

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

COO - Q2 2018 Cooper Companies Inc Earnings Call

EVENT DATE/TIME: JUNE 07, 2018 / 9:00PM GMT

## OVERVIEW:

Co. reported 2Q18 consolidated revenue of \$631m and non-GAAP EPS of \$2.86. Expects FY18 consolidated revenues to be \$2.515-2.550b and non-GAAP EPS to be \$11.70-11.90.



JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

## CORPORATE PARTICIPANTS

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

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

**Kim Duncan** *The Cooper Companies, Inc. - VP of IR*

## CONFERENCE CALL PARTICIPANTS

**Andrew Frederick Brackmann** *William Blair & Company L.L.C., Research Division - Associate*

**Anthony Charles Petrone** *Jefferies LLC, Research Division - Equity Analyst*

**Christopher Thomas Pasquale** *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

**Denis Edward Kelleher** *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

**Isaac Ro** *Goldman Sachs Group Inc., Research Division - VP*

**Jeffrey D. Johnson** *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

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

**Lawrence H. Biegelsen** *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

**Lawrence Soren Keusch** *Raymond James & Associates, Inc., Research Division - MD*

**Matthew Ian Mishan** *KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst*

**Matthew Oliver O'Brien** *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

**Robert Justin Marcus** *JP Morgan Chase & Co, Research Division - Analyst*

**Stephen Barr Willoughby** *Cleveland Research Company - Senior Research Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Q2 2018 The Cooper Companies, Inc. Earnings Conference Call. (Operator Instructions) And as a reminder, this conference call is being recorded.

And I would now like to introduce your host for today's conference, Ms. Kim Duncan, Vice President, Investor Relations. Ma'am, you may begin.

### Kim Duncan - *The Cooper Companies, Inc. - VP of IR*

Good afternoon, and welcome to The Cooper Companies' Second Quarter 2018 Earnings Conference Call. During today's call, we will discuss the results included in the earnings release along with the updated guidance and then use the remaining time for Q&A. Our presenters on today's call are Al White, Chief Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions and integration of any acquisitions or their failure to achieve anticipated benefits. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties.



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption Forward-Looking Statements in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K, all of which are available on our website at cooperco.com.

Should you have any additional questions following the call, please call our investor line at (925) 460-3663 or e-mail [ir@cooperco.com](mailto:ir@cooperco.com).

And now I'll turn the call over to Al for his opening remarks.

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

Thank you, Kim, and good afternoon, everyone. Welcome to our second quarter 2018 earnings conference call. We had a strong quarter, and I'm excited to discuss the details along with some key strategic moves we've made.

For the quarter, we reported \$631 million in consolidated revenue, up 21% year-over-year; and non-GAAP earnings per share of \$2.86, up 15% year-over-year. CooperVision posted revenues of \$467 million, up 14% and up 6% pro forma, with daily silicone hydrogel lenses leading growth up 40% or 31% pro forma. CooperSurgical posted revenues of \$164 million, up 44% and up 3% pro forma with PARAGARD and fertility solutions both posting double-digit growth.

Moving to the details. CooperVision posted growth in all 3 regions with the Americas up 7% and EMEA and Asia Pac both up 20%. On a pro forma basis, the 3 regions grew 6%, 4% and 11%, respectively. The Americas continued to show improvement, and we expect that momentum to remain in the second half of the year with growth in the upper single digits. EMEA had a tough comp but posted solid results, while Asia Pac continued to post fantastic growth supported by strong results throughout the region. Overall, CooperVision continues to be driven by our strong suite of silicone hydrogel lenses. In particular, our daily silicone hydrogel portfolio of clariti and MyDay were strong performers. The daily segment is a key driver for us, and we believe we're in the midst of a multiyear trade-up that is still early in its life cycle and will deliver many years of strong growth.

Outside of dailies, Biofinity and Avaira combined to grow 12% or 6% pro forma, driven by global growth in Biofinity, offset by declines in legacy Avaira. Regarding Avaira, we continue to transition wears to Vitality, and I'm pleased to announce that transition is running smoothly, and we now expect to finish the majority of this activity by the end of this current quarter rather than fiscal year-end.

Turning to product categories. We remain a global leader in torics and multifocals and grew 14% and 15%, respectively, or up 8% and 7%, respectively, pro forma. This growth was driven by our silicone hydrogel lenses, and we expect this strength to continue as we roll out expanded product ranges and launch products in new countries, such as MyDay toric in the U.S., which is going extremely well.

Turning to the \$8.2 billion soft contact lens market. We're continuing to see growth in the upper part of the 4% to 6% range that we frequently discuss. This growth is largely driven by the trade-up to daily silicone hydrogel lenses, broader product offerings and geographic expansion. Daily lenses continue to drive the majority of the growth, with daily silicone hydrogel lenses now accounting for roughly \$1.4 billion of the \$4.2 billion daily market or 33% of that market.

Regarding CooperVision's market share. We're roughly 23% of the market and our focus remains on gaining share by executing upon a diversified strategy of realizing strong revenue gains from winning new wearers, trading up wearers to dailies and other newer technologies and continuing our success with geographic expansion. And when we look at the new fit data in the Americas, which we believe mirrors the rest of the world, we continue growing our wearer base faster than our market share, supporting our belief that we'll continue posting strong revenue growth. To be clear, our focus is not on growing at a multiple of the market, which makes little sense in today's trade-up world where competitors have large bases of legacy daily hydrogel wearers they can capitalize on.

Moving to CooperSurgical. We reported record quarterly revenue of \$164 million. This was led by PARAGARD and our Fertility Solutions product offerings, which both grew double-digit. PARAGARD posted revenues of \$44 million or growth of 11%. This was great to see as the post-acquisition channel-inventory issues moved behind us and we saw a few accounts restock to higher levels. We now have 40 direct sales reps selling the product and plan to continue slowly adding reps based on the momentum we're seeing.



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

PARAGARD has been in the market for many years, so we don't want to get ahead of ourselves, and we'll remain very diligent around investments and the returns we expect, but we do believe this product offers a nice multiyear growth opportunity, so we plan to support it. Regarding PARAGARD revenues in the back half of the year, we expect growth in the mid-single-digits as we continue ramping up sales and training efforts. Note, the comp is harder in Q3, so we expect a stronger Q4.

Excluding PARAGARD, our Office & Surgical business grew 2%, driven by strong sales of focus products, such as our new uterine manipulator and record sales of EndoSee, offset by declines in our OEM sales, which is a tradeoff I'll take any day of the week.

Within fertility, we posted strong growth of 25% from our Fertility Solutions portfolio, which is comprised of products such as media and medical devices. On a pro forma basis, growth was an impressive 11%.

Regarding genetic testing. We made the decision to increase our focus on our core genomics offerings such as PGS and PGD, and move away from carrier screening and NIPT where we were experiencing significant pricing pressure. PGS and PGD are a key part of the IVF process within the U.S. and becoming increasingly important outside the U.S., so they fit very nicely with our best-in-class Fertility Solutions portfolio. Additionally, we've experienced recent success with cross-selling these products and thus plan to continue aggressively supporting this portfolio strategy. Note that we did not change our pro forma reporting this quarter but will exclude carrier screening and NIPT from our pro forma revenue calculations starting in Q3.

Lastly, but very importantly, Dr. Bob Auerbach became President of CooperSurgical in early April and has been the architect behind these changes, which I wholeheartedly endorse. Many of you have met Bob over the years, and I'm confident his expertise as a trained OB/GYN, with accompanying deep knowledge of the IVF industry, including genetic testing such as PGS and PGD, makes him the perfect leader to drive CooperSurgical forward.

In conclusion, I want to reiterate that I feel extremely positive about where things stand today. To summarize a few key points. CooperVision continued improving in the Americas, posting 6% growth, and we're forecasting the back half of the year at 7% to 9% growth. Additionally, on a global basis, we've improved our product positioning, and we're seeing improved momentum in our daily silicone hydrogel franchise, which supports raising CooperVision's full year pro forma guidance to 7% to 8% growth. Within CooperSurgical, we had a strong PARAGARD quarter, and we believe the product can grow in the mid-single-digit range moving forward with, hopefully, periodic upside to that. We also addressed the concerns we have within genomics and feel confident our fertility group will produce strong results moving forward. FX has become less favorable, but we're maintaining our earnings guidance supported by past investments, which are providing nice returns. And we're maintaining that earnings guidance while still investing in our businesses, including selectively hiring sales personnel around the world and upgrading our distribution capabilities.

And with that, I'll turn the call over to Brian.

---

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

Thank you, AI, and good afternoon, everyone. Most of my commentary will be on a non-GAAP basis, so please refer to today's earnings release for a full reconciliation of GAAP to non-GAAP results.

AI covered revenues, so let me focus on the rest of the financials and guidance. This was another strong quarter for gross margins, with our consolidated gross margins improving to 68.3%, up nicely from 66% last year, driven by improvements in both businesses. CooperVision's gross margin was 67.5%, up from 67.1% last year, driven by currency and favorable product mix. CooperSurgical's gross margin improved significantly to 70.5%, up from 61.7% last year, driven by the addition of PARAGARD.

Regarding expenses, consolidated operating expenses grew 22.7% in the quarter, driven by the addition of PARAGARD along with sales and marketing investments throughout the company.

## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

Operating income grew an impressive 28.9%, with operating margins improving to 28.5%, up from 26.8% last year. Both businesses reported operating margin improvement, with operating profits growing faster than revenues. Note that within OpEx for CooperSurgical, there was a onetime \$24 million impairment charge associated with the genomics activity AI mentioned earlier.

Below operating income, we reported \$18.7 million of interest expense, a \$2.1 million FX loss stemming from negative currency moves against our intercompany loans and an effective tax rate of 11%.

Non-GAAP EPS was \$2.86 with roughly 49.6 million average shares outstanding. We posted \$124 million of free cash flow for the quarter, up 21% from last year's second quarter. This included \$171 million of operating cash flow, offset by \$47 million of CapEx. Total debt was \$2.48 billion, and we had roughly \$165 million of cash on hand.

Moving to guidance. We're guiding consolidated fiscal 2018 revenues to \$2.515 billion to \$2.55 billion. This includes CooperVision revenue guidance of \$1.87 billion to \$1.89 billion or roughly 7% to 8% pro forma growth, which is an increase in pro forma growth, reflecting year-to-date performance and our anticipation of a strong second half. CooperSurgical's revenue guidance remains \$645 million to \$660 million, which is a slight increase on a pro forma basis to flat to 3%.

Outside of revenues, we expect consolidated operating margins to be slightly stronger than last quarter's guidance of 28.5%. We expect interest expense to still be around \$80 million, which assumes 2 additional 25 basis point rate hikes by fiscal year-end and our effective tax rate is expected to be in the 9% to 10% range for the year.

On FX, we have seen currency move against us since our last earnings release, with full year EPS being \$0.19 worse. We're now forecasting a positive impact to full year revenues of roughly \$64 million and a positive impact to full year EPS of \$0.59, both being lower than last quarter. Having said that, we're maintaining our non-GAAP EPS guidance for fiscal 2018 at \$11.70 to \$11.90 based on 49.8 million shares outstanding, driven primarily by strength in our operations.

Lastly on guidance, we expect strong free cash flow as we exit the year, resulting in full year free cash flow of roughly \$423 million, in line with prior expectations.

And with that, I'll hand it back to the operator for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Jeff Johnson with Baird.

---

**Jeffrey D. Johnson** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Guys, can you hear me okay?

---

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

Hey, Jeff, yes.

---



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

**Jeffrey D. Johnson** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

All right, great. Hey, Al, I was wondering maybe you could talk about 2 things to help us out here. One, the impact of the higher rebates in the U.S., I know they only helped in that last month of the quarter. But just what are you seeing so far on the daily silicone side of increasing those rebate dollars? And then it seems like your Americas is obviously getting stronger both in the quarter and your guidance for the rest of the year, EMEA was maybe a little softer this quarter. Can you talk about any updates on the gray marketing side and if you started to close some of that down and if that's helping kind of the Americas but, at the same time, taking a little neck out of the EMEA number?

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

Yes, Jeff, I'll take that second one first. You're spot on, yes, the Americas, a little bit stronger; EMEA, a little bit softer. No surprise there. We've talked about some of the gray market activity or, for those newer to the story, perhaps some activity where we saw some U.S. customers purchasing product in Europe, which should alter the numbers. We have fixed that, so to speak, so most of that activity is behind us. I think what you're going to see is strength in the Americas as we're indicating kind of in the back half of the year, and you'll probably see some slightly weaker numbers from Europe. You look at the comp in Q3, I think it was 13% and 2%, if I remember right, so you can really see that play out, that gray market activity in the third quarter last year. If you look at the Americas and the strength we're talking about in the second half of the year, some of that is coming from comp activity, and then some of it is coming from improved operations within the U.S. And I think you touched on the higher rebates in the U.S. associated with dailies, we did implement some of that rebate activity. That is working positively. So we are seeing some increased momentum because of that activity, which is fantastic. The timing of it is great. So we feel pretty good about where things are going there. The upside from incremental sales is absolutely better than any detriment from rebate activity.

**Jeffrey D. Johnson** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

All right, that's helpful. And then maybe my follow-up question, just the comps do get maybe a little easier, I guess, in fourth quarter even more so than third quarter on the CVI side. But first half of the year now on CVI, you're at about 7% growth, guiding to 7% to 8%. So anything other than comps? Is it the rebates? Is it other activity that's giving you the confidence that you're going to be even stronger, it sounds like, in the second half than you were the first half?

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

Yes, I think that -- actually, I kind of like where we're positioned with all 3 regions. I think the Americas because of the comps but also some of the momentum we're seeing on the dailies side. Whether it's tied to the rebates or just getting those products out there, that's a positive for us. EMEA is doing well. Although they have really hard comps and a challenging second half of the year, I think they're going to be able to put up some decent numbers. They've built some great relationships over there, especially on the key account or in large corporate side that I think is going to result in some better growth than maybe we were expecting. And then Asia Pac's a phenomenal region, it's doing really well and should continue to do well. So just kind of generally speaking, I think a little bit more optimistic as we enter the second half of the year.

**Operator**

And our next question comes from the line of Larry Biegelsen with Wells Fargo.

**Lawrence H. Biegelsen** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

A couple on guidance, Al. So first, just on EPS, it looks like FX went about \$0.20 in the other -- in the wrong direction for you since the last call. So just to be clear, it looks like you're absorbing that. And second, can you help us out on the CSI guidance? You made an acquisition with LifeGlobal. That's probably a \$12 million to \$15 million benefit. And I didn't really understand, to be honest, the global testing change that you're going through. Could you just kind of give us a little bit more clarity around the CSI guidance and some of the changes there?



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

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

Yes, sure. First one being the FX, you're right, when we reran the numbers, it's about \$0.19 worse since last quarter, so we are absorbing that. Some of the investments that we've had over the last year or so are offering nice returns, and the core operational strength of the business is allowing us to hurdle that \$0.19 and keep our guidance the same, so that's obviously really nice. If we look at what's going on within CooperSurgical, you have some pluses and minuses. We did complete the acquisition of LifeGlobal, so we've incorporated that into our guidance. The offset to that ends up being the genetic testing site, specifically carrier screening and NIPT. When we exclude those 2, that's a negative for the back half of the year. So basically, what we've done is stop offering that testing, and we're just getting out of carrier screening and NIPT testing, so that's a negative. We'll probably do somewhere, let's call it, \$40 million of revenue within genetic testing in CooperSurgical now this year. And that kind of offsets -- the detriment of stopping that testing offsets the LifeGlobal acquisition revenue, and they just kind of neutralize one another.

**Operator**

And our next question comes from the line of Larry Keusch with Raymond James.

**Lawrence Soren Keusch** - *Raymond James & Associates, Inc., Research Division - MD*

So Al, I just wanted to touch on PARAGARD. Obviously, that seems like it did better than anticipated in the quarter. But now it sounds like for the back half of the year, you're talking about a deceleration to mid-single-digit growth, which is sort of what I thought the product was doing kind of without a sales force previously. So maybe just talk a little bit about the dynamics around PARAGARD and how you see the sales force beginning to kick in.

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

Sure, yes. PARAGARD had a strong second quarter, definitely happy with the way that played out. For the back half of the year, keep in mind that there was a price increase that Teva had implemented before they sold the business to us that impacted their Q3 and Q4 numbers where you saw some buying into that price increase. And that resulted, remember, in kind of the strange Q1 for us. So what you're going to end up with is, because of that, on a comp perspective, we'll have a more challenging Q3 for PARAGARD. Q4 should be stronger, and then Q1 should clearly be stronger on a year-over-year basis because of that. So there ends up being just a little bit of kind of uniqueness to some of the numbers here. But when we look at the sales force, we've hired 40 salespeople there. We're really happy with how that's going. We do see some positive momentum there, underlying unit growth and our calling effort and so forth are certainly appearing to be positive, so we're kind of excited about where that's going. We closed that acquisition just at the beginning of this fiscal year. So obviously, we're still learning some stuff, still implementing some stuff. But I think we're more comfortable saying, hey, that product is a mid-single-digit grower. And if we can move it up higher than that or periodically get higher quarters than that, then that's fantastic given those -- the margins on that. So we're going to keep learning, keep rolling out salespeople, keep figuring the market out. But I would say we feel a little bit better about that. We had to get Q1 behind us and the channel inventory issues and so forth, and we've done that, and now we're feeling good about that deal.

**Lawrence Soren Keusch** - *Raymond James & Associates, Inc., Research Division - MD*

Okay. And then, I guess lastly, just a follow-up on PARAGARD end of sales. Is it too early to really see any impact from The New England Journal of Medicine article? And then separately on cash flow, you obviously talked about the strength of the cash flow for this year. You've got \$2.4 billion in debt. I'm just sort of curious, I assume interest rates are going to continue to move higher. You've got -- most of that's all floating. So how do we think about this capital allocation as we move forward?



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

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

Yes, I think that on PARAGARD, that New England Journal of Medicine, it would be too early to really see anything from that. There's still a lot of discussion about that. There's no question about that. It's still a hot topic out in the marketplace, and we're having conversations about that to ensure that physicians are aware of the study and recommending, they obviously do what's best for their patients. That's important for us and important for the physicians. So we continue to talk about that. The sales force, we have seen some positives from the sales force already. We saw some of that in the 11% growth through this quarter where we saw some purchase activity that we hadn't seen in a little while. So it looks like adding the sales force and getting some of those salespeople back out there did have a positive benefit in the quarter, and we'll see how that plays out. I don't want to get ahead of ourselves there. Product's been in the market a long time. It's too early to get ahead of ourselves, especially since it's a little challenging to look at numbers on a comp basis because of the price increase and so forth. If we look at debt levels, yes, we have a higher level of debt. I mean, when I look at leverage ratios, it's certainly not bad. We certainly have plenty of flexibility and room to do things that we want to do. Having said that, you talked about capital allocation and acquisitions and one in particular. If we're going to look at an acquisition or if there's anything we're going to do, I'd like to think it's going to be a little bit more down the middle of the fairway. We want to make sure that it would be something that would fit very nice strategically. We do it, everyone's going to be like, yes, that makes sense, completely understand it, whether it's in the CooperVision space or in the CooperSurgical space. If acquisitions don't come up, that's okay, too, then we'll pay down debt. And we have all variable rate debts, so paying down debt some is not a bad thing.

**Operator**

And our next question comes from the line of Joanne Wuensch with BMO Capital Markets.

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

I want to talk a little bit about the CVI market. You made some comment at the beginning that you have roughly 23% share. And could you please clarify whether that's unit or dollar share because my impression is that -- well, I'm not going to answer your question, I'm just going to leave it there. Is that unit or dollar share?

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

Dollar share. That's based on revenue dollars.

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

And do you have a share number for units?

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

I do not. We would be well under-indexed there because of dailies. We have -- so we have 23% global market share on a revenue basis, but we're currently about 16% market share on a daily basis, so that's where a lot of our growth comes from. If you look at dailies in the -- and our competitors having the lion's share of that market, obviously, on a unit basis, they're going to be a lot higher. But that's what's offering us the revenue growth. So when we look at the next 3-, 4-, 5-plus years, moving our 16% daily market share up towards our 23% and, obviously, that will move the 23% higher, is going to allow us to continue to take share and grow.

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

And when we think about new products in CVI over the next 12 to 18 months, what would you point us to?





## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

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

I'm sorry what was that again, sorry?

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

And if we look at the new products over the next 12 to 18 months in the CVI franchise, what would you point us to?

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

I would look at new products right now being more along the lines of parameter expansions than a brand-new product. There are still some markets where we're -- where we either need to roll products out or we're in the early stages of rolling products out. MyDay toric in the U.S. is a good example where we just started rolling that out. We had a nice second quarter with that, by the way. So there is parameter expansion, there is existing products going to new markets. But we're kind of the enviable position of having some really good, strong products right now and just rolling those out, completing the rollout and making sure everything available is mostly what we're mostly focused on.

**Operator**

And our next question comes from the line of Jon Block with Stifel.

**Denis Edward Kelleher** - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Yes, this is Denis on for Jon. I guess, the first question is could you comment on or give an update on the latest with sales force initiatives in CVI? And is there a plan to build that out more next year or...

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

Yes. So with respect to the CooperVision sales force, we've been expanding that sales force for a little while, and the plan is to continue to do that. I think some people may have gotten the impression, for some reason, that, that was kind of a U.S. sales force expansion, but that is a global sales force expansion. So whether it's direct feet on the street, whether it's key accounts, large corporate, that type of thing, we are looking at expanding our sales force where it makes sense, and I tend to say selectively, on a global basis. So we've been doing that. We are seeing returns on that. We can kind of start seeing that through the P&L. We think we're going to see some of the returns on that in the back half of this year in the top line. So I won't get into specific numbers or details on that side of things, but I will say, yes, we feel good about it, we feel that we're seeing a return on it and we'll continue to selectively add.

**Denis Edward Kelleher** - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Got it. And as it relates to the CVI guidance, does that assume any competitive launches from either Alcon or Bausch + Lomb in the second half of the year? Or how would we think about whether those are contemplated?

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

Yes, I mean, I think that if competitors launch products, they launch products. We dealt with that for many years, and we'll deal with that for many years going forward. So I don't know when they're going to launch products. There's different rumors about whether it's Alcon or Bausch or different people about to launch in lenses and when they're going to launch them and where they're going to launch them and what type of lenses they're



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

going to launch and to what magnitude they're going to launch them. I'm not going to get into speculating what those guys do. What we can do is control our own position, be it salespeople, be it pricing and so forth. And we're in a great spot with respect to that. So we'll see what happens with them, but we're just looking at our own business.

---

### Operator

And our next question comes from the line of Matthew O'Brien with Piper Jaffray.

---

### **Matthew Oliver O'Brien** - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Al, just to start with on the CVI guidance for the back half of this year, there's a lot of moving parts. And I think Avaira, that transition is a little bit of a headwind. Biofinity, I think, it's the slowest quarter we've seen in the last 4. I don't know if that was a tough comp or not. But those 2 seemed to be under a little bit of pressure but, at the same time, you're also introducing the MyDay toric, and you've got a lot of momentum with those products on the dailies side. So can you talk about some of the puts and takes on the growth of those products in a -- over the backdrop of a North American market likely getting stronger whereas EMEA is getting weaker at the same time?

---

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

Yes, sure. Yes, it was a little bit of a tough comp on Avaira and Biofinity. They were up 12% pro forma in the second quarter of last year. But you're right, we're transitioning Avaira. We're moving to the tail end of that. That has gone well better-than-expected, as a matter of fact, where the vast majority of that will now be done. The Avaira, the Vitality shift will be done this quarter that we're in, which is great, because that puts you in a position where you can stop talking to customers about transitioning a product out, and now you can actually talk to them about selling the product. Now having said that, remember that when you look at the FRP market, which is the 2-week and monthly market, that's a pretty flat market right now. So we are growing, we're taking market share in there, we're doing really well in that space. But we are competing, if you will, in a relatively flat space. So it's hard to get too much growth out of those products. But I think they'll do okay in the back half of the year. If you look at the dailies, that's what we're talking about. Dailies are driving the market growth right now, and it's silicone hydrogel dailies that are really driving it. And that's where we're strong. That's where we're well positioned. That's what going to continue to drive our growth. So certainly feel optimistic about our ability to drive growth in the Americas and worldwide when it comes to daily silicones. We touched a little bit on the comp issues between the Americas and EMEA, so I won't cover that again. But I think the key point here is Biofinity and Avaira continued to do well. Avaira, the transition behind us will help stabilize that and get it back to flat growing. Biofinity is a big product, so it's only going to put up so much growth. We'll continue to see growth, pretty decent solid growth, though, in the dailies silicone hydrogel franchise between both MyDay and clariti.

---

### **Matthew Oliver O'Brien** - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Fair enough. And then a question for Brian. And I don't think anybody has welcomed you to that role, Brian, so welcome.

---

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

Thank you.

---

### **Matthew Oliver O'Brien** - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

Can you talk a little bit about -- you're welcome -- the currency impact on gross and operating margin? And then buried within there -- because I'm trying to figure out how durable that is from here with PARAGARD kicking in. But then you mentioned you're offsetting that \$0.20 of additional headwind on the currency side. Can you be a little bit more specific as far as how exactly you're offsetting that headwind?



JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

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

Sure. So the impact for the remaining part of the year was \$0.19. So the way that it kind of flows through is there was about a \$5.5 million impact to OI, and so that's about \$0.11. We had, obviously, that -- we had a \$2 million FX loss this quarter, so that was up \$0.04. And then with currency, as you know, the pound flows through 6 months later. So in Q4, we're expecting that currencies related to the pound is going to result in that \$0.04 also loss compared to previous guidance. So that's the \$0.19. Now how are we going to hurdle that? That's really just strengthen our operations. We believe with PARAGARD and the underlying fundamentals of our business, we're going to hurdle that headwind and feel pretty confident that the investments we've been putting into the business will yield dividends in the back half of the year.

**Operator**

And our next question comes from the line of Chris Pasquale with Guggenheim.

**Christopher Thomas Pasquale** - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

A couple of questions on the surgical business. First, AI, what are you assuming now for full year PARAGARD sales? I think you had been at \$165 million. It wasn't clear whether you guys were actually upping that forecast or keeping it the same.

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

Yes, I think that if you look at the back half of the year combined, we should be around in the mid-single-digits. It will be a little bit higher than that I would envision. Maybe it's going to be \$167 million or something like that, not dramatically higher but a little bit higher.

**Christopher Thomas Pasquale** - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

Okay. And then where do you see the gross margin for that surgical business going? This is obviously a very good quarter. PARAGARD helps a lot, but you've had a lot of noise in the non-PARAGARD pieces of that segment. So is that a mid-70s business over time? Could it get even higher than that?

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

I don't think it goes that high, but I believe it continues to move higher. So we were 70.5%, I think, this quarter gross margins in that business. So low 70s.

**Operator**

And our next question comes from the line of Anthony Petrone with Jefferies.

**Anthony Charles Petrone** - *Jefferies LLC, Research Division - Equity Analyst*

Welcome, Brian, to your new role as well. Maybe just, AI, can you give us a sense of -- you've mentioned that the overall market growth is trending at the higher end of that 4% to 6% range. Were you referring to global? Is that U.S.? I just want to benchmark that to the performance in CVI. And then the follow-up on the competitive front would be we attended the J&J analyst day, and they talked about 2 initiatives, one would be drug delivery and the second would be e-commerce. I'm just wondering your views on both of those markets and potentially if that's an area of interest for Cooper.



---

**JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call**


---

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

Yes, the 4% to 6% growth would be on a global basis. We used to spend a little bit more time on that. We had third-party data that we would try to pull in and look at. That was really confusing. It was on a quarterly basis, and it was gross data and different FX rates and so forth. At the end of the day, you guys, just like us, we get the quarterly earnings releases and information from J&J and Alcon and even Bausch. So you can get that information, and you can adjust to how you see fit. Bausch -- or J&J, I'm sorry, talked a little bit about some channel fill this quarter. At the end of the day, everyone can kind of have their own opinion. To me, that market, the contact lens market, on a global basis is growing in that 5% to 6% range. I think it's going to continue to be at the upper part of that 4% to 6%. So I like that 5% to 6% range. I think that's just kind of where we settled in with the trade-up to dailies silicone hydrogels and so forth. And I think we can be seeing for a little while. So I'm kind of happy about that. At the end of the day, a strong market is what we want. And if that strong market is going to lift all boats, I think we'll continue to take market share within that kind of growth range. You look at J&J, you talk about drug delivery. We've talked about that in the past. Drug delivery within contact lenses is kind of a different animal when you're talking about FDA approvals and so forth that you need, what kind of drug delivery you're talking about, whether it's back of the eye type of things or glaucoma or it's a dry eye treatment or is it allergies. I think, there is a ton there. So that's -- we'll see where that goes. I mean, that's not really our thing. We're much more focused on the vision correction kind of thing, but we'll see. That's been on and off, been a topic of conversation for many, many years from different players. You look at e-commerce and you talk about sales strategies and sales channels and so forth, how lenses are sold through optometrists or sold through retail chains, sold online, on different retailers who have big online presence and so forth, that's an important part of the marketplace right now. We didn't spend a lot of time talking about that on this call. But we spend a lot of money in that space, and we have a lot of effort and we have some very smart people working in that space for us right now, be it on the e-commerce side and also on the distribution side. You want to be able to distribute products to individuals' homes, which means much smaller shipments, more frequent shipments, smaller type shipments. So we are spending a lot of money doing distribution upgrades through the IT infrastructure we have, through build-out of distribution centers. All that kind of work is happening. We talked a little bit about it on and off, and we are continuing to do that. We want to be on the forefront of that from a competitive perspective and feel pretty good that whether it's your traditional e-commerce, if you will, or distribution capabilities that we're on the right track, and we're in a good position there.

---

**Operator**

And our next question comes from the line of Matthew Mishan with KeyBanc.

---

**Matthew Ian Mishan** - *KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst*

Just a follow-up to that, Al. When you kind of look at that like online eye exam model that's trying to develop, what are the limitations to it? I mean, is there enough of a moat to limit it to the sphere? Or is there something over time that can move towards specialty lenses as well?

---

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

Yes, that's a tough one. I mean, I kind of compared it a little bit to like reading glasses. And you kind of -- you're at the airport and you go and you pick up a book and you try on a few different pair of reading glasses to see which one actually works for you. So you could certainly do that. I think that's more prevalent in the spectacle market than it is in the contact lens market. At the end of the day, you're still putting a contact lens in your eye. It's a medical device. You still have a physician in the middle who you're speaking to. So is the prevalence of online exams going to grow? Probably. Can you get to where you're talking about at toric and fitting with astigmatisms and so forth? That would be a really challenge. You're probably talking more about the generic, if you will, sphere where the person is a minus 2 or something along those lines. We'll see. I think technology continues to advance. But that doesn't, at the end of the day, necessarily change our business profile. If people are wearing more contact lenses because they're doing on-eye exams, then great, then they're buying more contact lenses. That's more of a shift of potentially patients from a physician's office to a different way to get their lenses.

---



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

**Matthew Ian Mishan** - *KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst*

And then we're midway through this year, do you have any more color on tax rate expectations? Moving forward, do you have a little bit more time to digest it?

---

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

No update on that, nope. I mean, at this point in time, we're going to keep our tax rate guidance the same. I wouldn't really change anything right now based on the most recent information that we have.

---

**Operator**

And our next question comes from the line of Isaac Ro with Goldman Sachs.

---

**Isaac Ro** - *Goldman Sachs Group Inc., Research Division - VP*

I wanted to ask a little bit about your comments in Asia. You guys had a strong result there. Could you maybe give us a little more detail within the region, what really came in above plan? Was there a specific country or a handful of products that really outperformed?

---

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

Yes, good question. Yes, we don't spend enough time talking about Asia Pac. That is a fantastic region. I mean, for many quarters now, it's been growing double digits on a pro forma or constant currency basis there and another good quarter here. The thing that I love about that region is its diversified growth. So we're getting double-digit growth in a lot of countries. If we talk about China or Greater China, we're talking about growth at kind of in the 20% range where we have a great infrastructure right now. We have built our own infrastructure there, and it is a fantastic team that's putting up really nice numbers. And there's a lot of growth potential there. We talk about sales force expansion, I know a lot of people want to put that right to the U.S. But again, that would be an example where we don't put it right to the U.S. We look at China as a growth opportunity. And we'll continue to invest in that market and grow that market because it's a nice growth market. But you also have Japan where we do well and Australia, a number of countries there. So that's a thing I love. We keep putting up good growth rates there, and the team is strong there and it's diversified with products and countries.

---

**Isaac Ro** - *Goldman Sachs Group Inc., Research Division - VP*

Got it. And just a follow-up on LensFerry. Could you just maybe remind us what a reasonable long-term goal would be both in terms of market penetration as well as just financial goals in that initiative?

---

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

Yes, LensFerry to me is -- I look at it a little bit broader in terms of kind of the delivery of lenses and the relationship we have with independent optometrists. And that's something that CooperVision has had a long history of success with, our relationship with independent optometrists and what we offer them and how we help manage -- help them manage their practices, how we get lenses to them, how we support them. And that's what LensFerry is. So I don't look at that in the context of like trying to pull that apart individually and say how profitable that or where is that going to go. I look at that in a more holistic manner of are we helping physicians, are we helping contact lens wearers. And the answer to that is yes, and we continue to invest and grow the LensFerry platform. Because of that, I won't spend a ton of time on it, but we are expanding that, we are updating that from an IT perspective and so forth. So that's more of a kind of a product area, if you will, or an area of the business that I think a lot of people probably underestimate where we have strength. But it's more linked throughout the organization, especially here in the Americas, than it is kind of a standalone entity.



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

### Operator

And our next question comes from the line of Robbie Marcus with JPMorgan.

### Robert Justin Marcus - JP Morgan Chase & Co, Research Division - Analyst

Brian, just a few housekeeping questions for you. First on FX, in guidance, what rates are you assuming for the euro, pound and the yen? Maybe in the second quarter results help us break out what the top line impact from FX and acquisitions were. And then -- and maybe I'll start there and then I'll ask you a follow-up.

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

Sure. Euro, the rate on the euro was 1.18. That compares to 1.22 as of last guidance. 1.34 on the pound compared to 1.36 last guidance, and 1.10 on the yen against 1.07 last guidance. So as far as the impact to this quarter on top line, the impact was around \$30 million. \$26 million of that was in CVI -- CooperVision and the balance of \$4 million, was Surgical.

### Robert Justin Marcus - JP Morgan Chase & Co, Research Division - Analyst

And what's the contribution from M&A estimate guidance or percentage wise?

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

Are you saying that's built -- I'm sorry, in the guidance for the full year now based on -- from acquisitions?

### Robert Justin Marcus - JP Morgan Chase & Co, Research Division - Analyst

Yes, how much of an M&A contribution is built into the sales guidance for the year?

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

There's not a ton because the acquisition -- outside of PARAGARD, within CooperVision, we're relatively small. But our acquisition, our specialty lens acquisitions, that we did grew about 11%, those acquisitions -- the lens portion of those acquisitions on a pro forma basis. So we would expect to continue to see that specialty lens component kind of grow in that low double digits.

### Robert Justin Marcus - JP Morgan Chase & Co, Research Division - Analyst

And then, Al, maybe a strategy question. Some of the data we used to see in the press release is no longer there. And I don't hear you talking about Cooper growing versus the market. Maybe you could talk about how you plan to message the company going forward now that you're in the CEO role and maybe some of the reasons and thoughts behind the changes there.

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

Yes. Yes, absolutely. Yes. I think that data that we were providing in the earnings release in the last page, the external data that we use to discuss market, was pretty confusing. And there were multiple quarters we ran into where the data was not matching reported results from people. And there were reasons for that as we try to pull that data together and some of it was on a gross basis rather than a net basis, and they use different



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

FX rates, and they would incorporate some acquisitions in a weird way. So at the end of the day, the data just wasn't turning out to be really reflective of what was going on in the market to the point here where we were comfortable continuing to use it on a go-forward basis. And frankly, you get, like we do, J&J's numbers and Alcon's numbers and Bausch's numbers, so you can pull it out and take a look at what they're doing from a performance perspective and get there kind of like we can. So I mean, I kind of look at it and say we're better off talking about people's as-reported results than we are talking about kind of third-party numbers that we accumulate from different sources. Then when I look at it on a go-forward basis, I think the important thing is a big part of what's driving the contact lens market right now is the trade-up to dailies silicone hydrogels. Now some of our competitors are in that process. J&J is in that process. We'll see about Alcon. Alcon does its own right now with DT1. We'll see about it with Bausch. But a big part of it is that. Now our competitors have the opportunity to do some pretty significant trading-up there because they have a lot of legacy daily hydrogel wearers. And that should put them in a position where they can get some pretty good growth, and they can do that for a sustainable period of time. And that's going to help the overall market growth. We don't have quite that luxury because again, as I was mentioning to Joanne, we have about 16% daily market share. So we don't -- we just don't carry as many legacy hydrogel wearers, that's a plus/minus. We are taking a lot of share because we're growing our dailies silicone. So the important message to me is the overall contact lens market is going to grow, I believe, in that 4% to 6% range, and I think it'll be more towards the higher part of that. And I think we'll grow north of that. So we will take market share. And a lot of that growth is going to come from wearers. When I look at some of the new fit data that I've seen, even some of the more recent data that just came out, we've hit new highs in terms of new fit data out there. I mean, it's a pretty exciting kind of stuff. So I think our competitors do well because they can win on some of the trade-up strategy, and I think we do well because we take wearers. We also have some of that trade-up strategy, and we're expanding our product offerings out there. So I think that's kind of the message at the end of the day, good, solid market, and we're doing a little bit better in that.

---

### Operator

And our next question comes from the line of Brian Weinstein with William Blair.

---

### **Andrew Frederick Brackmann** - *William Blair & Company L.L.C., Research Division - Associate*

This is actually Andrew Brackmann on for Brian today. Al, I just wanted to start on the CooperSurgical genetic testing. It seems like there is just a slight change in strategy there from the last call. Could you add a little bit more color on that?

---

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

Sure, absolutely. Yes, we took -- we talked about that the last couple of quarters. We took a real hard look at that and said what are we doing here. And I give up -- I take my hat off to Dr. Bob Auerbach there and David Hansen who runs that, Mark Valentine, the team who kind of really dug into that and carry it from a costing perspective and said, hey, what's going on, where are we going with this business, where are we going to take it, how are we going to drive growth of this, how are we going to drive profitability of this product or these products. And at the end of the day, we said, our best position is with IVF clinics. We're strong when we go into IVF clinics and we sell media and we sell microneedles and the embryo transfer catheter and so forth. PGS and PGD is genetic testing that is done and sold to the IVF clinic. That's where we're strong. Linking those products together makes all the sense in the world. When you look at NIPT, you look at carrier screening, which are a little bit more commodity products, a little bit more generalized, if you will, from a sales point, that's not the perfect fit for us. So right now, where we're at and when we look at our business, Cooper's business profile and what we're trying to accomplish, it made sense for us to exit out of offering those types of tests. So we've made the decision to do that. We've actually notified our customers of that, and we're moving down the road at that. At the end of the day, that's going to -- that is the right answer for us. So we've become a little bit more laser-focused, if you will, on IVF clinics -- IVF. On one side, IVF clinics and then our medical devices on the other side.

---

### **Andrew Frederick Brackmann** - *William Blair & Company L.L.C., Research Division - Associate*

Great. And then one other question. You've made a few personnel changes since taking the CEO role. Can you just, open-ended, talk a little bit more about those and your strategy behind them?



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

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

Yes, sure. Yes, I took over. There's been a few personnel changes here. I honestly could not be happier where we are right now from a personnel perspective and the direction we're going. I mean, as you guys know, Dan McBride runs CooperVision, and he's killing it there. Bob just stepped in, running CooperSurgical, doing a fantastic job. Brian's come on as CFO. He's only a month in the chair here, doing a great job. For me, other direct report-wise, Holly Sheffield, just came onboard. Holly's first day was Monday of this week, the Chief Strategy Officer who work with me on capital deployment, if you will, long-term shareholder value. She's running human resources. Kim, right here, who's done Investor Relations for a long time and has picked up a lot of administrative responsibilities in addition to that; and Randy Golden, our General Counsel. So we have a great team, a great team of people, highly dedicated, incredibly intelligent. We're in a great spot from a personnel perspective.

**Operator**

And our final question comes from the line of Steve Willoughby with Cleveland Research.

**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

I have a couple for you. I guess, first, Al, on your commentary regarding the market growth of stepping up a bit in the second half of the year, following up on an earlier question on that. If competitors do come out with new products, whether that's Alcon, Bausch & Lomb or even maybe [one of any hundred] contacts coming to market with their own lens. Are you -- that 7% to 8% is -- and assuming potential current competitive launches like that? Is that a fair way to think about it?

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

Correct. Yes, yes. Yes, we believe we're really well positioned. I mean, if competitors come out with launches, there's plus/minuses to that, right? I mean, Stephen, you know, right? Alcon comes out with a mass-market daily, that's going to put wearers in play, and it gives us some opportunity. So there's plus/minuses to all these kind of situations.

**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

Yes. The one thing I was just thinking about it is there's new entrant to the market that haven't been there before. If that's kind of -- you've taken that into account in the guidance and feel comfortable around that. That was where I was kind of going, but that makes sense, Al.

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

Yes, yes.

**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

Okay. The second question, just on the genetic screening business. Can you remind us on the NIPT and the other business you're walking away from, how much of that was the overall business versus what it looked like maybe a year ago in the grand scheme of things?

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

Yes. The carrier screening, NIPT. Probably the easiest way to think about that, because it gets a little convoluted in the numbers and some of the declines in the numbers, but we were looking last quarter at about \$50 million in revenue from our genetic testing within CooperSurgical. And



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

now we're probably, let's call it, \$40 million in revenue. And what's being excluded out here is NIPT in carrier screening. So you're talking about \$10 million less. And when we look at that, that would be on this -- that's probably the fairest way to look at it. I'm trying to think of a different way to look at that, but \$10 million less is probably the best. So kind of a natural offset to that like global deal that we added on.

---

**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

Okay. And then just 2 last quick things. I guess, first, since you're no longer providing the industry data, which did provide us a little bit more color on how things would trend through the quarter, can you just comment at all about how demand in the CVI business did trend throughout the quarter? And then, I guess, secondly, with that, do you think the Avaira market can grow now that you're almost done through that transition? Or is it just the 2-week market is in decline and maybe the 2-week market just doesn't decline as much as it has been?

---

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

Yes, the 2 -- you're right, the 2-week market is declining. I think that now that we have Avaira, once we got done with this Avaira transition, I think we can put ourselves in a position where we can get Avaira back to being flat, maybe even growing a little bit. It wouldn't surprise me if we see a little bit of growth from Avaira. But it's not going to take off, right? It's not going to be a home run. You'll remember that the biggest move of that Avaira transition was associated with gross margins. That was kind of the link as the cost per unit for Vitality is significantly less than the legacy Avaira. And you're starting to see that come through the P&L a little bit. We're still getting charges. We still have items associated with it, some of which we're calling out that are unique, some of which we're not calling out. But I think once we get that done and behind us, you get the gross margin improvement because of it and then you get back to flat, maybe a little bit of growth. On the -- in terms of CooperVision, the quarter was -- I wouldn't get into any -- I wouldn't point to anything particular within the quarter by a monthly basis or anything along those lines for Q2. I would say, obviously, we have May results, and we incorporated those May results into some of the optimism we're talking about here in the back half of the year.

---

**Operator**

And that does conclude today's Q&A session. And I'd like to return the call to Mr. Al White for any closing remarks.

---

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

Thank you. Yes, so I mean, to summarize, I think we had a good quarter, happy with where we are, happy with the direction of the company. There's been some changes here within Vision and within Surgical and within our corporate headquarters here from a personnel perspective and just the dynamics of the organization and -- but everything is going in the right direction. We're pretty happy. We're pretty excited about the future. So look forward to continue to talking to people and giving our earnings in early September. And that concludes, exclude -- or sorry, Kim, just looked to me, at the end of August.

---

**Kim Duncan** - *The Cooper Companies, Inc. - VP of IR*

August 30.

---

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

August 30 for our next earnings release. So with that, we'll conclude the call.

---



## JUNE 07, 2018 / 9:00PM, COO - Q2 2018 Cooper Companies Inc Earnings Call

### Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.