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COO - Cooper Companies Inc at Goldman Sachs Global Healthcare Conference

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PRESENTATION

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay. Well, here we are on the short shows for the conference this year but saved some of the best for last, so I want to thank all of you for sticking with us and really appreciate having the team from Cooper with us. I'm the newer analyst on the stock, so you guys are very kind to be here but we're excited to go through the business, and I want to thank Dan for making the time.

QUESTIONS AND ANSWERS

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

So with that, just really thought it might be helpful to, since it's your expertise in the vision side, talk a little bit about top priorities in that business and with the context that you have a new leadership team in place very recently. So maybe we'll start there and dive into it.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Sure, sure. So the top priorities on the vision, they're really unchanged. Our focus is on exploding our share in the 1-Day silicone hydrogel space. We see that as our opportunity to really expand in an area that we've been under index historically, which is the 1-Day space, and it also is following really where the big trends of the marketplace are. After that, the priorities around Biofinity and Avaira really -- Biofinity and Avaira represent most of the growth in the FRP space. It's a flat- to single-digit category right now, so Biofinity's growth in there is really impressive in terms of our ability there. And then after that, it's really customer-facing. Key accounts are big components of where our strategy is. You're seeing a lot of consolidation in the industry, lot of large global players, so making sure we have the right tie end with those players. And then looking longer out, myopia management and the potential that has for driving in a lot more -- a lot of new contact-lens wearers and also category expansion that, that offers the industry.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it. Great overview. So maybe for context on the daily business, can you talk a little bit about the market context, kind of where we are in adoption and what you aim to measure as success as you try to get your share of it?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes, so there's 2 trade ups going on in the 1-Day space. The first trade up is just going from monthly 2 week, which we call FRP into dailies and that is now 51%, dailies are now 51% of the global marketplace. We see that as being potentially into the mid-60s. It's both a trade up in modality, and it's also a huge trade up in revenue. So it's a big category grower for the industry as -- or a big revenue grower for the industry as a whole. The other trade up that's going on is within the 1-Day space itself, which is from the hydrogel to silicone hydrogel. If we look at the parallel, which is the FRP space, 2 week and monthly, over 80% of that category is now silicone hydrogel. And you look at 1-Days, it's in the 30s, so there's a huge amount of trade up to moving people into silicone hydrogel, the rationale around that is just higher oxygen for the eye, better health, better eye health, better outcomes for consumers. So in both cases, we have a lot of runway for growth.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it. And when you talk about the opportunity being, effectively, 2/3, 65%, thereabouts, is it governed by demographics or economics? Why -- what would keep the last 1/3 from converting over to daily?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

So we're looking at that, just we're looking at sort of country parallels, where countries have moved to silicone -- or to 1-Days and that's how we've kind of viewed it. But what really keeps it is economics. They know -- the FRPs are considerably cheaper than 1-Days, and so there's always going to be a portion of consumers that are just going to be in the FRP space.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it. Okay, and talk a little bit about competitive differentiation, what are you guys doing different than the others to get more than your share?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

So when we look at the Cooper strategy that's different, one is it's just patient coverage. We have the broadest patient coverage in terms of product in the industry, so that is a big differentiator for us; the other differentiator is, is we're leading the industry in terms of silicone hydrogel 1-Day portfolio. So where the market is moving, we have the broadest portfolio. We have 2 products, both in the mass market, so it's consumer friendly in terms of making that type of a switch. Another big competitive differentiator for us is private label. We're the only large player in the industry that's aggressively pursuing private label as part of our strategy. We view that as a way of extending our customer brands, and a lot of customers want that presence in the marketplace. And then the last one is really that when we look at ECP economics, our model is really designed around the fitter being the primary decision-maker in the consumer decision, as opposed to doing a lot of mass market consumer advertising. So we differentiate in that way too in terms of that, we put what would be the marketing dollars to consumers, we put it mostly into ECP economics, so there's a lot of reasons to partner with us as a company.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

A lot in there, and I want to come back to the private label business and ECP. But before that, I'm interested in just thinking about customer coverage. I think about it as something with somewhat of a scale game, so some of your competitors are pretty big companies. So maybe if you could draw out for us, roughly, what your customer coverage looks like versus some of these other players who theoretically can fill a lot of resource behind it as well.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Right. So we're not talking about customer coverage, I'm saying when an individual eye comes in, do you have a product that can fit on that eye. So it's actually talking about the Bell curve of the SKU range that you provide into the marketplace. Both of our -- or all of our major competitors are really focused more on the center of the Bell curve, with just a little bit of product offerings in the periphery. We are capable, as a company, of producing over 20 million SKUs, so we can fit basically any eye that exists with a product. Now in terms of actual SKUs that we hold in stock, it's more like around closer to 8 million SKUs, but that still is multiple times what the rest of the industry does in terms of the range of patients that they're willing to cover.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Now having been fitted for contact lenses before, with good and bad experiences, I'm curious the ability to make any type of lens is probably very important, but how about the fitting practices? Is your technology bringing tools to the physician to make that a better experience so that those ECPs make use of what you can do?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. It's really interesting, the industry doesn't have a patient acquisition issue. It requires a lot of new patients every year. It does have an issue on the other end of the spectrum of dropout, and a lot of that has to do with teaching patients how to use contact lenses because a fair amount of dropout comes in early on into there. So in terms of technology, there isn't a lot to do with technology in terms of fitting. It still is very manual in terms of putting contact lenses and taking them out. There is a lot of resources going in both in the industry and with ourselves in terms of training doctors how to do that better. But more importantly, doing more outreach. So we've done investments in like Web3, which is our digital platform to actually reaching out to the consumer after they leave the doctor's office to see are they having trouble with their wearing experience. Are they -- do they need more support from the office to be able to do that. So there's a lot of activity around that. But it really is -- it seems to be -- it's less about there being a technological solution to it than there being a lot more training resources and a higher level of care after the consumer leaves the doctor's office.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Understood. Private label. It fascinates me you guys are able to generate really strong margins in that business pretty much on par with the branded side. What -- why is that the case? Why are you able to achieve that level of profitability? And what's the keep when your competitors are trying to undercut you with the same -- with a similar effort into that market?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

So -- what -- the big barrier to entry in private label is just the incredible complexity of doing it at the level we do it. So we have thousands of private labels in the marketplace. That's an incredible challenge logistically and in terms of distribution, in terms of regulatory even as you have to deal with all of the regulatory requirements around each box as that is considered primary packaging for the product.

So while anybody could do 1 or 2 private labels, relatively easily, doing the complexity of levels of private label we do would require a heavy level of investment.

When we look at the profitability of private label, a lot of it has to do with -- it's ultimately looking at the mix, because there are some private label where we do very, very little work, if any at all, to the selling process. So the private label is -- we can offer better pricing around that. There's other private labels where we do a lot of work in the selling process of that private label in which case the pricing isn't much different than the branded pricing.

So overall, it's a whole bunch of things that go into that equation, whether there's savings we can get in distribution or marketing or in terms of volume, penetration into the account. So there's a lot of different things that go into why, ultimately, the private label business and the branded business really don't deliver a huge difference in terms of bottom line performance.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

I apologize, maybe this is known, but have you guys ever disclosed share in the private label market versus the branded? And if so, is (inaudible)

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

So in terms of our share as private label, we've disclosed that we're around -- is around 30% of our business is private label. When you look at the global private label business, we're a big proportion of the -- of private label. So what we have out there is -- of all the -- of the large players, we're the only one truly committed to private label. So there are a few examples of others, but it's a much smaller amount.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay, got it. Helpful. Maybe think about -- thinking about the business globally, can you give us a little bit color as to the opportunity outside the U.S.? It has been a critical part of the story, just trying to -- interested in the key priorities there to capture the opportunity.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. So when we looked at the most of our market outside the U.S, which is -- the 2 most, which is Europe and Japan, there's still a lot of room in terms of just the trade-up into 1-Days and the penetration of 1-Days into those the spaces. In Europe, myopia control or myopia management is of interest in that space but it's tiny and that's much, much further out. When we look at EMEA as a bigger region, then you're talking about geographical expansion and really moving into markets like Russia and Turkey and other markets where there's a lot of people and a lot of potential for growth there. For us, Asia-Pac, the growth there is largely around putting sufficient resources into the region. So it's the build-out of the sales force. So we are way under-indexed in the Asia-Pac market, and we have, again, the best product portfolio in the industry. So part of it is just getting enough sales force and resources to push that portfolio, and that's why we're seeing really incredible growth rates coming out of that region, and it's largely around the fact that we're now putting enough muscle to push the products to actually get the leverage where we should.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it. And as you think about just sort of how the markets differ in emerging markets between developed and emerging -- I'm sorry. If I think about the international market developed versus emerging, can you talk a little bit about the difference, particularly in the emerging markets, and where the opportunity is most material?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. So one thing is set for -- when you're talking about emerging markets, these markets are -- they're developed in and out of themselves. And most of -- for the most part, what we would call emerging markets, they're leapfrogging right into the most modern of technologies, so they're not kind of going through the progression so it's partly just getting the right technologies in place. Part of it is just getting scale into those marketplaces for us and then -- yes...

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay. And if you think about getting scale in those markets, can you put on your CLO hat and just tell us kind of what infrastructure you have in place? What you need to put in place over the next couple of years to really execute?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. So I -- we've, over the last 5 years, really -- and those countries where we see the highest potential, like China and parts of Korea, Taiwan, we actually have built out those teams over the last 5 years. So now it's really just, it's continuing to supplement those teams and execute on them. So that -- those investments have been made, and now we're starting to see the benefits of those investments, and it's really just continuing to lay those investments on as those businesses grow.

Those places are becoming a lot more difficult from a regulatory perspective, so it's also adding in the regulatory resources to keep up with those markets to make sure your products are -- continue to stay available. So it's really just maturing with those markets now, and then looking out for opportunities for how one can accelerate further. So, we're growing faster than market in all of those places, but when we have such a small base, it's both looking organically and inorganically, other ways to quicken the pace of that growth.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

What does the competitive landscape look like in China? Just if I look at both your competitors in the established markets versus maybe local competitors, how does that market work today? How are you guys trying to exploit it?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. So, that's -- China is actually probably the one odd market in the world in terms of -- the competitive dynamics are actually different than other places in that the top competitors are Johnson & Johnson, Bausch + Lomb and then a local competitor called China Hydron. And so Bausch, that's the one region where they actually are -- have a really nice success. So a large part of it is -- of what we're seeing is that it's also a market where there's both the traditional contact lens market and then there's the colored contact lens market at play, and we're a traditional contact lens, we don't really play in the colored market. When you look at the growth of the marketplace, what we view as the established competitors versus local companies, most of the growth now is coming from the -- there's a higher growth pattern with the established companies, like China Hydron is the one kind of exception in that piece of the market place and a lot of their growth is in the colored side. So a lot of it is just that market is developing the way other markets have. They're moving from conventional -- they're -- they still have a large conventional base, which is like 6-month wearers or 9-month wearers. Those are moving into monthly then moving into daily. So our strategy is largely around putting out some products that we wouldn't service anywhere else in the globe, which is some conventional products, moving those people into monthlies, moving them into the dailies and continuing to expand our distribution network, because it's such a large country, even though we have direct business there, the sophistication of your distribution network is critical in order to penetrate that market.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay, that's helpful. And if we look on the innovation side, I think J&J did a investor meeting just couple of weeks ago, talking about some of the new things they're trying to do, traditional lenses and so on. How do you think about the best ways to deploy resources? Because you mentioned the colored lenses and all that. If we look beyond the core of what you're doing, are there areas of innovation that maybe have not gotten as much investor attention that are worth talking about for growth, whether they be domestic or global products initiatives?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. I -- What I -- I'm not a big fan of the transition concept. But what I do like about what J&J talked about was the idea that you can have product differentiation. I think one thing that's kind of a misnomer in the -- that gets kind of caught up is that contact lens are expensive. They're actually incredibly cheap, and they've become, from a consumer perspective, even cheaper over time. So the idea that the contact lens can do more or that you can have more variation on what you do with your contact lenses, I think, is actually intriguing for the industry, and we certainly are looking at ways of doing different things with contact lenses. Biofinity Energys is a good example of that, where we really tried to focus the product on digital eye fatigue and how people use their eyes with digital devices. I think there's more to do than just sphere, toric and multifocal for the industry. On the other end of the spectrum in terms of, like, truly novel and exciting developments is myopia management, where you have a 1,000-year-old industry that all it did was treat symptoms to one where you can actually take your product, and actually improve the health and the long-term eyesight, and actually treat the problem. So that's pretty exciting that you can take your product in that direction as well. So we are looking at lots of different ways one can use contact lenses in the industry and not really confining ourselves to the idea that it's just about sphere, toric and multifocal, and it's just about new material.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it. Okay. Maybe, I want to spend a little time on just channel and the extent to which what the online market has become a new way to reach a customer. How do you think about the opportunity there? And you said that, that could be a bigger share of the channel over time? Where do you see that going?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. So historically, the Cooper position has been -- we've been very anti doing much in the online segment, because we haven't seen it being additive to category growth. So there -- the online channel has basically been pulling revenue away from fitters. I think what's happening now that's more interesting, and I would call it digital than necessarily per say just online, is you're starting to see it -- a lot more omnichannel, a lot more of where the online channel is tying into where the fitters are. And to the extent that's what's going on, then we're kind of excited to participate and help our customers move into that space. But really when we look at it as kind of a touchstone to what matters to us, is it going to category? Is it putting people into contact lenses? Is it expanding what's being done with fitters as opposed to is it just taking share -- revenue share away from people that are actually doing the hard work of getting people into contact lenses? So there's a lot going on there. It's going on with -- we have conversations with all of our customers about their online presence or their lack and their need for it. We've done investments in there, both in our Web3, which was trying to give ECPs a digital footprint that they can get out there and communicate with the consumers with, along with like the investments we've made in LensFerry, where we're giving them an e-commerce capability to be competitive in the space. So we're very, very active in it and -- but again, our mission in all of this is to make sure that the fitter doesn't get lost in this because at the end of the day what's healthy for the manufacturer is that there are people that are making money fitting contact lenses, and if people aren't making money fitting contact lenses, that then hurts us.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

So maybe if you can talk a little bit about the regulatory backdrop around the online piece. I mean, certainly, as a patient, I can appreciate you want a professional fitter to give you the right products, and that's important part of the experience. But I imagine there are going to be competitors that try to bypass all that and shortcut the system and work through regulatory loopholes the extent to which they may exist. So what's your view on that? Are there things afoot that might change on the regulatory front that would favor your approach to the market?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. I mean, we obviously were part of the FTC meetings on all of the this, and we participated in there. I don't see a big sea change in terms of the regulation. So we're not hearing anything that says there's going to be a change in the need for prescriptions or how prescriptions are treated in the marketplace. What we do see, as you see some of these online players are basically building out their model by ignoring regulation. We, obviously, couldn't do that. Our large customers couldn't do that. The regulators at some point are going to have to make a decision as to whether the rules matter or not. But -- so we think that's not a sustainable model, because the regulations aren't going to -- or at least as far as we can tell, we don't see anything that says the regulations are going to change. Where it becomes more interesting is not those kind of players that are just kind of skirting the rules in order to build out their business model. What becomes more interesting is things like online refraction and being able to either renew a prescription or do that. That actually is an interesting area. But again, to us, as long as that's tied to actual true fitting, then we'll look at whether it makes sense for us to participate or not participate in that piece of the marketplace. But some of the stuff that's come out just -- it's really just been business models that are just preying off the idea that if I'm small enough, I don't really have to play by the rules.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

How big is that part of the market today? Still low single digits.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes, it's tiny. It's tiny. And even if you look at things like -- online was going to take over the marketplace at one point in time, globally, we expect it's around 17% and this is a relatively mature spot, and when we look at subscription models and we look at parallels in the marketplace like a Dollar Shave Club or birth control pills or things like that, that's kind of topped out at around 15% of the marketplace. So we're talking about things that are definitely important and definitely have a way of disrupting the market and how the market acts, but we're not talking about a complete shift of the whole market model over and we just don't have any -- when we look outside of our industries, we don't have any parallels that say that, that's what we're -- that we're going to see happen.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

I'm sorry, and did you say that -- I think a little confused by the terminology, low single digits for the online market today, but then you said something about 17% online.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

I thought you were talking about the new entrants. So if you're talk about online, meaning like, if you're talking about traditional online like....

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

I'm talking about both, so that's why it's confusing.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Oh yes, then 17% is about where online is right now globally and roughly the same in the U.S. today.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

You talk -- I'm sorry, got a question upfront.

Sorry.

Unidentified Analyst

I'm wondering if you have a view on what's happening in the ECP market in the U.S. right now. If you look at the lenses and frame manufacturers, they've been reporting pretty slow growth in the U.S. over the past 2 years. What do you think's driving that? Is it a shift to contacts? Is it a shift to online? Is there something else that's going on in the demand picture in the U.S. that we can't see?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. I don't have insights into the -- to the spectacle market. So I don't follow that close enough to be able to tell you what's going on with that. But when I look at the contact lens market, it's actually -- it's still healthy. We've had waves of where you've -- you'd get swings of foot traffic but foot traffic seems to be still relatively healthy from a contact lens perspective. There definitely is a lot of rumblings around online. And so online is -- I mean, if you talk ECPs, that's their number one concern is what's -- what does my business model look like and how do I compete in that? And so we spend a lot of time working on that. But that's kind of where, from our perspective, we still have a healthy market to serve.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

I think early in the conversation, you talked a little bit about LensFerry, and that's an area that I think, is still pretty early and perhaps not in focus. I'd love to learn a little bit more about it and what your goals are maybe this year for the business.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. So when we talk about LensFerry from an investor revenue basis, it's pretty much irrelevant to what you're looking at. We don't -- that's not a primary source of revenue. From an ECP-conversation basis, it's a huge source of our interaction with ECPs, because we spend most of our time talking to ECPs about their business models, and how they need to evolve their business models and product is part of that conversation, but we're spending a lot of time partnering with the ECPs and their practices. That's where you really see a huge development in business. So for us -- what LensFerry does for us is, one, it gives us a solution that we can offer to our customers to help them with their business problem, which is: How do they have a digital footprint? How do they have an e-commerce -- an effective e-commerce site? How do they have subscription into the marketplace? And then also for us, it puts us in that arena so that we're learning at a much faster pace that what matters? What doesn't matter? What's effective in the digital space? What's not effective in the digital space? So it makes us a more effective partner because it's not like we're just reading newspapers about what's going on in online, we're actually, actively participating in it. So it's very important from us from a business perspective in terms of how we sell ourselves into the marketplace. It's not really that important from a revenue perspective or product sales perspective or the stuff that you -- why you invest in us, other than it's part of the penumbra of the story that is why people want to partner with Cooper as opposed to partnering with their competitors.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay. I want to spend -- we have a few minutes left and I wanted to maybe instead of talking about markets and so forth and talk a little bit about the financials and kind of the guidance you've laid out. And maybe start with the 6% revenue CAGR that you guys have laid out through 2022. That does imply a little bit of an acceleration, especially in the developed markets, why are you guys confident that, that will happen?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes, because we're starting to see the trade up. I mean, if you look at -- one we're seeing the trade up into 1-Day, so if you look at going from 51% to 66% in 1-Days globally, there's a huge amount of revenue trade up that implies in the marketplace and then the other one is, you have these massive franchises of 1-Day hydrogel, which is MOIST and the ECP for J&J and Alcon and as those franchises trade up in the -- and the 1-Day market trades up into 1-Day silicone hydrogel. And that floats across all the markets. And that -- so you get different dynamics for each of the markets as to why they grow, but net-net, there's just so much revenue potential there and that's what's really driving us to say that and -- that you're going to start to see the higher end of the range, because we typically guide 4 to 6. We think the high side of that is more possible just because of those dynamics.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it, okay. Maybe on the margin side of the business. Where is the opportunity in vision most compelling to raise margins, either the gross line or operating?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

So on the gross margin line for vision, we have a strong culture of continuous improvement. We're constantly driving cost out of the -- out of our products. It -- there's a sight line to where we can drive cost in on every -- every one of our product lines has potential to drive cost out of, and it's just a matter of time and resource to move through it. So it's -- they're getting to a point now where all of the platforms that we're using are known.

We know where those cost drains are, and so we're now just clicking through a list of improvements that we can do and we have our own little curve of where we think we can drive cost, so there's -- somewhere down the cost side is just that, that culture of continuous improvement, of continuing drive and cost out of it. On the OI side, some of that will come from that gross margin improvement, and some of it comes from OpEx leverage. We've done a tremendous amount of investment in the business over the last few years. We're building out our distribution infrastructure. That'll be a leverageable infrastructure for the next few years after that, so we'll get leverage from that. We're -- we built out a lot in our sales force. While we want to do more, that becomes more of a leverageable asset too, as we've built up the infrastructure to be able to support a higher level of revenue. So we see that there's some potential there also on the vision side just in OpEx leverage too to get greater OI margins.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Next question was really on the portfolio effect of the combined vision and surgical business. I think from where you sit on the vision side, the growth thesis and all that makes sense. But you're closer to it than we are. If you look across to the surgical side, how do you think about the benefits of having these 2 businesses together? What's not obvious from the outside about the combined portfolio?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Yes. We think that there are some synergies just in terms of the overall business in terms of how you manage talent, how you manage your back office and your infrastructure for it. They are very, very different businesses. They don't naturally have to be together. They've worked well together, they're delivering similar economics, so we don't see that there's an issue with trapped value, and then there are some synergies just in terms of the scale of the 2 businesses, both in terms of sharing knowledge and ensuring -- and being able to, in the future, share potentially some of the back-office synergies that one can get. But largely, keeping the businesses together has a lot to do with the fact that both businesses have attractive growth portfolios that don't really drain from the other.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it. And you're talking about the fact that they have similar growth profiles, you don't have to trapped value, but when I think about resource allocation on the R&D line, how about the IRRs associated with products -- projects on one side versus the other? They're probably different horizons, different hurdle rates. So how do you guys prioritize in the R&D pipeline? Which side to invest in?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Well, I mean that's advantage of having 2 successful companies with really good growth profiles, is we don't really have to -- we don't spend a lot of time trade-off between one company or the other. So CooperVision, in terms of our organic strategy and our inorganic strategy, we don't spend a lot of time worrying about what CooperSurgical is doing. They have the same metrics to meet that we have in terms of gross margins and revenue growth and OI. So as long as both companies are meeting their targets, we generate enough cash. We haven't run into a situation where we've traded off an opportunity on one side in order to fuel an opportunity on the other side. So it's just the advantage of having 2 nicely growing in the companies.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Right. if I think about industry structure, in vision, you obviously have significant scale to consolidated market. Surgical, different animal and even just this week we saw more speculation that there could be more consolidating -- significant consolidating events in medical devices. So when you think about, whether it's this potential deal or future deals, the future of the markets where surgical plays, how important is it to have more scale to continue the growth and the success you've had in that market?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Well -- so on the fertility side, I think we already have scale. We're a market leader in that space and it's a nice growing space. When you look at the office surgical side, it's much more tactical in terms of -- I mean, there's huge players in that space, and we're not trying to say that we're in direct competition with them and -- Boston Scientific or J&J for where they sit. We take niche pieces of the market where we think we can have leadership positions, and that's really been sort of the strategy around that. You look at even something like PARAGARD, the most recent acquisition, unique product, really no competition in terms of it being the only non-Hormonal IUD in the marketplace. So yes, it competes with the hormonal ones, but if you want to go nonhormonal it's the only product that exists. So again, it's that piece of what we're doing there, which is we're not trying to say that we're going to scale up to be Boston Scientific or something like that, but we're saying, we can play in unique niches there and be very, very competitive in that spot.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Got it, and so I guess lastly, when I think about M&A, you guys have done some deals in that space. I think most would say the success there is a little mixed, but going forward, there's still a lot of fragmentation. So should we assume that under Al's leadership we'll see a resumption of M&A, really leaning towards that side of the portfolio as opposed to vision?

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

No, he's committed to both sides, and the difference between vision and surgical just happens to be that the vision side, we have -- we're able to organically grow at a fantastic -- and so we have wants but not necessarily needs. On the surgical side, oftentimes we want to supplement their product portfolio, because we'll have sales force capacity and we can take products in and hit into the call points with it. But when you look at the actual investment in the 2 businesses, we still invest more in vision than we do in surgical, net-net, because where you see investments in vision, you'll see it in CapEx and you'll see it in other things that are doing the organic growth. In surgical, you might see it a little bit more in M&A. But the intent is to have M&A investment in vision and M&A investment in surgical. It's not weighted one way or the another. It's really where are the opportunities, when are they available and do they meet the metrics that we want to invest?

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay, well, we're up on time. So I want to thank you, Dan, for coming, great to have you. Enjoyed the conversion.

Daniel G. McBride - *The Cooper Companies, Inc. - COO, EVP and President of CooperVision Inc*

Thank you very much.

David Harrison Roman - *Goldman Sachs Group Inc., Research Division - MD and Equity Analyst*

Okay, hope to see you next year. Thanks all of you guys, see you next year.
