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PRESENTATION

Young Li - *Jefferies & Company, Inc. - Analyst*

Good afternoon, everyone. Welcome to day two of the Jefferies Healthcare Conference. My name is Young Li, one of the analysts on the US Medtech team. Very pleased to be joined by management from Cooper. We have Brian Andrews, EVP, CFO and Treasurer; and Kim Duncan sitting up front, VP of Investor Relations and Risk Management. So, this will be a moderated Q&A session. Hi Brian, Kim. Welcome and thanks for coming to our conference.

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you. Pleasure to be here.

QUESTIONS AND ANSWERS

Young Li - *Jefferies & Company, Inc. - Analyst*

I guess to start, why don't we start high level. Just to begin, Cooper has strong positions in two attractive markets - contact lenses and Women's Health fertility. Can you maybe level set us on first half for performance for these two segments, what did better than expected? What was worse than expected?

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Sure. Yeah. Starting with the contact lens industry and specific to Cooper, good strong first half, we expected around 7% growth in the first quarter, really tied to capacity challenges that we discussed on our fourth quarter earnings call. We posted a really strong seven, almost rounded to eight, capacity has been coming online faster than we anticipated more successfully than we anticipated. So, it's really giving us confidence as we exited Q1 that we're going to have a strong rest of our year so we ended up posting double-digit growth here in the second quarter. We reported earnings recently, about a week ago. And expect a strong back half of the year, and we're guiding to 9% at the midpoint for vision in the second half and hopefully not only do we perform to those expectations, but hopefully we'll see those. The business is performing exceptionally well. Diversified growth in product categories, modalities; Biofinity and Avaira posted a strong quarter. Our silicone hydrogels posted a strong quarter, expect that to continue, myopia management, providing incremental growth, and just growth in our branded and our customer branded focus areas. So really, strength all around the world.

Our biggest challenge is capacity. But like I said, we're adding new lines each and every month and expect that to continue. As we continue to put more capacity in our confidence in being able to deliver and perhaps exceed our guidance ranges continues to grow.

On the surgical side, a good solid quarter in Q1, Q2 was a little choppy because we went live with an ERP type system upgrade that resulted in some back orders and some challenges in getting shipments out the door.



We reiterated our guidance for the year for CooperSurgical with an expectation we'll recover those lost revenues in the third quarter, if not entirely in a large part and potentially, if not all in Q3, then we'll see it come back in Q4, but really things are going well there.

Underlying demand is strong. Fertility is going to bounce back to high single, maybe even low double in the third quarter. And the rest of the business is performing well with only call out that we've mentioned around Paragard having some channel contraction probably in the third quarter, which will lead to probably a sequential decline in Paragard and a pretty decent down year over year number for Paragard. But still overall, the business performing well, excited about the second half.

Young Li - Jefferies & Company, Inc. - Analyst

All right. Great. And nice overview on, I guess, maybe just focus in on contact lenses to begin. You talk about having the most SKUs available among the competition. So you're able to meet more customers' demands. And I guess does that mean or imply that Cooper should be positioned to take much higher market share over time? And what could hold Cooper back is it the channel, competition, customer awareness?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yeah, we have a pretty differentiated portfolio that's pretty hard to replicate. Something that we've been building upon over the last couple of decades. We've taken share each and every year, I think since I've been at the company, which is about 18 years, at least for the last 16, and I'd expect that we'll continue to take share in this market in the coming years.

We've been successfully doing so through our diversified approach through customer brands, our own brands. We've got the broadest portfolios within FRPs within dailies and daily silicones. And you mentioned the expanded toric ranges. We do torics exceptionally well. It was when I started with the Company, we were lathing lenses in Scottsville one by one and making the outer edges of the SKU ranges. If you fast-forward to today, we're automating a lot of that, we've gotten really good at making really hard to make products.

And when staffing challenges exist all around the world and you don't have enough fitters fitting lenses and chair time is at a premium when you have a portfolio that you can offer just about any lens to anyone who walks through your door. It puts you in a great position to win business and it puts you in a great position to be the lens of choice in a facility or a practice.

So, whether it's our broad toric ranges or toric multifocal lenses, which are best in class, our monthly products, our daily products, the broadest premium selection of products in daily SiHys, our mass market portfolio, and our myopia management portfolio. We really do have a lot of shots on goal, do expect to continue to have strong growth within a strong industry. And really right now, we're dealing with demand exceeding supply so that's why we're being so proactive about adding new lines is really just so that we can meet the demand in the market.

Young Li - Jefferies & Company, Inc. - Analyst

Okay, got it. And then you raised the vision guidance a little bit given the strong results and I guess the second half comps get tougher 11% in the second half versus 5% in the first half. I guess what are you seeing in the market that gives you the confidence in raising the vision outlook into the tougher comps?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Well, I think it's more relative to ourselves than anything else. I think the story around the market has been consistent and the same. It's been really strong, more people getting into the market, increase in wearers, price being a positive, more incidence of nearsightedness, a third of the world's population is near sighted going to 50% in 2050, the growth in torics and multifocals.

So, the market dynamics are holding as we expected, if not a little bit better. We had a strong April followed by a strong May. And capacity, as I mentioned earlier, is coming on and we're having success putting those lines into production so it bodes well for a second half in light of what you mentioned is really strong. You know, we've got some tough comps, especially in Q3, but I wouldn't count it out that we're going to have a really strong Q3, despite the tough comps and strong back half, the momentum is really good.

Young Li - Jefferies & Company, Inc. - Analyst

Okay, great. So the daily SiHy is a strong driver of growth within contact lenses. It grew 18% last quarter. Can you level set us on the market penetration of daily SiHys and as well as Cooper's penetration into daily SiHys as well?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Sure. So, different ways I can answer it. When you look at our market share being the number two contact lens company in the market at 26%, our dailies share is around 20%. Our daily silicone hydrogel share is quite a bit higher than that.

And our new fit data in terms of putting new lenses on new wearers is even higher than that. So, when you talk about what's driving some of the growth at Cooper, it's new fits, exceeding our market share, it's our daily silicone hydrogel share exceeding that as well. And so, it's driving that 20% higher.

You look at MyDay, as an example, MyDay is probably 10% of the overall dailies market. That should go up to 20%, at least if not higher. If you look at the market, though, in general about 40% of wearers are wearing dailies today. In terms of revenue dollars, about 60% of the market is dailies. And within that category of dailies, probably 60% of that is silicone hydrogel.

If you compare the 60% of the dailies market into an FRP market like monthlies and two weeks, where you have about 90% of that market in silicone hydrogel. You've got a fairly large and long runway to go to get more wearers that 40% higher into dailies, to get more people fit into daily silicone hydrogels from 60% to 90%.

And as it relates to Cooper, we didn't have a very large daily hydrogel portfolio, but we really leaned into daily silicones' broadest portfolios, and really winning the day with new wearers putting wearers in the silicone hydrogel dailies with our broad portfolio of lenses.

Young Li - Jefferies & Company, Inc. - Analyst

Okay. And then I think you touched upon it briefly, but where do you think the daily SiHy penetration can ultimately go to sounds like it would be a 90% close to 100%, but you know, are there still meaningful trade-up opportunities left or is it mostly driven by new starts when you think about that?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yeah, well, I mean, wearers are growing the industry. So that helps the industry. As more wearers are coming in, more of them are being fit into daily SiHys. Torics and multifocals, we talk about it a lot and especially more so lately given our capacity is ramped up and we're launching more and more of our daily SiHys, torics, and multifocals around the world.

But if you look at people with astigmatism and you roughly estimate that 30% of the world is in need of a toric lens, but only about 26% or so percent in revenue dollars are wearing torics, you've got a fairly big opportunity. And this is true in multifocals for presbyops, as well.

A fairly large opportunity to drive better penetration of toric fitting and multifocal fitting around the world. The toric and multifocal market is largely a US market, so as fitting trends improve, as availability improves, as first-time success continues to improve with better lenses and better technology.

We will expect that to grow the dailies market and drive better penetration into higher priced mixed products, but also just the right lenses on people's eyes so you're seeing that happen in more mature markets around.

Young Li - Jefferies & Company, Inc. - Analyst

Okay. Got it. And then it does seem like demand continues to exceed supply. How much are you ramping up supply and capacity to meet the demand? And when do you think and that can happen?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

It's a great question and a tough one to answer. I think as an industry, we're constrained, it takes about 24 months to get from ordering a line to getting a line into production, give or take, our CapEx numbers have been climbing, they were big last year, they'll be big again this year. And I expect that they're going to be elevated again in 2025.

We're in this luxurious position of being able to put lines into production and then being able to sell just about everything that comes off those lines. And you saw that even in Q2 with Biofinity and Avaira, we posted double digit growth in our FRP silicone hydrogel segment and that's because we are capacity constrained in Biofinity and put some lines into production in the first and second quarter.

So, it's across our portfolio, but very significantly within daily silicones. It's why we have to modulate launches, why we only have Energys in the US market, why we still don't have expanded torics in different markets, perhaps why our Asia Pac numbers have been not as strong as they could be as we're putting a little more emphasis in the Americas and in Europe.

I think capacity is going to be challenged for the industry for the next several years, but we're certainly doing our part gaining new wearers and putting more lenses on eyes and adding capacity to meet the demands of the market.

Young Li - Jefferies & Company, Inc. - Analyst

Got it. And then just on price, it's it remains pretty strong for the overall market, around 2% to 3%. How much of that is driven by the shortage in supplies and how sustainable is this pricing dynamic going forward? And other categories or regions has taken more price than others?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Price has been holding pretty steady exiting the pandemic. You will probably as an industry see net pricing land somewhere at the high end of the range we had set out in the beginning of the year in that 2% to 3% range, with Cooper towards the high end of that. Inflation's been sticking around. And consumers are still predominantly going after the highest priced lenses in the market. You're seeing strength in our MyDay family, strength in both of our MyDay and clariti families, but much more so in MyDay. Energys really putting up some really, really strong numbers, which is why I alluded to earlier, is why we can't get it outside the US is just the strength of the US market and demand for Energys.

So, pricing is holding because we don't see any change in the consumers. And so I'd expect price to be another good year from price next year, at least as it relates to Cooper. As we talk about price, it's not just the price of your products, but it's the price of the value added services that you do.

We've spent a lot of money over the years, and you are probably going to ask me about operating margins in a minute, but we've spent a lot of money investing in infrastructure to improve our distribution and logistics and supply chain and packaging, and labeling. That makes us more efficient, but it also puts us in a position to offer value added services for our customers.

It allows us to do some things that are very differentiated for our key accounts with customer brands, that's definitely differentiated, but what that also affords us is an ability to charge for those value-added services. So, I'd say price is holding and expect that to be still another positive for us as we go into next year.

Young Li - Jefferies & Company, Inc. - Analyst

Got it, Yes, I'll definitely ask about operating margins in a bit. But before that and just on MiSight and it seems like the momentum is continuing there. And can you maybe talk about, you know, what you're doing to make it easier for ECPs with adoption and scaling the product?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yeah. It's a multifaceted approach. We're trying to educate the docs on the clinical efficacy of the lens. We're talking to clinicians and key accounts about how to have the conversation with their patients, how to have more success in convincing parents that putting a contact lens in a child's eye at an earlier age is not only possible but easy to do and highly efficacious.

And then we're also giving them some tools like OptiFit that we've talked about. So, we're seeing continued success in fittings around the world, both all the way down to the eye care practitioner level, all the way up to the key account level, I was just in Asia a couple of weeks ago and visiting with docs and clinics. And yes, there's glasses out there and they're excited about that. And that's easy to put on eyes. But the things that we've been talking about, which is, yes, you can get great, you can get good efficacy from glasses, but you need the compliance to be there.

That's an issue. And they're seeing that they're seeing that at times with kids not wearing their glasses seven days a week and 10 hours a day, but they're not seeing that with MiSight and they're putting MiSight on eyes and they're seeing many of their children not have any progression whatsoever with their myopia when they start wearing MiSight because the compliance is there and the efficacy is there. So, we're excited.

Don't get me wrong about glasses in the market because you want to get a form of treatment onto eyes as early as possible, but MiSight is steady up and to the right, it is kind of a snowball moving downhill. It's not the hockey stick that we expected it was going to be, but we're making progress sequentially, year over year. And can we expect that to continue as more and more adoption happens.

Young Li - Jefferies & Company, Inc. - Analyst

Okay. Great. Yes, I wish that product was available when I was younger, but I'll look into it for my kids. I guess switching to the surgical side, so at a high level, pretty favorable demographic tailwinds. And maybe just talk about this OB/GYN office visit trends and you know, those type of drivers for the for the business?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yeah, I guess there's really nothing I would point out broadly speaking for our office and surgical space tied to anything different around office staffing or foot traffic or anything of that nature. We have a business that is office and surgical, and there's a lot of in-office procedures, a lot of procedures, a lot of solutions that are geared towards surgical procedures that are highly specialized for labor delivery.

And we've been putting a moat around labor and delivery with some of the acquisitions we've done more recently, also augmenting some of our existing portfolio, so that part of our business has done really well. We had a little bit of a blip in Q2, entirely tied to our systems upgrade, but expect that to have a good bounce back in rest of the year as we look forward in the second half.



Young Li - Jefferies & Company, Inc. - Analyst

Okay. Great. And I guess Paragard sees some pressure from, I guess, easy to access pills if you can sort of offset it with the price. And I guess I'm just kind of curious how much additional price. Do you think you can continue to take for currency going forward?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

We've been taking price with Paragard the last several years. As inflation continues to stick around, it's only sold in the US market, so as inflation continues to linger it affords us some ability to take price. So that's been a good offset to the volume declines that we've seen.

We posted a good first half of the year that's been largely attributable to the price increases that we took to start the year, but also a buy-in period ahead of the price increase that took effect here in Q3. So, that resulted in some channels fill in the first half. We'll see some contraction in the third quarter, I mentioned sequential decline and year-over-year decline. That's part of the reason why we'll have a little softer gross margin here in the third quarter. And we've got a competitor that we were expecting to get FDA approval this year. So far, we haven't heard anything, there's no approval there so, therefore, there's been no launches. So, our expectation of a down year for Paragard has now been revised flat to up slightly and certainly, if we don't see any competitor entry in the fourth quarter that may provide some upside in our Paragard numbers. But right now, we're expecting a flat Paragard for the full year and with volumes down and price helping.

Young Li - Jefferies & Company, Inc. - Analyst

Great, I guess on operating margins, seems like you've kind of hit a high around 27% in the 18, 19 timeframe. Now it's around 24%. Can you maybe just talk about if there's a pathway back to 27% and what are the key levers to get there?

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Yes, we've invested a lot in this business. We made the decision several years ago around COVID to really lean into our daily silicone hydrogel franchise and be a leader in that space. And so being a leader in manufacturing, the broadest portfolio is one thing, but you also have to have the support infrastructure to be able to do all the packaging, the labeling, the distribution, the logistics and some of the value-added services we do for our customers.

And so it's been climbing that hill over the last several years and when you're doubling the size of distribution centers in the US and Europe, and you're doubling your packaging and doubling and adding automation, while you're going through that significant spend, but you oftentimes will deal with increases in costs before you actually start seeing those efficiencies.

Last year, we were still in that climb mountain stage, and we were able to in a very difficult way, deliver 11% constant currency operating income growth. This year at the midpoint, our guidance implies 16% to 18% constant currency operating income growth that's coming from leveraging all those prior investments and it's not a one quarter two quarter, one year thing, we're now going downhill. We're seeing the efficiencies from our IT go-lives, from our distribution center go-lives, from our packaging. You're seeing that in gross margin and SG&A leverage because how we move inventory between our sites between manufacturing and distribution centers and warehouses gets influenced by how we pick pack and ship those and package those and then our distribution out.

So, I expect we're going to have a strong back half of this year from SG&A leverage that will offset some of the gross margin commentary we provided on the last earnings call and operating margins on an as-reported basis going up pretty nicely versus last year. You know, despite the FX pull-down and headwind we're seeing from foreign exchange.

Young Li - Jefferies & Company, Inc. - Analyst

All right great. I think that's all the time we have for this session. Brian, thank you so much for your for your thoughts.

Brian Andrews - Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer

Welcome. Thank you. Pleasure to be here. Thanks.

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