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EDITED TRANSCRIPT

COO - Cooper Companies Inc at Wells Fargo Healthcare Conference

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PRESENTATION

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

Thank you very much for being with us. So Albert let's start with the fiscal Q3 results reported last week.

QUESTIONS AND ANSWERS

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

Can you give us a quick summary of the quarter and how you see the business momentum exiting fiscal 2017?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Sure. Just at the high end because we did just report last Thursday. Another strong quarter. Revenues came in fairly strong for us, and we've been consistent in our performance on the top line. Gross margins kind of at expectations, we can certainly walk through that and some of the impacts there. And at the end of the day, the bottom line was pretty solid. We walked through currency, obviously, some currency impact and some investment and so forth we're doing in the business. But bottom line was solid, cash flow was strong, as it has been, continuing to feel good about the business and good about momentum going into Q4 and into next year.

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

So in Q4, in CooperVision, you're facing toughest comps in the year, I think you gave 11% in Q4 a year ago. You're guiding, I think, for CVI for Q4 of 5 to 7.5 pro forma growth, and the midpoint does reflect an acceleration, in fact, to your basis. So what gets you to kind of the high end versus the low end of this range?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I mean you're talking on a constant currency range 5 to 7, 5 so we'll exclude currency from the conversation. But, I mean, what we'll end up with is kind of some of your normal puts and takes. And we had some strength this past quarter, you've seen -- as a matter of fact, you've seen it for a number of quarters in Europe and Asia-Pac and a little bit of weakness in the Americas. So I think when you look at it, as you look at that range and you say, okay, how are we going to be at the top, the 7.5 kind of portion of that range on a constant currency basis? It comes from strength in the 3 regions, i.e. If we get the Americas back to something more normal, if you will, continuing strengthening Europe, Asia-Pac will be the high end, we get a little surprise or something odd or weird happens or whatever we get kind of at the bottom end of that range.

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

Right, so we'll dive into some of those in a minute, but I wanted to ask about CooperSurgical as well. And I think you lowered the CooperSurgical sales guidance a couple of times this year. So what's going on in that business and why has the recovery been slower than you'd expected?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, so we did. We take CooperSurgical's pro forma revenue guidance down a little bit again this past quarter. So that's been a little bit of a plus/minus story. So although the quarter did come in a little light on the pro forma growth basis, the actual as reported numbers, when you look at the bottom line, if you will, for CooperSurgical, was fairly strong. I mean, 13% growth, top line 20% OI growth. So the business did well, we had some nice price increases, we made a lot of progress in terms of integration activity. We haven't quite seen the top line yet, but making a lot of good progress in that business. So I think that you'll see that business move back here in Q4, a lot of the integration activity and so forth that will work in through there is stuff that we've done before. Its distributions centers, it's that kind of stuff. So I think that -- I thought we had -- see a little bit more -- a little sooner, but I think you'll see in Q4.

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

It sounds like you expect some slight acceleration in Q4.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. That's a better number in Q4, yes.

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

And then as we talk -- toss that, so fiscal 2018, you talked a little bit about your fiscal Q3 call. I think, basically, you said you expect reported EPS -- reporting EPS growth in the low double digits, which I guess seems conservative for a few reasons. One is, historically you've done mid-teens. Second, by our math, FX is about a $60 million tailwind to the top line and $0.60 to the bottom line. So I mean, on that fact, so we (inaudible) ballpark, and again, why just low double-digit reported EPS growth?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, on the FX piece, it depends, right? What rates you use -- there's a number of assumptions. What rates you use, what your assumptions are on our business and so forth next year. We'll see how FX plays out. I mean, my guess is that you're somewhere in the ballpark as where you're at right now. I mean, we need to go through our budget process and layout our own internal planning and so forth to see where that comes out. I mean, I would assume you kind of did that off-history. And my guess is, if I put the numbers, I actually did the math, my guess is you're probably a little high end the FX impact that you're probably in the ballpark. When we look at next year, we talk about EPS growth. I think at this point in time or last week when we said it even today, it's prudent to kind of talk about that low double-digit growth. There's a lot of variables that could happen over the next 3 months. Number of those variables are positive, if currency stays where it's at or gets better and that's clearly positive for us. Currency goes the other way, that's a different story. There's things that we want to do in the business and invest and so forth. So we talk about the business though every year, and when we talk about consistency of financial results and so forth and delivering a good top line and a consistent bottom line. And what we always talk about on the bottom line is low double-digit EPS growth. I don't think we'd be happy delivering that, but that's where we sit and say, hey, here's a baseline, we need to deliver those kind of numbers. So I think at this point in time at least, in September, it's -- that's a fair way to talk about it. And to say we're comfortable with that, I think it's fair, accurate statement.

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

That's down -- that's the base, I mean, kind of low end and you strive to be better?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

That's correct.

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

And perhaps more importantly, on the top line, you didn't -- I don't think you give any color. Sometimes you'd say, we expect the market to grow 4% to 6% and we expect to -- we're going to need to taking share, which implies that you should be somewhere in north of 6%, has anything changed?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

No. Our business is fairly stable from that perspective. As you know, somewhat of an annuity business on a large component. I would say the market is still 4% to 6%. And I would say that where we look without trying to get specific on next year, but on a go-forward basis, longer term, I think it's 4% to 6%, and I think we will be targeting 1.5 to 2x that, so somewhere in that 6% to 8% kind of range would be where we should be going.

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

And are there any headwinds in 2018, fiscal 2018 that we should be aware of that would make that difficult to achieve?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Well, again -- I mean, the only thing I might say on that is we continue to get bigger. We continue to get bigger and we are doing well and we have good momentum. So you have the large numbers on one side, you have a lot of business momentum on the other side. We have strong products out in the marketplace right now, we're doing really well. When you look at our dailies silicone hydrogel franchise continues to drive growth in the market and drive our growth, that should continue next year. We look at the strength of Biofinity, that should continue and (inaudible) the transition. So generally speaking, our business is strong. And when we look at the product portfolio, it's a market-leading product portfolio. And then the products we're rolling out, we've get a lot of success with MyDay -- MyDay toric in Japan following the regular MyDay secure launch success in Europe, Biofinity Energys success. So I think we're well positioned for next year.

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

Are there any product launches that are -- up-and-coming product launches that you can name?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Most of our products are somewhere in the world. So yes, there will be some product launches so to speak, and I use MyDay toric as a good example, that will be a product launch at some point here in the near future in the Americas, product already in different spots around the world.

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

Does that -- MyDay has been a lower priority in the Americas, higher priority in Japan. Does that imply what you just said that it will be -- going forward, it might become a higher priority in the Americas again?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I think that from a priority perspective, I don't think we look at it, necessarily, internally as 1 region or another region, but from a priority perspective as much as we do. Where do we need to launch it, where is it going to be more successful and where are we going to get the feedback that we need to get in terms of how we're going to position the product in the future and so forth. It was a natural to start it in Japan. We don't sell clariti, as an example, in Japan. So to have MyDay to steer there, followed by the toric and a great daily market like that is a great way to start it. And then have that moving into Europe next, there's some good strategic rationale behind that. So it -- that is clearly a priority product, it's clearly doing well, there's success there. We'll move into the Americas, but we do have to ramp up production and variety of other things.

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

One reason is you're supply-constrained for a while on Biofinity -- on MyDay, I'm sorry. Where are you -- I don't think you've given an update on kind of supply constraints there for a while.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. There's really no supply constraints. We're pretty good across-the-board in our product portfolio right now.

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

Okay. That's helpful . And then on the FX potential upside or the benefits from FX that we talked about, even if it's a little less than $0.60, you talked about some increased spending on the Q3 call, you've talked about distribution. I think maybe people were surprised about spending on distribution capabilities. So where is some of the spending going?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I think we've talked about in the past. The investment in sales and marketing, and we started that last year, and we've got success on that. We've been adding sales people. And you can see the kind of top line success that we're experiencing now and will -- I believe, will continue to experience linked to that. The other piece of that gets tied into distribution. And when we talk about distribution and we get into, like, the impact of that, there's the capital side of it, which is spending the capital on it, and then there's also the P&L impact, that's faster. A lot of that gets linked into IT. So you get the work associated with that. If you're -- and money is an example because Europe's a good example. We expand the distribution center we have in the southern part of the U.K, expanding the Liège distribution center, which supports the growth that we're seeing in the business itself, but also greater demands from our customer base, which includes things like more shipments because we're shipping to individual customers. So anytime you have that kind of activity, increasing volume, increasing shipments and so forth, you need to ensure you stay on the forefront of that from a distribution perspective. And keep in mind, some of the challenge of this is to use -- an analogy is, it's almost like changing the tires on your car while you're driving it. That's what you're seeing from our big distribution center. So you do get to (inaudible) at the cost and so forth while you're investing, ensuring that things are running smoothly and so forth. Now, new distribution centers and we'll look to put at least 1 up if not another one. That's a little bit different story, it's a little bit easier, obviously, you're not running volume through it as you're setting it up. So I think that from a distribution/IP perspective, that's important. It's important for us to stay in front of that. As a matter of fact, you could even go so far as to say, that can be a competitive advantage for us as the market continues to ship to direct-to-consumer as direct-to-consumer modeling that you see that. I mean, you see it at my house, we have Amazon package they're showing up, like, everyday with food and everything else. The customer has changed, right? And the customer wearing contact lenses are no different. They want their orders, they want them quickly. So we need to stay on the forefront of that. I mean, we've had a few distribution issues, nothing major, but a few in the past. You guys have picked them up in your work and so forth. We need to ensure that all the success that we have around selling the product and market0leading portfolio and so forth and our ability to manufacture that product and so forth goes right through the chain so that we can get that product effectively to the customers.

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

One more on the outlook, tax. The tax rate is typically 9% to 10%. But I think it's going to be about 7.5% this year. How do you want The Street to think about the tax rate beyond 2017?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, the tax rate is a tough one for all companies, it's not just us, because of the equity component that now goes into that. So we're going to finish this year at -- around 7.5%. Q4 for us should be around 9.5%. 9.5% being kind of a true, if you don't [enclose] effective tax rate, meaning there's no anticipation of equity benefit in that. Now if there's stock option exercises or something else happens, that would be upside to the tax rate in Q4. But it's the same for next year. When you sit and look at it, if the stock price holds, the people exercise options, whatever happens, the stock -- the effective tax rate is going to be lower. Now, all else holding true, stock prices hold, we have our fees to come in, our restricted shares in Q1 and Q2, you have a lower effective tax rate in the beginning of the year, probably higher effective tax rate again in Q4. But we'll see. It's hard to forecast that. I feel the pain for ourselves and other companies trying to forecast the equity impact on your effective tax rate.

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

Feels like it's prudent at this point to assume between 9% and 10%?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Without -- I would say 9% and 10% without the equity impact upside. So without that -- or with that, if we have similar rates and so forth or similar stock impact as last year, it can certainly be 8% or low 8%, something that.

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

All right. I want to dive into the Americas a little bit and CVI, which was -- looked a good report, a good fiscal Q3. I mean, there are 2 things that I think investors were a little disappointed in. And one was the lack of letting the EPS upside from FX, you didn't -- all of it flows through. And the other was the Americas was soft for you in fiscal Q3 I think, and as well as the market data showed the Americas being soft. So if we parse those 2 out, what is going on just in the Americas marketed? And why is it soft? And what is your expectation going forward?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, there's definitely 2 pieces to that because there's the market itself and then our performance. So if you look at our performance on a trailing 12-month basis, we work off the market data that we released, we were up 6%. So a fairly decent number. If you look at it in last quarter, we were up 2%, and we kind of talked about that a little bit. So hey, that's a little bit of anomaly and we expect that bounce back in Q4, in the current quarter that we're in right now. Having said that, when you look at that performance, some of that was a little tough to explain, if you will. Now we'll always get fluctuations in our performance in any region that's going to come from things along the lines of retailer, distributor ordering products, 1 quarter falling into the next quarter or year-over-year comp, that kind of stuff. So we always naturally have some of that happen. Some of it comes from a little bit of weakness on consumer spending side, maybe that's possible. I don't think that I would take too much away from that from our perspective, from a CooperVision perspective. Now when you look at it from a market perspective, the market's been a little bit week. You step back and look at that and go, okay, but why? Why was it weak this quarter? And why was it weak beforehand? Well, you kind of say, okay, well, wait a minute. CooperVision's doing very well, and I look at our new fit data, by the way, our current new fit data indicates we're continuing to take share, we're continuing to do well in the market, so you feel good about that. You've seen the J&J numbers, J&J's doing fairly well. I think there's some weakness in some of the other competitors. Having said that, I also think that when you look at the Americas, and J&J is still probably 40%, 45% of the Americas from a revenue perspective, if there's anything going on with their business and there's been some scuttlebutt about that in terms of them going direct more rather than through distributors, that kind of action is the exact opposite of going through a new distributor where you get a balance in your revenues because you're getting more inventory in the channel. In that case, J&J will be decreasing inventory in the channel,right, through the distributor channel by going direct more, and that would kind of depress the numbers. Now, (inaudible) true sales, if you will, if you kind of look through it on a true-sales basis, that would be a misleading number. So I do believe that the Americas is growing stronger than 1%. I think J&J is doing better than what that would indicate.

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

Okay. So you talked about, in your word, scuttlebutt and what J&J is doing, going direct. Basically, in the April-May time frame, they reduced volume discounts to distributors. And I guess, the question is, why isn't that hurting them? And do you expect that to help you? Because you can imagine -- implied in that is the distributors now have more of an incentive, I believe, to actively promote couple of other companies' products like yours.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. So I mean, the U.S. is a big distributor market. We work well with the distributors, we have some great relationships out there and we value those relationships. So we'll continue to work and try to do our best through the distributor channel. Having said that, we do need to appreciate their distributor. So they're not optometrist, they're not out there prescribing lenses. Now they do have, at times, sales force and sales personnel and so forth. So they'll be in the marketplace and they'll support that transition away from J&J ideally to someone like us. Having said that, I don't want to put too much weight on that. J&J is a pretty good company. Whether you're an optometrist trying to get your product through a distributor or directly through J&J, you're not going to have a problem getting the J&J product.

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

Got it. And then transitioning away from the Americas to international. Europe, you mentioned, and Asia-Pac has been very strong for you. What's been driving that?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I think that's a couple of different things. I mean, outside of the Americas -- in the Americas, one of the problems, if you will, is that you don't have an expansion in the (inaudible) base. You get outside of the Americas, and you do. You have -- in Eastern Europe, you have a number of countries in Asia-Pac that are driving growth through expansion of (inaudible) base. You also get better potential to drive some of the more -- especially when things like torics and multifocals, where the penetration rates are lower. You look at that and then you also combine that with the fact that you have growth in some of our new products that have been launched there, they're doing well, we touched on MyDay toric and some other products. So I think you kind of combine all that kind of stuff, you get better markets and you get better growth rates from someone like us. And I think that continues.

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

And private label. How -- that's pretty significant for Cooper. Is that still growing at or above the overall CooperVision growth rate?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, our private label is probably -- roughly 30% of our business, and that would be growing very similar to what our branding business is. So I probably wouldn't distinguish the growth rate between us, it'd be relatively similar.

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

And Biofinity, Avaira group, that 10% constant currency fiscal Q3, that was actually a little bit lower than we've seen in recent quarters. I know it's a very big product for you, it's probably -- combined, it's over 7 -- probably 8 -- maybe $800 million in sales annual. But you are launching Energys. And feedback from Energys has been very good. You're getting a price premium for it. Where are you in the Energys ramp? And do you think it's just that the Biofinity Avaira franchise, which also includes Vitality, is going to slowly decelerate or is that 10% at anomaly?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. Well, that 10%, we have to keep in mind that one of the larger markets for Biofinity when you look at non-daily markets, if you will, are still the Americas. So although we're seeing a significant shift in the Americas, and especially in the U.S., in the single-use franchise, it's still a very large monthly and 2-week market. So if you see weakness in the Americas markets like we saw, you're likely to see kind of that pull along, which is a little weaker Biofinity kind of Avaira number. So from that perspective, I think it's worth keeping that in mind. You're right, Biofinity Energys is being received very well. It's definitely a successful product. We're continuing to launch on that, we're still in the early stages of that. So I think that you're going to continue to see success there. The other item that I would mention is Avaira. We talked about switching from Avaira to Avaira Vitality. That changeover is still going on, and it will go on through fiscal '18 to some degree. We've made a lot of progress on that. But obviously, anytime you're doing a changeover of 1 product to a new product, it's a little hard to go ahead and aggressively market that product because you're still trying to transition people out. So you have a little bit of noise in that transition. So I think between the Avaira to Vitality transition still being in the early stages, Biofinity Energys and the softer Americas market, all that kind of ties together for that 10% growth. So it's still great number, right? 10% is still a double-digit number. It's a little softer when we see it. I think you'll continue to see pretty strong growth though, Biofinity, and even a little bit better from Avaira as that transition moves along.

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

The Energys concept for people who use computers a lot. Can you apply that technology to -- I think it's a great concept and great marketing, but can you apply that to other lenses besides Biofinity?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. Yes.

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

Is it planned?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

We'll see how it plays out. I think, there were different people, different opinions about Energys and how well it was going to do. I was probably a little bit more skeptical on that. Couldn't be happier with the success we're seeing. So the team's taking a look at that and saying, okay, it doesn't make sense to expand that, the Energys model, if you will, and other lenses and where is it more successful and how do we do it. So stay tuned on that one.

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

What kind -- are you willing to give any percentages on Energys as a percent of new fits for Biofinity right now?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

No, I won't give that level of detail. Still relatively small.

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

And taking -- in clariti manufacturing process, and clariti is now at this point should be accretive to the equipment gross margin, right? Then -- which is pretty impressive for a silicone hydrogel. That manufacturing process, where are you in being able to fly that to other silicone hydrogel lenses?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. So one of the big advantages of that manufacturing process is the very end, which is where we used to talk about this a lot more of using -- of not using alcohol, pure alcohol at the end of that process as a cleansing agent. You're absolutely correct. We've had a lot of success with clariti as we ramp that up and volume has improved. We've continue to improve the margins on that product. So that's -- when we talk about the product mix shift driving gross margins higher, we obviously have products like Biofinity, but clariti is clearly in that. So we've had a lot of success there. Transitioning other products is very challenging. Once you get a manufacturing platform up, it's hard to transition them. So new lenses, new platforms and so forth will continue to roll these manufacturing advancements into them and that will enhance gross margins. As we look out in the future, and we're talking 5-plus years in the future, but I don't want to put much weight on that right now.

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

It's not something you can do to Biofinity, for example, in the short term.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

No. Biofinity already has very strong margins, very successful product. So there's no reason for us to turn around and meddle with Biofinity manufacturing process in that perspective.

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

Got it. And you were asked about this on the call, myopia control. You guys, it seems right now -- it's obviously a thin area of focus for you. You have a leadership position from what we can tell. From people -- experts we talked to in the area. You have Procornea, which you just acquired. I think you might have made an acquisition of the company called Mysight. And then some of your lenses also are well -- are amenable to myopia control. But it sounds like that's sort of allays off in terms of being a real commercial contributor to Cooper. Is that fair?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, that's fair. I mean, that is a space we're very excited about. We don't spend a lot of money in R&D as you know, but we do spend money there and we have spent a decent amount of money for a number of years in myopia control. MiSight is actually our lens that we developed internally. It's our myopia control lens. When you look at Procornea, the acquisition we did, which is one of the leading ortho-k companies, that helps us in terms of what is now turning into a specialty lens segment. It used of be towards multifocals, now it's more along the lines of kind of the ortho-k, the myopia control lenses. And you're right, we're a market leader in that. So we get really excited about that product in the future, right? And you're right, it's relatively small from a commercial perspective right now. But when we step back and say, okay, look at our runway. So we're excited about the next, let's call it, 7 years, 8 years, something like that. And the transition to dailies in the Americas and the transition to daily silicones around the rest of the world, there is a great runway that we have for a long-term transition in our business and we're a market leader there because we're positioned, arguably best in the market from a daily silicon perspective. So really excited about the business that we're in today. And you look at it and say, okay, what's going to be the next thing? As an industry, we've always traded people up. We trade them today, traded them up silicone hydrogel and so forth. The incidents in myopia is growing in a lot of countries, especially in Asia-Pac. If we can get in front of that and work with children, younger kids in terms of myopia control in minimizing the progression of myopia through contact lenses, then we believe we can and there's clinical support for that, some strong clinical support for that, then that can be a fantastic market for us. So we start positioning ourselves well for that.

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

Okay. You said there is already strong clinical support for that, that's what we have heard as well. So what is between now and that being a contributor commercially to Cooper?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. Some of this is timed, right? Because if you're talking about taking a young child, an 8-year-old or a 10-year-old, whose parents have myopia and somewhat severe and the child is going in that direction and you're saying, okay, I'm going to minimize your progression of myopia by having you wear a contact lens. And I won't get the other science of it, but I'm going to have you use a contact lens and I'm going to see the progression in your myopia decrease, well it takes time. It just takes time to do that clinical work. To study that and see what the impact is and so forth. So it's not the kind of thing that most countries are going to improve immediately. They understand the concept. It's a fairly simple concept. There's a lot of technology around the lens itself. But it does take time to make that process work if you get that clinical data and so forth.

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

So what are you doing to develop more clinical data in that area to make that -- guide that process?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

We're doing that work. So we're doing a lot of that work right now.

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

With the clinical studies?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes. That's right.

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

So let me ask about sort of transition to CSI. I know -- I think it came up on the Q3 call about the Bloomberg news on accomplishment in (inaudible) business. So I know you don't want to comment specifically on that report, but can you remind us of your acquisition strategy in CSI? What type of actions would enhance the current business?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, I won't comment on any specific deals, we don't do that. But I would say, on M&A, in general, we obviously do a number of acquisitions, be it in Vision, at Procornea recently, be it in CooperSurgical, Wallace was our most recent back in November. I mean, we look at acquisitions the same way. We want to do deals that we think make strategic sense. And that means deals that fit -- generally speaking, fit within our call channel. We're not -- I would say, you haven't seen us do a ophthalmic surgery, and you haven't see us do dental deals and so forth. What have we done? We've done deals that fit within the OB-GYN space, that fit within the fertility space, that fit within the contact lens space. Logical strategic deals. So that's #1 or us as we try to find those kind of transactions. Then, obviously, we look at it from a return perspective. The deal needs to fit within our model, needs to be able to provide a sufficient financial return. If we can find transactions that fit that, that criteria, then we're going to continue to look to do this.

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

Contraception, is that an area -- is that a gap right now?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Well, I mean, that grows backdoor, but I'm not going to comment on anything particular around any deals.

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

But right now, you don't have anything in the area within (inaudible) contraception, is that fair?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Well, we have a little bit. Like, I mean, we have, for instance, the Filshie Clip that we sell, which is a permanent birth control.

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

And capacity, you talked about on the call, you're currently at about 1.7x net debt to EBITDA, and if you're comfortable up to that 3x leverage. I think that basically implies that's somewhere around $900 million to $1 billion in capacity. Is that fair?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, that's fair. And obviously, we need to make sure that we can financial flexibility around investing in the business. As you know, one key thing that we always talk about is, number one, we want to invest in our core businesses, that's where we're going to get the best return. And whether that's going to emerging markets. In China, we bought our (inaudible) recently, a lot of that kind of stuff. We need to make sure we have the financial flexibility to be able to do that kind of stuff. We look at share buybacks, obviously, we've done those in the past. We'd be continue -- willing to do those in the future, and then we look at acquisitions to kind of fit in from a strategic perspective.

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

So I will give you an opportunity in the last 40 seconds we have you here, I mean, Cooper is a pretty well-covered company. Is there anything that you feel is underappreciated right now?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

No, I think the story is out there. The one thing that we didn't talk on or didn't touch on today is that probably is stronger than people think is our cash flow. As you know, I've been a big proponent of cash flow, have been for many years believe cash drives the business and the valuation at the end of the day. Our cash flow is strong. We're at $300 million roughly of free cash flow through our first 3 quarters. We should be well north of $400 million this year in free cash, and we should see free cash in fiscal '18 be greater than '17 even with some increased CapEx. So I think from an underlying perspective, cash flow is very strong. So I'm really excited about that and excited about the future from not only the core business that we've talked about, but also our cash generation.

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

Perfect. Thanks for being here.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategic Officer and EVP*

Yes, absolutely.
