

COOPER COMPANIES INC
Form 10-Q
March 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended January 31, 2018
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number 1-8597

The Cooper Companies, Inc.
(Exact name of registrant as specified in its charter)

Delaware 94-2657368
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
6140 Stoneridge Mall Road, Suite 590, Pleasanton, CA 94588
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (925) 460-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

Indicate the number of shares outstanding of each of issuer's classes of common stock, as of the latest practicable date.
Common Stock, \$.10 par value 49,022,319
Class Outstanding at January 31, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of (Loss) Income

Three Months Ended January 31,

(In millions, except for earnings per share)

(Unaudited)

	2018	2017
Net sales	\$590.0	\$499.1
Cost of sales	219.1	186.7
Gross profit	370.9	312.4
Selling, general and administrative expense	225.9	188.6
Research and development expense	18.8	16.3
Amortization of intangibles	36.0	16.8
Operating income	90.2	90.7
Interest expense	18.4	7.3
Other (income) expense, net	(3.0)	3.3
Income before income taxes	74.8	80.1
Provision for income taxes	197.3	4.3
Net (loss) income attributable to Cooper stockholders	\$(122.5)	\$75.8
(Loss) earnings per share attributable to Cooper stockholders - basic	\$(2.50)	\$1.55
(Loss) earnings per share attributable to Cooper stockholders - diluted	\$(2.50)	\$1.53
Number of shares used to compute (loss) earnings per share:		
Basic	48.9	48.8
Diluted	48.9	49.4

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income
Three Months Ended January 31,

(In millions)
(Unaudited)

	2018	2017
Net (loss) income	\$(122.5)	\$75.8
Other comprehensive income:		
Foreign currency translation adjustment	102.3	28.2
Comprehensive (loss) income attributable to Cooper stockholders	\$(20.2)	\$104.0

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Balance Sheets
(In millions, unaudited)

	January 31, 2018	October 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 91.7	\$ 88.8
Trade accounts receivable, net of allowance for doubtful accounts of \$11.8 at January 31, 2018 and \$10.8 at October 31, 2017	413.8	316.6
Inventories	506.3	454.1
Prepaid expense and other current assets	163.7	93.7
Total current assets	1,175.5	953.2
Property, plant and equipment, at cost	1,846.8	1,757.5
Less: accumulated depreciation and amortization	894.8	847.4
	952.0	910.1
Goodwill	2,454.4	2,354.8
Other intangibles, net	1,587.8	504.7
Deferred tax assets	22.5	60.3
Other assets	76.4	75.6
	\$ 6,268.6	\$ 4,858.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 29.6	\$ 23.4
Accounts payable	107.9	142.1
Employee compensation and benefits	74.2	84.1
Other current liabilities	204.0	146.5
Total current liabilities	415.7	396.1
Long-term debt	2,372.9	1,149.3
Deferred tax liabilities	40.8	38.8
Long-term tax payable	176.4	—
Accrued pension liability and other	106.4	98.7
Total liabilities	3,112.2	1,682.9
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 10 cents par value, shares authorized: 1.0; zero shares issued or outstanding	—	—
Common stock, 10 cents par value, shares authorized: 120.0; issued 52.6 at January 31, 2018 and 52.4 at October 31, 2017	5.3	5.2
Additional paid-in capital	1,528.8	1,526.7
Accumulated other comprehensive loss	(273.0)	(375.3)
Retained earnings	2,310.3	2,434.2
Treasury stock at cost: 3.6 shares at January 31, 2018 and 3.6 shares at October 31, 2017	(415.1)	(415.1)
Noncontrolling interests	0.1	0.1
Stockholders' equity	3,156.4	3,175.8
	\$ 6,268.6	\$ 4,858.7

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows
 Three Months Ended January 31,
 (In millions)
 (Unaudited)

	2018	2017
Cash flows from operating activities:		
Net (loss) income	\$(122.5)	\$75.8
Depreciation and amortization	66.6	47.8
Decrease in operating capital	(177.0)	(30.3)
Increase in long-term tax payable	176.4	—
Other non-cash items	82.7	15.1
Net cash provided by operating activities	26.2	108.4
Cash flows from investing activities:		
Purchases of property, plant and equipment	(51.4)	(28.7)
Acquisitions of assets and businesses, net of cash acquired, and other	(1,193.2)	(173.4)
Net cash used in investing activities	(1,244.6)	(202.1)
Cash flows from financing activities:		
Proceeds from long-term debt	1,672.8	266.1
Repayments of long-term debt	(445.8)	(169.1)
Net proceeds (repayments) from short-term debt	4.8	(5.9)
Net payments related to share-based compensation awards	(10.5)	(8.1)
Debt acquisition costs	(3.9)	—
Proceeds from construction allowance	—	0.5
Net cash provided by financing activities	1,217.4	83.5
Effect of exchange rate changes on cash and cash equivalents	3.9	0.5
Net increase (decrease) in cash and cash equivalents	2.9	(9.7)
Cash and cash equivalents - beginning of period	88.8	100.8
Cash and cash equivalents - end of period	\$91.7	\$91.1

See accompanying notes.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 1. General

The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of the Cooper Companies, Inc and its subsidiaries (the Company) and related notes as contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2017. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented. Readers should not assume that the results reported here either indicate or guarantee future performance.

Accounting Pronouncements Issued Not Yet Adopted

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU requires an entity to disaggregate the service cost component from the other components of net benefit cost. The service cost component is presented in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period and the other components of net benefit costs are presented separately as other income/expense below income from operations. ASU 2017-07 is effective for the Company in our fiscal 2019 and is not expected to have a significant impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 provides guidance on the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Company in fiscal 2019 and is not expected to have a significant impact on the Company's Consolidated Statements of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences on an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU changes the timing of the recognition of the income tax consequences of non-inventory transfers which under current guidance defers the income tax consequences until the asset is sold to an outside party or otherwise recognized. The guidance for the amendments of ASU 2016-16 requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. We are currently evaluating the impact of ASU 2016-16 which is effective for the Company in our fiscal year and interim periods beginning on November 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating the impact of ASU 2016-02, which is effective for the Company in our fiscal year and interim periods beginning on November 1, 2019.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the

consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

We have been monitoring the activity of the FASB and the Transition Resource Group as it relates to specific industry interpretive guidance and further overall interpretations and clarifications. In fiscal year 2017, we began our plan on adoption of ASU 2014-09. Our plan entails activities such as reviewing significant revenue streams (and related costs) and representative contracts to determine the potential changes to existing accounting policies, completion of an accounting guidance gap analysis, and identifying and addressing the impact that ASU 2014-09 will have on business processes, systems and internal controls to support the recognition and disclosure requirements. We are currently in the process of completing our accounting gap analysis.

We are currently evaluating the full impact of ASU 2014-09 and related amendments on our consolidated financial statements and related disclosures. Currently, we have not identified any material expected changes due to the adoption of ASU 2014-09 on the Company's consolidated financial statements, and are in the process of quantifying the impact. We plan to adopt ASU 2014-09, in our fiscal year and interim periods beginning on November 1, 2018 and we currently expect to apply the modified retrospective transition method. This would result in an adjustment to retained earnings for the cumulative effect, if any, of applying the ASU 2014-09 to contracts in process as of the adoption date. Under this method, the Company would not restate the prior consolidated financial statements presented. However, the Company would include additional disclosures of the amount by which each financial statement line item is affected in the current reporting period during our fiscal year 2019, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes, if any.

Accounting Pronouncements Recently Adopted

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. Under current guidance, an entity subsequently measures inventory at the lower of cost or market, with market defined as replacement cost, net realizable value (NRV), or NRV less a normal profit margin. An entity uses current replacement cost provided that it is not above NRV (i.e., the ceiling) or below NRV less an approximately normal profit margin (i.e., the floor). ASU 2015-11 eliminates this analysis and requires entities to measure inventory "at the lower of cost and NRV." ASU 2015-11 is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. The Company adopted this guidance on November 1, 2017, and it did not have a material impact on the Company's reported financial results.

Note 2. Acquisitions

The following is a summary of the allocation of the total purchase consideration for acquisitions that the Company completed during fiscal 2018 and 2017:

	January	October
(In millions)	31,	31,
	2018	2017
Technology	—	71.7
Customer Relationships	18.5	43.1
Trademarks	24.0	7.1
Composite Intangible Asset	1,061.9	—
Other	4.2	—
Total identifiable intangible assets	1,108.6	121.9
Goodwill	36.2	123.1
Net tangible assets (liabilities)	50.0	(4.8)
Total purchase price	1,194.8	240.2

All the acquisitions were paid in cash and funded by our debt borrowings. We recorded the tangible and intangible assets acquired and liabilities assumed at their estimated and relative fair values as of the applicable date of acquisition.

We believe these acquisitions strengthen CooperSurgical's and CooperVision's businesses through the addition of new or complementary products and services.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Fiscal Year 2018

PARAGARD

On November 1, 2017, CooperSurgical acquired the assets of the PARAGARD Intrauterine Device (IUD) business (PARAGARD) from Teva Pharmaceuticals Industries Limited (Teva) for \$1.1 billion.

This acquisition broadens and strengthens CooperSurgical's current product portfolio. PARAGARD® is the only hormone-free, long lasting, reversible contraceptive approved by the United States Food and Drug Administration (FDA) available in the United States.

The Company has accounted for the acquisition of PARAGARD as a purchase of assets in accordance with FASB Accounting Standards Codification (ASC) Topic 805, Business Combinations, and ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, whereby the Company recognized assets acquired based on their estimated fair values on the acquisition date. Due to the required screening test, the acquisition does not meet the definition of a business as substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset. The Company retained independent appraisers to advise management in the determination of the relative fair value of the various assets acquired and liabilities assumed. The values assigned in these financial statements represent management's best estimate of relative fair values as of the acquisition date.

The following table summarizes the relative fair values of net assets acquired and liabilities assumed using the cost accumulation and allocation model:

(In millions)	Relative Fair Value
Composite Intangible asset ⁽¹⁾	1,061.9
Assembled workforce Intangible asset ⁽²⁾	1.2
Property, plant and equipment	2.0
Inventory ⁽³⁾	47.3
Other assets	9.4
Total Assets acquired	1,121.8
Less: Liabilities assumed	16.4
Total Purchase Price	1,105.4

The Company proportionally allocated the acquisition costs to the net assets acquired. The acquisition-related costs included advisory, legal, valuation and other professional fees.

⁽¹⁾ Composite Intangible asset consists of technology, trade name, New Drug Application (NDA) approval and physician relationships, which have been valued as a single composite intangible asset as they are inextricably linked. The composite asset was identified as the primary asset acquired, was valued using the Multi-Period Excess Earnings Method and will be amortized over 15 years.

⁽²⁾ An assembled workforce was recognized as a separate acquired intangible asset, given the purchase of assets and will be amortized over 5 years.

⁽³⁾ Inventory relative fair value includes step up of \$45.4 million.

As PARAGARD was considered an asset purchase as opposed to a business acquisition in accordance with the guidance under FASB ASC 805, Business Combinations, and ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, the company has not included proforma financial statements which are applicable for a business acquisition.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Other Acquisitions

On December 1, 2017, CooperVision acquired Paragon Vision Sciences, a leading provider of orthokeratology (ortho-k) specialty contact lenses and oxygen permeable rigid contact lens materials. Ortho-k contact lenses are overnight lenses which enable corneal topography correction for myopia (nearsightedness) patients. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

On January 4, 2018, CooperVision acquired Blueeyes, a long-standing distribution partner, with a leading position in the distribution of contact lenses to the Optical and Pharmacy sector in Israel. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

The pro forma results of operations of these acquisitions have not been presented because the effects of the business combinations described above, individually and in the aggregate, were not material to our consolidated results of operations.

Fiscal Year 2017

On August 3, 2017, CooperVision completed the acquisition of Procornea Holding B.V. (Procornea). Procornea is a Netherlands based manufacturer and distributor of specialty contact lenses, mainly orthokeratology (ortho-k) which expands CooperVision's access to myopia (nearsightedness) management markets with new products. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

On June 30, 2017, CooperVision completed the acquisition of Grand Vista LLC, a long-standing distribution partner in Russia. Grand Vista LLC is engaged in contact lens and contact lens solutions and lens care product distribution business in Russia. The purchase price allocation is preliminary and we are in the process of finalizing information related to assets, liabilities and the corresponding impact on goodwill.

On November 4, 2016, CooperSurgical completed the acquisition of Wallace, the in vitro fertilization (IVF) segment of Smiths Medical International, Ltd., a division of Smiths Group plc. Wallace manufactures a range of IVF and ob/gyn products. We have completed the purchase price allocation for this acquisition.

Note 3. Inventories

(In millions)	January 31, October 31,	
	2018	2017
Raw materials	\$ 114.2	\$ 107.0
Work-in-process	15.6	13.3
Finished goods	376.5	333.8
	\$ 506.3	\$ 454.1

Inventories are stated at the lower of cost and net realizable value. Cost is computed using standard cost that approximates actual cost, on a first-in, first-out basis.

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Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 4. Intangible Assets

Goodwill

(In millions)

	CooperVision	CooperSurgical	Total
Balance at October 31, 2016	\$ 1,646.4	\$ 518.3	\$2,164.7
Net additions during the year ended October 31, 2017	28.6	94.4	123.0
Translation	60.7	6.4	67.1
Balance at October 31, 2017	1,735.7	619.1	2,354.8
Net additions during the three months ended January 31, 2018	36.4	—	36.4
Translation	55.2	8.0	63.2
Balance at January 31, 2018	\$ 1,827.3	\$ 627.1	\$2,454.4

We performed our annual impairment assessment in our third quarter of fiscal 2017 and 2016, and our analysis indicated that we had no impairment of goodwill. We evaluate goodwill for impairment annually during the fiscal third quarter and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. We account for goodwill and evaluate our goodwill balances and test them for impairment in accordance with related accounting standards.

Other Intangible Assets

(In millions)	January 31, 2018		October 31, 2017		Weighted Average Amortization Period (In years)
	Gross Carrying Amount	Accumulated Amortization & Translation	Gross Carrying Amount	Accumulated Amortization & Translation	
Trademarks	\$69.4	\$ 11.5	\$44.5	\$ 10.3	13
Composite intangible asset	1,061.9	17.7	—	—	15
Technology	432.1	182.7	428.8	173.2	11
Customer relationships	362.5	153.5	335.5	145.3	13
License and distribution rights and other	76.3	49.0	69.2	44.5	9
	2,002.2	\$ 414.4	878.0	\$ 373.3	14
Less: accumulated amortization and translation	414.4		373.3		
Other intangible assets, net	\$1,587.8		\$504.7		

We estimate that amortization expense for our existing other intangible assets at January 31, 2018, will be \$144.8 million in fiscal 2018, \$142.6 million in fiscal 2019, \$132.3 million in fiscal 2020, \$130.8 million in fiscal 2021 and \$128.8 million in fiscal 2022.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Note 5. Debt

(In millions)	January 31, 2018	October 31, 2017
Short-term:		
Overdraft and other credit facilities	\$ 29.6	\$ 23.4
	\$ 29.6	\$ 23.4
Long term:		
Credit Agreement	\$ 125.0	\$ 323.0
Term loans	2,255.0	830.0
Other	0.2	0.2
Less: unamortized debt issuance cost	(7.3)	(3.9)
	\$ 2,372.9	\$ 1,149.3

\$1.425 billion Term Loan on November 1, 2017 (2017 Term Loan Agreement)

On November 1, 2017, in connection with the PARAGARD acquisition, we entered into a new five-year, \$1.425 billion, senior unsecured term loan agreement by and among the Company, the lenders party thereto and DNB Bank ASA, New York Branch, as administrative agent (2017 Term Loan Agreement) which matures on November 1, 2022. The Company used part of the facility to fund the PARAGARD acquisition and used the remainder of the funds to partially repay outstanding borrowings under our revolving credit agreement.

Amounts outstanding under the 2017 Term Loan Agreement will bear interest, at our option, at either the base rate, or the adjusted LIBO rate (each as defined in the 2017 Term Loan Agreement), plus, in each case, an applicable rate of, between 0.00% and 0.75% in respect of base rate loans and between 1.00% and 1.75% in respect of adjusted LIBO rate loans, in each case in accordance with a pricing grid tied to the Total Leverage Ratio as defined in the 2017 Term Loan Agreement.

The 2017 Term Loan Agreement contains customary restrictive covenants, as well as financial covenants that require the Company to maintain a certain Total Leverage Ratio and Interest Coverage Ratio, each as defined in the 2017 Term Loan Agreement, consistent with the 2016 Credit Agreement discussed below.

Revolving Credit and Term Loan Agreement on March 1, 2016 (2016 Credit Agreement)

On March 1, 2016, we entered into a new Revolving Credit and Term Loan Agreement (2016 Credit Agreement), among the Company, CooperVision International Holding Company, LP, the lenders party thereto and KeyBank National Association, as administrative agent. The 2016 Credit Agreement provides for a multicurrency revolving credit facility in an aggregate principal amount of \$1.0 billion and a term loan facility in an aggregate principal amount of \$830.0 million, each of which, unless terminated earlier, mature on March 1, 2021. In addition, we have the ability from time to time to request an increase to the size of the revolving credit facility or establish one or more new term loans under the term loan facility in an aggregate amount up to \$750.0 million, subject to the discretionary participation of the lenders.

Amounts outstanding under the 2016 Credit Agreement will bear interest, at our option, at either the base rate, or the adjusted LIBO rate or adjusted foreign currency rate (each as defined in the 2016 Credit Agreement), plus, in each case, an applicable rate of between 0.00% and 0.75% in respect of base rate loans and between 1.00% and 1.75% in respect of adjusted LIBO rate or adjusted foreign currency rate loans, in each case in accordance with a pricing grid tied to the Total Leverage Ratio, as defined in the 2016 Credit Agreement.

We pay an annual commitment fee that ranges from 0.125% to 0.25% of the unused portion of the revolving credit facility depending on certain financial ratios. In addition to the annual commitment fee described above, we are also

required to pay certain letter of credit and related fronting fees and other administrative fees pursuant to the terms of the 2016 Credit Agreement.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

The 2016 Credit Agreement contains customary restrictive covenants, as well as financial covenants that require us to maintain a certain Total Leverage Ratio and Interest Coverage Ratio, each as defined in the 2016 Credit Agreement:

¶ Interest Coverage Ratio, as defined, to be at least 3.00 to 1.00 at all times.

¶ Total Leverage Ratio, as defined, to be no higher than 3.75 to 1.00.

At January 31, 2018, we were in compliance with the Interest Coverage Ratio at 19.42 to 1.00 and the Total Leverage Ratio at 2.68 to 1.00 for both the 2017 Term Loan Agreement and the 2016 Credit Agreement.

At January 31, 2018, we had \$830.0 million outstanding under the Term Loan and \$874.7 million available under the Revolving Credit Agreement.

Refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2017 for more details.

Note 6. Income Taxes

Recent Tax Legislation

The Tax Cuts and Jobs Act (2017 Act) was enacted into law on December 22, 2017 and significantly changes existing U.S. tax law. The 2017 Act adopts a territorial tax system, imposes a mandatory one-time transition tax on earnings of foreign subsidiaries that were previously tax deferred, and reduces the U.S. federal statutory tax rate from 35% to 21%. The reduction in the U.S. federal statutory tax rate is effective on January 1, 2018 which requires the Company to use a blended tax rate for fiscal 2018. Our blended tax rate is 23.34% for fiscal 2018 and is calculated by applying a pro-rated percentage based on the number of days in our fiscal 2018 before and after the January 1, 2018 effective date. For fiscal 2019 and subsequent years, the Company will utilize the enacted U.S. federal statutory tax rate of 21%.

The 2017 Act includes several provisions that are effective for our fiscal 2019: (i) tax on global intangible low-taxed income (GILTI) of foreign subsidiaries, (ii) tax on certain payments between a U.S. Corporation and its foreign subsidiaries referred to as the base erosion and anti-abuse tax (BEAT), (iii) limitation on the tax deduction for interest payments, and (iv) expanded limitation on the tax deduction for compensation paid to certain executives.

The 2017 Act is effective in the first quarter of fiscal 2018. As of January 31, 2018, we have not completed our accounting for the tax effects of the enactment of the 2017 Act. Consistent with SEC guidance, we recorded a provisional tax expense in our financial statements based on reasonable estimates of the tax effects of the 2017 Act. The provisional tax expense is subject to revisions as we gather and prepare additional information to complete our analysis of the 2017 Act, and interpret additional guidance issued by the FASB, Internal Revenue Service and U.S. Treasury Department. The provisional tax expense will be finalized during the measurement period, which should not extend beyond one year from the enactment date, and could be materially different than our provisional tax expense. The provisional tax expense is described in more detail below.

The Company recorded a \$177.9 million provisional tax expense for the mandatory deemed repatriation of deferred foreign earnings and plans to pay the applicable amounts over eight years. The 2017 Act requires us to incur a one-time transition tax on deferred foreign income not previously subject to U.S. income tax at a rate of 15.5% for foreign cash and certain other net current assets, and 8% on the remaining deferred foreign income. We have not completed our analysis of the transition tax because we are still gathering information and analyzing the earnings and profits, and foreign tax credits which are critical inputs to the calculation. Estimates have been used for fiscal 2017 and part of fiscal 2018 because tax returns have not been filed for those years.

The Company recorded a provisional tax expense of \$13.2 million to record changes to the deferred taxes resulting from the U.S. federal rate decreasing from 35% to 21%. The amount is calculated using the applicable tax rates in the years in which the deferred tax assets and liabilities are expected to reverse. The Company is still analyzing certain aspects of the 2017 Act and refining the calculations, which could affect the measurement of the deferred taxes or give rise to new deferred tax amounts. The re-measurement of deferred taxes included in our financial statements will be subject to further revisions if our current estimates vary from our actual future operating results.

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(Unaudited)

Due to the changes in the 2017 Act, we are reviewing our prior assertion that earnings from our foreign subsidiaries are indefinitely reinvested. For purposes of recording the provisional tax expense this quarter, we are no longer asserting that earnings from our foreign subsidiaries are indefinitely reinvested. Accordingly, we have recorded provisional estimates relating to additional state income taxes of \$8.1 million and withholding taxes of \$2.8 million relating to the unremitted foreign earnings. We have not completed our analysis because we are still gathering additional information to quantify the impact to the individual states and to quantify the withholding taxes that would be owed when future dividends are paid to the U.S. As the Company completes its analysis appropriate changes will be made to the financial statements within the measurement period.

The 2017 Act imposes a new tax on foreign earnings and profits in excess of a deemed return on tangible assets of foreign subsidiaries referred to as GILTI. The 2017 Act also imposes a new tax on certain payments between a U.S. Corporation and its foreign subsidiaries referred to as BEAT. These new provisions are effective for fiscal 2019. Due to the complexity of the new GILTI and BEAT tax rules, we are continuing to evaluate these new provisions and the application of GAAP. With respect to GILTI, the Company has not progressed sufficiently in its analysis and has not made an accounting policy election to treat taxes due on the GILTI inclusion as a current period expense or factor such amounts into the measurement of our deferred taxes. The Company will continue its evaluation and make a policy election within the measurement period.

The 2017 Act limits the future deductions relating to interest expense and certain executive compensation. These provisions are generally effective for the Company in fiscal 2019. Pursuant to transition rules provided in the 2017 Act relating to the deduction for executive compensation, companies will be allowed tax deductions for performance based plans in existence on or before November 2, 2017 and not materially modified after that date. Based on our current interpretation of the transition rules, we believe the Company will be able to deduct the executive compensation relating to those plans. Therefore, we have not recorded any provisional tax expense this quarter. As additional guidance, to clarify the transition rules, is provided by the tax authorities we will make appropriate changes within the measurement period.

Effective Tax Rate

Cooper's effective tax rates were 263.7% and 5.4% for the first quarters of fiscal 2018 and 2017, respectively. The increase in our effective tax rate for the first quarter of fiscal 2018 compared to the first quarter of fiscal 2017 was primarily due to the charge of \$202.0 million related to the 2017 Act. Our effective tax rate for the first quarter of fiscal 2018 was higher than the U.S. Statutory rate because of the discrete tax expense relating to the 2017 Act, which was partially offset by a favorable mix of income from our foreign jurisdictions with lower tax rates and an excess tax benefit from share-based compensation. Our effective tax rate for the first quarter of fiscal 2017 was lower than the U.S. Statutory rate primarily because of a favorable mix of income from our foreign jurisdictions with lower tax rates and an excess tax benefit from share-based compensation.

We recognize the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. As of January 31, 2018 and October 31, 2017, Cooper had unrecognized tax benefits of \$61.9 million and \$59.9 million respectively. The increase is primarily related to current period transfer pricing. It is our policy to recognize interest and penalties directly related to income taxes as additional income tax expense. It is reasonably possible that \$6.1 million of unrecognized tax benefits could be settled during the next twelve months.

The Company is subject to United States Federal income tax examinations for fiscal 2015 through 2017. Cooper remains subject to income tax examinations in other significant tax jurisdictions including the United Kingdom, Japan, France and Australia for the tax years 2013 through 2017.

The United Kingdom tax authorities (U.K. Tax Authorities) enacted a Diverted Profits Tax (DPT) as of April 1, 2015 on profits of multinationals that they deemed artificially diverted from the United Kingdom. The tax rate is 25%. DPT

is intended to apply in two situations; (a) where a foreign company has artificially avoided having a taxable presence in the United Kingdom and (b) where a group adopts a structure which lacks economic substance in order to divert profits from the United Kingdom.

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In fiscal 2017, The U.K. Tax Authorities began an inquiry regarding the application of the DPT for 2015. We believe that the transactions in question were at arm's length with no intention to divert profit from the United Kingdom and therefore are outside the intended reach of the DPT.

On December 20, 2017, the U.K. Tax Authorities issued a DPT charging notice of approximately GBP 31.0 million with respect to the transfer out of the United Kingdom of certain intellectual property rights in connection with the 2014 acquisition of Saflon Pharmaceutical Ltd. Although the taxes were paid on the transfer, the UK Tax Authorities are challenging the value assigned to such property. We intend to contest the charging notice vigorously. The process for resolving such a notice can be lengthy and could involve litigation. The company is cooperating with the U.K. Tax Authorities to resolve this issue. The outcome of this matter cannot be predicted with certainty and may have an adverse impact on our financial condition and results.

Note 7. (Loss) Earnings Per Share

Three Months Ended

January 31,

(In millions, except
per share amounts)

	2018		2017
Net (loss) income attributable to Cooper stockholders	\$	(122.5)	\$ 75.8
Basic:			
Weighted average common shares	48.9		48.8
Basic (loss) earnings per common share attributable to Cooper stockholders	\$	(2.50)	\$ 1.55
Diluted:			
Weighted average common shares	48.9		48.8
Effect of potential dilutive common shares	—		0.6
Diluted weighted average common shares*	48.9		49.4
Diluted (loss) earnings per common share attributable to Cooper stockholders	\$	(2.50)	\$ 1.53

*The number of diluted weighted average common shares used to calculate fiscal 2018 diluted loss per share excludes all potentially dilutive instruments because they would be antidilutive due to the net loss position.

The following table sets forth stock options to purchase Cooper's common stock and restricted stock units that were not included in the diluted (loss) earnings per share calculation because their effect would have been antidilutive for the periods presented:

Three Months Ended January 31,

(In thousands, except exercise prices)	2018	2017
Number of stock option shares excluded	1,202	239
Range of exercise prices	\$15.83-\$229.66	\$162.28-\$175.31
Numbers of restricted stock units excluded	546	—

Note 8. Share-Based Compensation Plans

Cooper has several share-based compensation plans that are described in the Company's Annual Report on Form 10 K for the fiscal year ended October 31, 2017. The compensation expense and related income tax benefit recognized in our consolidated condensed financial statements for share-based awards were as follows:

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Three Months Ended January 31,

(In millions)	2018	2017
Selling, general and administrative expense	\$10.7	\$9.6
Cost of sales	1.3	1.2
Research and development expense	0.7	0.4
Total share-based compensation expense	\$12.7	\$11.2
Related income tax benefit	\$2.5	\$3.3

We capitalized share-based compensation expense as part of the cost of inventory in the amounts of \$1.3 million during the three months ended January 31, 2018, and \$1.2 million during the three months ended January 31, 2017.

Note 9. Stockholders' Equity

Analysis of Changes in Accumulated Other Comprehensive (Loss) Income:

(In millions)	Foreign Currency Translation Adjustment	Minimum Pension Liability	Total
Balance at October 31, 2016	\$ (461.4)	\$ (28.2)	\$(489.6)
Gross change in value during the year ended October 31, 2017	107.7	10.8	118.5
Tax effect for the period	—	(4.2)	(4.2)
Balance at October 31, 2017	\$ (353.7)	\$ (21.6)	\$(375.3)
Gross change in value during the three months ended January 31, 2018	102.3	—	102.3
Balance at January 31, 2018	\$ (251.4)	\$ (21.6)	\$(273.0)

Share Repurchases

In December 2011, our Board of Directors authorized the 2012 Share Repurchase Program and through subsequent amendments, the most recent in March 2017, the total repurchase authorization was increased from \$500.0 million to \$1.0 billion of the Company's common stock. This program has no expiration date and may be discontinued at any time. Purchases under the 2012 Share Repurchase Program are subject to a review of the circumstances in place at the time and may be made from time to time as permitted by securities laws and other legal requirements. We did not repurchase shares in the first quarter of fiscal 2018 and in fiscal 2017. At January 31, 2018, \$563.5 million remains authorized for repurchase under the program.

Dividends

We paid a semiannual dividend of approximately \$1.5 million or 3 cents per share on February 9, 2018, to stockholders of record on January 23, 2018.

Note 10. Fair Value Measurements

At January 31, 2018 and October 31, 2017, the carrying value of cash and cash equivalents, accounts receivable, prepaid expense and other current assets, lines of credit, accounts payable and other current liabilities approximate fair value due to the short-term nature of such instruments and the ability to obtain financing on similar terms. Assets and liabilities are measured and reported at fair value per related accounting standards that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. An asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement. Assets and liabilities carried at fair value are valued and disclosed in one of the following three levels of the valuation hierarchy:

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Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

We believe that the balances of our revolving credit agreement and term loans approximated their fair values at January 31, 2018 and October 31, 2017 and are categorized as Level 2 of the fair value hierarchy. The Company did not have any derivative assets or liabilities that may include interest rate swaps, cross currency swaps or foreign currency forward contracts as of January 31, 2018 and October 31, 2017.

Note 11. Employee Benefits

Cooper's Retirement Income Plan (Plan), a defined benefit plan, covers substantially all full-time United States employees. Our contributions are designed to fund normal cost on a current basis and to fund the estimated prior service cost of benefit improvements. The unit credit actuarial cost method is used to determine the annual cost. Cooper pays the entire cost of the Plan and funds such costs as they accrue. Virtually all of the assets of the Plan are comprised of equities and participation in equity and fixed income funds.

Our results of operations for the three months ended January 31, 2018 and 2017, reflect the following components of net periodic pension costs:

Three Months Ended January 31,

(In millions)	2018	2017
Service cost	\$2.7	\$2.5
Interest cost	1.3	1.1
Expected return on plan assets	(2.3)	(1.8)
Recognized net actuarial loss	0.4	0.7
Net periodic pension cost	\$2.1	\$2.5

We did not contribute to the Plan in the first quarter of fiscal 2018, and expect to contribute \$10.0 million during the remainder of fiscal 2018. We did not contribute to the Plan in the first quarter of fiscal 2017. The expected rate of return on plan assets for determining net periodic pension cost is 8%.

Note 12. Contingencies

Since March 2015, over 50 putative class action complaints were filed by contact lens consumers alleging that contact lens manufacturers, in conjunction with their respective Unilateral Pricing Policy (UPP), conspired to reach agreements between each other and certain distributors and retailers regarding the prices at which certain contact lenses could be sold to consumers. The plaintiffs are seeking damages against CooperVision, Inc., other contact lens manufacturers, distributors and retailers, in various courts around the United States. In June 2015, all of the class action cases were consolidated and transferred to the United States District Court for the Middle District of Florida. In August 2017, CooperVision entered into a settlement agreement with the plaintiffs, without any admission of liability, to settle all claims against CooperVision. The Company recorded a settlement accrual of \$3.0 million in the third quarter fiscal ended July 31, 2017. The settlement remains subject to Court approval.

The Company is involved in various lawsuits, claims and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, supplier relationships, distributors, competitor relationships, employees and other matters. The Company does not believe that the ultimate resolution of these proceedings or claims pending against it could have a material adverse effect on its financial condition or results of operations. At each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal fees are expensed as incurred.

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Other

During fiscal 2017, the UK Tax Authorities began an inquiry regarding our application of DPT in fiscal 2015. We believe that the transactions in question were at arm's length with no intention to divert profit from the UK and therefore are outside the intended reach of the Diverted Profit Tax.

On December 20, 2017, the U.K. Tax Authorities issued a DPT charging notice of approximately GBP 31.0 million with respect to the transfer out of the United Kingdom of certain intellectual property rights in connection with the 2014 acquisition of Sauflon Pharmaceutical Ltd. Although taxes were paid on the transfer, the UK Tax Authorities are challenging the value assigned to such property. We intend to contest the charging notice vigorously. The process for resolving such a notice can be lengthy and could involve litigation. The DPT legislation provides a one year review period, however, it requires prepayment of the charging notice to be made within 30 days of its issuance. As required, the payment of GBP 31.0 million was made on January 19, 2018. The company continues to cooperate with the U.K. Tax Authorities to resolve this issue. The outcome of this matter cannot be predicted with certainty and may have an adverse impact on our financial condition and results.

Note 13. Business Segment Information

Cooper uses operating income, as presented in our financial reports, as the primary measure of segment profitability. We do not allocate costs from corporate functions to segment operating income. Items below operating income are not considered when measuring the profitability of a segment. We use the same accounting policies to generate segment results as we do for our consolidated results.

Total assets are those used in continuing operations except cash and cash equivalents, which we include as corporate assets.

Segment information:

Three Months Ended January 31,

(In millions)	2018	2017
CooperVision net sales by category:		
Toric lens	\$137.8	\$120.7
Multifocal lens	46.9	42.4
Single-use sphere lens	116.3	99.5
Non single-use sphere and other	143.8	126.7
Total CooperVision net sales	444.8	389.3
CooperSurgical net sales	145.2	109.8
Total net sales	\$590.0	\$499.1
Operating income (loss):		
CooperVision	\$112.3	\$87.3
CooperSurgical	(9.3)	16.4
Corporate	(12.8)	(13.0)
Total operating income	90.2	90.7
Interest expense	18.4	7.3
Other (income) expense, net	(3.0)	3.3
Income before income taxes	\$74.8	\$80.1

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(In millions) January 31, October 31,
2018 2017

Total assets:

CooperVision \$ 3,826.7 \$ 3,562.6

CooperSurgical 2,260.2 1,107.5

Corporate 181.7 188.6

Total \$ 6,268.6 \$ 4,858.7

Geographic information:

Three Months Ended January 31,

(In millions)

2018 2017

Net sales to external customers by country of domicile:

United States \$261.5 \$224.3

Europe 203.8 168.3

Rest of world 124.7 106.5

Total \$590.0 \$499.1

(In millions)

January 31, October 31,

2018 2017

Net property, plant and equipment by country of domicile:

United States \$ 484.2 \$ 472.8

Europe 368.3 352.3

Rest of world 99.5 85.0

Total \$ 952.0 \$ 910.1

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Note numbers refer to "Notes to Consolidated Condensed Financial Statements" in Item 1. Financial Statements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These include statements relating to plans, prospects, goals, strategies, future actions, events or performance and other statements which are other than statements of historical fact, including all statements regarding acquisitions including the acquired companies' financial position, market position, product development and business strategy, expected cost synergies, expected timing and benefits of the transaction, difficulties in integrating entities or operations, as well as estimates of our and the acquired entities' future expenses, sales and earnings per share are forward-looking. In addition, all statements regarding anticipated growth in our revenue, anticipated effects of any product recalls, anticipated market conditions, planned product launches and expected results of operations and integration of any acquisition are forward-looking. To identify these statements look for words like "believes," "expects," "may," "will," "should," "could," "seeks," "intends," "plans," "estimates" or "anticipates" and similar words or phrases. Forward-looking statements necessarily depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Among the factors that could cause our actual results and future actions to differ materially from those described in forward-looking statements are:

Adverse changes in the global or regional general business, political and economic conditions, including the impact of continuing uncertainty and instability of certain countries that could adversely affect our global markets, and the potential adverse economic impact and related uncertainty caused by these items, including but not limited to, the United Kingdom's election to withdraw from the European Union.

Changes in tax laws or their interpretation and changes in statutory tax rates, including but not limited to, the United States, the United Kingdom and other countries with proposed changes to tax laws, some of which may affect our taxation of earnings recognized in foreign jurisdictions and/or negatively impact our effective tax rate.

- Our existing indebtedness and associated interest expense, most of which is variable and impacted by rate increases, which could adversely affect our financial health or limit our ability to borrow additional funds.

Foreign currency exchange rate and interest rate fluctuations including the risk of fluctuations in the value of foreign currencies or interest rates that would decrease our revenues and earnings.

Acquisition-related adverse effects including the failure to successfully obtain the anticipated revenues, margins and earnings benefits of acquisitions, integration delays or costs and the requirement to record significant adjustments to the preliminary fair value of assets acquired and liabilities assumed within the measurement period, required regulatory approvals for an acquisition not being obtained or being delayed or subject to conditions that are not anticipated, adverse impacts of changes to accounting controls and reporting procedures, contingent liabilities or indemnification obligations, increased leverage and lack of access to available financing (including financing for the acquisition or refinancing of debt owed by us on a timely basis and on reasonable terms).

A major disruption in the operations of our manufacturing, accounting and financial reporting, research and development, distribution facilities or raw material supply chain due to integration of acquisitions, natural disasters, system upgrades or other causes.

A major disruption in the operations of our manufacturing, accounting and financial reporting, research and development or distribution facilities due to technological problems, including any related to our information systems maintenance, enhancements or new system deployments, integrations or upgrades.

Disruptions in supplies of raw materials, particularly components used to manufacture our silicone hydrogel lenses.

New U.S. and foreign government laws and regulations, and changes in existing laws, regulations and enforcement guidance, which affect areas of our operations including, but not limited to, those affecting the

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health care industry, including the contact lens industry specifically and the medical device or pharmaceutical industries generally.

Compliance costs and potential liability in connection with U.S. and foreign laws and health care regulations pertaining to privacy and security of third party information, such as HIPAA in the U.S. and the pending General Data Protection Regulation requirements which are to take effect in Europe on May 25, 2018, including but not limited to those resulting from data security breaches.

Legal costs, insurance expenses, settlement costs and the risk of an adverse decision, prohibitive injunction or settlement related to product liability, patent infringement or other litigation.

Limitations on sales following product introductions due to poor market acceptance.

New competitors, product innovations or technologies, including but not limited to, technological advances by competitors, new products and patents attained by competitors, and competitors' expansion through acquisitions.

Reduced sales, loss of customers and costs and expenses related to product recalls and warning letters.

Failure to receive, or delays in receiving, U.S. or foreign regulatory approvals for products.

Failure of our customers and end users to obtain adequate coverage and reimbursement from third party payors for our products and services.

The requirement to provide for a significant liability or to write off, or accelerate depreciation on, a significant asset, including goodwill and idle manufacturing facilities and equipment.

The success of our research and development activities and other start-up projects.

Dilution to earnings per share from acquisitions or issuing stock.

Changes in accounting principles or estimates.

Environmental risks.

Other events described in our Securities and Exchange Commission filings, including the "Business" and "Risk Factors" sections in our Annual Report on Form 10-K for the fiscal year ended October 31, 2017, as such Risk Factors may be updated in quarterly filings.

We caution investors that forward-looking statements reflect our analysis only on their stated date. We disclaim any intent to update them except as required by law.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

In this section, we discuss the results of our operations for the first quarter of fiscal 2018 ended January 31, 2018, and compare them with the same periods of fiscal 2017. We discuss our cash flows and current financial condition under "Capital Resources and Liquidity." Within the tables presented, percentages are calculated based on the underlying whole-dollar amounts and, therefore, may not recalculate from the rounded numbers used for disclosure purposes.

First Quarter Highlights

Net sales of \$590.0 million, up 18% from \$499.1 million. CooperVision net sales up 14% to \$444.8 million.

CooperSurgical net sales up 32% to \$145.2 million

Gross profit \$370.9 million, up 19% from \$312.4 million. Gross margin 63%, same as prior year period.

Operating income \$90.2 million, down 1% from \$90.7 million.

Diluted (loss) earnings per share of (\$2.50) per share, down from \$1.53 per share in prior year period.

Cash provided by operations \$26.2 million, compared to \$108.4 million in the prior year period.

Outlook

Overall, we remain optimistic about the long-term prospects for the worldwide contact lens and general health care markets. However, events affecting the economy as a whole, including but not limited to the uncertainty and instability of global markets driven by foreign currency volatility, debt concerns, the uncertainty caused by the United Kingdom's intention to withdraw from the European Union, and the trend of consolidation within the health care industry, impact our current performance and continue to represent a risk to our future performance.

CooperVision - We compete in the worldwide contact lens market with our spherical, toric and multifocal contact lenses offered in a variety of materials including using silicone hydrogel Aquaform® technology and phosphorylcholine technology (PC) Technology™. We believe that there will be lower contact lens wearer dropout rates as technology improves and enhances the wearing experience through a combination of improved designs and materials and the growth of preferred modalities such as single-use and monthly wearing options. CooperVision is focused on greater worldwide market penetration using recently introduced products, and we continue to expand our presence in existing and emerging markets, including through acquisitions.

On January 4, 2018, CooperVision acquired Blueeyes, a long-standing distribution partner, with a leading position in the distribution of contact lenses to the Optical and Pharmacy sector in Israel. On December 1, 2017, CooperVision acquired Paragon Vision Sciences, a leading provider of orthokeratology (ortho-k) specialty contact lenses and oxygen permeable rigid contact lens materials. In fiscal 2017, CooperVision acquired Procornea, a Netherlands based manufacturer of specialty contact lenses, which expands CooperVision's access to myopia (nearsightedness) management markets with new products; and Grand Vista LLC, a distributor in Russia of soft contact lenses.

Sales of contact lenses utilizing silicone hydrogel materials continue to grow and this material represents about half of the industry. Our ability to compete successfully with a full range of silicone hydrogel products is an important factor to achieving our desired future levels of sales growth and profitability. CooperVision manufactures and markets a wide variety of silicone hydrogel contact lenses within the daily, two-week and monthly modalities along with manufacturing some of these lenses as toric and/or multifocal lenses. We market these lenses under a number of different brand names, including but not limited to Biofinity®, clariti®, MyDay® and Avaira®.

We believe that the global market for single-use contact lenses will continue growing and our single-use silicone hydrogel products represent an opportunity for our business. Our clariti 1day brand provides the only single-use silicone hydrogel lenses in the marketplace with a complete line of spherical, toric and multifocal contact lenses. We expect increasing aggregate demand for clariti 1day and MyDay products, as well as future single-use products.

CooperSurgical - Our CooperSurgical business competes in the general health care market with a focus on advancing the health of families through a diversified portfolio of products and services focusing on women's health, fertility,

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diagnostics and contraception. CooperSurgical has established its market presence and distribution system by developing products and acquiring companies, products and services that complement its business model. CooperSurgical product sales are categorized based on the point of health care delivery including products used in medical office and surgical procedures primarily by obstetricians and gynecologists (ob/gyns) that represented 61% of CooperSurgical's net sales in the first quarter of fiscal 2018 compared to 48% in the prior year. CooperSurgical's remaining sales are specialized products and services that largely target the in vitro fertilization (IVF) process used in fertility that now represent 39% of CooperSurgical's net sales from 52% in the prior year. This change in product mix was primarily attributable to recent acquisitions discussed below. We have continued to invest in CooperSurgical's business through the acquisition of companies and product lines for new or complementary products and services.

On November 1, 2017, CooperSurgical acquired the assets of the PARAGARD Intrauterine Device (IUD) business (PARAGARD) from Teva Pharmaceuticals Industries Limited (Teva) for \$1.1 billion. We acquired PARAGARD as the product broadens and strengthens CooperSurgical's current women's health product portfolio. PARAGARD is the only non-hormonal, long lasting, reversible contraceptive option approved by FDA available in the United States. IUDs represent a large and growing segment of the contraceptive market and this acquisition allows CooperSurgical to accelerate growth providing opportunities for operational synergies. In connection with the acquisition, we entered into a new five-year, \$1.425 billion, senior unsecured term loan agreement by and among the Company, the lenders party thereto and DNB Bank, as administrative agent. We used part of the facility to fund the acquisition of PARAGARD and used the remainder of the funds to partially repay outstanding borrowings under our revolving credit agreement.

In fiscal 2017, CooperSurgical acquired Wallace, the IVF segment of Smiths Medical International Ltd. We intend to continue investing in CooperSurgical's business with the goal of expanding our integrated solutions model within the areas of women's health, fertility and diagnostics.

Capital Resources - At January 31, 2018, we had \$91.7 million in cash, primarily held outside the United States, and \$874.7 million available under our syndicated revolving credit agreement. The \$830.0 million term loan entered on March 1, 2016 and \$1.425 billion term loan entered on November 1, 2017 remained outstanding at January 31, 2018.

On March 1, 2016, we entered into a syndicated revolving Credit and Term Loan Agreement with Keybank as administrative agent (2016 Credit Agreement). This agreement, maturing on March 1, 2021, replaced our previous revolving credit agreement, entered into on January 12, 2011 and provides for a multi-currency revolving credit facility in an aggregate principal amount of \$1.0 billion and a term loan facility in the aggregate principal amount of \$830.0 million. On November 1, 2017, we entered into a syndicated Term Loan Agreement with DNB Bank as administrative agent (2017 Term Loan Agreement). We used funds from the 2017 Term Loan Agreement to fund the acquisition of PARAGARD, to repay outstanding amounts under the 2016 Credit Agreement, and for general corporate purposes. See Note 5. Debt for additional information.

The Company believes that current cash, cash equivalents, restricted cash, and future cash flow from operating activities will be sufficient to meet the Company's anticipated cash needs, including working capital needs, capital expenditures and contractual obligations for at least 12 months from the issuance date of these financial statements. To the extent additional funds are necessary to meet our liquidity needs such as that for acquisitions, share repurchases, cash dividends or other activities as we execute our business strategy, we anticipate that additional funds

will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds; however, such financing may not be available on favorable terms, or at all.

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Selected Statistical Information – Percentage of Sales and Growth

	Percentage of	2018 vs	
	Sales	2017	
Three Months Ended January 31,	2018	2017	% Change
Net sales			