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

EVENT DATE/TIME: SEPTEMBER 05, 2018 / 4:50PM GMT

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PRESENTATION

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

(technical difficulty)

From a fertility perspective. With us today from Cooper, we're pleased to have President and Chief Executive Officer, Al White; and in the audience, we have VP of Investor Relations, Kimberly -- there she is, Kim Duncan. Al, I know you don't have a prepared slide deck or anything to go through, but I'll turn it over to you if you have a few prepared remarks or any comments you want to make and then we'll jump right into the Q&A.

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

Sure, yes. We just reported earnings last week, so we're an October 31 fiscal year-end company. So I'm not sure everyone has had a chance to see those, but we went through a lot of things last week and a lot of momentum in the business, a lot of things we're excited about. Probably easier to jump into Q&A and kind of get started on some of that stuff.

QUESTIONS AND ANSWERS

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

Sure. And if there are any questions during the presentation, please feel free to raise your hand, or if you're listening to a webcast or just don't want to raise your hand, session 1, the #1, session 1 at rwbaird.com and I can ask questions from the iPod or iPad, or whatever it's called here.

All right. So Al, yes, let's talk market, I guess, first. So I think last year, when you were sitting here, we talked about the market's growing 5%-ish, maybe 4% to 5%, why is it down a little bit. It seems like it's come back really strong. The market now kind of growing 7%-ish, has picked up a couple hundred basis points. It seems like dailies have been the big driver of that. I'm sure that's your simple answer for what's driving the market. But I have covered this space 16 years, dailies have been kind of slowly gaining traction those entire 16 years. What's changed in just the last year, 1.5 years, to really accelerate that conversion to dailies and then the flow-through to what it's doing for the market?

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

Yes, you're exactly right, because it is driven by dailies. So I think the key within that is the subgrouping, if you will, of silicone hydrogel dailies. So silicone hydrogel is a material that came out, as you know, back probably now 2005, in the FRP market, the two-week and monthly market, and it's now moved out to where it's about 84%, somewhere in that kind of range, 84% of two-week and monthly lens or silicone hydrogel lens. That percentage is still relatively small within single-use lenses. So as we're seeing a shift to higher dailies in locations around the world, especially within the Americas, we're also seeing, in conjunction with that, a shift to daily silicone hydrogels, which is a premium sale within the daily space. So that's what's really driving a lot of the growth, and has kind of given the kicker from what you might expect to be 5% kind of growth up to that, as you're talking about, 6%, 7% even, growth for the market.

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

Yes, and I think within that daily silicon upgrade, obviously, J&J is the largest competitor in the market, with 35% share or so, is that right? Or are they a little higher?

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

Higher than that, yes.

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

Yes, little bit bigger than that. So J&J has kind of started going through a big upgrade cycle of their own, and when the biggest player starts putting up big growth, that pulls the whole market growth up. And I think one of the points that gets lost on investors oftentimes is that J&J can do well upgrading their own patient base. It doesn't necessarily -- it isn't necessarily a negative for you.

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

Yes, that's right. And that's probably one of the more unique characteristics of the contact lens industry. And that's this kind of feeling that sometimes people have, which is, "Hey, you guys compete with a couple of really big players out there and if those big players are doing well, that has to be a negative for you, has to be detrimental for you." And that's not the case. And right now is a good example. Now that's not always the case, I should say. And right now is a good example. J&J is trading up a lot of their wearers. And that doesn't necessarily mean taking a two-week, non-compliant wearer, where J&J has big market share, and shifting that person to a daily. But it does mean that there is a shift going on, including that wearer exiting the market and new wearers coming in. And as they come in, they're coming in, in daily silicone hydrogel lenses. That trade-up for J&J, for all of us, but for J&J also, is a very nice trade-up. So I mean, they can be looking, depending upon the wearer and what they're trading to, they can be looking at, 2, 3, 4x as much revenue from that new patient that they're getting. Now that's clearly a positive for them and I happen to believe that they probably have 5, 6, 7, maybe 8 years left of trade-up. And that's fantastic for them, and it's fantastic for the market, but that's not detrimental to us. Them trading up their existing wearer base actually does a little bit of the opposite. It gives a little opportunity, because it puts some wearers in play. Not every wearer who is shifting into -- or shifting out of J&J or trading up in J&J, is going to stay with the J&J product. It's incumbent upon us to put our products out there and make those available in different formats so that we can pick up some of those wearers, and that's what we have been seeing.

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

Yes, and actually, I think if you put a little math around that, there's what, 35 million to 38 million contact lens wearers in the U.S. alone or something? If we looked just in the U.S., I mean, J&J has probably got -- I can't do the math fast enough, but what is that, 12 million users, something like that? Even if you assume 5% churn, whether it's going from two-week to daily in the lower -- in 5% of their business, or they're losing some but others are coming in, a 5% churn there, you're putting 500,000, 600,000, 700,000 patients in play every year.

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

It's a lot of wearers in play.

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

Yes, if you do the simple math on them upgrading 400,000 or 500,000 patients from $150 wholesale to $300 or $400 wholesale, they get 7, 8 points of their U.S. growth there and that doesn't impact you at all.

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

Yes, that's exactly right. And that's why I think you're going to see a stronger contact lens market for many years in front of us and their success is not going to be detrimental to us. As a matter of fact, you can see in some of the recent results and the numbers that we're putting up, that it's actually accelerated. That, in conjunction with some other stuff, has accelerated our growth. So yes, I think right now, the contact lens market is a fantastic place to be.

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

Yes, and Bausch is the other question we get. Okay, Bausch is getting a little healthier. I mean, first off, they're a 5% player. So a 5% player getting a little healthier doesn't create a whole lot of risk to begin with. But it conceptually, as I think about it, if I take that 5 -- that same 500,000-patient churn, just in the U.S., of J&J each year, 500,000 trades up from a cheaper to a more expensive J&J product, but 100,000 patients are lost. A few years ago, you might have picked up, I'm just making up numbers here, but 60,000 or 70,000 of those 100,000, now maybe you're picking up 50,000 because Bausch is picking up an extra 10,000 or 20,000 of those or something. But that 50,000 is still a recurring revenue stream annuity business you are picking up that each year is going to be additive. So again, another way Bausch can do well, pick up 10,000 or 20,000 out of this fictitious number I'm making up, but if you guys are still doing 50,000 or 60,000. Maybe you could have grown 1 point or 2 faster if Bausch wasn't there, but you're still growing pretty darn well in a, in a healthy market.

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

Yes, and we do have the trade-up strategy, even within our portfolio. Now we don't have the same trade-up strategy that J&J does, obviously, or some of our competitors, because we don't have the same number of wearers in a two-week or in a traditional hydrogel daily, but we do. So we have the new wearers. We also have some of that trade-up activity going into dailies or going into daily silicone hydrogels for us. So yes, there's a number of different growth drivers here, specifically in the U.S. market, and then there's other growth drivers around the world, which are a little different.

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

Okay. And then if we go from J&J the biggest, Bausch the smallest, Alcon is in there, kind of plus and minus for them. They've had some good times and some struggles back-and-forth kind of in -- they're maybe in the middle of that right now, being in the middle of good or bad, kind of right down the middle of the fairway for them. But think even smaller players. So the other kind of questions we get a lot, Hubble; more importantly, or more recently, 1800 and their private-label strategy, things like that. Again, with this churn of how many new patients come into the market versus those exiting and all that, I think Hubble at one point had talked about doing 50,000 patients over a few-year period or something. I mean, it's a drop in the bucket compared to what's going on with J&J and where you guys can benefit there, but how do you see the risk of, especially a 1800 private-label or some of these other smaller private-label companies coming in and maybe partnering with some of the e-channel guys or e-commerce guys?

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

Yes, and it's interesting there's different strategies here. So if you're going with the Hubble strategy, I think that's a difficult business model for them to make money on long term. I highly doubt they're making money right now, and they're going to run into a challenge. And part of the problem for that is contact lenses are a medical device; we're not a razor. So there is a physician in the middle and that creates some of the challenges that they deal with. I think when it comes to the Hubble and those kind of players, we need to be smart enough to have open eyes and say, "Okay, these guys have come in, they tried to disrupt the marketplace. How have they tried to disrupt it? Where have they been successful? And let's make sure that we're smart enough with the big dollars that we have, to go and invest appropriately, so if we're not in front of some of that technology, that we do get in front of it." So I think we're fully aware of that and we're working on that. We talked about expanding our distribution capabilities and so forth, which we're doing. If I look at 1800, that one's a little different. Private-label is a term that I don't use very often, and I know Bob, our old

CEO, used to use it. To me, we do a little bit of private-label, but we don't do very much, because private-label is really your older products that you are out there selling on price and you're putting somebody else's name on it, right, and you're just selling it through and someone else can come in and try to win that business. But we look at it more really on a customized product offering basis. So we're going to a buying group, or we're going to a retailer and we're spending a lot of time and energy right now talking about these customized offerings. And that could be our latest and greatest daily silicone hydrogel lenses that no one else has, like a clariti and sphere toric and multifocal, and it could be offering that kind of product in the store brand name, but it could also be packaging. It could also be unique labeling. It could be unique shipments. It could be, so far, if it's a big enough opportunity, a unique lens for that retailer. So when I look at that and I say, "Okay, we offer all those things." We also offer a diversified manufacturing footprint, because we manufacture product now in Costa Rica, Budapest, U.K., Puerto Rico, here in the U.S., and a really strong distribution and logistics platform. Those are all unique things and they're all things that are allowing us to go in to these providers and say, "Hey, guys, listen, keep your customers. Keep your patients. Get them tied to you and don't give them up. How can you do that? Well, you can do that by partnering with us, and working together to come up with customized solutions, customized offerings, to lock your patients in." So we've got a lot of success on that side of things. So when I look at 1800 and private-label and some of that kind of stuff, I think we need to be aware of that stuff, but the important thing is for us to take advantage of the huge breadth of offerings that we have, which is very unique within the industry, and right now, really work hard to capitalize on that, which we're doing.

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

Yes, no, and I think that's one thing that, again, investors sometimes overlook and maybe misunderstand. Your business has evolved, it seems like, on that private-label side. Because private-label, for you guys even probably 5 years ago, meant private-label.

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*

But with the distribution, the packaging, the labeling, all the stuff you're talking about, the logistics there, I mean, what are the retailers -- if I think about the small private independent ECPs that you still deal with and still a big part of your business, those guys want what you offer and the smaller guys can't offer, which is the breadth of the silicone dailies, the daily -- the sphere toric, multifocal, high powers, low powers, all powers in between, things like that.

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

Yes.

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

You guys hold more SKUs than probably just about any other company out there, or manufacture more SKUs. So the ECPs it seems like you're still in good standing with, but the retailers, how has their desires, if you will, or what they want from a channel partner, changed in the last couple of years? Because my sense is that it's not just all price.

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

Yes, you're absolutely right, yes. And quick comment. On the independent ECPs, that is still a very important market for us, and we're in there with like Eye Care Prime, where we'll go in for an independent practitioner's office and actually manage the front IT platform, if you will, right, sending e-mails out to patients reminding them that it's time to come in and so forth. So we're doing a lot of work with the independents and I would never want to forget them and act like they're not very important.

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

Let me ask you a question on Eye Care Prime, sorry, just on that. Do you have any data on Eye Care Prime, or like the texting? One of the cool things on that website I see are on the services that you offer through there. Like Dr. Johnson just had his 3:00 p.m. cancel, sends out a text to all the patients saying, "Hey, we just have a 3:00 opening, anyone want to take this appointment this afternoon?" Things like that. Any feedback from users, any data on what your patient book looks like if you use an Eye Care Prime versus don't and things like that?

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

Yes, the physicians who use that, love it. It's been amazingly successful. And I mean, I'm not young enough to say that I'm on all the social platforms and everything else out there, but clearly, people are responding better to getting a text. And you send somebody an e-mail, you send them a text, and people follow-up faster. And when you automate that entire process and send it to them for notifications or reorder of lenses or specials or anything that's going on, people react to that and they react positively to it and that's been a big benefit for the independent optometrist. And as you know, they're out there fighting and clawing their way against these big Goliaths out there who are trying to dominate the market. They need something that's unique. So they want the big, wide product offering that we offer, but they also need other things to help them. And I think Eye Care Prime is a fantastic tool to help those independents.

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

All right, and so moving back to retailers. Again, when a retailer comes to you and says, "Al, we'd like to talk about a relationship here. We want 20% off price or we want what?" And I'm sure it's not the -- maybe it's the 20% off price, but what are the other kind of hierarchy of needs there of those retailers?

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

Yes, it's a great question. Because I mean, we do run into that, and we have retailers who say, right, we want 20% reduction in price. What we try to do right now, and this has absolutely been a change in our business, is sit down to them and say, "Guys, what's going on? What's the problem that you're having? You're not fitting enough people in contact lenses? Or you're not retaining patients?" And we try to work with them through that and talk to that retailer who says, "I hate the fact that I have to get the lenses in my distribution center and cut them down and ship them out, like that's a pain. It costs me a lot of money." Okay, we can assist you on that. "Or I hate the fact that I'll sell somebody a contact lens, and they can turn around and buy that lens right online somewhere else. I don't like that, because I'm losing wearers." Okay, fine. "I hate the fact that I'm going to move a bunch of my wearers over to a new product, but then I really don't get anything for it." Fine, let's talk about that. So let's go down and say, "Okay, we'll come up with a unique offering for you, so it's a package designed specifically for you. We'll ship it so you don't have to worry about it, right to your customer's house, we'll take care of that for you, so you can get out of the distribution side of things because we'll handle that for you, because we've done so many advancements in our distribution centers. And then we'll give you guys credit. So as you convert more of your patients over into our product, we'll take your price lower. There's your discount. So guys, we'll give you that discount. You want a price discount? You got it. But you have to hit certain volumes in order to get that." Now that's been a pretty sophisticated process for us, and we have added a new sales team, a key account sales group there. Because we need to analyze that activity and say, "Okay, if we're going to offer all that opportunity and we're going to offer discounts on volume, well, that needs to correspond to at least equal if not better improvements within our own existing business." Volume is a good thing, it drives down our own cost per units. We have new manufacturing in lower-cost locations and so forth. So what's happened is these retailers have come in and asked for that price discount and where we're settling with them is the other end of the extreme of saying, "Guys, we'll do all this for you, and it works for you and it works for us. Let's enter into a long-term contract. Let's not do a 1-year or a 2-year, because that's not going to get you guys what you want. Let's do a 3-year, let's do a 5-year contract. Like we can do it, we're a big company now. We're not going anywhere. We can provide you everything that you need. We'll take care of everything. Let's link up and make it a true partnership." And we have really spent a lot of time and effort on that. And I think you're absolutely right. I think people underestimate that, right? And they think of private-label and they say someone can come in and take that business, or it's simple and so forth. It's significantly more complicated than that.

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

Just on the distribution and packaging side, in 60 seconds, tell me how much has changed or what's had to come together in just even the last 6, 12, 18 months or maybe is still on the come, of being able to take a warehouse full of lenses that are unlabeled. You pick 4 boxes, literally 3 or 4 boxes, put it in a box, put the label for that private-label name on that box, plus a return address that makes it look like it's coming from the retailer. I mean, that's not something a lot of people can do down to the 3-, 4-box level right now?

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

Yes, yes. We're efficient in some locations and we're less efficient in others. If I use like our distribution center here in Henrietta, or outside of Rochester, New York. Right now, where we have a huge warehouse with racks and racks and racks and forklift trucks going in there, going up the rack and pulling out a pallet of lenses and so forth. Right now, we're finishing the process of taking that space and cutting it in half, more than in half -- putting all those lenses and everything together and putting a robotic system up on top. And the robots go around and they drop down and pull out the lenses that need to be pulled out. They put them on a bin and there's a couple of miles of conveyor belt systems in there. And they actually put all that stuff in a bin and ship it around. Now it does a couple of things: One, it's -- they're smarter, they learn, where is the product, how much product do we need, it's going to be better for our inventory control, but it's also a million times easier to get boxes out. So when you need one Biofinity and then a -- and a MyDay toric and what, whatever is going, these guys or these robots, are going down and pulling that stuff out and dropping it. So we put a lot of time and effort into that. That will go live in November this year here in the U.S. That's a big step forward for us, especially in a market like the U.S., which has a lot of torics and multifocals, so by default, a lot of SKUs. So the more that you can automate that process, the better. And take that kind of to the end of the process. That bin comes down and right now, yes, you'd have an individual pull that stuff out, but those boxes in another box, maybe they're taking a label and putting a label on that. We're automating that process also. Because in an ideal world, you don't have a bunch of labels. It comes through, it gets put in a box, right, there's a system on there that lays on, or laser codes the information onto the box and you ship it. So every part of that process we're improving. Now we went and called our friends at Amazon and said, "Hey, mind if we come and take a look at your distribution facilities and what you guys do?" We hired some really, really talented people on the distribution, the whole logistics side. It's taken a little bit of time. This is not something you can do overnight, but I mean, we have leaps and bounds improvements and more coming. So I'm really excited about it, as you can tell. I went -- I've done a million distribution center tours and they're pretty boring and this last one I went on was fascinating.

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

Good, so let's take that -- a couple of questions off that. One, as you enter into these longer-term 2-, 3-, 4-year contracts, 5-year contracts, it sounds like more of those are maybe in Europe and Asia, even than in the U.S. Is that fair? I think that's something that kind of I -- it was a surprise to me, as of last week.

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

Yes, that's true, yes. You get more buying groups here, a bigger independent practitioner base here, so that you'll be a part of buying groups. And that's a little different at times. I mean, it could be we're a premier, or we're the platinum provider, whatever, and Alcon is also a platinum or J&J or somebody. And you're kind of going in and battling that out and fighting that a little bit, which is a bit different than if you can strike up a relationship with a big retailer, as an example, and try to go in there and create a more one-on-one type relationship.

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

As you tie some of those up, I mean, the other thing that investors have been worried about is Bausch, which is stronger in Asia and not very strong in Europe or U.S. anymore, but in Asia, they are coming out with a daily silicone later this year, early part of next year. Maybe you'll lock them out there. Europe, if Alcon comes out with their DAILIES TOTAL1 light product, or DT light product, middle of next year at some point. You've locked up some Europe, where Alcon is stronger in Europe. I mean, is there a competitive advantage to moving now versus a year from now?

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

Yes, in my mind, absolutely. We are in a unique situation right now within the contact lens industry, and it doesn't happen very often. But we're in that, in that we bought Sauflon. We integrated that business and we stubbed our toe. We had a few issues with the manufacturing, with the distribution and hiring the sales force and integrating the IT platforms and so forth. But we've done that. We have that behind us. Now we're sitting here with like a premium daily silicone hydrogel lens that's as good as anyone's out there, and a mass market daily silicone hydrogel suite of products that's unmatched out in the marketplace right now. We have our manufacturing right-sized, so to speak. We have our distribution going in the right direction. We have our sales force out there. We have a key account sales force that we built up. We're in a really good place. We need to go out there and be proactive and aggressive and win business and drive revenues. And that's what we're doing, and competition is going to come up. It's always going to come in this industry. People are going to come out with new lenses. But when you come out with new lenses, it has its own set of struggles. How many are you going to launch? How aggressive are you going to launch? I mean, a new manufacturing line could cost $20 million. It could take 15 months to get a new manufacturing line. So if you're going to launch a new product, do you buy a whole ton of lines in anticipation of that, hoping it's going to be successful? No, what most people do is they order a few lines, they launch it, they make sure the product is successful and then they follow that up. So right now, we're in that spot where it's a great competitive environment for us and we need to take advantage of it.

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

And one thing I noticed, you've been CEO for what, 6 months now? Is that about right?

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

Since May 1, but -- no, it's before that, it's 6 months or something, yes.

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

Okay. Yes, I think one of the differences, and I have so much respect for Bob, I think he was a great CEO and did so much good for Cooper over his many years there. But the difference I'm seeing between you and Bob is managed more to numbers and I'm going to hit numbers. You manage, I think, more towards growth. And maybe it's just that this stuff is coming together right as your watch has begun. But what does that mean for Cooper going forward? Should we conceptually now, instead of thinking about you as a 4% or 5%, 5%, 6% top line grower, can that go up a little bit? But then we also can't think of 100 basis points a year of margin being kind of the expectation either, that has to come down a little bit? Just roll up kind of where you think Cooper over the next few years sits from a top, middle and bottom line?

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

Yes, I think that we're, as an industry, more in the, we talked about 4% to 6%, probably more in the 5% to 6% as I go over a number of years in front of us growth rate. And I would certainly like to think where we've been sitting more in the 5% to 7%, that we're solidifying ourselves in that 6% to 8% top line grower. And I certainly wouldn't want to be comfortable at the 6%, right? We did 9% this quarter within vision, we're guiding to 8% to 10% in Q4. I think we have a good runway in front of us. So yes, you're right, I do believe that we are in a unique kind of growth opportunity. And I think we have several years in front of us if we can capitalize on it correctly. And I do have more of a bent towards that kind of growth. Maybe it's a little bit of my background, I was a sales guy for years beforehand. So I see opportunity like this and I want to capitalize on it. I've sat down, I've challenge the team, and we have a great team. Dan McBride and Dennis Murphy and the folks running the regions, our fantastic sales group. And we've talked about it, and they've challenged themselves, and I've challenged them, to drive higher growth.

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

All right. You didn't mention you were a banker in a past life, too, so that's a good thing. Keep that apart. What's the -- talk to me a little about margin and maybe how that rolls up. Obviously, next year, you've got some tax rate, some currency issues and all that. I mean, we know next year is maybe going to be a little bit tougher from a bottom line growth perspective, but over the next few years, what can we think about margin expansion? Do you give up a level of margin expansion to get to that top line, that faster top line growth?

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

Yes, it's interesting that gross margins are a little bit stronger than what I thought they were going to be. So when you go down a road like this, you're thinking, "Oh, this is going to pressure gross margins." And that has not been the case. Now we have a number of factors that are helping gross margin. Our product mix, as we shift from Avaira to Vitality, and some of the improvements that we're seeing in manufacturing efficiencies are helping. But it's interesting is how well gross margins are holding up right now. So I'm really happy about that. As a matter of fact, that's putting us in a position right now with even these investments in kind of more dynamic sales structure, we're still looking at double-digit, we talked about low-double-digit OI growth in constant currency next year. So still leveraging the business and driving upside because of the success we're having in gross margins. Operating margin, to me, we as a company consistently improve our operating margins. And currency can wreak a little havoc in that, but I don't see that changing. I see us -- we talked about, at one point, 32% operating margins in 2022. Now currency hits that, right, and it has hit that, but we're still going to put up, in my mind, pretty strong operating leverage associated with everything that we're up to.

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

All right, good. And any questions, I guess, I should ask, from the audience, anything at all? Okay, 3 minutes left. I lost my train of thought there on a question I was going to ask you about, the operating margin. Yes, I lost it. All right. CSI. Let's just move over to the women's healthcare side of the business in the last couple of minutes here. PARAGARD seems like it's growing pretty consistently now, kind of mid-ish single digits, it had a quarter or 2 above that, a quarter below, but it feels like you're pretty comfortable mid-single digits. What would it take you to feel more comfortable that it could grow even above that 4% or 5% range? What would you have to see to get comfortable with that? Or what do you think would have to happen before it could consistently grow a little bit above kind of maybe 4% or 5%?

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

Yes, we had that publication, the study that was done that was published in the New England Journal of Medicine, what 9 months ago or something in that range. And that kind of kickstarted it a little bit. And we've been investing, putting the sales force there. We've been investing in sales and marketing and so forth, to kind of make sure that people know that there is a non-hormonal birth control option out there, in this PARAGARD IUD that is a fantastic option. And the growth has been better than what I thought it was going to be, frankly. I mean, we bought that product, I was envisioning a mid-single digit grower. Everyone I talked to was trying to convince me it was low single digit or flat, and we've been doing upper single digits. So I don't want to get ahead of myself yet, but the question is how sustainable is that trend? When you look at the marketplace, that news about the study that went out there, that came out and said, "Hey, there's risk associated with hormonal birth control," right? Heightened levels of depression in teenagers, which they've linked to suicide; heightened levels of breast cancer, especially in women in their 30s who have been on hormonal birth control for a long time. That information is out there. Those studies have been done and it's out there and it's available. We're not selling that, because that's not what we are. We're out there just saying, "There is an option here. There is a non-hormonal IUD that's a fantastic option." There are a lot of markets in the world when you go outside of the U.S. where you'll get hormonal, non-hormonal IUDs, as close as 50-50. Here in the U.S., it's 17% non-hormonal. So I think if that catches on and we get a little bit of momentum there, that we could have a longer-term, higher growth story. But for now, I would lean more towards mid-single digits.

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

And it came back to me, the question I wanted to ask and now we're down to 30 seconds. So maybe Larry, if Larry Biegelsen is listening, tomorrow at Wells, he could ask you these questions. So Larry, ask these questions. On timing of investments, you've taken up some investments in the key account business, on the PARAGARD side for some advertising, things like that. Just 50-50, 20-80, what falls off after a few, 3, 4 quarters? What anniversaries through, versus what has to continue? Is this truly kind of a hot-and-heavy, onetime investment period for a few quarters and then it can normalize a little bit? Or are these going to be continuing investments? If we could just aggregate it altogether in the last 10 seconds?

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

I'd love to say that they'll continue. Because if they continue at a heightened level, that's because we're winning more contracts, we're converting more wearers over to our product and that would all be good news. In reality, my guess is it's more we annualize in a year and then you see the leverage come off that as the sales growth continues.

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

Some comes down, but some are going to maybe continue. Okay, I think we'll leave it at that. Please join me in thanking Al for a great overview here of Cooper Companies. And our next presentations set to begin at 1:25 p.m. include Premier in this room, HMS Holdings in Empire Ballroom A and Meridian Bioscience in Empire Ballroom B and Genocea in the Morgan Suite.