

The Cooper Companies (COO)

\$296.68 (As of 04/06/20)

Price Target (6-12 Months): **\$312.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/06/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

The Cooper Companies saw solid gains from its core CVI unit, which performed impressively in the United States and the EMEA. Apart from these, management is optimistic about the Clarity, MyDay and Biofinity suite of products and the portfolio of daily silicone hydrogel lenses, which make the company one of the leaders in the soft contact lens market. A raised view for fiscal 2020 earnings buoys optimism. The revenue guidance has also been retained. The stock has outperformed the industry in a year's time. However, the company exited the fiscal first quarter on a dull note. The contraction in margins raises concern. Moreover, the company's non-single-use sphere sales were soft, while CVI revenues declined in the APAC. The coronavirus outbreak and foreign exchange woes are expected to reflect on the stock's performance.

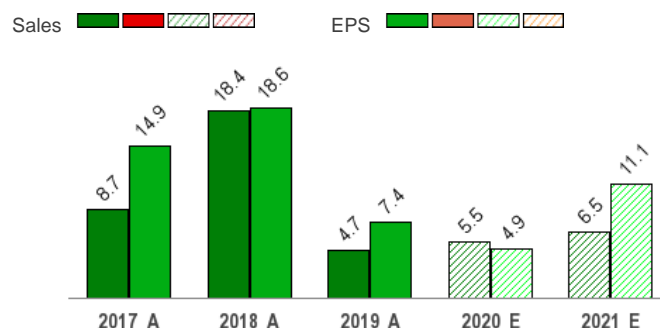
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$365.68 - \$236.68
20 Day Average Volume (sh)	444,559
Market Cap	\$15.8 B
YTD Price Change	-7.7%
Beta	1.00
Dividend / Div Yld	\$0.06 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 14% (36 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.7%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	24.4
P/E F1	22.9
PEG F1	2.1
P/S TTM	5.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	695 E	733 E	773 E	786 E	2,981 E
2020	646 A	683 E	728 E	741 E	2,798 E
2019	628 A	654 A	679 A	692 A	2,653 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.10 E	\$3.45 E	\$3.82 E	\$3.97 E	\$14.39 E
2020	\$2.69 A	\$3.08 E	\$3.52 E	\$3.69 E	\$12.95 E
2019	\$2.88 A	\$2.94 A	\$3.23 A	\$3.30 A	\$12.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/06/2020. The reports text is as of 04/07/2020.

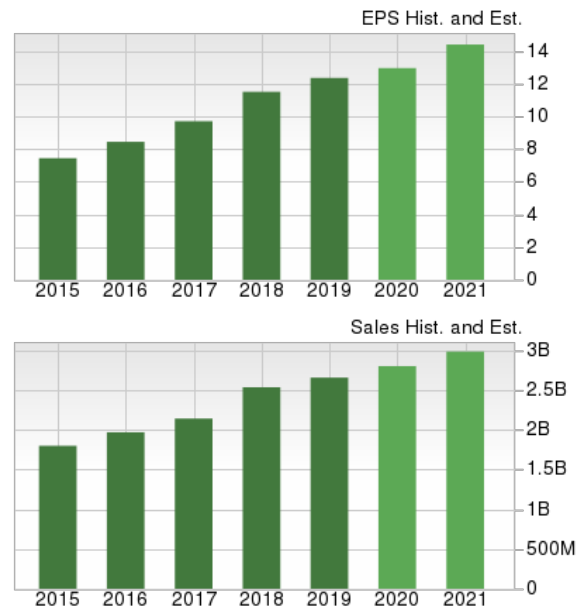
Overview

The Cooper Companies Inc (COO), based in Pleasanton, CA, is a specialty medical device company operating on a global basis. Cooper has two business segments- CooperVision (CVI) and CooperSurgical (CSI).

CooperVision manufactures and sells a wide range of contact lenses. CooperVision develops manufactures and markets a broad range of single-use, two-week and monthly contact lenses, featuring advanced materials and optics. The company's products are primarily designed for solving vision challenges like astigmatism, presbyopia and ocular dryness.

This segment has gained from recent progress in optics and lens material to create proprietary lenses that can treat different kinds of visual defects. It specializes not only in toric lenses that correct astigmatism, but also cosmetic lenses that help reset the appearance of the color of the eye, multifocal lenses that correct presbyopia, and other types of lenses such as those managing ocular dryness. Its principal products include disposable toric lenses, planned replacement toric lenses, and spherical lenses.

CooperSurgical sells a variety of medical devices and surgical instruments that are primarily utilized by gynecologists and obstetricians. This strategic business unit has pursued a strategy of consolidation by acquiring critical treatment niches in a fragmented market.



FY19 At a Glance

For fiscal 2019, Cooper's revenues totaled \$2.65 billion.

Revenues at CVI totaled \$1.97 billion (74.4% of net sales), while that at CSI grossed \$680.5 million (25.6%).



Reasons To Buy:

- ▲ **Shares Up:** In the past year, shares of Cooper Companies have gained 2.2% against the industry's decline of 16.5%. Strong prospects in the soft contact lenses industry and solid focus on inorganic expansion favor the stock. An impressive view for adjusted earnings per share (EPS) also buoys optimism in the stock.
- ▲ **View Impressive:** For fiscal 2020, Cooper Companies projects adjusted EPS within \$12.80-\$13.20. This compares to the previously communicated range of \$12.60-\$13.00. The upside reflects lower interest expense and tax rate.

The Cooper Companies is poised to gain from an expanding product portfolio and increasing penetration in International markets. Accretive acquisition is also a key catalyst in the long haul.

Also, the company has retained its revenue guidance despite a drop in its fiscal first-quarter top line. Notably, revenues are projected within \$2,767-\$2,817 million, suggesting 5-7% growth at cc.

- ▲ **Prospects in CVI – Portfolio of Specialty Lenses:** Cooper Companies maintained its leading position in the markets of specialty lenses, supported by highly exclusive products of Biofinity and Clariti. In fact, the company's flagship silicone hydrogel lenses are also expected to deliver strong sales for in the coming quarters. The company's MyDay lenses are already available in Europe and has gained significant traction within a short span of time. Clariti lenses also holds significant growth prospects for the company.

The CooperVision segment's revenues totaled \$485.2 million, up 3% on a constant currency (cc) and 4% on a reported basis in the fiscal first quarter. Per management, the segment saw a substantial uptick in revenues from Single-use sphere lenses (28% of CVI), reflecting growth of 5% at cc on accelerating growth in both Clariti and MyDay. Single-use sphere lenses revenues totaled \$138.1 million.

Earlier, CooperVision acquired Blanchard contact lenses, thereby strengthening its specialty segment. Further, CooperVision announced the nationwide availability of expanded parameters for its Avaira Vitality toric two-week contact lenses in the recent past. Last month, the company announced the FDA approval of its MiSight 1-day contact lens, indicated to slow the progression of myopia when initially prescribed for children aged 8-12 years.

For fiscal 2020, CVI revenues are expected between \$2,070 million and \$2,100 million, suggesting growth of 5.5-7% at cc.

- ▲ **Robust CSI Product Portfolio:** The Cooper Companies is well positioned to benefit from the expanding CSI product portfolio. In an initiative to bolster its CSI portfolio, CooperSurgical acquired Incisive Surgical which sells unique absorbable skin staple — INSORB. The company recently announced that it has signed an asset-purchase agreement to acquire the flagship contraception platform of Israel-based Teva Pharmaceutical Industries (TEVA) — PARAGARD Intrauterine Device. For fiscal 2020, the company expects mid-single digit growth from the PARAGARD acquisition.

Notably, in the fiscal first quarter, CSI revenues totaled \$161 million, up 2% at cc and year over year. Per management, growth was led by strength in EndoSee, the company's second-generation handheld office hysteroscope and surgical retractor.

For fiscal 2020, CSI revenues are estimated in the range of \$697-\$717 million, indicating growth of 3-6% at cc.

- ▲ **Inorganic Expansion:** Cooper Companies is progressing well through inorganic expansion. Further, the market seems to be upbeat about two major investments made by the company in January. Notably, CooperSurgical acquired Incisive Surgical which sells unique absorbable skin staple — INSORB. Around that time, CooperVision acquired Blanchard contact lenses, thereby strengthening its specialty segment. Both of these acquisitions are expected to fuel growth for Cooper Companies.

Recently, the company acquired the assets of The LifeGlobal Group and its affiliates, a leading global provider of in-vitro fertilization (IVF) devices. Per management, the acquisition perfectly fits into the company's fertility solutions portfolio.

The acquisitions of Genesis and Recombine have expanded the company's presence in the women healthcare market, in our view. Notably, both the partnerships have exclusively strengthened Cooper Companies' IVF genetic testing platform as the deal supports the company's leading IVF products. The earlier takeover of Sauflon significantly expanded the company's product portfolio. Sauflon's material formulation and manufacturing expertise is expected to drive down cost per unit, which will eventually benefit margins. Given the success of its previous acquisitions, we believe the company will continue to pursue strategic acquisitions, which will expand its product line and market share over the long term.

- ▲ **Focus on Generic Testing:** Cooper Companies recently decided to increase focus on core genomics offerings such as PGS and PGD and move away from carrier screening and NIPT owing to significant pricing pressure. Notably, PGS and PGD are key parts of the IVF process within the United States and also gaining recognition, globally. They also fit well within the company's best-in-class fertility solutions portfolio.

Reasons To Sell:

▼ **Global Headwinds:** In the fiscal first quarter, Cooper Companies saw softer CVI revenues from the APAC. Notably, revenues declined 1% at cc and 1% year over year to \$108.8 million owing to capacity constraints in Biofinity, MyDay and Avaira Vitality lenses.

Moreover, the coronavirus pandemic is likely to weigh on the company's fiscal second-quarter results. Management is already seeing modest impact on Cooper Companies' global sales and apprehends a \$15-million loss in revenues in the quarter. However, management expects to make up for the loss incurred in the second half of fiscal 2020.

▼ **Margins Dented:** In the fiscal first quarter, Cooper Companies' gross margin was 66% of net revenues, down 60 basis points (bps) year over year. Meanwhile, adjusted operating margin was 25%, down 100 bps from the prior-year quarter. Per management, headwinds in Costa Rica weighed on the company's quarterly margins.

▼ **Immense Volatility in Distributor Base:** The Cooper Companies continues to face immense volatility in its distributor base, which has impacted the company's top-line growth. Due to an insufficient distribution network in the United States, the company faced softness with Sauflon products.

▼ **Cutthroat Competition in Contact Lens Industry:** The Cooper Companies operates in a highly competitive contact lens industry. Both the business segments face considerable competition from peers. CooperVision's primary competitors in the spherical, toric and multifocal lens categories are Johnson & Johnson Vision Care, CIBA Vision owned by Novartis AG, and Bausch & Lomb owned by Valeant Pharmaceuticals. CooperSurgical also faces competition from Johnson & Johnson's Ethicon Endo-Surgery, Boston Scientific, Gyrus ACMI and Covidien. We believe that intensifying competition will continue to increase pricing pressure.

▼ **Foreign Currency Fluctuation:** The company generates a significant part of its revenues in foreign currencies. Fluctuations in foreign exchange rates may significantly mar the company's overseas revenues. Notably, in the fiscal first quarter, foreign exchange impacted revenues by \$2.8 million, dragging the metric down on a year-over-year basis.

For fiscal 2020, revenues are expected to be impacted by \$11 million.

A highly competitive medical device industry and foreign exchange vulnerability prevail as major headwinds.

Last Earnings Report

Cooper Companies Misses on Q1 Earnings, Margins Contract

Cooper Companies reported first-quarter fiscal 2020 adjusted EPS of \$2.69, which lagged the Zacks Consensus Estimate of \$2.71. The bottom line deteriorated 6.6% on a year-over-year basis.

Revenues of the company came in at \$646.2 million, beating the Zacks Consensus Estimate by 0.3%. Also, on a year-over-year basis, the top line improved 2.9%.

Quarter Ending 01/2020

Report Date	Mar 05, 2020
Sales Surprise	-0.26%
EPS Surprise	-0.74%
Quarterly EPS	2.69
Annual EPS (TTM)	12.16

Q1 Segment Details

CooperVision (CVI)

This segment's revenues totaled \$485.2 million, up 3% at cc and 4% on a reported basis.

Per management, the segment saw a substantial uptick in revenues from Single-use sphere lenses (28% of CVI), reflecting growth of 5% at cc on accelerating growth in both Clariti and MyDay. Single-use sphere lenses revenues totaled \$138.1 million.

Toric (32% of CVI) revenues totaled \$155.1 million, up 7% at cc.

Multifocal (11% of CVI) generated revenues of \$51.8 million, up 6% at cc.

Non single-use sphere (29% of CVI) revenues came in at \$140.2 million, down 1% at cc and 2% from the year-ago quarter.

Geographically, the segment witnessed an improvement in revenues in the Americas (39% of CVI), up 8% at cc and 8% year over year to \$189.4 million.

EMEA revenues (39% of CVI) totaled \$187 million, up 3% at cc and 1% from the prior-year quarter.

Asia Pacific sales (22% of CVI) declined 1% at cc and 1% year over year to \$108.8 million.

CooperSurgical (CSI)

This segment posted revenues of \$161 million, up 2% at cc and also year over year.

Sub-segment Office and Surgical products (61% of CSI) accounted for \$98.5 million revenues, up 3% at cc and on a year-over-year basis.

Fertility (39% of CSI) revenues were \$62.5 million, flat year over year and up 1% at cc.

Margin Analysis

In the fiscal first quarter, gross profit was \$426.5 million, up 1.9% year over year. Gross margin was 66% of net revenues, down 60 bps year over year.

On an adjusted basis, gross margin was 67%, flat year over year.

Operating income in the quarter totaled \$111.1 million, up 0.2% year over year. Adjusted operating margin was 25%, down 100 bps from the prior-year quarter.

FY20 View

For fiscal 2020, Cooper Companies continues to expect revenues within \$2,767-\$2,817 million, suggesting 5-7% growth at cc.

CVI revenues are expected between \$2,070 million and \$2,100 million (5.5-7% at cc).

CSI revenues are estimated in the range of \$697-\$717 million (3-6% at cc).

Adjusted EPS is projected within \$12.80-\$13.20. This compares to the previously communicated range of \$12.60-\$13.00.

Valuation

Cooper's shares are down 7.7% and 2.3% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 19.8% while in the Zacks Medical sector are down 16.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 26.1% and sector is down 16.5%, respectively.

The S&P 500 index is down 22.7% in the year-to-date period and 11.6% in the past year.

The stock is currently trading at 21.9X Forward 12-months earnings, which compares to 14.3X for the Zacks sub-industry, 18X for the Zacks sector and 15.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.4X and as low as 15.1X, with a 5-year median of 20.8X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$312 price target reflects 22.9X forward 12-months earnings.

The table below shows summary valuation data for COO.

Valuation Multiples - COO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.87	14.30	18.01	15.73
	5-Year High	27.40	19.08	21.10	19.34
	5-Year Low	15.11	13.70	15.81	15.18
	5-Year Median	20.75	16.54	18.63	17.44
P/S F12M	Current	5.50	0.28	2.33	2.72
	5-Year High	6.22	0.36	3.84	3.43
	5-Year Low	3.08	0.23	2.26	2.54
	5-Year Median	4.50	0.28	2.96	3.00
P/B TTM	Current	4.24	3.53	3.21	3.35
	5-Year High	5.10	4.72	5.05	4.55
	5-Year Low	2.20	2.53	2.90	2.85
	5-Year Median	3.57	3.45	4.30	3.64

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 253)



Top Peers

Bausch Health Cos Inc. (BHC)	Neutral
Boston Scientific Corporation (BSX)	Neutral
National Vision Holdings, Inc. (EYE)	Neutral
Hologic, Inc. (HOLX)	Neutral
Johnson & Johnson (JNJ)	Neutral
Medtronic PLC (MDT)	Neutral
Novartis AG (NVS)	Neutral
STAAR Surgical Company (STAA)	Neutral

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	COO Neutral	X Industry	S&P 500	BSX Neutral	JNJ Neutral	NVS Neutral
VGM Score	C	-	-	D	C	C
Market Cap	15.82 B	1.47 B	18.06 B	45.91 B	368.46 B	196.48 B
# of Analysts	10	5	13	11	9	5
Dividend Yield	0.02%	0.00%	2.34%	0.00%	2.72%	2.34%
Value Score	C	-	-	D	C	C
Cash/Price	0.01	0.09	0.06	0.00	0.05	0.06
EV/EBITDA	20.55	11.97	11.15	23.85	15.24	13.29
PEG Ratio	2.13	1.79	1.87	2.14	2.52	1.77
Price/Book (P/B)	4.24	3.60	2.46	3.30	6.18	3.54
Price/Cash Flow (P/CF)	16.37	11.48	9.59	13.68	12.13	10.98
P/E (F1)	22.91	19.47	15.66	21.36	15.87	15.02
Price/Sales (P/S)	5.92	1.69	1.92	4.28	4.49	4.14
Earnings Yield	4.36%	4.63%	6.30%	4.68%	6.30%	6.66%
Debt/Equity	0.33	0.32	0.70	0.62	0.45	0.40
Cash Flow (\$/share)	18.13	1.35	7.01	2.40	11.52	7.80
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	13.58%	8.88%	10.92%	14.77%	9.27%	0.76%
Proj. EPS Growth (F1/F0)	4.88%	9.07%	0.33%	-2.59%	1.47%	8.89%
Curr. Cash Flow Growth	6.09%	4.59%	5.93%	12.08%	3.68%	4.27%
Hist. Cash Flow Growth (3-5 yrs)	12.65%	12.37%	8.55%	10.33%	7.62%	7.11%
Current Ratio	1.08	1.62	1.24	0.97	1.26	1.04
Debt/Capital	24.85%	27.42%	42.36%	38.24%	30.82%	28.42%
Net Margin	16.99%	3.00%	11.64%	43.78%	22.18%	24.73%
Return on Equity	16.74%	15.19%	16.74%	21.15%	39.27%	23.39%
Sales/Assets	0.42	1.07	0.54	0.41	0.53	0.39
Proj. Sales Growth (F1/F0)	5.47%	1.95%	1.00%	4.73%	1.20%	5.64%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	6.08%	4.83%	7.93%	5.49%	4.17%	2.50%
1 Week Price Chg	2.36%	-1.82%	-4.40%	1.83%	8.94%	5.50%
4 Week Price Chg	-6.56%	-6.56%	-6.89%	-3.55%	2.43%	5.24%
12 Week Price Chg	-11.05%	-11.46%	-24.81%	-27.69%	-4.08%	-8.52%
52 Week Price Chg	2.29%	-17.28%	-17.63%	-13.81%	2.66%	-9.69%
20 Day Average Volume	444,559	511,356	4,147,873	15,128,299	16,602,090	3,456,483
(F1) EPS Est 1 week change	0.15%	0.00%	0.00%	-2.03%	-1.45%	-0.59%
(F1) EPS Est 4 week change	0.15%	0.00%	-4.97%	-12.69%	-2.46%	-0.59%
(F1) EPS Est 12 week change	1.47%	-6.29%	-6.79%	-14.19%	-2.99%	0.63%
(Q1) EPS Est Mthly Chg	-0.26%	-1.21%	-7.32%	-27.27%	-15.48%	-2.08%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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