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PRESENTATION

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Hi, everyone. I'm Steve Lichtman, Medical Devices Analyst at Oppenheimer. Welcome back to the 33rd Annual Oppenheimer Healthcare Conference. I'm very happy to have with us up next CooperCompanies. So with us today is Brian Andrews, CFO, we're going to do this in a fireside chat format. If you do have any questions, please feed them into the chat box and I will make sure to get them over to Brian. But with that, Brian, thanks so much for joining us.

QUESTIONS AND ANSWERS

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

I thought we start really just on the CVI side of the business and your market outlook, as you look out over the next 5-plus years, what's Cooper's view on market growth and the key drivers that get you there?

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

Yes. First of all, pleasure to be here. Thank you for having me today, Steve. Yes, on the CooperVision market or the Vision market as a whole, I've been here for 17 years. And I'd say, and I would echo this, too, we're in the best position as a market than we've ever been in.

So many things, so many attributes driving industry growth. From the growth of wearers, to price being a help, the growth in torics and multifocals, the world becoming more myopic, and the number of people needing vision correction, continues to increase. And for us, myopia management, we've got a portfolio to treat myopia at a young age. So you put all these attributes together, and it's an industry that should grow mid- to upper single digits for the next 10-plus years.

Frankly, if you look at wearer growth being at a base level of, let's say, 2% to 3% growth, price over that, if you say 5 to 6 years, price being somewhere between 1% to 2% over the longer term, just wearers and price alone should be 4%. And then you add all those other attributes of premium products and torics and multifocals and growth in myopia management and so forth. You get to a market that should grow 5% to 6% sustainably and Cooper growing above market, both through our branded and store brand portfolio and the strength all of our modalities and extension products and unique product portfolio.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Speaking, nearer term, you mentioned in your most recent call incorporating some conservatism in the guidance for recession. So, in what way could economic pressure affect the lens market in your view? Is it slower units? Is it less of a mix shift up to premium products. In what way could it manifest itself, what are you assuming?

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

Well, first and foremost, I would say that we're not seeing any evidence of a change in consumer or changing behaviors. We're not seeing people buy more 1 month or 3-month or 6-month supply versus a year. We're not seeing people trade down or go to lower-priced products.

In fact, we're seeing the opposite. We're continuing to see consumers that are choosing premium products over other products and our MyDay franchise is doing incredibly well, as is our clariti, our mass market daily SiHy. And store brands are doing well alongside our own brand. So I wouldn't point to anything that we're seeing right now. January was strong, February was strong and March is starting off well for us.

Certainly in our guidance, we put up 10% growth, and we've got a year to go implying deceleration. And that, frankly, is a little bit of conservatism and prudence in the early part of the year, we had a quarter behind us and 3 more quarters to go. But if things continue as we're seeing them today, then we should be able to at least beat if not exceed our expectations, that we set for revenues.

I think on the longer term, if we see a pullback in the economy, you may see more people choosing let's say, clariti over MyDay, if they're a little bit more price sensitive. I wouldn't be surprised if we started talking about our store brands leading the way as key accounts are really focusing more on trying to drive stickiness within their own stores and repeat business with their own stores and improve their profitability.

I'd say store brands and our own brands are growing at around the same pace. But we've got a lot of ways to fit the consumer in higher gross margin products, Clariti being a higher gross margin than MyDay and Biofinity a higher gross margin. But I'd much rather see a market growing in the mid to upper single digits with us putting up upper single digit to low double-digit growth than seeing a pullback in the market.

But the market is going to continue to grow even in a recessionary environment, but it will probably slow down a little bit just based on some mix shifts that won't result in a strong top line growth. But so far so good. Nothing that we're seeing to indicate any slowdown.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

That's helpful. The industry has talked about some more flexibility, ability to increase prices in recent quarters. I think you took a price increase at the beginning of this calendar year, which is sooner than you normally do or lap the prior year as of July 1. So will that impact on comparables at all? I mean, as we sort of lap that were you looking at maybe being able to do this twice a year looking forward. How should we be thinking about the pace of price increases overall.

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

I think last year, we were too slow to raise prices and we probably didn't raise prices in retrospect to the magnitude that we should have last year. So we're getting a bigger lift from price this year versus last year. We're a bit more bullish on getting maybe above 2%. As an industry, we think we'll probably see something in the neighborhood of 2% to 3% from price this year, we as an industry, got 1% to 1.5% last year, on a true realized net basis, on a global basis. Oftentimes, people focus on the U.S. market, but there's other markets outside the U.S.

So, you're just not seeing price taking as much in other markets as maybe the U.S., but certainly, you're seeing it in Europe and to some extent, Asia Pac. But as we think about us and this year Cooper, we should get somewhere in the neighborhood of that 2% to 3% from price, and that's an improvement on last year. And it's embedded in our guidance, and I wouldn't think about any special uniqueness around gating or how it's going to impact quarters, we tend to have a fairly seasonal business and revenues get stronger in the back half of the year.

And so, I think our revenue gaining will reflect that. But I wouldn't really highlight anything. We'll always evaluate price increases. We don't have other price increases contemplated into our guidance for the back half of the year. But certainly, if we see opportunities where we evaluate and think that we've got some things that we want to go after, then that could provide some upside. But that's how we factored in price for the year.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Got it. You talked about your decision to maintain even expand SKUs and ranges, While some of your competitors have cut back actually. Maybe you could talk a bit about that decision? And do you see that they're benefiting you in the long run as you as you work with customers.

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

Yes. It's not surprising, especially in this environment, to see competitors cutting back their SKU ranges or their toric ranges. It's incredibly difficult to produce torics and to go out to the outer edges the bell curve. It's not just from a manufacturing perspective but also from a packaging and distribution perspective. When we're talking about trying to drive, we're trying to meet demand and try to improve profitability, and you're optimizing your existing manufacturer. I mean, it's easy to rationalize your portfolio to maximize profits.

We have continued for decades now to lean into torics and multifocals and made-to-order and customer bands and store brands and so forth. So our SKU ranges continue to get expanded. We can fit 99% of wearers that walk into an eye care practitioners office with Biofinity. We have toric multifocals and we've got Energys in Biofinity and MyDay now. But even our toric ranges for our daily SiHy portfolio between clariti and MyDay are best-in-class. So, we're going to continue to really lean into that, both on the manufacturing side, but also the packaging and distribution side because it's a big differentiator. It's really kind of white space. It's open territory.

We don't have a lot of competition for that. It's hard to do and we keep getting better at it. So, it's something that's part of the fabric of Cooper. And I wouldn't say that that's going to change. If anything, it's going to continue. We'll continue to iterate and invest in it, and that's across all competencies.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. I wanted to shift to a few questions on myopia management. I guess, first, what's your near medium-term outlook from MiSight in the U.S. as you're continuing to roll this out, what do you see as the next key steps to drive perhaps faster growth on MiSight in the U.S.

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

Well, I would say the story in the U.S. is not too different from outside the U.S. It's a new marketplace. It's helping to drive growth in the rest of our product portfolio.

You're seeing a halo effect when we see fitters fitting MiSight in their practices, they're fitting more Cooper lenses. It's providing 1 point and a half of growth this year. And I would say, for the next several years, it should drive at least 1 point of growth year after year. I think what we're not seeing is the hockey stick that we were originally hoping to see. But it's still a very consistent solid grower right now, both inside the U.S. and outside the U.S., MiSight grew 50% in the recent quarter.

So growing from $93 million for the myopia management portfolio to $125 million at the midpoint of where we set expectations is good growth, and I would expect that, that's going to continue as we look forward. But we're certainly trying new things. We're innovating behind the scenes. We will be launching new products. We will be launching expanded ranges of SKUs for MiSight, including torics. We will have the silicone hydrogel MiSight at some point, and that will offer us an ability to even bifurcate the market, where you've got a mass market and a better price point and a premium product.

So for all of the years of experience we have in developing MiSight, and even just our experience around SightGlass, it helps to drive more and more innovation behind the scenes, we're learning a lot in all of the markets we're in, about pricing and fitting and driving adoption, which are then marrying up with other markets, including in key accounts. And so we're transferring those learnings and continuing to iterate. And I would expect that myopia management while it won't be something that inflects higher with a big hockey stick, I do think it's going to be a consistent solid grower for years and years to come.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And you actually had my second question relative to the halo effect, which is obviously a separate and parallel driver of the actual MiSight revenue. Maybe shifting to SightGlass then. Can you sort of update us on performance of that JV outside of the U.S. How that's tracking overall then I want to ask about the U.S.

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

Yes. As many people know, SightGlass is a joint venture with Essilor. We're collaborating to grow the category. They're best-in-class when it comes to the eyeglasses, spectacles, and we are a leader in innovation and thought leader in practice in myopia management. So you put us 2 together and we could be successful together growing the category.

Now we're launching in several markets outside the U.S. with SightGlass. But as a reminder, this joint venture and half of the impact from the sale of the product and the investments tied to this product show up below the line. So this activity is baked into our guidance.

Launches are happening and they're going well, but it's pretty early days. But I can't really comment beyond that too much because it's a 50-50 JV with Essilor and I'm not really at liberty to say much more. But relationship is great. It keeps getting stronger with those guys, and we've got top-to-top conversations and text messages happening between Al and Paul and Francesco and looking for ways to really be mutually successful in growing the myopia management market.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Can you give further color though on the U.S. regulatory process? I know you guys touched on it on the last call. But I guess I would have thought that maybe the 3-year data would have been enough, what could you hear back from the agency in terms of what they'd like to see to sort of give them further comfort to push this over the line?

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

Yes. It was disappointing to us. I know we were pretty bullish going into December, thinking that we were going to get an approval. And unfortunately, the 3-year data just didn't meet the requirements for approval from the FDA. We had really strong year 1 data, but year 2 data, which represented activity in COVID lagged year 1. So we saw good results, followed by not so great results, especially in a segment of the age population that we're in the clinicals, the older kids, and then we saw a bounce back of efficacy in year 3. And so the results gave us confidence that we would get approval because it's not sitting on your eye, it's sitting on your nose and we're getting good results out of the youngest of ages and still results out of the older kids, just maybe not quite at the level that they were looking for. And unfortunately, that optimism didn't turn into an approval.

So at the end of the day, we're still optimistic that the product works, and we're continuing our clinicals. We'll have 4-year data that comes out this summer. We'll go through that data. Hopefully, that's a continued trend on the year 3 data that's up into the right. And then we'll resubmit that to the FDA and see how that goes. But certainly, the conversations are ongoing. It's not a hard no, and we're trying to figure out what do they need to see and what do we need to do to prove out that this is a viable and efficacious product that needs to be in the market because we'd love to see SightGlass in the U.S. market, but whether it's SightGlass or any spectacle for that matter, an Essilor or Stellest spectacle in the U.S. market.

The more that we can drive fittings at a very young age into a form of myopia management, put glasses on a 5-, 6-, 7-year old, and their compliance isn't there, and therefore, it's not as efficacious, but they're getting some good results. You're starting that conversation earlier with the parents. You're talking about trying to reduce the progression of myopia and you're eventually graduating them or putting them into contact lenses, whether that's in part with glasses or just solely contact lenses, you just want to drive adoption into a form of myopia management treatment as early as possible.

So SightGlass, like I said earlier, it's being launched around the world. You're seeing some spectacles around the world. We'll hopefully get an approval eventually in the U.S., but overall, we're continuing our clinicals and see where that goes.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Should we expect to see something from you guys when the data has been analyzed or not sort of set that expectation that we'll get a release in terms of headline data.

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

I wouldn't set that expectation. I think we'll have to go through the data and see what it says, we'll have a strategy and a discussion around how we want to present this and go to the FDA. Not sure when the Street will see it or when we'll share it publicly. But we first have to get the data and figure out what we're going to do with it next.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Shifting to the CSI of your business, which, of course, has become a bigger part of the pie have made acquisitions here, Cook pending. Maybe dialing it back at the beginning as we did with Vision. Can you lay out the rest of your view on market growth as you look out over the next 5 years and the drivers of that side of the business?

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

Yes. Well, I mean, we've really turned that business around over the course of the last several years from being kind of a low growth business to now more of a consistent mid-single-digit grower. We've been putting up stronger numbers than that obviously in recent quarters. But over the longer term, there's no reason why it shouldn't be consistently a mid-single-digit grower. The strongest part of that business by far is the fertility business. It might be the strongest market that we are in. We're a dominant player in that market, especially outside of pharma, from fertility equipment, consumables, genetic testing around IVF embryos. And that market should grow mid- to upper single digits for the for the next 10-plus years, maybe longer, and we should be able to put above market growth.

So we put up 9 consecutive quarters of double-digit growth in fertility and expect that this year we'll continue to drive really, really strong growth out of fertility and that's becoming a bigger part of the equation. Certainly, the other parts of our business, PARAGARD is a low to mid-single-digit grower. We've put more caution on that one. We used to talk about that being more of a mid-single-digit grower. But we just haven't seen staffing get back to pre-pandemic. We haven't seen fittings.

Unit growth is kind of flattish around LARCs, long-acting reversible contraceptives and IUDs in particular. So really, what we have factored into this year is kind of just growth from price. But I do think that potentially we could see us taking price more regularly than we have been in the past, maybe once a year. So that will help drive at least low to mid-single-digit growth. And hopefully, we can get some unit growth here at some point. Then you've got the stem cell business in that same trajectory. And then within our office and surgical space, you've got some products that are putting up some really good growth numbers, but also in the low to mid-single-digit space.

So you put it all together and you're in that mid-single-digit grower. And we're obviously trying some things with Chrissy Tiegan around stem cell. That's a much more of a direct-to-consumer type of business. But happy with how we're performing there and certainly see opportunities to drive sustainable growth in that business.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Certainly, I'm not going to ask about Cook specifically in terms of close. I know last call you can't comment, I guess. But excluding Cook or currently, do you still feel like you've got the scale even in a worst-case scenario with the current business? Or maybe another way of saying where are still the general holes that you see in the portfolio either product-wise or geographically?

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

Well, yes, Cook is disappointing, but we're working through that and we've got until August to try to go through and work through whatever avenues we can to try to get something close. And if it doesn't, we'll walk away and we have a $45 million breakage fee that we'll have to pay out. But during this time being, we're still continuing to invest in fertility. We're continuing to invest in geographic expansion. There's a lot of opportunities for us to grow in new markets and expand in existing markets.

So we're putting infrastructure in place to be able to support that growth. The GLS acquisition, Generate, 1/3 of that business is coming from donor egg and sperm, and that's just a nascent market. And it's such a huge opportunity for us. Demand is way exceeding supply. And that's in the U.S. And outside the U.S. we've got a big, big opportunity to really leverage our expertise in the U.S. and help our key accounts in the big IVF clinics to grow that part of their business. So I'm excited about fertility. I wouldn't say that we have any gaps in our fertility portfolio at all. We've got a phenomenal portfolio.

What's exciting about both businesses, and I'm going to go back a little bit to Vision and talk about Surgical here. But what's exciting right now is where we've been acquiring businesses over the last several years, I'd say that our strategy now is really shifting much more towards internal investments, whether it's CapEx on the Vision side or fertility and geographic expansion, those types of initiatives to drive organic growth.

We've got such opportunities to drive above-market growth just with the low-risk, high-return internal investments that we're really going to be shifting more of our attention towards that type of activity than anything sort of inorganic. You might see a small tuck-in here and there. But I would say, by and large, it's internal investments and then paying down some debt.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And that actually dovetails into a question that just came through that I know, Brian, it's a good question. I know you've been asked before, but the question is with strong independent growth stories with CBI and CSI. Do you think businesses need to be together in long term. So maybe talk a little bit about where the synergy is your 2 businesses?

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

Well, we really, really like the markets we're in. We've got a dominant position in fertility. We've got a lot of opportunities to really drive above-market growth. We haven't really gone after general G&A cost containment efforts. We haven't really gone after shared services.

They've been really operating as separate unique businesses, but there's a lot of opportunity that we're starting to go after around those types of shared services to improve. When I get the question around how are you going to start to get operating margins back and how are you going to start to drive operating margin expansion? Some of that is going to come from just leveraging the infrastructure we've put in and growing into our skin but some of it's going to come from some of those initiatives, we don't need separate HR people in all these places and different legal people and finance teams.

And let's start leveraging these systems we've been putting in place and a lot of the back office and a lot of the things that we're doing, how do we optimize that, how do we make that more efficient. So when you look at both businesses, CooperSurgical is not a very capital-intensive business. Healthy gross margins, operating margins absolutely can be in line with Vision. And together, we can continue to drive operating margin expansion.

Almost yearly, we'll do a sum of the parts analysis. And we'll take a look at is there value creation if we were to split the businesses. But to this point, that hasn't existed. But if there is a big dislocation, and we don't think we're getting the appropriate value, then we've got to evaluate and kick those tires. But for now, we're excited about it. We see good opportunities to leverage both sides and we're going after growth and leverage.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

I want to ask a bit about, maybe group them together, a few sort of noncore fundamental things that impact the P&L, of course, and your sort of latest views and maybe try to mitigate some of the impact, particularly on the FX side. But with all the variability we're seeing, how are you feeling overall in terms of the ability beyond operating to drive bottom line with tax rate policy changing worldwide interest rates going higher and FX. So it's just the lay of the land of the nonoperating part of the P&L?

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

Yes. If I start with tax, I feel pretty good about where we are and what we've been doing. And you can't make predictions on where things are going, but we can see the obvious, which is more and more restrictions and tax rates going higher, but on the whole, you've seen our tax rate trend higher and now we've revised our guidance around tax for this year to be around $14.5 million. That's a step up from last year of 12.8%. So I would say that as we look forward, it's probably those types of slight incremental increases from year-to-year, our underlying effective tax rate is closer to probably 15.5% and you've got discretes and other things that are driving it lower. But where we generate our profits, we'll dictate sort of how that trends.

But we've got a pathway towards maintaining that and putting a limit to the upside of where that will go as long as we continue to execute on some strategic initiatives that we're going after. On the FX side, FX has been brutal for as long as I can remember. Certainly, when we had the question on the earnings call about 2019 operating margins to 2023. 1.5 points is just from FX.

This year, we're still dealing with a 2.5% headwind to revenues versus last year. And when I gave the 1% tailwind to EPS. We'll get that tailwind, and that's due in part because of reversing the headwind that we experienced below operating income, just normal FX gains and losses that now are reversing course this year and helping to offset the detriment from FX to operating income, is helping us to get to at least a slightly neutral, slightly positive tailwind to EPS.

So if we can start to see at least FX stay even, then that would be great. And if they actually improve, it can start to become fairly material depending on how much FX moves in our favor. Interest expense, we've been climbing higher. We gave an interest expense estimate for this year of $110 million. We've baked in three [25 basis point rate] (corrected by company after the call) increases starting this month. Hopefully, that starts to abate, we've got $1 billion fixed at a roughly 80 basis points. We pay a point over or so for right now. So you've got $1 billion hedged and then the other piece of it that's floating is that $1.6 billion and we're chipping away at that. We're going to keep using our free cash flow to pay down debt. And hopefully, we see a little bit of an abatement here and we're not talking about interest expense climbing higher relative to how we've guided. But that's how we factored it into this year.

Steven Michael Lichtman - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. Well, this is really helpful color. Unfortunately, we ran out of time. But Brian, thanks so much for joining us today, and thanks, everyone, for dialing in. And I hope you have a great rest of the week. Thanks so much.

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

Thanks, Steve. Thanks, everyone.
