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OVERVIEW:

Company Summary

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PRESENTATION

Margaret Kaczor Andrew - *William Blair & Co. LLC - Analyst*

Good morning, everyone. Thanks for joining us for day two of the William Blair Growth Stock Conference. We've all made it so far through roughly a day and a half, which is good. My name is Margaret Kaczor Andrew. I am the research analyst here at William Blair & Company who covers Cooper.

Before we begin, I am required to inform you that you can obtain a complete list of research disclosures or potential conflicts of interest at WilliamBlair.com. With that, super happy to introduce Dan McBride, appreciate you coming out to Chicago with us. I'll turn it back to you for a presentation and then maybe some Q&A at the end.

Daniel McBride - *Cooper Companies Inc - Chief Operating Officer, Executive Vice President*

All right. Thank you, everyone, and really happy to be here. Daniel McBride, I'm the Chief Operating Officer for the Cooper Companies. I know many of you are familiar with the story, but I know some others in here may not be as familiar with the story. So, I'm going to do a bit of a quick overview through the presentation deck, not going into too much detail, probably leave some time here for some Q&A, but just to make sure everybody is familiar with the story. We have our cautionary statements disclaimers so if I say anything crazy, Kim can tell me, and then you guys can ignore it.

So the CooperCompanies, who are we? We're a medical device company. We have two really strong businesses. I think more important than having strong businesses is we are in two really great spaces. Some of the business is purposeful and some of it's luck, being in great spaces there's an element of that luck in there.

Soft contact lenses for CooperVision, which represents about two-thirds of our revenues, and then for CooperSurgical being in women's health and in fertility, two strong growing spaces. That's about a third of our revenues for the business. Our revenues are split, about half of them are in the Americas, mostly that's US, and then Europe and then Asia.

We look at the business over time, we've had really strong performance, strong and consistent performance over the last 10 years, really over the last 15 years. And so both businesses are growing consistently every year. A little bit more organic growth you'll see on the vision side, a little more M&A growth you'll see on the surgical side of the two.

When you look at guidance, I won't spend a lot of time on here. Other than to mention that it's been a really strong year for us to date. We've been raising revenues and beating EPS both quarters, and we feel like we are well positioned to have a strong year for our guidance. When we think about what we are doing and our commitment really to investors, first and foremost is driving a sustained revenue growth, very focused on delivering organic growth within the business, and then more so on the surgical side, doing strategic acquisitions to help build out that franchise.

We are very focused on profitability and leverage. I know investors in the questions that I've been getting over the last couple of quarters are very focused on leverage, and we are very focused on leverage, and you're starting to see it more so particularly on the vision side. We've really crossed the hurdle of a lot of the investments we've made there and you're starting to see it on the surgical side as well. So that's the second biggest area of focus for us as a business.

We take it seriously how we spend the capital of the company. And the strategic priorities really go first, investing in the organic growth of the business. After that, it really is paydown of debt in this climate and then strategic acquisitions or really how we're allocating capital. And obviously,

for any company, it's about people. We feel like we have a really strong product offering and a really strong mission to our customers and to the patients that use our products and that resonates well with our employees in terms of who we are.

When we think about CooperVision, really these four product families represent the main drivers of growth in CooperVision. To talk to our 1 Day Silicone Hydrogel, that's the fastest growing part of the soft contact lens space, and we have two attractive full families of products there. In the bottom left, there's Biofinity, that is the largest product in our franchise. It's in the FRP space. It's a leader in torics and multifocals and expanding parameter ranges. This is the biggest family of products from a SKU range in the industry and that's what really resonates in terms of customers.

And then the bottom right there is MiSight, and that's our entry into myopia control, which is really taking vision care beyond just correcting the vision problem, but actually reducing long-term myopic growth. So a new mission for the whole industry and we are leaders in that space. When you look at the global soft contact lens industry, it really is becoming a third, a third, a third kind of a market. It is something that I saw when I took over CooperVision back in 2014.

But it really is where the market's playing out. Ourselves and Alcon are really the two big drivers within the market right now where the two companies taking market share. J&J still remains the largest company. But we're really seeing that the three companies are what dominate the industry. It's still a two-thirds, one-third split between sphere, toric, and multifocal. Toric and multifocal, there's a lot of energy and it's growing faster than the market. That is a strength of CooperVision in that part of the market, it's the more profitable and the stickier part of the market.

So we're delighted that our positioning is lining up well with the market trends and the most important pieces of the market. We think about the drivers, it's a growing wearer base, we have a growing prevalence of myopia globally, which is now about 30% of the world's population needs vision correction. That's expected to be about 50% of the world's population in 2050. It's an epidemic problem and that really gives you a macro trend to invest in the industry on.

New fits and trade ups, it's always been one of the biggest drivers, and that continues to be. It really is a shift in 1 Day Silicone Hydrogel lenses and it's also growing in torics and multifocals. And then pricing, we've been in a good pricing environment. One of the things that we're seeing is that consumers continue to buy the highest end products in the marketplace. Our top seller is our top-end products. Alcon's top sellers are its top-end products. J&J's top sellers are their top-end product.

So the industry has been able to take price and consumers are not reacting by changing their buying decisions on the types of products they buy. CooperVision, great history of success. What I take particular pride here is really the market growth. For 15 years, we've not only grown in the market, we've grown faster than the market, 15 straight years. So I think that's a tremendous achievement. I think we can continue to do that. And we've really driven our share from being a distant third player to being a number two player and really creating that third, third, third market view.

One of the biggest areas that CooperVision is leading the industry and really changing what vision care is, is in myopia management, and that's reducing the progression of myopia. We have the only FDA-approved product to control myopia, which is MiSight. We entered into the business originally because in orthokeratology that mostly focused on China, but that piece of the industry was there and now we've also recently added a joint venture with Essilor, the largest spectacle company in the world, to bringing a spectacle option for myopia control.

This is building slowly, but it's building with great strength. And it really is a great long-term trend. And this should be standard of care for all children. They should have their myopia treated and keep their myopia level as low as possible for their eye health for life and also for just quality of life. So in summary, we're well positioned to succeed. We've got a great position within the market. We've got the largest product portfolio in the marketplace. And so good summary on the CooperVision business.

If we look at CooperSurgical, really you can split it in different ways, but 40% of the business is in fertility, which is delivering healthy babies and allowing families to have babies and 60% of the business office and surgical, which is a mix of businesses, including products for OBGYNs, surgical products, also stem cell storage. A few things going on in the on the office and surgical side. It too has a great history of success. It's really tripled, quadrupled in size in 10 years.

A lot of that is M&A driven, but it's really positioned now to being a strong business in its categories. When we think about fertility, this is the business that most excites me on the surgical side. The fertility space, you cannot open any major newspaper or magazine and over the last five months, not see a story about population dynamics around the world, people are having children at a later age, 15% of the population has an infertility issue regardless.

But all of this points to the need for more children, more babies. And so there's really strong tailwinds in the IVF space as it matures. And we have a leading portfolio with really all the products that are needed to run a fertility treatment. So biggest portion of the fertility market is in the drug side. We're not in that side. But when it gets to medical devices cover. CooperSurgical has a leading position.

When you look at office and surgical, this was the historical CooperSurgical business that really focused on OB-GYNs, a wide variety of products, a lot of focus now on labor and delivery. That recent Cook acquisition was again on the labor and delivery side. So well positioned there, good growth, slightly slower growth in this segment of the business than in fertility and in CooperVision. But it's a highly profitable segment for the business. So that's on our med device and our stem cell storage.

Finally, on our overall mission, obviously, we are focused as every company is, on our corporate social responsibility. We take a lot of pride in the fact that the initiatives we've taken to both reduce waste, LEED-certified facilities, our partnership with Plastic Bank to remove as much plastic from the environment as we're putting into the environment. So anyway, like many companies, there is a strong focus on this in the organization.

And then just finally, so we can get on to Q&A, these are how we sell and what we are as a company. We've got really two strong companies in growing markets that have good tailwinds. So it's an attractive space to be in. We have leading portfolios, particularly in fertility and in the vision side. We are very focused on leverage. I think that's something investors have been saying since post pandemic. They hadn't seen as much focus on the bottom line.

We have been doing a lot of investment. A lot of those investments are now paying off. So you're seeing that right now in the margins we're delivering and in the EPS that we're delivering. Long-term focus on shareholder value, and I think we have a proven track record, growing every year and delivering for shareholders.

So with that, I'll open it up for questions.

QUESTIONS AND ANSWERS

Margaret Kaczor Andrew - *William Blair & Co. LLC - Analyst*

Perfect. I would say, I'm sure Dan would rather answer your questions than he would mine. But here we are to start with mine. So if you do have a question though, please raise your hand, and we'll immediately stop what I'm saying.

You guys had a really strong fiscal second quarter result that you reported, frankly, just last week. CVI did another from performance. CSI, maybe there were some nuances to that. So maybe just at a high level, talk about the last few quarters and each of those businesses? And then as you talk a little bit more on the nuances on CSI and why those are managed?

Daniel McBride - *Cooper Companies Inc - Chief Operating Officer, Executive Vice President*

Yeah, so on the vision side, the market is strong. We've seen a good pricing market, so we took price globally. We believe we took price in and above where our competitors were, particularly outside the US, and our consumers are not reacting to that. So again, the fastest selling products are the top-end products for everybody's product families.

The market is very focused on 1 Day Silicone Hydrogels. That's where a majority of the growth is, with clariti and MyDay having two families of products there. It well positions us in that. We've taken a strategy with MyDay that MyDay should be the Biofinity of the one-day space. So our

parameter ranges far exceeds anything our competitors have done, and we believe that they will do, and that really allows practitioners to put more patients into one days. And that's where they want to be. They prefer to be in -- one days are more convenient, they're healthier. So we think the market is strong and we think our positioning is really, really strong on the vision side. Over on the surgical side, markets are strong there as well. I mean fertility had been doing double digit growth every quarter. It slipped off of double-digit growth last quarter, but we expect to get back to there in the third quarter and the one glitch in CooperSurgical is that the platform that that business runs on needed to be upgraded. So we did a major systems upgrade with surgical at the beginning of Q2. We thought we would largely get through it and not have to really talk about it.

But it was mainly around data cleanup, and the historical databases, they're notoriously difficult to get those things on to the new systems. But we've done that cleanup and the system works, it's fine. We now have to clean up the backlog. So basically, we've kept guidance for surgical the same for the full year. But more importantly, surgical's in a much better position to grow as a company. This was an important piece of work to get done.

And so we're actually really delighted, they had it done and to have the system working and be in a position really to put surgical in a stronger position to grow going forward. So that was the glitch with surgical. But you know, I view it as very short term, and fortunately we got through it fairly quickly, even though it impacted the quarterly numbers.

Unidentified Participant

(inaudible - microphone inaccessible)

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah, it's historical. Really the origins of CooperSurgical go way back into the 90s and it was when Tom Bender was building up a side business, he saw an opportunity to consolidate in the OB-GYN space. So the company has been building on that side for numerous years. There used to be a tax benefit in having the two companies, that no longer is the case. But we've now invested in it. It's a strong business. It seems to not be dilutive on either side of vision or the surgical. So one could say it's a historical anomaly as to why they're together, but we're happy with both businesses and there's no desire to ever to split them.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

Okay. And when we spoke with Brian last week, we didn't speak with you on the follow-up call. He almost stopped himself sharply and he was about to say vision is growing and all are firing on all cylinders, and then he stopped. So I don't know if that's the characterization, I guess you would agree with this point. And there's a series of tailwinds. You mentioned price a lot, but frankly, capacity for you guys is improving and yet you're still not able to fulfill the demand for things like for MyDay. So walk us through the tails of some of those over the next two, three years.

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah. So I come from the vision side, and I'm super proud of where vision is. Vision is hitting on all cylinders. It's doing great. It's got great leverage. Its P&L is phenomenal. And, we are in a market where all of the investments we've made over the past years have been targeted at where the market is growing and we're leading in that growth. So it looks sustainable and it looks long term.

The investments we made in one day SiHys, our vision of viewing the one day space as a full-service space and not just a easy hit the center of the bell curve, I think is absolutely the right strategy. I think consumers want to be in one days. There's no reason they can't be. The big issue to conquer there was cost. How do you make the lenses cheap enough to be able to put one days in a larger SKU range and parameter range?

Well, that's really been one of CooperVision's expertises, handling a lot of complexity and handling really complex SKU ranges. And so, we've pulled that off. And just delighted because we look at it and we go we're not convinced our competitors want to do that, we're not convinced they can do it.

And then when we think about the leveraging that's going on in the vision business, we've done a lot of investments. We talk to you guys about those investments. I thought they would start paying off in 2020. But of course, then we hit a pandemic, and it threw everything off a bit, but CooperVision is leveraging extremely well across its P&L.

The big limitation there is really just FX. If you rolled FX back to 2019, CooperVision would look better today than it did even in 2019. So it's just a phenomenal business. And so I'm pretty excited about that. And everything that about it is both sustainable and it's really about trying to keep up now with demand.

As I think I alluded to earlier in this presentation, MyDay is in its early days. I mean, it is a family of products that should be a big chunk of the one day space. And it's still a small family in the overall space. I mean, one days were dominated by Alcon and J&J. They owned the one day space. So we've now pushed in. We're now about 20% share in the one-day space. We're starting to have relevance there, and we have a portfolio that allows us to have greater relevance going forward.

Margaret Kaczor Andrew - *William Blair & Co. LLC - Analyst*

And so maybe just going back to short-term dynamics, I think one of the things that happened in the quarter, you guys still beat, but there were some channel inventory reductions that you did see. One of the things I'm curious about is how does that compare to pre-, during-, and post-COVID days? And I ask that from the perspective of during COVID maybe there was weak suppliers, supply was too well, and then maybe some of the channel increase that. So where are we today relative to that?

Daniel McBride - *Cooper Companies Inc - Chief Operating Officer, Executive Vice President*

So the only channel thing that we really faced in the quarter was with MiSight. It didn't really affect the CooperVision numbers all that much because it is still a small family of products. It did affect MiSight growth rates, which I know a lot of people pay close attention to because it's a really important future product. But that was really the only channel impact on CooperVision in the quarter.

There was a lot of channel activity in the quarter and that has to do with Walmart changing their distributor and NVI is moving out of America's Best. So there is some channel activity that's there. I think where you saw that probably is really more with J&J, where they had a real anomaly in their first quarter.

And I think they said it was channel and it makes sense to me that it was channel. There was a dynamic where distributors were loading up on product when service levels were low in order to keep up their service levels. And there's some rebalancing that's going on there. I don't think that activity is impacting us a whole lot. We didn't see a lot of that activity in there, and to the extent that it exists, we're largely just navigating through it.

So I think you may see other evidence, and this is a US market thing too, because when you go outside the US, the distributors are way less significant to the marketplace. But I don't see the channel is being much of an impact on the numbers we're looking at, at least.

Margaret Kaczor Andrew - *William Blair & Co. LLC - Analyst*

Okay. And then you've mentioned again just several longer-term macro growth trends. This demand for contact lenses shift to Dailies pricing, where do you see content growth in the market this year? And then should we expect that to increase as capacity increases for you guys on a relative basis?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah. When we think about the overall global market, we've always had previously said we view the market is growing 4% to 6%, and it's been growing harder than that with myopia management now in the marketplace. And we've changed that guidance to 5% to 7%. The markets clearly seem to be growing on the high side of that or above that. But when we look at overall the market, I still think that our longer-term guidance is in this 5% to 7% range. So we are in a heightened bit of a market growth, but we do think long term, the market grows in that range, and we tend to grow above that range. (technical difficulty)

Unidentified Participant

(inaudible - microphone inaccessible)

No, I mean, Lasik has been out there for a long time, and it does pull some consumers out in their late 20s and things like that. So it had some effect on the marketplace, but honestly that's baked in and we're not really seeing any real change in that dynamic.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

And then going back to kind of market growth dynamics, you kind of have that 5% to 7%, EMEA has been fantastic for you guys more recently. So what's driving some of those dynamics competitive versus macro?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah. So for us in EMEA, it largely has to do with key accounts that are really driving that market. And we're really strong in key accounts. That has to do both with the key account strategy and also with the private label strategy. I think the key accounts really see tremendous benefit in having their brand name be in front of the consumer and be the brand name that they look out through the course of the year and helping them.

One of the big issues for our industry is customers capturing this sale and the sale not going out to the Internet or the people that aren't doing any work fitting or putting people into contact lenses. So I think that's a big driver for us in EMEA. I think we're probably all the growth in that market. I think if you pulled us out, you might see that market significantly lower. But it's key accounts is the largest piece of it.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

Is pricing a dynamic out there or not?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah, EMEA historically didn't do as well on pricing. We did a bit more on pricing. We did a lot more than our competitors, at least from our market checks on pricing in the market, and that probably helps us as well.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

And then as we look at APAC as a (technical difficulty) region that one maybe surprised you a little bit, correct me if I'm wrong, but how should we think about the kind of broader macro concerns that folks have within that region?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah. I mean, the interesting thing about APAC is, everything has been focused on either we're trying to emulate what's going on in APAC or we want to be in those markets. And these last few years have been the first time where those markets haven't been the most attractive markets, and I think they'll return to that. But one is the FX environment has really hurt those markets. Two, their consumers, the recovery there has been worse than anywhere else in the world, particularly China. And China has been really slow on recovery.

So when I think about our growth in APAC, some of it is that but a lot of it is, is that we prioritized growing in the US and EMEA more. When we talk about being constrained on capacity, we gave less product to the APAC region. So unfortunately, we forced that lower growth number ourselves, largely to do with one customer commitments that we had already, but also profitability of the region versus the US market and European market.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

And then as we think about the CSI disruptions, as there's some flex in that channel. So maybe you under -- you've not highlighted exactly what the disruption was, but let's say you were operating 80% versus what you thought at 100%. What's the flex in that channel opt -- so meaning can you do 150% and more than make up for that kind of Q2 dynamic? Or over what time period, can you go through some of that backlog over?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah. We kept our guidance 5% to 7%. So that's what we feel that's the makeup that we can make as we can continue to get within the guidance range and hopefully at the high side of our guidance range.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

But you have enough capacity to hit --?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

On surgical, enough capacity here. And vision has the capacity issue.

Margaret Kaczor Andrew - William Blair & Co. LLC - Analyst

Okay. And then as we look at the SG&A investments, you've mentioned several times in your intro comments, how you're expecting to get more leverage. Gross margin maybe comes down a little bit in the second half of this year, just with higher-priced products, but then can that be more than offset by SG&A? And what's the tail on those investments as well?

Daniel McBride - Cooper Companies Inc - Chief Operating Officer, Executive Vice President

Yeah, so our expectation is that operating income will be growing faster than the first half. So we are definitely seeing leverage. It's all coming really through the SG&A line, largely on the vision side, it's largely due to the fact that these investments we've made, we're now starting to see the benefits of and we're starting to see leverage.

Distribution is one of the areas where we're seeing leverage and some of that is just supply chains have gotten easier. You're seeing costs come back in line. We're able to do some cost saving type activities on the distribution side. So that's a good driver there. On surgical, you'll get leverage even just from having overcome this disruption. There was additional costs that went into the disruption we had within the quarter but they are also seeing leverage that they're getting in their SG&A line as well.

Margaret Kaczor Andrew - *William Blair & Co. LLC - Analyst*

And then maybe last question, and you've sort of referenced it, FX has not been your friend for a period of time at this point. And I think some people at least have approached me and said, well, your FX play, or your debt play and that's it. How you address some of those comments? And when does it become less of an impact to you all in your numbers?

Daniel McBride - *Cooper Companies Inc - Chief Operating Officer, Executive Vice President*

Yeah. So you know, when I think about that, I just look at the last 10 years, last 15 years of strong performance. I mean, the underlying business is performing strong, strong growth rates, good delivery to the bottom line. We're largely now hurdling a lot of these FX effects. So it would be certainly a nicer world if we didn't have FX running against us every year. It would be nice if the Fed would lower interest rates. But none of that really matters to the underlying fundamentals of the businesses which are strong.

And so that's what I think I would point to is those are two things we don't control, but what we do control is our positioning in the marketplace, our success in the marketplace and that continues to get better and better and better. We continue to leverage the lines we do control. So I look at that, hopefully, someday will be upside, if we ever see the dollar weakened and the interest rates change.

Margaret Kaczor Andrew - *William Blair & Co. LLC - Analyst*

With that, we're going to wrap it up here. The breakout is in the mail room upstairs. Thank you.

Daniel McBride - *Cooper Companies Inc - Chief Operating Officer, Executive Vice President*

Okay, thanks.

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