

COOPER COMPANIES INC

Form 10-Q

September 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarterly Period Ended July 31, 2017

☐ 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

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The Cooper Companies, Inc.

(Exact name of registrant as specified in its charter)

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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

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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 48,949,240

Class Outstanding at July 31, 2017

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Consolidated Statements of Income

Periods Ended July 31,

(In millions, except for earnings per share)

(Unaudited)

|                                                                  | Three Months |         | Nine Months |           |
|------------------------------------------------------------------|--------------|---------|-------------|-----------|
|                                                                  | 2017         | 2016    | 2017        | 2016      |
| Net sales                                                        | \$556.0      | \$514.7 | \$1,577.5   | \$1,448.2 |
| Cost of sales                                                    | 199.8        | 198.1   | 565.1       | 571.1     |
| Gross profit                                                     | 356.2        | 316.6   | 1,012.4     | 877.1     |
| Selling, general and administrative expense                      | 208.7        | 182.4   | 590.6       | 533.7     |
| Research and development expense                                 | 17.5         | 15.9    | 50.6        | 47.4      |
| Amortization of intangibles                                      | 17.2         | 15.6    | 50.6        | 46.1      |
| Operating income                                                 | 112.8        | 102.7   | 320.6       | 249.9     |
| Interest expense                                                 | 8.3          | 8.0     | 23.3        | 20.9      |
| Other (income) expense, net                                      | (3.2 )       | 1.3     | (0.1 )      | 2.2       |
| Income before income taxes                                       | 107.7        | 93.4    | 297.4       | 226.8     |
| Provision for income taxes                                       | 4.1          | 5.2     | 13.1        | 12.4      |
| Net income                                                       | 103.6        | 88.2    | 284.3       | 214.4     |
| Less: net income attributable to noncontrolling interests        | —            | 0.3     | —           | 1.0       |
| Net income attributable to Cooper stockholders                   | \$103.6      | \$87.9  | \$284.3     | \$213.4   |
| Earnings per share attributable to Cooper stockholders - basic   | \$2.12       | \$1.81  | \$5.81      | \$4.41    |
| Earnings per share attributable to Cooper stockholders - diluted | \$2.09       | \$1.79  | \$5.74      | \$4.36    |
| Number of shares used to compute earnings per share:             |              |         |             |           |
| Basic                                                            | 48.9         | 48.6    | 48.9        | 48.4      |
| Diluted                                                          | 49.6         | 49.0    | 49.5        | 48.9      |

See accompanying notes.

THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Periods Ended July 31,

(In millions)

(Unaudited)

|                                                                     | Three Months |         | Nine Months |          |
|---------------------------------------------------------------------|--------------|---------|-------------|----------|
|                                                                     | 2017         | 2016    | 2017        | 2016     |
| Net income                                                          | 103.6        | 88.2    | \$284.3     | \$214.4  |
| Other comprehensive income (loss):                                  |              |         |             |          |
| Foreign currency translation adjustment                             | 38.3         | (126.8) | 104.8       | (188.3 ) |
| Comprehensive income (loss)                                         | 141.9        | (38.6 ) | 389.1       | 26.1     |
| Less: comprehensive income attributable to noncontrolling interests | —            | 0.3     | —           | 1.0      |
| Comprehensive income (loss) attributable to Cooper stockholders     | 141.9        | (38.9 ) | \$389.1     | \$25.1   |

See accompanying notes.

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

(In millions, unaudited)

|                                                                                                                            | July 31,<br>2017 | October 31,<br>2016 |
|----------------------------------------------------------------------------------------------------------------------------|------------------|---------------------|
| <b>ASSETS</b>                                                                                                              |                  |                     |
| Current assets:                                                                                                            |                  |                     |
| Cash and cash equivalents                                                                                                  | \$46.0           | \$ 100.8            |
| Trade accounts receivable, net of allowance for doubtful accounts of \$10.0 at July 31, 2017 and \$8.5 at October 31, 2016 | 335.9            | 291.4               |
| Inventories                                                                                                                | 453.9            | 417.7               |
| Deferred tax assets <sup>(1)</sup>                                                                                         | —                | 49.7                |
| Prepaid expense and other current assets                                                                                   | 96.3             | 77.5                |
| Total current assets                                                                                                       | 932.1            | 937.1               |
| Property, plant and equipment, at cost                                                                                     | 1,718.5          | 1,603.2             |
| Less: accumulated depreciation and amortization                                                                            | 823.6            | 725.5               |
|                                                                                                                            | 894.9            | 877.7               |
| Goodwill                                                                                                                   | 2,333.6          | 2,164.7             |
| Other intangibles, net                                                                                                     | 487.9            | 441.1               |
| Deferred tax assets <sup>(1)</sup>                                                                                         | 66.1             | 6.1                 |
| Other assets                                                                                                               | 68.2             | 51.9                |
|                                                                                                                            | \$4,782.8        | \$ 4,478.6          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                |                  |                     |
| Current liabilities:                                                                                                       |                  |                     |
| Short-term debt                                                                                                            | \$33.4           | \$ 226.3            |
| Accounts payable                                                                                                           | 112.2            | 107.4               |
| Employee compensation and benefits                                                                                         | 75.5             | 77.7                |
| Other current liabilities                                                                                                  | 150.1            | 131.8               |
| Total current liabilities                                                                                                  | 371.2            | 543.2               |
| Long-term debt                                                                                                             | 1,180.0          | 1,107.4             |
| Deferred tax liabilities <sup>(1)</sup>                                                                                    | 30.9             | 37.5                |
| Accrued pension liability and other                                                                                        | 107.4            | 94.6                |
| Total liabilities                                                                                                          | 1,689.5          | 1,782.7             |
| 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 52.4 at July 31, 2017 and 52.1 at October 31, 2016      | 5.2              | 5.2                 |
| Additional paid-in capital                                                                                                 | 1,516.9          | 1,494.0             |
| Accumulated other comprehensive loss                                                                                       | (384.8)          | (489.6)             |
| Retained earnings                                                                                                          | 2,345.6          | 2,046.3             |
| Treasury stock at cost: 3.4 shares at July 31, 2017 and 3.3 shares at October 31, 2016                                     | (389.7)          | (360.1)             |
| Noncontrolling interests                                                                                                   | 0.1              | 0.1                 |
| Stockholders' equity                                                                                                       | 3,093.3          | 2,695.9             |
|                                                                                                                            | \$4,782.8        | \$ 4,478.6          |

<sup>(1)</sup>Prospective adoption of ASU 2015-17, Balance Sheet Classification of Deferred Taxes. Refer to Note 1.  
See accompanying notes.

## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows  
 Nine Months Ended July 31,  
 (In millions)  
 (Unaudited)

|                                                                        | 2017     | 2016       |
|------------------------------------------------------------------------|----------|------------|
| Cash flows from operating activities:                                  |          |            |
| Net income                                                             | \$284.3  | \$214.4    |
| Depreciation and amortization                                          | 141.2    | 150.9      |
| Decrease in operating capital                                          | (58.7 )  | (54.6 )    |
| Other non-cash items                                                   | 27.8     | 5.6        |
| Net cash provided by operating activities                              | 394.6    | 316.3      |
| Cash flows from investing activities:                                  |          |            |
| Purchases of property, plant and equipment                             | (95.4 )  | (117.4 )   |
| Acquisitions of businesses, net of cash acquired, and other            | (197.0 ) | (251.3 )   |
| Net cash used in investing activities                                  | (292.4 ) | (368.7 )   |
| Cash flows from financing activities:                                  |          |            |
| Proceeds from long-term debt                                           | 1,064.8  | 1,514.3    |
| Repayments of long-term debt                                           | (984.6 ) | (1,397.4 ) |
| Net repayments of short-term debt                                      | (202.3 ) | (23.0 )    |
| Repurchase of common stock                                             | (29.5 )  | —          |
| Net (payments) proceeds related to share-based compensation awards     | (5.6 )   | 6.2        |
| Excess tax benefit from share-based compensation awards <sup>(1)</sup> | —        | 11.8       |
| Dividends on common stock                                              | (1.5 )   | (1.5 )     |
| Debt acquisition costs                                                 | —        | (12.5 )    |
| Distributions to noncontrolling interests                              | —        | (0.7 )     |
| Payment of contingent consideration                                    | (4.3 )   | —          |
| Proceeds from construction allowance                                   | 2.1      | 4.3        |
| Net cash (used in) provided by financing activities                    | (160.9 ) | 101.5      |
| Effect of exchange rate changes on cash and cash equivalents           | 3.9      | (2.9 )     |
| Net (decrease) increase in cash and cash equivalents                   | (54.8 )  | 46.2       |
| Cash and cash equivalents - beginning of period                        | 100.8    | 16.4       |
| Cash and cash equivalents - end of period                              | \$46.0   | \$62.6     |

<sup>(1)</sup>Adoption of ASU 2016-09, Stock Compensation: Improvements to Employee Share-Based Payment Accounting, excess tax benefits classified as operating activity on a prospective basis. Refer to Note 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 Cooper Companies, Inc. (Cooper, we or the Company) is a global medical device company publicly traded on the NYSE Euronext (NYSE: COO). Cooper is dedicated to being A Quality of Life Company<sup>TM</sup> with a focus on delivering shareholder value. Cooper operates through our business units, CooperVision and CooperSurgical. CooperVision primarily develops, manufactures and markets a broad range of soft contact lenses for the worldwide vision correction market.

CooperSurgical primarily develops, manufactures, markets medical devices and procedures solutions, and provides services to improve health care delivery to families.

The unaudited consolidated condensed financial statements presented in this report contain all adjustments necessary to present fairly Cooper's consolidated condensed financial position at July 31, 2017 and October 31, 2016, the consolidated results of its operations for the three and nine months ended July 31, 2017 and 2016 and its consolidated condensed cash flows for the nine months ended July 31, 2017 and 2016. Most of these adjustments are normal and recurring. However, certain adjustments associated with acquisitions are of a nonrecurring nature. Readers should not assume that the results reported here either indicate or guarantee future performance.

During interim periods, we follow the accounting policies described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016. Please refer to this when reviewing this Quarterly Report on Form 10-Q.

Management estimates and judgments are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe that the critical accounting policies listed below address the more significant estimates required of Management when preparing our consolidated financial statements in accordance with GAAP. We consider an accounting estimate critical if changes in the estimate may have a material impact on our financial condition or results of operations. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustment to these balances in future periods. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are:

- Revenue recognition
- Net realizable value of inventory
- Valuation of goodwill
- Business combinations
- Income taxes
- Share-based compensation

During the first nine months of fiscal 2017, there were no significant changes in our estimates and critical accounting policies except for the accounting pronouncements that were recently adopted which are discussed below. Please refer to Note 1. Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the fiscal year ended October 31, 2016, for a more complete discussion of our estimates and critical accounting policies.

During the first quarter of fiscal 2017, the Company identified and recorded an amount of \$4.1 million, net of income tax expense, to reflect a net cumulative decrease to retained earnings as of the opening balance sheet for the fiscal year ended October 31, 2016 and a corresponding net increase in other current liabilities and deferred tax asset, all associated with an understatement of accruals for rebates in prior years. Accordingly, the Company has not revised income statements or cash flows of any periods as the impact to all periods is minimal since the understated rebates liability was accumulated primarily prior to fiscal 2014. Based upon evaluation and consideration of provisions under ASC 250, Accounting Changes and Error Corrections, that incorporates SEC Staff Accounting Bulletin (SAB) No.99, Materiality,





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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

we determined that the impact is not material to our prior year's consolidated financial statements. However, we have revised our prior year Balance Sheet at October 31, 2016 in this Quarterly Report on Form 10-Q to reflect this adjustment.

Accounting Pronouncements Issued Not Yet Adopted

In March 2017, the FASB issued 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. We are currently evaluating the impact of ASU 2017-07, which is effective for the Company in our fiscal year and interim periods beginning November 1, 2018.

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. Early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-01 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. We are currently evaluating the impact of ASU 2014-09, which is effective for the Company in our fiscal year and interim periods beginning on November 1, 2018.

Accounting Pronouncements Recently Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment. FASB eliminated Step 2 from the goodwill impairment test, which required a hypothetical purchase price allocation. Under the amendments in this update, an entity should perform goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the carrying amount which exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company has elected to early adopt ASU 2017-04 effective in the third quarter of fiscal 2017. The adoption has no material impact on the

Company's reported financial results.

In January 2017, the FASB issued ASU 2017-01, Business Combination (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company has elected to early adopt ASU 2017-01 effective in the second quarter of fiscal 2017. The adoption has no material impact for the Company.

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Notes to Consolidated Condensed Financial Statements

(Unaudited)

In March 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, to improve the accounting for share-based payments to employees. ASU 2016-09 requires excess tax benefits (windfall tax benefits) and tax deficiencies (shortfalls) to be recognized as income tax expense or benefit in the income statement when awards vest or are settled. Companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital. This ASU also requires companies to classify cash flows resulting from employee share-based payments, including the additional tax benefits or expenses related to the vesting or settlement of share-based awards, as cash flows from operating activities rather than financing activities. The standard also allows for additional employee tax withholding on the exercise or release of awards, without triggering liability classification of the award. Finally, the update allows an accounting policy election for the treatment of forfeitures of stock based awards. Companies can elect to continue to estimate forfeitures expected to occur, or account for forfeitures as they occur. The Company has elected to early adopt ASU 2016-09 effective November 1, 2016.

Accordingly, the Company recognized \$17.9 million in deferred tax assets associated with excess tax benefits not previously recognized in deferred taxes as a cumulative-effect adjustment to retained earnings at November 1, 2016. The Company also recognized excess tax benefits as a discrete income tax benefit of \$13.4 million during the first nine months of fiscal 2017, which is classified as an operating activity in the Consolidated Statements of Cash Flows on a prospective basis. The Company elected to continue to estimate forfeitures that are expected to occur when estimating the amount of compensation expense to record in each accounting period.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities to present all deferred tax assets and liabilities as noncurrent in the Balance Sheet. ASU 2015-17 can be early adopted for any period that has not been issued on a prospective or retrospective basis. The Company elected to early adopt this guidance on a prospective basis for the quarter ended January 31, 2017. No prior periods were retrospectively adjusted.

Note 2. Acquisitions

Fiscal Year 2017

On June 30, 2017, we completed the acquisition of Grand Vista LLC, a long-standing distribution partner in Russia. The fair value of the consideration transferred for the acquisition was approximately \$23.7 million in cash, \$23.1 million net of cash acquired. Our preliminary allocation of the fair value of the purchase price includes \$14.9 million for customer relationships; \$10.3 million in goodwill; and \$1.5 million in identifiable net liabilities. We are in the process of finalizing information related to assets, liabilities and the corresponding effect on goodwill.

On November 4, 2016, we completed the acquisition of Wallace, the in-vitro fertilization (IVF) segment of Smiths Medical International, Ltd., a division of Smiths Group plc. The fair value of the consideration transferred for the acquisition was approximately \$167.4 million in cash. Our allocation of the fair value of the purchase price includes \$72.2 million in identifiable intangible assets, consisting of \$66.5 million for technology, \$3.2 million for trade names and \$2.5 million for customer relationships; \$94.8 million in goodwill; and \$0.4 million in identifiable net assets.

Fiscal Year 2016

On May 31, 2016 we completed the acquisition of Reprogenetics UK, a UK based genetics laboratory specializing in service offerings of preimplantation genetic screening (PGS) and preimplantation genetic diagnosis (PGD) used during the IVF process. The fair value of the consideration transferred for the acquisition was approximately \$11.7 million, \$11.4 million net of cash acquired. Our allocation of the fair value of the purchase price includes \$6.3 million in identifiable intangible assets, consisting of \$5.1 million for customer relationships and \$1.2 million for trade names;

\$5.6 million in goodwill; and \$0.2 million in identifiable net liabilities.

On May 25, 2016, we completed the acquisition of Recombine Inc., a U.S. based clinical genetic testing company specializing in carrier screening. The fair value of the consideration transferred for the acquisition was approximately \$84.4 million, \$84.0 million net of cash acquired. Our allocation of the fair value of the purchase price includes \$30.0

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

million in identifiable intangible assets, consisting of \$23.1 million for technology, \$2.4 million for customer relationships and \$4.5 million for trade names; \$65.0 million in goodwill; and \$10.5 million in identifiable net liabilities.

On May 4, 2016, we completed the acquisition of Kivex Biotec A/S (K-Systems), a Danish manufacturer and distributor of equipment for IVF clinics. The fair value of the consideration transferred for the acquisition was approximately \$11.7 million, \$11.5 million net of cash acquired. Our allocation of the fair value of the purchase price includes \$5.4 million in identifiable intangible assets, consisting of \$3.6 million for Technology, \$1.0 million for trade names and \$0.8 million for customer relationships; \$5.6 million in goodwill; and \$0.7 million in identifiable net tangible assets.

On March 31, 2016 we completed the acquisition of Genesis Genetics Inc., a U.S. based genetics laboratory specializing in preimplantation genetic screening and preimplantation genetic diagnosis used during the IVF process. The fair value of the consideration transferred for the acquisition was approximately \$61.1 million in cash, \$60.5 million net of cash acquired. Our allocation of the fair value of the purchase price includes \$28.6 million in identifiable intangible assets, consisting of \$25.2 million for customer relationships and \$3.4 million for trade names; \$28.7 million in goodwill; and \$3.8 million in identifiable net tangible assets.

On February 8, 2016, we completed the acquisition of The Pipette Company, an Australian manufacturer and distributor of micro pipettes for the Assisted Reproductive Technology market. The fair value of the consideration transferred for the acquisition was approximately \$20.2 million in cash, \$19.6 million net of cash acquired. Our allocation of the fair value of the purchase price includes \$5.6 million in identifiable intangible assets, consisting of \$5.2 million for customer relationships and \$0.4 million for trade names; \$15.0 million in goodwill; and \$0.4 million in identifiable net liabilities.

On December 17, 2015, we completed the acquisition of Research Instruments Limited, a UK manufacturer and supplier of IVF medical devices and systems. The fair value of the consideration transferred for the acquisition was approximately \$53.6 million in cash, \$50.0 million net of cash acquired. Our allocation of the fair value of the purchase price includes \$10.3 million in identifiable intangible assets, consisting of \$6.2 million for developed technology, \$2.2 million of trade names and \$1.9 million for customer relationships; \$35.8 million in goodwill; and \$7.6 million in identifiable net tangible assets.

We believe these acquisitions strengthen CooperVision's business through the addition of new or complementary lens products and strengthen CooperSurgical's business through the addition of new or complementary products and services within IVF and our genetic testing platform.

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.

Note 3. Restructuring and Integration Costs

2014 Sauflon Integration Plan

During the fourth quarter of fiscal 2014 and in connection with the Sauflon acquisition, our CooperVision business unit initiated restructuring and integration activities to optimize operational synergies of the combined companies. These activities include product and equipment rationalization, workforce reductions and consolidation of duplicative facilities. At October 31, 2016, our activities related to this restructuring and integration plan were essentially complete. The total restructuring costs under this plan were \$148.3 million. There were no charges related to the 2014 Sauflon Integration Plan in the first nine months of fiscal 2017.

In the three and nine month periods ended July 31, 2016, we recorded in cost of sales \$8.7 million and \$23.5 million of expense, respectively, arising from production-related asset disposals and accelerated depreciation on equipment, primarily related to our hydrogel lenses, based on our review of products, materials and manufacturing processes of Sauflon. We recorded in cost of sales, employee termination costs of \$0.4 million and \$0.9 million in the three and nine month periods ended July 31, 2016, respectively. We recorded \$0.1 million of employee termination costs and \$0.2 million for lease termination costs in selling, general and administrative expense in the nine months ended July 31, 2016. We also recorded in research and development expense \$0.1 million of employee termination costs in the nine

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

(Unaudited)

months ended July 31, 2016. In addition, CooperVision incurred \$10.0 million of integration costs included in operating expenses in the nine months ended July 31, 2016, respectively. CooperVision did not incur integration costs in the first nine months of fiscal 2017.

A summary of the cumulative total restructuring costs by major component recognized at October 31, 2016, is as follows:

| (In millions)                                      | Employee-related | Facilities-related | Product Rationalization | Total   |
|----------------------------------------------------|------------------|--------------------|-------------------------|---------|
| Cumulative amounts incurred as of October 31, 2016 | \$ 17.8          | \$ 1.1             | \$ 129.4                | \$148.3 |

The following table summarizes the restructuring activities by major component for the fiscal year ended October 31, 2016 and the nine months ended July 31, 2017:

| (In millions)                                       | Employee-related | Facilities-related | Product Rationalization | Total   |
|-----------------------------------------------------|------------------|--------------------|-------------------------|---------|
| Balance at October 31, 2015                         | \$ 8.6           | \$ 0.3             | \$ —                    | \$8.9   |
| Additions during fiscal 2016                        | —                | 0.2                | 56.4                    | 56.6    |
| Payments during the fiscal year                     | (5.2 )           | (0.2 )             | —                       | (5.4 )  |
| Non-cash adjustments (a) (b)                        | (0.6 )           | —                  | (56.4 )                 | (57.0 ) |
| Balance at October 31, 2016                         | \$ 2.8           | \$ 0.3             | \$ —                    | \$3.1   |
| Payments during the nine months ended July 31, 2017 | (1.5 )           | —                  | —                       | (1.5 )  |
| Non-cash adjustments (a)                            | (0.7 )           | (0.3 )             | —                       | (1.0 )  |
| Balance at July 31, 2017                            | \$ 0.6           | \$ —               | \$ —                    | \$0.6   |

(a) Represent adjustments for currency translation and accrual releases for employee and facilities-related.

(b) Represents equipment disposals, inventory write-offs and accelerated depreciation for product rationalization.

## Note 4. Inventories

| (In millions)   | July 31, 2017 | October 31, 2016 |
|-----------------|---------------|------------------|
| Raw materials   | 104.7         | 86.0             |
| Work-in-process | 15.1          | 12.6             |
| Finished goods  | 334.1         | 319.1            |
|                 | 453.9         | 417.7            |

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



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

## (Unaudited)

## Note 5. Intangible Assets

## Goodwill

(In millions)

|                                                          | CooperVision | CooperSurgical | Total     |
|----------------------------------------------------------|--------------|----------------|-----------|
| Balance at October 31, 2015                              | \$ 1,827.6   | \$ 369.5       | \$2,197.1 |
| Net additions during the year ended October 31, 2016     | 9.1          | 156.9          | 166.0     |
| Translation                                              | (190.3 )     | (8.1 )         | (198.4 )  |
| Balance at October 31, 2016                              | 1,646.4      | 518.3          | 2,164.7   |
| Net additions during the nine months ended July 31, 2017 | 10.3         | 94.4           | 104.7     |
| Translation                                              | 56.6         | 7.6            | 64.2      |
| Balance at July 31, 2017                                 | \$ 1,713.3   | \$ 620.3       | \$2,333.6 |

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.

In the third quarter of fiscal 2017, we adopted ASU 2017-04, Intangibles - Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment where FASB eliminated Step 2 from the goodwill impairment test, which required a hypothetical purchase price allocation. We performed a qualitative assessment to test each reporting unit's goodwill for impairment. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance and other relevant events and factors affecting each reporting unit. Based on our qualitative assessment, if we determine that the fair value of a reporting unit is more likely than not to be less than its carrying amount, the fair value of a reporting unit will be compared with its carrying amount and an impairment charge will be recognized for the carrying amount which exceeds the reporting unit's fair value. A reporting unit is the level of reporting at which goodwill is tested for impairment. Our reporting units are the same as our business segments - CooperVision and CooperSurgical - reflecting the way that we manage our business. Goodwill impairment analysis and measurement is a process that requires significant judgment. If our common stock price trades below book value per share, there are changes in market conditions or future downturn in our business, or a future annual goodwill impairment test indicates an impairment of our goodwill, we may have to recognize a non-cash impairment of goodwill that could be material and could adversely affect our results of operations in the period recognized and also adversely affect our total assets, stockholders' equity and financial condition.

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

(Unaudited)

## Other Intangible Assets

| (In millions)                                  | At July 31, 2017      |                                        | At October 31, 2016   |                                        | Weighted Average Amortization Period<br>(In years) |
|------------------------------------------------|-----------------------|----------------------------------------|-----------------------|----------------------------------------|----------------------------------------------------|
|                                                | Gross Carrying Amount | Accumulated Amortization & Translation | Gross Carrying Amount | Accumulated Amortization & Translation |                                                    |
| Trademarks                                     | \$40.7                | \$ 9.4                                 | \$36.6                | \$ 6.8                                 | 12                                                 |
| Technology                                     | 423.5                 | 164.7                                  | 354.8                 | 139.3                                  | 11                                                 |
| Customer relationships                         | 310.3                 | 139.3                                  | 285.7                 | 121.9                                  | 13                                                 |
| License and distribution rights and other      | 68.9                  | 42.1                                   | 65.8                  | 33.8                                   | 9                                                  |
|                                                | 843.4                 | \$ 355.5                               | 742.9                 | \$ 301.8                               | 12                                                 |
| Less: accumulated amortization and translation | 355.5                 |                                        | 301.8                 |                                        |                                                    |
| Other intangible assets, net                   | \$487.9               |                                        | \$441.1               |                                        |                                                    |

We estimate that amortization expense for our existing other intangible assets at July 31, 2017, will be \$67.7 million in fiscal 2017, \$66.3 million in fiscal 2018, \$63.9 million in fiscal 2019, \$53.9 million in fiscal 2020 and \$52.4 million in fiscal 2021.

## Note 6. Debt

| (In millions)                                     | July 31,<br>2017 | October 31,<br>2016 |
|---------------------------------------------------|------------------|---------------------|
| Short-term:                                       |                  |                     |
| Overdraft and other credit facilities             | \$33.4           | \$ 17.1             |
| Current portion of long-term debt                 | —                | 210.7               |
| Less unamortized debt issuance cost on term loans | —                | (1.5 )              |
|                                                   | \$33.4           | \$ 226.3            |
| Long term:                                        |                  |                     |
| Credit Agreement                                  | \$354.0          | \$ —                |
| Term loans                                        | 830.0            | 1,111.2             |
| Other                                             | 0.2              | 0.2                 |
| Less unamortized debt issuance cost on term loans | (4.2 )           | (4.0 )              |
|                                                   | \$1,180.0        | \$ 1,107.4          |

## 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.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

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.

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 July 31, 2017, we were in compliance with the Interest Coverage Ratio at 24.08 and the Total Leverage Ratio at 1.70.

At July 31, 2017, we had \$830.0 million outstanding under the Term Loan and \$645.7 million available under the Revolving Credit Agreement.

Refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 for more details.

\$700.0 million Term Loan and \$300 million Term Loan

On August 4, 2014, we entered into a three-year, \$700.0 million, senior unsecured term loan agreement by and among the Company, the lenders party thereto and KeyBank National Association as administrative agent (as subsequently amended, the 2014 Term Loan Agreement) with a maturity date of August 4, 2017. In August 2014, we utilized this facility to fund the acquisition of Sauflon, as well as to provide working capital and for general corporate purposes. We repaid \$493.0 million of the outstanding balance in fiscal 2016 and fully repaid the remaining outstanding balance of \$207.0 million in the second quarter of fiscal 2017 using the funds from the 2016 Credit Agreement, as well as from cash provided by operations.

At July 31, 2017, we had no outstanding balance under the 2014 Term Loan.

On September 12, 2013, the Company entered into a five-year, \$300.0 million, senior unsecured term loan agreement by and among the Company; the lenders party thereto and KeyBank National Association, as administrative agent (as subsequently amended, the 2013 Term Loan Agreement), with a maturity date of September 12, 2018, subject to amortization of principal of 5% per annum payable quarterly beginning October 31, 2016, with the balance payable at maturity. In fiscal 2016, we repaid \$15.0 million of the outstanding balance and fully repaid the remaining outstanding balance of \$285.0 million in May 2017 using the funds from the 2016 Credit Agreement.

At July 31, 2017, we had no outstanding balance under the 2013 Term Loan.

Amounts outstanding under the 2014 and 2013 Term Loan Agreements (Term Loan Agreements) bear interest, at our option, at either the base rate, or the adjusted LIBO rate (each as defined in the Term Loan Agreements), plus, in each case, an applicable rate of between 0.00% and 0.50% in respect of base rate loans and between 0.75% and 1.50% 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 Term Loan Agreements.



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

(Unaudited)

These Term Loan Agreements contain 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 agreements, consistent with the 2016 Credit Agreement discussed above.

Refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 for more details.

## Note 7. Income Taxes

Our effective tax rate (ETR) (provision for income taxes divided by pretax income) for the first nine months of fiscal 2017 was 4.4%. Our year-to-date results reflect the projected fiscal year ETR, plus any discrete items. The ETR used to record the provision for income taxes for the first nine months of fiscal 2016 was 5.4%. The decrease in the effective tax rate in the first nine months of fiscal 2017 reflects a shift in our geographic mix of income as well as the benefit from adopting ASU 2016-09 (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. At November 1, 2016, Cooper had unrecognized tax benefits of \$39.9 million, of which, if recognized, \$29.7 million would impact our ETR. For the first nine months of fiscal 2017, there were no material changes to the total amount of unrecognized tax benefits.

We have accrued \$3.7 million of interest and penalties as of November 1, 2016. It is our policy to recognize the items of interest and penalties directly related to income taxes as additional income tax expense.

Included in the balance of unrecognized tax benefits at November 1, 2016, is \$1.6 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months. This amount represents a decrease in unrecognized tax benefits related to expiring statutes in various jurisdictions worldwide and relates primarily to transfer pricing matters.

At July 31, 2017, the tax years for which Cooper remains subject to United States Federal income tax assessment upon examination are 2014 through 2016. 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 2016.

## Note 8. Earnings Per Share

Periods Ended July 31,

(In millions, except per share amounts)

Net income attributable to Cooper stockholders

Basic:

Weighted average common shares

Basic earnings per common share attributable to Cooper stockholders

Diluted:

Weighted average common shares

Effect of potential dilutive common shares

Diluted weighted average common shares

Diluted earnings per common share attributable to Cooper stockholders

Three Months Nine Months

2017 2016 2017 2016

\$103.6 \$87.9 \$284.3 \$213.4

48.9 48.6 48.9 48.4

\$2.12 \$1.81 \$5.81 \$4.41

48.9 48.6 48.9 48.4

0.7 0.4 0.6 0.5

49.6 49.0 49.5 48.9

\$2.09 \$1.79 \$5.74 \$4.36

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

(Unaudited)

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

| Periods Ended July 31,                     | Three<br>Months | Nine Months |                   |
|--------------------------------------------|-----------------|-------------|-------------------|
| (In thousands, except exercise prices)     | 2017            | 2016        | 2016              |
| Number of stock option shares excluded     | 49              | 192         | 418               |
| Range of exercise prices                   | \$162.28        | \$175.31    | \$131.60-\$162.69 |
| Numbers of restricted stock units excluded | 2               | 1           | 3                 |

## Note 9. 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, 2016. The compensation expense and related income tax benefit recognized in our consolidated condensed financial statements for share-based awards were as follows:

| Periods Ended July 31,                      | Three<br>Months |       | Nine<br>Months |        |
|---------------------------------------------|-----------------|-------|----------------|--------|
| (In millions)                               | 2017            | 2016  | 2017           | 2016   |
| Selling, general and administrative expense | \$7.7           | \$6.4 | \$24.9         | \$19.2 |
| Cost of sales                               | (0.1)           | 0.7   | 1.9            | 1.8    |
| Research and development expense            | 0.3             | 0.3   | 0.9            | 0.9    |
| Total share-based compensation expense      | \$7.9           | \$7.4 | \$27.7         | \$21.9 |
| Related income tax benefit                  | \$2.6           | \$2.2 | \$8.5          | \$6.5  |

We capitalized share-based compensation expense as part of the cost of inventory in the amounts of \$0.8 million and \$2.8 million during the three and nine months ended July 31, 2017, respectively; and \$0.7 million and \$1.8 million during the three and nine months ended July 31, 2016, respectively. In the third quarter of fiscal 2017, there was an adjustment to cost of sales of \$0.9 million to increase share-based compensation capitalized in inventory.

## Note 10. Stockholders' Equity

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

| (In millions)                                                    | Foreign<br>Currency<br>Translation<br>Adjustment | Minimum<br>Pension<br>Liability | Total       |
|------------------------------------------------------------------|--------------------------------------------------|---------------------------------|-------------|
| Balance at October 31, 2015                                      | \$ (171.8 )                                      | \$ (19.8 )                      | \$ (191.6 ) |
| Gross change in value during the year ended October 31, 2016     | (289.6 )                                         | (13.7 )                         | (303.3 )    |
| Tax effect for the period                                        | —                                                | 5.3                             | 5.3         |
| Balance at October 31, 2016                                      | \$ (461.4 )                                      | \$ (28.2 )                      | \$ (489.6 ) |
| Gross change in value during the nine months ended July 31, 2017 | 104.8                                            | —                               | 104.8       |
| Balance at July 31, 2017                                         | \$ (356.6 )                                      | \$ (28.2 )                      | \$ (384.8 ) |

## 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

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

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 third quarter of fiscal 2017. During the second quarter of fiscal 2017, we repurchased 150 thousand shares of our common stock for \$29.5 million at an average price of \$196.82. At July 31, 2017, \$589.0 million remains authorized for repurchase under the program. We did not repurchase shares during the first nine months of fiscal 2016.

Dividends

We paid a semiannual dividend of approximately \$1.5 million or 3 cents per share on February 9, 2017, to stockholders of record on January 23, 2017. We paid another semiannual dividend of approximately \$1.5 million or 3 cents per share on August 7, 2017, to stockholders of record on July 21, 2017.

Note 11. Fair Value Measurements

At July 31, 2017 and October 31, 2016, 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:

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 July 31, 2017 and October 31, 2016 and are categorized as Level 2 of the fair value hierarchy.

Note 12. 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 and nine months ended July 31, 2017 and 2016 reflect the following components of net periodic pension costs:

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

(Unaudited)

| Periods Ended July 31,         | Three<br>Months |        | Nine<br>Months |        |
|--------------------------------|-----------------|--------|----------------|--------|
| (In millions)                  | 2017            | 2016   | 2017           | 2016   |
| Service cost                   | \$2.5           | \$2.3  | \$7.5          | \$6.9  |
| Interest cost                  | 1.1             | 1.2    | 3.3            | 3.7    |
| Expected return on plan assets | (1.8 )          | (1.6 ) | (5.4 )         | (4.9 ) |
| Recognized net actuarial loss  | 0.7             | 0.4    | 2.1            | 1.2    |
| Net periodic pension cost      | \$2.5           | \$2.3  | \$7.5          | \$6.9  |

We contributed \$5.0 million to the Plan in the first nine months of fiscal 2017, and expect to contribute an additional \$5.0 million during the remainder of fiscal 2017. We contributed \$5.0 million to the Plan in the first nine months of fiscal 2016. The expected rate of return on plan assets for determining net periodic pension cost is 8%.

## Note 13. 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. CooperVision and the other defendants jointly filed a motion to dismiss the complaints in December 2015. In June 2016, the motion to dismiss with respect to claims brought under the Maryland Consumer Protection Act was granted, but the motion to dismiss with respect to claims brought under Section 1 of the Sherman Act and other state laws was denied. The actions currently are in discovery. In March 2017, the plaintiffs filed a motion for class certification. In August 2017, CooperVision entered into a settlement agreement with the plaintiffs, without any admission of liability, to settle all claims against CooperVision, subject to Court approval of the settlement. The Company has recorded a settlement accrual of \$3.0 million for the third quarter fiscal ended July 31, 2017.

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. Legal fees are recognized as incurred.

## Note 14. 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:



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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Notes to Consolidated Condensed Financial Statements

(Unaudited)

| Periods Ended July 31,<br>(In millions) | Three Months     |                     | Nine Months |           |
|-----------------------------------------|------------------|---------------------|-------------|-----------|
|                                         | 2017             | 2016                | 2017        | 2016      |
| CooperVision net sales by category:     |                  |                     |             |           |
| Toric lens                              | \$ 138.3         | \$ 126.1            | \$ 390.8    | \$ 354.1  |
| Multifocal lens                         | 46.8             | 44.3                | 132.1       | 127.2     |
| Single-use sphere lens                  | 115.8            | 104.3               | 319.5       | 292.7     |
| Non single-use sphere and other         | 136.4            | 135.2               | 392.6       | 391.5     |
| Total CooperVision net sales            | 437.3            | 409.9               | 1,235.0     | 1,165.5   |
| CooperSurgical net sales                | 118.7            | 104.8               | 342.5       | 282.7     |
| Total net sales                         | \$556.0          | \$514.7             | \$1,577.5   | \$1,448.2 |
| Operating income (loss):                |                  |                     |             |           |
| CooperVision                            | \$ 109.5         | \$ 99.4             | \$ 308.9    | \$ 235.7  |
| CooperSurgical                          | 14.9             | 14.7                | 48.2        | 47.9      |
| Corporate                               | (11.6 )          | (11.4 )             | (36.5 )     | (33.7 )   |
| Total operating income                  | 112.8            | 102.7               | 320.6       | 249.9     |
| Interest expense                        | 8.3              | 8.0                 | 23.3        | 20.9      |
| Other (income) expense, net             | (3.2 )           | 1.3                 | (0.1 )      | 2.2       |
| Income before income taxes              | \$ 107.7         | \$ 93.4             | \$ 297.4    | \$ 226.8  |
| (In millions)                           | July 31,<br>2017 | October 31,<br>2016 |             |           |
| Total assets:                           |                  |                     |             |           |
| CooperVision                            | \$ 3,515.8       | \$ 3,382.4          |             |           |
| CooperSurgical                          | 1,116.2          | 907.1               |             |           |
| Corporate                               | 150.8            | 189.1               |             |           |
| Total                                   | \$ 4,782.8       | \$ 4,478.6          |             |           |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(Unaudited)

Geographic information:

| Periods Ended July 31,<br>(In millions)                   | Three Months                      |         | Nine Months |           |
|-----------------------------------------------------------|-----------------------------------|---------|-------------|-----------|
|                                                           | 2017                              | 2016    | 2017        | 2016      |
| Net sales to external customers by country of domicile:   |                                   |         |             |           |
| United States                                             | \$235.3                           | \$227.8 | \$694.8     | \$656.0   |
| Europe                                                    | 200.6                             | 182.8   | 544.5       | 505.8     |
| Rest of world                                             | 120.1                             | 104.1   | 338.2       | 286.4     |
| Total                                                     | \$556.0                           | \$514.7 | \$1,577.5   | \$1,448.2 |
| (In millions)                                             | July 31, October 31,<br>2017 2016 |         |             |           |
| Net property, plant and equipment by country of domicile: |                                   |         |             |           |
| United States                                             | \$467.7                           | \$464.1 |             |           |
| Europe                                                    | 345.4                             | 334.4   |             |           |
| Rest of world                                             | 81.8                              | 79.2    |             |           |
| Total                                                     | \$894.9                           | \$877.7 |             |           |

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

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, expecting 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.

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/or earnings.

Our indebtedness and associated interest expense, could adversely affect our financial health, prevent us from fulfilling our debt obligations or limit our ability to borrow additional funds.

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.

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 or distribution facilities 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, including but not limited to, components used to manufacture our silicone hydrogel lenses.



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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 health care industry, including the contact lens industry and the medical device industry.

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, including but not limited to product recalls, warning letters, and 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/expenses related to recalls.

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, 2016, 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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Results of Operations

In this section, we discuss the results of our operations for the third quarter of fiscal 2017 ended July 31, 2017, and the nine months then ended and compare them with the same periods of fiscal 2016. 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.

Third Quarter Highlights

• Net sales of \$556.0 million, up 8% from \$514.7 million. CooperVision net sales up 7% to \$437.3 million.

• CooperSurgical net sales up 13% to \$118.7 million

• Gross profit \$356.2 million, up 12% from \$316.6 million. Gross margin 64% up from 62%

• Operating income \$112.8 million, up 10% from \$102.7 million. Operating margin 20%, same as prior year period

• Diluted earnings per share of \$2.09 per share, up 30 cents from \$1.79 per share

• Cash provided by operations \$154.6 million, up from \$128.9 million

Nine-Month Highlights

• Net sales of \$1,577.5 million, up 9% from \$1,448.2 million. CooperVision net sales up 6% to \$1,235.0 million.

• CooperSurgical net sales up 21% to \$342.5 million

• Gross profit \$1,012.4 million, up 15% from \$877.1 million. Gross margin 64% up from 61%

• Operating income \$320.6 million, up 28% from \$249.9 million. Operating margin 20%, up from 17%

• Diluted earnings per share of \$5.74, up \$1.38 from \$4.36 per share

• Cash provided by operations \$394.6 million, up from \$316.3 million

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 of recently introduced products and we continue to expand our presence in existing and emerging markets, including through acquisitions. Subsequent to the third quarter of fiscal 2017, in August 2017, we acquired Procornea, a Netherlands based manufacturer of specialty contact lenses, this acquisition expands CooperVision's access to myopia (nearsightedness) management markets with new products. In June 2017, we acquired Grand Vista LLC, a Russian distributor of soft contact lenses and in September 2016, we acquired Soflex, an Israeli manufacturer and distributor of soft contact lenses and aftercare solutions.

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Sales of contact lenses utilizing silicone hydrogel materials continue to grow and this material represents about half of the industry's sales. 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. These lenses are marketed under a number of different brand names, including but not limited to, Biofinity®, clariti®, MyDay® and Avaira®.

We believe 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 forecast 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 and diagnostics. 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 45% of CooperSurgical's net sales in the third quarter of fiscal 2017 compared to 50% in the prior year period. CooperSurgical's remaining sales are specialized products and services that largely target the in vitro fertilization (IVF) process used in fertility that now represent 55% of CooperSurgical's net sales up from 50% in the prior year period. This change in product mix is attributed 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 for the IVF process. In our first quarter of fiscal 2017, we acquired Wallace, the IVF segment of Smiths Medical International Ltd for \$167.4 million.

In fiscal 2016, we acquired Recombine Inc., Reprogenetics UK and Genesis Genetics Inc., which compete in service offerings of carrier screening, preimplantation genetic screening (PGS) and/or preimplantation genetic diagnosis (PGD) used during the IVF process, and we also acquired Kivex Biotec A/S, The Pipette Company and Research Instruments, who are manufacturers and distributors of IVF medical devices, systems and/or equipment. Refer to Note 2. Acquisitions and our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 for more details. We intend to continue investing in CooperSurgical's business with the goal of expanding our integrated solutions model within the areas of health care, fertility and diagnostics.

Capital Resources - At July 31, 2017, we had \$46.0 million in cash, primarily outside the United States, and \$645.7 million available under our syndicated revolving credit agreement. The \$830.0 million term loan entered on March 1, 2016 remains outstanding at July 31, 2017. In the second quarter of fiscal 2017, we used funds from operations and from our revolving credit agreement to fully repay the remaining \$207.0 million outstanding from the \$700.0 million term loan originally entered into on August 4, 2014 and there is no outstanding balance at July 31, 2017. In the third quarter of fiscal 2017, we fully repaid the remaining \$285.0 million outstanding from the \$300.0 million term loan originally entered into on September 12, 2013 using the funds from the 2016 Credit Agreement and there is no outstanding balance at July 31, 2017.

On March 1, 2016, we entered into a syndicated revolving Credit and Term Loan Agreement with Keybank as administrative agent. 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. We used funds from the new term loan to repay outstanding amounts under the previous Credit Agreement, to repay our other outstanding term loans and for general corporate purposes. See Note 6. Debt for additional information.

We believe our cash and cash equivalents, cash flow from operating activities and borrowing capacity under our credit facilities will fund operations both in the next 12 months and in the longer term. 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



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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.

## Selected Statistical Information – Percentage of Sales and Growth

| Periods Ended July 31,                      | Three Months |      |                 | Nine Months |      |                 |
|---------------------------------------------|--------------|------|-----------------|-------------|------|-----------------|
|                                             | Percentage   |      | 2017 vs<br>2016 | Percentage  |      | 2017 vs<br>2016 |
|                                             | of Sales     |      |                 | of Sales    |      |                 |
|                                             | 2017         | 2016 | % Change        | 2017        | 2016 | % Change        |
| Net sales                                   | 100%         | 100% | 8 %             | 100%        | 100% | 9 %             |
| Cost of sales                               | 36 %         | 38 % | 1 %             | 36 %        | 39 % | (1 )%           |
| Gross profit                                | 64 %         | 62 % | 12 %            | 64 %        | 61 % | 15 %            |
| Selling, general and administrative expense | 38 %         | 35 % | 14 %            | 37 %        | 37 % | 11 %            |
| Research and development expense            | 3 %          | 3 %  | 9 %             | 3 %         | 3 %  | 7 %             |
| Amortization of intangibles                 | 3 %          | 3 %  | 10 %            | 3 %         | 3 %  | 10 %            |
| Operating income                            | 20 %         | 20 % | 10 %            | 20 %        | 17 % | 28 %            |

## Net Sales

Our two business units, CooperVision and CooperSurgical, generate all of our sales. Our consolidated net sales grew by \$41.2 million or 8%, and \$129.3 million or 9%, in the three and nine months ended July 31, 2017, respectively:

| Periods Ended July 31, | Three Months |         |                 | Nine Months |           |                 |
|------------------------|--------------|---------|-----------------|-------------|-----------|-----------------|
|                        |              |         | 2017 vs<br>2016 |             |           | 2017 vs<br>2016 |
|                        | 2017         | 2016    |                 | 2017        | 2016      |                 |
| (\$ in millions)       |              |         | % Change        |             |           | % Change        |
| CooperVision           | \$437.3      | \$409.9 | 7 %             | \$1,235.0   | \$1,165.5 | 6 %             |
| CooperSurgical         | 118.7        | 104.8   | 13 %            | 342.5       | 282.7     | 21 %            |
|                        | \$556.0      | \$514.7 | 8 %             | \$1,577.5   | \$1,448.2 | 9 %             |

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## CooperVision Net Sales

The contact lens market has two major product categories:

Spherical lenses including lenses that correct near- and farsightedness uncomplicated by more complex visual defects. Toric and multifocal lenses including lenses that, in addition to correcting near- and farsightedness, address more complex visual defects such as astigmatism and presbyopia by adding optical properties of cylinder and axis, which correct for irregularities in the shape of the cornea.

In order to achieve comfortable and healthy contact lens wear, products are sold with recommended replacement schedules, often defined as modalities, with the primary modalities being single-use, two-week and monthly.

CooperVision offers spherical, toric, multifocal and toric multifocal lens products in most modalities.

Single-use lenses are designed for daily replacement and frequently replaced lenses are designed for two-week or monthly replacement. Significantly, the market for spherical lenses is growing with value-added spherical lenses to alleviate dry eye symptoms, to reduce eye fatigue from use of digital devices, to add aspherical optical properties, and/or higher oxygen permeable lenses such as silicone hydrogels.

CooperVision's silicone hydrogel Biofinity brand spherical, toric and multifocal contact lenses, Avaira brand spherical and toric lenses and MyDay brand spherical and toric lenses, are manufactured using proprietary Aquaform technology to increase oxygen transmissibility for longer wear. Our silicone hydrogel clariti brand spherical, toric and multifocal contact lenses are available in monthly and single-use modalities. We believe the clariti single-use silicone hydrogel lens products provide a competitive advantage in approved markets as clariti is the only single-use silicone hydrogel lens available in all vision correction categories - spherical, toric and multifocal.

CooperVision's Proclea® brand spherical, toric and multifocal contact lenses, manufactured using PC Technology, help enhance tissue/device compatibility and offer improved lens comfort.

## CooperVision Net Sales by Category

Three Months Ended July 31,

| (\$ in millions)             | 2017    | %<br>Net<br>Sales | 2016    | %<br>Net<br>Sales | 2017 vs<br>2016<br>% Change |
|------------------------------|---------|-------------------|---------|-------------------|-----------------------------|
| Toric                        | \$138.3 | 32 %              | \$126.1 | 31 %              | 10 %                        |
| Multifocal                   | 46.8    | 11 %              | 44.3    | 11 %              | 6 %                         |
| Single-use spheres           | 115.8   | 26 %              | 104.3   | 25 %              | 11 %                        |
| Non single-use sphere, other | 136.4   | 31 %              | 135.2   | 33 %              | 1 %                         |
|                              | \$437.3 | 100 %             | \$409.9 | 100 %             | 7 %                         |

Nine Months Ended July 31,

| (\$ in millions)             | 2017    | %<br>Net<br>Sales | 2016    | %<br>Net<br>Sales | 2017 vs<br>2016<br>% Change |
|------------------------------|---------|-------------------|---------|-------------------|-----------------------------|
| Toric                        | \$390.8 | 32 %              | \$354.1 | 30 %              | 10 %                        |
| Multifocal                   | 132.1   | 11 %              | 127.2   | 11 %              | 4 %                         |
| Single-use spheres           | 319.5   | 26 %              | 292.7   | 25 %              | 9 %                         |
| Non single-use sphere, other | 392.6   | 31 %              | 391.5   | 34 %              | — %                         |

\$1,235.0 100% \$1,165.5 100% 6 %

In the three and nine months ended July 31, 2017, CooperVision's toric and multifocal lenses grew largely through the success of our Biofinity, clariti and MyDay portfolios, offset by declines in older hydrogel products. Single-use sphere

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lenses growth was largely attributable to clariti and MyDay lenses offset by declines in older hydrogel products. Non single-use sphere sales grew largely on sales of Biofinity offset by declines in older hydrogel products. The term "other" products primarily includes lens care, at approximately 2% of net sales, in both the three and nine month periods ended July 31, 2017. Total silicone hydrogel products, including clariti, Biofinity, Avaira and MyDay grew 17% in the three months ended July 31, 2017, representing 66% of net sales compared to 60% in the same period in the prior fiscal year, and grew 16% in the nine months ended July 31, 2017, representing 65% of net sales compared to 59% in the same period in the prior fiscal year.

## CooperVision Net Sales by Geography

CooperVision competes in the worldwide soft contact lens market and services three primary regions: the Americas, EMEA (Europe, Middle East and Africa) and Asia Pacific.

| Periods Ended July 31, | Three Months |         |                             |   | Nine Months |           |                             |   |
|------------------------|--------------|---------|-----------------------------|---|-------------|-----------|-----------------------------|---|
|                        | 2017         | 2016    | 2017 vs<br>2016<br>% Change |   | 2017        | 2016      | 2017 vs<br>2016<br>% Change |   |
| (\$ in millions)       |              |         |                             |   |             |           |                             |   |
| Americas               | \$168.7      | \$166.1 | 2                           | % | \$503.6     | \$482.6   | 4                           | % |
| EMEA                   | 179.9        | 162.5   | 11                          | % | 477.3       | 456.6     | 5                           | % |
| Asia Pacific           | 88.7         | 81.3    | 9                           | % | 254.1       | 226.3     | 12                          | % |
|                        | \$437.3      | \$409.9 | 7                           | % | \$1,235.0   | \$1,165.5 | 6                           | % |

Americas net sales growth was primarily due to silicone hydrogel lenses including Biofinity, clariti, and MyDay, partially offset by the decrease in sales of older hydrogel products. EMEA net sales growth was due to silicone hydrogel lenses including Biofinity, clariti and MyDay, which was partially offset by weakening foreign currencies, primarily the British pound, compared to the prior year against the United States dollar for the nine-month period and euro, for the first half of the fiscal year. Net sales in the Asia Pacific region grew primarily due to silicone hydrogel lenses, including Biofinity, MyDay and clariti.

CooperVision's net sales were driven primarily by increases in the volume of lenses sold, including recently introduced silicone hydrogel products. While unit growth and product mix have influenced CooperVision's net sales, average realized prices by product have not materially influenced sales growth.

## CooperSurgical Net Sales

CooperSurgical supplies the market for family health care with a diversified portfolio of products and services for use in surgical and other medical procedures that are performed primarily by obstetricians and gynecologists in hospitals, surgical centers, fertility clinics and in the medical office. Fertility offerings include highly specialized products and services that target the in vitro fertilization (IVF) process with a goal to make fertility treatment safer, more efficient and convenient.

## Three Months Ended July 31,

| (\$ in millions)             | 2017    | % Net Sales |   | 2016    | % Net Sales |   | 2017 vs 2016<br>% Change |   |
|------------------------------|---------|-------------|---|---------|-------------|---|--------------------------|---|
|                              |         |             |   |         |             |   |                          |   |
| Fertility                    | \$65.5  | 55          | % | \$52.0  | 50          | % | 26                       | % |
| Office and surgical products | 53.2    | 45          | % | 52.8    | 50          | % | 1                        | % |
|                              | \$118.7 | 100         | % | \$104.8 | 100         | % | 13                       | % |

## Nine Months Ended July 31,

| (\$ in millions)             | 2017    | % Net<br>Sales | 2016    | % Net<br>Sales | 2017 vs<br>2016<br>% Change |
|------------------------------|---------|----------------|---------|----------------|-----------------------------|
| Fertility                    | \$183.4 | 54 %           | \$123.5 | 44 %           | 49 %                        |
| Office and surgical products | 159.1   | 46 %           | 159.2   | 56 %           | — %                         |
|                              | \$342.5 | 100 %          | \$282.7 | 100 %          | 21 %                        |

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The growth in CooperSurgical's net sales of fertility products and services compared to the prior year periods were primarily due to sales of products and services of companies acquired during the first nine months of fiscal 2017. The net sales of medical office and surgical products in the three and nine months ended July 31, 2017 remained relatively flat compared to the prior year periods due to declines in sales of disposable products, partially offset by growth in recently launched products used in surgical procedures. Unit growth and product mix, primarily sales of recently acquired products and services, influenced sales growth.

## Cost of Sales/Gross Profit

| Gross Profit Percentage of Net Sales | Three Months |      | Nine Months |      |
|--------------------------------------|--------------|------|-------------|------|
| Periods Ended July 31,               | 2017         | 2016 | 2017        | 2016 |
| CooperVision                         | 65 %         | 62 % | 65 %        | 60 % |
| CooperSurgical                       | 61 %         | 61 % | 61 %        | 63 % |
| Consolidated                         | 64 %         | 62 % | 64 %        | 61 % |

CooperVision's increases in gross margin in the three and nine months ended July 31, 2017 as compared to the prior year periods are primarily due to the increase in sales of higher margin products including Biofinity and favorable currency impact to CooperVision's cost of sales primarily led by the weakening of British pound compared to the United States dollar. Prior year period's gross margin was also negatively impacted due to product and equipment rationalization costs arising from the Sauflon restructuring and integration activities and facility startup costs for \$10.3 million and \$30.3 million in the three and nine months ended July 31, 2016, respectively. CooperVision's cost of sales include \$2.8 million of product write off costs due to new product transition in Coopervision in the three and nine months ended July 31, 2017 and \$0.6 million of facility start up costs in the nine months ended July 31, 2017.

CooperSurgical's gross margin remained flat in the three-month period ended July 31, 2017 and decreased in the nine months ended July 31, 2017 as compared to the prior year period, primarily due to higher integration costs and the addition of sales of lower margin services from acquisitions. CooperSurgical's cost of sales in fiscal 2017 include \$1.3 million and \$2.8 million of integration costs in the three and nine months ended July 31, 2017, respectively; and in fiscal 2016 included \$0.3 million and \$1.6 million of integration costs in the three and nine months ended July 31, 2016, respectively.

## Selling, General and Administrative Expense (SGA)

## Three Months Ended July 31,

| (\$ in millions) | 2017    | % Net Sales | 2016    | % Net Sales | 2017 vs 2016 % Change |   |
|------------------|---------|-------------|---------|-------------|-----------------------|---|
| CooperVision     | \$153.2 | 35 %        | \$132.2 | 32 %        | 16                    | % |
| CooperSurgical   | 43.9    | 37 %        | 38.8    | 37 %        | 13                    | % |
| Corporate        | 11.6    | -           | 11.4    | -           | 3                     | % |
|                  | \$208.7 | 38 %        | \$182.4 | 35 %        | 14                    | % |

## Nine Months Ended July 31,

| (\$ in millions) | 2017    | % Net Sales | 2016    | % Net Sales | 2017 vs 2016 % Change |   |
|------------------|---------|-------------|---------|-------------|-----------------------|---|
| CooperVision     | \$432.3 | 35 %        | \$398.1 | 34 %        | 9                     | % |
| CooperSurgical   | 121.8   | 36 %        | 101.9   | 36 %        | 20                    | % |

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|           |         |      |         |      |    |   |
|-----------|---------|------|---------|------|----|---|
| Corporate | 36.5    | -    | 33.7    | -    | 8  | % |
|           | \$590.6 | 37 % | \$533.7 | 37 % | 11 | % |

The increases in CooperVision's SGA in absolute dollars and as a percentage of sales in the three and nine months ended July 31, 2017 as compared to the prior year periods are due to investments to support our long term objectives,

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including increased headcount in sales, marketing and G&A, investments in information technology and higher distribution expenses to support revenue growth. CooperVision's SGA in the three and nine months ended July 31, 2017, include \$0.5 million and \$1.5 million of acquisition costs and \$5.8 million and \$8.8 million of legal costs, respectively. Legal costs related to litigation of class action complaints filed against CooperVision and other contact lens manufacturers relating to Unilateral Pricing Policy (UPP), including a settlement accrual of \$3.0 million, and state and federal lobbying expenses.

CooperVision's SGA in the prior year period included \$0.4 million and \$1.8 million of legal costs relating to UPP in the three and nine months ended July 31, 2016, respectively. Prior year period SGA also included \$10.0 million of Sauflon restructuring and integration costs in the nine months ended July 31, 2016.

The increases in CooperSurgical's SGA in absolute dollars are primarily due to the inclusion of operating expenses of recently acquired companies and investment in headcount to support growth. CooperSurgical's SGA included \$3.7 million and \$10.1 million of primarily acquisition and integration expenses from recently acquired companies in the three and nine months ended July 31, 2017, respectively, compared to \$2.7 million and \$8.9 million in the prior year periods, respectively. CooperSurgical continues to invest in sales activities to promote products and to reach new customers.

The increases in Corporate SGA in absolute dollars for the three and nine months ended as compared to the prior year periods are primarily due to share based compensation related expenses.

## Research and Development Expense (R&amp;D)

## Three Months Ended July 31,

| (\$ in millions) | 2017   | % Net Sales | 2016   | % Net Sales | 2017 vs 2016 % Change |
|------------------|--------|-------------|--------|-------------|-----------------------|
| CooperVision     | \$11.7 | 3 %         | \$11.5 | 3 %         | 2 %                   |
| CooperSurgical   | 5.8    | 5 %         | 4.4    | 4 %         | 27 %                  |
|                  | \$17.5 | 3 %         | \$15.9 | 3 %         | 9 %                   |

## Nine Months Ended July 31,

| (\$ in millions) | 2017   | % Net Sales | 2016   | % Net Sales | 2017 vs 2016 % Change |
|------------------|--------|-------------|--------|-------------|-----------------------|
| CooperVision     | \$34.6 | 3 %         | \$35.0 | 3 %         | (1) %                 |
| CooperSurgical   | 16.0   | 5 %         | 12.4   | 4 %         | 28 %                  |
|                  | \$50.6 | 3 %         | \$47.4 | 3 %         | 7 %                   |

The decrease in CooperVision's R&D expenses in absolute dollars in the nine months ended July 31, 2017 compared to the prior year periods are primarily due to reduction in headcount due to synergies from integration activities.

CooperVision's R&D activities are primarily focused on the development of contact lenses and manufacturing improvements.

The increases in CooperSurgical's R&D expenses in absolute dollars in the three and nine months ended July 31, 2017 are primarily due to increased activity to bring newly acquired products to market, increased project investments to develop new products and the upgrade of existing products. CooperSurgical's R&D activities include in vitro fertilization product development and the design and upgrade of surgical procedure devices and diagnostic services.



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## Amortization Expense

Three Months Ended July 31,

| (\$ in millions) | 2017   | % Net Sales | 2016   | % Net Sales | 2017 vs 2016 % Change |
|------------------|--------|-------------|--------|-------------|-----------------------|
| CooperVision     | \$9.0  | 2 %         | \$9.8  | 2 %         | (8 )%                 |
| CooperSurgical   | 8.2    | 7 %         | 5.8    | 6 %         | 41 %                  |
|                  | \$17.2 | 3 %         | \$15.6 | 3 %         | 10 %                  |

Nine Months Ended July 31,

| (\$ in millions) | 2017   | % Net Sales | 2016   | % Net Sales | 2017 vs 2016 % Change |
|------------------|--------|-------------|--------|-------------|-----------------------|
| CooperVision     | \$26.7 | 2 %         | \$31.5 | 3 %         | (15 )%                |
| CooperSurgical   | 23.9   | 7 %         | 14.6   | 5 %         | 64 %                  |
|                  | \$50.6 | 3 %         | \$46.1 | 3 %         | 10 %                  |

The increases in amortization expense are due primarily to amortization of intangible assets acquired in recent acquisitions. The decreases in CooperVision's amortization expense in the three and nine months ended compared to the prior year periods were due to certain intangible assets that were fully amortized and due to a charge of \$2.3 million in the first quarter of fiscal 2016 to write off acquired in-process research and development.

## Restructuring Costs

During the fourth quarter of fiscal 2014 and in connection with the Sauflon acquisition, our CooperVision business unit initiated restructuring and integration activities to optimize operational synergies of the combined companies. The 2014 Sauflon Integration Plan activities included workforce reductions, consolidation of duplicative facilities and product rationalization. At October 31, 2016, our activities related to this restructuring and integration plan were essentially complete. The total restructuring costs under this plan were \$148.3 million.

Pursuant to the 2014 Sauflon Integration Plan, in the three and nine month periods ended July 31, 2016, we recorded in cost of sales \$8.7 million and \$23.5 million of expense, respectively, arising from production-related asset disposals and accelerated depreciation on equipment, primarily related to our hydrogel lenses, based on our review of products, materials and manufacturing processes of Sauflon. We recorded in cost of sales, employee termination costs of \$0.4 million and \$0.9 million in the three and nine month periods ended July 31, 2016, respectively. We recorded \$0.1 million of employee termination costs and \$0.2 million for lease termination costs in selling, general and administrative expense in the nine months ended July 31, 2016. We also recorded in research and development expense \$0.1 million of employee termination costs in the nine months ended July 31, 2016. In addition, CooperVision incurred \$10 million of integration costs included in operating expenses in nine months ended July 31, 2016. CooperVision did not incur integration costs in the first nine months of fiscal 2017.

## Operating Income

Three Months Ended July 31,

| (\$ in millions) | 2017 | % Net Sales | 2016 | % Net Sales | 2017 vs 2016 % Change |
|------------------|------|-------------|------|-------------|-----------------------|
|------------------|------|-------------|------|-------------|-----------------------|

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|                |         |      |         |      |      |   |
|----------------|---------|------|---------|------|------|---|
| CooperVision   | \$109.5 | 25 % | \$99.4  | 24 % | 10   | % |
| CooperSurgical | 14.9    | 13 % | 14.7    | 14 % | 2    | % |
| Corporate      | (11.6 ) | -    | (11.4 ) | -    | (3 ) | % |
|                | \$112.8 | 20 % | \$102.7 | 20 % | 10   | % |

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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

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

## Nine Months Ended July 31,

| (\$ in millions) | 2017    | % Net Sales | 2016    | % Net Sales | 2017 vs 2016 % Change |
|------------------|---------|-------------|---------|-------------|-----------------------|
| CooperVision     | \$308.9 | 25 %        | \$235.7 | 20 %        | 31 %                  |
| CooperSurgical   | 48.2    | 14 %        | 47.9    | 17 %        | 1 %                   |
| Corporate        | (36.5 ) | -           | (33.7 ) | -           | (8 )%                 |
|                  | \$320.6 | 20 %        | \$249.9 | 17 %        | 28 %                  |

Consolidated operating income in the fiscal 2017 periods increased in absolute dollars and as a percentage of net sales compared to the prior year periods primarily due to the increase in consolidated net sales and improved gross margin. CooperVision's operating income in the fiscal 2017 periods increased in absolute dollars and as a percentage of net sales primarily due to increases in net sales, improved gross margin and decreases in expenses relating to restructuring and integration costs primarily related to Sauflon, as discussed above, recorded in cost of sales and operating expenses.

CooperSurgical's operating income in the fiscal 2017 periods increased in absolute dollars and decreased as a percentage of net sales in the three and nine months ended reflect the sales of lower margin products and services from acquisitions and the increase in total operating expenses primarily due to SGA and amortization expenses from recent acquisitions.

## Interest Expense

## Three Months Ended July 31,

| (\$ in millions) | 2017  | % Net Sales | 2016  | % Net Sales | 2017 vs 2016 % Change |
|------------------|-------|-------------|-------|-------------|-----------------------|
| Interest Expense | \$8.3 | 2 %         | \$8.0 | 2 %         | 5 %                   |

## Nine Months Ended July 31,

| (\$ in millions) | 2017   | % Net Sales | 2016   | % Net Sales | 2017 vs 2016 % Change |
|------------------|--------|-------------|--------|-------------|-----------------------|
| Interest Expense | \$23.3 | 1 %         | \$20.9 | 1 %         | 12 %                  |

Interest expense increases in the three and nine months ended July 31, 2017 compared to the prior year periods are primarily due to higher interest rates.

## Other Expense (Income), Net

| Periods Ended July 31,       | Three Months |       | Nine Months |       |
|------------------------------|--------------|-------|-------------|-------|
| (\$ in millions)             | 2017         | 2016  | 2017        | 2016  |
| Foreign exchange (gain) loss | \$(2.8)      | \$0.9 | \$—         | \$1.8 |
| Other, net                   | (0.4 )       | 0.4   | (0.1 )      | 0.4   |
|                              | \$(3.2)      | \$1.3 | \$(0.1)     | \$2.2 |

Foreign exchange (gain) loss is primarily resulting from revaluation and settlement of foreign currencies-denominated balances.

Provision for Income Taxes

We recorded income tax expense of \$13.1 million in the first nine months of fiscal 2017 compared to \$12.4 million in the prior year period. Our effective tax rate (ETR) (provision for income taxes divided by pretax income) for the first nine months of fiscal 2017 was 4.4% compared to our ETR of 5.4% in the prior year period. The decrease in our ETR compared to the prior year period reflects a shift in our geographic mix of income as well as discrete benefits from excess tax benefit from share-based compensation.

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The ETR is lower than the United States federal statutory rate as a majority of our taxable income is earned in foreign jurisdictions with lower tax rates. The ratio of domestic taxable income to worldwide taxable income has decreased over recent fiscal years effectively lowering the overall tax rate due to the fact that the tax rates in the majority of foreign jurisdictions where we operate are significantly lower than the statutory rate in the United States.

The impact on our provision for income taxes of income earned in foreign jurisdictions being taxed at rates different than the United States federal statutory rate was a benefit of approximately \$90.4 million and a foreign effective tax rate of approximately 3.3% in our first nine months of fiscal 2017 compared to a benefit of approximately \$63.5 million and a foreign effective tax rate of a benefit of approximately 1.7% in our first nine months of fiscal 2016. See the notes to consolidated condensed financial statements for additional information.

**Share Repurchase**

In December 2011, our Board of Directors authorized a 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. The program has no expiration date and may be discontinued at any time. We did not repurchase shares in the third quarter of fiscal 2017. During the second quarter of fiscal 2017, we repurchased 150 thousand shares of our common stock for \$29.5 million at an average price of \$196.82 per share. At July 31, 2017, we had remaining authorization to repurchase \$589.0 million of our common stock. See the notes to consolidated condensed financial statements for additional information.

**Share-Based Compensation Plans**

Cooper has several share-based compensation plans that are described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016. The compensation expense and related income tax benefit recognized in our consolidated condensed financial statements for share-based awards were as follows:

| Periods Ended July 31,                      | Three  |       | Nine   |        |
|---------------------------------------------|--------|-------|--------|--------|
|                                             | Months |       | Months |        |
| (\$ in millions)                            | 2017   | 2016  | 2017   | 2016   |
| Selling, general and administrative expense | \$7.7  | \$6.4 | \$24.9 | \$19.2 |
| Cost of sales                               | (0.1 ) | 0.7   | 1.9    | 1.8    |
| Research and development expense            | 0.3    | 0.3   | 0.9    | 0.9    |
| Total share-based compensation expense      | \$7.9  | \$7.4 | \$27.7 | \$21.9 |
| Related income tax benefit                  | \$2.6  | \$2.2 | \$8.5  | \$6.5  |

We capitalized share-based compensation expense as part of the cost of inventory in the amounts of \$0.8 million and \$2.8 million during the three and nine months ended July 31, 2017, respectively; and \$0.7 million and \$1.8 million during the three and nine months ended July 31, 2016, respectively. In the third quarter of fiscal 2017, there was an adjustment to cost of sales of \$0.9 million to increase share-based compensation capitalized in inventory.

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Capital Resources and Liquidity

Third Quarter Highlights

Operating cash flow \$154.6 million compared to \$128.9 million in the third quarter of fiscal 2016

Expenditures for purchases of property, plant and equipment \$38.1 million compared to \$31.1 million in the prior year period

Cash payments for acquisitions, \$23.3 million, compared to \$105.9 million in the prior year period

Nine-Month Highlights

Operating cash flow \$394.6 million compared to \$316.3 million in the third quarter of fiscal 2016

Expenditures for purchases of property, plant and equipment \$95.4 million compared to \$117.4 million in the prior year period

Share repurchases under our share repurchase plan \$29.5 million, compared to no share repurchase in the prior year period

Cash payments for acquisitions, \$197.0 million, primarily CooperSurgical's acquisitions, compared to \$251.3 million in the prior year period

Comparative Statistics

| (\$ in millions)                             | July 31,<br>2017 | October<br>31, 2016 |
|----------------------------------------------|------------------|---------------------|
| Cash and cash equivalents                    | \$46.0           | \$100.8             |
| Total assets                                 | \$4,782.8        | \$4,478.6           |
| Working capital                              | \$560.9          | \$393.9             |
| Total debt                                   | \$1,213.4        | \$1,333.8           |
| Stockholders' equity                         | \$3,093.3        | \$2,695.9           |
| Ratio of debt to equity                      | 0.39:1           | 0.49:1              |
| Debt as a percentage of total capitalization | 28 %             | 33 %                |
| Operating cash flow - twelve months ended    | \$588.0          | \$509.6             |

Working Capital

The increase in working capital at July 31, 2017 from the end of fiscal 2016 was primarily due to the net repayment of \$192.9 million of short-term debt, increase in accounts receivable and inventories. This is partially offset by the reclassification of short term deferred tax assets to long term assets (See Note 1. General) and an increase in accounts payable and other liabilities.

At July 31, 2017, our inventory months on hand (MOH) were 6.8 compared to 5.6 at October 31, 2016. MOH at October 31, 2016 was 6.7 after adjusting for product rationalization costs related to Sauflon. The \$36.2 million increase in inventories was primarily due to increase in finished goods and raw materials to support product launches and production levels. Our days sales outstanding (DSO) were consistent at 54 days at July 31, 2017, compared to 53 days at October 31, 2016 and 54 days at July 31, 2016.

We have reviewed our needs in the United States for possible repatriation of undistributed earnings or cash of our foreign subsidiaries. Cooper presently intends to continue to indefinitely invest all earnings and cash outside of the United States of all foreign subsidiaries to fund foreign investments or meet foreign working capital and property, plant and equipment requirements.

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Operating Cash Flow

Cash flow provided by operating activities in the first nine months of fiscal 2017 continued to be our major source of liquidity, at \$394.6 million compared to \$316.3 million in the prior year period. Current period results include \$284.3 million of net income and non-cash items primarily made up of \$141.2 million related to depreciation and amortization, \$41.1 million related to share-based compensation expense, including excess tax benefit, and \$3.1 million related to impairment of property, plant and equipment. Cash flow from operating capital reflect the changes in operating assets and liabilities, which are primarily \$32.1 million of increases in accounts payable and other liabilities primarily due to timing of payment, an increase in receivables and other assets of \$60.3 million, driven by an increase in accounts receivable from higher revenue and increases in inventories of \$32.3 million due to increase in finished goods and raw materials to support product launches and production levels. The \$78.4 million increase in cash flow provided by operations in the first nine months of fiscal 2017 as compared to fiscal 2016 is primarily due to the increase in net income.

For the first nine months of fiscal 2017 and 2016, our primary source of cash flows provided by operating activities were cash collections from our customers for purchase of our products. Our primary uses of cash flows from operating activities were for personnel and material costs along with cash payments for interest of \$21.5 million and \$17.4 million for the first nine months of fiscal 2017 and 2016, respectively.

Investing Cash Flow

Cash used in investing activities of \$292.4 million in the first nine months of fiscal 2017 was driven by capital expenditures of \$95.4 million, primarily to increase manufacturing capacity, and payments of \$197.0 million related to acquisitions, primarily the acquisition of Wallace in the first quarter of fiscal 2017 and Grand Vista LLC in the third quarter of fiscal 2017.

Cash used in investing activities of \$368.7 million in the nine months of fiscal 2016 was driven by capital expenditures of \$117.4 million, primarily to increase manufacturing capacity, and payments of \$251.3 million primarily related to CooperSurgical acquisitions as discussed in Outlook above and in Note 2. Acquisitions.

Financing Cash Flow

The changes in cash provided by financing activities primarily relate to borrowings and repayments of debt as well as the effects of share-based compensation awards. Cash used in financing activities of \$160.9 million in the first nine months of fiscal 2017 was driven by \$122.1 million net repayments of debt, \$29.5 million of share repurchases, \$5.6 million primarily for net taxes paid related to vested share-based compensation awards, \$1.5 million dividend payments on common stock and \$2.2 million payment for other financing activities.

Cash provided by financing activities of \$101.5 million in the first nine months of fiscal 2016 was driven by \$93.8 million from net borrowings of debt, \$11.8 million of excess tax benefit relating to share-based compensation awards, \$6.2 million of proceeds from exercise of share-based compensation awards, and \$4.3 million of proceeds from a construction allowance. Cash provided by financing activities were partially offset by \$12.5 million payment of debt acquisition costs, dividend payments on common stock of \$1.5 million and \$0.7 million for distributions to noncontrolling interests.

At July 31, 2017, we had \$645.7 million available under the 2016 Credit Agreement. Current period debt outstanding includes the \$830.0 million term loan entered into on March 1, 2016. We are in compliance with our financial covenants including the Interest Coverage Ratio at 24.08 to 1.00 and the Total Leverage Ratio at 1.70 to 1.00. As defined, in both the 2016 Credit Agreement and our Term Loan Agreements, we are required to maintain an Interest Coverage Ratio of at least 3.00 to 1.00, and a Total Leverage Ratio of no higher than 3.75 to 1.00.

#### Estimates and Critical Accounting Policies

Management estimates and judgments are an integral part of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). We believe that the critical accounting policies



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listed below address the more significant estimates required of management when preparing our consolidated financial statements in accordance with GAAP. We consider an accounting estimate critical if changes in the estimate may have a material impact on our financial condition or results of operations. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustment to these balances in future periods. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results are:

- Revenue recognition
- Net realizable value of inventory
- Valuation of goodwill
- Business combinations
- Income taxes
- Share-based compensation

During the first nine months of fiscal 2017, there were no significant changes in our estimates and critical accounting policies except for the accounting pronouncements that were recently adopted which are discussed below. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 31, 2016, for a more complete discussion of our estimates and critical accounting policies.

We performed our annual impairment assessment of goodwill during the third quarter of fiscal 2017, and our analysis indicated that we had no impairment of goodwill. As described in Note 5 in this Quarterly Report on Form 10-Q and Note 1 in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016, we will continue to monitor conditions and changes that could indicate that our recorded goodwill may be impaired.

Accounting Pronouncements Issued Not Yet Adopted

In March 2017, the FASB issued 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. We are currently evaluating the impact of ASU 2017-07, which is effective for the Company in our fiscal year and interim periods beginning November 1, 2018.

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. Early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-01 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.

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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. We are currently evaluating the impact of ASU 2014-09, which is effective for the Company in our fiscal year and interim periods beginning on November 1, 2018.

Accounting Pronouncements Recently Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment. FASB eliminated Step 2 from the goodwill impairment test, which required a hypothetical purchase price allocation. Under the amendments in this update, an entity should perform goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the carrying amount which exceeds the reporting unit's fair value. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company has elected to early adopt ASU 2017-04 effective in the third quarter of fiscal 2017. The adoption has no material impact on the Company's reported financial results.

In January 2017, the FASB issued ASU 2017-01, Business Combination (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company has elected to early adopt ASU 2017-01 effective in the second quarter of fiscal 2017. The adoption has no material impact for the Company.

In March 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, to improve the accounting for share-based payments to employees. ASU 2016-09 requires excess tax benefits (windfall tax benefits) and tax deficiencies (shortfalls) to be recognized as income tax expense or benefit in the income statement when awards vest or are settled. Companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital. This ASU also requires companies to classify cash flows resulting from employee share-based payments, including the additional tax benefits or expenses related to the vesting or settlement of share-based awards, as cash flows from operating activities rather than financing activities. The standard also allows for additional employee tax withholding on the exercise or release of awards, without triggering liability classification of the award. Finally, the update allows an accounting policy election for the treatment of forfeitures of stock based awards. Companies can elect to continue to estimate forfeitures expected to occur, or account for forfeitures as they occur. The Company has elected to early adopt ASU 2016-09 effective November 1, 2016.

Accordingly, the Company recognized \$17.9 million in deferred tax assets associated with excess tax benefits not previously recognized in deferred taxes as a cumulative-effect adjustment to retained earnings at November 1, 2016. The Company also recognized excess tax benefits as a discrete income tax benefit of \$13.4 million during the first

nine months of fiscal 2017, which is classified as an operating activity in the Consolidated Statements of Cash Flows on a prospective basis. The Company elected to continue to estimate forfeitures that are expected to occur when estimating the amount of compensation expense to record in each accounting period.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities to present all deferred tax assets and liabilities as noncurrent in the Balance Sheet. ASU 2015-17 can be early adopted for any period that has not been issued on a prospective or retrospective basis. The Company elected to early adopt this guidance on a prospective basis for the quarter ended January 31, 2017. No prior periods were retrospectively adjusted.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Most of our operations outside the United States have their local currency as their functional currency. We are exposed to risks caused by changes in foreign exchange, principally our British pound sterling, euro, Japanese yen, Danish krone, Swedish krona, Australian dollar and Canadian dollar-denominated debt and receivables denominated in currencies other than the United States dollar, and from operations in other foreign currencies. Although we may enter into foreign exchange agreements with financial institutions to reduce our exposure to fluctuations in foreign currency values relative to our debt or receivables obligations, these hedging transactions do not eliminate that risk entirely. We are also exposed to risks associated with changes in interest rates, as the interest rates on our revolving lines of credit and term loans may vary with the federal funds rate and Eurodollar rate. We may decrease this interest rate risk by hedging a portion of variable rate debt effectively converting it to fixed rate debt for varying periods. For additional detail, see Item 1A. Risk Factors and Note 1 and Note 11 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016.

On March 1, 2016, we entered into a syndicated Revolving Credit and Term Loan Agreement (2016 Credit Agreement) with Keybank as administrative agent. The agreement provides for a multicurrency 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. The 2016 Credit Agreement replaced our previous credit agreement and funds from the new term loan were used to repay the outstanding amounts under the previous Credit Agreement, to partially repay our other outstanding term loans and for general corporate purposes. At July 31, 2017, we had \$645.7 million available under the revolving credit facility and \$830.0 million outstanding under the term loan.

On August 4, 2014, we entered into a three-year, \$700.0 million, senior unsecured term loan agreement with a maturity date of August 4, 2017. There was no amortization of the principal, and we could prepay the loan balances from time to time, in whole or in part, with premium or penalty. We repaid \$493.0 million of the outstanding balance in fiscal 2016 and repaid the remaining \$207.0 million of the outstanding balance in the second quarter of fiscal 2017. At July 31, 2017, there was no outstanding balance on this term loan.

On September 12, 2013, we entered into a five-year, \$300.0 million, senior unsecured term loan agreement with a maturity date of September 12, 2018, subject to amortization of principal of 5% per year payable quarterly beginning October 31, 2016, with the balance payable at maturity. We repaid \$15.0 million of the outstanding balance in fiscal 2016 and fully repaid the remaining \$285.0 million in the third quarter of fiscal 2017 using the funds from the 2016 Credit Agreement. At July 31, 2017, there was no outstanding balance on this term loan.

See Note 6. Debt for additional information.

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Item 4. Controls and Procedures

The Company has established and currently maintains disclosure controls and procedures designed to ensure that material information required to be disclosed in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and that any material information relating to the Company is recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In conjunction with the close of each fiscal quarter, the Company conducts a review and evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer, based upon their evaluation at July 31, 2017, the end of the fiscal quarter covered in this report, concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

As of July 31, 2017, there has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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. CooperVision and the other defendants jointly filed a motion to dismiss the complaints in December 2015. In June 2016, the motion to dismiss with respect to claims brought under the Maryland Consumer Protection Act was granted, but the motion to dismiss with respect to claims brought under Section 1 of the Sherman Act and other state laws was denied. The actions currently are in discovery. In March 2017, the plaintiffs filed a motion for class certification. In August 2017, CooperVision entered into a settlement agreement with the plaintiffs, without any admission of liability, to settle all claims against CooperVision, subject to Court approval of the settlement. The Company has recorded a settlement accrual of \$3.0 million for the third quarter fiscal ended July 31, 2017.

Item 1A. Risk Factors

Risk factors describing the major risks to our business can be found under Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016. Except for the risk factor set forth below, there has been no material change in our risk factors from those previously discussed in our Form 10-K for the fiscal year October 31, 2016.

Increases in our effective tax rates or adverse outcomes resulting from examination of income tax returns could adversely affect our results.

Our future effective tax rates could be adversely affected by earnings being higher than anticipated in countries where the Company has higher statutory rates or lower than anticipated in countries where it has lower statutory rates, by changes in valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations of those laws. We are also subject to the examination of our income tax returns by other tax authorities and the outcome of these examinations could have an adverse effect on our operating results and financial condition.

The United Kingdom HMRC (Her Majesty's Revenue and Customs) ("UK Authorities") enacted a new Diverted Profits Tax as of April 1, 2015 on profits of multinationals artificially diverted from the UK. The tax rate will be 25%. Diverted Profits Tax will apply in two situations; (a) where a foreign company has artificially avoided having a taxable presence in the UK, or (b) where a group has entered into a tax advantageous structure or transaction that lacks economic substance.

Although the legislation intends to address aggressive tax planning which is artificial or lacks economic substance, the legislation has a wider reach. The UK Authorities have now began an inquiry regarding the application of UK Diverted Profits Tax (DPT). In assessing whether they believe the Company is subject to the DPT legislation, the UK Authorities expanded its review to include overall transfer pricing for fiscal 2015. We believe that these transactions have economic substance and should fall outside the intended reach of the Diverted Profit Tax. However, if we are unsuccessful in defending our positions, it may have an impact on our financial results.





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## THE COOPER COMPANIES, INC. AND SUBSIDIARIES

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

There were no share repurchase activity during the three-month period ended July 31, 2017, shown as follows:

| Period           | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans or Programs |
|------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| 5/1/17 - 5/31/17 | —                                | \$                           | —                                                                                | \$ 589,000,000                                                                                                  |
| 6/1/17 - 6/30/17 | —                                | \$                           | —                                                                                | \$ 589,000,000                                                                                                  |
| 7/1/17 - 7/31/17 | —                                | \$                           | —                                                                                | \$ 589,000,000                                                                                                  |
| Total            | —                                | \$                           | —                                                                                |                                                                                                                 |

The transactions described in the table above represent the repurchase of the Company's common stock on the New York Stock Exchange as part of the share repurchase program approved by the Company's Board of Directors in December 2011 (2012 Share Repurchase Program). The program as amended in December 2012 and December 2013 provides authorization for a total of \$500.0 million. In March 2017, the program was amended and approved by the Company's Board of Directors for an increase of \$500.0 million, providing authorization for a total of \$1.0 billion. Purchases under the 2012 Share Repurchase Program may be made from time-to-time on the open market at prevailing market prices or in privately negotiated transactions and are subject to a review of the circumstances in place at the time and will be made from time to time as permitted by securities laws and other legal requirements. This program has no expiration date and may be discontinued at any time. At July 31, 2017, the remaining repurchase authorization under the 2012 Share Repurchase Program was \$589.0 million.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Item 6. Exhibits

Exhibit  
Number Description

11\* Calculation of Earnings Per Share

31.1 Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

31.2 Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934

32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350

32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350

101 The following materials from the Company's Quarterly Report on Form 10-Q for the three and nine months periods ended July 31, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Income for the three and nine months ended July 31, 2017 and 2016, (ii) Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended July 31, 2017 and 2016, (iii) Consolidated Condensed Balance Sheets at July 31, 2017 and October 31, 2016, (iv) Consolidated Condensed Statements of Cash Flows for the nine months ended July 31, 2017 and 2016 and (v) related notes to consolidated condensed financial statements.

\*The information called for in this Exhibit is provided in Note 8. Earnings Per Share to the Consolidated Condensed Financial Statements in this report.

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Cooper Companies, Inc.  
(Registrant)

Date: September 1, 2017 /s/ Albert G. White, III

Albert G. White, III  
Executive Vice President, Chief Financial Officer and Chief Strategy Officer

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THE COOPER COMPANIES, INC. AND SUBSIDIARIES

Index of Exhibits

| Exhibit No. | Page No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11*         | Calculation of Earnings Per Share                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 31.1        | <u>Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 31.2        | <u>Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
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