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# EDITED TRANSCRIPT

COO - Cooper Companies Inc at Wells Fargo Healthcare Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Lawrence H. Biegelsen** *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

## PRESENTATION

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

All right. Good morning, everyone. I'm Larry Biegelsen, the medical device analyst at Wells Fargo. And it's my pleasure to host this session with The Cooper Companies. With us, we have Al White, President and CEO. In terms of the format, it's going to be a fireside chat. If anybody in the audience has a question they want to ask, please just raise your hand.

So Al, thanks for being with us.

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

Sure. Yes. Thanks for having me here.

## QUESTIONS AND ANSWERS

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

All right. So Al, I wanted to start at a high level and then drill down in areas such as myopia management. I guess, maybe just start with the contact lens market. On the Q3 call, you said the market grew about 7% constant currency on a trailing 12-month basis, which is pretty strong. What's driving that growth and what's the outlook?

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

Yes. The growth drivers for the contact lens industry have remained the same for a number of years here, and I think will in the future. The last 10 years, the market's grown in that 4% to 6% range and now we're in the upper part of that 4% to 6% range. And frankly, I think, the next 10 years are going to be in that 4% to 6% range. And a lot of that's getting driven by the same things we've discussed in the past, the shift to daily silicone hydrogel. So the shift to dailies itself in the marketplace and then the shift to daily silicone hydrogels also. And then, you're getting the geographic expansion and better fits internationally with torics and specialty lenses, all driving it. But at the end of the day, 2 big growth drivers are the people who are wearing 2-week and monthly lenses and as they get older and exit the market and the new wears coming in, in dailies and daily silicones, and then the trade up. There's still billions of dollars of sales of lenses that are traditional hydrogel lenses that are all converting to silicone lenses and that's a 20% to 30% trade up for manufacturers.

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**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And Al, just if we turn to CooperVision and the Q4 outlook, just to focus on that for a minute, you grew about 6% in Q3. Your guidance is for 6 to 8% in Q4, but the comp is tougher than in Q3. So what drives the kind of acceleration if you just use the midpoint of the CooperVision guidance for Q4?



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

Yes. It's pretty similar to what we saw in Q3 at the end of the day. You're right, we had a very hard comp in Q3 of last year, 9% and then 10% this year that we're comping for this quarter. But at the end of the day, EMEA was 3%. It was a little bit lighter than we were thinking and there's some stocking issues associated with Brexit. So I think EMEA holds there or maybe gets a little bit better. Americas was 5%, that should hold, maybe get a little bit better. Asia-Pac continues to put up a good number. So at the end of the day, the real answer is going to be underlying strength of the contact lens market remains and our positioning within that market remains as is.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

So I mean, if we look at 2020, you always give some color on the following year, fiscal 2020. You gave some color on the Q3 call. It sounds like you expect the contact lens market to grow at the upper end of the historical 4% to 6% range. We covered that a minute ago. And you expect to continue to outpace the market. So year-to-date, you've grown little over 7% by our math, the guidance implies about 7% for the full year. How do you maintain that growth in 2020? You do have new competition. So do you have any kind of new products that could drive your growth?

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

Yes. At the end of the day, the factors that drove our growth this year and last year, where we were growing around 7% a year, are the same factors that are going to drive our growth the next year and the following year. Yes, there's competition. There's always competition coming and going whatever and we have products that we're rolling out around the world and so forth. At the end of the day, it's still driven by strength in Biofinity and Avaira combined in our FRP side, but then real strength in our daily silicone hydrogels, and I envision that to continue. I don't see any reason that won't continue.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Daily silicone hydrogel slowed to about 23% growth in Q3. It sounds like some of that's the Brexit, maybe \$4 million to \$5 million destocking we saw in Q3. It was largely the silicone hydrogel business. Is that fair? And was that 23% really on an underlying basis much stronger?

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

Yes, that's correct. Yes, the entire amount of that EMEA shortfall right there was attributable to daily silicone lenses.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. And then for CooperSurgical, you're guiding to 4% to 6% pro forma this year, any puts and takes you'd highlight for next year? Is that kind of the range you want people to think about CooperSurgical?

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

Yes, we'll probably do a similar range to what we did this current year. I think when we give our initial guidance, and a couple of pieces of that being PARAGARD that we talk about, the fertility business being a little bit of the stronger side and some of our base OB/GYN products being a little bit on the lighter side, but I don't envision too much different for CooperSurgical year-over-year.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And on the P&L, just to finish the 2020 outlook. You don't actually give real guidance or full guidance, but you give enough color to kind of get to a range. You talked about double-digit operating income growth on a constant currency basis. Right now currency is pretty modest or minor factor.



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Interest expense coming down pretty meaningfully to somewhere around \$50 million by our math and the tax rate of 13% to 14%. So just to tie that together, it implies kind of mid- to high single-digit EPS growth for next year on a reported basis. Is that fair?

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

Yes, I think that all that's in the range of what we would be expecting.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

All right. I wanted to spend some time on myopia management. Because you gave some encouraging update on that on the Q3 call and we've done some checks on myopia management. We did a note on it earlier this year. It's a huge opportunity. So I think it's worth spending some time on that. First, it sounds like you're optimistic about getting FDA approval for MiSight by year-end calendar 2019. What's driving that confidence?

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

Yes. I agree with you by the way, it is a huge opportunity. I'm pretty excited about it. We've been having dialogue with the FDA on this. You have to remember, it's a contact lens. Contact lens has been in the market forever. But at the same time, this is myopia management targeted to children basically 8 to 14 years old. And in that age group, you have essentially no one using contact lenses today. So you can imagine the FDA's questions coming back around that, such as hey, you guys did this big clinical, you got great data. We have 5-year data. We released 3-year data that's out in pure journals. What happens to kids that were in the clinical using MiSight and then exited the clinical, questions like that. So we've had that dialogue with them and we've given them that information and that's where I come back and say, well, based on where we stand today with the dialogue with them, we're expecting to get something more material back by the end of the calendar year. That could be a couple of different things. Obviously, I remain hopeful that that's an approval, but we'll see how it plays out.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

What else could it be?

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

Well, they could ask for more information. They could do a public panel to have an open discussion on it, some of that kind of stuff.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Yes. I mean, what's your level of confidence you get approval as you sit here today?

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

I won't speculate on that one, but confident enough, I will say that I mentioned it on the call, and we're spending a couple of million dollars of additional money in this quarter doing prep work and so forth.



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**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

So we've done some checks with optometrists to kind of understand this opportunity and the questions we've gotten from them I'd like to run by you. One is what's the basis of approval? Is it regression of myopia progression and power or is it axial length regression and that kind of matters? And who can fit these lenses and how much of a specialist you need to be to do this? So any color you can...

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

Yes. So I won't go into too much detail on that with respect to what the FDA is looking at in the conversations until we move to the end of that process. But I will say that what we've seen around the world as we've rolled this product out is, it's 1% to 2% of optometrists around the world who are reading the clinical data and wanting to read the clinical data and get involved in it. Those optometrists are very positive on the lens. And when I talk about, all right, we did a little over \$1 million in sales and that was up over 100% year-over-year and there is standing room only in a lot of the presentations, that's because there's a whole group of people saying, wow, this clinical data is really good. It looks like this product really works. I want to be involved in this. I want to get trained. A lot of what we're doing right now is saying, if you want us to sell the lens, you have to go through our training and get certified. We're not just handing it out to everyone. So it's not that hard of a lens to fit. It's not an issue of fitting it that makes it harder, it's an issue of education because this is not just visual correction, it's an actual program that people need to follow. At the end of the day, the child needs to wear these contact lenses 8 to 10 hours a day, 7 days a week. There's a treatment component that's going on here, and that's important. So today, where we're sitting on that is to say, okay, we're not going to take this product and just sell it to everyone. We've had some pretty significant interest, including from some larger retailers saying, oh, just give us the product and let us sell it. Today, what we're saying is, no, we want people to go through a training process. We want you to understand how to fit it, it's not that hard, but how to fit it and also ensure that you're capable of having a conversation with mom or dad with respect to their 8-year-old or 9-year-old or 10-year-old that this is a treatment and not just visual correction. I think that's the most important thing.

The reception has been fantastic on that. So the next issue is, okay, if we get FDA approval and when we get FDA approval, hopefully, how does it get marketed, how does it get sold, what is the demand and so forth around that. Is it one of those things where we're working with the 1% to 2% of optometrists and building it out, which is a little bit slower or is it one of those things where people really grab a hold of it. It's like you look at Good Morning America, picks it up and starts talking about it. That makes a big difference because I can tell now, you walk out on the street and start asking normal people, hey, what's myopia. They don't know what that is, progression of myopia, right. The vast majority of people what you would say to them is, well, remember when you were a kid and you could read, but the blackboard was blurry and remember how that got worse if you didn't have your glasses and so forth. That's myopia and that's the progression of myopia. That same thing is going to happen to your child. We can reduce that progression of that myopia. And then they get it and they understand it, but there's an education process there that I think we can do and that the optometrist can also do.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

So what I've heard is if you can get a label for regression of myopia progression and the optometrist doesn't have to buy what's called an A-scan to measure the axial length of the eye that this product, the commercial ramp will be much faster.

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

Much faster, much easier.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

What's your reaction to that? I mean, do you think that's the more likely case or do you think these doctors would be required to measure axial length, which will make it much more of a specialist procedure, this 1% to 2% that you talked about?



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

I don't want to speculate from an FDA perspective because I'm not sure it would be appropriate to talk kind of about where they're coming from and their angle. What I can say is, outside of the U.S., on an international basis, what we're seeing right now is the, if you will, along that same terminology, the easier to fit like any optometrist or most optometrists are going to be able to fit this product.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

So it doesn't require kind of an A-scan axial length measurements and stuff. So we've heard that this could be bigger. We've asked people to size this and people have asked for kind of benchmarks. We talked to optometrists and they felt that this could be over a \$500 million product over time. Just curious to get your reaction. Do you feel it has that kind of -- Biofinity is probably somewhere between \$500 million and \$1 billion. Does it have that kind of long-term potential?

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

I believe so. Yes, I believe yes, I've heard some of those numbers of \$500 million or so within 10 years. I mean, frankly, if they can roll out successfully, I think it can certainly hit those numbers, if not exceed those numbers.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And maybe one more on that. If you got approval at the end of this year, revenue in the U.S., I'll throw out a number, \$25 million to \$50 million next year. Would you feel that this is kind of getting a little aggressive?

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

I would probably say that's getting a little aggressive. And depending upon when we get approval and how we roll it out, I don't envision us just blasting the product out there. I still think that the strategy, the best strategy right now is going to be saying, we want the optometrist to come do some training, ensure we're on the same page, ensure the communication with the parents is correct and that the child's wearing the lenses as they should wear the lens. That will reduce our ability, if you will, to blow the numbers out quickly.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Do you think it will be a slower ramp?

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

I think so. Yes.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

But still bullish on the long-term opportunity?

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

Very bullish on long-term opportunity. I don't think it'll be that slow ramp. I mean, we're seeing some decent progress outside of the U.S., that's for sure.



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**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

But a U.S. approval by FDA would have a halo effect outside the U.S. Is that fair?

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

Absolutely. Yes, there's a lot of markets right now where they either use the FDA as a predicate approval or where just generically speaking, they're are like the, oh, FDA signed off on it and that's the stamp of approval.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Yes, question over here?

**Unidentified Analyst**

AI, I have one just on that. My understanding is Essilor (inaudible) any comment on that? And then 2, you mentioned it's actually a treatment 8 to 10 hours a day for 7 days a week. Is this something that might be reimbursed (inaudible)?

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

Yes. On the first one, I'm not sure exactly what Essilor or Lux-Essilor is doing on that side of things. I've heard the same thing. I mean, we actually have an investment ourselves in a small company that's looking at some technology along the lines with glasses. The issue or the challenge that you always have is glasses are million times easier because you're not inserting them in your eye obviously, you're just putting them on, but they're also a million times easier for the kid to take off during the day. So when you're talking about the kind of correction that's going on and the potential for a little blurriness and someone has to get comfortable with that, that's a challenge that you have for the 8 to 14-year-olds, that hopefully contact lenses is a little bit better of an option for that. But I'm excited about that by the way. I definitely want them to do that. I definitely want them to move forward. That's a big massive highly reputable company for them to be talking about myopia and myopia management and explaining it to people and making sure optometrists around the world are educated on it. That is nothing but upside to us. Nothing, but upside. And when you talk about insurance reimbursement, ultimately, you're going to have to have people look at it and say, yes, this works; yes, myopia is an epidemic, which it is and it's being classified that way. Yes, this is something that we from an insurance perspective should reimburse because it's going to save a lot of money in the future, which it is because myopia, especially high myopia, is always tied to all kinds of forms of eye disease or eye problems later in life. So I think that's possible. I think it will just take time to get there.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

AI, I wanted to switch gears. Anything you want to add on this, on myopia management, that we didn't cover.

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

No. Happy to talk about it. Yes, I'm pretty excited about it. It's just a little bit of a question mark out there right now about the approval and then how much we'll invest and where we'll invest and how we'll invest. And I'll tell you, we'll handle this the way I've handled things in the past, which is we're going to be really transparent about it so that you understand, investors understand, hey, here's what we're doing and here's the core business and here is everything that's going on and then here is what's going on with our myopia management strategy.



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**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

I think what you're trying to say is, if you get approval, maybe some of that EPS growth that we talked about a minute ago, or that operating income growth might look different if you have approval for MiSight because you might invest more. Is that what you're trying to say?

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

Yes, that's right. Yes, being open about it, being just open and candid about it, yes.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Okay. Al, I was a little surprised that Brexit didn't really come up on the Q3 call, given that you actually had some destocking that caused a little bit of softness in the European business, but Brexit has kind of big implications potentially for you. From a pound standpoint, you manufacture about 1/3 of your lenses there. There are lot of implications there. Can you lay out how you want people to think about Brexit and maybe Brexit will be delayed, who knows, today versus last week. Just help us understand what the implications are?

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

Yes, because there are plus-minuses to Brexit, and we're a 10/31 fiscal year-end and Brexit potentially happens on 10/31. Now as you said, there's a new headline every day it seems about getting pushed out or whatever, but it is a positive and a negative, and we sell a decent amount of product in the U.K., we make a lot of product in U.K. So if there is a hard Brexit and we have an issue where it's challenging getting product out or we have to package differently or there is regulatory changes and so forth, all those are negatives for us, right? Anybody who's going to be manufacturing product there, it's a negative for us. The positive for us is that we manufacture product directly there and that's the offset is the pound. So the pound having gone down to \$1.21, \$1.22, more than offsets the costs associated with that kind of activity. So I think at least for us, if we had a hard Brexit, and you saw the pound going down to parity or whatever, that's a pretty significant positive for us from a manufacturing cost perspective. So it's really challenging right now for me to say, I mean, it would be pure speculation as to whether any of that ends up being a positive or negative to us. I think right now we're just saying, hey, we assume that this will sort itself out in somewhat of an orderly fashion.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

The \$4 million to \$5 million of destocking in Q3, do you expect to get some of that back in Q4?

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

No. The only way I think we get it back is if we do go to 10/31 and there's not a deal and there's going to be a hard Brexit, then I would say we'll probably get that back and then some because I think then you would get a lot of stocking from retailers on both sides of the channel and that would probably result in a very big October for us for EMEA. We're not forecasting that, but that's what I would think would happen.

**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Okay. And then a couple of others here on vision care. One, Alcon is launching PRECISION1. I mean, I think The Street perception is that it's more of a headwind than a tailwind for you. Is that fair?

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

Yes -- well, you never want your competitors launching a new product obviously. In ideal world, no one would do anything, but us. But they're a good company. They're going to launch what I imagine is going to be a good product. I think they have at the end of the day the same struggles



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that we have and probably same struggles that J&J has, which is you're capacity constraint. [There is such a big amount of the market that's shifting to daily silicone hydrogels, as I talked about in the call, it's like \$2 billion in today's dollars, today's revenue dollars, that are daily traditional hydrogels that will be shifting over to daily silicone hydrogels] (corrected by company after the call). It's a massive number. So I do think they roll the product out and my guess is it's successful and it will help the overall market growth, but I don't believe that's really going to be detrimental to us because there's such a big opportunity for shift that certainly more than 1 player can win in this opportunity.

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**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

I mean, is this overly simplistic? You grew, call it, little over 7% in '19, to assume you can do a similar growth rate next year, you might lose a little to PRECISION1, but you might gain some from MiSight assuming approval. Do they kind of cancel each other out?

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

I don't think they cancel each other out because I think that we're not going to lose because of PRECISION1. I think it's a win. Now what I would say is, our percentage growth above the market is probably less and it's kind of a challenging concept and I get that from an investor perspective, right, because you look at it and say, well, wait a minute I don't get it, if a competitor's coming out with a product and they're going to grow faster, how is that not a detriment to you. But in a case like this where you're getting a massive multiyear shift, you can get a rising tide lifting all boats. So I don't talk about ourselves anymore as growing at a percent faster than the market because at the end of the day, I'm happy where we're growing. We've grown 7% the last several years. I'm happy with that number. If the market's been growing 5% and the market goes to 6% because a competitor comes in and it is also trading up some of their customers and they're getting a premium because of that trade up, we're good, I don't have any problem with that. That's continuing the exact same thing that's going on for us and that's why I feel more confident when I look out in the future that the market will grow in that 4% to 6% range and I think we can continue taking share above that.

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**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

Couple of minutes left here. I did have CooperVision question, but I wanted to make sure we got to CooperSurgical. I guess, the question really is around PARAGARD. Flat year-over-year in Q3. You're expecting flat year-over-year in Q4 because of tougher comps, but I was a little surprised that the flatness in Q3, given the reason you cited, which was tapering down the DTC. Well, why is the product so sensitive to the DTC. One would think that the underlying growth should be mid-single digit even without kind of the DTC?

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

Yes. The way I discussed that on the call was apparently core because I would not link those together. I think if we would not have stopped our DTC advertising, we were still going to have that quarter. So I think in reality what happens, we bought the product, we hired sales people, we put the sales and marketing out there. We have people positions come back and say, wow, somebody's finally marketing this product and selling it, fantastic. And then they were taking some stock and they were kind of building things back up and then they were like, hot damn, people are actually coming in asking for this product and requesting this product. So that cycle went on for quarter-after-quarter. I think we had 5 quarters in a row of really high growth, 20% last year. And you saw all of that growth as all the channel and everything went back to normal. And so whether we would have stopped the DTC or not, we were going to see some of this activity because no one's sitting there going, oh I saw a TV commercial for an IUD, I'm running out to my OB/GYN tomorrow and get an IUD, that's not how it works. So at the end of the day, where we're at right now is that the actual unit growth that we're seeing, the true selling of the unit, I'm comfortable saying that's somewhere around 3% and the price that we're going to get is about 3%. That's that 6% growth. Now I do think the DTC is going to allow us to do a little bit better than that on that unit growth. We just need to fine tune that and target where we're going to do that advertising and then ensure we're getting the proper return.

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**Lawrence H. Biegelsen** - Wells Fargo Securities, LLC, Research Division - Senior Analyst

One last question. Still makes sense to have CooperSurgical and CooperVision together?



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

Yes. I'm not looking at any other scenario right now. I mean, they are both medical device companies. Vision grows little bit faster than surgical. Surgical has little better margins, little better cash flow per revenue dollar, but they're similar and they're both medical device products.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Perfect. Thanks for being here, Al.

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

Yes. Thank you, Larry.

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