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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Joanne Karen Wuensch *BMO Capital Markets Equity Research - MD & Research Analyst*

PRESENTATION

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

We're ready to go. Okay. Okay. Well, welcome back everybody from lunch. I'm thrilled today to have The Cooper Companies here to give the presentation. We have Brian Andrews, who is the brand new CFO; and Kim Duncan from Investor Relations. Brian, I'm going to pass it up to you.

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

Hello, and good afternoon, everyone. Thanks, Joanne. I'm excited to be here today to talk to you about The Cooper Companies. What I'm going to do is kind of just walk you through our investor presentation. I'll probably skip through some of the slides, but if there are questions, obviously, I'm going to leave some time at the end for Joanne and some Q&A there. So I'm going to kind of rip through the presentation. And for some of you who know the story well, sorry, you're going to go through this, but if you don't, I'll give you good overview to understand sort of what the dynamics of The Cooper Companies.

Okay. So at the Cooper Companies, we are made up of 2 divisions: CooperVision and CooperSurgical. Now CooperVision is roughly 74% of sales, and CooperSurgical is 26% of sales. So I'll start with CooperVision. CooperVision is our contact lens division. We've got -- the contact lens market is made up of mainly 4 players that make up 96% of market, with J&J at 40%, Alcon at 24%, Cooper at 23%, and then Bausch at 8%. So it's an industry that has high barriers to entry. It's got a stickiness in its customer base. We like to think that when we fit wears in our lenses, they tend to stay in our lenses upwards of 7 years. So it's a great annuity business in an outstanding space with high margins, and there are some exciting things going on in the industry right now that's growing kind of on the upper side of the 4% to 6% range. So I'll take you through the numbers in a few minutes. But we've been successful year-after-year at growing the CooperVision business faster than the market. And we're excited right now because the market is growing because of the advance of daily silicone hydrogels. It's a -- right now, the market is kind of split into dailies and sort of the FRP, what we call, frequent replacement lenses. Dailies make up 52% of the market or $4.4 billion of an $8.5 billion market. And it's an area -- in dailies that's one area that CooperVision historically has been underindexed in. So with our market share at 23%, we are actually at 17% market share in dailies. So where is the opportunity for us? Well, it's in silicone hydrogel dailies, and we have some of the most robust lens families, both in the premium segment but also in the mass market segment with our MyDay and clariti lenses. With MyDay, we've got spheres and torics, and with clariti, we've got spheres, torics and multifocals. So that market, which was 52% of the market is dailies, 37% of it is silicone hydrogel dailies and that segment is growing 35% as of last quarter.

So the market is somewhat split or it's splitting between branded and nonbranded. We've got some great brands that if people want to put our brands on their shelves, we're happy to do that. But where we differentiate is, we do customized solutions for a lot of our customers, and this means, customized labeling, customized packaging, customized logistics. We provide some technology for our customers, so that they can interact with their wearer base and try to retain those customers. We'll work -- We've got advance logistics, and we're spending considerable money in 2019 on continuing to upgrade and expand and open up new distribution centers around the world and that includes automation and robotics, so that we can have the best most responsive deliveries, response time, customer experience for our customers. And really what's interesting about sort of the customized solutions approach is with customized solutions and with sort of the advent, let's say, of Amazon and online retailers, customers have a lot of options these days. Wearers have a ton of options, so they can get a script from their doctor or from the retailer, and then they can go and find these lenses in lots of other places that might take business away from the customer or from the retailer. So our focus right now is on key accounts, and you've heard our CEO talk about it quite a bit over the last couple of quarters, but these key accounts are becoming a much, much bigger part of the global contact lens market. This is in Asia Pac, this is in Europe, in particular, and also in the U.S. So what's so important about key accounts and why are we focusing on it? Well, our strategy is that if we can enter into long-term agreements with these key accounts, global retailers, and we can help them to be successful at acquiring customers, of retaining customers, we can provide, in some cases, unique lenses for them that only their customers can get from them, then that's a distinct and competitive advantage that we think that we can do, we absolutely can do better than anyone else, and we are years ahead of our competition in that. So it's a focus area for us. For those of you who've been following our story, we started some additional spending incrementally in sales, marketing promotion in 2018 that will continue in '19. Same with our distribution center, expansions and upgrades that will happen more so in '19. And then those should start to tail off once you start to get some leverage from that down in 2020.

So I'm going to switch gears here quickly to CooperSurgical. It's an important part of our business. I think sometimes people will question, why do you have a women's health care company as part of The Cooper Companies, you've got a contact lens division and then you've got a division that focuses on IVF and fertility and the call point of the OB-GYN. Well, it's a great business that generates a lot of cash flow and really has a lot of -- has similar sort of financial statistics or financial criteria that matches up well with CooperVision. And so far, capital deployment between both divisions hasn't been restricted one way or the other. So it's an area that we like. It's split between sort of our office and surgical division at 64% of revenue and fertility at 36%. And within fertility, you've got -- we've kind of spent the last few years acquiring companies and sort of putting a moat around the IVF cycle. So IVF cycles grow around 5% or so per year. We've got to focus on genetics, genetic testing on embryos. We make capital equipment that's used in an IVF clinic, like incubators and workstations and micro manipulators, lasers, and we also have fertility solutions, which are sort of media cultures, micropipettes, Embryo Transfer Catheters. So both of these businesses, we've grown nicely, organically, but also inorganically through acquisitions. And CooperVision more recently in 2014, we acquired Sauflon, which was our -- which really gained us entry into the daily silicone market, the mass market daily silicon. And CooperSurgical, more recently, last year, we did a $1.1 billion acquisition of PARAGARD. That got us into pharma, but it's a medical device pharma, it's an IUD, it's a nonhormonal IUD, that's long lasting and reversible contraceptive. So it's a great business. It throws off great margins, and quite frankly, it's allowed us -- it's given us the ability to use some of those -- some of the cash flow from that business and the margins from that business to invest in surgical, but also in vision in '18 and will do so in '19.

So I'm on Page 4. So our annual sales are $2.63 billion at the midpoint for 2019 with $670 million at CSI CooperSurgical and $1.96 billion at CooperVision, those are both midpoints. We expect to grow CooperSurgical at 3% to 6% pro forma growth, and we expect to grow CooperVision at 6% to 8% pro forma growth.

What you'll see here is, we're showing 2015 to '19 and we consistently grow the business, both businesses, and that's through good times and also through bad times. The last time we went through a recessionary environment, the global contact lens market grew low single digits and we grew faster than the market. So right now, we're benefiting from a very strong market and the trade up to daily silicone hydrogels. And we're poised to capitalize on it, and we're at the forefront of that. So we believe we can grow faster than the market. But -- so we just set guidance a few -- a week or so ago, and we expect to meet and beat expectations that we set.

So Page 5. So this page kind of just shows our EPS growth. And what you'll notice here is the midpoint of our guidance range for 2019 is the same as 2018. So that's kind of the picture that people are used to seeing. We like to grow double digits on the bottom line year-after-year and '19 is going to be challenge for us. The issue we've got is, FX is hitting us hard and we don't hedge our currencies. We've got more than 2/3 of our business at CooperVision generated. The revenue is generated from outside the United States. We've got manufacturing facilities outside the U.S. So we've got -- the currency hits us -- can hit us pretty hard and it's doing so next year. We've got a 5% headwind from FX from 2018, 2019. We're projecting, based on current rates, $61 million headwind to revenues and $0.55 headwind to EPS next year. So it's a considerable hurdle and that plus tax, with our tax rate going from 7.7% to 14% with a little over 6% headwind, results in us kind of not growing the bottom line much. And we've -- kind of at the midpoint, we're kind of flat year-over-year.

From an operating income perspective though, despite all of our investments, we intend to grow OI low double-digit constant currency next year.

So we're investing in the right ways. We're capitalizing on our opportunities, but OI is going to be still a focus for us, and we intend to grow our operating income low double-digit constant currency.

So I talked about our guidance and some of the headwinds we have with respect to EPS. So I think we can probably just skip to the next page.

So our long-term objectives, we want to grow faster than our markets. I mentioned the contact lens market growing 4% to 6%, we intend to grow faster than that. The long-acting reversible contraceptive market, LARC, is growing around low single digits, and we expect to grow PARAGARD at 5 -- mid-single digits. And IVF cycles are growing roughly around 5%, and we intend to grow our fertility business high single digits. So we're focused on our core competencies, and those have been our core competencies. With respect to completing strategic acquisitions, right now, we've got about $2 billion in debt, $1.95 million in net debt. So our leverage has come down nicely and -- where our business is throwing off a lot of cash. We generated $475 million of free cash flow last year. We expect that to be similar next year. With respect to capital deployment, we expect to -- we want to pay down debt, that's important to us, but we're still going to look at some strategic core sort of down the middle of the fairway acquisitions, those that kind of have products or solutions that fit nicely into whether it be CooperVision or CooperSurgical. The other thing that we're probably going to want to do is take a look at doing some share buybacks. Our share count is creeping up towards $50 million or 50 million shares. And I think some combination of debt pay down being a first priority, strategic acquisitions and some share repurchases to remove some of that dilutions going to be a focus of ours in 2019. Expanding geographically is important. We've got emerging markets that are growing at a very fast pace. We've got great products to support those markets. So both at Vision and Surgical, we expand geographically and that's generating some growth.

Strong free cash flow, mentioned that earlier, $475 million or more expected next year. We do have some elevated CapEx and that's going to be sort of the -- maybe the X factor about how much or how we move from that $475 million. If we are spending a fair amount in CapEx, and this year we spent $193 million in CapEx, but if you see that go up, and we expect it to go north of $200 million, but if it starts to creep up north of $250 million, it means that we are executing on our plan and our strategy. We're entering into long-term agreements with our key accounts, and we're expecting the growth to continue and we want to make sure that we're ahead of the curve and we're investing in equipment so that we can deliver and have the capacity to deliver to all of our commitments.

And growing EPS faster than revenue, it's going to be tough in 2019, but we expect 2020 to be a launching point and then to be back on that track of growing low double digits year in and year out. And then finally, we had an operating margin target of 32% by 2022. We've had to change that because of the impact of FX, but we still expect to be in the low 30s by 2023, and obviously, with FX kind of being an X factor, we still believe we can get there based on the expectation that we're going to grow operating margin somewhere between 50 and 100 basis points per year starting 2020.

Talked about operating margin improvement. You'll see, we've jumped to around 28% in 2019. We will have achieved that target a couple of years earlier than we had anticipated and that's largely driven by the acquisition of PARAGARD. With its strong gross margins, we were able to sort of jump a little bit faster to that 28% range in 2018. So strong operating margin improvement year-after-year, and it will continue even in '19.

So we talked about the contact lens market, I talked about it earlier, this is calendar year '17 of $8 billion, the market has grown a little over 6%, so we have the market now at around $8.5 billion, going to $10.5 billion by 2022. So healthy market, good growing market, lots of opportunities. The market is broken down by EMEA at 27%, Asia at 30% and Americas at 43%. You've got some diversified growth in these markets. Europe is a little bit more mature, especially Western Europe though you're seeing a lot of growth in Central and Eastern Europe. In Asia Pacific, Japan has been a mature market and is a great market for us. It used to be a much larger percentage of our Asia Pac sales. But now there is significant growth in lots of different modalities and lots of lens families for us in places like China and Malaysia and Indonesia and other parts of Asia. So we're excited about the opportunity in Asia Pac. We are underindexed there, and we believe we can deliver some strong growth in that region. And most recently, we grew 19% in the fourth quarter in Asia Pac, so excited about that. And then in the Americas, 43%. It's a market that's rapidly shifting to daily silicone hydrogels. In fact, all markets are. I think we'll get to another page in a minute that shows markets by modality, but daily silicones are accelerating in all markets. You'll see here that 50-50 split between single use and frequent replacement, that's a calendar year number and the latest data we've got is that the 1-Day space is 52% of market, with 1-Day growing fastest.

So we talked about some of the 1-Day lenses, silicone hydrogel, wearer base's expansion. I think the industry has been dealing with dropout for years, and I think one of the things that we're trying to do is really understand if we can provide a lens that's great for the patient, something that's really comfortable, easy to use, has end-of-day comfort, is disposable and easy to manage, we're hoping that we can expand the -- we can reduce the dropouts and expand that life cycle because it is an annuity business. Once we get those lens wearers, we keep them in for a long period of time. So it's a focus area for us to work closely with our key strategic accounts to see how we can kind of -- we can grow the category and keep people on their lenses longer.

And then geographic expansion, I touched on it earlier, lots of opportunities. So this chart we've got here is modality by region, and if you were to look -- if you were to have looked at this chart years ago, you would have seen the Asia Pac market was -- has been sort of a 1-Day market for the longest time, EMEA was a monthly market and Americas was kind of a 2-week market, and what you're seeing now, obviously, is that shift to dailies and that's becoming more and more prominent, daily silicones particularly.

So I touched on our share earlier, we're a strong 23%. We're taking share from some of our competitors and that's due in large part to the investments we've put in, the investments we continue to put in and the robust and comprehensive product portfolio we have to offer. So this is just a slide on the contact lens market. You can see here in the light blue, the market grows fairly consistently in that 4% to 6% range, and we've grown faster than the market year after year. Early on, when the market was growing at 4%, it was easy to talk about sort of growing -- having a goal of growing 1.5x the market. When you've got a market growing at 6%, it's kind of hard to say that, but we believe we can grow faster than the market, and we're showing that we can. So this is just a quick snapshot of our premium daily silicones and our mass market silicone hydrogels, MyDay and clariti. And then you've got our monthly and 2-week Biofinity and Vitality, Avaira Vitality. Now these 2 are upgraded sort of next-generation products. We came out with Energys recently, which is an enhancement to our legacy Biofinity lens, and Vitality is also an enhancement to the original Avaira. So it's a market -- the reusable market is one of those markets that's important to us. It's still -- it's a large part of our revenues, and it's still growing. In recent quarters, it's grown 7% between Avaira and Biofinity. Great margin products and extremely comfortable lenses to wear. So depending on the price point, depending on the region, we're still getting great success out of Biofinity and Vitality in all markets. I think we can skip this slide. This is quarterly sales by region. This is kind of our splits between Americas, EMEA and Asia Pac, so 39%, 38% and 23%. Asia Pac is our fastest-growing market, albeit on a smaller base, but we're growing in all markets at healthy pace.

Sales by category. These -- we've got torics, multifocal, single-use and other, and we are represented in all areas, and we're focused on all areas, so that we can expand parameters and modalities and provide us as comprehensive a suite of products as we can. A little bit on CooperSurgical. Again, midpoint of our guidance range is $670 million for next year. The CAGR of 21.3% is representative of all the acquisitions we've been doing over the years. When we're acquiring companies, we tend to find those companies that are strong cash flow generators that have -- that are accretive to earnings and really complement the product portfolio that we have and enhance the portfolio we have. So we've done a nice job integrating these businesses, most of them, not all of them have been tuck-ins in recent years and we still look to grow CooperSurgical inorganically with the right strategic tuck-ins.

Here is a snapshot of some acquisitions in recent past. You've got PARAGARD, I mentioned earlier. Origio got us into the fertility space. Wallace is a transfer catheter case systems, has a bunch of IVF equipment. RI has some disposables and equipment. EndoSee is our disposable hysteroscope. Reprogenetics and Genesis, our genetics companies that do IVF testing of embryos, and then TPC, The Pipette Company, was our Pipette acquisition.

So I guess, last, but not least, the 5 key takeaways. We operate in great markets, high barriers to entry, sticky customer base and annuity business. Great place to be. And right now, with the acceleration of daily silicone hydrogels, we've got something that's great for the patient, it's great for the customer and it's great for the manufacturer. So we're excited to be in that space. Revenue growth exceeding the market, we talked about investing in infrastructure. We're investing in sales, marketing, promotion on both sides of the house, and we're also investing in distribution capabilities. We are positioned to achieve long-term objectives, and we've got a track record of success with continued margin expansion, revenue growth and cash flow. So I guess, with that, I guess, we can...

QUESTIONS AND ANSWERS

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Brian. Thank you for coming. I think this is your first investor meeting as a CFO?

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

Yes, that's right. My inaugural one.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

This is your inaugural one.

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

Yes.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

All right. So tell me what have you learned being a CFO at The Cooper Companies in 7 whole months?

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

Well, I learned that to prepare for these types of meetings you have to be prepared.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

I've heard that.

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

You have to really dig into the numbers. You have to really understand what's driving your margins, what's driving the changes in your P&L, and you need to be able to articulate that. So for me -- a little bit about myself. I mean, I've been at The Cooper Companies for 12.5 years, mostly doing treasury. I've been the Treasurer for a number of years now, and then more recently, I was transplanted and moved to Denmark, where I was heading up our global supply chain and distribution, customer service, technical service for our CooperSurgical division globally. I manage a bunch of distribution centers and procurement and so forth. So I did that for about a year, before that I did some other operational manufacturing-related things for CooperSurgical, and when some of the management changes happened in April or thereabouts, it wasn't until sort of the end of April I found out I was named the CFO and really the last 7 months have been sort of refamiliarizing myself in CooperVision and the business and the whole businesses in a different kind of way than I've had to know it before.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

So in the quarter, the revenue growth was quite strong, particularly in CVI, the guidance for next year also looks great, but on the bottom line, it was disappointing. And one of the conversations I had with Al afterwards was, "Hey, what's going on next year?" And he called it, an investment year. And I'm like, you're not a new company, what makes 2019 an investment year? And I'm going to ask you the same thing.

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

Yes, I mean, it's an investment year because we've got some opportunities right now with the product set and product portfolio that we have to really be -- get out ahead of the curve and get out in front of our competition and invest in distribution, in advertising promotion and lock in key accounts, and when you look at the changing nature of this -- of the industry, key accounts are becoming a much, much more impactful part of the contact lens space, including in the U.S. where you've got independents that are now forming together and becoming buying groups. So the investments we're putting into advertising, promotion, both at Vision and at Surgical around PARAGARD and some targeted advertising we are doing there and the distribution center expansions, upgrades, automation, all are going to serve as differentiators when we compare ourselves to the competition because we want to be best-in-class in customer service, and we want to have best-in-class products to deliver to our customers, we want to help them grow the channel, we want to help them be successful. And a lot of the investments that we're making are all geared towards doing that.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Excellent. And the competitive landscape, why am I not worried about this or should not be worried about it?

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

Well, I mean, we've been operating in this industry for a long time, so -- and product launches are not new to us. Sometimes they come in different shapes and sizes. You'll see some of us come out with a new lens and have built up a ton of capacity and go out with a massive full launch. By all indications, you may have heard, a lot of you that know the contact lens story probably were at Alcon's Investor Day, they talked about coming out with a daily mass market silicone hydrogel called Precision One. It's hard for us to know sort of how that's going to go and strategically how they're going to position that lens. And what's different about it, or if there is anything different, our thinking is, it's probably going to be a limited launch, it's probably only going to be a sphere. If you know our story, when we launched our MyDay toric this year that's really when we started to accelerate our MyDay sales. When you only have a sphere to offer to a doc, the doc really only wants to fit a couple of different lens families. So if you don't have a comprehensive range and you don't have a parameter range, you don't have capacity to be able to provide to your wearers, they become a little reticent to really go all in. And so with MyDay, the halo effect, as we call it, really occurred when we were able to come out with MyDay toric. And if competition comes out with new lenses that won't be new to us, and I'd say that we believe we are ahead of the curve from a cost per unit, from a production, from a yield, from logistics standpoint, and we've got capacity to offer to people, both in the branded side and nonbranded side.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

And when I take a look at the guidance for EPS next year, it's essentially for flat EPS. And yet, when I take a look at how management is compensated, you can't get compensated on flat EPS. So where's -- how do you fix that?

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

Well, historically, we've been compensated on EPS. I think we've got some board meetings going on right now and what we said to the board is, "Hey, we want to focus on revenue growth and OI growth." So we're putting a much bigger emphasis on taking market share, growing revenue and not being short-term thinking in nature. I think some of the things that we used to do in the past and you've followed us for a long time, Joanne, so you know this, EPS was really important, and it's still is very important to us, but we used to kind of tighten our belts around FX. If we felt like we were going to miss the quarter from an EPS perspective, we would pull back on some of our investments, and we've got an opportunity right now that we are -- we want to put the pedal to the medal, we want to capitalize on these opportunities, and so we want and we still, at the same time, want to deliver low double-digit constant currency OI growth. And with FX being a 5% headwind and tax being a 6% headwind makes it tough to grow EPS next year, but we believe we're going to start getting leverage out of our business in the years that follow, and 2020 should be a nice launching point for us.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

And how comfortable do you feel about that tax rate?

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

Well, it's tough to be comfortable about tax in this environment right now because it's -- the regulations, they keep sort of changing the goalposts, not only in the U.S. but internationally. Countries are doing different things to protect their own interest. And so what we are doing is, we're trying to interpret the regulations, we are trying to interpret what's coming out and there are still some things that need to be finalized. So we've set a target and a marker out there at 14%. I think that's probably a solid base to start from. What we don't have in that number is any expectation of options, exercises. So when you look at 2018, options, exercises reduced our ETR, our effective tax rate, by 1.5%. So if last year is any indication of next year, you really can't do that, but if you did, then you'd be at 12.5%. And I think there are some things that we're doing on the supply chain side that we had already been starting to do with respect to simplifying our supply chain, consolidating our intellectual property into certain jurisdictions that I think are going to serve us well as it pertains to some of the changing tax environment. So 14% is what we came out with. It's prudent for us to start there, but I think there is upside in that potentially to go lower.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

So I'm going to ask you the same thing we've asked everybody all day. What do you want to make sure that we hear as we finish this session?

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

Well, people that know the story, know that we are -- we're pretty consistent in what we do and we tend to deliver to expectations. What we want to do as a new management team is continue to set appropriate guidance, meet and exceed expectations on a consistent basis. What we're trying to do is be really transparent. We're trying to tell you about all of the different things we're doing, to invest in our business and to differentiate from our competition, and so we're spending strategically to take advantage of these opportunities, and when you look back, when we got into silicone hydrogel with Biofinity, we were late to the game. When we got into the dailies, we were late to the game, and that hurt us. And how we are at a position of strength with a lot of capacity to be able to really pour some fuel into the fire that is the daily silicone hydrogel growth. So we are doing that, we're trying to be transparent and we think that we've set the appropriate guidance to be able to meet and deliver.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Wonderful. Brian and Kim, thank you.
