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COO - Cooper Companies Inc at Barclays Global Healthcare Conference

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Kristen Marie Stewart *Barclays Bank PLC, Research Division - Research Analyst*

PRESENTATION

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

All righty. So

[Audio Gap]

analyst here at Barclay's. With me today, very excited to have Brian Andrews, who is the Chief Financial Officer and Treasurer of Cooper; also up on stage, Kim Duncan, who is Vice President of Investor Relations and Administration. This will be the only session here so there is no breakout afterwards, so if you have burning questions and would like to raise your hand, I do invite you to do so. You might get an award too or some sort of upside if I got any good questions.

So with that, thanks again for joining us. Really excited to have you here, and I was wondering, Brian, if we could just start off, you've been CFO now for almost a year, you've obviously been at the company longer than that, but what are you focused on from a big-picture perspective and where do you really see the opportunities for the company?

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

Great, well, thanks first of all for having me. Pleasure to be here. I see some familiar faces in the audience. This is my fourth conference and I've been, you're right, CFO for just over 10 months, I was with the company for 13 years in Treasury, as Assistant Treasurer and Treasurer.

So I think I'm fortunate enough to grab the baton from our current CEO, who was our previous CFO, so he did a great job managing the finance organization and we've got some great leadership within both divisions in the finance organization. One of the things that we're going to be doing this year is closing the books a little earlier. This quarter, we just reported earnings last week. I reported a couple of days earlier, the subsequent quarters thereafter starting in Q2 we'll be reporting a week earlier than usual. With the idea that if we closed the books at the end of a month, we should we reporting at the end of the next month. And what that does is, it puts more of a focus on the value-added responsibilities for the organization, including FP&A and understanding our business, and if we're not spending time closing the books through the middle of the quarter I think that's a good thing for us.

There is certainly an emphasis that Al is placing on one Cooper, by that we mean sort of leveraging both sides of the business. We've got a lot great people within surgical and within Vision, but historically, they've been so decentralized. We've been working on some of the same projects and initiatives, sometimes with a different cadence, but without talking to one another. And so one of the things that we're focusing on is, we don't want to disrupt the momentum we have in the business, but both businesses are humming along very well and are growing. But where there is opportunities to collaborate and work together and leverage both sides of the business, we're doing that and so that certainly is the case within finance and accounting.

So there is different opportunities that we're working on to leverage that. And I'm excited -- they're excited, there's a lot of excitement within the business to be reaching out and helping one another. So that's kind of in the early goings but it's a focus. And then lastly, I'd say, internal controls and standardizing processes, I think the more we can -- the better we can get about standardizing sort of our SOPs, our processes or procedures, reduce risk but improve our efficiencies, I think that's a big goal of mine and a goal of ours.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And then just kind of again kind of keeping big picture, you guys clearly have 2 separate businesses within the corporate structure between CooperVision and CooperSurgical, and you said you're kind of trying -- I guess, Al's focus is to kind of bring the 2 together and have like a one Cooper entity. But just to kind of look at that differently, what kind of is the rationale for having both kind of companies within the current structure in the past because of the tech side of CooperSurgical it made more sense and it might have been difficult to kind of parse the company apart. But how do you just view the kind of structure and having both entities under one umbrella? Or do you think it would make more sense to kind of split the company into 2 distinct entities, one focused on Vision and the other kind of on the surgical side?

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

Yes, I mean, for those of you that are new to the Cooper story, our CooperVision business is our contact lens business, and CooperSurgical is our women's healthcare business where we've got devices and consumables and genetic testing around office and surgical and fertility. And on the surface they are very different, they seem like they're very different companies, and they are different companies. But financially, they're very similar, they both have outstanding gross margins, both have great operating margins and they're both growing at a healthy pace. We expect our Vision business to grow 6.5% to 8% year-over-year and our surgical business to grow 3% to 6% with a hope that we can get that to consistently delivering mid-single-digit revenue growth. So -- and the cash flow per revenue dollar of CooperSurgical is actually higher than that of CooperVision. So long as we are not -- either business are not capital constrained and we can continue to invest in both of those businesses selectively, we'll do that. And just like we'll continue to

(technical difficulty)

some tuck-ins that fit right down in the middle with what we're trying to

(technical difficulty)

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

On the Vision side, last year, you guys outpaced the market, your growth was, I guess, calendar year

[Audio Gap]

I think this year, this comment that your forecast assumes 6.5% to 8% overall growth. So how should we just think about the overall Vision market? It seems to have picked up here within the last year or so. What's the outlook there and how do you feel confident just around the dynamics of the end market?

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

Yes, I mean, we're -- so you're right. We said -- we looked at some of the industry data on a calendar basis, on a gross basis and the market grew 8% last year and we grew 10%. For this fiscal year, 6.5% to 8%, I think the market dynamics are such that we have, we're in the very early innings of a multiyear trade-up with respect to daily silicones. Less than -- it was somewhere in the neighborhood of 20% to 25% of where is our dailies today, and 38% of the roughly 53% of the market are in daily silicones. So when you compare that to the FRP market, which we call the frequent replacement market, 82% of that market is silicones. And so if you think about where the growth is coming from, it's coming from the trade up to dailies and we've got many, many years ahead of us to trade-up existing FRP wearers and daily hydrogel wearers into daily silicones. Where Cooper is really well positioned is that we've got a great robust set of products, both in the premium daily silicone hydrogel space but also the mass market daily silicone hydrogel space, with torics, spheres and multifocals. So comparing that against our competitors, Bausch doesn't have a daily silicone, Alcon only has a premium daily silicone, and then J&J is there with a branded philosophy, which is slightly different from our approach where J&J

is really focused on their brand, we are somewhat agnostic. I mean, we've got a brand that we're willing to provide to people and we're also willing to do a customized solution to help attract customers to patients, to our customers and also provide some stickiness to their business so that their customers don't take their business elsewhere. So we think we've got a compelling set of products and compelling solutions, both from a customized standpoint, but also from a distribution and customer-engagement perspective with our technology that we're able to give to our customers to help with that engagement.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And I guess I want to dive a little bit more into the competitive landscape, you've kind of touched loosely on it. Last year you guys gained some share and ended around 24%. J&J is clearly the big behemoth in the space and you're probably now more tied with Alcon. With Alcon spinning off. Most companies that I've seen that have undergone a spin process just seem to get more focused on the core business and you've got more investments that typically go there. So how should we think about the competitive landscape and why shouldn't we be worried? How do you get that level of confidence that you can continue to grow your share?

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

Yes. It's a good question, I mean, we've always been operating in a very highly competitive landscape. J&J's always been there, it's the big gorilla, if you will, and with Alcon there. And Bausch was there for a time but they have kind of pulled back a little bit. I think the difference now is, we've got -- we're kind of a market leader as it relates to the biggest -- fastest growing area of the market. So I think we're many steps ahead of the competition, J&J's doing a great job and they'll have success. Alcon, when they come out in the mass market daily, they're going to success because they have $1 billion franchise within DACP that they needed to protect, and they'll be successful converting their wearers. But.

[Audio Gap]

The same token I think because we've got a leg up of efficiencies, yields, supply, we could -- we can continue to take share of this market and be very successful doing so.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And again, the go-forward thoughts on the growth of the end markets are what again? Over the next, call it, next 3 to 5 years? Yes.

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

The growth profiles of the different regions?

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Of just the overall contact lens, soft lens, market leader...

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

Well, we think -- I mean, the market grew 8%, it'd be nice if it grew 8% consistently. But we're thinking, historically, it's been a 4% or 5% growth, I think it's now a 5% to strong, 6-plus percent grower. So the dailies -- daily silicones last year grew 34%, and our

[Audio Gap]

I think we just -- the prospects are really good and when you think about to get to 82% in FRP's and silicones, it's taken many years to get there. The first silicone hydrogel lenses were -- started to hit the market in the early 2000s and so here we are in 2019 already 82%. So we if we can get that 38% north of 50% or 60%, that's going to be meaningful for everybody.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Do you have a question?

Unidentified Analyst

Just in terms of the trade up to dailies, how you guys go about forecasting that full penetration level in terms of customers who at least at this price point just aren't interested, rather than just looking at the total market and saying like there's going to be eventually a full conversion or a certain number of conversion to dailies and then dailies silicone hydrogel? How do you get comfortable with that continued expansion, just given -- understanding it takes time, but understanding also that they have been out on the market for a while and then certain customers just haven't bit at this price point?

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

Yes, well, there is a number of things that we look at. I mean, the dailies market is now 53% of the overall market and we have a lot of -- we're seeing a lot of -- when we look at our New Fits Data, we can see there are New Fits -- that there is a significant uptake in New Fits going to single use. When you talk about price points, we're at a place right now where we can offer a clarity at a very similar price as a traditional hydrogel daily, and then you've got MyDay for those that want something that's a bit more premium. So the price point is not necessarily the issue. I think, historically, we were the first ones to come out with a mass market daily by virtue of the Softlens acquisition. So we were the only ones out there pounding the table, trying to get our -- trying to get people to understand the importance of silicone in all lenses, not just FRP's, but dailies. And so now all of the sudden you've got J&J out there promoting daily silicones, you've got Alcon who at some point is going to come out with Precision 1, they'll be promoting dailies. So it's -- when it becomes a focus of everybody's to go out there and pound the tables the importance and the healthiness of daily silicones, it's inevitable it's going to move the needle. Now there are metrics around it are varied, and in 10 minute time I don't know want to use it all up, but suffice to say, we've got a number of end-user data points, New Fit Data points and different data sources that are all pointing to this being a huge growth phenomenon for years to come.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

I want to get a couple of questions in on the CooperSurgical, the women health side of the equation. How should we just think about the growth profile for that business? And with PARAGARD you seem to be putting in a little more of investments in marketing and things like that? What -- how should we just look at this from a contribution to the overall Cooper growth?

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

Yes, so CooperSurgical has historically been kind of a low single-digit grower, flat to low single digit. We've made a number of strategic investments over the past few years that have really kind of spurred some of the growth within that division. It's now a meaningful part of our revenue, I mean, we're projecting somewhere in the neighborhood of $660 million, I think at the midpoint thereabouts for this year. And the growth we think is going to be 3% to 6%, so mid-single digits, even on the longer term, I mean, we don't -- we haven't got into guidance for next year yet. But the fertility business, I think we feel really strongly that it can grow high single digits. We think PARAGARD has -- can grow mid-single digits and if we can get the base business to grow low single digits then we're going to be right in that range. But certainly, we've pulled forward some investment dollars into Q2 from the second half of the year to invest in marketing and promotion related to PARAGARD. It's been almost like a new launch. I mean, it's amazing to see, doctors didn't realize that this was being supported. Patients didn't know about it, they weren't hearing about it. So what we're seeing anecdotally, we only started this heavy advertising in January, but what we're seeing right away is a huge uptick in interest, in asking about PARAGARD, calling their doctor, going to our website. So when does that translate into revenue dollars? Well, we hope soon. But what we're planning on doing is, continuing this heavy investing in -- through Q2, putting it on pause, analyzing the metrics and the returns on it and seeing if that translates up to the revenue dollars. But if we can grow that business at a healthy pace and with the high gross margins is that it has, we'll -- it'll really contribute (inaudible).

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And you did release the fiscal first quarter results last week and you had better revenues and EPS, so good job on that. You also raised guidance for the full year. Can you maybe just talk about, how we should think about growth going forward? And I know you have some variation within the tax rate and that's creating some headwinds for growth. How should we just think about the ability to get back to double-digit EPS growth?

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

Yes, so that's a good question. I mean, certainly taxes, I got a lot of tax questions on the call last week. When we raised guidance, we raised our EPS guidance by $0.50. $0.40 of that was from tax, $0.03 was from interest expense improvements because of a belief that we're not going to see many more rate hikes. We have one factored in for the remainder of the year. And then $0.07 was from operational beat, and when you look at Q1, 3 of the $0.07 occurred in Q1 of the operational beat, we had some FX and would go into our favor, so become a bit more of a tailwind. That $0.08 of FX that is a benefit for us for the year was offset by some earnings loss from terminating our Filshie Clip U.S. distribution rights, and then tax was $0.31 for the quarter. So when we think about longer term and we've talked about double-digit EPS growth, it becomes somewhat dependent on FX and tax because if our tax rate is going from 7.7% to 11%, which 7.7% last year and 11% this year, and then we're going to be 14% next year, it becomes challenging to hurdle that 3-plus percent for next year without a little bit of help from FX. But what we are trying to tell people is, this is -- while this is an investment year, we still are committed to delivering low double-digit constant currency OI growth. So operating income and above, we've got a ton of control over -- we've got levers to pull, we're not going to be reactive around trying to manage the business on a quarterly basis. So maybe that's a slight departure from years past with Bob at -- as CEO, but what we do want to do is invest in the right way and take advantage of a market where we're seen as leaders in both sides of the business. So we're putting the investment dollars in advertising, promotion, distribution with an expectation that we can gain share by doing so.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And I'll ask this question specially since we're Barclay's and we're U.K. based. You guys probably are dealing with Brexit as well in terms of your manufacturing and distribution over in that region. So how are you thinking about the risk with Brexit? Are you guys ready and is there -- could there be any I guess disruptions from just an outlook perspective?

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

Well, that's a pretty difficult question to answer. I think everyone's -- you'd like to think that you've done as much as you can to prepare for something like this, but it's such an unknown, it's such a -- it's anyone guess how it's going to play out. But suffice to say, yes, we employ over 3,000 people in the U.K. alone and a considerable amount of volume comes from the U.K., from the manufacturing and revenue dollars come from there, but that being said, we've got manufacturing in Costa Rica, and Puerto Rico, U.K., Budapest, New York. And we've got distribution centers all around Europe, including Madrid and Budapest and (inaudible) as well as the U.K. So what we are doing right now is, some of the things that we believe we'll have to do, which is change our notified body or CE mark, some of our packaging, we've got well ahead of that and we're on pace to have all of that sort of squared away. We're managing our inventory levels by putting enough or a meaningful amount of inventory in all of our different locations inside and outside of the U.K. so that if there's disruption at the ports, we can mitigate some of that disruption. So I think we're as prepared as we can be and we've been planning for this for the -- for more than a year now, but it's anyone's guess how it's all going to play out.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

And then last couple of minutes. How should we just think about how you guys look at Cooper in terms of we're going to take the businesses over long term? How will M&A play into that in terms of shaping the profile of the company?

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

Well, as far as capital deployment goes, I mean, I think we're going to still continue to invest in the business because the returns on our capital expenditures are very short. Some of the investments we're putting in infrastructure are having a meaningful different -- or being -- a meaningful differentiator between ourselves and our competitors. But as far as M&A goes, I mean, we acquired PARAGARD that was a single SKU company, fits right into our sales force. We acquired Wallace from Smiths. That was the transfer catheter and a few other things. That fit right within our fertility space. So when we do these acquisitions, we did incisive in Q1, and that fit really well into our office and surgical space, single SKU. So they're pretty low impact but -- oh, very easy to integrate but higher impact in terms of our ability to just kind of push it through our channel. So we're going to continue look at the tuck-ins that add to our existing products suite and product solutions, so that we can continue to build a moat around fertility, continue to build and differentiate ourselves within specialty. I mean, when you look at our specialty franchise within CooperVision, that's a major differentiator and it's an important one because while we also -- while we have been talking about focusing on key accounts and that's important -- that's an important driver for growth, and also the fact that those are multiyear agreements, we also pay attention closely to our ECPs and our practitioners. And when we're investing in the different specialty lens businesses whether it's Blanchard, which acquired in Q1 or any of the previous ones, and ortho-k and scleral and myopia management, we're really viewed as kind of experts in -- on the lens -- contact lens sides of things. So we want to continue doing those strategic acquisitions, we've got $2 billion of debt that we're going to want to pay down, so there is a focus on paying down debt. And as we always have, we'll be opportunistic as it relates to buying back stock.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

All right. Final seconds as it counts down, what's the one message you want people to walk out of here with?

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

Well, we are in a -- we're at a point in our growth right now where both businesses are humming, and there is no end in insight to that. We've got the wind in our sails, we've got competitive advantages and we're excited about our business. We're excited to -- we can grow margins, we can grow the top line with a focus on growing the top line and we're excited. So yes.

Kristen Marie Stewart - *Barclays Bank PLC, Research Division - Research Analyst*

Perfect. All right. Thanks, everyone, for joining us. Thank you very much.

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

Thanks. Thank very much.
