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# EDITED TRANSCRIPT

COO - Cooper Companies Inc at Jefferies Virtual Optical Health Summit

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## CORPORATE PARTICIPANTS

**Albert G. White** *CooperCompanies, Inc. - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

Thank you, everyone, for joining us for the Jefferies Optical Health Summit. Up next, we have Cooper Companies. With us, we have the company's CEO, Al White. So Al, thank you for joining us today on a Zoom session. We really appreciate the time here you're spending with us.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes, absolutely. Glad to be here.

## QUESTIONS AND ANSWERS

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

So I think it's an interesting time, certainly for the industry and the space, both obviously, vision and surgery. Today's focus is on the vision side for Cooper Companies. And so maybe we can pick up the discussion where we left off on the June 4th call. Obviously, we went through a number of headwinds we were seeing from COVID-19. As you described on the call, one would be new fit starts, wearer behavior, purchasing patterns and the like. So as we're a little bit deeper into June, I think maybe a place to start, for those who were not on the call, is to just recap some of those comments that you had a couple of weeks ago. And then maybe we can talk about how you're seeing those trends evolve here.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes, sure we went through that, and highlighted a couple of different areas that had impacted the CooperVision business. The one that is probably worth talking about the most is new fits. We had a decent impact from new fits when we reported the quarter, and that's continued, and it continues to move forward here, and it will continue to be the hot item as we move through this year and into next year. That ties to foot traffic within optometry stores. We're definitely seeing optometry stores reopen. There's no question about that. We have over 2/3 of stores right now in the U.S. that are fully back open, the whole shooting match. Almost all optical locations, independent optometrists are open for emergency cases and so forth. But I'm talking about locations that are open, that are fully servicing, that are having foot traffic. So, we're definitely seeing progress on that side of things. And that's good because that's the new fit business. It seems pretty clear that the demand is exceeding the capacity of the optical industry right now to fit people in contact lenses. So that's a great sign, right? We're seeing that rebound coming back, and we're seeing some pent-up demand there.

So we're clearly moving in the right direction in new fits. When we look at the channel inventory side of things, that's starting to loosen up a little bit also. So as new fits are starting to come back, as people are coming back to wanting to wear lenses again, we're seeing that pick up.



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

We had a discussion a couple of weeks ago, a month ago or so, just on the new fit side. How much of that is driven by back-to-school? What are your thoughts on back-to-school this year? Obviously, year-over-year, it would look a little bit different. But certainly, sequentially, you can see a scenario where back-to-school really drives new fits. So maybe a moment on that.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. Sure. Back-to-school is definitely an important part of our business. And back-to-school is a little different depending upon where you are around the world. But when we look at back-to-school in the U.S. market here, which is coming up, that's an important part of our business. Now back-to-school is only a part of it. When you think about it in the context of back-to-school, that also means other activities. You're getting kids coming back-to-school, meaning they're coming back to playing sports, right? They're interacting with their friends more frequently, all of that kind of activity is occurring. Now some of that's going to happen, some of it maybe not to the same degree that's happened historically. But right now, I would say that our assumptions around the return to school are that it's obviously going to be somewhat limited versus prior years, somewhat minimized. I don't know about everyone else, but my kids here in California are looking at going back to school. Schools are going to be open. There's question marks about how often they go, but I think when you get the 2 pieces of it, one is that kids go back to school and realize that they need visual correction. That's when they're saying something to their mom or dad, "Hey, I need to go in and get my eyes checked. I can't see as well." And kids going back in because they already have glasses and they need to update their script. All that presents opportunity for new fits, for trade-ups, for everything else.

So I think we'll see that. We're making enough progress right now. We're in the middle of June and as we move into August and into September, we see a lot of this activity in that August, September, October stage that we're looking like we're going to be in decent shape from that perspective.

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

Maybe we'll touch on the geographies, and we touched a little bit on the U.S., but maybe let's pivot back to the APAC region, china. Obviously, a little bit of a mixed bag that we're in early, out before everyone else. Improvements that you spoke of on the quarterly call on June 4, but now we're seeing reports on Beijing and school closures. So how do we think about the APAC region broadly? And then within there, China and Japan as your 2 largest markets in the region?

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

There's been some recent news with respect to China. But I can say from our perspective right now is that China is going really well. China is doing better for us than it was pre-COVID. I think we're seeing the rebound in activity there. You're also seeing the pent-up demand that's adding to the quicker comeback. If the entire market globally moved as we've seen China move and continue to move here, that would be really fantastic news. I hate to give a broad stroke down in Asia Pac because it's a little different by country. But at least for our business, Asia Pac is moving in the right direction. There's no question about that. I would say it's in line, from a couple of weeks ago when we were looking at the business, continuing to do well, continuing to slowly open, move in the right direction, as we expected. If we walk that a little bit further, Europe is probably pretty similar to that. The U.S. would be a little bit better. The Americas, if you get outside of the U.S., maybe a little softer. Those markets are pretty small when you look at South America. The probably biggest pleasant surprise has been in the U.S. market where we were expecting some pretty heavy continued softness, and that's clearly moving in the right direction.

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

One of the comments from the call that resonated was this notion that we may be seeing a little bit of a shift in wearer behavior. Are they wearing as much if they're at home? Are they ordering quantities similar to pre-COVID cycle? So maybe just as you see the behavior of contact lens wearers, where it is today. And does it really get back to baseline at some point, your views there?

**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes, that's another piece, the consumption piece, if you will. When people are at home and they're working from home, are they not wearing their contact lenses? Or are they not wearing them as much? I think we saw some of that behavior, whether it was people extending their life a little bit of their 2-week lens and wearing it for 3 weeks or a month. Or someone who was in dailies, who used to wear it 5 or 6 days a week, pull back to 2 or 3 days a week. They were home all the time. We certainly seem to be starting to come out of that. As people are going out to eat, right, my wife and I were out to dinner Friday night. There must have been 1,000 people more down in our little town walking around...

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

Congratulations on going out to dinner. That's great. We're still waiting.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

It was amazing.

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

We've got nothing.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

The wine bars are jam-packed outside. I mean that's a good sign. Looking at that from a contact lens perspective, that's great news. You might work at home and you might wear your glasses, but I can tell you a significant number of contact lens wearers, they're putting their lenses on to go out at night, go do things. So as we see restaurants open up and shopping open up and everything else opening up and social interaction increasing, that is clearly a positive for an increase in contact lens growth.

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

One came in from the audience and just to clarify on the inventory comments, Al. I know that from the quarter, that was a combination of distributor inventory, it shifted in the cycle, but also the ODs holding a little bit less inventory. It sounds like that sort of is reversing or has fully reversed. So maybe just a little bit of clarification there.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

It definitely has not fully reversed. No question about that. If you look at channel inventory, and what I'm talking about there really are distributors and a lot of it's U.S. distributor inventory. And then it's our retailers that I've talked about the relationships we have in our key accounts, and we have some very large retail relationships. That channel inventory, as people focus on our liquidity, will trend up or it will trend down over time depending upon how people are doing in fit activity. We clearly saw a contraction of that in our fiscal second quarter as people really just focused on liquidity, used up the inventory that they had on shelf. We've seen steps in the right direction with some of that. That is tied to end-user demand. What's happening is people took their inventory down as demand has increased, retailers are seeing distributors saying, "Okay, I need to carry a little bit more product here as I see demand picking up."

I think that we're moving in the right direction there. And clearly, that has not come back yet. That will continue to trend its way back as we work through Q3, Q4 and potentially even into next year, depending upon if the uptake of new fits and foot traffic activity continues to increase as well.

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

So maybe we pivot a little bit to kind of ex COVID and move on from that topic. We have some time here. So we'll level set again, which has always been part of our thesis is the trade of the dailies, company talks about it all the time. Where are we in the silicone hydrogel daily cycle? What is still out there in terms of opportunity to convert? And then I'll have a quick follow-up to that as it relates, really, to the economy. And so when you bake in the economy now, down swings, how does that factor into your outlook for dailies? So a 2-part question.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. We've talked for quite a while about how the entire marketplace is moving to daily lenses. So that continues. We've been an obvious participant in that. The entire market has moved in that direction. We've all gained as the mix shift has moved to dailies. That's greater revenue per patient for us as an industry. When you look at the industry growth, which has been running pretty solid in that 5% to 6% range, and it's maintaining that solid growth. There's definitely a portion of that that's coming from the shift over to daily wearers. Now you're seeing a lot of that in terms of new fits. So it's not necessarily so much somebody's wearing a monthly lens or a 2-week, and that person switches to a daily. But a lot of the new wearers that are coming in the door, the new fits, the 15-year old who's coming in, is being fit in a daily. That's a key part of it, and that's where we're doing really well. That's where we're still doing well, and we'll do well when we come out of that is, is getting our fair share of new fits.

That's a key component. If you look at the market right now, about 54% of the market is in daily lenses on a revenue basis, about 45% of that is silicone hydrogel. You're seeing the market just continue to move, that 54% continues to increase. I think it will go up to around 2/3 of the market, as we see in some Asia Pac countries. That 54% going to 66% is a big, long-term trade up opportunity for the industry.

Now you look at it and say, okay, how does the economy affect things, because that negatively impacted. There's not a significant delta there. When you're looking at a doctor telling you, "Hey, you should wear the best product. This is a medical device. You should wear the best product for your eyes with the best oxygen permeability, water content, comfort, ability to put it in at the beginning of the day, throw it out at the end of the day, that kind of thing." The doctor's recommending that. It's coming from the manufacturer, but it's clearly coming from the practitioner. We're clearly seeing growth and people who are like, "Hey, I want to wear my contact lenses 2 days, 3 days, 4 days, not every day," So dailies is a big part of that. That shift to dailies is clearly continuing within that subsegment shift to daily silicone hydrogels is there. To touch on your second question a little more, if we do see a little bit more of a recession, then I think we're fairly well positioned for that. We have MyDay as our premium daily silicone. If someone wants that top-level wearing experience and is willing to pay for it, we have a product there. We do have a great product in clariti for the mass market. If we get a situation where there's a little bit more budgetary shopping, then we have a product that's perfectly fit for that area in clariti. We're in pretty good shape either way, no matter how the market moves.

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

We have representation both from the retail and optometrists, and we're going to follow-up with some optometrists calls next week. Could we delve into the U.S. market in terms of those 2 channels, how it splits for Cooper? What percent goes through retail? What percent goes through ODs? And the follow-up there would be is, how is online changing both access channels?

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. I look forward to your survey data. You guys do a lot of really good work on that. There's some really good insight that comes out of that.

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

Thank you. Thank you.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

I appreciate your work.

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

We're cleaning it up a bit. We're trying to improve it, but it's gotten some good feedback. So we appreciate that. Thank you.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. Yes. It's well deserved. It's a little tough when you look at the channels because some of the channels overlap so much. You talk about optometrists. Walmart has 3,000-plus stores. But they'll have independent optometrists who are there. Then you have the National Visions out there who are your premier retail companies. Then you get your buying groups or a bunch of independent optometrists who come together as a buying group. Then you get what I call, non-fitters that are selling, and that would be your online guys, who are not necessarily fitting lenses. They're just fulfilling product out there. That piece has stayed relatively steady for many, many years in the upper teens. Now we definitely saw an increase in online shopping activity in fulfillment, whether it was through those pure online guys or whether it was through your walmart.coms and your other retail locations. That's here in the U.S. We also saw that outside of the U.S. with the Specsavers and the GrandVisions and a lot of those types of people. There's a different flow as things move through. It's a little hard to get a lot of the specific numbers as to how many patients are going there, the revenues. We're going to be decently different than some of the rest of the industry.

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

We did mention now last quarter, when you think online is that benefit of ordering online, direct ship to the home. It sounds like CVI is moving in a way to help ODs facilitate that. And I guess there's telemedicines in there because there's a drop ship directly to patients. Maybe talk about that for a moment.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Sure. Yes. And to be clear, we don't mind too much on how our product is sold. If it ends up being sold through a retailer -- and I'm talking about from a P&L perspective, through a retailer, through an independent, through an online source, it doesn't have that big an impact on our P&L. If you look at our position on it, we've advanced our direct-to-patient shipping capabilities significantly over the last couple of years. If you have an independent optometrist office, as an example, that we used to ship product to and then they handled it and gave it to their patient, we can now take care of that for them. We can ship that directly to the patient's house on their behalf. For them, it's a great situation. Some of the product offerings we have, like LensFerry, some of the online capabilities we have and our distribution capabilities are second to none in the industry. We continue to offer that as a benefit to the people we're doing business with because we would love to see that. That's great. That's a sticky environment. You're locking in your patients. We see that a little bit more in some countries outside of the U.S., like the U.K., where you have bigger subscription models. It'd be great to have a subscription model where we're sending on behalf of you, the optometrist, contact lenses every month as an example to your patient. And reminding your patient, "Hey, you need to come into your next checkup. Make sure you have the right correction in your lenses and so forth." And the next part, the next shipment is showing up and so forth. That's a great model, and we're certainly capable of being able to do that. And that's the direction the industry is slowly moving.

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

We have a few minutes here, and I actually want to jump into myopia management. Just to level set it, how does Cooper view the myopia management opportunity? And it could be either globally or U.S. just to kind of segment that. Obviously, MiSight is already available OUS. So how do you see myopia management as a market opportunity? And maybe we can get into some specifics on MiSight.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. I still believe that myopia management is a multibillion-dollar opportunity. I really think it is. You walk around at schools, anywhere in the world and you see kids in glasses, we're talking about kids who are having myopia that's progressing. It's getting worse. This is an opportunity to actually treat that. That's an amazing thing. I've talked about it many times. But we need to get the product out there. We need to educate optometrists that the product exists and the clinical benefits of it. We need consumer awareness around that. I've said this before and I continue to believe that if something comes out with spectacles and talks about myopia management and the importance of it, it's just going to help the entire industry.

Now we've seen a pretty significant increase in interest in that product, which has been fantastic. We have well over 200 fitters in the U.S. certifying right now, fitting the lens. And in the data right now, as stores open back up, optometrists are fitting kids right now in MiSight in the U.S. We're seeing those orders start to come through. We had an increase in the number of people who are going through the certification process itself. I'm really bullish about that. Now there's only so much our optometrists can do if those stores are closed or just reopening. There's only so much time that they can spend on it. I do think our revenues are going to be softer than it was initially expecting for this year. But I'm still pretty bullish on that product, but I think we can do the \$25 million we were talking about next year. And then we'll hopefully double that again following the year. Based on the interest and the certifications and the fittings and stuff we're seeing, I feel pretty good about that.

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

I know you mentioned a couple of weeks ago that a lot of those certification courses were fitters moved virtually. So they were really going to take place at universities, they're now virtual. Has that actually allowed the company to actually train more fitters than you normally otherwise would have if...

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes, it has. What ended up happening is, because we're just launching that in the U.S., we probably lost a month or 1.5 month of activity. Then we got the program online, once we got it online and started going again, we started picking up momentum. I would say that right now, we're in a better place than we were going to be beforehand in terms of the number of optometrists who are certified and that are going through the certification process. That doesn't mean we're in a better space necessarily from a revenue perspective because all those doctors are going back to fit. But it's great to see the interest. It's great to see the number of docs, well over 200, approaching 300 certified. Last I looked, we were at 700 and something going through the certification process. If I could sit here and tell you, hey, we're going to have 1,000 doctors that are certified fitters in MiSight at the end of this fiscal year. If you would have asked me that 3 or 4 months ago, I would have said, that seems like a stretch. And now I'd say that seems like it's positive.

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

That's good. It's a great data point there. We have a few moments left. Talk a little bit about just capital investments in the P&L real quick. So just on the capital side, it sounds like all of the plans for new lens line manufacturing are on track despite shelter-in-place restrictions and maybe even ordering access to certain import materials for manufacturing. So can you give us an update on how many actual lines is the company investing in right now? And when will that capacity be up and running?

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. So similar to a lot of companies, we continue to produce product through COVID here. Now we're working through what that means in terms of inventory levels and how we're going to manage inventory and production. The one product that we continue to produce is MyDay. No matter what, we need more MyDay. We have lines coming on. We have a ton of demand out there for the product. As optical stores are reopening, the demand for MyDay is clearly there. We're not doing anything other than trying to make as much as we can and bring new lines on as fast as we



can. Some of the other products that are out there, especially our legacy hydrogel products, we're taking a much closer look at inventory levels and management of that. I do think as we translate that into what's going to happen, hopefully, the economy keeps coming back as it is, you'll see everything return to normal. I do think, because of the improvements that we've made in terms of manufacturing, getting things up and running, the success we've had rebuilding some of our inventory and our positions, we're going to see higher CapEx here because all of it is in process, Q3, Q4, Q1, that time frame that we're looking at now, maybe even some into Q2, but then I think you're going to see CapEx come down a decent amount. Q3 and Q4, I think you'll see a relatively solid increase in free cash flow.

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

I think the last one here, we have a moment, is M&A is part of the DNA of Cooper Companies. And it's certainly mostly focused on the surgical business, but you have done acquisitions within CVI. And so maybe just an update on how you view the landscape out there, specific to vision and how you're looking at BD&L these days?

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes. I would probably give you the same answer that I've given for years on M&A activity, saying what I'll give for many years in the future. If we could find deals that make sense, that work for the company, that's really strong strategic rationale and give us a sufficient financial return, we're going to look at doing deals. We haven't done much in the last couple of years because we haven't been able to find those transactions, so you see us flip actually a little bit more to some stock buyback activity. Same thing is historically is into the future. If opportunities present themselves, we'll look to capitalize. And if not, that's okay. If they're too expensive, that's okay, and we can pay down some debt and we can buy back some stock.

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

Fair enough. Al, we're just about out of time. Thank you so much for joining us.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

Yes.

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

We sure much appreciate it, and enjoy that next dinner out in California. We'll wait in in New York. Well supposedly, we'll get there soon in a few weeks, but good luck and stay safe.

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**Albert G. White** - *CooperCompanies, Inc. - President, CEO & Director*

All right. Thanks, you, too. Appreciate it.

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

Thank you. Bye.

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