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COO - Cooper Companies Inc at Barclays Global Healthcare Conference

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CORPORATE PARTICIPANTS

Brian G. Andrews *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

CONFERENCE CALL PARTICIPANTS

Kristen Marie Stewart *Barclays Bank PLC, Research Division - Research Analyst*

PRESENTATION

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

All right. Thanks, everyone, for joining us for the Barclays Virtual Global Health Care Conference. Good afternoon. I'm Kristen Stewart, the medical supplies and devices analyst. It is my pleasure to kick off with CooperCompanies. I have with us today, Brian Andrews, the company's CFO and Treasurer. I also have Kim Duncan on the line as well.

So just as a reminder, if you would like to participate with some questions, you can feel free to e-mail me at kristen.stewart@barclays.com. You can also chat me live. I am on Bloomberg chat. So feel free to look me up and chat me there if you'd like to ask any questions.

QUESTIONS AND ANSWERS

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

So Brian, thanks again for participating. I'm going to basically just kind of kick it off with the first question. You guys reported late last week. You met your expectations, raised full year guidance. Well, there's been a lot of talk around coronavirus and a lot of questions on the call regarding that. Just want to maybe just talk about what you've seen so far and expectations and what you're thinking about just a country to country basis.

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Sure. Well, first of all, thanks very much for having us. Sorry, that's under these circumstances. But happy to be joining today. Sure. So we kept guidance intact. We basically try to contain the coronavirus within Q2. I mean, obviously, there's a lot of things changing in the world, and everything's kind of hot off the press. But what we knew of last week and how we put sort of bookends around it is we looked at our China business, which was heavily impacted within our specialty lens business and within our IVF business, both of those pieces of our business, both specialty and fertility, those visits and those procedures are done in hospitals. So unlike in most parts of the world, where there are separate offices or clinics, doing these types of fittings or procedures, in China, it's all done through hospitals. So \$10 million of the \$15 million coronavirus related impact that we segregated and sort of called out for Q2 is all related to China, \$6 million coming from Vision and \$4 million from Surgical. The rest of the coronavirus impact, we estimated at \$5 million, and that's representative of the rest of the world, including places like Korea and Taiwan and Hong Kong, Malaysia, Italy. So the numbers fairly small-ish. I mean what we tried to do, though, is really put our best guess and be able to justify the number. So obviously, we did our channel checks. We went to all of our salespeople, our general managers, asked for updated forecast, what they were seeing. And at the end of the day, the impact we're seeing in places outside of China has been relatively small. We're not seeing much of an impact. So we aggregated all that up, and that represents the \$5 million rest of world, so a total of \$15 million.

Now with respect to guidance, we ended up keeping our guidance range the same. So we're projecting Vision growth at 5.5% to 7% for the year, Surgical growth at 3% to 6%, which means Q2 to Q4 would have Vision growing 6% to 8% and Surgical growing 3% to 7%. Now this is driven from 2 different things. One is our confidence in our ability to ramp up production in MyDay has been growing and continues to exceed our expectations. So we have a lot of lines coming in place this year, particularly in the back half of the year. And the timing around those lines moving into production and producing MyDay lenses for all of those lines have moved up anywhere from a couple of weeks to several weeks. So that confidence in MyDay production ramping up results in CooperVision revenues increasing in the back half of the year, roughly \$4 million in Q3 and \$7 million in Q4.

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And then within surgical, we've got a key accounts practice within surgical that's had some recent successes in winning a couple of new key account wins, and so that's going to result in some additional fertility revenue in Q3 of around \$1 million and \$3 million in Q4. So on the whole, that additional revenue from vision and surgical helps to offset entirely the \$15 million impact that's impacting us in Q2. So we don't have anything in our guidance for any kind of claw back of coronavirus-related lost sales. There's some optimism internally where we probably can claw back some of that. But for now, the impact is lost revenue in Q2 offset by some additional revenue in vision and surgical in the second half of the year, particularly in Q4.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Perfect. And then maybe shifting to the trade up to 1 Day and 1 Day silicone hydrogel. This has been a growth driver I've heard about for quite some time for you as well as the other players in the industry. Can you maybe just talk about the demand versus capacity constraints for that trend?

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Sure. So there's no doubt about it, we're capacity constrained, and we will be for some time. We said on the last earnings call, we'll be capacity constrained through the balance of this year and even perhaps next year, despite all of the lines that are going into production. It's one of those things where it gives us a lot of confidence to when we get those lines up in production, we'll have places to sell those lenses as it is right now. In Q4, we were starting to get below safety stock levels with our torics. So we had to take some sphere lines off-line and retool them for torics, and that created a ton of inefficiencies, but it got us at least back to a place where we weren't worried about getting ourselves into back order with our key accounts.

I think what's been a pleasant something that's gone well for us is our key account strategy. And really, key accounts are the fastest-growing part of our business, and they're doing a great job. Selling MyDay, selling clariti, torics and multifocals with clariti and torics and spheres with MyDay, we've had to modulate and pump the brakes a little bit with them at times because they wanted to expand further into their own territories into other stores and other locations and geographies, and we talked about it on the Q4 call, we talked about missing out on key account opportunities. And I think that was a little bit misconstrued in that we didn't lose any RFPs and we're not losing any key account business per se, but the key accounts that we're working with continue to want to expand their reach and want to continue to take on more product, and we've just had to really make sure that we modulate so that we're able to meet the commitments that we have with all of our key accounts.

So as that capacity continues to ramp up through the back half of this year and into next year, we'll do a better job of being able to deliver on some of those new opportunities. It will also allow us to get back into certain parts of Europe, where we had to pull out or take out fitting sets out of a number of markets. So all things are moving in the right direction. Production is going great. Capacity is going better than expected. And I think those market drivers of FRPs going to dailies and dailies going to silicone hydrogels is a multiyear trade up 5 to 10 years, where the numbers are going to continue to grow in terms of number of wearers and dailies, the number of dailies sold in silicone.

So I think everyone's going to have success in this market. Our competitors are launching some new products, but they're protecting their own hydrogel franchises. They've got a branded strategy. And if you can take a noncompliant 2-week wearer that stretches out their lenses for a month and that firm falls off the market and you're able to get a new daily silicone hydrogel wearer, well, then you're getting 5 to 6x the revenue per patient. They could lose wearers and still have success. So whether you're one person or another, I think we'll have success, but we've got a great strategy and a great portfolio to deliver better than market returns.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

A good point on the revenue. I did get a question come in over chat from a client. They were asking about the exposure that you have just going back to corona. Just they were wondering about if you could quantify specific to CooperVision, but I guess I would expand it even to CooperSurgical about revenues in Germany, France and the U.K., just to speak about those markets. Just, I guess, out of curiosity, just as there's some new reports about corona cases in France and just the expanding cases in Europe?



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Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Yes. I mean...

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And if you could comment on just your sales mix or...

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Yes. I mean I don't have anything new to say about any particular country like Germany, France or the U.K. We're obviously watching and monitoring the situation as everyone else is. While there were cases that were popping up throughout Japan, there was a worry that maybe there will be a bigger impact in Japan, and we're not seeing it as of yet, just like we weren't seeing it even in Italy before the whole country was on locked down. So that doesn't mean that I don't have any new information on Italy, but certainly, as the reports are coming out of Milan and the surrounding areas last week, the expected impact to the overall business was expected to be fairly small.

So it all depends on how this evolves. Are people not going to stores? Are delivery mechanisms, are the FedExs and the DHLs of the world and the postal service, are they delivering goods? Because if you've got some aspects of the economy that's working and you still have deliveries taking place, people can get refills in their prescriptions and so forth. Where you might have an impact is in new fits, people going to their docs to get fitted for contact lenses, that could take a little bit of a hit. But as of right now, we don't have any new information about those 3 countries.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And then, I guess, just switching back, from a competitive landscape, last year this time, we were talking about with Alcon, and just kind of any changes that you might see just to the competitive landscape as they were becoming more of public entities. I'm just wondering why shouldn't investors kind of be worried about your competitive positioning in the markets with respect to them, J&J or Bausch or part of just in general.

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

I would say there's nothing that has been surprising to us. Everything is kind of playing out exactly as we expected. PRECISION1 is rolling out slowly and methodically, and they seemingly are going after protecting their own legacy daily franchise and going brand against brand with J&J and J&J is defending their franchises and rebating heavily in some places and dropping rebates in others. But it's a market where, like I mentioned before, I mean everyone can have growth because the trade up opportunity is so significant in terms of dollars per patient dollars per manufacturer. For us, we're just executing on our plan on being able to provide premium products in the fastest-growing segment of the market in daily silicone hydrogels, both on the premium segment, but also the mass market. We've got spheres and torics in both of those lens families, and we've got multifocals as well within clariti.

So it affords us when we're having sort of the full suite of products affords us the opportunity to go to those key accounts and enter into some of these longer-term arrangements because we've got a broader set of products, and both of which are exceptional products. So yes, we're really focused on ourselves and focus on building capacity and doing our best to meet demand, but we're putting up some pretty healthy growth numbers despite our capacity constraints, and certainly as we get more capacity on, it's it will certainly, we believe, lead to very strong results, not only through the balance of this year, but into next year and beyond.



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Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Perfect. And then, I guess, maybe if we could just kind of shift to, I guess, maybe just talking a little bit about the U.S. approval of Biofinity and the toric multifocal. How do you expect the rollout to be? And could that be a halo effect for just Biofinity family of products?

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Yes, that's a nice product. I mean I know one of our competitors has a toric multifocal out there, and they've had some success with it. A lot of our docs, whether they're Cooper docs or one of our competitor docs tend to be loyal to those respective brands. And we've got a great Biofinity and Avaira franchise that's been growing steadily and healthily year after year. We had a little bit of a growth reduction here in Q1 at [up] (added by company after the call) 3%, but that was driven largely by some destocking following the Japan VAT increase. Some of that destocking took a little bit longer than we expected, but we're seeing already a bounce back in those numbers starting the quarter here in February and into March.

As far as that product launch, though, goes, it's a specialty kind of a niche area of the market. It obviously affords us a good price and a premium, but it also brings some attention back on to the Biofinity family. Anytime that we can launch something, whether it was Energys or this Biofinity multifocal, any kind of tweaks to an already excellent franchise helps to carry the conversation on and push that forward. But it's a great lens. It's a great design, and we're excited to be rolling that out, first in the U.S. and then gradually around the world.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And then just shifting over to MiSight for myopia, it sounds like you're running a little ahead of expectations there. Can you talk a little bit about the U.S. launch, where you're at with that, and what sort of the expectations could be both in the U.S. as well as outside the United States?

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Yes. Sure. So we're really excited about MiSight. It's an enormous opportunity where the first company with an FDA-approved myopia management treatment. And we're doing our best to spend the right way to invest OpEx dollars through additional clinicals and clinical studies and post-market studies and marketing and advertising, building a support structure around it. We'll be leveraging our existing sales force, but we'll have various different marketing and other professionals that will help to assist the sales force in educating and assisting in the sales process and also designing sort of marketing and advertising around it.

The first MiSight launch occurred in January with KOLS, about 20 or so KOLS. They're all trained and certified now. So they're out fitting the lens in the U.S. We just sent out invitations to about 1,800 docs. That training and certification will happen over the next couple of months. But things are going according to plan, and we want to make sure that we have success with this rollout. The expectations for MiSight in the U.S. are about \$2 million this year, with \$8 million coming from outside the U.S. and then revenues going from \$10 million to \$25 million next year and then \$50 million the year after.

The incremental investment for MiSight to support the launch in the U.S. and to support the other markets outside of the U.S. is happening as planned, and that's \$15 million incremental and \$25 million for the year. So I don't really see that changing much. But things are happening maybe a little bit faster than we expected, but certainly feeling confident that we can deliver the numbers that we set at the onset of the year.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And then just kind of shifting over to maybe the other side of Cooper, just more on the CooperSurgical business, can you maybe just talk a little bit about that franchise and the longer-term expectations for it and just refresh beyond how you think it fits into the overall strategy of Cooper?



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Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Sure. So we've got a nice business now within CooperSurgical that's putting up some good growth numbers. We've built a really nice fertility business that's resulting in mid- to high-single-digit growth. We sell equipment and consumables, and we do genetic testing all around the IVF procedure. So that's going exceptionally well. We've got a key accounts practice that's also focusing on some consolidation that's happening in the industry. We talked about some new fertility contracts that give us confidence in the back half of this year, but it will also lead to some additional revenues in the first half of the year after. So things are going well within that unit.

PARAGARD continues to be that mid-single-digit grower with price and units leading to PARAGARD being a mid-single-digit grower. It's a high gross margin business. It's the only non-hormonal IUD approved by the FDA in the United States. So we think that there's room to grow that, and we're investing \$5 million this year in PARAGARD-related spend to help propel some additional sales there. So we're obviously doing a lot of work to analyze the DTC advertising we're doing, and if we can directly correlate the spend on DTC with added revenue dollars, then we'll continue to spend there. But certainly, if it doesn't pan out, we can always modulate and pull back a little bit. So far, so good with PARAGARD, though. We're excited about it, and it's performing great.

Lastly, I guess, on the base business, that's a low single-digit grower. We've got some products within surgical, including our hysteroscope, our Incisive stapler which is an acquisition from about a little over a year ago, and our surgical retractors and a few other products within the portfolio that are performing exceptionally well. So those are growing at a good pace and are allowing the base business to be a low single-digit grower. So on the whole, we're getting sort of that mid-single-digit growth out of the surgical business, which I think is with higher gross margins, is a nice complement to the overall portfolio.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And can you maybe just talk about your cash generation and how we should think about you guys using it going forward? Should we think about it being used towards additional acquisitions would these investments kind of within the women's health business and CooperSurgical be a potential avenue for some deployment looking ahead? Or how should we just think about capital deployment?

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Yes. So we're going to generate around \$425 million of free cash flow this year, and that's going to be after spending around \$325 million in Capex. Our focus right now is really reinvesting in the business in areas that will lead to growth. Certainly, with the cash flow that we've been generating, we've been paying down our debt. Our debt levels are now in the 1.8 range. And that's a good level. It's nice to stay below 2. And I think as we generate free cash flow, we'll continue to pay down debt.

All of our debt is floating coincidentally. So every time the fed cuts interest rates, that's an immediate uplift to our P&L, and part of our EPS guidance range came from the interest expense benefit from the recent fed rate hike. We did go into the market at the end of Q4, and we bought back some stock. We bought back 150 million. So I think if there's a dislocation in the market, and we see an opportunity to buy back stock, we haven't hesitated in the past to opportunistically buy back and I don't see that changing. So for now, it's really about debt pay down and some occasional opportunistic share buybacks. And if we can find the right kind of tuck-in acquisition that complements the existing portfolio, those single SKUs are great. They're easy to integrate, and they fit right into our bag, like PARAGARD and like Incisive. So we love those types of deals. But these days, we've turned out a lot of deals just based on price, it's hard to find the spread between the bid and the offer is a bit too wide. And we certainly have always taken a disciplined approach towards acquisitions, and I don't see that changing. We've got internal hurdles that need to be met, and if we can't get there, then we'll just keep plugging away. And we've got a lot of wind in our sails in both businesses, and we want to make sure that we're doing what we can to drive top line growth within the business organically.



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Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

All right. I think we only got maybe a minute or 2 left. Is there anything you want to -- any take-home messages you want to make sure the audience walks away with today's presentation.

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

There's obviously been a lot of questions on coronavirus. And the impact for us, I think we've done a good job of putting a good number out there for Q2. I think it's anyone's guess how this is really going to play out over the longer haul, if it gets worse before it gets better, and how deep and how wide it gets. So we don't have anything built into Q3 and Q4. We'll certainly come out with new expectations on our next earnings call. But in general, our confidence in our ability to execute in our ability to deliver to the numbers that we've set forth is high. And we're excited about our prospects, both taking us through this year and certainly into next year.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

All right. Brian and Kim, thank you for joining us. We really appreciate your understanding and definitely efforts here making this go virtual. And thank you, everyone, for joining us on the line and on the webcast today. So thanks again. And I hope everyone stays safe out there, and we will all be in touch. Thanks very much.

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Thank you, Kristen.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Thanks.

Brian G. Andrews - *The Cooper Companies, Inc. - Senior VP, CFO & Treasurer*

Bye.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Bye-bye.

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