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# EDITED TRANSCRIPT

COO - Cooper Companies Inc at JPMorgan Healthcare Conference

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## PRESENTATION

**K. Gong** - *JP Morgan Chase & Co, Research Division - Analyst*

Let's get started. My name is Allen Gong. I'm with the medical supplies and devices team here at JPMorgan. It's my pleasure today to introduce Al White, the President and CEO of Cooper Companies. After the prepared remarks, we'll be hosting a breakout session in the Yorkshire room across the hall.

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

Thank you. Jump right into the presentation here. Obviously, our forward-looking statements. Cooper Companies, most of you probably know us. I recognize many of you in the audience. For those who do not, we're a medical device company, obviously, here at the JPMorgan Healthcare Conference. Been in the S&P 500 since 2016, and we're a leader in the vision care, contact lens industry and then also in the women's health. We did a little bit over \$2.6 billion in revenue last year. And we're a global company operating in over 100 countries around the world. We have a workforce exceeding 12,000 employees.

So if we jump forward, we have 2 business units. About 75% of our revenues comes from CooperVision, our contact lens business unit and that was almost \$2 billion in revenues last year. And then CooperSurgical with our tagline there, healthy women, babies and families. Focus on the OB/GYN medical device market, and in the fertility space primarily, and \$680 million in revenues last year. So I'll cover each of those. As I go through this presentation, I'll do an overview on a consolidated basis of the business, and then touch on CooperVision and touch on CooperSurgical individually.

So if we look at where we are as a business, I'd like to start with this slide, talking about where we're positioned and how well we're positioned for the future right now. We have the 2 businesses I just mentioned we're operating in with fairly high barriers to entry. And I'll touch on each of those. The contact lens market is around 96% controlled by 4 players, kind of a happy oligopoly, if you will. It's been that way for a long time. High barriers to entry from an IP perspective and also from a capital investment perspective. And then as you can imagine, just over the many, many years of operating the way we have, building out an infrastructure and the relationships and so forth we have with optometrist and key accounts around the world is a key barrier to entry.

On our CooperSurgical business, it depends what part of that business you're looking at. We're a market leader in the fertility side of the business. And then we own PARAGARD, a nonhormonal IUD, where we're the only one selling that product in the U.S. market. And then we have a fantastic portfolio of OB/GYN products. Medical device products that we're very successful at that we've accumulated over the years. So, 2 strong markets. Also, both of those markets growing nicely. Contact lenses, growing in the mid-single digits. I always talk about 4% to 6% growth. I think we're actually in an environment now where we're a little stronger than that, probably comfortable talking about 5% to 6% growth for the contact lens industry, and I'll talk about some of the reasons that support that as we move through. And the women's health care business, which was a little lower growth for us for a number of years, has now moved into more of a mid- single-digit grower.

If we look at revenue growth exceeding the market for both CooperVision and CooperSurgical. We do focus on growing faster than the markets. A little more challenging to define in CooperSurgical, but within CooperVision, we provide that data on a quarterly basis. And for many years, we have been growing faster than the overall market, and we anticipate that to continue moving forward.



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Investing in the infrastructure of the business and new products. We have spent the last couple of years really investing in the business. Prior to that, we did sales force expansion and so forth, but over the last couple of years, when you look at how much we built out in terms of our infrastructure for our distribution network, our supply chain, our logistics, our key account sales force team, there's been a number of areas where we've really, really invested in the business to almost reposition ourselves, so to speak, to take advantage of the growth of the contact lens market where we're envisioning that consistent mid-single-digit growth. And if we can grow faster than that, we grew 7% last year, 7% the year before that, that's obviously a lot of growth, and we want to be in a position to take advantage of that. So definitely investing in our business. Positioned well to achieve our long-term objectives, which includes getting our operating margins into the low 30s, and a track record of success, which you'll see as I walk through this presentation, and you'll see some of the financials.

Speaking of that, moving to the financial summary on a consolidated basis, you can see our sales growth, and what we've done for a number of years here, very consistent, solid growth coming from our business. Both businesses have grown a little different within Vision and Surgical. We've done some acquisitions in Surgical to help round out the portfolio. Within the Vision side, most of that growth has come from organic growth as we spread around the world. It's actually within Asia Pac and grow outside of them, grown faster than the market in that region. This last quarter, up 7% pro forma. So, another nice quarter for us and pretty consistent in our growth characteristics.

Sustained earnings growth. That's another driver for us. We grow in the mid-single digits from a top line perspective. But we've been pretty consistent in our ability to drive that to the bottom line. And if you look at that, a lot of that has come from gross margin expansion, and that's efficiencies as we've increased our manufacturing footprint. And then also operating expense leverage. Although we have invested pretty considerably over the years in terms of our infrastructure, we're still able to get some leverage. So when we look at it and step back and try to focus on mid- to mid-upper single-digit revenue growth and drive low double-digit EPS growth, we've been pretty successful with that for a number of years and anticipate that continuing in the future.

Look at our financial guidance for this year, very similar to what we've had in prior years. You're talking the mid-single-digit constant currency growth on the top line. Pretty consistent growth there within Vision and Surgical also, and then the non-GAAP EPS improvements. I'm going to spend some time on MiSight later. It's an innovative technology that we've come out with, it's a myopia management control contact lens. We spent some time talking about that. But for those of you who aren't familiar, we received FDA approval a couple of months ago on that. The very first product to receive FDA approval for myopia management. So that's a really, really exciting opportunity for us. We've had it launched internationally for a little bit and seen a lot of growth there. We're launching that in the U.S., and I'll spend some time on that on one of the slides coming up, because I'm pretty excited about that. So we did highlight our growth rates on a non-GAAP basis, if we did pull that out.

We look at CooperVision, a couple of the true drivers of the CooperVision franchise here. A business that's a couple of billion dollars-plus and growing. Our MyDay franchise, the premium side of our daily silicone hydrogel business; and you have clariti, which is our more mass market daily silicone hydrogel product. That's the driver of the contact lens industry right now. The industry shifted to silicone hydrogel lenses back in the 2004-2005 timeframe. But then you move to 2014, '15, '16 is when you started seeing the industry move to daily silicone hydrogel lenses. And that's been a big, big driver of the market. And optometrists around the world right now are pushing silicone hydrogel dailies as a replacement product for traditional hydrogel dailies and also for a 2-week or monthly wearer. So that's what's been driving the market, and for, frankly, the next probably 7, 8, 9, 10 years will continue to drive real strong growth in the contact lens industry. So those 2 products are key drivers for us. And they're probably in that range of 1/4 of our business there.

Biofinity is our monthly silicone hydrogel lens, fantastic product. We usually talk about that in the context of FRPs, or frequent replacement, which is 2-week and monthly silicone hydrogel lenses and Avaira Vitality would go with that. A product family that's in that \$1 billion type of range. So a great product for us, extremely well received, still growing in that 6%, 7% range on a global basis.

If we talk about durable sales growth, this is a great slide. You look at annual sales growth for CooperVision. It's just consistent. The market is consistent, a contact lens market that's growing 5% to 6%. We're a recipient of that growth, if you will, and then we take advantage of that through some of those products I just mentioned and some geographic expansion to grow a little bit faster. See the 7.2% CAGR over the last 5 years, last couple of years have been 7% growth. And the drivers have been that daily silicone and the Biofinity franchise I was just talking about. And this last quarter, again, similar, 7% growth. So, we do have a large annuity franchise, and that's a big part of this. If you look at that consistency and you wonder how that can be, well, when someone starts wearing contact lenses, they stay in those lenses for a long time. The average wearer is going



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to be in the 1 lens that they choose to work for around 7 years. So that's a consistent sale that we're getting year in and year out. And as you're seeing geographic expansion in the marketplace, you're seeing the trade up to dailies, that drives that consistent growth.

We've seen sales growth across category and geography. So, whether you're looking at a traditional sphere, the most standard kind of fit out there. Or you're talking about toric lenses for people who have astigmatism or multifocal lenses for people like me when you hit your 40s, and all of a sudden you're presbyopic and your arm's not long enough. That multifocal market is a pretty good market, and it's growing. It's growing faster than the overall market. That's about 10% of the overall market right now. And it's interesting from a geographic perspective when you look at our sales, which are somewhat similar. Asia Pac has been growing faster than our overall business. So that percentage continues to creep up a little bit. But we're a highly diversified business model from a geographic perspective.

Again, silicone hydrogel family is driving our growth. The entire world is moving to silicone hydrogels. We have a long time in front of us of the daily silicones transition market over. And these are our key products in those areas.

MiSight, let me spend a couple of minutes on this slide. We, as I've mentioned, received FDA approval recently on this. We announced back in December that we were going to launch this product in March of this year in the U.S. market. I was actually in Miami last week. We did the launch to our key opinion leaders, or KOLs, last week. We had our top fitters from Spain, from the U.K., from Canada come in and talk about their experience with MiSight and what they've learned, and give a little bit of advice to the KOLs that are there in terms of how to fit the lens and how to ensure they drive success.

So it was pretty fascinating. I mean, this product right now is indicated for 8- to 12-year-olds. Well, if you look at mom and dad, and mom and dad are high myopes. And let's just choose a number, say, mom and dad are both minus 6, the 8-year-old child comes in and is minus 1 or minus 1.5 and all of a sudden has raised their hand a little bit and said, "Hey, mom or dad, I'm having some problems at school seeing the blackboard or seeing whatever." What's the first step? It's always the same. You go to the optometrist and the optometrist says, "Yes, your kid is a minus 1.5 or something. And by the way, your kid is going to progress and become a minus 6 and be the same as you, and when you wake up in the morning and you look over at the clock, you can't see the time because you're a minus 6."

What myopia management is, is controlling the progression of that myopia. And the key behind that is if a child starts wearing the contact lens at, let's say, they start wearing it at 8 when they're that minus 1.5. We're reducing that progression so that ultimately, maybe that child ends up as a minus 3 or a minus 3.5. That is a dramatic difference, not only in the child's ability to live their life and see things as they're working through their life, but also the axial elongation that comes from myopia progression is one of the issues that ends up driving things, macular degeneration and retinal detachment and a lot of other things that are very, very negative from a vision perspective later in life.

So this is really fascinating. We launched this outside of the U.S. We sold it more as a contact lens. A couple of years ago, we launched it in Canada. We did about \$250,000, \$300,000 in sales. Then last year, that went up to \$800,000 or so. And that's without a sales force. That's clinical sales of just letting optometrists know that this product exists. There's \$100-and-some million, \$150 million market out there right now of optometrists who are trying to treat myopia management off-label. That's atropine and that's ortho-k, that type of thing. This is the first product that's available with FDA approval to treat the progression of myopia. So we're pretty excited about this.

So when we look at it, the way we're going to launch this as a treatment, which is a little different in some parts of the world, we want the doctor to ensure that they're educating the parents. So a lot of times, it's the mom who's coming in and bringing the child in. And it's important to educate them and say, "Your child needs to wear this lens for a minimum of 6 days a week, 10 hours a day." And they're going to get this type of myopia management reduction. So it's an important educational tool.

Now what's been fascinating is you listen to the optometrist talk about this, and I heard this in Miami where they were saying, "Just be aware that when you're selling something as a treatment that could cost \$1,500 or \$2,000 versus the parent who's coming in expecting to put their kids in a pair of glasses for a couple of hundred dollars, the sale doesn't happen right away." Educate them, explain to them what myopia management is, explain to them what's going to happen to their child, the parent is going to think about it. If they're a high myope, they're probably going to jump in right away because they want to take care of their kids. They want to ensure their kids are getting the best medical treatment they can. If they're not, they're probably going to walk out the door. They're going to think about it. Maybe they'll call and they'll ask questions and so forth, you'll



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have a dialogue with them. But what's going to happen is the child's myopia is going to get worse. When they come back the next time, in 6 months or 12 months for the next checkup, and their eyesight is worse, your success rate goes through the roof because then everyone realizes, "Hey, this is something that's needed. [Yes, my kid was a negative 1.25, and they're now negative 1.5, and they're going to progress to the negative 6.] (corrected by company after the call) I want to do something for my child." So it's not an immediate sell. But as you educate people, it takes off.

Now some of the questions came up, "Well, wait a minute, you're talking about 8 to 12 year olds, can 8 to 12 year olds wear contact lenses?" Well, our research and the work we've done so far and the optometry commentary is when you fit someone who's 15 or 20 years old in contact lenses, they'll be happy about it. They're asking for it. Then they'll leave the office, and they'll have a problem inserting it or taking the lens out. They'll have some sort of issue associated with it, and they drop out. They stop wearing it. They go back to their glasses. What's interesting is with these kids, with these 8 to 12 years old, it takes longer to show them how to put the contact lens in. It will take 15 minutes or something to show them how to insert it, take it out and you have to do it a few times. But then what's fascinating is then they're done. Then they're done. They don't drop out at that point in time. They leave. It becomes part of their life. There's no issue. They're a little kid. They're very accepting of this. So it's fascinating.

The other thing is, "Will kids really do this?" And that's a question we've been receiving, like, "Can you really have kids do this? Is this true?" I got the updated number yesterday. There are 16,000 kids in the world right now wearing MiSight. 16,000 kids. So if you think it's a situation where it's going to be hard to fit kids, and that's going to be a problem. Well, we're 16,000 in and growing rapidly. So it's really exciting for us. And I think the whole myopia management market is pretty exciting. And there are some people out there doing some work on the spectacle side. And I think we'll see a couple of companies who are doing clinical work right now, come out with the spectacle lens, come out with glasses for myopia management, and I think that will be a step forward.

So in my mind, we're the leader in this. We're the first one that has anything approved by the FDA for myopia management. We're launching this. We're going to spend \$25 million this year in launching this and selling it around the world. We did \$4 million in sales last year. We're anticipating \$10 million in sales this year, and then \$25 million and up to \$50 million as this grows. We're looking for approval in China and Japan, some markets where the level of myopia is through the roof. In China, you're talking about 9-some percent of kids are myopic right now. And the government has come out and said, "This is an epidemic that we have to address." So we're doing a lot of work in this area, excited about it. We would be excited if some other companies got in this space and help grow the market and educate families. So you can tell I'm excited about that, but enough on MiSight.

Continued share gains. For CooperVision, you can see as I was talking about growing faster than the overall market. You could see our growth from 21% and change up to 24%. And the overall contact lens market right now where we have J&J at about 40% of the market. Us and Alcon, both at 24% of the market. Bausch used to be larger, but they went through for years, and right now sitting at around 9%. And then you have a few of the small Asia Pac market participants out there at about 3% of the market.

The global soft contact lens market in total, [\$8.6 billion] (corrected by company after the call) is actually calendar year '18. So waiting for some updated data here, which we'll get soon. But as I mentioned, the market growing in that 6% range, so \$9 billion-plus market. We're anticipating continued growth in torics that we've seen for a number of years and multifocals being a driver for the market. And then underlying spheres in that 5% growth coming largely from the daily side.

If we break the same chart down and we look at it on a geographic basis. It's interesting that you see the different regions growing around the same, and they're growing for different reasons. If you look at EMEA growing 6%, that's a combination of expansion of the wearer base, where in Eastern Europe and so forth, you're getting more wearers coming in. You're seeing a conversion to dailies, specifically, daily silicone hydrogels there. So you're seeing a number of influences driving that 6%. If you look at Asia Pac, you have a much higher daily percentage of wearers already there, but you're seeing geographic expansion. So you're seeing the wearer base expanding, and that's what's driving a lot of Asia Pac. And if you look at the Americas, the Americas is under-indexed when it comes to daily use. So daily contact lenses, which have higher revenue per patient for the manufacturer. That shift over to dailies is really helping the Americas grow. So it's interesting. They're all growing around the same, but there's different dynamics that are driving that growth.

If we look at the market and you talk about dailies versus the 2-week and monthlies here, this illustrates the global market at 54% right now for dailies, but you can see the Americas at 46% and growing. Moving towards where we're at with EMEA, and you're seeing EMEA and the Americas



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themselves both slowly shifting to that 67% that we're seeing in Asia Pac. And as I touched on earlier, where we're looking at 7, 8, 9 years' worth of market growth, a lot of that is tied to the Americas and EMEA moving over and getting to the percentage that Asia Pac is from a daily growth perspective.

Let me touch on CooperSurgical a little bit, probably that didn't get as much attention as it deserves. This is a fantastic business. I love this business. Similar to CooperVision, medical device business, high gross margin business, high op margin business. Actually has more cash flow per revenue dollar than Vision does. So a pretty exciting business for us that we've invested in over the years and done fairly well with.

A number of products here. I'll start with PARAGARD, which we bought from Teva for a little over \$1 billion a couple of years ago. Exciting product, nonhormonal IUD, as in only nonhormonal IUD in the U.S. market. We have about somewhere 16%, 17% market share. So the lion's share of that market is still hormonal. If we look at markets outside of the U.S., you'll see markets in that 30% to 40% range is nonhormonal IUD. So there's some good opportunity there for us. When we bought that product, there was no sales force, there was no support, so we've added a sales force. We've hired about 70 people. We have 10 or so that are doing internal sales. We started some DTC activity. Last year, we did New York, Philly and San Francisco. And we got some really nice results from that. We've been seeing kind of mid- to single-digit growth from PARAGARD. That's a very, very high-margin product. So if we can get that growth, it's fantastic for us. It's interesting, actually, today we're launching a national DTC, a TV program. So if you haven't seen the PARAGARD TV commercial, my guess, is if you will. It's a national program, not on NBC, ABC, CBS, which is where we did the San Francisco, New York and Philly, but this is on network stations. So you'll probably run across. If you see a lady dancing and singing PARAGARD. You'll know, that's us. And that's our nonhormonal IUD.

EndoSee, we bought a couple of years ago. We launched the product, have cleaned the product up a little bit, come out with a new generation. That's now growing double digits, doing really, really well. Great product for us, Lone Star, the retractors; another product, Carter-Thomason. Along the bottom is a little bit on the fertility side, we do genetic testing. We've done more genetic testing on embryos than probably any company in the world. Certainly, any company in the Americas and EMEA. China would be the only question mark out there, but we are a definite leader in genetic testing when it comes to the IVF process, and specifically checking embryos before they're implanted for a variety of abnormalities.

You look at sales growth for CooperSurgical, similar to Vision, except you can see the CAGR is quite a bit higher. That's coming from acquisitions and specifically the PARAGARD acquisition that we did a couple of years ago. But even without that good consistent growth, this last quarter, similar to Vision, we did 7% pro forma growth, had nice growth. Our fertility business is growing. Fertility as an industry is growing mid- to upper-single digits, we grew 12%. As people delay having children, that's a clear obvious positive for us.

If you look at IUS or I referred to an IUD, the market in PARAGARD, I talked about that a little bit, the 17% we have there. That's the TV commercial you're going to see. That's the lady who will be dancing around. It's pretty catchy, by the way. So if you see it, you're going to get this PARAGARD song stuck in your head.

The global fertility market, as I mentioned, great market, all around the world, that's a true global market. It continues to grow nicely. We're a market leader on the side of the medical devices and also on the side of the genetic testing. So a really nice market for us, and we're just seeing continued growth. We continue to invest in that from key accounts and hiring salespeople, do a better job integrating our businesses. Right now, we're tripling the size of our CooperSurgical Costa Rica manufacturing facility, and we're bringing in our operations around the world to consolidate that effort over the last year or so, we went from 16 genetic testing labs down to 3 to consolidate those efforts. So I think we've done a really, really fantastic job from an infrastructure perspective of positioning ourselves to optimize where we are from a fertility perspective, both from a profitability perspective, but also in terms of supporting this growth. This is going to be a nice growth driver for us for many years, real positive trend. So we've invested, we'll continue to invest in the fertility space.

This kind of snake here, it's an interesting one. It's a little hard to read sitting out there but the basis of this is just to show as a global leader in the IVF industry, we have all the products. So outside of pharma, if you're an IVF clinic, everything that you need from the day that patient walks in the door, to move in through the IVF process, to having someone have a baby, we offer those products. So that's pretty unique for us. It was a number of acquisitions over the years and then also internal development. Our R&D team has done a nice job developing some products. So it's kind of a cool slide just to highlight everything that's used through the IVF process and how strong we are.



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So I'll kind of wrap up, I only have 30 seconds here, on the future. And I kind of talked about this, and hopefully, everyone gets a feel that we are well positioned. We have 2 good growth markets that we operate in, in the women's health care, broadly defined area and then, obviously, contact lenses. You look at revenue growth exceeding the market. We're able to do that today. I do think that MiSight is a product that's going to be able to drive even incremental growth within Vision. We're investing in our business, positioned well for our long-term objectives and clearly have a track record of success, which we're confident that we'll continue to deliver in the coming years. That's it. Thank you.

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