Wells Fargo Bank Securities, LLC

Moderator: Larry Biegelsen
Albert White (Guest Speaker)
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OPERATOR: This is conference # 9787749.

Operator: Good afternoon. Good morning. My name is (Deborah) and I will be your conference operator today.

At this time, I would like to welcome everyone to the management call with the Cooper Companies. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad.

If you would like to withdraw your question, press the pound key. Thank you. Mr. Biegelsen, you may begin your conference.

Larry Biegelsen: Good morning, everyone. I'm Larry Biegelsen, the medical device analyst at Wells Fargo. We're pleased to have on the call with us Al White, the CFO and chief strategy officer at the Cooper Companies.

Many of you know Al. He's been with Cooper for over 10 years and he was recently appointed the new CEO effective May 1st. On today's call, we'll focus on Cooper's strategic outlook and get an update on both the vision and women's healthcare businesses.

The call will last about an hour. Later in the call we'll open the line up to questions from participants on the call. If anyone has a question they want me to ask on their behalf, please e-mail it to me. Al, thanks for taking the time to speak with us, and congratulations again on your new role.

Albert White: Yes, absolutely. Thank you, Larry. Thanks for hosting.

Larry Biegelsen: Of course. So, Al, you're going to be stepping into the CEO role in a few weeks. How do you want the street to think about the CEO transition and your strategic priorities?

Albert White: Yes, I mean, generally speaking, it's more of the same. I've been working here, as you know, Larry, and many on the phone know, with Bob for a long time. And throughout Bob's kind of 10, 11 years as CEO, he was here, I was in the office next to him. So I think from a strategic perspective and what we do here as a company, we should see more of the same; good, solid execution. Good, solid numbers that we put up and continuing to drive a successful business.

From my perspective, I've obviously been with the company for a while now and I know, obviously, the folks at CooperVision well and CooperSurgical well. I'll spend a little bit more time kind of out on the road and spending time on the sales and marketing side and so forth a little bit more than I have as the CFO role. So I look forward to getting out and shaking hands and meeting people and so forth and just continuing to drive good solid execution going forward.

Larry Biegelsen: That's helpful. So what's on the top of your to-do list as a new CEO in the first few months?

Albert White: Yes, in the first few months it's ensure a smooth transition. Bob's been here a long time, he's going to be here and continue to work and help in the transition as we move through the year. So I want to make sure that, from an internal perspective here, things continue to operate smoothly.

I will announce relatively shortly a replacement for me in the CFO role. So we have that announcement going and then getting out and seeing the team, seeing the people, seeing the customers, make sure everything's OK and moving forward, and ensure calmness and no jitters and so forth with employees and customers.

And I've already been doing that for a little while here since the announcement, so everything on that side of things is going really well. So I'm really happy since the announcement was made today about where the business is and where we're going and how everything has been received. And I think over the next couple months, we need to make sure we continue to plow ahead. We have a lot of exciting stuff going on in the business and I'm anticipating a good fiscal '19.

So we need to be doing the work right now to ensure that we're able to put up the numbers that we want to put up in the coming years.

Larry Biegelsen: That's helpful. Just a couple follow-ups on that. The CFO, any chance you'll tell us whether that's an internal or external candidate?

Albert White: That will be an internal candidate. We have a fantastic management team here on the financial side and also on the operational side throughout this company. So I'm happy to say that'll be an internal candidate and that'll come out – anticipate that coming out next week, Larry.

Larry Biegelsen: OK, and then you said good fiscal 2019 in your – in your prior remarks. Did you mean fiscal '18 or fiscal '19? I just – I thought you might have been meaning to say fiscal '18.

Albert White: I would say both.

Larry Biegelsen: OK, good. That's – yes, you said fiscal '19 and I thought you might say both. So just a clarification. And then on – sometimes when there's a new CEO, there's some turnover. How should we think about the potential for turnover during the transition period?

Albert White: Yes, I mean, there can be turnover. That's the way life is, right? Different people come in, people do things a little bit differently. But at the end of the day, we have a lot of people here who have been here a long time who are very, very strong employees and a lot of people who I've known a long time, consider friends of mine and so forth. So we'll have some turnover for different reasons.

Bob, we had announced. (Carol), who had been with us for a long time, retiring. And so there's going to be some of that kind of activity and it'll be – it's a time of opportunity for people who are here to kind of step up and assume some additional roles and responsibilities. We continue to grow and expand the company and this company's a lot different than it was in prior years. We're up towards $2.5 billion in sales and 12,000 employees. And it's a big, powerful company right now.

So it's exciting and I think our employees are taking it that way. And if there is some personnel transition, then that's OK. That's OK, that's going to be opportunity for other people to step up and drive the business and I'm really, really happy with the bench around here and the folks that we have and the succession planning that we have in place. So I think we're in good shape on that side of things.

Larry Biegelsen: Good. And Al, you've had a lot of experience at Cooper on the strategic side and financial side. However, some investors would point out that you haven't had much operational experience at CooperVision. How would you respond to that?

Albert White: Yes, well I guess that's fair. We have a fantastic team at CooperVision. As you know, Dan runs that business. But we have some world-class people there with Dan. I mean, a lot of people know Dennis and Fernando. So that is a very strong team and they have been executing at a top-notch level for many, many years. So I have been involved in that, obviously I've been a little bit more involved at CooperSurgical recently but being here 13 years now, I've had a lot of involvement with Vision, be it the soft-line acquisition or strategic planning and objectives and so forth.

I look forward, frankly, to giving – rolling up my sleeves and getting involved a little bit more on that side of the business and working with those guys. Great team, smart guys, dynamic, really enjoyable. So they know what they're doing. They don't need me to come over there and tell them what to do day to day. But we'll work together and I think it's going to go really, really well.

Larry Biegelsen: Got it.

So another high-level question, how do you want people to think about Cooper's capital allocation strategy going forward? Your current debt to EBITDA leverage, I think it's over 2.5 times. How do you think about paying down debt in the next few years and how should we think about M&A, let's just say over the next 12 months or so?

Albert White: Yes, you're exactly right. Our leverage on a net debt to adjusted EBITDA basis, which is how we look at – that's our bank-defined leverage, is a little bit over 2.5 times. I personally happen to like to see leverage kind of in that 1.5 to 2.5 times range. I certainly don't mind if it moves up towards three or into the low threes if it makes sense to do so. But we would be on the higher side of where ideally we would be sitting.

I do think if acquisitions make sense, we should take a look at those acquisitions. I would say that given our debt levels where they are right now, our leverage levels, that it's important that if we're going to do something, it's kind of middle of the fairway, if you will, right? It makes a lot of strategic sense, no one's going to scratch their head as to why you did it. It's not a third leg thing, it would be something that kind of – that everyone would be like "Yes, I got it, I understand why you did it."

I think (Lifegoal's) a great example of that, perfect kind of fit for us. So if we can find some of that stuff and we can make it work and we believe we can get a strong return on it, then we'll take a pretty serious look at it. But frankly, on the other side, if those opportunities don't exist, then that's OK and we're not going to stretch and do something silly to go out and get things. If we pay down some debt, that's OK.

We generate a lot of cash flow, we had a couple unique things here in Q1 but when I look at our cash flow, it's over $400 million, it's rolling – it'll be over $500 million next year. And we talk about $2.5 billion plus over the next five years, that's a lot of cash flow we're generating and it's incumbent upon us to make sure we're maximizing our long-term shareholder value and be that through strategic acquisitions that we can tuck in, share buybacks, that type of activity, we'll evaluate all that and see what makes sense.

So I think we're in a good shape – we're in good shape on that. I mean, interest rates are going up and we factored that into our guidance and so forth and that's another thing we need to take into consideration here. It's a little nicer when interest rates are moving down but when you get your debt levels a little bit higher and rates moving up, you have to be a little bit more cognizant of that. So we are.

Larry Biegelsen: On M&A, you talked about – so CooperVision versus CooperSurgical, is there a preference in terms of M&A there? Is there anything changed that we might see versus let's just say the past three to five years?

Albert White: I don't know. We'll see how it plays out. We've done a number of deals in CooperSurgical recently. There's a lot of integration activity going on there and any time you're doing acquisitions, you have to plow through that integration work. And some of it can get pretty complex.

You're buying a lot of times, for us, smaller businesses who might not have standard operating procedures around their manufacturing or their R&D or even within the financial organization and so forth.

And they'll have IT platforms that are pretty dated. So there can be a lot of work and we've run into those disruptions and we're doing a good job working through them and so forth on the surgical side. On vision, we've done a couple deals recently on the specialty side which have been a great fit. If we could find some more deals that make sense on the CooperVision side, I'd love to see that.

That would be fantastic to me, that again, great team, great ability to integrate and drive a lot of success there. Having said that, there's not as many opportunities within the contact lens space as there are in the kind of broader OBGYN space.

So we'll see how it plays out. I mean, you need two things, right? You need a willing buyer and you need a willing seller and you need those kind of opportunities to come up and for people to be reasonable.

So I don't necessarily have a preference, it would be really nice to see some nice vision deals but we'll see how it plays out.

Larry Biegelsen: Great. So let's transition now to fiscal 2018 and the guidance. So let's start with CooperVision. You guided to 6 percent to 8 percent pro forma CooperVision growth. I think you grew about 8 percent in fiscal Q1 which faced the toughest comp of the year. Your guidance for 6 percent to 8 percent implies that CooperVision growth will be stable or potentially decelerate through the rest of the year.

Why shouldn't we expect the growth rate to stay similar or improve in Q2 through Q4 as the comps get easier?

Albert White: Yes, well I think that it just gets dependent upon any individual quarter. I mean, we're one quarter into the year. But we do not – we do not kind of push-pull around quarter ends and a desire to meet Wall Street expectations or something like that. We're not offering a bunch of discounts at the end of the quarter to try to bring revenues in. We don't do that kind of stuff. We're running a good, solid business for the long term.

So could you have swings where you have orders come in to one quarter or orders go into the next quarter and that's going to push up an individual quarter? Sure. But we're not going to get overly focused on any individual quarter itself.

I think that when we step back and we look at our business right now, we look at the contact lens business, you say "Hey, we're going to grow 6 percent to 8 percent, we feel good about that." I think that we should be in that range on a pretty consistent basis going forward.

And whether it's an individual quarter that happens to be a little bit more towards the 6 percent side or a little bit more towards the 8 percent side, those kinds of orders and business will fall in as how it falls in. So I don't feel kind of bad about that, we had a very strong first quarter. I continue to have a lot of belief in the business right now that we're going to continue to put up good, strong quarters.

But it'll fluctuate quarter by quarter so we'll see how that plays out.

Larry Biegelsen: That makes sense. So CooperVision performance in the Americas has been, let's just say relatively weak to the other geographies recently, growing in the low single digits. I think you're expecting that to improve through fiscal 2018.

Can you walk us through what will drive the growth acceleration, what gives you confidence that it'll get better than the 3 percent you reported in fiscal Q1?

Albert White: Yes, some of it is just based on comps itself. And we've talked a little bit about some of the other activity out there and I don't want to spend too much time on it. But if you kind of look at gray market activity, and what I mean by that is companies in the U.S. as an example buying product in Europe. And some of that stuff will happen. We see it naturally because contact lenses are light so they're really easy to ship.

So if you see currency fluctuations and so forth, there are opportunities for people to be able to do that. So we're not going to go crazy trying to stop that but we do need to ensure that we do a good job trying to standardize global pricing, floor pricing. We've done a lot of work on that over the last couple years so we're in a good spot there.

So I think when you look at this quarter and the coming quarters, you're going to see natural improvement in the Americas. And then I would also add that some of those dynamics are kind of moving from EMEA to the Americas, some of that kind of stuff. But the underlying dynamics for us in the Americas are strong.

And we have some product like MyDay (torque) that’s hit the market that's doing well and that will have a favorable effect on the sphere. And when we look at the underlying fit data that fit data strong. We're taking share on a fit database and that's important. So you're going to have a lot of activity.

We just saw numbers from J&J and Alcott. You're going to see a lot of activity around trading up wearers and that’s going to have additional strength in the contact lens market and we've been talking about that for a number of years. Well, it's happening now, and that is not a detriment to Cooper, that's a good thing. So I think you're going to see strength in the market. I love the fact that the markets getting stronger.

If you look at it from our perspective and what's going happened in the Americas, we'll be sharing in some of that strength, so you're going to see improvement in our business here in the U.S. now maybe it's not to the same degree or it's a differing degree than someone like J&J whose going through a pretty significant trade up of their product portfolio or (their wearers) two week space and especially noncompliant two week (wear) into the daily side.

The revenue trade up on that is significant. And that's great and great for J&J. So if you're seeing market strength because competitors are out there trading up there (wearer base) that's good for everybody, that improves market strength that I think we'll be a participant in that.

Larry Biegelsen: OK. I wanted – we’ll do a deeper dive on Cooper vision and that's actually helpful kind of, overview if you will. But I wanted to get through just a high level on the guidance including the Cooper surgical, and then do a deeper dive on the contact lens market and Cooper vision.

So just sticking with the guidance o Cooper surgical, I think you lowered on the last call. I believe. The guidance from 2 to 4 percent pro forma to the flat to plus-two.

Last year you did lower Cooper surgical guidance a couple of times. So I guess the first question from a high level is, how much visibility do you have into the business? Why has it challenging to hit your targets?

Albert White: I'd tell you, on the Cooper surgical side, a lot of that goes back of back integration related activity. And all companies out there, we do acquisitions, we get excited about them and for good reason we're excited about them, and investors get excited about them.

And then what ends up happening is integration work afterwards, and that's that hard work. That's the day-to-day grind through. People have day jobs and then you're layering additional work on top of them to do integration activity.

And you have disruptions associated with that and we've seen that on the Cooper surgical side. And then from – we've had a couple more unique things on the competitive side and more recently here as we were going through last year and beginning of this year on our genetic testing side of the business.

So we have really good visibility and I kind of break that down four ways within the Cooper surgical business, because I'll look at it and I contact the base medical devices that we have, Paragard, which happy to talk about, and then in the fertility space, our fertility solutions which is kind of our medical device product portfolio, and then our genetic testing (piece).

So we've had a few struggles there. I think we talked kind of openly about that, been pretty candid and transparent about that. So I think we do have good visibility on that, but I would kind of put an asterisk that there's been a lot integration activity, we're getting a lot of that behind us.

I'm really happy to say we're getting a lot of that behind us. We really understand where we are with respect to those integrations and a lot of that work is being completed or in the later innings. So I'm really, really excited about that.

And then we need to right size and through the genetic testing piece and exactly how that fits in and what's the best strategic rationale around the test that we offer and why we offer them and how they're going to drive our IVF business forward.

Larry Biegelsen: OK, that's helpful. Let's just kind of peel the opinion back a little bit more on those four buckets you talked about. So I think Cooper surgical in fiscal Q1 was negative 6 percent, pro forma, (ops in) surgical was down about 6 percent and IVF was down about 5 percent pro forma. So within office and surgical, we estimate Paragard was down about 20 percent, and within IVF, genetic testing was down about 35 percent.

So it seems like your days of this in surgical business would have to grow about 43 percent going forward. Paragard would have to grow in, let's say mid to high single digits. IVF, including genetic testing would have to be flattish or so to get to, I guess the implied guidance for the rest of the year which is about I think 3 percent.

So Cooper surgical, think has to average about 3 percent for you to get that flat to plus-2. so I apologize for all the numbers, but how do you want people to think about the different components for the four buckets you laid out and your confidence to get to do, I think, what the math applies about plus-3 for Cooper surgical for the next three quarters (to hit the) guidance.

Albert White: Yes, you're right. If we break those out a little bit and spend just a little time on them, you look at our base business, which is our base medical device products that we have, that business is growing in the low single digits. And we can get quarters where we get up more towards the mid-single digits, but it kind of a low single-digit grower.

We have some old products there that are flat and it's a nice, very profitable business, higher gross margins, high cash flow. We have made some changes. We have Mark Valentine running the business now, and Mark's in there doing a great job. I'm really excited about what he's doing, where he's taking the business there, and the team – folks underneath them.

So I'm excited that I think that we are to get the growth, maybe even getting back towards a little bit in the mid-single digits there with some of the ideas and things Mark has brought in. But that's kind where that part of the business is. If I look at Paragard, we bought Paragard, we were excited about it, we had some initial bumps in the road. We talked about that with respect to channel inventories and so forth in Q1.

We did get some positive news, if you will, from the New England Journal of Medicine publication of a big study that was done. We did do a lot of work on that in terms of talking to key opinion leaders and OB/GYN's in the marketplace. We're not out there trying to sell that hormones are bad or anything along those lines.

That's not what we're doing. But we did hire a sales force – a direct sales force to capitalize on that and ensure that the physicians out there and individuals know that there is a non-hormonal option that is a very, very, very good option.

And I'm excited about that and the feedback on that has been positive and I do think that that is a product line that can grow in the upper single-digits. And I even think that we can move that in the double digits at the time. So I don't want to get ahead of myself, I don't get too excited.

There's a lot of work we're doing there. We have salespeople on the street, but to look at the business and say hey, is that a mid single-digit grower to an upper single-digit grower? Yes, I do believe that we're going to be able to make that happen in that business.

So I think that things have worked out well for us there, we just need to get behind some of the interruptions and activity we had and we did that; that happened in the first quarter. So I like where we are with Paragard.

If you look at the fertility business, the fertility solutions part of our business which would be things like media, embryo transfer, catheters and so forth, that business has been sound for a while. It's a very good solid business; the underlying dynamics globally are strong there. So that's an upper single-digit grower. We grew that 8 percent in the first quarter and I anticipate continued upper single-digit growth within the fertility solution space.

And then the genetic testing piece, as you mentioned that was down significantly in Q1. I anticipate that'll continue to be down pretty significantly. We took pricing down there towards the latter part of last year. There's a number of different dynamics there and I'm sure some people phone know that genetic testing space fairly well.

So I don't want to confuse people or go into too many details. But we did take our pricing down; we're only going to grow so far on that kind of stuff. We run a good, solid, sustainable business model here throughout our company and we'll do it within that business too.

So we level set that. Now I think that business is only going to end up being about 50 million in revenues this year from where we sit today. There is not a lot of EBIT associated with that. As a matter of fact, there's basically none right now.

So I don't anticipate much of an impact on the bottom line for many activity associated with genetic testing piece. I would anticipate unless something changes in the marketplace, some fairly soft numbers coming from that.

I roll that together and I do think that at the end of the day, that Cooper surgical business will be kind of flat to up a little bit for the full year and I think that some of those issues are behind us are going to allow us Q2 to Q4 to put up better numbers.

Larry Biegelsen: And so this isn't a ramp through the year? I mean, you did sit negative menu you sit 6 percent pro forma in Q1. It sounds like you would expect the slow improvement through the year. Is that the way you want people to think about it?

Albert White: Yes, yes. I think so. I mean again with Cooper surgical, I would say kind of the same thing of cooper vision. We're not out there trying to stuff the channel or hit numbers or whatever. So I think when we're going to have a good Q2 to Q4 for Cooper surgical. I think the only thing we're going to really have an issue with, is going to be the genetic testing piece.

And to whether it's a slow progression or it's a little stronger in one quarter than the other quarter, I'm not overly concerned about that. But I am happy with where we stand today. I was just there; I like the progression of the business and so forth. So I feel pretty good about those numbers we have out there.

Larry Biegelsen: And Paragard, that – the inventory issue you mentioned, that that was one quarter issue, so that only has affected Q1; Q2 should be a cleaner quarter?

Albert White: That's correct.

Larry Biegelsen: OK. So we should – just by virtue of that, we should see an improvement, is that fair?

Albert White: Correct.

Larry Biegelsen: OK. Let's just move on. Again, on the guidance, the operating margin, do you expect that to improve by 300 basis points, I believe to 28.5 percent in fiscal 2018. It looks like it's going to be driven problem almost entirely by the gross margin. Can you talk about the tailwind there and why is the currency headwind COGS not hurting the gross margin?

Albert White: Yes, so if I look at the operating margins, you're right. It's being driven by gross margins. And for a number of years here, we've actually had gross margin expansion supporting the operating margin side as we've been investing in the business pretty heavily from an OpEx perspective.

When I look at gross margins, we do have currency in there, obviously. Now with the pound moving, that's a detriment to us. And as you know, there's a lag effect on that. Having said that, there has been positive movement on a year-over-year basis from a top line perspective.

So you're getting the added revenues associated with that. So there could be a little bit of pressure on that. We've incorporated that all into our guidance already. So we shouldn't be seeing any surprises from that. The operating margin, that we look at right now, of – kind what we're talking about the 28.5

percent that you mentioned, does include some significant investments in the business.

We do see a lot of opportunities for growth. So we are – we have expanded. We're continuing to expand, and look at investment opportunities within CooperVision. And that's globally. That's globally by the way.

So I get – people asking questions about the Americas market, and sales force expansion. Well, if you could see the new (fit) data, you'd be happy with the sales force expansion in the U.S. And frankly, I'm really happy with the sales force expansion, and the sales and marketing efforts outside the U.S. And we put up some strong numbers there.

So we're going to continue to look at investment opportunities within CooperVision. And we're going to look at them in CooperSurgical also. We talked about adding the 40 sales reps within PARAGARD, and driving upside there.

So for the time being, gross margins are driving that operating margin expansion. I think that as we move forward, and we go into next year and future years, we do have opportunities for some continual gross margin expansion.

We have some exciting stuff going on. Certainly CooperVision, from a manufacturing perspective is really killing it in terms of analyzing and focusing, and driving cost reductions; and that continues. And CooperSurgical, as I mentioned in last call, a new manufacturing facility down in Costa Rica. So as the integration has been moving, consolidating operations, and driving some cost of goods improvements is something we're expecting there.

So I do think we're going to continue to see some gross margin expansion on currency neutral basis. And then, if I look at OpEx, we have been investing heavily in the business for a number years; be it distribution centers, sales and – sales and marketing, and IT, and so forth.

We're doing all the right things to put the infrastructure in to support growth of this business. My guess is that we're probably getting closer to the point of being able to leverage OpEx. And we'll probably start seeing some of that in the coming years.

Larry Biegelsen: That's helpful. Thank you.

Albert White: But – and that goes to (Larry). We kind of talked about the operating – you look at the operating margin, and we spent a little time in the last call. Somebody had asked about hey, where's that going from the perspective of longer-term. And where can you guys take that?

And we do have some pretty good opportunity for operating margins to continue to improve. And we talked about 32 percent kind of operating margins in 2022, out a couple years.

So I think that the way we're going to end up continuing to push to that point is some gross margin expansion and that'll moderate some, because the numbers have been really strong, but also some potential for some OpEx leverage.

Larry Biegelsen: That's helpful. Let me ask one on fiscal 2019, which you obviously haven't guided to yet. But you talked about two things, one, is the tax rate being below the mid-teens. I think you put out (at 8K on that in January.) And I – you have talked about having double digit EPS growth as an (inspirational) goal.

But next year – so obviously your tax rate is expected to increase a little bit – let's say from the nine to ten percent this year, to maybe 13-14 next year. Interest rates – interest expense might be higher next year as well. So how do you still grow EPS at a double digit rate with these headwinds? Consensus right now I think is only assuming about, best I can tell, maybe a high single digit EPS growth next year?

Albert White: Yes, definitely a fair question. When we look at taxes, one thing to remember in our effective tax rate when we guide and discuss it, is we're not including equity comp in there. So that – that is for us and other companies, we'll allow for a lower effective tax rate in certain quarters. And you can't just forecast those, to when the people are going to exercise options, and so forth.

So that is – is kind of unknown positive, if you will. Excluding that, yes, we look at nine to ten percent effective tax rate this year. We're still working through the tax code and the changes that are being made, so we can evaluate that.

As you know we have a very strong tax department here, (Augustino) runs that department, does a fantastic job, so he's doing a lot of work on that. Could we see our effective tax rate move up towards the 14 percent and we've kind of talked about that, you know, yes, we could see that.

We're certainly doing tax planning to do our best and to manage that. But that would be a big hurdle we'd have to jump over. You're right on interest expense, you know, we'll see what happens with interest rate. But that could move higher of course, we're generating a lot of cash, so we'll offset that with some debt pay down. But then I kind of say, OK, well outside of that, so outside of, kind of, below the line, things we need to hurdle.

To operating margins, you know, we have a lot of strength there, there are a lot of really things going on in this business and the opportunity to continue to drive pretty good operating margin expansion. So, we're going to focus on that, we're going to do our best to drive that, I have no given up on hopefully being able to get to double digit EPS growth.

Next year, I know that's going to be a challenge and I'm not guiding to that, and we still have time, we still need to work through, you know, the rest of this quarter, next six months and see what's going on with the business and so forth. But its – we do have some hurdles, right?

And I think that if when we move forward to 2020 and in future years, maybe that effective tax rate is, you know, in the mid-teens. But it's going – it should kind of sit there. You know, I don't see a lot of fluctuation once that, once we get to that point so.

We do have to get through next year, we're going to do our best, we're going to roll up our sleeves, we're going to execute, we're not going to do anything silly, with respect to the business, because there's a year after that and a year after, and a year after that. And this is a one time, kind of, tax move we need to hurdle.

So, we'll talk about that a little bit more as we move through the year, but they're all good challenges.

Larry Biegelsen: Got it. All right, so let's do a little bit deeper dive on the contact lens market. So over the past two years, the contact lens market, you know, appears to have grown closure to six percent when we aggregate, at least Alcon, you, J&J, and then when we look at calendar Q1 it appears, and I think you might've alluded to this earlier, that the market may have even accelerated to six to seven percent, if we adjust for the, you know, the stocking that J&J did in the quarter that they called out on their call.

I guess my question for you is, do you agree the market looks like its – been growing closer to six percent when you look at kind of the big four, or big three, do you think the market accelerated in calendar Q1 2018 and if so, kind of, what's driving that growth and how sustainable is it?

Albert White: Yes, I think that the market, the contact lens market, is in great shape right now. We're seeing trade up from our competitors and that is good news and it's a positive. And I think we need to remember that the core thing here at the end of the day is you want a strong contact lens market.

We want a strong contact lens market. I think I heard from some people, kind of this concept of (inaudible) can they continue to grow one and half or they can't grow one and half or two times the market.

You know to me that's kind of silly. I mean at the end of the day what you want is a good healthy market place. And that's what we have and we don't sit here and say, oh man we have to grow one and half times the market or we have to put up these kind of numbers against the market place. You know, that's not the way people run their businesses, that's no an intelligent thing to do.

What we want is a good healthy market and we want a good healthy product portfolio within that market that's driving success. And we worry about ourselves and we are in a very, very good position when it comes to our product portfolio and for many years in front of us. When I look at what's going on right now, are there dynamics that have shifted things?

Yes, is it – you know we grow one and half, two times the market when you just have this normal base at market. But what do you have going on now? You have J&J doing great job, right? Trading up that nine compliant two week, where shifting their wearer base up to higher revenue based products, Oasis Daily, you know, and if they shift people into those products they are going to rep the rewards of that transition.

And you know Alcon just came out with their numbers and they talked a little bit about that, and you'll see some of that same activity with respect to them. Shifting their wearer base to daily's total one. That's good news, and some of that – there's some fall out on that and you know we've talked about that. You know, so we have some trade up also, not nearly to the same degree that those guys have trade up, but then there's also some fall out.

You know, anytime you're going through a trade up strategy, you have wearers for whatever reason, are not liking your new lens or as wearers fall off, and new wearers come in there's opportunities to pick up new wearers from private label and from other areas. So what you end up with is success on both sides, you have, like someone like J&J, great company, right?

Great competitor, going through this trade up process, very intelligently, so they're moving through a nice, what I believe for them will be a multi-year process of trading up their wearer base. There will be some wearers that fall out of that and it'll give us some opportunity and we'll pick some of that opportunity and I see that in the fit data where we're picking up new wearers. And we'll continue, I believe, to pick up new wearers.

Now at the look through basis, we're happy with that, and we're getting those new fits and that new wearer base and that's good. When we do as reported revenue's, well that's a little different. You know, J&J picks up a nice bunk from that trade up. At the end of the day that's a win for both of us, and that's the way I look at it, you know.

And you talk about Alcon coming out with potentially a new lens, well good, you know, they come out with a new mass market daily lens, I think it's hard for people sometimes and they kind of scratch their head thinking about how that's a positive or how that could be a positive for us, and I appreciate that challenge.

You know, we went through that with J&J a few years ago when they came out with their new daily and their monthly and everybody said oh my god this is going to kill Cooper Vision, well that's not the way it works. And we're in the same situation, you know, right now. As long as you have a good solid product portfolio, which we have, as long as you have a really good intelligent, sophisticated management team, which we have.

And as long as you have the ability to be proactive, which we are, and we see right now we've done that with some of our more recent rebate activity and so forth. Being proactive and getting in front of this stuff, it's going to position you really well, so at the end of the day, if we're sitting here saying that J&J has a long term trade up strategy and that's going to drive their growth and the market growth.

And we're going to see some of the from Alcon and we're going to continue to see our growth coming from picking up some of those wearers and some private label and the shift to daily silicones, which is just fantastic, you know, and it's great for us where we have good solid market share there and we're getting very nice gain.

That is a net positive around the board, so, we need to think about it that way and I think people need to think about it in that context of, hey it's a good market and it's a stronger market, and we all want a good strong market.

Now, maybe that impact of multiple market sharer gains but that's for someone else to focus on and not us.

Larry Biegelsen: So, we saw Alcon report a think six percent yesterday in calendar Q1, J&J did about eight percent adjusting for this stock and I believe – what the message here is, that those two competitors, lets just say, doing a little better, seven percent or so combined, is not an impediment to you still growing six to eight percent.

Albert White: That's correct.

Larry Biegelsen: OK. And you don't want people to fixate on this one and half times – one and half to two times the market, because the market's growing faster and you're confident you can still grow six to eight percent. So that one and half to two times is really not a valid metric anymore.

Albert White: No, it used to be a valid metric and when the market place was in a different position, it was a valid metric and it was well worth looking at and discussing. And we did and we looked at it that way. When you're in a market place where you're seeing product trade up strategy, so you're getting competitors doing a product trade up strategy, you know, that is a unique positive thing.

And now, that's a positive thing for them and that's good, and as I mentioned that's a positive. You know, but there are wearers that fall out of that, and there are wearers that we're going to pick up. So it ends up being a positive for someone like J&J and it ends up, interestingly, because it strengthens the whole market being a modest, positive for us. And at the end of the day, you know if Alcon employs a similar strategy then it would work the same way.

Now, keep in mind those two guys, you know, when you talk about the U.S. business and without getting into some of the stocking or whatever, individual quarters, I mean those two guys are bigger in the U.S. then we are.

You know, J&J is still probably around 35, 36 percent of the U.S. business, so anytime you're getting a shift in the market place or a trade up in the market place or if you got a little channel fill or something. Those guys are getting a little bit more and then Alcon's a little bit larger than us here in the U.S., we're very similar to Alcon on a global basis, but in the U.S. they're bigger than we are.

So, you can get a, kind of, a little bit of a heightened or bulb (inaudible) effect that impact them a little bit more than us. And keep in mind when you're talking about some of this stocking stuff, that we still do a third of our businesses in private label, so private label does not run through internet retailers, as an example.

So, you have to be a little careful about making assumptions around some of that activity, which creates that like, quarterly plus minus thing. But overall the important thing to take away from this in my mind is good strong market, we operate in a good strong market, we have a very strong product portfolio and we're very well positioned to be able to put up good strong numbers.

Larry Biegelsen: So Al, you talked about new competition, I think, you alluded to it earlier. How much – what are assuming in 2018 from Alcon and Bausch. Bausch is also, at least on one of their investor slides indicated that they're going to launch a new silicon hydrogel daily disposable lens, I think their slide said fourth quarter 2018.

What are you assuming for both of those in terms of timing and geography? And how much visibility do you have on those?

Albert White: Yes, I mean we don't have – we don't have a ton of visibility, we kind of see what you see and we hear what you hear. And obviously when lenses hit the market we'll get them and we'll do our testing and so forth and hear how people are positioning them. Both of those guys have talked about launching new lenses, it certainly appears that Alcon is going to launch more of a mass market kind of daily silicon at some point. It sounds like it'll be latter half of this year.

We don't know the details behind that, in terms of where they're going to launch it, how they're going to launch, how aggressively they're going to launch it, whether they're going to have the full product offering, right? Because I mean we have the spear of the (tour) at the multi focal, wide range

SKUs. We don't know what they're going to offer, how they're going to offer it, how they're going to sell it, so I think we'll find that out and we'll play out as that comes.

Now, we do see that activity out there, we did alter some of our rebate activity, and so forth, with some of our lenses to get in front of that and be proactive, in terms of our positioning. So, right now that's built within our guidance's under the assumption that, hey they're going to do something in the back half of this year and we're not exactly sure when or how, but we did build in some assumptions around that.

When it comes to Bausch, Bausch is much smaller, obviously, than Alcon is. So the impact by itself, by its very nature is smaller, you know, they talked about launching a daily silicon, again we don't know what that means.

They have biotrue in the market as kind of that competitor, that's a traditional hydro gel competing against some lenses like, clarity and so forth that are silicon hydro gel. So, whether they come out with a product, I don't know if it's in the U.S. or OUS again, don't know the parameter ranges with a type of offering they're going to have.

Don't know the pricing on that, are they going to keep biotrue where it's at and come out with a new lens, kind of at the premium space trying to go against some fantastic lenses like MyDay, and BT1, and oasis daily. You know, I don't know, I would stay more focused and more concerned about where Alcon is moving just because of their size in the over all market place.

Larry Biegelsen: That's fair. There were two recent launches over the past couple years, vita on the monthly side I think, and oasis one day on the daily side, both from J&J. You know, one of them was, kind of I think, vita was a non event for you guys.

Oasis one day, actually, did have a temporary negative impact on your guys for a quarter or two. But you've managed through both of those well. These launches, is there any way help people think about whether they could depress your growth for a quarter or to, or not, is it just too early to tell?

Albert White: Yes, it's definitely too early to tell. I mean, J&J, it has a big market share in the U.S. here as I was talking about. When J&J comes to market, his(torque)ally, they come to market, they launch those products in a pretty big way.

Now, they don't do it very often, right? Because prior to that, I think it was 2005 or 2004, so they launch these products, they go through a very long trade up cycle.

But they launch that, they launch it aggressively, they tied it in with some cross promotional activity to some of their other products and it did have kind of, an inventory fill event which impacted us short term. I don't know how Alcon's going to launch that product, Alcon obviously is not the size of J&J, so I mean is very nature they're not going to have that same kind of impact.

I don't know if they're going to be able to launch that product as robust as J&J when they launch a product, it's a pretty robust launch. So, we'll kind of wait and see on that, I mean my guess on that is that we do not see much of an impact on any individual quarter, I think that it's an intelligent well laid out product launch. Those guys at Alcon know what they're doing so I think they'll do it that way.

It'll be a transition that's going to happen over the years, rather than them doing something quick and putting a lot of wearers in play, they're not going to want to do that. So, I think at the end of the day, I don't think you're going to see too much of an impact on us on any individual quarter. Having said that we need to see how it plays out.

Larry Biegelsen: Yes, Al, the big product launched for you guys this year is MyDay (torque) in the U.S., the feedback we've gotten on that product from our checks is universally positive. How has the rollout gone, are there any metrics you can share with us on where you are in that rollout, fitting sets et cetera and potential contribution from that?

Albert White: Yes, I won't get into to many specific details on that, I will agree with you certainly that the rollout is going well. You know, (Jerry Warner) runs our business here, he's done a very nice job with his team rolling that product out. And it's been received very, very well on the market place.

I'm very happy with how things are going there. As you know, a lot of times we'll see a halo effect on that, and we'll pick up additional business on the sphere and so forth.

So, looking forward to that but no, things are going well there, the products out in the market place, we're continuing to get it out there in a greater degree, customer's have received it really well. Be it the fitter or the customer themselves, that is tied to, kind of, our Biofinity torque design which is a great lens and a very large product for us.

So, things are going well there, it's still a little early, right? Because we've launched that just a few months ago, we really got it out in the market place. But we're certainly smiling at the reception from the reception from the market place with our product.

Larry Biegelsen: That's helpful. Let's say we've got about 10 minutes left. I wanted to ask a couple of specific CooperSurgical products and then open the line to questions from participants. So Paragard you talked about the "New England Journal" publication in December. I think that showed that women using hormonal birth control pills and IUDs faced a higher risk of breast cancer than women using birth control with out hormones.

I think the editorial in the "New England Journal" suggested that woman in their 40's should consider non-hormonal IUDs because of the risk of breast cancer. With hormonal birth control increases with age, and Paragard's obviously the only hormone free IUD in the U.S. today. And I think you've said it's about 15 percent share the U.S. IUD mark – IUD market.

So how do you think about Paragard's growth in light of the "New England Journal" article? What's been the impact so far? And where do you think that 15 percent share can go, let's just say over the next three years?

Albert White: Yes, I think that we always have to be a little careful on that kind of stuff. Like a big study is done. It comes out with that kind of information. That was picked up from the morning news to the nightly news. And it was all over the place.

And because it was all over the place and consumers saw that there was a lot of reaction to that. And people calling their physician and saying hey should think about this? Should I change? What does this mean? What other offerings are out there?

When we look at the world we're in with natural foods, and people looking for kind of non-hormonal options. It's important for us to be able to go out there and say hey there is a really good alternative. Now we're marketing that product. Alright, we're getting behind it.

We're talking about it. We're spending time on it. We are not milking that product. So we're going to do our best to get it out there. There are absolutely no question, reasons that physicians fit hormonal IUDs and birth control pills.

And there is a number of reasons for that. And that market place is a big market place. When you consider birth control pills and IUD, that could be a $10, $11, $12 billion type market. So it's a big market. There's a lot to be said.

A lot of positive's to be said for that market and a lot of good things. Now having said that some studies have indicated, hey there is a little bit of concern around breast cancer and there has been some studies that have indicated some issues associated with depression for younger women.

It's important for us to get out and make sure the people know that. We're not trying to scare anybody or anything else. We're just trying to get out there and say hey listen there's a great alternative here. So as your thinking through the options make sure you remember that there's a product here. And that's what we're doing. And we have sales people out there now doing that.

So when I look at it the IUD market, you know let's call it let's make map easy and let's call it a billion dollar market and we're 16 percent of that. And somewhere in that kind of range, and where can that go? I'd love for us to continue to plug away at that. And pick up a point, a market share a year. And just get good solid, constant improvement there. And that'll get us to some decent growth. Am I optimistic we can do a little bit better than that?

Yes. Because when I look around the world where IUDs are more prevalent and non-hormonal IUDs are more prevalent. Because keep in mind it's a medial devise product outside of the U.S.

There are many markets around the world where the split between hormone and non-hormone is much more a third non-hormonal. And there's markets where it's 50/50. So I do believe that when the news is really out there and the information is available and the market place knows that there is a strong non-hormonal option.

And people are being educated on it that you don't see this kind of 15, 16 percent market share verses 85. You see something that's a little bit closer. So I do think there's opportunity out there. The rest of the world to me tells us there's opportunity out there. But we need to invest.

We need to get it back into residency programs. We need to ensure people understand that an option is out there. We need to make sure physicians understand that this product is being supported and so forth.

We are taking all those steps now. We had bought that and that study came afterwards. So that was kind of a nice one for us. I'd love to say that I knew it was coming but – we that happened and we're going to work hard to take advantage of it.

If I'm wrong then OK, then we'll pull back on some of that activity. But I don't think I am. So we're going to put the investment dollars behind it and see if we can't drive that market share up.

Larry Biegelsen: And that was the – that was the rational behind adding the 40 reps. I think you may have confused people a little bit. The time you did the deal I think you saw it – you communicated that it was something you could plug into the existing sales force. And then I know you added 40, 40 dedicated reps for Paragard.

So I think that confused people a little bit. But it sounds like the rational behind that was the opportunity you saw with the "New England Journal" data, is that fair?

Albert White: That's fair. We have a great direct sales force, a great relationship with OB-GYNs right now. We can take that product and move it through our existing sales force. But we have some other products.

We have EndoSee and other products that we are selling and pushing out in the market place right now. And when we looked at the opportunity with respect to Paragard, especially with the study that you're indicating. It made sense to go out there and get a true direct sales force.

Of which we hired about 40 people and two thirds of them or so are ex-Paragard people. So their hitting the ground running, we have those people. We had them all in place by the end of March, out there selling the product. And we're going to see. It's pretty easy for us to evaluate those sales people and how there doing in there area's verses area's that don't have sales force coverage.

So it's pretty easy for us to analyze that and say are we getting a return on that? And what kind of return are we getting? And should we add incremental people because the return is there? Or should we not?

Should we shift our strategy around a little bit? So we have a lot of visibility on that. Which is a good thing, and you're right we did shift our thinking a little bit on that. Because that new publication came out and some new opportunities came out, so we want to see if we can capitalize on this.

Larry Biegelsen: And have you seen any impact yet from the "New England Journal" paper?

Albert White: Well I would certainly say we've seen impact in terms of people taking about the product, yes. It's been out in the news. There was a lot of free press if you will associated with that. So yes there has absolutely been some positive impact in terms of people talking and discussing it and so forth.

A little early in terms of saying hey that's transitioning into fits and the revenue impact and so forth on that. We need to let that play out a little bit. And see if – whether that concern and people asking questions and talking about it whether that, and how much that translates into improved sales with the product.

Larry Biegelsen: We have about four minutes left. I have a couple more questions but I want to see if there are questions from participants on the line. So operator could you please read the instructions for asking a question and queue up please.

Operator: Yes sir. At this time if you would like to ask a question please press star, then the number one on your telephone key pad. We'll pause for just a moment to compile the Q&A roster.

Larry Biegelsen: And Al while she's doing that let me just ask about the LifeGlobal acquisition you did a couple weeks ago. Just to kind of round out the discussion on CooperSurgical. I think LifeGlobal you said is the market leader in one step media, in a one step media solution. How does that complement your existing IVF business? Why was that an important acquisition for you guys?

Albert White: Yes, it – just as I was talking about earlier we're strong on the fertility solution side of this space. And IVF global growth market, LifeGlobal was a premier player within the single step media side. On a global basis they we're expanding globally. So it's just a very nice fit for us. And we have a number of media offerings out there. To add one that is very complimentary to us.

And a top product that's out in the market place, boy it's a nice fit. It's just a really nice fit. It's kind of you talk about one that's down the middle of the fairway that's what that one is. So when you get those kind of opportunities you want to capitalize on them. We had been working on that transaction for a little while.

So it was really nice to see that one get across. (Bob Arbaugh) handles all that stuff for us. He did a really nice job staying on top of that and getting that over the finish line.

Larry Biegelsen: Hey we're at the top of the hour here Al. Before we end, before we end I just wanted to give you a chance to make any closing remarks if you want.

You could talk about is there anything you feel that we didn't cover, that you want to highlight on this call, happy to give you that opportunity, before we wrap Al.

Albert White: No, I would just say Larry I think it was a good series of questions and a good conversation. I think that people need to take away that we have a good healthy contact lens market right now. And we're – I believe we're going to have a good health contact lens market for many years in front of us.

We have a very strong robust product portfolio, with good products that we're going to be launching. And products that we're going to continue to expand around the world and we didn't touch on everything, right Biofinity, Energys and some of our other products. But we are in a good position in a good market place.

And I think that's going to bode well for many years of growth. And top line, and a lot of opportunity for us to generate cash flow. And pose some good numbers. So I think that's kind of the take away for people. And we're going to continue to put our heads down and execute and focus on delivering good results.

Larry Biegelsen: Perfect. Really appreciate Al you're taking the time to do this. And everybody on the line thanks for joining us. I hope everybody has a great weekend. With that we'll end the call. Thanks Al.

Albert White: Thanks Larry. Yes, bye.

Operator: Thank you for joining on today's conference call. At this time you may disconnect. One moment, speakers.

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