudible)

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Absolutely. Oh, yes, when I say maintenance CapEx, that's just to maintain existing lines. You've got to do things to make sure that the productivity and yield still are good and cost per unit continues to go down.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And Al, I think one of the things I also heard on your call last week and I thought was interesting is because of these capacity constraints because we don't have the myopia lens yet approved in the U.S. and may be we'll come back and talk about that in a second, but it sounds like you're even more bullish on potentially the growth prospects in your fiscal '21, which is kind of calendar '21 as well by just a quarter. But it's basically a year from now, 1.5 years from now as the capacity constraints come off as maybe MiSight ramps, things like that, is that a fair statement?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

That's a fair statement, yes, but I wouldn't want to imply that fiscal '20 is not going to be a good year...

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

No. No. No. I mean we already kind of talked about 6 days there, which is a very good number, especially as PRECISION1 is coming out and all that.



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Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. And that's part of what gives me comfort that when we go for it, we look at that 6-day holding, can we get any acceleration off that? That will depend on probably MiSight some of that kind of stuff. But I mean the fact that we have a lot of demand and that more capacity is coming and so forth, it certainly keeps me optimistic, yes, including about 2021.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And -- so you guys are doing -- I should remember this. What's your contact lens CVI revenue, like \$2 billion this year or something right about there. So \$2 billion a year, it's kind of ridiculous. I'm going to ask you a question about \$1 million per quarter product, but I'm going to use of the myopia control lens. And for those in the audience, around the webcast, the product that could reduce the progression of myopia in kids. So you put an 8-year-old or 10-year-old in these contact lenses. And because of their design and how they work, this stop that kid from going from a minus 5, instead they end up at minus 2 or minus 3, 50% plus reduction in their level of near sightedness for the rest of their lives.

So that product just topped \$1 million here in the fiscal Q3 for you guys. First time above \$1 million. That's without U.S. approval. That's without really much in China, despite the big myopia prevalence there given that that's more of a hard lens market than it is a soft lens market. So where could -- so this is on a \$4 million plus, \$5 million annualized run rate today, could that be a \$10 million or \$15 million annualized product within a year or 2? How fast do you think that grows assuming we get some positive news here in the next few months on the U.S. approval?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. All of that is true. We did a little over \$1 million and that grew over a 100%. So I think when you look at it from that perspective, yes, it's going to continue to grow. And I think it could continue to grow at a very, very high rate for the foreseeable future. When you layer in hopefully an FDA approval in near term, that could be a dramatic step forward.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes. And it kind of gets back to what I was talking about. I think doctors, optometrists especially looking for incremental revenue sources and things like that. So I mean it feels like to me, and I've said this in some notes here recently and what have you. But it feels like to me there's truly pent-up interest in the U.S. and Europe. Obviously, you've got the product in Europe now, but U.S. and Europe and Australia and some other markets to really get after this fairly aggressively.

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. No question. Yes, you wrote a note a month or 2 ago that I thought was really good. When you look at the size of the market and saying, hey, this can be \$500 million market in 10 years, couple of billion dollars in 20 years. My numbers are actually higher than that. But I thought that everything that you wrote, I don't want to give you credit.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, I know.

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

But jeez, I've gone down a path. You're now almost past to say good job. But I think that's accurate, right? And I think that one of the big steps here is, if you look at the 1% to 2% or so of optometrist out there who are reading the clinical data and understanding it, they are very passionate about this, right? they believe in it. It's something that's going to be successful. So they're definitely showing a lot of interest and then, that's starting to

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spread a little bit. So even without the U.S. FDA approval, I think we continue to see a lot of growth. The question is, if we can get there, what can we really do with this treatment and I think it's really exciting, not only in terms of adding revenue growth to us and bulking that product up, which I think can add some legitimate overall growth to our business but also the halo effect. We talked about MyDay sphere doing better because the toric came out. When you think about the fact, we will be the only FDA-approved myopia management contact lens in the world, right? when we get the approval, right? That's pretty powerful. And I think we'll be able to walk into some doors and say, hey, listen, you want our product. We want to make sure we're getting toric business from there.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Brian, so from me one more question to you on the gross margin side. I would assume MiSight is going to be priced where it's a good gross margin specialty product and it doesn't have a whole lot of competition. MyDay's capacity constraints that's your premium daily silicone. MyDay toric eventually gets may be MyDay multifocal by '21 and all that. We've looked at kind of that CVI business and thought that you might be starting to top out slightly above mid-60% gross margin for CVI. Is there more gross margin? Or do we have to think about the Cooper story over the next few years as more operating margin expansion but not as much gross margin expansion story?

Brian G. Andrews - The Cooper Companies, Inc. - Senior VP, CFO & Treasurer

Yes. That's a good question. We've got some good things going on right now, on

(technical difficulty)

both in the gross margin and operating margin line, but certainly with the trade up to dailies and daily silicones specifically, that's definitely weighed down our gross margin.

It's a positive from a revenue contribution perspective. It's a positive as it relates to our gross profit dollars, operating profit dollars. Cash flow is stronger. But certainly product mix and more growth towards our daily silicones is going to put some pressure on our gross margins. I still believe gross margins will improve year-over-year. But there will be more of an incremental sort of step rather than anything sort of massive. Certainly, as we put more volumes through our plants as we've done year after year, we get efficiencies and we get improvements there as well. So I don't expect that to change, that'll continue. And certainly, on the operating margin side, we've been spending a ton of money in SG&A, really playing catch up, building the infrastructure to support this growth that we know is going to be there. So we talked about distribution center expansions, we've talked about upgrading our packaging and packaging facilities and the automation around those facilities, customer service, sales and marketing so forth. So I think we've still got some good investments that we need to see them through, and we've got some distribution centers that are underutilized right now, but we expect to grow into those. But again, I expect to see still operating income growth in the low constant currency double digits this year and again next year when we guide to 2020.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. All right. Fair enough. And it looks like The Street has finally kind of come back a little bit closer in line with that.

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes, we saw some outliers. There were people in the high 13s and I think now it's quite a good place.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. I would agree. All right. And then maybe, just switching over in the last couple of minutes to your women's healthcare business on PARAGARD. You acquired that non-hormonal IUD from Teva late '17. You've been trying to kind of figure out some best way to position that solid in the last



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1.5 years or so. What's surprised you most with that product? Is it the amount of DTC you have to have to really drive sales? Is it anything else? Just what's surprised you with that product so far?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. I've talked about that product as a mid-single digit grower since we bought it. And as you know, the team has been more optimistic about that.

Once we got the product, put it out in the market, hired the sales people, did some of the advertising promotional activity, we were seeing quarter after quarter of upper single digit, low double-digit growth and 20% last Q4.

It was interesting how the physicians came back. Were like, wow, somebody's finally investing in this product. And they like it, and they're talking about it. And I can't believe that there's actually people coming into my practice, requesting this product. And because of that, we saw inventory levels go up. We saw more activity and so forth, it was kind of all positive. I think we were in 5 quarters in a row where we had a lot of that positive energy.

When I look at it now, I'm not even sure if we would not have cut the DTC the TV advertising, I still think we'd probably had a quarter like we were just going to have.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just to kind of rephrase, renormalize those channels inventories those kind of things?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes, I think so. And then Q4 right now is a tough one because we're comping against a 20. But on a go-forward basis, where we're looking at that now I'm happy to say is, that I kept saying mid-single digit, it's probably closer, like a 6% annual grower, half that... what's that?

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just for PARAGARD?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Just for PARAGARD.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Not for CSI but PARAGARD?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. And half of that coming from unit growth, which seems pretty solid and then half of it coming from price because you can take price...

SEPTEMBER 04, 2019 / 6:35PM, COO - Cooper Companies Inc at Robert W Baird Global Healthcare Conference

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. Okay. Last couple of questions. Just questions I've been getting from investors since last week. Japan VAT, it sounds like if that goes in October one. You can get a little pre-buy this month, a little normalization next month and it shouldn't impact the whole quarter, a whole lot just given your fiscal year falls?

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

Yes. I think we have like a couple of million dollars that we kind of had forecasted. And it's not a big number because you're right, the way the fiscal year falls and that's it so far.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. And then China tariffs, obviously, you get a little bit harder, like a lot of people next year assuming we don't get some change and tweak here before that, but I think this year is what about \$2 million hit to your cost of goods, goes up to maybe \$6 million next year is the number I think you and I talked about.

So one, is that right? And Brian, I think that's embedded still in that double-digit constant currency OI growth you're still expecting for next year.

Brian G. Andrews - The Cooper Companies, Inc. - Senior VP, CFO & Treasurer

Correct. Yes, you're in the neighborhood. You're certainly in the right ballpark, and we've embedded it into our guidance range for next year.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. Okay. And then just last one for me on Brexit. If we get a hard Brexit even that now looks somewhat uncertain to how that's going to play out, but again, retailers, they stock up ahead of the October 31 deadline is how you think about it? So maybe that helps fourth quarter and then we're down a little bit in Q1, if there's something like that? Or is that how timing wise, dating wise we should think about it?

Albert G. White - The Cooper Companies, Inc. - President, CEO & Director

That's right. Yes, we didn't factor any of that in. We assumed a normal Q4, if you will. But yes, it's certainly possible if there is a hard Brexit at 10/31 which is our fiscal year-end, that we could get some buying before that and work themselves down. Yes.

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

And if there would be some weird thing going on with order taxes or whatever, you also have Puerto Rico, Costa Rica, Budapest, other places you can make products, certain product too, all right? At least, it's not a big risk for next year that we have to think about?

Brian G. Andrews - The Cooper Companies, Inc. - Senior VP, CFO & Treasurer

Yes. And it's been interesting, right? I mean the more you move to hard Brexit and run the risk of some of that kind of activity, the weaker the pound's got and the pound savings because we manufacture product that will more than offset that type of activity.

So it might not perfectly overlap on a quarterly basis. But yes, I don't think it's going to be too big of a deal when you start looking at an annual basis.



SEPTEMBER 04, 2019 / 6:35PM, COO - Cooper Companies Inc at Robert W Baird Global Healthcare Conference

Jeffrey D. Johnson - Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst

Yes. All right. Well, our time is up. So please join me in thanking Al and Brian for a great overview here at Cooper Companies. And as a reminder, the next presentation is set to be in at 3:10 p.m. including Compass Health in this room, Intercept Pharma in Empire room A, Metera in B and Paratek Pharmaceuticals in the Morgan Suite. Thank you.

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