THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COO - Cooper Companies Inc at Goldman Sachs Global Healthcare Conference

EVENT DATE/TIME: JUNE 08, 2016 / 9:00PM GMT

CORPORATE PARTICIPANTS

Albert White III *The Cooper Companies - EVP & Chief Strategy Officer*

PRESENTATION

Unidentified Participant

Well, we'll go ahead and get started here. Good afternoon, everyone. I want to welcome Al White, Chief Strategy Officer from Cooper. I think it's been a number of years since you've come to the conference. I think the last time was when we were in a basement somewhere in Century City, which was --

---

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

I think so.

Unidentified Participant

Which was reasonably depressing enough to keep you away for a few years. So, we very much appreciate your --

---

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Good to be back.

Unidentified Participant

Your coming back and now that we cover the stock even more of an excuse. So, thank you for making the trip south for the day and meeting with our clients and also participating in this discussion.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Absolutely.

QUESTIONS AND ANSWERS

Unidentified Participant

So, I thought a good place to start just to kind frame things is we've seen tremendous gyrations in the guidance over the past several quarters. And last year was sort of the wrong direction; this year in the right direction. Maybe you could sort of help us understand what's going on in your end markets as well as in your own business that's sort of causing some of these fluctuations in the outlook.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes, we have had a lot of changes. A lot of it, to be fair, has been due to currency, which has been moving pretty dramatically. And, as you know, some of the currencies, yen, euro, in particular, can have a pretty dramatic impact right to our bottom line, but also, obviously, given our global diversification, impact our top line pretty significantly.

When we look at it, if we go back a couple years, because we had multiple years where we were meeting, beating guidance, kind of 2011, 2012, 2013, 2014. We got to the Sauflon acquisition and we acquired that business and we were very optimistic about that business, still are today. But when we did that we were working through the integration of that business. We did stub our toes, so to speak with things such as the contact lens solutions business they had, their legacy products, some of the distribution logistics issues we had in certain locations.

So, I think between that and having that now behind us, and you could obviously see that with our last fiscal quarter's growth, having that behind us, a little stability now hopefully in currency, has put us in a different position. Our guidance clearly is not as aggressive as it was during that period of time, also.

Unidentified Participant

And how about cutting some of the sort of external market factors like UPP?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes.

Unidentified Participant

And how has that kind of influenced the performance of the business as well as your visibility into the performance of the business?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. Some of that kind of stuff, UPP a good example, that really influenced the U.S. market. And it was causing big swings. We saw it in J&J's results; J&J more than anyone, but we kind of saw it in everyone's results. And, without getting into all the history of the UPP and pricing, it did create a situation where, in the U.S. market, you saw relatively significant shifts in terms of channel inventory and in terms of the independent practitioner and what they were fitting and who they were happy with versus the big box retailer, their channel inventory, whose products they were promoting and so forth. So, it was causing some relatively big swings.

I think at the end of the day we were kind of neutral on that. I mean it helped us a little bit in some spaces. It didn't help us a little bit in spots. As we've said all along, if that goes away, fine, it goes away and we all have to deal with it. J&J made that move here just recently, basically after our quarter here that we just reported, where they fully exited UPP. From my perspective, great.

Unidentified Participant

So, do you think inventory levels are fully cleaned out and sort of back at normal operating levels?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

No. I would argue, as I think our competitors will, that inventory levels are quite a bit lower than they've been historically; I think between a combination of few different things. One is some people looking at their working capital and doing a better job managing that for a lot of these retailers and the impetus behind that, to a great degree, was UPP swings. But then, you also have some consolidation on the distributor side especially in the U.S., which is a big distribution market.

We've seen inventory levels coming down. Now, I can't speak to our competitors. They've made a few comments about inventory levels being very low. For us, we obviously have visibility in that a lot of the people we do business with are at contractual minimums in terms of their inventory levels and they need to maintain certain levels of inventory to meet need. But we've seen that kind of level off. We've had four or five quarters here where days on hand in terms of inventory levels has kind of leveled off after coming way down.

So, I'm not sure there's any reason that channel inventory goes back up unless it gets falsely pushed, so to speak, because somebody offers discounts or runs programs. But I also would be hard-pressed to believe that channel inventory moves lower.

Unidentified Participant

Okay. So, you think it's lower than history, but stable?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes.

Unidentified Participant

Okay.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes.

Unidentified Participant

And then, kind of as we look at the end market here for soft contact lenses, I mean there can be geographic fluctuations in any quarter, but it seems like it's pretty much every quarter it grows 4%. I know this quarter you're saying it was 3%, but maybe it will be 5% next quarter. Who knows? But is that kind of a reasonable way to think about the long-term growth rate of at least that segment of your business?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. It's interesting; we talk about 4% to 6% growth for the contact lens market. And if we look over, I think, the last five years and we look at it on an annual basis, it's been 4% or 5%. It's kind of 4%, 5%, 4%, 5%, 5%, something like that. I think that some factors have kind of tempered that growth because I think that there's a lot of good arguments that we'll actually see the industry move a little bit more towards the 5% to 6% side of things.

I think the channel inventory we talked about is part of that. But we're also continuing to see a shift to silicone hydrogels within the daily side. That's beneficial. We're continuing to see shift within the Americas markets to daily lenses, which is beneficial to market growth. And we're seeing some rebound in a number of markets around the world; China being a good example of a market that growth clearly slowed and that's obviously coming back right now.

So, I think that 4% to 6% is probably still fair. I would be much more optimistic on the 5% to 6% over the next five years, if you will, than what we had in the prior five.

Unidentified Participant

But your guidance contemplates market growth more to the lower end of that band.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

That's right.

Unidentified Participant

At least for this fiscal year.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. Yes, that's correct.

Unidentified Participant

Okay. Maybe we could talk about your business in a little bit more detail. And if I kind of rewind to sort of the second half of calendar 2015, J&J came out strong in their third calendar quarter and it looked like your sort of market share started to stall out a little bit. And then, we've seen a reversal of that earlier in this calendar year. Maybe just help us understand what's happening from a competitive standpoint.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. So, it gets challenging sometimes to look at it on an individual quarter basis, as you know, because you get some swings and if it's inventory-driven or promotional-driven or so forth. But if you look at it on a trailing 12-month basis, which I always try to look at it on that basis, try to get outside of some of that noise, we've been consistently growing faster than the market.

So, outside of some anomalies, I think if you look at like the most recent quarter we just reported on a trailing 12-month basis, we grew 8% against the markets who grew 5%. Now, this last quarter we grew 9% and the market was zero, which kind of highlights those kind of individual swings.

And, in this case, if you go back, J&J launched Oasys Daily, which is their daily silicone hydrogel lens. When they launched that there was a lot of promotional activity including cross-promotional pricing activity. So there was a decent amount of channel fill that they experienced in what would have been their calendar fourth quarter. That came back in calendar Q1. They've kind of commented on that a little bit.

If you look at that to us, we grew 4% in our fiscal Q4 where they had the strength with the promotional. We grew 9% this last quarter. So, yes, any individual quarter can kind of look a little strange. Looking at it on that trailing basis clears out a lot of that noise.

Unidentified Participant

So, even with that understanding, if you look at the trialing, the first half of your fiscal year, your guidance, I believe, for the balance of the year for CVI still contemplates a deceleration from what you did in the first half. Maybe just sort of talk through the assumption basis for that.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. So, if we look at the first two quarters of this year, we grew 4% and 9%, so 6.5% kind of average growth. If we look at the second half of the year, right now we're guiding towards 6.1% constant-currency growth. So, a little bit of a deceleration.

You look at the reasoning behind that because now that the acquisition is behind us, now that those disruptions are behind us, now that we had a clean quarter at 9% and you say; okay, well what's going on with that? The biggest piece of that would really be linked again back to J&J. J&J is launching a monthly lens here at the end of this month. And there's a little unknown factor there about; okay, well how are they going to launch it? What are they going to do? And so forth.

So, I think at the end of the day, we build in some conservatism there. There was nothing from the month of May that caused us to be scared and do something like that. There's no new activity really where, all of a sudden, we're aware of something that's causing that kind of problem.

I think that we were in a, for us at least, a somewhat unique position here where we were able to take down or constant-currency growth and take up our guidance because of currency. So, it was nice, after four years of kind of battling currency, it's nice to be in a situation, finally, where currency is a friend to us. So we took advantage of that.

Unidentified Participant

So, just on an FX-neutral basis, why can't Japan be a complete offset to any share you lose in the monthly? Because Japan, you're comping against zero.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes.

Unidentified Participant

So, it's all incremental.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

That's right.

Unidentified Participant

So, maybe could you just size for us the monthly risk versus the Japan opportunity?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. So, you're absolutely correct. And there's no question that we can put up stronger growth. And, as a matter of fact, 9% from last quarter was a clean quarter's growth; meaning that there wasn't channel inventory fill, there wasn't pricing associated with it. It was just a clean 9%.

Unidentified Participant

And there was no Japan in there?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

There was no Japan in there. So, our ability to put up that type of growth is something that we can clearly do.

When you roll MyDay into that -- now, MyDay is the Japanese launch of our silicone hydrogel lens. We do a lot of business with big retailers over there so the key on that is we need to get that in that channel. We need to get the support of those retailers and sell that product through them. How quickly that happens, how successful we are to that will dictate that kind of success. But, certainly, we could have sufficient success that supports some much stronger numbers.

I think one of the things that I think caused some confusion or has caused a little confusion, if you will, and I kind of picked it up talking to a few investors, is people have been thinking that there's a very distinct daily, two-week, and monthly market. So, they've been thinking that; hey, J&J is launching a monthly lens and now Cooper's never had competition with its Biofinity franchise against J&J and this is only a negative.

Well, that's not the case. The two-week and monthly market is much closer than anybody thinks. A significant portion of Oasys two-week wearers, if you will, wear their lenses for a month. A significant number of them get prescribed for a month. Oasys right now is a direct competitor to Biofinity. I mean, in some markets, Japan they're both sold as a two-week, they're dead competitors to one another. In Europe, they're competitors as monthlies. In the U.S. they're competitors.

So, to think that J&J is launching this product and, all of a sudden, we have J&J competition against Biofinity in the monthly space that we've never had before is ludicrous. But I think that some people have gone there for one reason or another. So, to me, I'm not nearly as concerned about that.

Unidentified Participant

I mean you kind of went there, though, in your guidance. You were saying that part of the guidance assumption base is that you do see share pressure --

---

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

No. No, no, no. Big difference there between that is what we said is that channel inventory can influence our numbers on any individual quarter basis as it did in Q4. Now, if J&J decides to do a product launch, anybody does, but if they decided to link that product launch, for instance, to material discounting on Oasys daily or moist or something along those lines and they decide to fill channel inventory, that's going to impact our numbers short term.

From an actual fitting perspective, in terms of new wearers and fits to wearers, our fits are greater than our market share. We're going to continue to gain market share.

Unidentified Participant

Got it. That's helpful clarification. And then, how big is Biofinity for you guys?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Biofinity is we'll be running annualized on north of $600 million, certainly, product line.

Unidentified Participant

And how big is the Japan daily opportunity, the daily silicone hydrogel there? How big is that market opportunity?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

The daily market in Japan is probably around an $800 million a year market right now. My guess is that daily silicone hydrogels within Japan are probably a couple hundred million dollars. So, maybe about 25% of that market, which is where daily silicone hydrogels are right now. As of today, about 23% of the global daily market is daily silicone hydrogels.

Unidentified Participant

Okay, got it. So, you could, not easily, but you could if you achieved your representative market share in that category as you have in the rest of the world, that's about, what, a $50 million to $100 million, a $50 million-ish opportunity for you.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. There is really nice opportunity there for us.

Unidentified Participant

Okay. Maybe we could also talk a little bit about Alcon because one of the questions we get a lot is; right now, Alcon, either they're a sleeping giant or they're just sleeping. How should we think about their efforts to drive market recovery and to what extent is that at all factored into your thinking about the balance of your fiscal year?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. Alcon is a tough one. Without going into kind of the pharma or the ophthalmologic surgical or solutions side of things, kind of sticking in contact lenses; they came out with DAILIES TOTAL1, which is the premier daily silicone hydrogel lens, several years ago. Pretty cool technology and they did really with the lens.

Now, the lens has competition, obviously. There's MyDay. There's Oasys daily. So, now that product has some competition. But that's a really good company. Now, they've struggled here recently. And some of their products are a little bit more dated and there's a little more competition across their product portfolio than there has been including what's coming.

So, I don't know. I hate to speculate too much on that. I do like the fact that they're out doing kind of the direct-to-consumer advertising. Anything that can drive contact lens wearers. At the end of the day, if we grow 6% in a market that's growing 4%, that's fine, but we would rather grow 7% in a market that's growing 5%. We're not taking as much market share, but obviously that's a win and rising tide's lifting all boats.

So, I think that anytime we see someone like Alcon doing the direct-to-consumer and pushing products, anytime we see like a J&J pushing some of that activity in emerging markets and so forth, that's a positive for everybody. So, in our kind of market situation where, at the end of the day, Alcon, J&J, and us are roughly at 87% of the global market, we like that. So, I would hope that Alcon kind of comes back and kind of helps the whole industry and lifts everybody up.

Unidentified Participant

Okay. And, as you kind of think about the factors supporting that, whatever, call it 200 basis points of market outperformance, longer term, that's the combination of -- how do you get there? What's the difference between your growth rate and the end market?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. One of the nice things about where we're at today is we're really, really well-positioned from a product portfolio. I would argue that we're pretty clearly the best position from a product portfolio perspective. So, if you look at the daily space, we have the premium daily silicone hydrogel. We also have a mass market daily silicone hydrogel; the only one to have that including a toric and a multi-focal. Full traditional hydrogels. We have a good two-week lens in Avaira. We just upgraded that with Avaira Vitality that's in Europe and coming to the U.S. And Biofinity, obviously. And we've expanded the range of the Biofinity and looking at upgrades to that.

So, I would say your biggest driver around that ends up being we just have a superior product portfolio. Now, we paid for some of that.

Unidentified Participant

Right.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Obviously, we bought Sauflon. But, yes.

Unidentified Participant

And you made the comment earlier about Alcon doing DTC advertising. I think you've taken a little bit different strategy to marketing your product and not doing as much sort of mass canvassing as some of your peers. And you've sort of tried to have the product sell itself, so to speak. Why not go down in more aggressive advertising or DTC side campaign or other type of promotional activities? And do you think that that's ultimately something you may have to do?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

I think that we'll have to do that some and we do it some in certain markets, but, generally speaking, no. I mean we would still do advertising, but we would do it directly to the optometrists versus to the consumer in general.

We're not nearly as branded, quote-unquote, if you will, as those guys are. J&J and Alcon, heavy branded companies. For us, we do a lot of private label products. J&J doesn't private label. Alcon doesn't private label very much. And we're willing to private label our products.

Now, to us, private label doesn't mean lower margin. This isn't like commodity at the grocery store. We're just saying; hey, we'll put your name on it and we'll sell it as long as the price is the same.

Unidentified Participant

Right.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

So, our willingness to private label and sell private label puts us in a little different position in terms of the value we're going to get from DTC advertising versus those guys.

Unidentified Participant

Okay. That's helpful perspective. Maybe we could switch over. I want to make sure we get to margins as well. But let's talk about CooperSurgical. Obviously, that's been a big focus for you. Over the past year, we've seen a nice improvement in the growth rate. Some of that has come from acquisitions. So, could you maybe first talk about some of the specific initiatives that you've undertaken to turn the growth rate around? And then, secondly, can you help us understand at all what's organic versus acquisition contribution?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. CooperSurgical was kind of a flat business for several years. And it's always a business I've really liked so I'm getting involved with that kind of back the beginning of August and rolling my sleeves up with the guys there. A great team of people there. And being very focused on; okay, how can we drive revenues and how can we make this a better business?

So, we've done a few things. We transitioned to a geographic sales model. We've been going through that process. We've also been better about saying; how can we get maximum synergies out of our salespeople? If we don't have a salesperson in one spot and we do have a salesperson selling different product, let's make sure we maximize their time. So, we've been pretty aggressive on how we're managing the fundamentals of the business. We've also been more aggressive in terms of hiring salespeople, promotional activity, and so forth. And we've seen a nice rebound very, very quickly on that.

At the same time, we've been investing in the IVF space. We're big fans. I'm a very, very big fan of the global fertility market. I think that's the best market that we operate in. It's better than contact lenses. It's better than your traditional OB/GYN side. It's a good mid-, upper-single digit growing industry. And it has long legs to it.

So, when you take a look at what we've done, we report our constant-currency or pro forma, if you will, growth. In Q1 and Q2 we grew just a little bit north of 6% both of those quarters. And we actually took our guidance up here to 6% to 8% to reflect the fact that in Q3 and Q4 we're actually expecting an acceleration in our true organic growth.

I think we are really well-positioned with the acquisitions we've done to kind of give a full product offering all the way from the start with genetic testing through the IVF cycle, excluding pharma, to IVF clinics around the world. And I think we're going to be a participant in that long-term growth for a long period of time.

On the OB/GYN side, which is more of a let's say low-single digit, low- maybe to mid-single digit kind of grower, we have a couple new product launches there and we're doing well with those product launches and that's what's helping us. And I think that will prop us up for several years in that space. You can only drive so much in that space, as you know.

Unidentified Participant

Well, and one of the things that at least came up on the earnings call was that you're generally seeing just better volumes.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes.

Unidentified Participant

Through that channel. I don't know if that's macroeconomic-related or other factors. But how much has that been a contributor?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes, absolutely. Very difficult to get granular data on that to go down to that kind of physician level, but when you looked at a reduction of office visits, and you saw a lot of that activity for a number of years, we're not alone in that space, obviously. You've seen that stabilize, if not move a little bit more positive. So, I think without having very specific data on that, more anecdotally saying, yes the end market is a little bit better there than it is. And if you look at some of our competitors, you've seen them put up some better numbers in the space. Not fantastic, but better, certainly, than it was running for a number of years.

Unidentified Participant

And how big on a sort of pro forma annualized basis is IVF as a percentage of your business versus OB/GYN?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Right now, we're probably in that 50-50 range. The fertility piece has grown enough that it's probably half that business right now and that will become a bigger and bigger portion of the pie.

Unidentified Participant

So, just for simple math, is it fair to say half of the business grows high-single, low-double digits and half the business grows low-single digit so you weigh it out to mid-single digit growth and you can march a little higher as, just as the math works, with mix shift?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. Yes, that's right. And I think we have some opportunity with some quarters to even reach up to double-digit growth here in certain quarters over time depending upon how some of that growth happens and where some of those products and so forth hit. But that's a fair way to look at it.

Unidentified Participant

Okay. And that would be double-digit growth in the IVF set?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

I think we can probably potentially get there on a consolidated basis, yes.

Unidentified Participant

What would it take to do that?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Strength in the IVF side. When you look at genetic testing, a lot of people know genetic testing through oncology and different sources. And a lot of people view it more -- some of it as more commodity product and so forth. We're very much talking about genetic testing within the IVF world.

And where that's somewhat penetrated here in the U.S., there's still significant growth opportunities around the world. We're much larger in the UK and different markets around the world. So, some pretty good growth opportunities there. Depending upon how IVF clinics embrace genetic testing and how much they continue to embrace it even more than they have and the more that it leads to where the U.S. and the U.S. growth, I think that gives us an opportunity to get to that double digits within fertility. And then it's just a matter of what can we do on that base business side?

Unidentified Participant

So if I kind of wrap that together, the CSI and CVI conversation, it sounds like we can kind of settle on a 6%-ish sustainable top-line growth rate for the whole company. Is that a fair way to think about the multi-year profile?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. I'd say that's a good way to look at it. If we're looking over the next five years, what can we drive, I think that's fair.

Unidentified Participant

And anything specific that you could call out to make that 6% 2%, or that 6% 8% to 10% or something? What would be the swing factors?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. CooperSurgical impacts it. But, at the end of the day, it's still the largest percentage of revenues is obviously vision-based. So, I would say that you would be -- or I would be very, very hard-pressed to come up with a way that the 6% can goes to 2% or necessarily goes to 10% on a sustained basis because your contact lens market just isn't growing that fast. But there's a number of factors within contact lenses, geographic expansion, the trade-up strategy, and so forth that we've talked about, that are going to drive contact lenses to continue to grow nicely. So, I'd feel pretty good that that's a relatively tight bell curve, if you will, around there.

Unidentified Participant

Okay. And then, below the top line you've talked about getting a 27% -- a 26%?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

27%-plus, yes.

Unidentified Participant

27%-plus operating margins over the next several years. Can you just talk to us about the building blocks of how you get there?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. Yes, so when we look at 27%-plus kind of in 2020, the way we look at that is working to drive 100 basis points of margin expansion a year. Now, that assumes a little bit less than that. But we stay very focused on saying; okay, we're going to drive our top line. And let's go with 6% we were talking about. We should be able to get some improvements within gross margins. We've talked about that on the CooperVision side. We should be able to get some leverage through operating expenses on that.

So, when we look at it, I don't think there's anything surprising there or anything unique there. Really, it's a matter of; hey, we're going to grow the top line. We have a great portfolio of products. And a lot of those we have, we own. We've already put the capital in. It's not stuff we need to go do. So, we need to execute right now in our existing business. It's not crazy integration or new product stuff. It's just saying; hey, we're going grow and we should be able to leverage that growth through the P&L.

Unidentified Participant

Okay. And then, below the operating line, you have a decent amount -- well, not that much debt, but some debt and incremental interest expense associated with the Sauflon. So, as I think about the total profile of the income statement, 6% top line plus margin expansion plus deleveraging gets you low double-digit sustainable earnings growth?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes.

Unidentified Participant

Something better than that? Is that kind of the right way to think about it?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

That's absolutely the right way to think about it. Yes, I think that you're right on the debt side. And our debt is variable so we have risk associated with that. I mean the recent job reports and so forth keep pushing that back, which is nice for us.

I think that one of the nice things will be our cash generation is accelerating. So, when you look at our cash generation, if you look at it on a real free cash flow basis and you just kind of say, hey, operating cash flow minus CapEx, and you look at last year and so forth, it's really been tempered by integration-related activity and so forth and CapEx.

And you look at where we are now, I mean we have plenty of footprint that we've built out. We have capacity in basically all of our lines, in all of our products, and we have excess lines in a number of spots. So, our CapEx is going to come down. I don't see any reason it wouldn't come down. And I think that could down relatively decently.

So, between the fact that integration activity is behind us, that CapEx is going to come down, that our operating cash flow is going to continue to increase, and that I think we can get some dollars out of inventory as CooperVision's inventory should be coming down, we'll pull some dollars out of that; so working capital-wise, I think we're going to get a nice, a nice bump in free cash flow. We'll be able to take that -- as a default position, we'll take that and pay down debt with it to reduce the interest rate risk.

And we'll obviously look at what we've done in the past, which is share repurchases and doing acquisitions if we can find intelligent high-returning acquisitions. And, obviously, we'll invest in the business first and foremost.

Unidentified Participant

Good, because it looks like even with maybe accelerated debt pay-down or funding the maturities that you have, if you believe any of the consensus models or if ours has any accuracy to it, you're going to end up with a pretty hefty cash balance, call it five years out. Is that realistic? Is that really going to happen that you're going to end up with a big amount of cash on the balance sheet?

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Unlikely. We did, before we bought Sauflon, we must have had $400 million, maybe close to $500 million of offshore cash. We had U.S.-based debt. But if we don't do anything, then, yes, in five years we're going to generate $1.5 billion, $2 billion or something of free cash flow and we'd have excess.

We'll find something to do with that money. If it's not reflected in the stock, we'll buy some stock back. I'm sure, knock on wood, we can find some acquisitions that probably make sense. I don't see us necessarily veering out of what we do today. We try to do acquisitions and stuff within our space that are strategic, not third-leg type stuff. So, we'll see what we can find there. But I don't think it would hurt us to pay down debt a little bit, either, take our leverage ratios a little lower.

Unidentified Participant

Okay. And then, do you have access to any of that free cash flow? When you go by it being onshore or offshore.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Yes. Well a decent amount of our debt is offshore. So, although we generate, probably if we consolidated it, 80% of our cash flow is probably generated offshore. We still have pretty significant debt offshore. So, for several years in front of us, if we just use the free cash flow to pay down debt we would be able to do that, full access, no issue for probably two, three years.

Unidentified Participant

Okay. Well, terrific. I think we're running out of time here. So, I'll conclude it there. But, Al, thanks again for making the trip down and we'll look forward to hosting you again next year.

Albert White III - *The Cooper Companies - EVP & Chief Strategy Officer*

Absolutely. Look forward to it. Thanks.

Unidentified Participant

Take care.
