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COO - Cooper Companies Inc at Jefferies Healthcare Conference

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CORPORATE PARTICIPANTS

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

PRESENTATION

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

Good afternoon, everyone, and we return with medical device team here at Jefferies. Up next we have Cooper Companies. The company's CFO Brian Andrews running a few minutes behind, I apologize for that. We're actually going to do a fireside chat for this session, Q&A, and so if there's any questions in the room feel free to raise your hand, while the mic is going around, and we can keep as interactive as possible. We also have a breakout downstairs, I believe it's in Juilliard. So first, thanks for attending. We appreciate the support from Cooper Companies.

QUESTIONS AND ANSWERS

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

And I think maybe just to start off, Brian is to, kind of, get your view over the past years. Since taking the CFO role, you've had a number of roles within Cooper, but you're in the CFO position for about a year now, a little over a year, so May of 2018, you assume that role. So maybe just sort of a little bit on review the year back, and your view on the opportunities and maybe even the obstacles as you look forward in the next year?

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

Okay, sure. Thanks for having me. Sorry, apologize for being a little bit late. Sort of a traffic jam at the elevator bank. So I've been with Cooper for just over 13 years. Prior to Cooper, I spent some time between New York and Boston, doing corporate and investment banking. I joined Cooper with Al White, who is our current CEO. He and I came in as Treasurer and Assistant Treasurer. I did treasury for all the years preceding this appointment to CFO last year, still hold that title. During that time, or in between, a couple of years ago, I also took on a roll living in Denmark, running operations for CooperSurgical, specifically, around distribution, logistics, supply chain, customer service and technical service.

So I got a bit of an inside look on the CooperSurgical business, and while also maintaining treasury. So it's been an exciting ride, I sat next to our prior CEO for the 13 years I have been with the company and also right next to Al, so I've been involved in a lot of the strategic discussions and the different growth initiatives that we've been going through over the years, and the last year has been exciting. I mean, it's definitely a different type of role. Some of the challenges and the opportunities and we're growing this business at a very healthy rate. We're taking market share, we've got a Vision business that's performing exceptionally well. We've got a dynamic in the market that is compelling with the shift to dailies and, specifically, daily silicone hydrogels. We are positioned extremely well within that space, with a robust set of products and a wide skew range within spheres and torics and with clariti with the multifocal, and with a mass market and a premium lens between clariti and MyDay. In the Surgical business, it's always historically been kind of a slow grower. Over the years, I've been involved in a number of the acquisitions, mostly around the fertility space, so we've acquired a number of companies that have expanded our moat, if you will, around fertility, including consumables, media, pipettes, needles, catheters, fertility equipment, and also into the genomics arena. So what we've done by going through those acquisitions and more recently, PARAGARD about 18 months ago within in the base business, and we've really propelled the growth in that business. Now we're expecting 4% to 6% growth, so mid-single digits, with very strong margins, great growth and operating margins. In fact, the cash flow per revenue dollar with CooperSurgical is better than CooperVision. So we operate them separately. They've different management teams. They are, obviously, very different businesses when you talk about, sort of, women's health and fertility versus contact lenses, but the contact lens division we're expecting 7% to 8% growth this year. And so the challenge for me, and for us is, how do we invest strategically in the business in the most appropriate ways to generate long, sustainable revenue growth. We're investing in PARAGARD, we're investing in MiSight, we talked about it on our call last week.



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We're investing considerably in CapEx. So for us, we need to make sure that we're doing the assessment on the opportunity, we're looking in being disciplined in our approach, we're making sure that we're getting the return hurdles for investments so that we can continue to fuel the growth that we're seeing in both businesses on the top line, and have the trickle down to the bottom line. We're still expecting operating margins to be in the low-30s. By 2023, we're going to see gross margins expand, we're going to see operating margins expand this year, and I expect that to continue down the road. So for us, it's executing, it's putting our head down, and making sure that -- AI's leading the charge as our CEO, I need to make sure that, from a finance perspective, accounting perspective, treasury perspective, we've got the right capitalization, we've got the right focus on controls and process improvements, and we've got a great SG&A, we're doing great analysis on our investments and the returns on those investments, so it's a fun puzzle to solve, but it's so far so good.

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

So we -- let's go into the 2 division, I'm actually going to start with the CooperSurgical, first, then I'll talk about Vision, and then may be some financial questions, then the session and so on. CooperSurgical, clearly, PARAGARD has been an excellent acquisition. I think every quarter since the company has required, it's in the double digits, last quarter it was up 11% in constant currency. The company is making additional investments into PARAGARD. So maybe just where those investments are focused today? And then as we look at the market opportunity in contraception devices, a \$1 billion, PARAGARD holds 17% of the \$1 billion at the moment. Where do you think this can go over the next few years?

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

So I'm smiling because today was the first day, I have been to 4 conferences in the year that I have been CFO, and today was the first day, I had an investor lead with a question on CooperSurgical.

. So appreciate that. Yes, PARAGARD is exciting. We've grown PARAGARD over the last 5 quarters, 11%, 9%, 20%, 10% and 11%. That's a very high gross margin business. It's the only nonhormonal IUD in the U.S. market. When you look at IUDs around the world, nonhormonal IUDs take up a fairly significant share of the IUD market anywhere from 30% to 50% of different markets. And the U.S., we are only 17%. So we see a huge opportunity to take that market share up. And what we've done essentially in the last 18 months of owning that product that SKU is we've hired a sales force, Teva, which owned it previously, had eliminated its sales supporting the product. They didn't really advertise or promote it. It's been around since the 1980s. So it has a high efficacy, over 99%. It has a 10-year [indication] (added by the company after the call) and it's a great alternative to a hormone-emitting IUD. So what we've done is, we've hired the sales force, we've got about 80 people working, selling that product, dedicated to selling their product, we've got within our office a surgical division, we've got a disposable hysteroscope called EndoSee that's done really well, and we've just come out with a next generation product to really propel that part of the business. And we're starting to have those salespeople cross-sell PARAGARD alongside EndoSee, so that's really exciting to see.

As far as the investments, and Anthony, you asked about, in the last 12 or so months, we've gotten into much more, sort of, direct-to-consumer advertising. This includes kind of print media, social media, and streaming music sites like Pandora, but also some TV advertisements in strategic markets. In the last quarter that just passed, Q2, we accelerated and incrementally spent about \$6 million more on advertising and promotion around PARAGARD within the television space. So it's definitely been different for us. We are, obviously, spending a lot of time going through the data, tracking how it's resulting and the timing around how it's translating to revenue dollars and revenue growth. But the early signs from, at least, the print advertisements and some of the more traditional methods in social media are absolutely having an impact. We're seeing demand on units and unit growth sequentially and year-over-year. As far as TV advertisement go, it's still kind of a little bit remains to be seen. We're going to pull back a little bit on our TV advertisements and still continue to go through the data. We may selectively go out and do a little bit more TV advertising, but the incremental spend, what we're expecting that's built into our guidance for the second half of the year, in an incremental to \$1 million to \$2 million. So if we can continue to grow that business the way that it's been growing, we're going to continue to try to invest in and then support it.



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

And then, just as you look out, I mean, the ultimate, is it feasible that this could be a 30%, 35% share of that \$1 billion more. Can I assume that market has grown single digits over the next 3, 4 years?

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

Yes. So that market is about \$1 billion market. And it's largely made up by a consortium of Bayer, IUDs, notably Mirena, which is the largest part of the market. The market is growing and we've got 17%. It's hard to move a percentage point, but we're certainly moving the dial. I don't see any reason why we can't move towards those numbers you mentioned, but it's probably not going to happen overnight, it's probably not going to happen over the next couple of years, but certainly, if we continue to grow at the pace that we're growing and the market continues to grow, we're going to take a meaningful share of that market over time.

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

We have 7 or 8 minutes so I'm actually going to shift to CooperVision. In the breakout, we can discuss the other areas of Surgical. With CVI, I think, the story behind CVI, for many, many years has been a shared-gained story. The company is now tied with outcome for the #2 global position. There has been a trade, a sort of story of going from frequent lens wears to dailies. So maybe, just, your 5,000-foot view, where CVI sits today, as the #2 global player? And where the business can trend over the next 2 years? And then maybe within that, what you think the biggest driver is? Is it still the dailies straight up?

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

Yes. Sure. For those of you who know us well, we've moved up nicely. When I started at Cooper, we were somewhere in the neighborhood of 15%, 16% market share. We are now, like Anthony said, tied with Alcon at 24%. So we moved up nicely. We've always been experts in torics and multifocal and continue to be, where we own over a 30% share in both of those. Our share of FRPs is 31%. But where we've struggled and where we were late the game is in dailies, and specifically, daily hydrogen lenses. So our share in dailies is 18%, but our share in daily silicone hydrogel is 27%. So when we look at the New Fit Data, sort of GfK data, we purchased mostly U.S. data from GfK. It's missing some private-label stuff, it's missing certain customers, but directionally, between that data and our own proprietary data, we can really get a good understanding of how we're doing compared to our competitors, and we can see clearly, in the daily silicone hydrogel space, we are taking way more than a 27% share of new fits. So it's very encouraging. We're extremely bullish on the opportunity.

When you look at the dailies market, the dailies market is about 53% of the overall market, so the overall market is \$8.6 billion, dailies market is about \$4.6 billion. And of the dailies market, 39% is silicone hydrogel. Now if you compare that to the FRP market, where 82% of the FRP market is silicones, you've got a nice runway ahead of us to take the daily share of silicones up from 39% towards 82%. Another phenomenon you've got is, even though the dailies market is 53% of the market, 25% of wearers are actually wearing dailies. So if you think about it and you think about the premium, the trade up going from FRPs to daily hydrogel as being 2 to 3x the revenue per patient for the manufacturing, and then you think about the trade up from daily hydrogels to daily silicone hydrogels being a 20% premium, there's a massive runway ahead of us, and where we've got capacity, we've got supply, we've got great products, we've got wide skew ranges, wide parameter ranges to be able to support the market. And I think one of the things that separates us a little bit is, we're happy to do a branded approach and we're happy to do a customized approach. So we care very much about the eye care practitioner and supporting them and their offices, but we also focus on key accounts, including large global retailers, regional chains, and buying groups, so we're developing a number of customized solutions to help them drive business to their stores and to create some stickiness for them and also reduce the incidence of dropouts. So we've got a strategy that's working really well and you can see it in ourselves.



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

I think a very interesting development for Cooper was, a couple of days ago, at BCLA, where the MiSight data was presented there, it was the updates there at the BLCA conference. MiSight is obviously a myopia progression lens. Can you just share with us a recap of the data on MiSight? And what the opportunity around that lens is going to be in the coming years in the U.S. or globally?

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

Sure. MiSight fits within our specialty division. Over the years, we've acquired a few companies like Blanchard, Paragon, Procornea, that have helped to bolster that specialty division and MiSight, which Anthony mentions, is included in that. The specialty divisions is at about a \$55 million run rate. We grew 35% in the last quarter. We just released 5-year clinical data for MiSight at BCLA, the British Contact Lens Association, on Friday, which strongly supports and shows its effectiveness in reducing the progression of myopia in children. When you look at myopia around the world, it's an epidemic in many places. I mean, when you talk about the world, 7.7 billion or so people in the world and probably 2.5 billion have myopia. By 2050, it's expected that 5 billion people will have myopia. So what we're trying to do, and what we've been able to do is, over the years, we've developed a lens that helps to reduce the axial elongation of your eye so that it dramatically reduces your progression to myopia. And the 5-year clinical data that we came out with, we came out with 4-year clinical data last year, and then we came out with another year this year, continues to support strongly the effectiveness of that lens. And one of the things that we also did is, as we saw a very large disparity between those and the controlled group using MiSight and those not, we started that with children of the age of 8. A couple of years later, we pulled out, that placebo group, a subset of it, and we started the children that were not having any results, we started some of that subset with MiSight, and now there's been a disparity over the last couple of years from that subset as well. So we're seeing great results. We believe we're way ahead of the pack on that and it's just a massive opportunity, and we're trying to assess what the magnitude of that is right now, because, we think, it's going to give us a fair amount of momentum in the years to come.

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

When you think about timing for it's sold in several European markets, overseas markets, close to a million dollars of revenue last quarter, is there a timeframe for the U.S. in terms of when you would submit with FDA?

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

Short answer, no. I wish I knew. We're, obviously, having ongoing conversations with them, and the data, as I said, it's compelling. You're still fitting lenses. I mean, it's the contact lenses and there's definitely some uniqueness to those contact lenses compared to our other contact lenses, but the essence of them is contact lenses. The difference is that you're fitting them in 8-year olds and young children, so we just need to make sure that we're continuing those discussions, or continuing to advance the ball, but we're hopeful that we can see an FDA approval here in U.S., and that will help to propel the sales and really generate some momentum. But in the meantime, we're continuing our clinical studies, we're continuing to evaluate the market, we're developing a strategy to strategically invest in the most appropriate ways and choosing the right markets where we want to invest, and some of that investment will come in the form of advertising and marketing and market studies.

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

So there's time for one more question here, and I'll go to one of the long-range plan, sort of, outlook guidance figures that company issued. So you are targeting low 30s adjusted operating margin, but also \$2.5 billion in cumulative free cash flow through 2023. So there is an outlook for CapEx within that number, which is before free cash. Just when you think of that total amount of free cash, what would be the primary use of capital? And then within there, what do you forecast will be return to shareholders?



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

Yes, we've always had a strong cash flow business and it continues to be so. We did \$475 million of free cash flow last year. I'd expect that this year is going to be somewhere around the same, maybe even a little bit more north of that. Q2 was a strong cash flow quarter, and we expect we'll probably generate in the neighborhood of \$300 million or so in the back half of the year.

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

Just in terms of the outlook for uses of the free cash, and what percentage of that would you return?

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

We're going to pay down debt first and foremost. I mean, when you're generating that much cash, we'll pay down debt. We'll continue to look at strategic investments within the company. We talk about PARAGARD advertising and promotion, you mentioned CapEx. CapEx probably is going to exceed \$250 million this year and that's just to support all the demand that we're seeing in dailies silicones. I wouldn't be surprised if that CapEx number even touches \$300 million, but it all depends on the timing and the progress of our vendors to be able to complete the different milestones and the timing of the payments. But I think, CapEx is going to be elevated this year and probably next year as well, but the impact on free cash flow, we are generating a lot of cash, we're going to pay down debt, invest internally and as always, we evaluate acquisitions, we love those ones that are single products, ones like PARAGARD, that fit right into the portfolio and we can, kind of, hit the ground running. But like everything else, we have a very disciplined approach towards acquisitions. We want to make sure it meets our return metrics and then, of course, if there's any dislocation in the market, and we think that there's an opportunity to buy back stock at a price that makes sense, then we'll opportunistically buy back stock.

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

Thank you very much for attending. We'll had to the breakout room in Broadway. Thank you.

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

Thanks.

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