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COO - Cooper Companies Inc at William Blair Growth Stock Conference

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CORPORATE PARTICIPANTS

Albert G. White *The Cooper Companies, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Brian David Weinstein *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

PRESENTATION

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Good afternoon, everybody. Middle of the conference at this point. I hope everybody is having a good experience. And I personally want to thank each of you for coming. You're all very important to our firm, and I appreciate you guys coming. And being at the Growth Stock Conference this year.

My name is Brian Weinstein, I am the research analyst here at William Blair that covers Cooper. Covered it for a number of years now and it's a company that we continue to recommend. I should, by the way, tell you that my compliance officer, who is best in the business. [Mike President Jack] has told me to tell you to please go to williamblair.com for a list of all disclosures. I'll get in trouble if I don't say that.

So back to Cooper, real quick. I think most people are familiar with the company. They are leading provider of contact lenses and woman's health supplies. The contact lens side of their business, CooperVision represents about 75% to [77%] of that -- of total revenue. And woman's health is just about 25% or so, maybe a touch more than that. Growth in the contact lens side has been in the kind of mid- to upper single digits. Being driven by our move to the daily silicone hydrogel market, dailies in total, but silicone hydrogel as well. So we're going to hear a lot more about that and about the other growth drivers in the company. The plan here is that AL White, the company's CEO will be speaking for about 10 minutes or so, giving you a broad overview. And then what we're going to do is we're going to open it up to about 15, 20 minutes of questions here. We'll also be doing a breakout following the questions. And here -- and I encourage anybody who has additional questions to come down there and I'll announce where that is at the end.

So with that, I'm going to turn it over to AL. And then we'll do some Q&A. Thanks.

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Okay. Thank you, Brian. I recognize many of you out there, so you probably know our story fairly well. But there's a number of you who I do not recognize, so let me take a few minutes and walk through some of our slides and the information about Cooper. That, as Brian mentioned, we can take a few questions from him or from anyone in the audience.

The Cooper Companies, we're a medical device company. We have 2 business units, CooperVision, which is our contact lens business and CooperSurgical, which is our woman's healthcare business. Trade on New York Stock Exchange. We have around 12,000 employees right now. $2.14 billion of revenue last year and I'll cover our guidance in a bit, but it's about $2.5 billion in revenue this year.

To give a little bit of color. CooperVision operates in the contact -- global contact lens industry, which is about an $8 billion, $8.2 billion, roughly, global marketplace. J&J has about 40% global market share. And then ourselves and Alcon are 2 and 3, at about 23%, 24% market share, followed by Bausch. And the number of [force by] Bausch + Lomb, who's about 9% market share. And then a couple of small people. So at the end of the day, roughly 95%, 96% of the global contact lens market is comprised of 4 players. Roughly 85%, 86% is comprised of 3 players, so kind of an interesting market. And then in CooperSurgical, our woman's healthcare business is broken really into 2 pieces. One is you're more traditional OB-GYN medical device products. And which for us now includes PARAGARD, the nonhormonal IUD, we recently purchased and also fertility. So we have fertility business, we're one of the larger global fertility players in the world.

Kind of go-to guidance here right away. And I'll talk a couple of different things. Obviously, you can see the revenues that -- at $2.5 billion to slightly above that. As a company, we've had pretty significant revenue growth for a long period of time, through organic growth. Both of our businesses, especially contact lenses have strong market-organic growth. So we -- we've grown with the industry or even in excess of the industry.

CooperVision, you have got $1,870 million to $1,890 million. We're guiding regarded this year to 6% to 8% pro forma organic growth. We just reported our recent earnings and took that guidance up a little bit to reflect some strength we're seeing in the marketplace. So now looking for 7% to 8% growth for this year. 7% to 9% at the back half of the year. So we are seeing some strength in the business. A little bit stronger than we were seeing at start of the year. The Americas is, I touch stronger, we've had some promotional activity that we've implemented that's been fairly successful with our daily silicone hydrogel lenses. And then in Europe, we've had -- we're having a little bit more success than we were thinking at the beginning of this year, mostly due to some of our key accounts, our larger accounts. And then, our Asia Pac business continues to grow double digits, it's a very strong business for us. We're under-indexed in a lot of countries and throughout Asia Pac. So that's strong business, strong operation for us and we anticipate that to continue. So we're feeling bullish as we move into the second half of the year.

CooperSurgical, $645 million to $660 million, recently reported earnings. We raised our pro forma guidance just slightly in that business to flat to 3%. There is a number of different moving parts in that business right now. We end up with our base business kind of growing low single digits, it's how you look at it right now. PARAGARD, nonhormone IUD, I mentioned, growing mid-single digit. And our fertility -- our global fertility business, which includes some genetic testing. On a go-forward basis, we'll be kind of in the upper single-digit pro forma growth range. So we exited a few tests here, which is holding down our growth. But on a go-forward basis, that's more of a mid-single digit type growth business.

non-GAAP EPS $11.70 to $11.90. Which is kind of in the low-20% growth range, on a year-over-year basis, in our recent earnings. We kept this guidance the same, even though currency has moved against us to the tune of about $0.19, since our March guidance. So again, feel optimistic about where revenues are today and where the business is going from that perspective, also our ability to drive EPS through operational improvements. We've invested in the business fairly heavy throughout the last, at least, 3, 4 years. Where, if you look at CooperVision, especially, on a constant currency basis, our revenue growth and our OpEx growth mirrored each other. So we're now in a position where, as we want to, we'll be able to leverage some of that -- some of those investments a little bit better.

Look at our long-term objectives. Kind of start at the left and go up and around. Complete strategic acquisitions. As a company, we've done a number of acquisition over the years. At CooperVision, we did a -- just a couple recently in the specialty lens space. As I mentioned, it's a fairly small group of players in contact lens. So we do look for acquisitions within contact lenses, if we can find them, we do them. We've bought some distributors for direct in most markets around the world, not all. So if there's an opportunity for us and require distributor, will do so. Within CooperSurgical, we've done a number of acquisitions, also had built up the platform there. And continue to look for deals in vision surgical that makes sense. Having said that, our debt level has crapped up a little bit, we're around 2.5 or 2.3 in change on a net debt basis right now, which is a little over 2.5x leverage ratio. So certainly, be acceptable with all the cash we generate we paid down a little bit of debt, so that will be fine also.

Grow revenue faster than our market. We have been taking market share for a considerable period of time. We look at the contact lens industry growing right now in the 5% to 6% range, so it's a nice healthy market. We're going to grow, we're forecasting growth in that 6% to 8% range, as I mentioned, even 7% to 8% in the back half of this year. So a good marketplace, strong marketplace, diversified, a lot of different reasons that we're seeing growth on a worldwide basis. Be it, in Asia Pac, where we're getting expansion in the wearer base and places like China. In the Americas, where you're getting to trade up to daily wearers, which is a better proposition for us, more revenue dollars per patient, so we hit pretty good. In EMEA, where we're getting a combination of those 2. So we end up with, what's interesting in contact lenses is that 5% to 6% kind of market growth is true, whether we look at the Americas region, EMEA or Asia Pac. So that's kind of a nice thing for us. It's nice diversified global growth.

Grow EPS faster than revenue, we've done that for many years. We do consistently look to leverage our investments. We've had a lot of gross margin expansion over the years. We have built up our facilities. We manufacture in the U.K., in Budapest, in Costa Rica and then the U.S. And we're in pretty good shape there in terms of having some excess space within our facilities right now. So we're adding more alliance that will allow us to continue to grow our gross margins, improve our gross margins. And as I mentioned earlier, I think we do have some opportunities to leverage some of our OpEx investments.

Expand CooperVision and CooperSurgical geographically, both businesses operate on a global footprint. Both of them enjoy growth in a lot of the emerging markets. China is on the top of that list, where we're getting nice growth. But there's a lot of markets to -- whether you're in Eastern Europe or different locations for both vision and surgical. So we continue to hire salespeople and grow on an international basis.

Generate over $2.5 million in free cash flow. We do generate a lot of cash into business. We'll generate, we should be $500 million or so next year in cash. On a basis, what, this year we'll be in the low-$400 million, which will be somewhere in that $300 million-type range in Q3 and Q4. So we do have a strong annuity stream to our cash flow, which is great. If you are contact lens wear, a new contact lens wear comes in the way of our product, our contact lens or competitors, if they went that direction for roughly 7 years. So there's a long annuity stream to our products and then a very strong cash flow basis. CooperVision has much higher CapEx, as we continue to grow that business and by capital to support growth in our dailies franchise. CooperSurgical does not have significant CapEx, so it's a very heavy cash generator -- free cash flow generator.

All that pulls together at operating margins of 32% in 2022. And I guess, I'd highlight, as the key point there is consistent operating margin expansion. As a business, we do look at our operating margins. We do want to see consistent improvement every single year. We target somewhere in that kind of 50 to 100 basis point a year kind of operating margin expansion range. So and that's what builds into this is continuing multi-year consistent operating margin expansion. That's not a jump in one individual year and than flat, that's consistent improvement, it's what we strive for.

Look at 5 key takeaways from this discussion. You're operating 2 solid markets with high barriers to entry. Contact lenses, definitely high barriers to entry from a couple of different avenues. And as a matter of fact, I would argue, some of those barriers to entry are getting even bigger. If you look at it from a capital perspective, I mean, we will spend close to $200 million this year in capital and we have on other years. So it's a pretty significant capital investment to get in there. Distribution is becoming more important. It's something that we're seeing in the contact lens industry. And you talk about Amazon, it's disrupting the market and so forth. That change is a little slower into the contact lens industry. But the importance of effective distribution. Being able to really manage our logistics effectively is becoming more and more important. We're spending a lot of money on upgrading our distribution facilities. We see that those logistical improvements in J&J for instance also.

CooperSurgical is a very highly diversified portfolio of products. So whether it's on the OB-GYN side. Whereas individual products that have pretty decent market shares or whether it's on the fertility side, where we have high market share in the fertility side. That's another one that is good growth markets, especially fertility. And the barriers to entry, in that space, end up coming from a lot of the different products, the wide product range we have, and then also from intellectual property at times. We have, for instance, in embryo transfer catheters, within the fertility process, it's a very popular product and it's patent protected.

Revenue growth exceeding the market, we stay focused on that, whether it's in the vision space, as I talked about, or whether in the surgical space. And continue to believe we will grow faster than the markets we're competing in, which support kind of the mid-single digit growth for the company on a consolidated basis. Investing in the infrastructure of the business. I used distribution there, which I mentioned as an example. We continue to invest there, we continue to invest in sales force expansion. We're investing right now in key accounts, our large corporate accounts and our sales force within that area. We're investing geographically for a better infrastructure, whether it's IT or distribution or other things. So we are investing fairly heavily in the business. We do have a pretty good growth profile and we feel comfortable that for a good 5-plus years, we're going to have a nice growth profile. So we're putting dollars into the infrastructure to support that growth.

Position to achieve long-term objectives, the ones I just walked through. I do think we're in a good spot right now to be able to execute. And we put our heads down, we do a good job. We're continuing to put up the kind of numbers that we've been putting up the last several years.

In track record of success and probably in that, that one right that we do have a long track record. This is an abbreviated presentation. But if you look at the track record, you'll see that we've been growing faster than the market for a considerable number of years. We've been expanding gross margins, expanding operating margins, improving our free cash flow. So we have a pretty good track record of success and looking forward to continuing that. I think that's it. So it's about 12 minutes in, happy to take questions from you Brian or anyone in the audience.

QUESTIONS AND ANSWERS

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Perfect. Yes, this will be a good opportunity for people who want to ask questions, feel free. Yes, go ahead.

Unidentified Analyst

(inaudible)

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Can you just repeat the question just to make sure...

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

The question was on a competitive landscape, in particular, with respect to Alcon and Bausch + Lomb. So I'll just very, very quickly touch on J&J, who launched a couple of new products a couple of years ago. J&J's doing a very nice job in my mind, very intelligent job of how they're rolling those products out to transition their wearers up. And that's part of their strategy, which is getting more revenue dollars per patient. That, to me, is an intelligent, successful strategy. We've employed that for a little while. So J&J is doing that. When we look at Alcon right now, Alcon has been more aggressive on the rebate activity over the last year or so. They have a gap in their product portfolio right now in the mass-market daily side. They've talked about launching a lens here at some point. We'll see when that lens comes out. My guess is, when they do launch that product, they'll probably go down a similar path of what I would call intelligent trade-up, which is if you can take your wearer base and you can trade them up to a more expensive lens, your revenue dollars per patient go higher. That's going to improve your gross profit dollars, your operating profit dollars. Now it does put wearers into play, and that's an important element of this, is that when someone comes out with a big upgrade, and they're upgrading their wearers, not all their wearers are going to love the new option. We pick up a number of those wearers. So when you look at bit data, that's one of the places we're strong. As a matter of fact, we've seen an acceleration in our bit data, indicating we're picking up new wearers. And it's an interesting point that people struggle with sometimes, which is we can have a competitor launch a product, have them improve their growth rates, and yet it helps our growth rates a little bit. So we're in that kind of -- unique kind of situation right now, which we're, frankly, going to be in for several years. So I think the health of the contact lens industry is strong because of what J&J is doing and Alcon coming, and I think we'll take a little share in that. With respect to Bausch, there's not a lot of news on Bausch. I don't have much to add. They're in that 9% global market share. They're doing well in Asia Pac. I've heard them talk a little bit more about China. We're doing well there. J&J is doing well, Alcon. Everyone's doing well there. Bausch has a good name in those regions. I think they're doing a decent job running their business, but not really too much to add from a competitive front.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Just to educate people who are in the audience who may not be as familiar, can you just talk about -- when you say the value of the intelligent trade-up, can you give some numbers around that for what that means from going from a 2-week or a monthly to a daily silicone hydrogel and the value to you guys for that?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. You go back a couple of years, contact lens industry was growing about 3% to 4% a year. And now the -- and we were growing in that kind of 5%, 6% range. Now you look at an industry right now that's growing kind of 5% to 6%, and you're looking at us talking about 6% to 8% growth. So you -- how did that happen, right? I mean, that happened from people coming out with new products and taking the higher-priced product and convincing wearers to trade up to that. Now that's happening because those are better products. They're silicone hydrogel lenses, better oxygen permeability and so forth. So the physician is prescribing those lenses. That's increasing the revenue dollar per patient. Right now, we have a marketplace that's dailies and what we call FRPs or 2 weeks or monthlies. The market is transitioning to dailies, which is clearly more revenue dollars per patient. The reason you're seeing that is largely because of silicone. So if you step back, the advantage of a 2-week or a monthly lens ends up being that it's cheaper. But keep in mind that you have to buy solutions. You have to clean that lens and so forth. With the daily lens, you're putting it in. You're wearing it. You're taking the lens out. You're tossing it and putting a fresh one in every day, which is better health for your eye. Historically, you could not sleep in your lenses. You fall asleep in a regular contact lens, a traditional hydrogel, you would have to rip that thing out the next morning. Now you -- not that we would recommend it, but with the silicone hydrogel, you can sleep in your lens. So if you're a parent walking in with your teenage child, the doc's going to say to you, "Listen. Is your teenager going to take that lens out, clean that lens correctly on a consistent basis? Because if they're not, they run the risk of eye infection." And what you should do is you should have your child wear a daily lens, where, every day, they toss that out and put a fresh lens in. That is, by far, the best modality. That's the best lens for your eye health. So we're slowly seeing that transition. Well, as that transition happens, that is a positive for the entire industry, and it creates a trade-up throughout the industry. And we're probably in the third year of a 10-year trade-up if I had to guess. Hopefully, that helps.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Yes. So you've recently taken over as CEO after being in the organization for a number of years before that. Can you talk about maybe some of the ways that you may look at the business differently than Bob did and talk about changes to strategy, not obviously big ones, I don't think we're going to see that, but new launches that we may see out of you that might be different than the way that Bob ran the business?

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. So Bob was our CEO for the last 10, 11 years, with the company about 43 years. So I sat next to Bob the last 13 years and just took over effective May 1. So yes, they changed after a decent period of time. Bob and I worked very, very closely together, and I was CFO and Chief Strategy Officer. So we were kind of on the same page. I would agree, we're not going to see any dramatic shifts. I will say that one of the things that I believe that's going on, and it's true within a broad portion of health care, is this consolidation effort. And for us, whether it's hospitals consolidating, whether it's in the contact lens industry buying groups coming together, whether it's fertility clinics getting bought up by private equity groups, whether it's retailers buying smaller retailers, we're seeing the importance of what I call corporate accounts. So the first thing I did and spent time talking to the guys about was increasing our strength, our talent within the corporate accounts world. So we're okay there, J&J, Alcon being stronger. We've made some good progress over the last years. We've accelerated that activity already within the surgical space, in fertility and in the base biz and then also within the vision business. So I think one of the keys here is we need to -- we have a very strong relationship within the independent practitioner, the independent optometrist. We need to strengthen our relationship with some of those big corporate accounts. And we're starting to see kind of the very early stages in some of the work we've been doing over the last year. So I think that's a shift that, as a company, whether you want to attribute that to Bob and the transition, myself, but I think it's an important strategic shift within the company. And one of the things that's going to drive our multiyear growth being greater than market is because we are picking up some of those accounts. We're in a unique position within the industry of, I would argue, having the broadest and best portfolio of contact lenses right now. And we're the only guy who's out there offering private label on a lot of our premium products. So if you're wearing a Kirkland daily lens, that's going to be one of our lenses. If you're in Europe and you're going to a Specsavers or some location, you can easily be wearing one of our lenses as a private label through there. Now this isn't private label like -- where somebody comes in and, right, it's a cheaper milk on the shelf. These are pretty sophisticated private-label contracts that are linked around a broad product offering, distribution capabilities, manufacturing capabilities and so forth. So they're multiyear large contracts, and that's where we seem to be gaining some real strength. So I'm excited about that, and we're really investing in that side of the business.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Yes, please?

Unidentified Analyst

(inaudible).

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. We've been growing faster than the market for a number of years and posted double-digit growth in Asia Pac. It's a good question. And I would say that the only hindrance we have there is the turnover of contact lens wearers. Somebody gets a contact lens. They'll wear it a long time. They might not go back to their optometrist for a year. But when you look at new lenses, new fits and all the data over there, we're taking share. What we need to do is make sure we have the right sales force there and the right infrastructure there. So we've done a sales force expansion. I think a lot of people were under the impression that a lot of our sales force adds were based right here in the U.S., but that's not true. A lot of the sales force additions have been in Asia Pac. When we look at China as an example, we're direct in a number of the larger cities, sell through distributors in some of the smaller cities, which are still huge cities. So we need to continue to invest there, add infrastructure, add salespeople. But you're right. We do have market-leading products, whether they're here in the U.S. or whether they're in China. So we need to capitalize on those, but we are. I will say on that point, though, another item to add is when you look at under-indexed, we're 16% -- we're 23%, let me start with that, of the global contact lens market, but we're only 16% of the daily market. And that's interesting. For any of you who know us or follow us, you'll know we have arguably the best daily portfolio of lenses, but a lot of them are new. So our growth is very strong on the daily side. We grew 31% this last quarter. We've been growing 30% to 40% for the last couple of years. So we're experiencing significant growth as we move that 16% up. And if you kind of pull back just a little bit, we have 23% global growth again -- or global market share, but our monthly, our 2-week, our toric, our multifocal franchises are all closer to 30% market share. That's 16%. If you look at that, that's total dailies. But our market share on daily silicones is about 30%. So as the market shifts, and it's continuing to shift and all indications are it will continue to shift for probably 10 years, moving to daily silicones, that's just going to continue to move our market share, and we'll continue to take share. And Asia Pac is definitely a component of that. As you're seeing that market move to dailies, that's part of what's driving that growth.

Unidentified Analyst

(inaudible)

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Good question. The multifocal market is relatively small, so it's probably only 5% of the global market, somewhere in that kind of range. Outside of the U.S., it's much smaller. When you go to Asia Pac, it's very, very small. So yes, it's a significant growth opportunity, but it's off a very small base. Same -- to some degree, same with torics.

Unidentified Analyst

(inaudible)

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Well, I would say a little bit yes and a little bit no. I mean, as an example, we have a daily silicone hydrogel multifocal, and some of our competitors don't. Our Biofinity Multifocal is kind of a market leader. That's a top product out there on multifocals. And I think if you went and surveyed optometrists, they would say that's the best multifocal out there. There's always pluses and minuses on multifocals because you're trying to correct up-close vision and distance. I think if you went to survey people, you would say that we have the best technology in that space. But I wouldn't want to discount -- J&J has a decent product also.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Yes?

Unidentified Analyst

(inaudible)

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Good question. Regarding -- so J&J, you look at the ophthalmic surgery market or you look at the LASIK market, really different sell points. That's one of the reasons we're not in it, and it's one of the reasons a lot of contact lens companies have never ventured into that space. So we sell to optometrists. A lot of those products end up being sold to ophthalmologists. So no, we have not seen anything with respect to impacting the contact lens industry. I do think that it's an interesting strategy that J&J is employing there. I'm not sure why, at the end of the day, some of those areas, LASIK and stuff, aren't growing a little bit faster than they are. Maybe J&J put a little muscle behind that. It doesn't impact us. It's not our space. We're not in the ophthalmic surgery side, and I don't envision us entering it.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

We have time for one more here, and then we'll continue the conversation in the LaSalle Room on the seventh floor. Is there anybody that has one more question right now? Yes, please.

Unidentified Analyst

(inaudible)

Albert G. White - *The Cooper Companies, Inc. - President, CEO & Director*

Yes. I think that we touched on it a little bit earlier. I think right now, we're generating a lot of cash. We'll pay down some debt. We'll look at some stock buyback if they make sense. From an allocation perspective, I'm indifferent whether dollars go to vision or surgical. Obviously, vision is the bigger part of our business, and we need to make sure we keep the business humming. If there's opportunities for investment, we're not going to hesitate on CooperVision. CooperSurgical, we've done a number of acquisitions. We need to ensure we integrate those acquisitions and get that business rightsized a little bit. So I think kind of the important thing there would be to say we will not -- we will never not invest in CooperVision. Whether it's capital, whether it's acquisition opportunities, we will put dollars in there kind of first and foremost. CooperSurgical is in a good spot. I think we have that as a mid-single-digit grower right now, but we need to get a little integration behind it. So I kind of think capital structure-wise, paying down debt, a little stock buyback if it makes sense, and if we can find deals, we would at least evaluate them.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Why don't we leave it there. Again, seventh floor, LaSalle Room.
