

The Cooper Companies (COO)

\$299.98 (As of 06/23/20)

Price Target (6-12 Months): **\$255.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 06/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Cooper Companies witnessed sluggish performance across core CVI and CSI units. Also, the contraction in margins raises concern. Non single-use sphere sales were soft, and CVI revenues declined in the Americas, EMEA and APAC. Cooper Companies exited the fiscal first quarter on a weak note. Nonetheless, management remains 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. Moreover, with respect to MiSight, the quarter witnessed 52% growth resulting in revenues of \$1.4 million. The company has experienced a significant increase in interest from optometrists as they look for value added ways to increase patient flow as their practices reopen. The stock has outperformed the industry in a year's time.

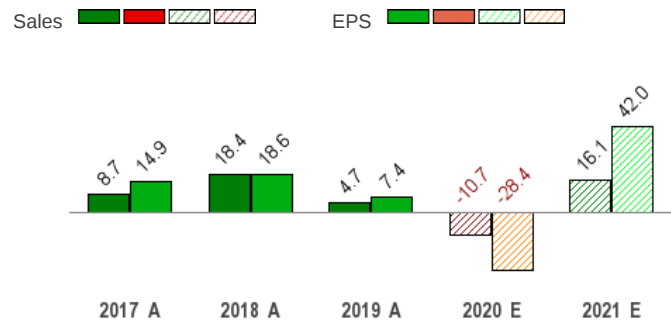
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$365.68 - \$236.68
20 Day Average Volume (sh)	407,998
Market Cap	\$16.0 B
YTD Price Change	-6.6%
Beta	0.92
Dividend / Div Yld	\$0.06 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Bottom 26% (188 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-29.1%
Last Sales Surprise	-10.0%
EPS F1 Est- 4 week change	-22.6%
Expected Report Date	09/03/2020
Earnings ESP	0.0%
P/E TTM	28.0
P/E F1	33.9
PEG F1	3.2
P/S TTM	6.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	681 E	678 E	704 E	736 E	2,750 E
2020	646 A	525 A	534 E	664 E	2,369 E
2019	628 A	654 A	679 A	692 A	2,653 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.03 E	\$3.08 E	\$3.37 E	\$3.68 E	\$12.55 E
2020	\$2.69 A	\$1.51 A	\$1.56 E	\$2.87 E	\$8.84 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 06/23/2020. The reports text is as of 06/24/2020.

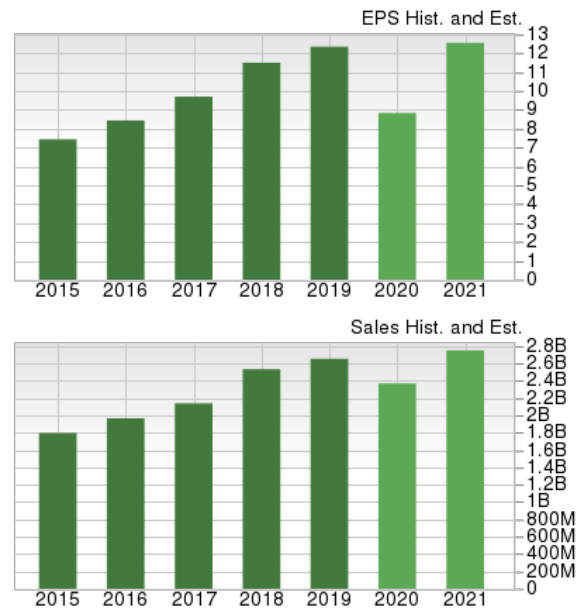
Overview

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 Sell:

▼ **Global Headwinds:** In the fiscal second quarter, Cooper Companies witnessed decline in revenues at both CVI and CSI segments. At CSI, revenues totaled \$402.2 million, down 15% at constant currency (cc) and 17% on a reported basis. While at CSI, revenues of \$122.7 million were down 27% at cc and 28% on a year-over-year basis. Moreover, the company saw softer CVI revenues across EMEA, Americas and APAC. Geographically, the segment witnessed a deterioration in revenues in the Americas (38% of CVI), down 22% at cc and 23% year over year to \$149.6 million. EMEA revenues (38% of CVI) totaled \$154.1 million, down 11% at cc and 15% from the prior-year quarter. Asia Pacific sales (24% of CVI) declined 10% at cc and 10% year over year to \$98.5 million.

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

Moreover, the coronavirus pandemic is likely to weigh on the company's fiscal third-quarter results. Management anticipates sales at CVI to be down in the range of 15-20% in fiscal third quarter. For CSI, revenues are estimated to fall between 30% and 35%.

▼ **Margins Dented:** In the fiscal second quarter, Cooper Companies' gross margin was 61.6% of net revenues, down 450 basis points (bps) year over year. Meanwhile, operating margin was 5.4%, down 1710 bps from the prior-year quarter.

▼ **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. Per the fiscal first-quarter earnings call, revenues are expected to be impacted by \$11 million in fiscal 2020.

▼ **Weak Liquidity Position:** Cooper Companies exited fiscal second-quarter 2020 with cash of \$80 million, up from \$77 million sequentially. Meanwhile, the company's long-term debt for the fiscal first quarter was \$1.35 billion, up from \$1.23 billion sequentially. Further, the current debt for the quarter under review amounted to \$555 million, up from \$543 million sequentially. So, we can see that both the long-term debt level and current debt level are significantly higher than the company's short-term cash level, which is not particularly good when it comes to company's solvency position as at least during the year of economic downturn, the company is not holding sufficient cash for debt repayment.

The quarter's total debt-to-capital of 34.4% stands at a moderately high level and has increased on a sequential basis. The overall data concludes that the company's solvency level is not very encouraging.

Risks

- **Shares Up:** In the past year, shares of Cooper Companies have lost 9.1% compared with the industry's decline of 13%. Strong prospects in the soft contact lenses industry and solid focus on inorganic expansion favor the stock.
- **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. Per the fiscal second-quarter earnings call, the company expects to recoup some of its lost sales in the quarters ahead.

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.

Speaking of MiSight, the quarter witnessed 52% growth resulting in revenues worth \$1.4 million. The company has experienced a significant increase in interest from optometrists as they look for value added ways to increase patient flow as their practices reopen.

Although the segment displayed weak performance in the fiscal second quarter, the company is optimistic regarding the unveiling of its two new products. The company's Biofinity toric multifocal is now available in the United States and is being rolled out across the remaining parts of the world. Additionally, the company's extended toric range for Clariti has been released giving it the widest parameter range available in the market today for daily silicone torics. Moreover, the company has made substantial progress on MyDay manufacturing, and is now able to supply product to markets where they were earlier pulled back from.

- **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.

Despite the weakness displayed in the fiscal second quarter, CooperSurgical remained committed toward making products in many other areas of the business, including continuing to develop and transferring of IVF production into the company's global manufacturing facility in Costa Rica. Moreover, the company has shown strength in completion of numerous sales and marketing virtual training sessions that have been incredibly popular. It has also been making meaningful advancements with product development and R&D. More importantly, the company's manufacturing and distribution teams kept the products available and shipping when several competitors were found struggling, thereby providing it the opportunity for future share gains.

- **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 Saflon significantly expanded the company's product portfolio. Saflon'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.

Last Earnings Report

Cooper Companies Misses on Q2 Earnings and Revenues

The Cooper Companies, Inc. reported second-quarter fiscal 2020 adjusted earnings per share of \$1.51, which lagged the Zacks Consensus Estimate of \$2.13 by 29.1%. The bottom line also deteriorated 48.6% on a year-over-year basis.

Revenues of the company came in at \$524.9 million, missing the Zacks Consensus Estimate by 10%. Also, on a year-over-year basis, the top line declined 19.8%.

Quarter Ending **04/2020**

Report Date	Jun 04, 2020
Sales Surprise	-10.02%
EPS Surprise	-29.11%
Quarterly EPS	1.51
Annual EPS (TTM)	10.73

Q2 Segment Details

CooperVision (CVI)

This segment's revenues totaled \$402.2 million, down 15% at constant currency (cc) and 17% on a reported basis.

Per management, the segment saw a noticeable decline in revenues from Single-use sphere lenses (29% of CVI), reflecting a decrease of 13% at cc. Single-use sphere lenses revenues totaled \$116.1 million.

Toric (33% of CVI) revenues totaled \$133.6 million, down 13% at cc.

Multifocal (11% of CVI) generated revenues of \$45.1 million, down 7% at cc.

Non single-use sphere (27% of CVI) revenues came in at \$107.4 million, down 24% at cc and 25% from the year-ago quarter.

Geographically, the segment witnessed a deterioration in revenues in the Americas (38% of CVI), down 22% at cc and 23% year over year to \$149.6 million.

EMEA revenues (38% of CVI) totaled \$154.1 million, down 11% at cc and 15% from the prior-year quarter.

Asia Pacific sales (24% of CVI) declined 10% at cc and 10% year over year to \$98.5 million.

CooperSurgical (CSI)

This segment posted revenues of \$122.7 million, down 27% at cc and 28% on a year-over-year basis.

Sub-segment Office and Surgical products (57% of CSI) accounted for \$69.6 million revenues, down 34% at cc and on a year-over-year basis. Fertility (43% of CSI) revenues were \$53.1 million, down 17% year over year and 15% at cc.

Margin Analysis

In the fiscal second quarter, gross profit was \$323.5 million, down 25.2% year over year. Gross margin was 61.6% of net revenues, down 450 basis points (bps) year over year.

Operating income in the quarter totaled \$28.6 million, which plunged 80.5% year over year. Operating margin was 5.4%, down 1710 bps from the prior-year quarter.

Fiscal 2020 Guidance

Given uncertainty surrounding the COVID-19 pandemic and its impact on near-term financial results, the company is no longer issuing fiscal 2020 outlook.

Valuation

Cooper's shares are down 6.6% and 9.1% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are down 2.2% and 1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 13% and 0.5%, respectively.

The S&P 500 index is down 3.1% in the year-to-date period while up 7% in the past year.

The stock is currently trading at 26.7X Forward 12-months earnings, which compares to 18.7X for the Zacks sub-industry, 22.9X for the Zacks sector and 22.4X 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 20.7X.

Our Underperform recommendation indicates that the stock will perform below the market. Our \$255 price target reflects 22.7X 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	26.68	18.66	22.89	22.37
	5-Year High	27.40	19.10	23.14	22.37
	5-Year Low	15.11	13.70	15.93	15.23
	5-Year Median	20.73	16.56	19.03	17.49
P/S F12M	Current	6.12	0.34	2.79	3.49
	5-Year High	6.33	0.36	3.74	3.49
	5-Year Low	3.08	0.23	2.21	2.53
	5-Year Median	4.61	0.28	2.91	3.02
P/B TTM	Current	4.41	4.35	4.29	4.29
	5-Year High	5.10	4.70	5.06	5.06
	5-Year Low	2.20	2.53	2.93	2.93
	5-Year Median	3.64	3.45	4.28	4.28

As of 06/23/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Bausch Health Cos Inc. (BHC)	Neutral	3
Boston Scientific Corporation (BSX)	Neutral	3
National Vision Holdings, Inc. (EYE)	Neutral	3
Hologic, Inc. (HOLX)	Neutral	2
JohnsonJohnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
Novartis AG (NVS)	Neutral	3
STAAR Surgical Company (STAA)	Neutral	3

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	COO	X Industry	S&P 500	BSX	JNJ	NVS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	D	-	-	F	B	B
Market Cap	16.00 B	2.06 B	21.86 B	50.73 B	376.38 B	207.04 B
# of Analysts	9	5	14	11	9	5
Dividend Yield	0.02%	0.00%	1.92%	0.00%	2.83%	2.22%
Value Score	C	-	-	D	B	B
Cash/Price	0.01	0.07	0.07	0.01	0.05	0.02
EV/EBITDA	20.90	13.14	12.65	26.22	15.56	14.61
PEG Ratio	3.16	3.55	2.90	3.78	3.12	1.99
Price/Book (P/B)	4.41	4.24	2.99	3.67	6.14	4.06
Price/Cash Flow (P/CF)	16.55	14.55	11.61	15.08	12.40	11.45
P/E (F1)	33.93	32.49	21.08	40.36	18.61	16.02
Price/Sales (P/S)	6.29	2.17	2.25	4.70	4.55	4.26
Earnings Yield	2.95%	2.37%	4.42%	2.48%	5.38%	6.25%
Debt/Equity	0.37	0.31	0.77	0.68	0.41	0.50
Cash Flow (\$/share)	18.13	1.35	7.01	2.40	11.52	7.90
Growth Score	C	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	12.40%	10.40%	10.84%	13.88%	9.40%	1.77%
Proj. EPS Growth (F1/F0)	-28.41%	-13.85%	-10.80%	-43.15%	-11.57%	7.75%
Curr. Cash Flow Growth	6.09%	3.15%	5.46%	12.08%	3.68%	4.27%
Hist. Cash Flow Growth (3-5 yrs)	12.65%	12.23%	8.55%	10.33%	7.62%	7.11%
Current Ratio	1.14	1.60	1.29	1.21	1.31	0.74
Debt/Capital	27.05%	27.05%	45.14%	40.33%	29.29%	33.33%
Net Margin	13.50%	2.12%	10.53%	39.75%	24.47%	24.97%
Return on Equity	14.67%	14.85%	16.06%	18.24%	39.71%	24.39%
Sales/Assets	0.40	1.07	0.55	0.39	0.53	0.41
Proj. Sales Growth (F1/F0)	-10.71%	0.00%	-2.66%	-11.12%	-2.59%	4.76%
Momentum Score	F	-	-	D	B	D
Daily Price Chg	1.18%	0.00%	0.04%	0.78%	-0.37%	-0.18%
1 Week Price Chg	3.72%	1.74%	0.92%	3.51%	1.18%	8.00%
4 Week Price Chg	0.70%	1.67%	2.71%	0.17%	-1.18%	6.36%
12 Week Price Chg	8.82%	14.15%	19.78%	11.09%	8.95%	9.72%
52 Week Price Chg	-9.09%	-4.19%	-6.05%	-13.11%	-0.96%	-2.07%
20 Day Average Volume	407,998	444,564	2,819,961	10,610,382	7,758,647	2,036,027
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.18%
(F1) EPS Est 4 week change	-22.57%	-0.05%	0.00%	-0.90%	0.00%	0.18%
(F1) EPS Est 12 week change	-31.74%	-31.74%	-12.72%	-44.90%	-15.00%	-1.64%
(Q1) EPS Est Mthly Chg	-44.10%	0.00%	0.00%	-2.04%	0.00%	-0.70%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	F
VGM Score	D

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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