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EDITED TRANSCRIPT

COO - Cooper Companies Inc at Robert W Baird Global Healthcare Conference

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PRESENTATION

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

From Cooper we're pleased to have Senior Vice President and Chief Strategic Officer Al White; and in the audience, I have VP of Investor Relations Kim Duncan. And just as a reminder, Al will be taking over as CFO of the Company also -- when is that? In November, I believe -- if it is -- in November.

So, Al, I'm going to turn it over to you if you have a couple minutes of any prepared remarks you want to make or anything you want to say from the beginning. And then we'll head right into Q&A. Thanks.

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

I'll just briefly say thank you, Jeff -- excited to be here and speak with everyone. We just released our third-quarter earnings last week, so hopefully people have had a chance to read that and get an update on the Company. Had a pretty strong quarter within our vision business and also within our Cooper surgical business. So, some pretty good momentum from both business units, and more and more positive hopefully. Coming in the future, we have the acquisition of Sauflon that we did a couple of years ago, and a lot of that integration behind us. We're going through some integration activity on our surgical side -- but I think some of those positives you are starting to see in terms of cash flow and some margin improvements and so forth.

Happy to jump into Q&A; it's probably better than rehashing the quarter.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

I've got a list of questions here. I'll work my way through the questions, but anytime any of you have a question please feel free to raise your hand. I think there's some way you can also email (inaudible) you can pass those off to my associate. He can figure that out and bring it up to me.

Let me start with just the market, Al. The overall contact lens market -- a little bit mixed maybe over the last couple of years as historically we think of it growing 4% to 6%, probably closer to 3% to 4% a year ago. Maybe it's improved a little bit. I think it looks like it's maybe back towards 5%. But what is your view of the market today from a growth rate standpoint? Are we fast within that 4%, just safely in that 4% to 6%? In the US, Europe, Asia-Pac, they all tend to grow the same in the last quarter or so, but anything you can point out like that?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

I think you're exactly right. We were kind of talking about 4% to 6% global market growth for contact lenses for a number of years, and what we were seeing was closer to 3%. It was kind of spinning around. And it was frustrating to see when you look at the conversion to single-use lenses in the Americas and when you look at geographic expansion, expansion of the wearer base and so forth. We continued to feel like, hey, the market should really be growing faster. So it was a little confusing and very perplexing, so to speak, in terms of why we didn't see it. But now we see several quarters in a row a trailing basis of 5% growth for the contact lens industry.

But I really do think we're back into that 4% to 6%. I think we have a good chance to see some quarters where we see 6% growth in the market, but certainly comfortable that that 4% to 6% is a fair way to look at the contact lens market.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

And when I think about that 5% number on a trailing basis -- trailing 12 months and last quarter, if I roll up for companies that make up 90% plus, I don't quite get the 5% over the entire market data in that. And when I look at CLI data -- and CLI data is the independent source we all use -- you guys publish at the end of your press releases -- that's the 5% number as well as companies (inaudible). I guess we just don't have all the information. But CLI also reports that growth in sales, not net sales. And we have seen some promotional activity which would be a net adjustment. We've seen some promotional activity kind of pick up from Alcon about a month ago (inaudible) rebate. You guys have been on rebate about (inaudible). Where we are in the cycle -- are we in a normal kind of promotional period right now? Because there's a lot of new platforms that have launched recently. Are you seeing anything that concerns you on the promotional side?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Let me make a quick comment first -- and that's on the market growth. You know, J&J, Alcon ourselves are going to release our global numbers and on a net basis, and we release them in constant currency. So we're pretty open and kind of transparent about what our numbers are. Depending on the company, we'll break it out by certain regions or release outside the US. Bausch is not -- Bausch kind of through Valeant talked about their US numbers and gives select information. So your model is probably no different than ours. We use some assumptions around what they're growing and then what of the smaller players are growing. So, a lot of times it is kind of hard to triangulate that to get to what that growth number is, and then between the net and the gross numbers can cause a little confusion.

But at the end of the day on a consistent basis you net that out and you are net mid-single digits. When you look at the rebate activity, I don't think there's anything too unique there. J&J has done some rebating here just recently, talking about some stuff; Alcon has done some stuff a little bit more aggressive. But I think at the end of the day one of the problems is that from the perspective -- from an investor perspective, people don't necessarily see that sales price from us to the distributor, us to the retailer. So you don't have visibility necessarily on rebates, discount programs and so forth. There's a lot more visibility on what you actually see from a patient perspective, especially new wares, as you know. Everybody wants new wares, so a lot of those rebate programs are associated with new wares coming in. And then you will get it broken down by market. Are we talking about the US market where because we're all here that gets more attention than certain markets around the world?

But when you net all that out and you look at some of the new product launches and the activity around rebates and so forth that are being offered to patients and getting new wares into your lenses, I don't think it's anything special or unique, really, from anything that we've seen. And I'm not sure if you looked at it on a look-through basis for everybody whether it would be that impactful.

I think you could see a little bit -- by the way, I'll just add one last comment in terms of what that does at times depending upon the rebate activity or whatever on some channel inventory, on some of the numbers. But on the actual true wearer habits and prescription habits, you don't see too much change.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible). Nothing you are seeing right now that tells you it's outside of the normal (inaudible) platforms (inaudible)?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

No. No, you are spot on. Some people talk a little bit about, oh, the size of the rebate or something. Well, keep in mind you're also talking about lenses a lot of times in this case -- daily silicone hydrogel lenses that are premium-priced lenses. They are much higher-priced lenses than other lenses or anything that we've seen historically. So, some of the size of that rebate is a little misleading to say, oh, look how big it is. Well, you would have to do it in context of the actual annual supply.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible). I want to say stay on competition for a second. So when I think about competition, obviously a lot of concern, a lot of questions on that over the last year or two. I think back to kind of 2010 through 2012, 2013 period, you guys really had Bausch & Lomb not doing a whole lot (inaudible); J&J wasn't doing a whole lot in the new product perspective. (inaudible).

Then we went through a period where Bausch launched a couple of products into their monthly and daily platforms. J&J obviously late last year, a big platform launch on the daily silicone size. That disrupted your numbers for a period of maybe a quarter or so. Then launched some monthly silicone (inaudible).

It feels like to me in platform for the next six to eight to 10 years are now there. The potentially disruptive platforms, anyway. From here, we're going to see -- or we just saw daily fill (inaudible). There's going to be product line extensions but not platform launches. Do you feel like we are through the worst at least the risk of a near-term disruption? A new platform comes out, everybody buys into that for a short while and your numbers suffer but then it comes back?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

That's an excellent point; I would agree with that. Yes, and I think that you're going to see some of that expansion -- be it DT1 multifocal. You also see it from us with Biofinity Energy. It's like a premium Biofinity lens or an Avaira Vitality where we refresh a product or we -- a Biofinity toric extended range, where we offer a greater range on some of our products.

So I think you are exactly right. I think you're going to see -- as the industry, you have seen a lot of new launches over the last three, four years, something like that in these new platform products. The way we make money as an industry is we come out; we launch new products; we ramp up manufacturing on those products; you are driving your cost per unit down. You get the product out there. You're selling that product. Your cash flow is coming in; your margins are strong. So this kind of a normal cycle that we've been through. Yes, J&J is probably the best example. They rolled out a daily silicone hydrogel at the end of last year, and that was their new product in the daily space.

Moist was, what, a 2006 or a 2005 launch. If you look at Oasys 2-Week, that had to have been a 2005 launch. So you are talking they had those in products in the market 10 or 11 years. So they launched their daily at the end of last year and they just launched Vita. Vita is certainly an argument to make; those products could be in the market for 10 years before they come out with a new one. And I would agree with that, kind of similarly Bausch is another one -- Ultra has been out a couple of years; it's their monthly lens. Biotrue is their daily lens. They're lacking a daily silicone. But, yes, those are the kind of products at Alcon and are probably a little bit more frequent in terms of some of our refreshments and so forth. But, yes, I would agree with there is some stability, if you will, there from that perspective.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible) Vitality product (inaudible) synergist, and basically (inaudible) something to basically (inaudible) customers (inaudible) product over the last five years, seven years, however long (inaudible) 5% or 10%. When we show the plant (inaudible) jump 30% higher price point (inaudible).

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Because a lot of that, frankly, is your manufacturing process. If I have a manufacturing line and I'm producing product, then I can produce product -- maybe I tweak it or I can change it or whatever it is -- but I'm using the same manufacturing platform that I have. That's a very advantageous move. If I'm making a more significant move as some of the products you're talking about, that can be a brand-new manufacturing platform. So now I'm ordering brand-new equipment. I'm not tweaking existing equipment; I'm ordering brand-new equipment, which, as you've seen in our numbers -- because we are open about it -- you don't necessarily see our competitors' CapEx numbers. But you can get cycles where CapEx can spike up pretty significantly.

So if you can avoid that, that is very advantageous. For someone like us right now where we are in our product lifecycle and we have heavily invested in the single-use silicone side here -- and some other products, but especially single-use products -- we're coming down on that side.

So, yes, companies look at that -- it is significantly a more positive and less risky move to say I'm going to offer products tweaking and expanding my portfolio range than it is to say I'm going to come out with a brand-new platform product.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Essentially.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

And so maybe you could segue (inaudible) single-use silicone (inaudible). We're talking about (inaudible).

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

That's right.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Really seems like (inaudible) growth margin (inaudible). So if you can tell (inaudible) Vitality, you're moving in the silicone way. (inaudible) 30% growth margin (inaudible). How much of that is 30% less a 50% (inaudible) scale? How do we think about the near-term and then maybe the (inaudible)?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Yes. Probably the easiest way to think about that is just in terms of cost per unit, to your point. Right? Just say, okay, we were manufacturing this product that was a high-cost product to manufacture due to silicone oil quality checks and so forth. So to be able to redo that and say, okay, I'm going to be able to remove some of that from a chemistry perspective and lower my cost per unit, at the end of the day whether it's improvement in manufacturing, chemistry, whatever it is, we kind of lump all that stuff together. You are saying, okay, my cost per unit has come way down on that product.

Now I'm also offering a better product, so I need to get that product out in the marketplace. I need to replace what's out there with this new product. That just takes time. You have to cycle people through -- they are coming back in, they are getting their new script, you are giving them the new product. You have some toric there; that takes a little bit of time.

So, what you're going to end up with is over a period of two, three years, something like that -- you are going to remove that product that's out there. You are going to try to minimize obviously any associated things like inventory write-offs and that kind of stuff. Right? So you are going to work that through the cycle, and you are going to move from that kind of 30% gross margin just over a multi-year period up to that 7% to 8%. It's kind of the easiest way to look at it. So that should provide kind of a nice underlying base improvement to gross margins for some product mix shift.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

That's right. You can't look at it as like, bam, okay, it's a big jump. Yes, it's a progression.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Mostly -- a lot of that is tooling -- a lot of it is upfront tooling, so there's some inefficiencies and some of that kind of stuff. And obviously the more successful the product is, as Fernando likes to say, volume is a good thing. The more successful the product is, the more volume you have and so forth. But to a great degree, that would be true.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Yes -- margins on that are north of 70% and they could creep higher.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then the last two product lines -- Clariti, you bought that kind of a subscale product at the time, but already that 50% gross margin (inaudible) daily silicone product (inaudible). Can you improve that gross margin to 60% here recently? What's the plan? I've heard there are plans to get that from 60% to 70%. But what are the steps to get that now from 60% to 70% (inaudible)?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Yes, a lot of that progression along that margin scale has been accomplished. So you are talking about how much volume you're producing on each individual line. And the team has done a phenomenal job there in terms of how much volume we're getting on individual lines right now. We've increased that substantially.

The negative of that has been that we have a lot of equipment there. And all of a sudden if you're going to increase your throughput on an individual line dramatically, you run into a situation where we are in right now where all of a sudden we have some excess equipment. So that's a plus/minus. We need to hurdle that excess equipment because you're depreciating those assets without any revenues associated with them.

As we continue to grow Clariti, we'll grow into those manufacturing lines. We will utilize those, and that's kind of a free, if you will, margin improvement. But we're dealing with some of that right now. So, yes, the underlying Clariti gross margins are definitely strong; there's no question about that.

The manufacturing is going really well. Guys have just killed it on that product. If we can continue to grow that, we'll grow into that equipment. You obviously won't see CapEx because we already have the equipment there. So that's a nice positive for us. Yes.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Yes, you are seeing some of that and some inventory write-offs. But, yes, you are exactly right. So as hopefully -- knock on wood -- business continues to go well and we continue to grow that, yes, some of that equipment gets put back into production and that disappears. So from a timing perspective, we'll see how that plays out. We'll certainly see some of that at least into the beginning of next year. Because that's what we would look at and say, if you are looking at kind of some inventory write-offs as we transition or some equipment, that's above and beyond what's normal. So we're not going saying, hey, we are going to take that stuff down to zero. This is like we run at a pretty normal rate anyways because we have a wide SKU range and a lot of manufacturing platforms. We're saying above and beyond normal is what we've been seeing here. So, yes, that will start to come off.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

You're right. The new edge design back in the marketplace is doing well. It's being received really well. So there's some good positive energy around Clariti right now. That clearly helped that lens and that design, if you will -- that enhanced design, if you will, is basically that's out in the marketplace right now; that's everywhere. It's doing well; it's been well received. We put up a 40% growth in our daily silicones this past quarter. And that was -- keep in mind we have a big European presence there, so a little softer than normal maybe in Europe for a quarter, and that actually would impact that number, too. Otherwise it would have been a little stronger.

But without going into kind of the chemistry or the very specifics around a lens design change, I would say, yes, that was accomplished. It was done. It's then moved into the market. It's been received very well, and things look certainly like they are on track for continued success.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

We're on pace there where we've been talking about in prior years. We're probably running 30% kind of gross margins on that. A lot of that is volume driven. You will remember that one of the reasons we liked the Sauflon acquisition was the modular manufacturing, low-cost line, easy to maneuver and so forth; where MyDay has a very expensive line and very high-volume line. So a lot of that is volume. We just need to drive more volume through there.

But I still think that there are some fundamental differences there when you look at just cost per unit and amount of depreciation allocated to that product. You're talking about that product moving from 30% up to, let's say, 50% gross margin, and then it levels off a little bit there. Hopefully we kind of keep moving it up, but not a dramatic way.

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Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible) in the next couple of years?

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Yes, that's exactly --

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

That's exactly right. Yes, we obviously need success. Volume is our friend there, so success in the marketplace is the key.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Well, you don't want to get too far ahead of yourself. One is currency; currency hurt us significantly for a few years. That has now swung in the opposite direction based on current rates. Obviously, we get a nice positive for us next year. So, currency is definitely, definitely a factor in there.

And then the other thing is that transition period that we kind of talk about when you look at something like the idle equipment, when you look at inventory write-offs -- the transition to some of these products and stuff. That causes trouble or static within your cost of goods.

But we're pretty excited about where we're at. Clearly, there's a lot of good, positive stuff going on and a lot of good, positive momentum there in the top line. There's a lot of positive momentum in terms of what's going on with the manufacturing perspective. So, feel good about all that stuff. I wouldn't guide yet to the future or whatever, but certainly feel positive about it, yes.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

You could feel it in a quarter, I think. From a full-year perspective, it takes a little bit longer. But, yes, we're trying to take advantage, if you will, of some of the success that we have that is going out in the business. We're adding salespeople. Yes, we are doing some of that kind of stuff. And obviously we strongly believe that adding salespeople in some underpenetrated geographies or cities and so forth is going to be a positive for us.

So, we're trying to take advantage of the position we're in by continuing to strength the infrastructure we have. I think the only thing that we really changed with respect to the 27% operating margin in 2020 was probably to add a plus to it and say 27%-plus. So without kind of tweaking long-range guidance too much to say, yes, to acknowledge that that certainly with we feel comfortable at 27+ and we'll up that update that. We have a tendency to kind of update that every year or every two years, something like that. So we'll address that again, but sorry to say.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

There was nothing to read into that other than probably four or five years ago, we gave pretty full guidance on the following year in September. And then every year we've given less and less and less, which I think is prudent. And then last year we talked about double-digit EPS guidance. Then know there was some confusion around pro forma versus as-reported.

When you look at currency moves, you look at -- you roll in competitive launches, you can roll in our product launches and so forth. They would have a little bit more visibility if you wait a few more months; it makes sense. Our objectives in terms of growing our business -- we've communicated them clearly for a long time. Our objective in terms of how we're growing our bottom line and so forth -- they all remain the same. We target the same kind of stuff. The same kind of core kind of EPS improvement targets or operating margin improvement targets and so forth.

But I do think that you are not going to see us do that going forward. I think it was the right move as we become a bigger, more mature Company to say, hey, we are not going to give guidance for the subsequent year until we start that year off.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

I think it's linked to market growth, so I do agree with that. I think that we've been in that 6% to 7% range here this year. That's kind of where we're guiding to, and the market has been in that 4% or 5% kind of range. I think that's fair. And it would not surprise me at all if you roll forward and the market continues to sit in that range. I'm optimistic it's going to be a little bit stronger than that. But if it's there it was not surprise me at all if we remain in that 6% to 7% kind of constant currency growth if the market is a little bit stronger. Again, there are some reasons I think it could be. Those drivers would also drive our business potentially a little bit higher. But I think it's probably fair to look at it in that 4% to 5%; 6% to 7% for us is certainly -- would be a comfortable kind of ranges. One and -- a little bit over whatever that amounts to -- 1.5, 1.4 times the market growth.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

That business is kind of split now almost 50-50. You have the IVF -- the IVF market has grown mid, upper single digits. And then our core OB/GYN medical device business is probably low mid-single digits. So you combine those two, you are looking at kind of a mid-single-digit grower right now.

The IVF market and our position within IVF could certainly pull that a little bit higher. We've been -- I think, each quarter this year we've grown kind of 6% to 6.5% on a pro forma basis or on an organic basis, if you will.

So it's won't surprise for me to continue to see that kind of growth out of that business pulled up by IVF. Now, one of the issues that we were working through there is that some of that growth is driven by our lab services side, which is genetic testing. A very exciting space -- links in really well with everything else we're doing in the IVF space. But as a general lab services business, that carries gross margins closer to the mid-, low 40s. So it's just a math exercise because everything else is stronger. So I think the gross margin we kind of had this quarter when you looked at around the 61 fully incorporates that. Now, I think there's some stuff we can do -- some synergies with these acquisitions and so forth -- that's going to help us trend that back up. So I think that's probably kind of the four there.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

(inaudible -- microphone inaccessible)

Al White - *The Cooper Companies, Inc. - EVP and Chief Strategy Officer*

Cash flow is going to be strong. Default position is paid on that; that's what we do by default. We can find strategic acquisitions that make sense. We'll obviously looking at doing those. We've done some in surgical. Buy back stock if it makes sense to buy back stock.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

All right. Well, we are out of time, so thank you. Please join me in thanking Al for a great overview here of Cooper Companies. Thank you.
