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# EDITED TRANSCRIPT

COO - Cooper Companies, Inc. to acquire PARAGARD® Intrauterine Device (IUD) from Teva Pharmaceutical Industries Ltd. - M&A Call

EVENT DATE/TIME: SEPTEMBER 11, 2017 / 9:00PM GMT

## OVERVIEW:

Co. announced that it is acquiring the global rights and business of PARAGARD IUD from Teva for \$1.1b in cash.



SEPTEMBER 11, 2017 / 9:00PM, COO - Cooper Companies, Inc. to acquire PARAGARD® Intrauterine Device (IUD) from Teva Pharmaceutical Industries Ltd. - M&A Call

## CORPORATE PARTICIPANTS

**Albert G. White** *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

**Kim Duncan** *The Cooper Companies, Inc. - VP of IR*

**Robert D. Auerbach** *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

**Robert S. Weiss** *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

## CONFERENCE CALL PARTICIPANTS

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**Matthew Oliver O'Brien** *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to The Cooper Companies, Inc. Conference Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the conference over to Kim Duncan, Vice President of Investor Relations. You may begin.

### Kim Duncan - *The Cooper Companies, Inc. - VP of IR*

Good afternoon, everyone, and thank you for joining us for a brief call on our agreement to acquire Teva's PARAGARD IUD. On the call with me today are Bob Weiss, Chief Executive Officer; Al White, Chief Financial Officer and Chief Strategy Officer; and Dr. Bob Auerbach, Chief Medical Officer of CooperSurgical. Our press release announcing the transaction is available now on the Investor Relations section of our website as is a brief presentation slide deck. The call format will be an introduction and overview by Bob Weiss, followed by an overview of the product by Dr. Bob. We will then take some questions. Before turning it over to Bob, let me remind you that this conference call contains forward-looking statements, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions and integration of any acquisitions or their failure to achieve anticipated benefits.

Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption Forward-looking Statements in today's press release and are described in our SEC filings, including Cooper's Form 10-K, all of which are available on our website at [cooperco.com](http://cooperco.com). Should you have any additional questions following the call, please call our investor line at (925) 460-3663 or e-mail [ir@cooperco.com](mailto:ir@cooperco.com).



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And now I'll turn the call over to Bob for his opening remarks.

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### **Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Thank you, Kim, and good afternoon, everyone. I'm very excited about our announcement today, and I believe it's an excellent transaction for the company and our shareholders. The PARAGARD IUD is the only nonhormonal IUD available in the U.S., and it's perfect set with CooperSurgical. We have a long history of success with gynecologists, and this product is a great addition to our salesperson's bag. It further strengthens CooperSurgical's position in the gynecology space and allows us to leverage our domestic sales force and expand PARAGARD's reach.

To quickly summarize the deal, we are acquiring global rights and business of the PARAGARD IUD from Teva for \$1.1 billion in cash. We expect the transaction to close by this calendar year-end, subject to customary closing conditions, including antitrust clearance. PARAGARD had a trailing 12-month revenues of approximately \$168 million as of June 30, 2017, and we expect it to grow in the mid-single-digit range going forward. We expect the transaction to be immediately accretive to growth and operating margins and accretive to our non-GAAP earnings per share by approximately \$0.70 to \$0.75 in year 1. We also forecast our year 1 return on invested capital to be greater than our cost of capital.

With that, let me turn the call over to Dr. Bob Auerbach to cover details surrounding this product.

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### **Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

Thanks, Bob. I'm going to spend a few minutes talking about some strategic highlights. First off, the fact that IUDs are a great market. In the United States, use of IUDs have grown considerably but still lag behind the rest of the world. This is highlighted by the American Congress of Obstetricians and Gynecologists otherwise known as ACOG's strong support for this method given the cost-effective method as well as excellent results of efficacy with IUDs. It's also a great fit for CooperSurgical's gynecologic portfolio. The product is sold to gynecologists and has a long history with those gynecologists, which CSI calls on for many years. It's a device -- although regulated as a pharmaceutical, it's a device in placement and removal, and this fits perfectly with our device-savvy sales force.

PARAGARD has an established user base, both with large health systems as well as with gynecologists and so should allow for leverage across CSI's portfolio with both of these groups. Talking specifically about PARAGARD. As Bob mentioned, it's the only hormone-free, long-lasting reversible contraceptive that's available in the United States. It was first approved in 1984. It has 10 years of contraceptive use, and it's over 99% effective. I should note that 100% of the sales are in the United States, and although we're acquiring global rights, we'll evaluate the outside the United States strategy at a later time. It currently has an established market share of about 16%, and from an operational standpoint, it's all manufactured in a single facility located outside of Buffalo, New York that is dedicated to PARAGARD. The distribution is through primarily 1 distributor, and we're going to have 45 employees that are joining us: 2/3 in the commercial area; and 1/3 in manufacturing. And PARAGARD can be found at the website [paragard.com](http://paragard.com).

Turning just a little bit to the IUD market overview. Currently, we estimate the United States to be about \$1 billion market for IUDs, and that's split between nonhormonal, where PARAGARD is the only option, and it has a 10-year indication for contraception. The hormonal market makes up about 84% of the market, led by Bayer's Mirena product, which has been on the market since 2000, that has a 5-year indication for contraception. Allergan has a relatively new entrant that has about a 3% market share, and it's Liletta, which only recently became approved for a 4-year indication from its original 3-year indication.

Briefly, a comparison between nonhormonal and hormonal markets reveal advantages of PARAGARD in that it is as a longer-term contraceptive, given 10 years of indication of use, being offset by the hormonal IUD's ability to reduce or eliminate menstrual cycles. From a penetration point of view, however, the United States is noted only to be in the 10% to 12% penetration in units, and in comparison, Europe is noted to be more in the 15% and Asia in the 30% range of contraceptive use. And from a unit basis, IUDs are noted to be growing at about 3% to 4% per year.

Now importantly, IUDs are regulated as a drug in the United States and as a copper IUD, as a device outside the United States, and this is very important because in the United States, FDA has very rigorous approval standards in order to have an IUD sold in the market. FDA guidance on



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approval studies required 10,000 women months of use. In [layman's] terms, that's about 800 women in the first year of use, and then 200 women for every year of claimed use.

Currently, we know of one competitive product in the current study process that has an IND holder known as FHI 360, and they're currently enrolling patients for a Phase III study. They have estimated a study completion date of 2021, and this will be for an initial contraceptive efficacy of 3 years. Once the study completes and if it's successful, they would attach the study to an FDA application for a 3-year indication of use. Again, I must mention that PARAGARD has a 10-year indication of use.

For future supplements, they would then be required to have 200 patients that will need to be followed for each additional year to be able to support that efficacy beyond the initial 3 years.

Finally, let me spend a moment talking about the Affordable Care Act and contraceptives. We talked about 3 major markets for these particular devices. And in the private insurance market, contraceptives of all 18 FDA-approved types of methods must be prescribed without cost sharing. It's important to note that copper IUDs and hormonal IUDs are separate classifications, so each plan must offer one of each. In the Medicaid population, any state that has taken dollars for Medicaid expansion must also receive the same coverage as a private insurer. And of course, in the uninsured market, there are a number of funding plans that have been in place in order to support use of IUDs in low income and uninsured women at a reduced or no cost.

So with that, I'll turn it back over to Bob Weiss.

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**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Operator, we'll take questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from Larry Biegelsen of Wells Fargo.

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**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Congratulations on the deal. Let me start with the margins assumed in the accretion that you gave. It looks like it's about -- the net margin after tax, it looks like about 21%. What are the gross margins, operating margins, tax rate and cost of debt you're assuming in that accretion? Just lastly, is this accretion of \$0.70 to \$0.75 something we should assume on top of the low double-digit reported EPS at fiscal 2018 that you talked about on your fiscal Q3 call?

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**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Great questions, Larry. I'll let -- I'll pass this to Al, and let him give a little color on it.

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**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

All right. Thanks, Bob. Yes, we'll provide some more detail, obviously, once we close the transaction and get into a few more specifics. But Larry, to answer a few of your questions, give a little highlight. We're assuming a roughly 4% of interest rate -- sorry, 4% interest rate on the debt. So you'd



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kind of back into that, you'll see it's around a 60% operating margin, and gross margins in that 90 kind of plus percent range. So very high-margin product. This accretion of \$0.70 to \$0.75 would be in addition to the commentary we gave on the last earnings call.

**Operator**

And our next question comes from Jeff Johnson of Robert Baird.

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

So Al, maybe I could follow up on the 60% operating margin you just talked about. Just what are you doing with the sales force? Is this just going to go directly through the CSI sales force? Was there a Teva sales force? And what will happen with those people? And I guess my question then becomes, if there's a handoff from one sales force to the other, what does that imply from a risk standpoint? And are there any other integration risks that we should be thinking about here over the next 6 to 12 months?

**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, good question, Jeff. They had taken the sales force in-house. So we'll obviously sell it through our direct channel, so that's a nice advantage to us because, obviously, we have a strong and long relationships with gynecologists. So we'll bring it into our sales force. That will be a relatively smooth transition. We would anticipate adding salespeople and kind of building out and putting some additional emphasis on the product from a sales and marketing perspective. So we're pretty good shape on that side of things. From an integration perspective, this is U.S.-based, so a lot of the integration activity we have going on right now is within the fertility space and especially outside of the U.S. This is U.S.-based. We're not going to integrate the manufacturing right away, so from an integration and risk perspective, this one will be relatively low.

**Operator**

And our next question comes from Chris Pasquale of Guggenheim.

**Christopher Thomas Pasquale** - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

Can you elaborate a little bit more on the competitive dynamics in this market? Is this product taking share? It looks like the growth you're expecting is maybe just slightly above what we're thinking for the broader market. And then maybe I could ask the second one in now, on the international front, from all the work we've done here, it seems like there are a lot of generics available OUS. So what kind of realistic opportunity is there from a commercial perspective internationally?

**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

I'll let Dr. Bob take that.

**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

From a -- dealing with each of those questions separately. The IUD market is growing on a unit basis, and that has to do with IUDs beginning to take some market share from other contraceptives in the United States. So that's what I mentioned the IUDs are growing on a unit basis. The distribution between hormonal-based and the copper-based, and copper being PARAGARD, has been relatively stable for the last number of years. So they are both growing in the market, both on a unit basis and also in price. From the international piece, as I mentioned, there are a number of other IUDs available in the international market. The highlight and the reason that Teva focused on the United States is because they are regulated differently. In the United States, it's a pharmaceutical. So it's a fairly long, intensive, rigorous regulatory hurdle in order to bring those products to



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the United States. And I highlighted the one product that appears to be on the path and, again, it's still early in their path for regulatory approval in the United States.

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**Operator**

And our next question comes from Anthony Petrone of Jefferies.

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**Anthony Charles Petrone** - *Jefferies LLC, Research Division - Equity Analyst*

Just a reimbursement question and a broader question around Cooper's strategy. On reimbursement, you gave some comments here, but I'm just wondering in terms of in the U.S. specifically, the percentage of covered lives that currently would have access to this IUD technology and maybe the different levels of reimbursement among the different contraceptive solutions that are available to the various different patient populations. And then on strategy, just as we look at overall revenue mix, clearly, this stacks up as the largest transaction in women's health. And maybe just going forward, do you see a scenario where perhaps women's health becomes equivalent to CVI over time?

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**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Do you want to do the first piece of that?

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**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of CooperSurgical Inc*

Sure. On the insurance piece, there really are 3 segments: the private market, the public market and then the uninsured market. The private and the public markets, in general, as I noted before, they're required under ACA to provide these devices without cost sharing, so they should all be covered. Now I think it was roughly 33 of the 50 states had Medicare -- Medicaid expansion, so there may be some -- a few states that didn't take Medicaid expansion, that may not have full or may have slightly different coverage, but they should all be covered without cost sharing. And then in the uninsured market, there are federal dollars that are set aside to be able to help supplement and allow these devices to be available for low income and uninsured women.

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**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes, in terms of the overall mix between -- we have 2 business segments: CooperSurgical, Women's Healthcare and IDS; and then CooperVision. There is no magic to the leaning of one way or the other. If it's a good strategic fit and the price is right, we will pursue it. In this particular case, we have been interested in the space for over 20 years and have been active in different projects to a lesser extent over the last 10 years, so it's not an unknown space to us. We clearly view the PARAGARD fit with CooperSurgical as a 1 plus 1 equals 3 outcome. It leverages exactly what we've been doing the last 25 years, we're building the relationships with the gynecologists and the operation, if you will. And so it's a very natural add and a low-risk add and a product that is very known to us over many, many years of watching it. So I guess, with that, I would just say there is no necessary priority one way or the other between the 2 businesses, and if the right transaction is in front of us, be it in either space, we will be highly interested in it.

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**Operator**

And our next question comes from Joanne Wuensch of BMO Capital Markets.



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**Joanne Karen Wuensch** - BMO Capital Markets Equity Research - MD & Research Analyst

Most of your acquisitions on women's health are more, if I can say, commodity-like products. This one has a bit more technology value, has an average selling price of about \$200, \$250. How did you think about adding this into the portfolio?

**Robert S. Weiss** - The Cooper Companies, Inc. - CEO, President and Non-Independent Director

Why don't I pass this to Al?

**Albert G. White** - The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP

Yes. So Joanne, good question. It's a great fit into the portfolio, and that's probably the quickest, easiest answer if you will. It's one product, so it fits into the sales person's bag relatively easy, and it's a direct sell to the gynecologists who we already sell to. So from the perspective of how did it fit, it fits, obviously, pretty clearly. When you look at it versus the other acquisitions we've done, a number of those in the fertility space and a number of them have been on more traditional, somewhat commodity gynecological products. But this fits in the same vein of how we look at deals from a strategic perspective, whereas a lot of that is based on the call point itself and then being able to leverage that call point. So this obviously fits nicely in there.

**Robert D. Auerbach** - The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc

And just to add to that, Al. Joanne, when we talked about the device nature, our sales force is trained in teaching procedures to providers, so that the IUD procedure of placement and removal is something that fits really well with our sales organization.

**Albert G. White** - The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP

And Bob, can you quickly comment on just the price?

**Robert D. Auerbach** - The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc

Yes. Joanne, again, without getting into specifics on pricing, the pricing from an average sales price is significantly higher than what you had mentioned as your thoughts on pricing.

**Joanne Karen Wuensch** - BMO Capital Markets Equity Research - MD & Research Analyst

Okey-dokey. Can you quantify? Because the land of Google tells me it's closer to 150 to 200 to 250.

**Albert G. White** - The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP

Well, procedure, so a procedure is going to be different in different spots around the U.S. But if you say it's kind of \$600, \$650, that would include, obviously, the device and the procedure costs and so forth itself. So that would be probably a rough average of all-in costs.

**Operator**

And our next question comes from Brian Weinstein of William Blair.



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**Brian David Weinstein** - *William Blair & Company L.L.C., Research Division - Partner and Healthcare Analyst*

Just on this one topic here. Can you talk about why is Cooper the right place for this asset? I mean, how do you guys improve the competitiveness of this product? It's been out for a long time. Is it really on the sales force opportunities? Is it -- are you going to spend more on DTC in order to drive market share gains here? I mean, what is it that you guys are going to do differently than maybe what Teva was able to do with the asset?

**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

I'll let Al take that.

**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I'll tell you, we get pretty excited about this. One of the things about this IUD is if you kind of look over the years, it's been owned by a pharmaceutical company. And that's fine, obviously. But we have a very strong relationship with the gynecologists, and we talk about our success from a salesperson perspective. So I really believe that this is the first time this product is really in the hand of a medical device company, if you will, that's going to focus on selling it and taking advantage of the relationships that are out there. We'll do some direct-to-consumer, and we're going to be a little bit clear with people that this is a nonhormonal or natural, if you will, IUD. And I'm not sure that's really clear out there. When you look at some of the study groups and so forth, there's a lot of people who aren't even familiar with the fact that there exists a nonhormonal option. So in today's world, the natural world we're in, I think it's advantageous to get that news out, talk about it and also take advantage of the fact that we have strong relationships with doctors, and we can capitalize on that. So we're definitely different than a pharmaceutical company who's owned and sold IUDs for many, many, many years.

**Brian David Weinstein** - *William Blair & Company L.L.C., Research Division - Partner and Healthcare Analyst*

And just to clarify, what was PARAGARD growing at over the last couple of years and specifically within the last 12 months?

**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

The growth rates, we're not going to get into specifics on that, because there's a breakdown between price and units and so forth. But it was a little bit higher than the mid-single digits that we're talking about.

**Operator**

And our next question comes from Matthew O'Brien of Piper Jaffray.

**Matthew Oliver O'Brien** - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Just to follow up on Brian's questions a little bit. Hormonal is such a big chunk of the market, whereas nonhormonal is so small. And I'm sure there are some of the being owned by a pharma company that may not have been as focused on it. But why is now the time where you're going to continue to see this level of growth? Is there some sort of inflection point that you're expecting to see on the nonhormonal side with some of the complications that could come along with the design, where you continue to see very good growth from this product over a multiyear period? And then on a strategy side, does this allow you to bundle more effectively with that gynecology sales force and be even more effective with other kind of cross-sell opportunities?





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**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

Okay. So I'll -- this is Bob Auerbach. I'll take the first shot at those questions. As I mentioned earlier, the hormonal device is the larger share, however, both IUDs are growing both in units and in price as the overall IUD market or a part of the, what I'd call -- known as long-acting reversible contraceptive markets continue to grow. So the overall market is growing. As I mentioned earlier, it's the first time that as a pure gynecology-focused force has had the IUD in its bag, we believe that we can talk about the attributes of long-acting 10 years of highly, highly efficacious contraception. So yes, we believe that we are able to carry that message more effectively than the pharmaceutical companies that have had it before. On the question on bundling, as I mentioned before, we do sell products both to health systems and gynecologists, so there should be some cross-selling opportunities from other products or overall influence or development of a relationship within health systems that should be advantageous to CooperSurgical.

**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. And a quick add is we believe that 16% market share has been relatively stable for a little while. So if that holds there, then that's fine. It's obviously a great return for us, and we'd be happy with that. Having said that, we do believe that we're going to be able to improve that number. We are going to be able to improve the growth rate a little bit and improve that 16% market share up a little bit.

**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

And I think some of the indicators about -- if we look outside the U.S., there is clearly more success of IUDs in certain areas. I think Bob, Dr. Auerbach, pointed out Asia being 30%, Europe being 15%. So the U.S. is still a little on the growth curve in terms of maturing that market. When you think about efficacy and cost, there is no doubt, if you have a device that is good for upwards to 10 years and compare that to the cost of other forms of contraceptives, it in fact is much more economical to have an IUD for 10 years or even 5 years than it is for some of your other choices, let alone the efficacy of the probability of not getting pregnant.

**Operator**

And our next question comes from Andrew Hanover of JPMorgan.

**Andrew Ronald Hanover** - *JP Morgan Chase & Co, Research Division - Analyst*

I just wanted to clarify one thing in terms of the markets. The U.S. market's growing 5% to 6%. Nonhormonal units are up 3% to 4% per year. How did that break down in terms of price, volume -- well, I know volume. But how does that break down?

**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, so we talked about the unit growth. The price would be the delta that -- and in this space, you'd generally get price increases at least every other year, if not on an annual basis. So there is the ability to pass along some price increases, which supports that mid-single-digit growth and, as I mentioned, maybe a little higher than that.

**Andrew Ronald Hanover** - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then in terms of just thoughts on other potential integration risks or why do the -- why the deal now in terms of we just saw this past quarter, maybe there are some potential weakness in CVIs, the tax reform, that you just need to get scale because of the last couple of quarters in CSI. I mean, how should we think about this?



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**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I wouldn't look at it that way. I mean, we've been looking at IUDs, as Bob mentioned, for many, many years. We are coming out of the integration activity within CooperSurgical. A lot of that is, I mentioned, fertility outside of the U.S. And as we have mentioned, we think we're going to see an improving fourth quarter here, and we're starting to build a little momentum back up in the CooperSurgical business. This piece is U.S.-based right now, and the sales force and the employees and so forth of Teva are coming onboard with us. We'll continue to manufacture out of the Buffalo facility. We'll roll this product through our existing sales force. So from an integration perspective, it's relatively light. It's a large deal, obviously, and a lot of revenues. But it's one product we're rolling through our distribution network, if you will, versus having to integrate an entire business. So from that perspective, looking at it a long time, excited about it, fits in really well. And it's different from -- obviously different from the fertility segments that we're doing a lot of work in today.

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**Operator**

And our next question comes from Jon Block of Stifel.

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**Jonathan D. Block** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

Some or maybe even most have been answered, but maybe a couple of throw-bys. So Dr. Bob, maybe the first one, from a competition perspective, is there anything else on the horizon outside IUDs? And so maybe, for example, back in the day, there was Essure, there was Adiana, which both didn't really play out. But any other technologies maybe even outside IUDs that could derail the growth of the industry? And then the follow-up would just be in that international market where you mentioned lower hurdles for approval and more players in the market, how does the OUS market broadly break down between hormonal and nonhormonal?

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**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

Yes, from the competition standpoint, what's important to recognize on the devices that you talked about, Adiana and Essure, is both of those are sterilization devices, meaning that they're permanent and nonreversible. The beauty of IUDs is they give you efficacy as good as a sterilization procedure, but when removed, fertility bounces right back to the pre-IUD phase. So that's really the beauty. So they're completely different segments. On the international stage, copper tends to outsell hormonal IUDs currently, and a lot of that has to do with a very strong presence with copper in the Scandinavian and especially in the Asian markets. So right now, copper is a little bit more than 50% of the market outside the United States.

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**Operator**

And our next question comes from Steven Lichtman of Oppenheimer.

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**Steven M. Lichtman** - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Two questions. First, Dr. Auerbach, you mentioned some of the dynamics around ACA and the IUD market. Maybe just a little bit of recent history, did we see any pick up in the market post ACA? And is there, therefore, any concern at all that we could see any pullback if ACA were to be repealed? And then for AI, just on the tax rate assumption in the accretion, are you assuming any bump up in the tax rate just given the U.S. mix?

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**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. I'll hit the tax rate. So this is a U.S. business full tax rate, so we're assuming a 39% tax rate, which we'll obviously roll that into our total corporation tax rate, and it will move our total effective tax rate up. So we'll incorporate that when we give guidance and so forth. But with respect to these numbers and what we'll pay, we've assumed 39%.



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**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

And touching on your other question about the ACA. The ACA is definitely a boost to the overall IUD market, but it's important to note that IUDs were growing throughout the end of the 1990s and then in the early 2000s, and the ACA, I believe, past somewhere around 2008, 2009, but many of the attributes of the ACA didn't become into effect until 2014. So there was plenty of growth in that IUD market even before the ACA was fully incorporated into our medical system.

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**Operator**

And our next question comes from Steve Willoughby of Cleveland Research.

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**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

Sorry about that. Can you hear me okay?

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**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes.

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**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

Okay. Al, just to follow up on the tax rate. Is there any opportunity to take advantage of your international tax structure to get that 39% rate down over time? And then secondly, maybe for Dr. Bob, why hasn't the nonhormonal piece of the market captured more share over time, given that this product has been on the market for so long?

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**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

I'll take that. Tax rate side, we're assuming 39%, obviously, as I mentioned, so full tax rate. To your question, it's possible. We need to do some tax work on this and evaluate the value and so forth associated with the offshore or potential OUS sales. So some work to be done on that, I would say, is possible. We'll see.

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**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

And just real briefly on the hormonal versus nonhormonal, again, as Al mentioned, this product was brought into the kind of -- into the larger pharmaceutical company without a particular focus on IUDs as being the major attribute of their offering. We do believe that IUD growth will continue. We would hope to be able to go north of that 16%, but it's important to note that, that overall IUD market is growing even at that 16% market share. So as I mentioned before, it's a trade-off between long-term contraception as opposed to some of the benefits of hormonal IUDs that are associated with things such as lighter menstrual periods.

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**Operator**

(Operator Instructions) And our next question comes from Larry Keusch of Raymond James.



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**Lawrence Soren Keusch** - *Raymond James & Associates, Inc., Research Division - MD*

Just 1 question and 2 financials. Just maybe -- I know you talked about the efficacy of the IUD and this device specifically. But can you talk a little bit about what are the common adverse events to the extent there are any, and what rates may be attached to that? And then secondly, for AI, just quickly walk me through the thoughts around the financing, and are you assuming any sales synergies? And lastly, how are you thinking about uses of cash going forward?

**Robert D. Auerbach** - *The Cooper Companies, Inc. - Former SVP and Chief Medical Officer of Coopersurgical Inc*

From the adverse events, I'll just briefly touch that obviously no contraceptive or sterilization method is a 100% foolproof. Failure rate of this device is under 1% and competes with the best of the best when it comes to efficacy of preventing pregnancy. And again, from the side effects of the device, when a device is placed, it's not uncommon that during the first 3 or so menstrual cycles, that cycles may get a little bit heavier, and then they typically get -- become more normalized over a 6-month period of time.

**Albert G. White** - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. And Larry, on your other points, a couple of things. On the financing, we do have a bridge loan in place right now. We're looking to raise money through our bank group in order to put what would most likely be a 5-year term loan in place to fund the acquisition. So we're going to get to work on that and trying to get that to come together. So that's the current plan there. Regarding sales synergies. No, we're not. Actually, we're going in the other direction. We're looking at adding salespeople and looking at adding some marketing costs and so forth, maybe a little direct-to-consumer to get some of the natural and nonhormonal news out in the marketplace. So no, not looking at synergies from that perspective. And use of cash, we're going to generate north of \$400 million this year, certainly look at north of \$400 million next year and greater year-over-year cash flow. This brings a lot of cash flow with it as you can imagine. So we'll be using a lot of that to pay back debt, this is going to be \$1.1 billion, we have a little debt outstanding already. When we close this, assuming if we can get it close here by the end of our fiscal year-end, we'll have leverage of around 2.6x net funded debt to adjusted EBITDA. So we're in decent shape on that perspective, but we'll be using the cash focused on paying down debt here for a little bit.

**Operator**

Thank you. And ladies and gentlemen, this does conclude our question-and-answer session. I would now like to turn the call back over to Mr. Bob Weiss for further remarks.

**Robert S. Weiss** - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Well, thanks, everyone, for joining us. And we're obviously excited about this transaction, and as I pointed out, we strongly believe it's a 1 plus 1 equals 3 transaction. We look forward to updating you as we proceed to get through the regulatory process. And once again, we're targeting by the end of this calendar year for closure and hope to be updating you when we report on our year-end results in December. With that, this concludes our commentary.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.



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