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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Robert Justin Marcus** *JP Morgan Chase & Co, Research Division - Analyst*

## PRESENTATION

**Robert Justin Marcus** *- JP Morgan Chase & Co, Research Division - Analyst*

Good afternoon, everyone. I'm Robbie Marcus, the med tech analyst at JPMorgan, and I'm very happy to have Cooper presenting next. Al White, President and CEO. Al, go ahead.

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

Thank you, Robbie. Welcome, everyone. I recognize a lot of faces out in the audience, and I know this presentation can be a little boring, so I'll try to add some facts as I work through it here. But there's a number of new people, so I'll cover some of the history also.

If you go to Cooper, in general, as many of you know, we're a global medical device company operating through 2 business units, primarily CooperVision, which is roughly 75% of our revenues in the contact lens space; and then CooperSurgical, which is about 25% of our revenues. Headquartered here close by in Pleasanton, California with a little bit over 12,000 employees around the world and revenues last year of just a little bit over $2.5 billion.

If you look at our history, we have a number of charts in here going back 5 years, and what you'll note from most of this is just the consistency associated with our business. We've done a number of acquisitions over the years, but we've also had a lot of organic growth. And you'll see that in kind of chart after chart. You see the CAGR on here for sales over the last 5 years growing 10%. You can see last year, 7% pro forma growth. And I'll walk through CooperVision and CooperSurgical as we move through the presentation, but on a consolidated basis, you can obviously kind of see the good, solid, consistent growth that we've been able to put up for many years and that we focus on as a company.

If you look at this last quarter, 9% growth and EPS of $2.87 along with very strong free cash flow closing in on $200 million. We had almost $500 million of free cash flow last year. So not only have we seen strong revenue growth over the years and consistent earnings improvements, but we've also been generating a significant amount of free cash flow. We anticipate that will continue.

If you look at our earnings, again, going back to a solid low double-digit earnings growth rate, you'll hear us talk about this that, as a company, we try to focus on delivering consistent low double-digit EPS growth. Now this year is a little bit more of a challenge because we're hurdling taxes, currency and interest expense, but we've given guidance, which I'll touch on, which is low double-digit operating profit growth in constant currency. And another thing that we strive for here was just kind of consistency in our earnings and improvements in our earnings.

Speaking guidance, we look at our total guidance this year of $2.6 billion to $2.66 billion. CooperVision numbers you could see on here which correlate to roughly 6% to 8% pro forma growth. Right now the contact lens industry is growing around 5%, 6%. It's been as strong as, I think, trailing 12 months after this last quarter, was actually 7%. So we've had an acceleration in the contact lens industry. This year we're kind of talking about 4% to 6% for the year, probably on the stronger side of that 5% to 6%. Our guidance at 6% to 8% within CooperVision. As I've commented before, I do believe we'll probably be in the mid to upper end of that range. Over the last 3 years, we've grown a little bit over 7%. Pro forma, a little over 7% and a little bit over 8% this past year. So we've had a lot of strength for a number of years. I'll touch on some of the reasons behind that as I work through the presentation, but continuing to expect some pretty strong top line growth.

CooperSurgical, up to $660 million to $680 million. Many of you are probably not as familiar with our CooperSurgical business, but a very strong business. It's doing well. This growth correlates to roughly 3% to 6% kind of pro forma growth. So expecting a pretty decent year out of CooperSurgical.

Non-GAAP EPS of $11.30 to $11.70. At the midpoint, that's roughly flat. Again, that's largely driven by taxes, where we're seeing our tax rate move from roughly 8% up to around 14% in our guidance this year. We're also hurdling -- or we're also covering about $0.55 of FX when we gave guidance in December. FX was negative to us of about $0.55. It's moved in our favor a little bit since then, but that's what was incorporated in the guidance.

If we look at our long-term objectives, these objectives have been pretty similar for a number of years, and we stick by these and we strive to be successful tied to these objectives, one is grow revenue faster than our markets. Whether that's CooperVision or CooperSurgical, we have consistently outperformed the market.

Now we used to spend a lot of time, especially within Vision, talking about the market and what multiple we were going to grow the market. We pulled back from that a little bit to say, hey, guys, the contact lens market is growing and it's growing nicely, and it's being driven by a number of different factors, especially the trade up, the dailies and specifically, daily silicone hydrogel lenses within that trade up. There's a lot of success coming from J&J. There's a lot of success coming from us. The important factor here is that we have a very strong contact lens market and we're growing faster. And there's a number of dynamics around key accounts and our investments in key accounts that I'll touch on a little bit later in the presentation.

Same within CooperSurgical, although a little different. One of the more recent drivers of CooperSurgical has been PARAGARD, which is a nonhormonal IUD, and we're the only ones in the market here in the U.S. with that product. So that's been driving a lot of our growth, and we're investing heavily in that product right now and remain very optimistic about future growth potential.

If we kind of move around this circle, grow EPS faster than revenues. This year is a challenge obviously, as I mentioned, because of taxes especially. But if we look at OI on a constant-currency basis, we're calling for that to grow double-digit. So we do look to leverage the business on a consistent basis year in and year out, driving leverage to the bottom line.

Part of that -- part of the thing that allows us to do that is our cash flow. We generated $475 million roughly of free cash flow last year. We're talking about north of $2.5 billion over the next 5 years. We should see pretty consistent improvements in our operating cash flow over the coming years. We are going to invest heavier from a CapEx perspective within CooperVision this year and next year to support demand as we're seeing significant demand on our products, especially in the daily silicone hydrogel side. We've incorporated that, obviously, into this number.

So looking at over $2.5 billion. One other comment on that from a capital allocation perspective, we have done a number of acquisitions over the years. More recently here, we've done a couple small ones. I think that what you're going to see is us pay down debt a little bit more. We're just a little bit under $2 billion of net debt today. So a little bit more focused on paying down debt. We will do some acquisitions if they make sense, if they're strategic, a little bit more in the middle of the fairway and probably a little bit more on the smaller side than what we've done for the time being. And then we'll look at buying some stock back if that makes sense. We did a number of years ago. We haven't bought many shares back recently, but we'll probably look at buying some stock back over time.

Expand CooperVision and CooperSurgical geographically. That's an important part of our business. If we look at CooperVision, the wearer base is relatively flat in developed markets, be that here in the U.S. or in certain parts of Europe. You don't get a lot of growth except in emerging markets. So we have a lot of investments there in terms of infrastructure build, with a focus on expanding our product offering.

Same within CooperSurgical. We've had some success over the years with our fertility business and also within our core base product portfolio, and we're continuing to invest there to expand through key accounts and our geographic presence, meaning feet on the ground.

And then complete strategic acquisitions. I touched on that a little bit when it came to the $2.5 billion, but we have done a number of acquisitions over the year. Again, we'll continue to look for those if they make sense and they're strategic, and provide us sufficient return.

All of this kind of circled together pointing over to the operating margin. I talked earlier about driving operating margin expansion every single year. Right now we're looking at 2023, so roughly 5-year operating margin expansion goal, into the low 30s.

If we look at operating margin improvement over the years, you can see right now, looking at about 28% at the midpoint of our guidance, you can see that kind of consistent improvement over the last 5 years. We've been able to leverage the business through our existing infrastructure, but also through some of the acquisitions which have been highly successful.

One of the things I would probably point out here is that an interesting thing when you look at a chart like this that might be a little surprising is if you look on a constant currency basis, most of our margin expansion within CooperVision especially has come from the gross margin side. We continue to invest very heavily on the operating expense side within CooperVision and will again this year through our distribution network and key accounts. At some point, we'll start leveraging that. Right now we are seeing a lot of growth potential. So we're continuing to invest and continuing to drive our top line growth.

Some market statistics within contact lenses, and this is last year data. So $8 billion is the size of the contact lens market. Right now, in a trailing 12-month basis, it's a little bit closer to $8.5 billion. So we are, as I've mentioned earlier, we are seeing nice growth in the contact lens industry, again, driven by the trade up to dailies and specifically, daily silicone hydrogels.

You can see how we look at categories here. You can see us calling the market to grow around 6% per year. So a very nice solid market to be in, a little bit stronger in torics and multifocals. Torics and multifocals, both products that we are very strong, and we're a leader in both of those product categories. And we're seeing a lot of growth in both of them outside of the U.S. especially.

So when you look at fitting someone who has an astigmatism, as an example, for a toric, that's a lot more common here in the U.S. than it is a lot of markets around the world. So as fitting becomes more standardized and a little bit easier, so to speak, you're seeing growth in those areas. And we anticipate those to continue to grow, especially as daily silicone hydrogel torics and multifocals enter the market.

If we take the same kind of chart and we break it up a different way and look at it geographically, this is an interesting slide, still, obviously, the same consolidated growth of 6%. We're getting a lot of growth from Asia Pac because we're underindexed there as a company. This is interesting to note that on a market-wide basis, we're actually looking for growth in the 3 regions to be very similar, around 6% each. Different drivers for the different regions.

If we look at EMEA, you have a situation where you're getting better growth from key accounts, especially from us on the key accounts side. You are seeing a transition to dailies and you are seeing growth in dailies, but you're not seeing it as fast as you're seeing it in Americas. You're also seeing a little bit of growth kind of in Eastern Europe from expansion of the wearer base. So a couple dynamics there.

If we look at Asia Pac, we are seeing an expansion of the wearer base, which is exciting, especially outside of Japan. Japan's a relatively developed contact lens market. Outside of Japan is a lot of -- there's a lot of growth potential. For us, we have significant growth potential in Asia Pac.

The Americas, 6%. Americas is being driven more by the shift to daily. So globally, you're seeing a shift to daily silicone hydrogel lenses. I'll touch on this in a couple slides here. But within the Americas, you're seeing a shift to daily lenses themselves and away from the 2-week or the monthly modalities, and that's helping -- that trade up is helping drive growth in the Americas without an expansion of the wearer base itself.

If we look at dailies versus FRPs, this is an important slide and it's an especially important slide for us, for CooperVision. If you look at the market, the market's growth is being driven by dailies, and you're seeing that conversion, as I talked about here, in the Americas and you're seeing it some in Europe, and you're seeing the conversion to daily silicones on a global basis. And that's part of what's driving our growth. We're underindexed in dailies, CooperVision. And as the market continues to shift to dailies, and especially daily silicone hydrogels, where we have the strongest portfolio in the marketplace, that's driving a considerable amount of our growth. So this is a very, very key slide, a very important slide for the marketplace itself and for what's driving our long-term growth. And it's what gives us comfort in terms of investing, adding lines and doing all the expansion activity that we're doing.

If we look at the growth drivers of the soft contact lens marketplace, again, daily lenses and silicone hydrogel daily lenses within that, that subsegment is the biggest driver.

Wearer base expansion. If I have time, I'll touch a little bit on myopia management. But if you look at, generally speaking, the wearer base expansion, as contact lenses have moved to dailies, as they become more comfortable, it's a little bit easier for a 13-year-old or a 12-year-old to wear contact lenses. I mean, it wasn't that long ago, a kid would lose a lens during a basketball game and you'd stop the basketball game looking for the contact lens. I mean, that kind of stuff doesn't happen anymore.

So you're seeing a little bit on the younger side. You're seeing multifocal technology advance. So for people who are getting older and getting presbyopic, the multifocal category is growing and that helps expand the wearer base that we have out there.

And you look at geographic expansion. I talked about that some and some of Eastern Europe and the emerging markets where we're getting growth in the wearer base itself.

Interesting slide here when you look at market data and modality by region, and I would focus everyone, again, on the dailies side. You can see dailies, in the bottom corner, which is now up to 52% of the global market. You can kind of combine the 2-week and monthly. But what's interesting is as you look geographically, you can see Asia Pac up to 66% dailies right now. There's markets within Asia Pac that are as high as 80%, 85% daily penetration. When you look at Europe at 52% and growing and the Americas down to 41%, Americas has experienced pretty significant growth over the last 5, 6, 7 years to get up to the 41% number.

One of the things that's interesting that I've heard people talk about or challenge us a little bit on is how we're converting wearers from FRPs, from the 2-week and monthlies, into the dailies side because they're quite a bit more expensive, and it ends up being about a 2 to 3x revenue trade up for us. What you're seeing a little bit more of is you're seeing people who've been in contact lenses for a long time drop out of lenses. And as they drop out and they're a 2-week or a monthly wearer, the new entrant that's coming in is the 13-year-old or 14-year-old and the doctors are pushing that new wearer into daily lenses and especially daily silicone lenses. It's the best lens for your eye. You're putting it in every day. You're throwing it out. So from an eye health perspective, it's the best lens. It's especially important for kids who are not going to clean their lenses correctly.

So you're seeing this kind of natural transition of people exiting, new wearers coming in. As that exit happens, again, we're talking about a 2 to 3x revenue trade up for the manufacturer. So it's a pretty profound improvement. This transition of seeing the Americas going from the 20s that it was up, up to the 41%, in my opinion, the Americas and EMEA continuing to move up into the 60s is a big, big growth driver of the contact lens industry. It provides a lot wind at our back.

If we look at the competitive dynamics, you can see our increased market share, 23% market share here most recently. Alcon at 24%, J&J at 41% and Bausch just kind of upper single digits and then there are some contact lens manufacturers in Southeast Asia. This is an interesting slide. You can see, obviously, our continued growth. We continued to do really well here.

The dynamic that's kind of fascinating on here is that we have 23% global market share. Well, if we look at our 2-week and our monthly lenses and we look at our torics and our multifocals and we look at our daily silicone hydrogels, we're kind of in that 30% to 35% market share range. So how do we get to 23%?

Well, we get there because historically, we struggle winning wearers on the daily hydrogel side. So as that marketplace starts to fall behind and as silicone hydrogels strengthen and we continue to win our fair share there, having the market-leading portfolio, that entire dynamic shows why this trend, up to 23% and growing, is going to continue.

Now we'll say J&J is doing a fantastic job right now. They have some new products that they launched. They're doing a nice job trading their wearers up. I think that they're going to continue to see a situation where they have older wearers exiting, new wearers entering, coming into the daily lenses. I think that they're going to continue to convert wearers into their daily silicone hydrogel. And my guess is they have many years in front of them of kind of mid-upper single-digit contact lens growth. I think that's fantastic. That is a great thing, and it's not detrimental to us. That's good what they're doing. What we're doing, where we have a smaller traditional hydrogel base and we're converting people to the daily silicones and winning the new wearers and pulling a lot of those out of Alcon, that works out fantastic for us. So it will be interesting to see how this pie chart kind of looks in 5 years, but I feel pretty confident you're going to at least see our 23% continue to improve.

If we look at our growth versus the market, kind of slicing it in a different way here, you can kind of see, obviously, our percentage of the market has grown because each and every year, we've been outpacing market growth. And we did again last year in fiscal '18, and we feel as well we'll continue to in the future.

A big part of this is the innovative product portfolio that we have. If you go back a number of years now, you would have looked at CooperVision and said CooperVision is kind of a follower or maybe a fast follower of the technologies that are out in the marketplace. That is not the case anymore. The company is now a leader. We're a leader when it comes to silicone -- single-use silicone hydrogels, whether it's the premium side, where we have a market-leading product with MyDay; and certainly in the mass market side where we're the only contact lens company who has a daily silicone hydrogel in the mass market space and not only that, the only contact lens company that has a sphere, toric and multifocal daily silicone hydrogel option. So feel good about being on the forefront of technology in this space, which is the space that's truly driving contact lens growth now and for the foreseeable future.

If we look at FRPs or the monthly, 2-week space, we're also a market leader there. Right now, as you remember from a couple slides ago, that part of the market's growing 1%, 2%. We've been growing as much as 6%, 7% if you look at Biofinity and Avaira. We had 2 great stories here.

Biofinity, very successful lens, been growing mid-upper single-digits for many, many years for us. It's one of our largest products -- or it is our largest product. And then Avaira Vitality where we transition from Avaira to Avaira Vitality recently. The transition to this product is at a much lower cost point. So it's been a big benefit to us in terms of improving our gross margins.

If we look at annual sales, again, on CooperVision, you can kind of see the continued improvement there. No surprise associated with that. The quarterly sales most recently here are up 10% pro forma. So fantastic quarter. Let me just touch on that briefly. One of the things I've spent some time talking about in the one-on-one meetings and with investors recently has been what's driving this growth. Have you guys accelerated your growth so you become a consistent grower? I mean, CooperVision growing 7%, 8% for a number of years now. A lot of that growth is driven by the product portfolio that I was talking about. It's also driven by our key account strategy. So we have had a history where we've had a great relationship or have had great relationships with a number of retailers and buying groups around the world. Those relationships have been heavily driven by Biofinity and Avaira.

Now that we're the leading guy in the daily silicone hydrogel side with a great product portfolio, we're able to go into these key accounts and talk to them about offering customized products. So where in the past, CooperVision was private label, and you could think of us as kind of a simplistic private label company, that whole thing has become much more complex. As we invest in our distribution network and really upgrade distribution, we have 3 new facilities that just recently opened in Spain, in Budapest, in the U.K. We're expanding our facility in Liège, significant expansion; upgradings, adding a lot of robotics to our facility in Rochester. We're really expanding our distribution capabilities, which is an important part of what's driving the contact lens marketplace within key accounts.

So for us to be able to go into a lot of these key accounts and talk to them about offering them a unique solution, a customized solution that has customized labeling or branding or shipping or even IT solutions that we offer a lot of our customers and work with them from a marketing and -- sales and marketing perspective to expand their wearer base of contact lens wearers, that's turning out to be fantastic. So you'll see us talk -- or you'll hear us talk about that and you'll see it in a lot of our scripts and so forth that we've had a lot of success driving the key account side. And we've invested a lot of money there, we're continuing to invest a lot of money there. That's a big part of the driver why you saw 10% pro forma growth in the fourth quarter and why you saw 8% for the year and why we feel so positive in the coming years about our growth.

If we look at CooperVision geographically, I touched on this a little bit earlier, you see 23% of our sales in Asia Pac. We have about 16% market share there. So a region where we just have excellent growth opportunities. Unlike what you'll see with some key account opportunities especially in Europe, Asia Pac has the key account opportunities, the expansion of the wearer base and then some of it is just straightforward blocking and tackling. It's opening new offices. It's adding salespeople. It's bringing our market-leading products into the country and providing those for people. So nice growth opportunities in Asia Pac. As you can see, the numbers support that. 19% growth last quarter, very, very strong quarter for us and anticipating continued double-digit growth within Asia Pac.

Europe, driven heavily by those key accounts where we have some great relationships. We want to be very, very supportive of our partners there. 9% pro forma growth, was a strong quarter.

And the Americas, up 8%. A good solid quarter in the Americas as the shift to dailies and especially daily silicone hydrogels has gained traction.

Looking by category, I won't spend too much time on this. I touched on it earlier with torics, multifocals and our single-use and nonsingle-use. You can kind of see the breakdown of our sales there.

We talk about CooperSurgical just a little bit here. Our women's health care business, which has really grown and expanded over the years, it's kind of broken up into 2 pieces: the OB/GYN side, which now has a big driver in PARAGARD and then also our base products which we're selling around the world; and then you look at our fertility business. We're a market leader in global medical device products within the fertility space and within genetic testing within fertility. So at the end of the day, this business was growing 1%, 2% for a number of years. It's now a mid-single-digit grower. It has gross margins in the low 70 percents, strong operating margin expansion and the revenue -- or cash flow per revenue dollar is very, very strong in this business.

So you can kind of see what we've done most recently, including 5% pro forma growth last quarter with office and surgical up 12% driven by PARAGARD, again, our nonhormonal IUD, up 20%.

If we jump to the next slide, CooperSurgical has had a long history of acquisitions. We'll continue, as I mentioned, to look at acquisitions in this space. A lot of that tied to smaller tuck-in type acquisitions, which are highly accretive for us.

So let me summarize with 5 key takeaways here for us. As you can tell, very excited about the contact lens industry and the future. I mean, we're talking not the next 2 or 3 years, but a good 6, 7, 8-plus year future there. I didn't touch on myopia management, but that's another area of the marketplace where we're very excited, and CooperSurgical has developed quite the barrier of entry themselves.

Revenue growth exceeding the market. Strong growth in both of our businesses, which will drive some leverage for us. Investing in the infrastructure, I talked about that from a distribution perspective, the key accounts, expanding our sales force. So a lot of investments, but still putting some leverage through to the bottom line.

Positioned to achieve our long-term objectives, which I touched on earlier, which is getting operating margins into the low 30s. So feel good about our history on that and continuing to be successful.

And then a track record of success. I think you saw chart after chart after chart in here that was kind of up and to the right. And if we went back further years, you would continue to see up and to the right. So I believe that we've had a fantastic history of success here, and going forward, we'll continue to be able to drive that.

So with that, I'll wrap it up and I think questions are in another room?

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**Unidentified Analyst**

(inaudible)

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

Down the hall? Thanks. Thank you.

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