THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NOVN.VX - Novartis AG Alcon Capital Markets Day - New York

EVENT DATE/TIME: NOVEMBER 27, 2018 / 2:00PM GMT

CORPORATE PARTICIPANTS

Andrew Pawson

David J. Endicott *Novartis AG - CEO of Alcon*

David Murray *Alcon, Inc. - CFO*

Franck Leveiller *Alcon, Inc. - SVP and Global Head R&D*

Karen King

Michael Ball

Michael Onuscheck *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Samir Shah *Novartis AG - Global Head of IR*

CONFERENCE CALL PARTICIPANTS

Anthony Charles Petrone *Jefferies LLC, Research Division - Equity Analyst*

David Ryan Lewis *Morgan Stanley, Research Division - MD*

Jeffrey D. Johnson *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Joanne Karen Wuensch *BMO Capital Markets Equity Research - MD & Research Analyst*

Joshua Thomas Jennings *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Lawrence H. Biegelsen *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Luisa Caroline Hector *Exane BNP Paribas, Research Division - Pharma Research Analyst*

Matthew Weston *Crédit Suisse AG, Research Division - MD and Co-Head of European Pharmaceutical Equity Research*

Richard S. Newitter *Leerink Partners LLC, Research Division - MD, Medical Supplies & Devices and Senior Analyst*

Robert Adam Hopkins *BofA Merrill Lynch, Research Division - MD of Equity Research*

Stephen Barr Willoughby *Cleveland Research Company - Senior Research Analyst*

Stephen Michael Scala *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

PRESENTATION

Samir Shah - *Novartis AG - Global Head of IR*

Good morning. Please take your seats. Our program is about to begin.

(presentation)

Samir Shah - *Novartis AG - Global Head of IR*

Good morning, everybody, and welcome to the Alcon Capital Markets Day, and hello to everybody who are on the webcast as well. We really appreciate you taking the time to be with us during your very busy schedule, so thank you for that.

On June 29 of this year, Novartis announced intention to do 100% spinoff of the -- its medical devices eye care division for Alcon. The spinoff itself and all the plans are all on track at the moment. So we had -- on November 13, we filed the initial 20-F, which I know most of you will have actually gone through. And the next major milestone will be the shareholder vote on the spin. That will be at the Novartis AGM, which takes place on February 28 of next year.

Prior to that and shortly after that, the Novartis senior management team will be out on the road on roadshows as well as bank conferences, so you will have a chance to meet them in person on your own grounds. The other person which I wanted to introduce is Karen.

Karen King

Hello.

Samir Shah - *Novartis AG - Global Head of IR*

So Karen King -- many of you probably know Karen. She's been in the medical devices and the ophthalmology world for some time from an Investor Relations perspective. She's the Senior Vice President for Alcon for both Investor Relations and Communications. Over the last few months, she's been working very closely with Novartis' both the Investor Relations team as well as the Communications team, with just one aim in mind to make sure that we have a very smooth transition between Novartis and Alcon in terms of all the communications, which we do with all of you.

One little point on that, which is that up till now, all your questions have been fielded from an Investor Relations perspective by the Novartis Investor Relations team. After today and after the Capital Markets Day today, any questions which you have, you can direct directly to the Alcon team via Karen or you can still go back and ask ourselves within the Novartis Investor Relations group as well. One other point, this is the first of the Capital Markets day, and the second one will be next week in London. So with that, Karen?

Karen King

Thank you. So good morning, everybody, in the room and, again, hello to everybody on the webcast. As Samir said, I am running the Investor Relations and Communications areas for Alcon. So I just wanted to introduce myself a bit. I -- prior to Alcon -- I've been here for about 4 months, and I'm really excited to be here. This is just a great company, great people. Prior to this, I spent a few years at LivaNova, which is a U.K.-based medical device company focused on neuromodulation and cardiac surgery. And prior to that, I spent many years at Hospira, which is a generic injectable and medical device company. I see a lot of you in the room, who I know from both of those companies. So it's great to see you. Thank you for being here. And I see a lot of new faces. So I look forward to working with you, talking about Alcon and building relationships over the next couple years.

A couple of housekeeping items. If you guys have cellphones, please take them out, put them on silent mode. If you're looking for Wi-Fi, it's on the back of your badge. If you flip it around, you will find the Wi-Fi code. And also, if you do -- if your computers do run out of juice or your phones, we do have charging stations back at the registration desk, so just ask. We -- everybody should have books on the table. If you don't have a book, we have a few more also located at the registration desk. But the book should have everything in it you need for today. It has the agenda in it. It has biographies of both our speakers and our booth exhibitors, and I'm going to talk about the booths in a little bit. It has a safe harbor in it. It has a presentation. And in the back, it has a glossary of acronyms, so if we use terms that we don't describe very well, you don't understand, please look in the back, the acronym should be there.

This meeting is live webcast, as I mentioned. So I will talk about how to use the microphones before Q&A, but we want to make sure that all the questions and answers are captured. So we'll be walking around with microphones for your questions.

Also this morning, a press release was distributed on the Capital Markets Day. It is both on the Alcon site and the Novartis site, and it has a link in it to click on if you want to go to the presentation. Also just for ease of use, you can go directly to Novartis to their IR section under Events, and you'll find the presentation listed there.

I'm going to turn it over to Samir to talk about the agenda.

Samir Shah - *Novartis AG - Global Head of IR*

Thank you, Karen. And for those of you who are actually on the web, it's Slide #3, and you can see what we've done with respect to the agenda. After our opening comments, it will be Mike Ball, who is the Chairman-Designate for Alcon; and David Endicott, the CEO, who will come on.

Mike will describe the progress, which has been made with the Alcon business over the last couple of years and why it's in a very good position to be a stand-alone company. David will then go through with respect to the vision for Alcon, it's strategy and the key growth drivers for both the top and bottom line. At that stage, we will then break off for a Q&A on the first 2 presentations. And you'll notice that throughout the whole day in the agenda, after each set of presentations, we have sufficient time to address your questions in Q&A session.

Following the first section with Mike and David, we start the second section. And in the second section, you'll have Michael Onuscheck and Andy Pawson. Michael is actually the President of all the global businesses and innovation at Alcon; and Andy is the Franchise Head and he's the President for Global Vision Care. They'll take a look at both the franchises of Surgical and Vision Care franchises and go deep down into some of the details with respect to those specific franchises. We then break off for lunch, and following the launch session, Franck Leveiller will actually go through the innovation part in the R&D section of Alcon. Franck heads up the Global R&D for Alcon and, of course, he will be talking about the R&D, the key products and the key products in the pipeline as well as the capabilities within the R&D section.

David Murray will then come on for the main final section, which -- and David Murray is Alcon's CFO. He'll go through the financial strategy, including capital allocation. He'll go through the state of the business from a numbers perspective as Alcon stands today, and he'll also talk about the 5-year financial goals as well.

David Endicott will then come back on and wrap it all up and then we have a final Q&A session with all of the leadership team here. Karen?

Karen King

So you can see in the agenda that we do have some time today that we've allocated for our product exhibitors. We have, if you guys have not visited this morning, so we have 5 booths. We have 2 for our Vision Care products, so those are located over here to your left. And we've got one on our latest contact lens, Dailies Total1. And then we have a booth also on our dry eye family of products called SYSTANE. Over here to your right, we have 2 surgical booths, one on AT-IOLs, which is advanced technology intraocular lenses for cataract surgery, and then one for vitreoretinal technology. We have a very cool booth, which is our fifth. It's like a virtual reality and if you put on the headphones and the goggles, it feels like you're in the inside of an eye. So please again, take advantage of visiting those booths during the break.

I will also say, and I did mention that the exhibitors, their bios are in the books, that we have experts from the company that are manning those booths, and they are happy to answer any questions that you have about them. So I wanted to leave today with a few objectives in mind. The first is that I really want you to get to know the Alcon management team. As Samir mentioned, we are doing a lunch. Management will be at the lunch, and management will rotate around during that lunch to get to really talk to every investor at a smaller group setting. The second thing is I'm hoping you leave understanding -- clearly understanding our strategy and our vision. And the third is our financial goals, which are a piece of that strategy and vision. The fourth is that we are going to talk about the benefits of Alcon as a stand-alone company. And then the last thing is I'm hoping you leave with all of your questions answered. There's going to be a lot of information. It's going to take time to digest, so if you do have future questions, as Samir mentioned, please call me or e-mail me. You can call Samir or anybody on his team as well, so you have lots of resources available to you.

I'm going to go ahead and move to the safe harbor. So this presentation contains forward-looking statements that involve risks and uncertainties. These statements can be identified by the fact that they do not relate strictly to historical or current facts, but rather based on current expectations, estimates, assumptions and projections about the eye care industry and our business and financial results. Forward-looking statements also -- forward-looking statements often include words such as anticipate, estimates, expects, projects, intends, plans, beliefs and words and terms of similar substance in connection with discussion of future operating or financial performance. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and change in circumstances. Our actual results may vary materially from those expressed or implied in our forward-looking statements. Accordingly, undue reliance should not be placed on any forward-looking statement made by us on us or on our behalf. Important factors that could cause our actual results to differ materially from those in our forward-looking statements include government regulation, economic, strategic, political and social conditions and other factors included, but not limited to, uncertainties regarding the commercial success of our products and our ability to maintain our share of the markets in which we compete, our ability to keep pace with the advances in the highly competitive eye care devices market, the success of our research and development efforts, uncertainties regarding the success of our separation and spinoff from Novartis, including our ability to achieve our expected benefits, pricing pressure from changes in third-party coverage and reimbursement methodologies, general, political and economic conditions, consolidation among our distributors and retailers, uncertainties regarding actual or potential legal proceedings and government investigations, potential product recalls or voluntary market withdrawals in connection with defects or unanticipated use of our products, regulatory actions or delays of government regulations generally, changes in tax laws, changes in IFRS as issued by the International Accounting Standards Board or other applicable accounting policies. The potential volatility in the price of our shares, uncertainties regarding future sales or disposition of our shares and other risks and uncertainties detailed in the section titled Risk Factors, Legal Proceedings and other sections in the Alcon form 20-F registration statement filed with the Securities and Exchange Commission and available on the SEC website at www.sec.gov. We caution you that the foregoing list of important factors is not intended to be exhaustive and may contain all the material factors that are important to you. Any forward-looking statements made by us in this presentation speak only as of the date in which they're made. We are under no obligation to, and expressly disclaim any obligation to update any forward-looking statements as a result of new information or future events or developments except as required by law. There are also other legal disclaimers on the slide that I would encourage you to understand. Okay.

So with that, I'm going to bring up our esteemed Chairman-Designate, Mike Ball.

Michael Ball

Thanks, Samir, and thanks, Karen. And welcome, everyone, to the New York Alcon Capital Markets Day. Very exciting day for us and hopefully, you'll find it as exciting as we do. First off, I want to let you know, I am Mike Ball. There are those of you who know me and those of you who don't. So I'm going to give a brief background on me and a quick review of my journey to Chairman-Designate. So prior to joining Alcon, I spent 4.5 years as CEO of Hospira, largest injectable pharmaceutical and medical device infusion company in the world. This was a turnaround company. We successfully turned the company around, and as you know, it was acquired by Pfizer. Prior to that, I spent 16 years at Allergan, the last 5 years as president of Allergan, and of course, Allergan, a very successful eye care company and aesthetics company and a growth company. So what I discovered from these 2 experiences is I like turnarounds and I really love eye care. And so you can imagine how irresistible it was when I was approached on the Alcon opportunity because it was the leader in eye care and was facing a challenging time and needed a turnaround.

Now I had the advantage of knowing a lot about Alcon because I competed against Alcon for many years, especially the surgical division. And when I thought about the surgical division, I thought the following: best innovation, best service, best relationships, best equipment, a lot of bests out there, a very formidable competitor. So I was thinking very positively about joining the company, but I wanted to also investigate why was it having issues? Was it a scary new competitor? I looked at that and no, it looked like the same competitive set. Was it some disruptive technology? And no, the technology looks sound. Was it some major environmental shift? But that didn't seem to be it either. And I looked hard at it. It was really internal issues. And internal issues are great news because you can actually go in and fix those. So I agreed to accept the position as CEO of Alcon in February of 2016, started working right away there, loved what I discovered there. Passionate people, great depth in eye care and great products. And also, a host of issues for us to work on. And so work on them we did, we got the company turned around, and in June of this year, as it's already been stated, Novartis indicated that it would be spinning out Alcon. I took the role as Chairman-Designate.

So over the next few hours, you will hear from the Alcon leadership team the 5-year plan. I think it's a really exciting one of us, Alcon, progressing as a stand-alone company. For the next 15 minutes, I'm going to look a little bit backwards, look at the turnaround that we had and give you an idea of the progress we've made since 2015.

So first of all, a little bit about Alcon. A great company in a great marketplace is the way I would define it. We're almost $7 billion in sales and by far, the market leader in eye care medical devices. We play in a market of about $23 billion in size, growing at about 4%. And this marketplace is driven in many regards by great megatrends, aging being one of them. The front edge of the baby boomers is now hitting the early '70s and that's prime time for cataract surgery. Emerging markets are getting greater access to health care and, again, thinking about cataracts, there's great bang for the buck in doing a cataract surgery because this can prevent blindness in an individual. So those 2 megatrends continue to drive this market substantially.

In addition to our scale, we are #1 or #2 in every market segment we participate in, in Surgical and in Vision Care. This gives us great opportunities to cross market our products. It gives us competitive advantage when thinking about in-licensing technology because people want to license to the biggest and the best. It gives us the largest innovation budget in the industry in eye care. And it also gives us the global scale and reach to get to 140 countries around the world. And I think very importantly, we have decades of experience and critical mass in the major emerging brick marketplaces, a very important consideration. With all of this infrastructure around the world, we are in a great position then to leverage that infrastructure. We can build sales without building further infrastructure or building it more modestly than we would with sales.

I also like to say we've built a great management team. We spent the past 2 years building up this team and essentially, what we thought about was taking the best and the brightest from outside Alcon in ophthalmology and medical devices and unite it with the best and the brightest from Alcon and, therefore, develop a great management team that has the trust and credibility with employees and our customers, but I think very importantly, has the right cultural elements to drive this company forward as a med device company. So a very strong position.

Now we are being spun off, but we are not exactly a new company. We have been a stand-alone and of division of other companies, but known as Alcon for 70 years now. And I think this is very important because this gives us a very trusting and trusted relationship with our customers. Alcon is known for its long-term views, for its training, for its legacy of innovation. And again, as a former competitor to Alcon, I can tell you that Alcon is regarded as the #1 name in eye care.

Now we believe that we can build on these advantages that we already have and further them by enhancing our medical device culture. Now what do I mean by medical device culture? Medical devices and its business model is fundamentally different than the pharmaceutical model. It may not appear so from outside, but I've worked in both pharmaceuticals and med devices, and I can tell you the differences are profound. I'll give you a couple of examples. In research and development, in medical devices, it's a fast, iterative, customer-informed cycle, very different from the long cycle times of pharma. From a cultural standpoint, the business model relies on being agile, nimble, customer centric. There's also major differences in supply chain, in customer relationships and their import to the company. So from our standpoint, these are a host of things that we continue to build as an independent company will get us stronger as we move along as a stand-alone company. And I've always believed focus is a great thing. Focus on medical devices without the distraction of other areas, I think always enhances the company's ability to move forward in a great manner.

Now the differences I described between medical device and pharma, I think, is what contributed to the challenging times Alcon faced a few years ago. I got hired in February 2016 and at that time, we looked at the issues and we formed our turnaround plan. And this is basically the turnaround plan we formulated. And what we said here was the #1 objective, the #1 objective was to get sales back on the right track, to start to grow sales again. What I also said was that the investment required to do that would make things very tough on our core operating income margin, and I said that would be for a couple of years. And I said 2017 would be the trough. So for those of you have looked at the financials, obviously, you'll see the dip in the 2017. This was planned. Again, with the objective of getting these sales back on track. I think that was a worthwhile thing to do because in my view, we've got long-term sustainable growth as our objective. As we get the top line growing, we believe we can get the leverage to drop money through to the bottom line and then drop into free cash flow.

So what do we do here in the turnaround then? So we talked about fixing the foundation, which really was about improving execution and improving our service levels. We said we needed to invest in promotion because we had many consumer products. We weren't putting enough promotion behind them. We had to put promotion behind them, and we did. We also had systems issues, and we've been installing SAP across our company now over the past 2.5 years. We've said that our pipeline needed to be improved, so we reinvigorated that pipeline, both inorganically and organically. We wanted to strengthen our customer relationships. The hallmark of Alcon had always been strong customer relationships and the feedback I got was somehow, we've gone somewhat astray. And we wanted to get to this nimble medical device culture, again, recruit our employees back into a customer-centric notion.

So how did things happen? Well, strong results. So if you look at the chart there, you'll see that we have had now stabilized market shares, 8 consecutive quarters of topline growth. And if you look at 2018, core operating income margin is returning. We also dramatically improved our service levels. We also, I think, greatly enhanced our pipeline, which Frank will talk about. We strengthened our infrastructure. And I think importantly, our employees' morale went way up, way up. If we look at our voluntary turnover, it's now at a 6-year low. And coming in 2.5 years ago, voluntary turnover was really increasing, it has now gone down dramatically. And feedback from the customers is very good. So I feel like we were able, over the last 2.5 years then, to accomplish a lot. There's still more work to be done. We still need to keep moving ahead with this cultural transformation we have. I think the company is all about its people, and I think it's all about its culture at the end of the day. We feel like we've made great strides there and have really aligned the organization behind this customer-centric performance notion. So I feel good where we're headed on that basis. Again, still more work to do there.

So, as I look at the continuum of faces, if you will, for Alcon, I look at the area we just talked about, which was the fix the foundation, I think we have enhanced the execution. I think we've made the appropriate investments. I think we've seen the right results. I think that the organization is set to go forward as a stand-alone. But best of all, I will tell you that feedback from our customers, I was just at the American Academy of Ophthalmology and the European Society of Cataract and Refractive Surgery, and I heard one familiar refrain from our customers. And that is Alcon is back. And that is a very important thing and a great thing to be hearing from our customers.

So with that, we are going to move from Phase I over to Phase II with a new and improved growth plan and with a new and probably improved CEO, David Endicott. And David has done, I will tell you, just a fantastic job at Alcon, as he's done also in prior engagements throughout his career. So I'm very pleased that he will be the new CEO. He is the new CEO, and I look forward to great growth under his leadership. So thank you very much. David?

David J. Endicott - *Novartis AG - CEO of Alcon*

Thank you, very nice, well done. Thank you, Mike, and thank you, everybody, for being here and for your interest in Alcon. I am going to start with a couple of quick stories. Battle of Britain 1940s. There is a doctor named Ridley who was at the Moorefield Hospital. And as the pilots come in from the shards of canopy that had been blown apart as they were flying over Britain, he's removing these shards of plastic from their eyes. And what he notices uniquely is that there's no inflammatory response. That's important because what they did with that was this polymethyl methacrylate became the first material to create an intraocular lens. And I'll fast forward a little bit to the '70s. A Russian surgeon named Fyodorov is now doing free hand surgery, taking a blade and cutting to the periphery from the center of the cornea and like a hot pie, the cornea is, as it healed, settling down and changing the refraction. And that was the first modern refractive surgery called radial keratotomy. Now what does this have to do with Alcon exactly? All along the way from the 1940s when Alcon was first incorporated, we have been right beside ophthalmology. We've been there during the cataract innovations, phaco, IOLs, small-incision IOLs, we've been there with LASIK, we've been there with refractory keratotomy. We've been there alongside listening to the customer and thinking carefully about how we can innovate products that will ultimately make patients' lives better. So that's been the idea of it. Now I think Mike did a nice job of giving you some background on what's been going on here, and I think interestingly, some of you may still be skeptical about what is -- Alcon at this point in time, how do I think about that? And I had that same experience. I had a lot of experience in ophthalmology, just less than 25, 30 years in this business. And I know Alcon from a long time. And this has been a company that, when I got here, I had the same series of questions. But what I've come to find, and what I hope that you guys will take from today more than anything else, is that we have the people and the products and the financial plan to make this a genuinely unique investment opportunity. So this is a very special company. We're going to spend time today, and I'm going to give you a pretty high level overview of this at the beginning. But really what we want to do is cover off how do we assemble this team? What is this people story about? Who are these folks and why should I believe in the management team here? And importantly, how are the products figuring into this play? What have you done with innovation of the pipeline? And what's the near-term product flow look like? What's the longer-term prospects look like? How does that go? And then I'll try and tie that together with a plan that I think you'll be impressed with because I think we've got a very straightforward plan, but one that I think is eminently accomplishable with the product portfolio that we're describing.

So let's start by talking about the folks in the room. So couple of things real quick. At its core, Alcon is a products company, right? So we are at our best when we are innovating products, and Alcon has been an expert in eye care from the very beginning, right? But products, they have a unique opportunity, they -- our products in eye care have a unique effect. They affect people in very significant ways. They create extraordinary experiences. When you can see someone you haven't seen in years, like your spouse or your children, because you've been functionally blind from cataracts, it's an extraordinary event. It's an extraordinary event if you've been unable to see at distance and all of a sudden become able to see at distance. From kids to grandparents, eye care is a remarkable opportunity. And what's really cool about that for us is we get to play in a space where we -- we summarize it by saying we help people see better because it's catchy and it's clean and its tight. But in truth, we do more than that. We really change people's lives, and it's a remarkable opportunity because people see that, and they reattach to it. And we find it both a noble business, but also a very productive one.

So look, we simplify this a little bit, but we believe that we compete by leading the world in expertise in eye care. So we compete and we win because we're better than our competitors at addressing technology and technology risk. We are able to assess it quickly, assess it accurately. And the same with markets, we look at markets and we see, will the market develop? Will it not develop? What's the market risk? How big is it? What will happen? And are these products really going to take shape? That's what we do better than most of our competitors. And that's how ultimately, we believe we will win. It is on people and it is on that core competency of expertise in eye care. And so that's the core idea. And we apply capital quickly to those ideas and then we build products around them and then we get those products to customers, and that's the basic premise of the strategy that we have, all right? So we'll take a lot of time to go through the products and the rest of it. But if you keep that in mind, I think it matters because as you see the folks who come up here today, we're really proud of the team that we have here. They are very exceptional professionals, all with deep experiences that are contributing to the team that we have.

So let me just talk a little bit about that team. So importantly, I mentioned, it's people, products and plan, but it's really this deep medical device experience that all of the team has. Now we've got 415 years of health care experience. But importantly, more than half of that in the management team is just in eye care. That's a pretty powerful idea, right? We have a deep expertise all across the group. We also have deep expertise globally. Almost everybody on the management team has worked globally, has worked internationally, has been outside the U.S. or in some part of the world living, working. And we have a deep understanding of those markets. In fact, 60% of our business is ex-U. S. We are a deeply international company, global presence. It's important that the team understand that and understand the idiosyncrasies of those markets, all right? So we have that all across the board. And importantly, where we haven't been strong necessarily in talent like, for example, consumerization, our Vision Care business is changing quite a lot. So we've added consumer depth. We've added folks from the consumer products areas into the team to try and bring us that, help us evolve and do that down in the organization as well.

So when I say deep experiences, we've got a lot going on here in the team that I think brings us a powerful group of folks who can drive the eye care business, right? Now look, the -- shipping to the markets. Let me start with the markets just a little bit to give you a sense there. There's a lot of opportunity in the markets long term. We're going to call the market $23 billion. But in truth, if you look at what is available to be had, the visual impairment that's curable or preventable, about 80% of it can be fixed or helped very significantly. And if we're to do all of that, with it, you'd save about $100 billion, right? So the market potential is quite large. The actual market right now at about $23 billion, substantial for sure. But still lots of headroom here. And the reason that matters, and the reason we believe that matters, is because, of course, 80% of what you perceive comes from your eyes. And so we think about that, people are really willing to pay for this. Governments understand this correctly. They see that if you can compete to fix someone's blindness or fix their visual impairment, that takes a load off the system that is quite substantial. So the value creation is real in eye care. And importantly, consumers who see it as, what do I get for this thing? I get aesthetic, better vision distantly, I good aesthetics, I get -- people want to pay for this out of their own pockets. And all around the world, people are shelling out money for eye care. So really important idea is that the market is what it is, but with substantial opportunities going forward.

So let me shift a little bit then to the eye care disorders, and I'm not going to cover these too much. But I want you to look just at the variety of things that we treat. There's a series of disorders. If you're not familiar with eye care, you can refer to these. There's also some information in the glossary, if you -- if we move a little bit too fast with some of our acronyms. But I would just say that we have a broad portfolio of products that address a broad grouping of needs. And so there's a lot of market here to worry about. And importantly, this spans from the time you kind of -- are born to the time you exit this world. Your eyes are probably the most valuable part of what you are and how you participate in the world. And so from the beginning, when kids start reading and from -- when they get glasses and when they want to move to contacts in the kind of early teens to whether they're thinking about LASIK as they're going to get into their early years, as they get to beyond that, they're thinking about contact lenses and lens, maybe their refraction is changing and they're thinking about maybe I should get a multifocal lens because I can't read as much, kind of move on, move to cataracts, cataract surgery or any number of other kind of disorders of the aging, we are with you along the way. So importantly, this is a broad group of patients starting at the very early ages going to the later ages. Okay?

So the market itself, I won't orient you. You're going to hear a little bit more about the market from the rest of the team, but I want to start with the big blue bar up here. $23 billion at 4% is how we see the market today. The Surgical market is broken up into what we call the implantables business, the consumables business and the equipment. You can see the CAGRs there, but basically, $9 billion of the market we see in the Surgical business, and then $14 billion of the market in Vision Care. So contact lenses and ocular health. And Andy will tell you a little bit more about how we define ocular health as we go through it. But broadly, our eyedrops business and our contact lens solutions, all right? So with that said, there is a lot going on underneath that and, again, it's a big market for sure. And we have a solid growth in there. But underneath that are just really positive trends. What you see is, certainly in the Western markets, we have an aging population that is coming into that cataract age. So the number of people over 60 who will be cataract eligible in essence is more than 1 billion people in the very near term, right? So on the other end of the spectrum you have the Asian markets or the Eastern markets where you see a lot of opportunity as the population grows for our contact lens business. We think there's a tremendous opportunity in Vision Care for that kind of a population, who need refraction. There is a growing epidemic and indeed, it is an epidemic of myopia from young kids who are now no longer outside necessarily playing and exercising, distance vision to kind of lengthen the eye, but rather, everybody's right here now, right? Everybody's picking up their phone, picking up their iPad, picking up something and thinking here, and that is causing slowing of the eye development. That is an epidemic that's going on, and it's real. Now we can help. We are going to work on those problems, but those are important megatrends that are driving eye care needs.

Now if you take that and you combine it with the changes in technology, which you're going to hear a lot about from Franck today, there's a lot of really cool stuff going on in technology. And you combine that with the increasing wealth of what's going on in the emerging markets and the desire to have good eye care, and we see tremendous opportunity in the market. So the markets have good fundamentals. They're sizable. They've got good fundamentals. And we have a very good position in these markets. If you think about where we are, we're generally #1 or #2 in most of the markets we participate in. And if you take the Surgical business as a start, Alcon is by large significantly bigger than our next 2 or 3 competitors. J&J, a good competitor. ZEISS, B&L, all good competitors. But we enjoy a very significant market share. So we start with a very significant scale advantage against some of our competitors, particularly as we think about global presence.

In the Vision Care business, J&J and we're neck and neck. We're kind of working on this thing. We see the market as eyedrops and contact lenses. They're ahead of us in contact lenses. We're working hard to become better at that and chase #1. But we are also #1 in the eyedrops area. So as we see the market and where we see it developing, really interesting competition here in Vision Care. Cooper and B&L also are very good competitors, and we're acutely aware of what's going on in those parts of our business.

So we have very significant positions in nice markets that are growing nicely with fundamentals that are sound.

All right. So one level down, I'm not going to cover this very deeply because the -- Andy and Michael are going to do it for us here in a little bit. But I want to start with just saying that, look, I won't take you through this. It's important to understand that we aren't one company with a really large $4 billion brand that has some vulnerability out there. We are a collection of a lot of brands that have a diverse use and diverse needs. So if you take, for example, intraocular lenses, we have lots of lenses. We have several brand families. We have ReSTOR. We have PanOptix. We have AcrySof. And then we have the toric version. We have the spherical version only, and then we have with and without light filtering. So we have quite a lot of diversity even within certain categories. Same thing in contact lenses. We have several brand families that ultimately give us a nice variety of products because of geometry, because of modality. So they're chunked up into a lot of little bits. All right. So we aggregate them a little bit, and you can see how the brands stack up. But we're basically #1 or #2 wherever we compete. And we look to be that way going forward. All right. So what that does is it gives us -- this strong market position has given as an enviable footprint. And it's important to understand that at the core of our plan, we believe we have the ability to accelerate product revenue on a leverageable cost structure. So that's the basic premise of how we're getting the growth to the bottom line is we see product flow, we're going to invest behind it. We're going to get that revenue growing and continue to grow, and then we're going to do that, basically, on a structure that we've had in place for a while, but we've definitely improved over the last 2 or 3 years. So we have sales forces in every major market that matter's calling on independent optometrist, on the ophthalmology community, on surgery centers, on hospitals. We have, I think, 1,200 field service engineers who are out there servicing all our equipment. We have several hundred clinical application specialists who help train doctors on how to use the equipment that we have and continue to train the technicians that support them.

So these are immediately leverageable assets. They're immediately leverageable in the sense that we can add revenue to them without necessarily having to add more people. All right. So it's important to think about that as we go forward.

Going into the next bit here. We are talking really about a plan, as I reflect on the plan, that leverages the strengths of this company. So when I show you the plan, what I want you to think about is we've established this view of we're in good markets with significant market position. This allows us to innovate into markets with tailwinds. So we're in a pretty good place, all right? We also have deep expertise in eye care, which allows us to evaluate markets and technologies very efficiently and make better investment decisions, all right? And we have world-class development capabilities with our customers that really afford us the -- a -- I'm sorry, that have an investments capacity to bring new products to market quickly. So at the core of it, our development capabilities are profoundly useful for us, and we can do that on an existing scale. And we have a deep history with relationships that allow us to kind of get those products to market quickly and kind of launch it off of the existing platform. So when you look at our trajectory on new products, we should be the most effective vehicle to launch a new product. That's one of the reasons we see so many people come to us with new ideas. We're usually one of the first 2 or 3 people want to come and talk to if you've got a new technology in eye care. We usually see it. So we're pretty good at that. All right? And then obviously, the footprint in commercial manufacturing and R&D as we ramp up, as I said, we ramp up, we get more sales on that, that adds scalability and leverage to what we're doing.

So at the -- as you kind of work through that, I want to think about then what does that look like as we apply it to the product flow, all right? So we've got a business that's in good markets, with strong positions, with a strong set of foundational ideas that will allow us to execute in this next phase, all right? And so we divided this plan up into horizons, and you've heard Mike talk a little bit about fixing the foundation. This next phase that we're going through is really about taking the products that we've got and really focusing in on our energy and them through this as efficiently as we can using the strengths of the company while we develop that next generation of products that ultimately hit kind of and drive the revenue growth in the '21 and forward frame where we really get excited about what's going on. Okay?

So what we have right now is -- again, I'll touch on these relatively quickly, and I'll let Andy and Michael really talk through what's going on here. But I think the thing to think about is, we think spectacle independence is a big deal following cataract surgery, and the penetration of advanced technology lenses in the United States is only 14%. So we don't think that's where it ends. We think there's a significantly greater penetration. We'll talk about what it might be. We'll talk about why we think that's important. But importantly, we think the PanOptix products and our additional products going forward will have a big impact on cataract surgery.

We also think that there is a confluence of 2 really important ideas right now, which is the diabetes epidemic and then also technology advancements in microsurgery that are allowing us to do things in retina surgery that are unusually good for the patient. And so what we're seeing now is a procedural growth that we think continues to be an important driver of our business in the near term. So we think about trying to drive in the near term training, in particular, and penetration of retina surgery.

In the Vision Care business, our Dailies business is a really powerful idea. And I was interesting -- I sometimes hear, well, this is a contact lens business, really kind of a commodity business, isn't kind of something that's been out there for a while. I went to the American Academy of Optometry just recently, 2 weeks ago, and it was fascinating to listen to KOL and influencer and doc after doc come in and say how hard it was to fit certain lenses, how difficult it was to kind of take older patients and keep them in lenses. And so we think there are significant differences in lens design, in optics and in the durability of these lenses going forward that really make a difference. And our Dailies Total1 product is a terrific product in the near term to help on first fits and also durable wear.

I think the last bit, which I think is also exciting for us, is we have built a reputation historically on our relationship with the docs. And so we've been very good with SUSTAIN because SUSTAIN -- the doctors understand very quickly that SUSTAIN is a powerful idea. It helps a lot with the patients. We've got a dominant share in many ways with that idea. But importantly, half of this market is self-diagnosed. It's not actually coming from the (inaudible), it's patients walking into CVS and picking up something that they like and most of the time, they're not picking up the right thing. Look, about half the time, they're not picking up the right thing. And we can affect that. So one of the things we've spent a lot of time on is how do we think about our consumerization of our Vision Care business? Andy's going to talk a lot about how we're adding things in there, (inaudible) reach the consumer in the near term and how that SUSTAIN business [work] going forward.

So we're excited about what's going on in the next 18 months, 24 months (inaudible) products in particular. And with that, let me just (inaudible) think about these 4 products in particular, the 4 product areas as driving about 80% of our growth over the next (inaudible) [we'd be here in 2020]. So as we see it, large significant base -- important to remember you'll hear this is, we have a very compelling base of products with our equipment and our consumables that does nicely along the way. But really, the growth is coming from these 4 product areas, which is why we want to focus on it. So execution orientation to this is pretty direct, but it's also a fairly predictable and fairly straightforward plan. So I think we feel good about what the opportunity is here.

All right. So with that, let me just shift gears a little bit and touch on what I think the longer term looks like. So we're spending a lot of energy right now, particularly on refilling the pipeline and moving our way down this path. We have a lot of stuff that begins to kind of mature in that late '20 range and then into the '21 frame. And I want to talk about the products in particular because, although Andy and Michael will take you through in more detail, I want to give you a sense of the breadth of portfolio that we're working on. So for several years now, we've been investing in new contact lens material and services that work, that are different. These are beginning to mature in the roughly the 2020 frame, and I want you think about increased comfort, improved acuity, think about value lenses. There are a series of ideas in the contact lens business that we think are real and can make a big difference to how patients adopt lenses, stay in lenses, use lenses, and that's a real opportunity for us.

Now in the intraocular lenses, we've developed the most compelling portfolio in this business. I'm quite confident that we have long-term more shots on goal of creating spectacle independence post cataract surgery than anybody in the space. We've been very active in the business development space and bringing in technology, and our own teams have come up with unique designs that are really powerful. Franck will tell you a little bit more about those. But we are right on top of our core business, which is our lens business in contacts and our lens business in cataract. And so we've done a great job of refilling both of those pipelines for the long term, and we're on our way down the path of what we think is really important.

We also have several designs for accommodating contact lenses, okay? So there are new ideas out there that can accommodate in different ways. We have new robotics for our laser eye surgery. We've got groundbreaking ideas in energy delivery for our phaco machines, our new phaco and vit machines. And we can improve the outcomes of cataract surgery by now moving data from the office into the OR, back to the office and then using some machine learning to really improve the lens selection. And those are real ideas that we're working through right now. We showed the new smart suite that Michael will talk about at the American Academy of Ophthalmology this year. So very exciting times for us on technology. So what I hope you walk away with today at least is that we have certainly very near-term opportunities that are defined. We know what they are. They're knowable. We are counting them -- on them to deliver the near-term revenue growth that we've described and then also we've got a really exciting pipeline of products over the longer term that will drive our long-term growth and, obviously, then our income going forward.

So these technologies allow us to do a number of things. First, we can expand markets. So advanced technology lenses, like our PanOptix business or any of the other newer products, allow us to take advantage of 2 or 3 ideas. One is that the phaco procedures are not necessarily at world-class levels or rest of the world. And as we get better lenses and as we use smaller incision, we convert to phaco, we drive that business. Same thing with the penetration. Whether or not you believe that the U.S. penetration is capped or you think it's just the international growth that's going to come up or that both which we do -- we think both go up a lot, those are real ideas that I think have significant impact on the opportunities we go at. This also drives our emerging markets business. And if you look at contact lens penetration around the world, it's unbelievable given the potential growth of the economics in those markets that contact lens penetration won't grow significantly beyond where it is. We believe it does.

Cataract surgery rate internationally. It's one of the most efficient surgeries you can do out there that saves the most money for the healthcare system. It's one of the most efficient ideas for improving health care in a country. So you go at this thing because it saves money. And so governments want to pay for this. We're going to see it growing cataract surgery rate that should significantly change over the stretch of time.

And lastly, not the least, we have a number of ideas. This is a big space, eye care. I started out with -- think about all the things that -- all the disorders that are out there and think about what we could be doing, we're working on all of those things. And so whether it's diagnostics, whether it's a consumer-driven ocular health platform or whether it's myopia control for this epidemic of myopia coming, we are acutely aware of where those new spaces are, where the white spaces are in our business, and we're working very carefully at them to try and bring in new product flow and to develop products in those areas. So we're excited about the prospects of both our near term and our longer-term business. I will say that this product technology also leads us into another direction, which is kind of new business solutions. And I'll say that one of the things that is interesting is that the notion that we wouldn't be purchasing or governments wouldn't purchase a procedure in total or purchase an outcome in total or that we wouldn't be able to provide that is not reasonable because at this point in time, we sell nearly everything required for a cataract surgery, and we can put that thing in a package and deliver it to a hospital in one go. So purchasing that on a total procedure basis makes a ton of sense or purchasing it on an outcome basis makes a lot of sense. And particularly, if we can move data around and begin to say, hey, we can improve your outcomes if you use our equipment, that changes a lot of things, changes maybe the way we think about how we buy equipment, maybe it's more of a subscription model. But the business models themselves are changing, and Vision Care the most amongst them because there is a lot of change in the delivery of lenses right now. We're acutely aware of that.

So we're spending time thinking through how do we build better access for patients for lenses, how do we make that a seamless idea, frictionless as we like to say, how does that get better, right? So we've got a lot going on in both of these areas on how we're building our business models out as well.

So I want to pull that together into a plan. The financial plan is pretty straightforward. We believe we're positioned to grow in the mid-single digits compounded through this plan. Now it took us a couple of years to get back to market growth. We're going to stay kind of roughly at that market growth as we kind of go through the next couple of years. And then obviously, depending on products and how we go, we accelerate in the back half of this plan. That's the way the plan is written. That gives us a nice solid mid-single digits growth rate that, ultimately, delivers core operating income in the low to mid 20s by 2023. So that's really the plan broadly. Now in other words, as I've said a couple of times, what we're trying to do is accelerate growth by investing in new product flow and then leverage our existing cost structure to try and drive bottom line growth. That's the plan.

So why do I think that's -- we could do that? First of all, we're only asking for the sales to outgrow the market modestly, and we feel really good about our product pipeline right now. So we feel very good about our near-term prospects and our execution ability on that. And then long term, we feel really good about what the macro looks like for our product line as well. And then second, we've been focused on operational efficiency for a while and so improving the use of money inside the organization is a real idea. We've been investing in SAP for a long time. And as we get through that, and this is our -- we're about 2/3 away through that, as we get through that and we really begin to reap the benefits of that, we can begin to repurpose money, I think, in a way that's very productive. So we see that we don't need to necessarily add a whole bunch of resource, as I said before, to kind of get good operational leverage.

And then lastly, through a combination of factors, but most importantly as we sell more high technology, obviously, we get a little bit of gross margin left. So we're looking for some modest gross margin improvements, but really significant revenue growth on top of a relatively modest growth in operational costs. So we feel really good about what that plan looks like, very straightforward plan, and I think achievable within the context of what we're doing.

So I started by saying, look, this is a unique investment opportunity, and I think -- what I want to kind of put out there for the day and for the discussion today is, look, I think we've got the people the products and the plan to create a unique opportunity here. We are in sizable markets. We are -- have strong market positions. We have deep expertise in eye care, and we have really solid product flow that's coming both in the near term that we can identify, but also in the longer term as we see, I think, going forward. And we have a very straightforward financial plan. So it is a package of ideas at size that we think is very interesting, all right? So I invite your questions today. I invite you to ask the questions for the team and walk us through where you may have concerns, but really appreciate everybody's interest in Alcon and for you being here today. And with that, I will close my section and then invite Mike back up to take some questions from you over these first 2 sections. Mike, do you want to come up? Thanks.

QUESTIONS AND ANSWERS

Karen King

Just a couple of reminders before we move to Q&A. We've got about 25 minutes right now, and as we've mentioned, we've got multiple Q&As sp readout throughout the day. We ask that you keep your questions for the first couple of presentations. I know some of you have probably flipped to the back of the book with the financials. I would ask you to hold those until David Murray is up here and has done his presentation. And then second thing, too, is we are webcasting, so be patient because we've got people running around trying to get you mic, so wait until the mic is directed to you. So do you want to come over here? Thank you.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Larry Biegelsen, Wells Fargo. David, I wanted to ask you a couple on business development. So first, can you talk about the M&A capacity at the time of the spin? How are you thinking about deal size, return metrics? And secondly, can you talk a little bit about the white spaces that you're thinking about? And specifically, would you reconsider entering the pharmaceutical business once the spin is complete? I understand that's not coming with you, but does that make sense in the future for Alcon?

David J. Endicott - *Novartis AG - CEO of Alcon*

Sure, yes. Let me start with the last one first. I think in the near term, we don't have any intent to getting back into the pharmaceutical business other than what we're already doing in the surgical space with some adjacencies that we have there. We've got a lot going on right now in device, and we think there's a lot of opportunity there. So if we execute that really well, I think we're in a good place. In terms of capacity, we've calculated the capacity that we have typically used over the last several years, so we have a pretty consistent view of how much BD&L headroom we need. We're looking mostly for technology deals. It is most interesting to us to find new technologies and see how they fit into this. We've done a really good job, I think, in the last couple of years of buoying up our contact lens business and our IOL business. So I think when you think about what we've been doing, what we've been doing is kind of going back at the core business and saying, how does the core business improve? We needed some technology. We had some. But we tend to want to bring them in and then develop them ourselves. We're particularly good at eye care development device. So we see technology coming in as the kind of core ideas. Now we've done a lot in lenses. So I think the spaces that I would say are adjacent or maybe are white spaces, we've thought a lot about. We still think a lot about dry eye and what we can do in that space. We think a lot about diagnostics and what's going on in that space. And there are a number of other technologies that are a little bit more on top of what we're doing already, but I think maybe different spins on similar themes. So really thinking about how do we create kind of spectacle independence post cataract or how do we think about refractive surgery and where is that going exactly. There are new ideas in both of those areas where I think we would have interest if there were really interesting technologies.

Karen King

Okay. David?

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

David Lewis, Morgan Stanley. David, 2 questions for me. The first is just you were very focused on the accelerating growth profile in the next few years. So as you think about mid-single digits relative to your weighted average market growth of 4%, so what do you say to investors? Do you think your end-market exposure into faster markets is going to improve? Do you think your share profile is going to accelerate or you're going to take more share? And how much M&A do you need, frankly, to get to that mid-single digit profile? And I have a quick follow-up.

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes. I think -- I don't think we need a ton of M&A necessarily. And the plan that we have going forward is really built on what we know, all right? So I feel like we are -- we know what we've got coming. We have not put new kind of hypothetical BD&L ideas in there to drive revenue. We have a pretty good sense of where we're going and what those products flow look like. In the near term, we have grown market partly because we're coming back from a place where we were losing share. So in fact, we have gained share. I think AT-IOLs is probably, IOL business, in particular, has gained a lot of share in the last year. But getting back to as we kind of wrap around that and things stabilize a little bit more, you see that this natural growth will kind of level out as we get back to market growth. And so we'll stick around there for a little while until we have really something remarkably new, I think, that changes either the market penetration of which we think there is some and I'll point to the international markets in particular, but also where we've got some share growth opportunities, which I think would be new product driven. I'm not sure if that got all what you wanted there, but...

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

It's perfect. The second question is, the one thing absent from your earlier presentation was just [if we need] profile relative to the large cap medical device peers, but the one thing not talked of is sort of pricing and reimbursement. So how are you thinking over the next 3 to 5 years in that plan? What's priced across the global corporation and what's the outlook for reimbursement in many of these businesses?

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes. Great question. Look, I think we are a unique company in this way because we have a remarkable balance between cash pay and reimburse businesses, right? I mean, most of our Vision Care business is really cash paid, it's patient paid. And they choose based on the value they perceive. So as long as we can innovate real value and create real value in Vision Care, we feel really good about the price premiums that we can generate there, and we do generally sell a price premium product in that space. On the reimburse side, on the Surgical side, again, Surgical has a combination model in lots of ways because we have governments paying for most of what's going on in cataract surgery and mostly in retina surgery. But LASIK, our refractive business, I should say, laser eye surgery, is cash paid and so is a significant portion of what we believe the new market will be, which is just kind of co-pay added to a base patient IOL. So government is going to pay for you to get a sphere lens, which gives you a good distance correction, but they won't pay for you to correct your astigmatism, and they won't pay for you to be able to read and toss your reading glasses out. Many countries, not all, but many are allowing patients to add money back into that process and then that affords us an opportunity to market to those patients things they may really want, right? And I think that blend of reimbursed business and cash business makes this particularly unique because we're not really vulnerable in a major way like some businesses might be.

Joshua Thomas Jennings - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Josh Jennings from Cowen. I just wanted to follow up on your answer to Larry's question just about the M&A track record that you've put forward over the last 18 to 24 months. Can you just help us understand a little bit more details in terms of the successes there? Any details on the contribution to the growth in the LRP? And just how big of a piece of the growth puzzle will that be as you move out through 2023?

David J. Endicott - *Novartis AG - CEO of Alcon*

Right. So we haven't included in the forecast that we've given any of the BD&L that is not already consummated. So we have -- there is several things that we're doing along the way, which we think have some reasonable likelihood of success. But at the same time, we haven't added it in because there's a certain -- what I would say is that on the historical BD&L, what we've done is we've typically added technology that is in the development pipeline. So what you'll hear from Franck in a bit is a little bit more on what we're doing with IOLs. I think Andy and Michael will also do that -- give you a little bit more insight into which platforms we're in, but I think when you're thinking about the intraocular lenses, particularly, think about modularity, think about adjustable, think about the presbyopic changing or the accommodating lenses, PowerVision would be one example where we've got a relationship. Google would be another one where we've got a Verily that's in there. But it's -- again, we've got several ideas. Again, some of them will make it, some of them won't. But our view right now is that we can accomplish that kind of mid-single digits with relatively known ideas.

Joshua Thomas Jennings - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

And just a follow-up, just on the emerging market opportunity and the penetration rates for contact lens in cataract surgery is extremely low. Could you help us understand the opportunity there and what those penetration rates can look like in 2023?

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes, thanks. Look, we're not sure what the penetration will absolutely look like. I think the sureness is that the gap will close somewhere. And I think what we're trying to figure out as we see those markets is one of our fastest-growing markets right now is China. It's a particularly effective market right now, notwithstanding some of the current pressures that we see. Over the long haul, we see the developing markets as significant because this is a high interest category by governments. It's an area where they can make a big difference to the patient population. It's a very economical idea, and we have typically got a footprint that allows us to get to training. So we've been training surgeons in China on cataract surgery for a really long time. That has enabled a significant growth in phaco procedures. But today, there is still less than 2,000 surgeons in all of China doing surgery for cataracts with phaco. So there's a huge -- if you can just do the math on the population for surgeon. I think we'll show you some of that data, but it's the same in cataract. The emerging markets are still high growth if they have the reimbursement. What we like China for, I'll just add one comment in here, is there's still a big cash business. So there's a lot of wealth in the major cities, same with Brazil, same with a few other emerging markets where we've got opportunities to really think about what can we do even without the government. And I think that has been a big opportunity for us as well. So I'm not 100% sure what the direct answer is. You guys will have to help us think through that, but I think the idea is it is certainly growing faster than the Western markets.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

David, over here. Steve Willoughby at Cleveland Research. I was wondering if you could maybe talk a little bit about your cataract business and kind of industry growth. Back a number of years ago when Alcon was publicly traded company before, it seems like the cataract industry was maybe faster growing than 4%. So maybe if you could talk a little bit about if you agree with that, maybe what's changed. As it seems like demographics have only gotten more favorable. And then I guess also with that, the 4% industry growth you kind of lay out, maybe talk a little bit about demographics versus price versus mix versus increasing penetration rates.

David J. Endicott - *Novartis AG - CEO of Alcon*

Okay. That's a lot to unpack, but let me -- and some of that I'm going to lay on Michael as he goes through the next section because we'll have a chance to kind of come back at that a little bit. Let me try and tackle a good bit of that. I think that the markets, historically, have always grown roughly in that 3% to 4% range, procedural growth, which is how we think about cataracts, has been kind of roughly accelerating a little bit as we've gotten into these later years and we see that kind of procedural growth moving up to 3%, 4%, maybe a little bit more in that range. I think what has changed maybe is the price premiums that we were getting back in monofocals. And so what you have is a dynamic in the market where monofocal pricing around the world has come down a little bit and then you have it being replaced by a smaller volume of AT-IOLs, which are significantly more expensive, and Michael will talk a little bit to that point. So there's a mix shift of technology lenses that are coming into the market, performing certain things that governments don't necessarily want to pay for. So the vast majority of the volume around the world is still monofocal. And that value has been kind of stabilized recently for us, but I think for the whole of the market, it has been kind of flat to declining. So when you're getting a 4% growth, you're getting a mix of faster growth in the advanced technology lenses, and you're getting a kind of a flattish growth, I would say, in that monofocal. I'll let Michael correct me if that's slightly off, but I think that's directionally right. I forgot the -- I lost all the...

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

(inaudible)

David J. Endicott - *Novartis AG - CEO of Alcon*

I think that's probably -- I mean, I think the history on that is exactly kind of how we see it going forward. I think we're going to continue to have pressure on monofocal lenses. The governments and anybody who is buying one, there's a lot of choices out there, and that becomes part of the reason. Now we enjoy a significant advantage because we sell a lot of things in the cataract surgery. And so we've maintained share in the space, even in monofocals, despite the pricing pressure. But we've had to accommodate for price without a doubt. So that part of the business will continue that way. I think what we see is, the growth ideas really are the newer technologies where patients are getting more involved. And I think -- as I said, I think what we really believe is that people -- I was with my family on Thanksgiving and everybody was using their phones and everybody kept popping their glasses on and off and on and off. Every time they pick up their phone, they got to pop the glasses on and I was just -- I was kind of laughing about it because it's like that's the whole point, right, which is it's not super-handy because you can't find your glasses. There is no chance that in the end, in our minds, that people should be having to wear reading glasses. That's just a technology question. We can do better. So it is a matter of us getting to that place where we really do move the market substantially.

Robert Adam Hopkins - *BofA Merrill Lynch, Research Division - MD of Equity Research*

Bob Hopkins from Bank of America. Two quick questions. First, on your slide here we talk about mid-single digit CAGR by 2023. Can you just talk about the cadence of that growth between now and then? Is that sort of things get a little bit better each and every year? Just curious in terms of timing of product launches. And then secondly, I appreciate your comments earlier about the drivers of the business in the intermediate term and then what -- how you're thinking long term. On the long-term question, what are maybe 1 or 2 of the things you're most excited about in terms of creating sort of upside growth optionality to the story when we're thinking long term?

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes, okay. On the mid-single digits piece, I think you can -- like what we've said, which makes sense, is we -- it took us a couple of years to get back to the market growth. We had lost share for us to go from kind of a declining business to an inclining business. You can imagine it takes quite a lot of energy. So it's taken us couple of years to get back to market growth. As we've gotten through that, we've gotten through that with some new products that we're also going to continue to work on. But we think that probably we stay at market growth and we've been saying markets roughly 4%. So I think you can think about it as roughly market growth for the next year or 2 and then kind of accelerating beyond that. I think that's really how we see the sales taking shape, very much in line with how we see product flow. So I think, to your second question on product flow, the things we get excited about, I think, are, we have, I think, in truth, one of the most exciting IOL pipelines of anybody in this business. And I think what I would pay attention to is what's the maturity of that pipeline, how does that -- when and how do those come to market? And I think as we see that happen, I think those will be interesting opportunities. I think similarly, we have invested a lot of time and energy in our contact lens business, and our -- and as you see new contact lens products come to market, which we'll talk a little bit about in these next 2 sections, both of them, I think those again will be interesting moments to say how much can these go and add to the business. We have a view of it, and we've articulated that view in the outer years of revenue. But obviously, that's something that will be played out in the market.

Anthony Charles Petrone - *Jefferies LLC, Research Division - Equity Analyst*

Anthony Petrone from Jefferies. Maybe on the Vision Care business, can you give us a sense of where dailies versus 2-week and monthly sit today and sort of where that's going to trend, say, through the 2020 plan? And how much of a driver will a shift to Dailies be from a margin profile? And then I have a follow-up on capital structure.

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes. So I'll let Andy answer this a little bit, too, in our next section, but I'll take a first shot at it, which is I think the -- directionally, the rate of travel is dailies is going faster than both in value and now in fits than everything else. So this transition to dailies continues to be the driver of value growth, and I think that is different than margin growth. So the margin percentages on dailies, I think, everybody understands is different than our monthly business or our reusable business generally. So I think what we'll see is significant profit add from that, but actually challenging margin mix as we start thinking about those products. That -- the rate of travel on that I think is pretty consistent with where it's been, so I don't think we see real change in the dynamic there, but rather kind of steady movement to dailies as it has been moving along the way.

Anthony Charles Petrone - *Jefferies LLC, Research Division - Equity Analyst*

And then follow-up on capital structure will be, can you give us an idea of the company-wide annual free cash flow profile at spin? And heading into spin, will be -- will that be a debt raise from Novartis in the split of the cash between Alcon and Novartis?

David J. Endicott - *Novartis AG - CEO of Alcon*

Thank you. I'm going to defer that one just to the section after David because David is going to cover that in some detail. And so rather than take up David's slides, let me -- can I -- if I can hold that, we'll come back to you, I promise, and we'll get to it.

Karen King

Other questions?

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes, right here.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Joanne Wuensch from BMO Capital Markets. Many in this room covered Alcon (inaudible) when it was publicly traded before. Could you sort of fast-forward us a little bit on, hopefully, what do you think the organization looks like now? What have you accomplished over the last several years per se? And what -- now that you're going to be public again, should we be expecting?

David J. Endicott - *Novartis AG - CEO of Alcon*

You should take that one. Do you want to take it? You're doing such a nice job.

Michael Ball

I'm the eye candy. So...

Karen King

You can...

Michael Ball

So look, I think from a cultural standpoint, as I said, med device is very different from the pharmaceutical business. And so I think we've made great progress on medical device culture, which is very customer-centric type of culture and a very nonbureaucratic, agile, nimble culture. So our view is that we've been on this and from the time I came in on this listening tour with the employees, what gets in your way of performing your tasks? Or what gets in the way of servicing the customer? And it's all about taking out bureaucracy and roadblocks to efficiency. And then the magic is you take the money that you spend on bureaucracy and focus it outwards towards the customers. So we're looking to get much more efficient internally. So we can unlock and, I would say, unleash the power of the employees simply by -- and again, it's not that simple, it takes some time, but getting that empowerment, the nimbleness, the agility throughout the organization. One of the things that we brought to life here is that we've put a upside down pyramid as our way we are going to manage Alcon. And the bottom of the pyramid is actually the executive leadership team. So it's not that we're asking employees what they can do for us, it's we're asking employees what can we do for them. It's a very profound notion because what it focuses the company on is the front lines and the customers and the patients at the end of the day. Because at the end of the day, that's what we're in business to do. So from my standpoint then, we've made great progress there. We've got the silos in the organization broken down, aligned behind this customer notion where everyone in the organization needs to ask a question when they're doing their job, whether it's accounting, legal, whatever, am I helping or hindering the patients or the customer by my action? And so we're getting them aligned behind those ideas. So a very meaningful cultural shift and I'm, as I said, very pleased with the progress we're making. But still more work to be done.

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes, definitely. But I would say because it's a really important question, I think it's one of the real powerful changes that's -- that Mike brought to the Alcon business. And I think as we -- just to give you another example of how it manifests, Mike described silos in the way in which we operate. I think Alcon had siloed itself in a nonproductive way. And so as we think about what we put in place, we put in place, for example, these global franchise teams where we have manufacturing quality, commercial, the whole team sitting together making product decisions. That was not how it was being done before we got here. And that was a very significant change to signal 2 things: one is we need everybody to participate in a customer-informed product decision. So if we're going to build a product for a customer, we better be right and we better spend money correctly on that. And we had been wrong, I think, in the past on what we were choosing to develop. This allows us to get the whole of the organization aligned around that kind of idea with significant, I think, investments now more accurate and probably coming to market with better support, both from the commercial areas, but also from the science community and also from the organization and our manufacturing groups and our rest of the organization. So it really has organized ourselves, I think, in a more collaborative approach, which again is at the end order, customer-informed and patient-centric.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

And then what do you think you can do now as a publicly traded company that you could not do before part of Novartis?

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes. Look, I think we've got a lot of progress to make. So as much as that sounded like we made a lot of progress, we've got more to go. And I would say that we -- the -- every month we get better than we were last month, and this didn't happen over 12 months, so it's not going to get fixed over 12 months. But we have a journey that I think -- that will enable us. I think one of the big changes I think is just being able to move a little quicker in terms of our -- for example, our portfolio decision-making processes. I think enabling our global franchise teams to make product decisions and then run them through the organization is a different process than we've run before. I think detangling pharmaceutical development program processed from device program process is a big difference in the way in which we would operate. I think when you think about how we manage the organization functionally, we can create leaner processes that have a little bit more speed. So we're talking a lot about speed. We're talking a lot about decision-making. And I think those are the 2 biggest factors that, I think, will improve the performance kind of long term over the -- as we kind of make these steady improvements through the next, I would say, 4, 5 years.

Karen King

We just have one more final question at the back here.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Jeff Johnson from Baird. David, just a question for you. You've laid out kind of the revenue growth at mid-single digits, 4%, maybe initially accelerating a point or 2 over the subsequent few years, margin target's still low- to mid-20%. If the revenue growth is slightly back-end loaded, is there any back-end load to the margin? Or what can you tell us about kind of the operating margin goals on an annual basis? Is it 50 to 100 basis points, 30 to 50 basis points? Just help us get comfortable with the gating there.

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes. It's a good question. I think you guys will have to come up a little bit with your own gating on this one because we're going to try and keep us focused on our operations. So to the sense that we overachieve a little bit or we've got extra revenue growth, that would be great. I think we have lots of ideas for what to do with it. So I think we're going to have to -- we'll communicate along the way as to how we see things. But I think fundamentally, the way you should think about it is in these next couple of years, we really are focused on pipeline development and getting the investment in the business kind of correct. I would just say, right now, we probably have more -- we'd like to see more externally focused investment. That doesn't mean we're adding anything, it just means we're trying to turn productivity from things like SAP or things like our -- the rest of our operation into more customer-facing ideas that support product growth. So as we're able to do that and, again, if it's a little bit just operationally sensitive, I don't know how fast precisely we can do it. We've made some assumptions around it. But that would be what evolves, I think, over the next couple of years depending upon, as you correctly point out, how much revenue growth do we really get and how much -- what do we do with that. Those would be choices I think we're going to make operationally with a very specific intent though of getting to low- to mid-20s on time. If we can do it faster, great. But I would caution that we're really interested in getting long-term growth and getting our pipeline positioned such that we have really strong steady long-term potential.

Karen King

Okay. So we are going to break for about 15, 20 minutes. As I mentioned, we've got multiple Q&As. David will be back up here each time, so you will have plenty of chances to continue asking questions. Thank you.

(Break)

PRESENTATION

Unidentified Participant

Please take your seats. Our program is about to resume.

Karen King

Now we're going to get started. Can everybody please take their seats? Thank you. So we're going to move into the second part of this morning. We're going to do a deep dive into our 2 business franchises, our Surgical and our Vision Care. And I'm going to turn over the floor to Michael Onuscheck, and he is our President of Global Business & Innovation, and he's going to talk to you about Surgical.

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Well, thank you all for coming. I was glad to see that you went over to the booths because the most intelligent people who are in this room are actually standing over there. So if you want to know what's going on with these technologies, they can help you out.

I want to do a little test with you right now. So I'd ask all of you, can you look over at the clock? Can you then look at the Christmas tree? Look back down at your iPad and now look at me. I love that. Simon didn't say to do that. But no, what I wanted to do is it's a little bit of an experiment about the human eye, the ability to look at distance, the ability to come back to near, the ability to go to distance again. We do this billions of times a day, which is what makes the eye such a precious organ and what makes Alcon such a very interesting asset for you to think about investing in.

So my name is Michael Onuscheck. I've been in the medical device industry for about 26 years. The first part of my career was in sales and sales management. The second part of my career was in innovation and driving innovation in emerging indications, new businesses, things like spinal reconstruction when spinal reconstruction really wasn't a business. Back in 1991 and 1992, Sofamor Danek didn't exist; but I saw it as a market opportunity that could grow.

I then -- we sold that business over to Medtronic. I left and I went to another start-up in a segment of neuromodulation. So we built a cochlear implant to restore hearing for the deaf, a spinal cord stimulator for intractable pain and a deep brain stimulator for movement disorders and then we sold that to Boston Scientific.

The third part of my career has actually been in leading global businesses. So I was asked at Boston Scientific to go over and run EMEA and turn that business around and really start the turnaround for Boston Scientific over in France for almost 4 years. And I learned a lot about global markets, the economics of those markets and the importance of what we're doing. I was then recruited by Novartis and Alcon to come in and help turn around the Surgical business and I've been here for a little over 3 years.

And so what I'm going to walk you through today is a very sophisticated business model with some very sophisticated products. I want you to think about this business and I'll do it in 3 ways. We'll talk about the market, how big is the market. We'll talk about Alcon inside of that market. Then we'll talk about the near-term growth opportunities, and then we'll dive into some of the longer-term things that we're doing.

If you walk away with nothing more from my presentation, you need to remember these 2 things: we have an incredibly strong core equipment and consumables business that enables us to invest in advanced technology IOLs and the vitreoretinal business to drive growth. Let me say that again. We have an incredibly strong core equipment and consumable business that enables us to drive growth in AT-IOLs and vitreoretinal.

So why did I leave Boston Scientific and why did Alcon attract me to their surgical franchise? Reality was is that this is a company whose reputation in medical devices is probably one of the preeminent name brands in this segment, especially in surgical. But how did it get there? Is it delivered innovation that created efficiency, safety and outcomes for surgical patients in one of the largest categories in the world, cataract surgery. Almost every person that sits in this room will wind up with a cataract at some point in their life if they live to be long enough, I mean, live to be over 65 or 70 years of age. They created innovation here that advanced the science of optics and advanced the procedure. And therefore, they've introduced some amazing things that have allowed us to lead in this segment.

So when we look at the market, the market is a $9 billion market. We do pretty well in this market. Our 3 biggest competitors are Johnson & Johnson, ZEISS and B&L. But really when you look at the size and scale of our business, we're the largest, most dominant player in the space. If you look at the way that we've broken this down, we've broken it down into 3 segments, right? You've got the implantables business, which is the fastest-growing portion of the business. You've got the consumables business, which is stable and strong. And you have an equipment business that allows us to have access to the operating room.

If we double-click on this and we break down equipment, equipment is a $2 billion a year segment. A lot of that is in cataract and vitreoretinal technology so the equipment that is used for that and refractive laser. One of the white spaces that we don't play a lot in but you have the opportunity to see one of the things that we're pursuing is visualization and diagnostics. David talked a little bit about this over $600 million space that we could go actually pursue.

In the center of this is consumables, and you see the majority of the consumables come from the business that is led off by the equipment. So the consumables, to do the procedure in vitreoretinal and in cataract surgery, there's a small portion of this that comes from refractive lasers where you have patient interfaces that are -- that lock onto the eye to hold it in place during the laser procedure. And finally, the implantables business, which is predominantly interocular (sic) [intraocular] lenses, the little plastic lens that is replacing the natural lens that builds out the rest of this category, a $3 billion category.

If you look at Alcon and the way that we're positioned, globally, we're #1 in all of these categories. It starts with the foundational piece and it's every piece of equipment that you could possibly need in the operating room, Alcon provides. So a really strong base and foundation. We've segmented that equipment so that we can go into entry-level markets with that equipment and start somebody off at the very beginning of their practice to the most sophisticated pieces of equipment that you'll ever use in an operating room for cataract or vitreoretinal surgery.

That base gives us the right to win the consumables business in the operating room. And then that relationship with the physician gives us the right to ask for the IOL business. Over the last couple of years, our organization has been focusing on how do we win back IOLs and IOL share? And we'll spend some time talking about that.

But when you think about the Surgical business, it's about leadership. It all started with the equipment. It all started with understanding the needs of the customer. It all started with our ability to educate and to work with physicians to solve the problems that their patients were faced, right? And you'll meet some people. I mean, there are several people who are here. I think one of them has 27 years of experience with Alcon. The other has 29, one has 7.

We've got some amazing folks in the Surgical business that have allowed us to sustain our relationships with these folks over the year. Then you have somebody who comes in from the outside and they look at this business and they say, "We need to think about it slightly differently than we have historically. We need to push the pipeline. We need to push the innovation. We need to drive that collaboration with our R&D partners. And we need to leverage our best-in-class installed base to give us access back to win and the right to win the IOLs as we go forward."

So this is the equipment and this is the installed base. I want to draw your eyes to the top left corner of this slide, right? We're on our seventh generation of phaco equipment, 7. Our competitors are still using what we would call a non-dynamic flow to control interocular (sic) intraocular tension of the fluids. We're cutting something out, we're replacing it with fluid. We're holding the chamber stable, and we are evacuating the lens, a dense, hard lens through an ultrasound. We do this better than anyone in the world. And when you talk to physicians, they will tell you that the technology that we released with Centurion is -- changed the way that they practice medicine. So over 17 years, we've introduced 7 platforms. It's allowed us to win 52% of the market. We complete -- compete with Johnson & Johnson and also B&L on this category, but we win in this category.

If you look at new installs in 2017, we were first in class in new installs in 2017 as well. In vitreoretinal, this is our third generation platform. And I like to think about the vitreoretinal business as one where almost everybody who grew up in Alcon grew up in the cataract franchise and the Vit-Ret business just kind of grew organically. When I got here, I said, "Look, this is an absolutely beautiful opportunity for us to accelerate into vitreoretinal and grow this category." If you have a vitreoretinal problem, there's a very high likelihood that if you don't have surgery within a couple of days, you'll go blind in that eye. So it's a huge opportunity for us as an organization. And finally, the refractive business, we have 34% share in refractive lasers for LASIK surgery. Last year with our Excimer sales, we took #1 position in this space, which is enabling us to continue to invest behind this.

So the equipment piece, right? So the products that we sell for equipment give us the right to win. Each one of our pieces of equipment comes with a consumable, a fluid management system pack, which is dedicated to our system. So 40% of all of our consumable sales are directly connected to the equipment that we sold. Each one of those, Centurion at the top, Constellation in the middle or our LenSx has a unique interface that allows us to sell that consumable.

We have customers, and actually if you think about this, we've got millions of patients who need service. We've got 70,000 cataract surgeons out there. You've got to be able to do somewhere between 15 and 50 procedures in a day. You've got an operating room that is spinning, where you're trying to move a patient in and out of the operating room every 15 to 20 minutes. You can't have a circulating nurse running around trying to find a bunch of these little itty-bitty things. So we put them into a Custom-Pak. There's a Custom-Pak sitting back there. It isn't open yet surprisingly. But this is the heart of the procedure. So the circulating nurse can open this up and immediately have a sterile field to continue the operation. And then we packaged this for our customers in a way where everything that they need to do the procedure is right there. And we can contract it along with our IOLs, along with our equipment and it makes for a very robust business.

Now we've been doing this a long time. The company has earned the right to ask for the business, the company has earned the right and the respect of our customers. I don't show you this slide to pound our chest. I show you this slide to demonstrate the strength of the organization. We did a survey of 1,299 customers around the world. At the bottom of that chart, you can see the number of customers who were surveyed in each of these countries. And in these 5 categories, we're generally considered the best in class. It gives us the right to ask for the business.

When we think about near-term growth, right? So I'm now going to walk you through near-term growth drivers. There are 2. There's the advanced technology lens and there's vitreoretinal surgery. Both have tremendous upside for the organization in the short, mid and long term.

If we look at advanced technology lenses or if we look at the IOL portfolio, many of you may know this, some of you may not, so I'm going to try to explain this. If you look at the total business, it's a $3 billion category. Alcon has about 1/3 of that business. Our competitors again are Johnson & Johnson, B&L and ZEISS. The category breaks down into monofocal lenses, and David described this. A monofocal lens will give you great distance but there's a high likelihood that you're going to need spectacles or readers in order to read up near. 92% of all cataract patients around the world get a monofocal lens, and it's generally reimbursed by governments around the world. It generates 70% of the total revenue value in this segment.

When we move up one class, which is an astigmatism-correcting lens, a toric lens, this lens will actually allow for sharpness. So if you have astigmatism, your eye is not round or domed properly. It looks a little bit more like a football. And that causes you to lose the crispness on the edges of things. And then multifocals is the ability to read at -- or see at distance, intermediate and near. 8% of lenses today are in this category. In both of these categories, there's a patient copay up-charge somewhere between 3 to 4x for a toric and somewhere between 5 and 8x for a multifocal. This generates 30% of the revenue in this segment.

The reason that we're excited about this is actually the performance of the PanOptix design. So the PanOptix lens is again a trifocal lens. We have 3 distant settings. And through our learnings of other devices and other technologies, we've learned that the user today, their experience is very different than a few decades ago. We work so much on our mobile devices today. And if you hold your mobile device out and go home, measure it. It's about 40 centimeters from your eyes to your mobile device. So we set the set point at 40 centimeters and 60 centimeters, which is where you're probably working when you're on your laptop.

These are the devices that are going to enable us to grow, and these are the results that we've seen with the product launches outside the United States. We expect that we'll be delivering this technology in early 2020 to the U.S. market. And we think that we can capture somewhere between 2 and 3x the market growth that we've got today. So today, we're right at around the high 20s] in AT-IOL performance in the United States. We think that growth is available to us.

If we look around the world, and David talked a little bit about this, the United States' penetration in AT-IOLs is about 14%. The rest of the world sits around 6%. If we were just to be able to move the rest of the world up to where the United States is, we would wind up with an opportunity, a market opportunity of about $500 million. Now is that realistic? We think it is actually, right? I mean, if you think about the 1.5 billion people today that are now in the middle class or will be in the middle class in the next 5 to 10 years, they're going to demand these type of technologies as well. So some of the emerging countries or developing countries that we're in, we see these demands already.

The second thing that we're super excited about though is vitreoretinal surgery. If you think about cataract surgery as walking on the moon, what we have to do in vitreoretinal surgery is actually land on Mars. Think about this. This is the back of the eye, the topography of the back of the eye you need to be able to visualize. You need to be able to peel a membrane off the back of the eye that is thinner than wet tissue paper on a surface. This is incredibly difficult.

And so what we've done is we've designed a system -- so if you push on the side of your eye, you'll feel that it kind of spongy, gelatin-like. We've got to first extract all that gelatin before we can either tamp down the back of the eye or the retina or peel it. So we've developed a system that allows us to do that. We've developed the instruments that are required to do that. And we see an emerging opportunity in the marketplace where, in the United States, you've got about 7 physicians who can treat -- well, I think it's about 1 million patients, right, or 1 million population. Outside the United States, it's less than 1 million. So we have an opportunity to go in and do training and education and advance this therapy.

We're also super excited by the power of the Constellation. Constellation is viewed as world-class. Everything that you need to be able to do. You need to cut out the vitreous, you need to suck it out. You need to do a fluid-gas exchange. You need to be able to pump in silicone sometimes, silicone oil. It can do all of those things. We've also got a specialty instruments group at GRIESHABER that has developed these jeweler-like tools because it's required to peel the back of the eye.

And we believe that in order to do great surgery, we need to move beyond the operating microscope. A microscope is decades and centuries old. And what we need to be able to do on the back of the eye is actually see a topographical map so that we can do the proper peeling. And so we've got a demonstration over here of a product called NGENUITY. We hope that you take a second to go put on some 3D glasses and see how cool this is.

Now where are we going long term? So long term, right? We've got active programs, advancing innovation, I'll talk about that. We've got adjacencies and white spaces that we can go into, and then we've got some business models that we're going to be able to take advantage of because of our scale.

When I came here, I had the opportunity to sit down with Franck, who is the Head of R&D, he happened to be the Head of R&D for Surgical at the time. And we sat down, we said, "Look, what are our core R&D competencies? Where are we great? And where do we need to look outside for help?" And so we said, "Look, we're world-class in developing equipment." Okay. We'll make internal investment, R&D investments in that. We're world-class in optics. So we'll continue to advance our internal optics programs. But when it comes to research stuff, we're going to go out and we're going to look at the landscape and see if there are things in the landscape that we could bring into our organization."

We're world-class in developing lasers and robots so we're going to keep that inside but we're going to look at the landscape externally. And we're going to partner, on the right-hand side, in external presbyopic correcting solutions and things that would allow us to advance machine learning and artificial intelligence.

So at the American Academy of Ophthalmology, we announced our partnership with Philips for our digital health cloud. And we decided that instead of trying to build that infrastructure ourselves, we would lever a partner in that development.

So we're super excited about where we are. We look at the adjacent markets. We've been present in China for more than 20 years. We've trained most of the physicians through our phaco development program. We've got a great reputation, but we have a booming population that is not only for the monofocal class but because of the value that could be created with multifocal devices, we believe there's an opportunity for us to grow there. And then when we look at Diagnostics, which is a space we don't play in; and visualization, which is a white space that we don't play in, we believe there's an opportunity for us to grow in that category, and that's a $600 million part of our competitive sets.

So the other part of what we're doing today is we're getting creative in how we work with our customers. Because of the breadth of our portfolio, the fact that every procedure that is done surgically, we can manage end to end. We have the opportunity, as David said, to think creatively. So in the markets where there may be economic pressure on reimbursement, we can bring a value solution to those customers or we could bring a procedural outcome for those customers. We know that our lens, the AcrySof platform that has been implanted into 100 million patients, performs better than any other lens or lens material out there, which allows us to do some risk sharing with some of our customers in tenders around the world.

We also know that this procedure is going to have a higher and higher demand, right? We know with the population aging and the growth, we're going to have to deal with this demand. One of the problems that this faces, so on the right-hand side of this slide, we need to come with a simplification of the workflow for these patients and the physicians.

And so we've gotten into digital health. So a diagnostic is done in the clinic, not 1 but 3 or 4. And then this creates a file of papers and then the doctors got to shuffle through all these papers. They've got to figure out what's going to -- what they're going to do for that patient. What we're going to do is we're going to be able to take anybody's diagnostic, whether it's a ZEISS diagnostic or a Topcon's diagnostic or Haag-Streit's diagnostic. We're going to be able to put it into an envelope which allows the physician to look at this data anytime they want to plan the surgery. And then we're going to push that data through a secured cloud into the operating room so they can use that information inter-operatively. And then post-operatively, we're going to take a measurement of that patient's eye to see how effective were we in getting the outcome that we wanted. And then we're going to push it back to the clinician, and we're going to help -- through machine learning, help them understand how to do better surgery faster for their patients.

So we're super excited about our portfolio and our platform and what's in front of us. I want you to remember these 2 key things again. Our equipment and core consumables gives us the ability to go in and invest in advanced technology lenses and vitreoretinal surgery. This business has never been better positioned to grow and win in this segment. And I'm very confident in what the R&D organization has done and what the manufacturing tech ops organization and the quality organization have done to support the growth of this business. And we're really excited about where we're going to be able to take this in the next 5 years.

So I want to thank you for your attention. I want you to think about your own eyesight. If you couldn't see that clock or if it was a little hazy, contact lenses are over here and cataracts are over there. We can solve your problem. Very much appreciate your time. Thank you.

So now what I'd like to do is I'd like to actually introduce Andy Pawson. I had the opportunity to meet with Andy and be a part of the process of bringing him into the organization. Andy comes out of consumer goods, and I've actually spent a lot of time, learning a lot of really cool things from Andy and his experience. Growing up in the device world, you think about things one way. Coming in from consumer goods, you think about things very differently, and it's actually been quite an honor to be able to learn from Andy. So I'd like to bring Andy Pawson up, President & General Manager of the Vision Care business. Andy?

Andrew Pawson

Good morning, everybody, and thank you, Michael, for that very kind introduction. As he said, my name is Andy Pawson, I'm the President and General Manager of Vision Care. And the purpose of my presentation today is to share with you the credentials of our Vision Care business.

Now as you can tell from my accent, I'm not from these parts as they say. And I'll come onto my background in a little bit more detail very shortly. But I'm a Yorkshire man and as a Yorkshire man, we're known for our straight talking. And as you came in today and the nature of your questions around the Vision Care business. I think there's certainly one thing that's top of mind that I'd like to address upfront. And that question seems to be, does Alcon have what it takes to maintain growth in line with the category in the near term? But more fundamentally, does Alcon have what it takes to accelerate growth beyond the category and drive share in the longer term? Now my answer to you is an unequivocal yes. And during the next 20 minutes or so, I'd like to explain to you why I believe that to be the case and how we're going to achieve it.

And we'll do that in 3 parts, very much like Michael did. So first of all, I'm going to talk about those category or market dynamics that we're experiencing globally and deep dive into some of the key drivers of those enabling trends that actually are providing the category with some tailwind that we can exploit.

And then secondly, I'm going to focus on the near term. So what are our near-term growth drivers that are going to drive that growth in line with the current category growth rate, leveraging some of those tailwinds? And then finally, I'm going to move on to the future growth. How are we going to drive growth beyond the category to gain market share and ultimately win in Vision Care, okay?

Very much like Surgical, Vision Care has got a strong legacy of innovation, very, very impressive innovation it is, too. This is something you learn as you're inducted into Alcon. I know because I can speak from first-hand experience. I only joined Alcon in February of this year. I've just got over 9 months with the company.

And one of the things that I would reflect upon from my career, I've had 25 years in my previous organization with Kimberly-Clark and 5 years prior to that with Unilever. I worked in CPG. And success in CPG working in very competitive categories like adult care, feminine care, baby and childcare against formidable competitors like Johnson & Johnson and also Procter & Gamble, the one thing that you learn is success is predicated on innovation in product but also innovation beyond product. Innovation in channel and innovation in business models and also innovation in how we go to market fundamentally because the world is changing.

Now I reflect to my initial interviews with David on the conversations that we had. The world of Vision Care is changing. The analog path to purchase that could be won by the sales organization connecting with eye care professionals are not gone but they've definitely been disrupted. The path to purchase is becoming omnichannel. Consumers have pain points. They already have to visit the doctor and the dentist. It's seen as a painful experience going to see an eye care professional in some countries. So the path to purchase is definitely being disrupted and disintermediated. The eye care professional themselves, as you talk to them, are very worried about the growth of the Internet and the disintermediation that, that could play.

So from my perspective and the discussions that we had from those very early days when I joined Alcon, we truly believe that the Eye Care Professional needs to remain central to that patient experience. But we also fundamentally believe that future success within Vision Care will also be predicated on building strong brands and driving a direct patient customer experience in an omnichannel world, and that's why I'm here today.

So let's get straight into it and talk about the Vision Care market and who we are and where we play. So Alcon is a $3.1 billion Vision Care business in a $14 billion market. We compete directly with Johnson & Johnson, CooperVision and B&L, companies that I know you're very familiar with. What we see in contact lenses is an $8 billion business; and ocular health, and I'll explain what I mean by ocular health and how we define it very shortly, is a $6 billion business. So a pretty balanced portfolio across the categories. And our estimates indicate approximately a 4% growth rate for each of these segments, giving a total Vision Care growth rate projection for the next 5 years, again at that 4% growth rate.

So let's deep dive into contact lenses and some of those key drivers. At 30,000 feet, ultimately, I think there are probably 3 key tailwinds that are impacting the Vision Care category. First of all, the modality shift continues. So this is moving from reusable lenses to daily disposables. This data here, I think, covers to the end of 2017. By the end of 2018, the majority, i.e. over 50% of the category will be in daily modality and that shift continues. And that's driving premiumization because of the number of lenses used and the average price that a patient pays, sometimes 2 to 3x versus reusables.

The second phenomenon is how we break down lens design and some of the key trends within lens design. So sphere lenses are standard visual acuity just with the same power throughout. Toric lenses correct for astigmatism. Multifocal lenses correct for presbyopia. And cosmetic lenses actually play a really important role, particularly in markets like Asia where they're a point of market entry. The first lens that consumers typically use at that millennial age are actually cosmetic lenses. Now those segments of toric, multifocal and cosmetic are all actually growing significantly. So again, that's providing premiumization of the mix from a design perspective.

The last one I know you're familiar with, the 15% level of penetration in North America versus the 3% penetration in Asia, that does present geographical opportunity. The vast majority of the contact lens market now is outside the U.S. And actually, Alcon is the fastest growing manufacturer in Asia, for example. So we see that continued trend of getting the category to expand its penetration and to grow in developing and emerging markets geographically as kind of a third key driver of the business.

So ocular health. I did say that I would explain how we classify ocular health. Now we already had a leading position in contact lens care. That's the solutions that we have to clean and provide hygienic lens used for reusable lenses. We already had that leading position. But in January this year, we had the gift from Novartis of regaining the OTC portfolio.

And that brought about it a multitude of ocular health spaces. So we inherited the dry eye business back into Alcon. We have a leading position with the SYSTANE brand. We also inherited vitamins, allergy and red eye solutions. Now the interesting thing here is if you look at the light blue space on the chart behind me, that's roughly a $6 billion category. That doesn't include Rx pharma dry eye products. So we have that potential to now grow and innovate in broader spaces of ocular health. It provides a rich vein of growth source for us as well as inheriting that leading position with the SYSTANE brand.

We have a leading portfolio of recognizable brands. Some of them, you may be familiar with. But just to cover off a few, we have our leading portfolio of daily contact lenses with Dailies Aqua Comfort Plus and with DT1. I'll talk a little bit more about DT1 later on. We've got our monthly reusable lens portfolio with AirOptix and a strong portfolio of colors with AirOptix Colors and also our FreshLook products. And as I said, we have a leading position overall in ocular health with the SYSTANE family of dry eye products, our CLEAR CARE CLC solution and our OPTI-FREE multipurpose solution in the contact lens care space. And they're a $1.8 billion and a $1.2 billion size business, respectively, so a pretty good balance within our portfolio.

This is just another context and another way to look at the portfolio as we break it down. So some of the things to highlight and hopefully, some of you will have a chance to visit both the SYSTANE booth and also the DT1 booth. With Dailies Total1, we have the most breathable contact lens in the category. It's the first and only water gradient lens in the category that exists today. And it has an 80% level of water content at the surface contact with the eye. That drives really strong performance in terms of comfort and also vision acuity. It's the go-to lens for symptomatic patients for our eye care professionals.

With our AirOptix portfolio, we've introduced SmartShield technology which protects against lipid deposits. What that really means is this is a lens that's as comfortable to wear on day 30 as it is on day 1. We're also right now rolling out HydraGlyde, which is a moisture matrix formula that adds added value of comfort and moisture through to the end of the day.

I'm going to talk a lot about SYSTANE and our dry eye portfolio. But very recently, in 2018, we've launched SYSTANE COMPLETE. Now SYSTANE COMPLETE, it does exactly what it says on the tin. It is actually a complete dry eye solution. It protects against both aqueous and lipid deficiency and is a new product to the category, leading-edge technology that Alcon launched very recently, so I'm going to go into that in a bit more detail.

And then as I said, we have our contact lens care portfolio with CLEAR CARE and OPTI-FREE. So we have a strong portfolio of brands in which to drive some of that near-term growth potential.

So what is it about Alcon Vision Care in terms of those sound fundamentals for driving sustainable growth? Well, first of all, we've got strong brands in the fastest growing parts of the category. So Alcon is leading the way in growth of multifocal. More to come on that. We're also leading the way in dry eye and the transition to Dailies. So we're growing fast where the market has got those tailwinds.

We are also, from our voice of the customer surveys, we believe we have a preferred manufacturer status amongst eye care professionals. We've got one of the most extensive sales forces in the world, accessing the highest number of eye care professionals. And we also invest a lot in terms of their training and development through things like the Alcon Experience Academy that you'll see over in the booth on the left-hand side here. So we've got a very strong relationship with eye care professionals.

As we brought that OTC portfolio back in and added that to our contact lens care portfolio to create this ocular health space, we've also got advantaged scale in terms of our retail partnerships.

We have the broadest portfolio of over-the-counter eye care solutions.

I'm very, very excited about our innovation pipeline. If you think about Dailies Total1, it was introduced to the category I think it was in 2012. We have a multitude of innovation platforms in our pipeline, the first to market you're going to hear about today, which is a brand called PRECISION. But Franck will also give you some insight into our future innovation pipeline, which, from a contact lens standpoint, is all about introducing new platforms and new technologies and is the strongest that it's been in recent times in Alcon. So we have a really strong innovation pipeline.

Not only do we have that pipeline, but we're also invested in an asset base that will have increased flexibility and lower cost and a rapid time to get to end-of-curve manufacturing with our investment in a new contact lens manufacturing platform. So that's already invested, and Franck's going to go through some specifics about the benefits that, that will bring our business.

So moving on to those near-term growth drivers. What is going to drive the growth for our business in the next 2 years that will sustain us in line with the category? I'm going to focus on these 2 things. Dailies Total1 and our SYSTANE COMPLETE portfolio, our SYSTANE COMPLETE launch.

Now Dailies Total1, as I said, is a very unique product, the first and only water gradient technology in the category. But we're expanding the strength of our Dailies portfolio by investing in presbyopia, and we'll go into that in more detail.

As I said, we've also introduced SYSTANE COMPLETE, leveraging that leading position in dry eye, but we're tripling down on DTC investment. And I'll explain why when we look at the parameters of the dry eye business and ultimately what drives patient behavior and the path to purchase.

So this is pretty impressive. I've led a lot of brands in my career and very rarely have I seen a brand with a 6-year, 62% CAGR. Pretty phenomenal performance since the launch of DT1. And that's led to a 33% share of the Dailies dry eye category. So I guess it really raises a key question: How sustainable is that growth? And so that's a really important question to ask. And from my perspective, I think I asked the team this question: What gives us that confidence? And there were 7 key things, but I'll just raise a few. Firstly, when you look at contact lenses, more than half of new wearers go into reusable lenses. They then get the experience of wearing contact lenses and realize there are more value-added solutions, and there's a real value proposition in reusable -- in disposable lenses. It's much more convenient. And if they're willing to pay that price premium, they will trade up, out of monthly modality into a daily product. And that is set to continue. If half have said they're going into reusable lenses, there's a real opportunity for that market to still expand.

If you then look at consumers are going to daily disposables, okay, they tend to go into 2 different technologies. SiHy leads the way. It's advantaged technology. It stands for silicone hydrogel, if you want to wear. But more than half the market of daily wear is actually going to HEMA (inaudible) lens, which is an older technology. So there's still an opportunity to drive the adoption of daily SiHy premium products with the adoption in Dailies Total1.

The third reason is we are yet to launch a Dailies Total1 toric lens, a lens for astigmatism. We're still catching up with the demand, and we're building capacity in our asset base to be able to introduce toric in the next 18 months. But it's 22% of the category. So we're not even playing in 1/4 of the market effectively. It's also -- Dailies Total1 is one of the most rapid-growing product platforms in Asia, where there's a real interest in solutions that provide benefits in terms of healthy eyes. So we're seeing Dailies Total1 is now a brand leader in Korea, for example, in terms of premium Dailies SiHy, and it's our fastest-growing portfolio in China. So those are pretty tangible reasons why we believe the pathway for growth for Dailies Total1 is set to continue.

Let's talk about multifocal because this is another critical element. Now I know you're not going to like to hear this, but as we get older, as you can see from the chart behind me, our refractive needs increase. And what happens is we get the onset of presbyopia, the hardening of the lens, and that enables us to not see clearly near and far. Also what happens is we get susceptible or more susceptible to dry eye. Now both those things combined beyond the age of 30 start to lead to a significant drop-off in contact lens usage.

My team, call this the chart of injustice. I prefer to call it the chart of opportunity. Because if you think about it, the manufacturer that can solve for presbyopia with a contact lens wins the day. Why? Because 60% of consumers that drop out still want spectacle independence. That's pretty fundamental.

We believe we have a right to win in multifocal lens design. First of all, we have the technology. If you take the performance of Dailies Total1, a lens designed for the symptomatic patient, the mild-to-moderate dry eye sufferer, and you add that to our Alcon's proprietary technology in terms of our center-near and out to distance peripheral design that enables a consumer to see unbeatably near and far, you combine those 2 things together, you've got the right technology. But that's not the only thing you have to do. Most people are not aware that a multifocal lens actually exists. It's designed to help you see near and far and can adjust accordingly. I'm wearing them here today. I can see you all in a distance, and I can read this screen pretty clearly. They work. Seriously.

But you've got to invest in awareness. You've got to invest in education. You've got to make people aware. So we are investing significantly in our North American region as our lead business in DTC awareness. I'm going to show you a campaign very shortly.

The third thing and not insignificant, by the way, it's crucial, is to win the fit. So we've invested significantly in training eye care professionals, over 6,000 in North America alone, to fit DT1 multifocal lenses. Now we have clinical data that shows we have over an 80% first-time fit rate. That is ahead of the category average. And we have a 95% second-time fit rate. Why is that important? Because chair time is valuable. Chair time is really critical to docs, and the inconvenience of patients having to come back to the surgery or to the office is not insignificant. So that fit rate becomes important. We believe we have a right to win with those 3 things.

Is it working? Well, if you look at our sales rate in North America, you can see behind me, 5.5x growth since we introduced multifocal lenses in 2016. And multifocal, remember those premium segments of growth, multifocal has become the most rapid segment of growth within our North American business.

So let's take a look at the campaign.

(presentation)

Andrew Pawson

I don't know if you've ever been in a restaurant, used a mobile phone, put a light on, held the menu. It's happened to all of us. That's a heavily insight-driven campaign.

Now 3 weeks ago, I was looking off to do, I think, 25 different accompanied sales visits with a ride along. And I gave myself up to ask every single eye care professional that I met whether or not the campaign was having an impact. And (inaudible) I didn't even have to ask the question. It was clear from their feedback that this campaign is driving traffic into the office, and this campaign is getting consumers to come into the office and ask for DT1. Now they may have just been kind in their feedback, but our sales and our share results as a consequence of the investment we're making is definitely testament to the success of the campaign and something that we're really excited about.

So let's change tack a little bit and talk about dry eye. And I said earlier, why is dry eye such a great opportunity? Well, first of all, the prevalence of the dry eye is on the increase. That's borne by an aging consumer profile. It's also created by significant changes in lifestyle, such as use of digital technology, and also climate change. So there's many factors that are increasing the causality of dry eye.

There are, we believe, at least 352 million patients globally that suffer from dry eye. But here's the interesting dynamics that create the great growth opportunity for Alcon. 55% of patients, 194 million people, actually don't even know they have dry eye as a condition. They fundamentally believe it's something else. So that means for us education, investment and, I think, the ability to create much more awareness about what the symptoms are, particularly leveraging digital technology, is a great opportunity for us to drive that awareness.

Secondly, of those patients that are diagnosed, about 41% are diagnosed by a doctor. So Alcon has got the scale in our sales force to drive that penetration and influence. We sample a terrific amount of sustained dry eye drops through the eye care professional, and the path to purchase through the eye care professional for dry eye remains really important.

And thirdly, you think about those that self-diagnose, which is still a big percentage of the category. Actually, nearly half of those that do self-diagnose, that means they look up solutions online or probably go in-store, visit the fixture and seek solutions themselves, are actually diagnosed in the wrong product, a product that's actually not suitable to treat dry eye. Like an allergy relief, for example. So we've got a great opportunity to create awareness at the point of sale and create a much more intuitive portfolio and in-store experience. And that's something that we intend to double down on. So lots of opportunity in the dry eye space.

Now SYSTANE is the most comprehensive portfolio. As I said earlier, not only do we have products that are designed to treat aqueous-deficient dry eye syndrome but also lipid deficiency. And with the SYSTANE COMPLETE, we have introduced innovation that actually solves for both types.

Now hopefully, you may get a chance to see the video. Venus Williams is our spokesperson, and we're investing heavily with the launch of SYSTANE COMPLETE using her as an advocate. She's a terrific lady, but she's also a real dry eye sufferer. And the campaign that we've introduced and the fireside chats that we also added online that you can view and see are real testament to the condition itself and how debilitating it can be and how liberating it can truly be to have a product that will give you the solve. And that's what SYSTANE COMPLETE delivers. That's why SYSTANE is the #1 doc-recommended brand for dry eye relief as a artificial tear.

On the bottom right here you can see this is the sales result in our North American region since we introduced SYSTANE COMPLETE in April of this year. So we're getting significant traction with that DTC investment, creating awareness and driving belief that SYSTANE COMPLETE is the right solution.

Now we believe that dry eye as a category will grow from around about $2.8 billion to $3.5 billion in the next 5 years, and our dry eye portfolio of products across the world will grow to be over $1 billion of our mix. That's why dry eyes is a great opportunity for Alcon.

So now shifting tack to the third point I wanted to raise today, which is the longer-term growth drivers of the business. And like the Surgical business, we bucketed them in 3 different territories. So the need for us to accelerate innovation and launch a wave of products that will meet unaddressed consumer needs, the opportunity for us to expand markets and adjacencies and the critical nature in this omnichannel world which developing for us to create and develop new business models.

Now as I said, we have a strong pipeline. I've already talked about HydraGlyde. But I'm specifically delighted to announce today that we will be introducing the first of a series of new platform technologies with PRECISION1. I'm going to go into that in a little bit more detail.

Well, PRECISION1 will be a mass SiHy daily disposable product that will be engineered to give the best comfort in vision acuity of any lens in its class, and it will be competing at a mainstream mass SiHy price point in the category.

We're also going to launch Dailies Total1 for astigmatism in the next 18-month time window. And at the same time, we're still continuing at pace to create innovative platforms such as: How would we take a water gradient technology and apply that to a reusable lens format? And what other solutions can we drive in terms of novel designs for presbyopia to continue that pace of innovation and address a very unmet need from a presbyopia standpoint? So terrific pipeline of innovation opportunity, and Franck's going to go into that in a bit more detail.

So as I said earlier at the introduction, we have 2 existing products within our daily disposable segment. We have Dailies Aqua Comfort Plus, which we class as an entry lens at a relatively low price point. We have, obviously, Dailies Total1, which competes in the premium daily SiHy segment. PRECISION1 will be placed in the middle of those 2 as a mass SiHy solution. And as you can see, our prediction from the models that we run and the inside we've gained from patients and eye care professionals, by 2023, we would estimate that PRECISION1 will become our biggest growth driver in the daily segment itself. It will outpace the growth of DT1 because it's competing in that mass SiHy segment. And as I said earlier, it's aimed to be the lens that will provide the best comfort and vision acuity of any lens in its class. So we're very excited by the prospect of PRECISION1. We'll be launching it selectively in 2019, and we anticipate by the end of 2020 going into 2021, we'll have filled the global matrix from a launch standpoint.

So opportunities to expand in new markets and adjacencies. I'll talk about really kind of 3 things. So firstly, the multifocal opportunity, at least a 6x opportunity. If we double down on DTC investment in our other parts of the world and if we continue our growth rate in North America, we see multifocal penetration as a key long-term driver for the business.

And yes, we do have that penetration opportunity. 1% increase in penetration of contact lenses is a $300 million opportunity for our business, and that's significant, particularly when you look at that 3% penetration level in Asia. And as I said earlier, Alcon is the fastest-growing manufacturer of branded lenses in Asia today.

Filling the SYSTANE portfolio, when you look at markets like Brazil and Korea and China, we have one range in those markets. We have 4 products. So we've got an opportunity to fill out the matrix of dry eye solutions and also invest and innovate in those other spaces that we talked about from an ocular health standpoint. And we also don't have a dry eye business in Japan. So again, a big market for us. So we want to fill that matrix and drive growth of our SYSTANE portfolio.

And finally, we continue to landscape for new innovations spaces. David talked earlier about dry eye diagnostics and treatments. I mentioned earlier the reintegration of the OTC portfolio, so the opportunity for us to now put some investment and interest back into allergy, back into vitamins, or vitamins as I've been told to say, and back into red eyes. So lots of spaces from an ocular health standpoint for us to expand into.

And we're also continuing to mine in landscapes like digital technology and as well as myopia control. So we'll continue to mine for innovation spaces in white space for us as a Vision Care business.

Lastly, I want to talk about new business models. Now what we hear from our eye care professionals is e-commerce is seen as a threat, and digital technology is not so much seen as an opportunity. They believe there are inadequate tools to address the changing patient needs. And patients are very disappointed with the hassle it takes to actually go through an eye care examination and a prescription process. There are many players who have tried to solve for this and there's lots of disruption on the go all of the time. Patients tell us they really want things easy. They want to make an exam scheduling a really easy process. They want easy pay. They want easy delivery. They want direct access. They also want easy access to information and an ongoing relationship with eye care professionals. And we know this because in the last 12 months, we've interviewed over 3,000 eye care professionals in our top 7 markets and talked to 8,000 patients.

It is our intent to introduce new business models that innovate in this space, that solve for that path to purchase pain point of both the patient and the eye care professional. And you can expect to hear more from Alcon about what we're doing in this space in the next 6 to 12 months.

So finally, what are the 3 key takeaways? Vision Care has got really solid tailwinds. The category fundamentals are very positive. We're growing in the right spaces. We're growing where the category is growing the fastest, and we have really strong near-term category growth drivers with our

DT1 portfolio, with our presbyopia solutions and driving growth of our dry eye business. But more importantly, we've got a fantastic pipeline of innovation, the strongest it's ever been with the newest platform going to market in 2019. We have got the opportunity to what I call fill the matrix with our existing portfolio internationally and drive that geographical expansion. And finally, we do have this opportunity through unique insights to create winning business models that truly create a seamless omnichannel patient and eye care professional experience.

So all of that said, I hope you're convinced, I'm certainly convinced, that Alcon has what it takes from within to both drive growth in the near term in line with category and exceed growth expectations to grow the business beyond the category in years to come.

So thank you for listening. I'd like to invite David and Michael on stage, and we'll take some of your questions. Thank you.

QUESTIONS AND ANSWERS

Karen King

Okay. So similar to last time, we've got about 30 minutes, and please wait until you receive a microphone. And so we're going to start over here.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies & Devices and Senior Analyst*

Rich Newitter from Leerink Partners. Just I was wondering if you could talk a little bit about the profitability or the gross margins impact with some of the dynamics and the shifts that are going on in the contact lens market that you described. The -- where is the mix shift playing out? How does that translate to profitability? And I have a follow-up.

David J. Endicott - *Novartis AG - CEO of Alcon*

Maybe just a quick highlight on that, and Andy is the expert on that. We'll just say that the Dailies to -- Dailies' shift from monthly modality in particular on a sphere basis, sphere-to-sphere, is giving us, obviously, a lower gross margin per lens than it does but improves our total value because they're consuming more lenses. So at a high level, you see a margin -- slight margin dilution on this business, but what you see is an improved profitability on per $0.01 profit, if you will. So that's been the biggest dynamic that I think everybody kind of understands. You want to comment more on it?

Andrew Pawson

Yes. I just -- I think that the one thing that we're obviously very keen to leverage is investment in the manufacturing technology, which actually will be focused on Dailies solution. So we'll be driving that acceleration towards end-of-curve cost at a much faster pace. Our initial results are very positive from the start with those assets. I think Franck's going into that in a little bit more detail. So we're going to get at that cost curve more aggressively as we change that mix. But David's absolutely right. As a percentage margin impact, as you're going up that launch curve, it can initially be dilutive, though.

Richard S. Newitter - *Leerink Partners LLC, Research Division - MD, Medical Supplies & Devices and Senior Analyst*

And then just a follow up on the -- some of the DTC efforts that you're pursuing. Can you talk a little bit about the return time lines, how -- or the payback from some of these types of initiatives? And what are some of the new ones that we can expect going forward? Or are you just going to kind of do more of what's been working over the past?

Andrew Pawson

You sound like me back in the business. That is something that we're continuing to look at and evolve. Obviously, we're mid-campaign both on a sustained launch and also our DT1 efforts this year. So we'll be taking a close look at our ROIs that we're getting from those campaigns. We anticipate that they're reasonable but can be improved as we're building our DTC knowledge and as we're bringing more consumer expertise onboard in terms of how we develop and deliver commercial programs. So I would say that we're probably in line with industry average on payback, but we've got room for improvement. And it's something that we're going to be monitoring as we fully execute those campaigns and look to roll them out globally.

Karen King

David here and then walk over that side of the room.

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

It's David Lewis from Morgan Stanley. Just to be very quick, David, just a broad overview question. As you think about the corporate profile of mid-single digits, is it safe to assume that Michael's business is incrementally a share gainer and Andy's business grows more in line with the market? And then to the 2 individuals who -- Michael, just the AT-IOL business, what specific strategies can you do to drive penetration of AT-IOL versus just relying on some of the wealth effect outside the U.S.? And then for Andy, e-commerce, what is the mix of e-commerce today? How much of that is Alcon directed? And where do you want that Alcon-directed e-commerce business to be in 5 years?

David J. Endicott - *Novartis AG - CEO of Alcon*

Let me take the first one. The -- I think the way to think about the near term on the Surgical business is it's grown share nicely in the -- as we've launched some new products. So the pipeline has come a little bit quicker to some degree on the Surgical business. So we're gaining share there for certain, but we have -- I think we see both market penetration and share gain depending on which one. I think that the retinal, you'll see much more of a market growth idea in the IOLs. You may see a bit more of a share effect in the near term, followed by what we hope is a significant kind of penetration issue. Similarly but kind of inverted, we started out on the Vision Care business putting significant amounts of promotion back in the business where it used to be. That had a nice effect on us early on. It was very responsive. And we gained some share, particularly in our Dailies business. I think over the next stretch, what's happened is we've been slower to get our pipeline back in the Vision Care business because the investments are quite substantial to get ourselves to a capacity place where we can really launch. So as we've been weighing on that, you see much more of a share gain but differentially between Dailies and reusable. Ultimately, we think it's a share gain out there, but there's certainly penetration in both markets to be had.

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

So you -- I'm sorry, does that answer everything? Yes? So you asked the question around how we're thinking about penetration and actually driving penetration outside this segment. What's very interesting is Alcon has been in this trying to do this for a number of years, right, to move people from monofocal into an AT-IOL or toric lens. We've gotten very introspective over the last couple of years in terms of what really drives this category. Who are the right physicians to target? How do we target them? And how do we go deep with them in terms of their programs around the patient, right? So they're not accustomed to having a conversation with a patient about coming out of pocket. So part of it is education. We've run a couple of pilots globally that include what we call the activate program, where we're teaching not only the physician about how you mentor your patients and when do you introduce these type of products to them but also the rest of your staff. What do they have to do in order for that patient to feel comfortable coming out of pocket?

Recently, we did a patient's willingness to pay study in the United States, and we're also doing it outside the United States. What we found is that patients range somewhere between 21% and 35%, 21% willing to pay about $3,000 an eye, 35% willing to pay about $2,000 an eye. Doctors don't think that way. Patients want to be able to get the best outcomes. So we now have evidence that we're sharing with our customers to help drive the penetration of this type of technology.

Andrew Pawson

E-com sales. How do I answer that question relatively succinctly? It varies massively around the world. So take a market like China. We estimate that's actually, more than half of the market is now e-commerce driven. The disappointing thing is that it tends to be a low-price environment or low-quality lens environment, and we believe that's actually contributing significantly to contact lens dropout. So we're not trading massively online in China at the moment. We're looking at innovative solutions that will give us a pathway to do that as well as provide the patient with the right experience, still placing the eye care professional at the center. And that's the essence of what we're trying to do around the world. Europe, more than 1/3 of our sales are currently you would classify as having some degree of e-commerce transaction to our Contact platform. Less so in North America. But I think what's more critical is how much of the path to purchase is not so much quantified by e-tail or e-commerce, but how much of that path to purchase from select, discover, transact, fulfill, advocate, et cetera, the whole customer journey, ends up becoming some degree of digital interaction. And that's where our business model innovation will focus. But any estimate around e-commerce sales in North America could be as high as 20% of the category in some shape or form in terms of an e-interaction. It could be from 1800contacts, it could be [HOBO], it could be an EDI e-procurement place. So it's very difficult to get a handle specifically on how much commerce is actually going through to the e-tail format around the world.

David J. Endicott - *Novartis AG - CEO of Alcon*

I think one of the unique insights, I think Andy brought in on this one as well, was the notion that the fit matters a lot, right. Dropout rates on contact lenses often are related to how well that lens was fit in the first place. And one of the reasons we're very keen to keep the optometrist or a professional of some kind in the center of this business model is because we know that durability of the patient is better when they get a lens fit properly. And that's part of the angle that I think some of these channels have missed in the past where we think we can add some value.

Karen King

Okay. Where do we go? over here? Yes.

Unidentified Participant

(inaudible) from BMO Capital Markets. On Slide 70, you did a really helpful job of breaking out the modality of the design and the geography of the market. If I was going to overlay Alcon contact lenses onto this slide, could you give us high level where you think you are in terms of modality, design and geography?

Andrew Pawson

Yes. I think probably in summary, we're trading probably slightly ahead of category in daily. If you take our share as a total, we overtrade in daily disposables, we undertrade in monthly modality. If you take the lens designs themselves, we actually undertrade in toric because we don't have a DT1 for astigmatism. We overtrade in multifocal, and we're probably at market from a sphere standpoint. And then geographically, same mix as per category. We actually do undertrade internationally, perhaps slightly more in line upon North America sales, but it is fastest-growing segment. So at a very headline level, that would be kind of Alcon's kind of business overview.

Karen King

Yes. Over here, please.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Larry Biegelsen, Wells Fargo. A couple for Andy. First, on the contact lens market. I was surprised to see only 4% compound annual growth for contact lenses. The category has been growing probably 6% maybe even in the last couple of years. So is that conservatism? Or is there some concern you have that recent market might slow?

Andrew Pawson

It's a good question. We know that reported growth varies. Manufacturers -- a manufacturer, we all actually use a different source of growth. We prefer to land on our source of growth as being GfK, data driven for our G19 markets. That does currently predict a 4% growth rate. We know it's not comprehensive, but we're applying it consistently. So we used GfK.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And then on PRECISION1, just a couple of questions here. How do you avoid cannibalizing DT1? Can you talk about the geographic rollout? You talked about, I think, broadly 2019, 2020 with U.S., Europe, Japan. And just lastly, the vision acuity you talked about, what kind of data are you going to use to support that claim?

Andrew Pawson

Yes, great questions. So I think PRECISION1, first of all, we're -- obviously, for competitive reasons, we're not going to divulge our market rollout plan as yet. We have (inaudible) in 2019. As I said, we reiterate we intend to launch initial markets in 2019 and complete a global rollout by Q1 '21. So that will be progressive. From a comfort and vision acuity perspective, we're still in the clinical phase of doing our research, but that's closing out. We're optimistic we'll get some positive results. So we're very confident about that. Sorry, there was a third -- cannibalization, thank you. We have worked a cannibalization assumption into our market model. We have done pre-data volumetric analysis. So we're pretty confident about the cannibalization rates we're assuming. So we anticipate it to be in that kind of 15% to 20% range maximum.

Karen King

Do we have one back here? Matt?

Matthew Weston - *Crédit Suisse AG, Research Division - MD and Co-Head of European Pharmaceutical Equity Research*

Matt Weston from Credit Suisse. So a couple of follow-ups for Michael on the AT-IOL business and then so maybe one bigger-picture question. So on the advanced technology, IOL, dissatisfaction, right, dealing with a patient coming back, I've paid this premium, I'm not really happy with the results. So I thought I was going to get that kind of -- working through the patient satisfaction seemed like it was one of the things in developed markets that was keeping it from breaking on to the 20s and 30s in terms of penetration. And I just wonder whether -- I recognize that the -- outside the U.S., there's a penetration opportunity, as you've highlighted. But what additional steps can we see in the next year or 2 to help address the satisfaction side? And I have one follow-up.

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Yes, certainly. So I think you hit on it, right. The doctor wants the patient to come and give him a big hug after the procedure, right. That is ophthalmology. The earlier-generation lenses, the ones that we learn from, they had some halos and glares and some unwanted side effects that patients didn't want, or they didn't get the near distance that they would have expected. The technologies that we've been developing actually are solving a lot of those problems, right? We've got 2 in the portfolio. We've got PanOptix, which is really doing quite a nice job of giving people that great distance vision, really good intermediate, near. And we started to figure out where are the right set points for this for the patient. So 40 centimeters, is this reading distance? 60 centimeters is a laptop. 120 centimeters is your dashboard or your grocery store and distance is distance. We're now giving the clinician really good options to use with the patients, and the patient satisfaction is up. In the U.S. FDA clinical trial, we are recording through patient-reported outcomes the patients experience, right. This is a perceptible event for the patient so they can document it for us. And so we're really interested in what that tells us, and that's going to help us tell the story not only to the physician but to the patients who are considering cataract surgery. So we actually feel really good about what's starting to evolve with our product portfolio.

Matthew Weston - *Crédit Suisse AG, Research Division - MD and Co-Head of European Pharmaceutical Equity Research*

That's great. Then just the kind of bigger-picture follow-up. I guess one of the major technology, call it a disruption, but it was a bit of a race for assets in the area of femto cataract surgery several years ago, and that sort, it seemed, settled down. As Mike pointed out at the beginning of the day, he looked at the business and didn't see any significant disruptions to be concerned about. I guess my question would be, what is the next, and as you look around the bend, place that you feel like you need to be and could be -- drive inflection in the business or some sort of disruption 2, 3 years down the road?

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Hey, you're actually going to see some of this in Franck's presentation. I don't want to take all of his thunder. But as we look down in the landscape, we actually still think that IOLs has disruptive opportunity within it. And so we categorize that into the traditional lenses, the multifocal lenses, modular-type technologies, adjustable-type technologies and then accommodation. And it was a team effort to define that and then to go strategically invest behind categories that we thought would win. And so we've developed relationships with partners around the world to help us solve those problems. That's going to be very disruptive to this category. We also think that it's a segment drawer and will give people better choices, better options as we go out. So really excited about what potentially lies there.

Karen King

Okay. Over here, to the -- to your left.

Robert Adam Hopkins - *BofA Merrill Lynch, Research Division - MD of Equity Research*

Just one quick follow-up. It's Bob Hopkins from Bank of America. On the slide you have on Page 59 where you're looking at AT-IOLs, appreciate where we are today but in your financial planning period that you talked about over the next 5 years, where do you expect these penetration rates to go? Like what's assumed in your model in terms of that 14% for North America especially?

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Yes, so the models that we've put together hold us right around where we are in the U.S. Until we got this patient willingness to pay study, we didn't want to overbuild this thing. As we advance with PanOptix, we expect that we're going to improve penetration. And so there's some upside to what's there.

Karen King

In the back of the room, please.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Jeff Johnson from Baird. So Andy, a couple of questions on PRECISION1, if I could. One, we've been -- many of us have been calling that DT Light. I just want to confirm that it is a water gradient lens. I see the [SmartSurface] technology up on your slide deck. But is it indeed water gradient? And number two on PRECISION, when I think about where Dailies Total1 is priced currently with rebate versus your DACP, do you need to roll back the promotions on DT1, bring that price point back up to then slot PRECISION1 in between? It's just it's a tight window right now between DACP and a fully discounted DT1. So I'm trying to figure out how you're going to slide PRECISION1 in there in that very small window.

Andrew Pawson

Yes, I don't necessarily think it is a tight window. If you look at the average price of DT1 in the category today and the average price at that point of market entry, ultimately when you tier any category with super premium mainstream and lower-tier solutions, they time to -- they tend to find their way and they tend to find their place. We believe that there's plenty of headroom to slot in a mass SiHy in between DACP and DT1. Our volumetrics give us really good indication of the size of the price of PRECISION. I'm not going to tell you the technology because that would obviously be proprietary and give our competition a head start, which I don't want to do. Franck will give you an indication as to some of the spaces that we're innovating later on today. But we believe there's plenty of room in the category for all 3 products to coexist.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And as we see this acceleration in Dailies, just a question we could have asked anytime probably over the last 5 to 10 years but why keep the lens care business if it's a declining category and Dailies are going to continue to penetrate on the contact lens side? Just the rationale. I'm sure you have good reasons. I'd just like to hear the good reasons because we all see the decline in growth or at least stunted growth.

Andrew Pawson

Yes. Actually, I mean, obviously, with the penetration of Dailies and less use of reusable lenses, there is pressure on the CLC category. Actually, this year, it's probably going to decline, at least for us, somewhere in the region of only 1%. It's margin contributing for us. We've got an invested asset base. And there's a tremendous amount of brand loyalty, and we're still commanding a significant price premium versus private labels. So we do know that there's great brand loyalty in the category. And for us, it's a great cash contribution for the business, so we don't see any reason why we shouldn't continue it.

Karen King

All right, [Michelle].

Unidentified Participant

Follow-up. [Anthony] from Jefferies. Just on the Surgical side, maybe a little details on the global installed base and what the average age of the installed base is. And maybe a little bit on the annuity per box. And is there anything particular there where we could expect an upgrade cycle? And then a follow-up on vision as well.

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Yes, certainly. So if you -- if we look at the businesses, so the cataract business right now is actually what I would call mid-cycle, right. So Centurion was launched 3, 4 years ago. This is somewhere between a 7- and 10-year cycle change-out. In the United States, we're a little bit further ahead than the rest of the world in terms of those trade-outs from the previous generation system to Centurion. The rest of the world, there's actually still quite a bit, somewhere in the 65% to 70%, upgrade that could still happen. As you know, we do a lot of mid-cycle introductions which advance the technologies. We've got another one planned for this particular technology. Also, last year, we introduced a mid-tier Phaco system. And so for the developing markets, we introduced what's called Centurion Silver, which does not have active fluids, uses gravity fed. It's slightly less expensive, allows us to gain access there. So brand-new introduction there. On the Constellation platform, that's a platform that we need to continue to develop against, and we've got a program against that. It's a few years out before we launch that program. What we've actually seen is really stable sales throughout this period as markets expand. As more physicians start doing vitreoretinal surgery, they want the best and they're buying Constellation. So the pull-through for that business has been extremely stable. It's growing at procedure rates or slightly above procedure rates. The international markets, when we look at the cassette packs, it doesn't go 1 for 1 with procedures because there's a little bit of a reuse that's outside the United States. In the United States, we go pack for procedure, and it's pretty stable and continues to grow for us.

Luisa Caroline Hector - *Exane BNP Paribas, Research Division - Pharma Research Analyst*

It's Luisa Hector from Exane BNP Paribas. Could you comment on the -- just broadly on the percentage contribution of the U.S. and international markets to your sales growth targets in both Surgical and Vision Care? And then also, how should we think about the relative profitability international versus U.S.?

Andrew Pawson

Want to go ahead?

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

You go ahead. You go first. You first.

Andrew Pawson

Okay. So from a Vision Care standpoint, most of our business growth in our forecast is actually pretty balanced. We're obviously expanding the portfolio globally with our new platform, so we wouldn't anticipate significantly biased growth in either direction, although because of our market position in Asia relative to our competitors, we're in #4, we probably do have more oxygen for growth. So on contact lenses, we are probably overindexing growth internationally versus U.S. And maybe even so for dry eye because we've got significant market expansion opportunities in several parts of the world where I said we haven't got a fully penetrated portfolio. But I don't anticipate significant differences.

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

And in the Surgical business, I mean, it's -- I'm surprised at how balanced this company is and the businesses are, right. In the U.S., it's probably 40%, 42% of our revenues. International is the rest of that. The profitability around the world is generally in line with each other. There are exceptions to that in some of the developing markets like India and parts of LACAR. But generally, pretty balanced opportunities across the world with this business.

David J. Endicott - *Novartis AG - CEO of Alcon*

Maybe just another follow-on to that. If you look into the 20-up, you'll find the segment profitability as you kind of have a look at it. They're pretty similar overall. And within the international and domestic businesses, again I think you'd find if we were -- we don't split them out that way, but I think directionally they're pretty close.

Karen King

As they say, about 5 more minutes. Josh?

Joshua Thomas Jennings - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Just a quick follow-up. Josh Jennings from Cowen. Just on your last answer there just in terms of the segment profitability, it sounds like it's pretty balanced between as this just goes on the 20-up. But is there any difference in terms of the operating margin expansion potential contribution from either business? And is there any disproportionate R&D investment on either side? Or is that again balanced?

David J. Endicott - *Novartis AG - CEO of Alcon*

No, I would think about it as directionally aligned with product flow. I think what's really going on is that we've got growth in these businesses that is kind of consistent with the way in which we're introducing products. So as the revenue is growing, again, we've got a pretty stable cost structures in both businesses, pretty stable investment in R&D in both businesses. And I think what we'll see is as the revenue grows, you'll see 1 or 2 of the businesses make it out of sync with the other a little bit along the way. That's probably good because it balances out. But pretty much relating to how products are introduced and the timing of that.

Karen King

We have time for probably one final question. Back here.

Unidentified Participant

[Maria Lorena] from Neuberger Berman. This question is for Andy. You mentioned Japan and the dry eye opportunity there. I guess why are you not in Japan already? And what will it take to be successful there?

Andrew Pawson

Yes, it's a really good question. So Japan is a specific market where it has a specific chemistry as a regulated formula. We don't currently have that chemistry within our business. So -- but we are looking to introduce SYSTANE selectively, looking forward in the next couple of years. So it's a historical thing, but we're looking at every opportunity to tap into the market. It's very fragmented from an OTC standpoint. It's a very, very fragmented portfolio. But we do believe that there's a gap in the market direct to office and eye care professional that potentially SYSTANE could definitely explode. So we're looking at regulatory pathways and some of our product development options that are open to us.

Karen King

Okay, great. So what we're going to do now is we're going to break for about 15 minutes, give you another chance to visit the booth because after lunch, they'll be open but then we're going to shut them down after that. So again, you have about 15 minutes to visit the booth, and then we'll come get you and we'll go to lunch. Lunch is with the management team just because of the number of people here. The management -- a lot of management is going to be at one table and then kind of halfway through go to another table so that we have a chance to meet with as many people here as possible. All right? So thank you.

Michael Onuscheck - *Alcon, Inc. - Global Franchise Head of Alcon Surgical*

Thank you.

(Break)

Unidentified Participant

May I have your attention, please? Lunch is being served upstairs now in Freedom Hall. Thank you.

PRESENTATION

Unidentified Participant

Please take your seats. Our program is about to resume.

Karen King

Are we good? Okay. All right. We're going to get started. If everybody could please take their seats.

We're going to get started. Can you please take your seats.

All right. So we're going to start our afternoon session. We've got really 3 presentations left here before we go into a final Q&A. The first one is going to be about innovation and our pipeline. Then, we're going to move into the finance presentation with David Murray, our CFO. And then David Endicott will wrap up the day with a little discussion about the transaction.

So with that, I will turn it over to Franck. Franck is our Senior Vice President, Head of Global R&D. And please welcome him up.

Franck Leveiller - *Alcon, Inc. - SVP and Global Head R&D*

All right. Thank you, Karen, and good afternoon, everyone. I don't know for you, but I had a great discussion at my table together with my colleague, Royce Bedward, our General Counsel. And I think it's a good time now to reconvene and carry on the discussion we started about Alcon as a stand-alone company this morning.

Actually, I think it came out clear this morning that one of the key growth driver for the longer term is actually innovation for Alcon. And as analysts in this business, I think you may be wondering, is Alcon really going to be able to deliver upon its innovation agenda? And the answer is actually yes. And if there is one key message to remember from this presentation, it is that we will be the leader in eye care innovation.

So since we are talking about innovating, I will say a few words about myself. I've been spending 25 years in research and development in various leadership positions. I started in pharma. I spent 16 years in big pharma companies, and then I moved to medical device company. I've been, for the last 9 years, in medical device industry, focusing in ophthalmology. And during all that time, I've been participating in the development of many products.

And what is really interesting to me is to start from an idea or a concept and to bring it to the finish line, i.e. launching a product. Innovating is not about having only ideas, it's about really launching products. And this is what is really exciting for me being at Alcon because this is what we do every day at Alcon R&D.

Now the 3 points I will be covering during my talk are as follows: number one, we have world-class capabilities to deliver upon our ambitious innovation agenda. Number two, we are investing significantly in R&D. And the emphasis of our investment is mainly on portfolio enhancement, incremental innovation, which is very important in medical device industry, as well as on novel technologies. So we have a very robust internal pipeline, but we are complementing it as well with external innovation.

So now let's get rolling. And what we really aspire to is really to lead the world in eye care innovation, and I must say we have all the ingredients to do that. First of all, I think Michael and Andy showed you some very impressive slides this morning that show our legacy of industry firsts. We've launched so many first-in-class and best-in-class products in the past. We know how to do it. We've done it before. We are doing it right now, and we will carry on doing that in the future.

Our commitment in R&D in terms of investment is unprecedented. And actually, we've been spending the last 2.5, 3 years rejuvenating our pipeline to the point where we now have more than 100 projects in our pipeline, among which 35 or more are at the late stage of development. So these projects have been derisked, and some of them are actually under regulatory review prior to be launched.

I think we have over 1,200 R&D associates within Alcon, and these experts in eye care wake up every day and focus every day on innovating in ophthalmology. And we are able at Alcon, being the global leader, to really attract the top talent, retain them and leverage their skills to really develop the best possible products.

We are also -- and I think this is another key differentiating aspect for Alcon R&D. We entertain very close relationships with eye care professionals, surgeons, optometrists, and we try to get their inputs very early on during the development of the product such that we can get a lot of candid feedback about our products. We organize a lot of web labs, a lot of advisory boards. We perform some human preference studies. We perform prelaunch evaluation with the help of these KOLs such that we really get all these insights during the whole development cycle time such that we deliver products at the end that delight our customers.

We have world-class capabilities. You can see on this slide several examples of areas, and I'm going to take each of them separately to provide a little bit of detail about that. And I will start with the field of optical design. Optical design is a very important area especially because it encompasses the development of advanced technologies in order, for instance, to manage astigmatism or to correct presbyopia.

So let me focus on presbyopia correction. I think Michael this morning showed you clearly that we have the best-in-class trifocal lens on the market, intraocular lens on the market. And this lens is best in class because it provides distance vision but also intermediate and near vision at 60 centimeters and 40 centimeters, respectively, which are ideal distances for either looking at a screen or reading a book at near.

We just finished -- completed one of our clinical trials in the U.S. on PanOptix, and we used a validated questionnaire, patient questionnaire to try to assess how many of the patients enrolled in this trial ended up being spectacle-free post surgery. The result is that more than 80% are spectacle-free. This is a remarkable result for a multifocal lens. This is why PanOptix is a great lens, and we are really looking forward to launching -- carrying on, rolling the launch of PanOptix all over the world.

PanOptix is a great lens. The mechanism of action of PanOptix is a diffractive design. This is the same mechanism of action as all the multifocal lenses that are currently on the market. Great lens, but due to the mechanism of action, these multifocal lenses still have some limitations. One of the main limitations is that it creates some visual disturbances like halos and glare. And again, PanOptix actually creates very minimal halos and glare. But it's still -- we still could not eliminate that completely. This is due to the fact that the lens is comprised of closely spaced concentric rings that splits the incoming light beam to -- oriented towards near and intermediate accommodation.

So we decided at Alcon we are not going to stand still. We want to remove this limitation. This is why we are already developing a new generation of technology, a novel IOL proprietary design that is using -- instead of a diffractive mechanism of action, it's using a non-diffractive mechanism of action. We are trying to create different zones on the lens with different power to also provide very crisp distance vision but also provide some extended range of vision to intermediate vision in particular.

And this novel design will eliminate visual disturbances. And we believe this will be a very important component in providing to the surgeon further confidence in implanting this lens because they will not have the fear that the patient may come back and complain about visual disturbances. So we think this will help increase the penetration of advanced technology IOLs.

In the contact lens area, Vision Care, we already have market-leading multifocal lens design. It's called Precision Profile design, and we have already implemented it in our 2 leading brands, AirOptix and Dailies Total1. Now should we stand still again? As the leader in eye care, we decided we want to go for the big thing. We want to really seek after the Holy Grail. And the Holy Grail consisting really of restoring the natural vision of the patient and providing perfect vision at any distance.

To do so, we have engaged into several activities. We are having several shots on goal, and some of these programs are long-term programs. And we have some internal programs, but we have also partnered with some external companies. And we are looking at different mechanisms of action. We don't put all our eggs in the same basket to derisk our portfolio.

So we are looking at several innovative technologies. One of them that I would like to discuss more in detail today is the PowerVision fluid lens. We made a partnership with PowerVision, a California-based company. And basically, this lens mimics the power of change of the natural lens of the eye by changing its curvature to accommodate at near.

So as you can see on the graph here, the lens is composed of 2 optic parts and a central optical zone part. And the lens is filled with a fluid, and it is implanted in the eyes in the capsular bag like any normal standard IOL. When the ciliary muscle exerts the pressure on the optics on the edges of the lens, there is a redistribution of the fluid from the optics to the center of the lens such that the central zone changes its curvature and the power increases to focus at near.

Conversely, when the eye is trying to accommodate at distance, there is a redistribution of the fluid from the central part to the optics such that the curvature decreases and the power decreases such that we have a perfect distance vision. Together with PowerVision, we are conducting some exploratory clinical trials, and we are very excited about that. We also have a partnership with Verily, where we are looking at other mechanism of action such as electroactive mechanism of action.

When I consider all the shots on goal that we are having, I believe we have the potential to become the first eye care company that will launch a truly accommodating IOL and contact lens. We are also looking at other things like adjustable and modular lenses, so we have the most complete portfolio of optical design projects in the industry.

We are also leading in material and surface chemistry. And we have already proven that we are able to develop unique and differentiated technologies that have already been implemented into some of our leading brands. Let's take, for example, DAILIES AquaComfort Plus, our non-silicone hydrogel value lens. We have already developed a blink-activated mechanism that releases a moisturizing lubricant in the tear film such that we can provide a very good comfort during the wearing period.

Moving to the reusable modality with AirOptix. We have here developed a very special surface that prevent deposition of lipids that occur when you reuse the lens day after day. And of course, I think Andy mentioned this morning our lens Dailies Total1, which is a premium lens that feels like having no lens on the eye, it is the most comfortable lens due to the fact that we managed to encapsulate the silicone hydrogel material with a 6-micron thick hydrophilic polymeric matrix that provides nearly 0 friction between the lens and the delicate tissues of the eye, thereby providing unsurpassed comfort.

We are now working on developing new materials moving forward. And I think Andy mentioned to you PRECISION1 lens, which will be addressing the mainstream daily disposable silicone hydrogel segment. Here, again, we've been developing a new surface-enhancing coating that will allow for stabilizing the tear film and thereby, providing good comfort and good visual acuity during the whole wearing period.

We are also working on translating the water gradient of Dailies Total1 to the reusable modality. So therefore, we have already achieved proof of concept for the next-generation AirOptix contact lens, which will have a water gradient.

So we are very excited about all these innovations.

And the last 2 innovations that we are preparing for launch will all be developed and manufactured on the same platform, which is our new platform. We call it DSM Flex. And this platform will allow for really manufacturing these lenses, these different materials at a very favorable total product cost profile. So very excited about what's coming on in Vision Care.

Regulations are changing everywhere. We are all aware of what's going on in Europe with the new medical device regulation. But it is not occurring only in Europe, also in Asia, for example, in China, and other countries. We believe this is a good thing actually. This is putting more hurdle on the manufacturers to generate more robust clinical data to demonstrate safety and effectiveness of the product prior to getting approval, and we believe this is a good thing.

Some companies may not be able to achieve these goals, but we have the capabilities to do that. We also have expert clinicians that know how to develop patient-reported outcome questionnaires, which are very useful because they allow us to quantify the subjective response of patients when it comes to the level of visual disturbances they experience, for example, or when it comes to how much spectacle-independent they are. So very important to show the benefits of the products and also sometimes to demonstrate the economic value of the products we are developing.

Mark mentioned this morning we are becoming a truly nimble medical device company. We've been modifying our processes in terms of execution of clinical trials such that we can now -- during the early iterative design looks when we develop a product, we can provide very fast and robust clinical feedback to the engineers. When they do the next iteration, they already know what was the feedback on the previous one. And we need to do that very quickly, and we know how to do that very well.

We also have a global footprint in clinical, which allows us to interact directly with regulatory agencies and health authorities and really establish a relationship of trust when it comes to discussing clinical protocols and agreeing on what are the requirements from a clinical standpoint for getting approval for a given product. This avoids us starting a clinical study and being told by agencies we didn't do what they really wanted us to do. By adding this dialogue and adding this trust relationship, we can ensure faster registration and approval.

At Alcon, we manufacture more than 3 billion contact lenses every year. This would not be possible without automation, especially when we try to manufacture our products at the highest possible quality standard, not only in terms of cosmetic quality but also optical quality. So automation is very good at that because it removes human intervention, it's much more reproducible, consistent, and it allows us also to deliver some productivity.

Our new contact lens platform, DSM Flex that I mentioned before, is actually going to be a universal platform. Until now, every time we were developing a new contact lens product, we were developing a new platform, a new manufacturing platform for each new product. Moving forward, we now have a flexible platform that can accommodate many kinds of chemistries. So PRECISION1 will be manufactured on this platform as well as the 2 novel materials and surface contact lenses that we have under preparation.

We have achieved a lot of productivity enhancement with this platform compared to our current platform in terms of output per line, meaning number of lenses produced per line; in terms of cost of lens; and also in terms of capital expenditures. We are now in the process of validating our first such manufacturing line. And we've been doing that for the last 3 weeks, and we are very encouraged by the results we are seeing. So we are really looking forward to deploying and rolling out this platform for the launch of our products within the next 3, 4 years.

We are also very excited about our digital health surgical suite. We believe that cloud-based decision support and seamless data exchange is the future not only of cataract surgeries but of any other kind of eye surgery such as retinal vitreo (sic) [vitreoretinal] surgery or refractive surgery. We started with cataract, but we will roll it out other disease areas. What we are trying to do is very simple. We are trying to connect all the equipment -- all the diagnostic equipment that is used preoperatively and postoperatively in the clinic as well as all the equipment that is used in the OR to a global cloud server.

As Michael mentioned this morning, we've made an exclusive agreement -- partnership agreement with Philips. We're going to leverage their digital health suite that provides a global cloud server that is compliant and that is very secure and that will allow us to gather all the data, preop, intraop, postoperative, for millions of patients. Once we have this data, we can then perform data analytics. And we can optimize the formulas and algorithms we currently use to plan the surgery to predict, for instance, what is the power of the lens the doctor has to implant in the eye of this particular patient.

By optimizing the surgical planning, we can also augment the predictability level by also using artificial intelligence and neural networks algorithms to improve further predictability and, therefore, patient outcomes. This will also help for simplifying the complexity of the eye surgery and also remove a lot of manual things that are occurring in the practice, such as manual data entry. All the data will be gathered automatically, sent to the cloud, and then, in the OR, the surgeon will get guidance on the surgery. This will make, again, surgery a much more efficient process.

The majority of the investment that we are doing will support both novel innovation and portfolio advancement, as shown in the graph on the left here. We plan to invest $2.5 billion over the next 5 years in internal R&D. Portfolio advancement is very important. Incremental improvement on already launched products is very important in medical device industry. I will give you one example. I think Michael explained this morning that vitreoretinal surgery requires some very, very small instrumentation, very precise instrumentation.

When you perform a vitrectomy, for example, one needs to cut the vitreous and aspirate the vitreous. And when you aspirate the vitreous, you may have the risk of, at the same time, applying some pressure on the retina. So what we want to do is really aspirate the vitreous but also cut it all the time at the fastest possible speed. When we launched our first cutter, we had a speed of 5,000 cuts per minute. We then launched a new generation, which was 7,500 cuts per minute, and now we are at 10,000 cuts per minute. And we are preparing the launch of a 20,000 cuts per minute vitreoretinal cutter. This is how we improve outcomes all the time. And now we nearly have 0 traction on the retina when we perform a vitrectomy procedure.

Novel innovation. I think I gave you some examples already in optical designs, also how we are going to address presbyopia solutions and digital health solutions as well.

At Alcon R&D, we believe we are very creative. However, we cannot be representing all the creativity that exists all over the world, so we are trying to develop a culture in which we try to not cultivate the not-invented-here syndrome, which is something, a bias, that many R&D organization tend to acquire with time, especially when they are very successful. So we are agnostic as to where innovation comes from. If someone has a good idea outside Alcon, we will consider it.

And because we have a leading reputation and strong relationships in ophthalmology and also because of our global reach and commercial strength, we believe we see the majority of the opportunities in ophthalmology. Every year, we assess together with our commercial franchise colleagues, approximately 400 new technologies. And we make very infirmed decision -- informed decision as to whether we want to enter into a research agreement or a partnership or even make a merger, an M&A deal with those companies. Here are, at the bottom of this slide, some examples of the recent partnerships we entered in. So external innovation complements our current portfolio -- internal portfolio. And when we consider the overall portfolio, we believe we have a very robust portfolio that will drive the growth for the future.

This slide is aimed at representing the density of our portfolio, and we are only showing on this slide selected launches. So near term, 2018-2020 window, we will be launching several new products, but we will also be rolling out the launch of PanOptix in the U.S. for Surgical and, of course, SYSTANE COMPLETE for Vision Care. We will be bringing to the market towards the end of 2020 our new non-diffractive presbyopia-correcting IOL lens that I described to you before. And we plan to launch a full launch in 2020 for PRECISION1.

Very exciting things happening near term, but when the big things will really kick off is beyond 2020, and we plan to launch 4 major new intraocular lens platform. We are also already working on the next-generation Surgical platform for cataract and vitreoretinal surgery. This new platform will be modular.

The OR is also crowded right now, so the footprint will be reduced. We want to make this platform very intuitive in terms of training needed by the nurses or the surgeon to use it, like an iPhone. Today, nobody uses the user manual. We want our platform to be like this, very intuitive, graphic user interface that follows the flow of the procedure very intuitively. And we will provide a lot of upgrades to what functionalities we have today in our Constellation and in our Centurion platform. And of course, we will carry on integrating our technologies and connecting them to the global cloud server because we believe data analytics is going to help change also the outcomes in surgery.

For Vision Care, in addition to PRECISION1, which is a totally new contact lens material with a new surface, we will be bringing 2 new innovative contact lens brands with different materials and different surface properties, again, to provide the best possible performance to the patient. We plan to bring some accommodating contact lens to the market to take care of the current limitations of all the multifocal designs that are on the market. And we will bring more product line extensions for our SYSTANE brand.

So in summary, we aspire to lead the world in innovation. To do so, we will be leveraged -- or leveraging our world-class capabilities that I showed you before, and we will also be balancing our rich internal portfolio with some external technologies such that we can diversify the portfolio and also bring more transformative technologies to the market. Overall, we believe we have a very robust pipeline that will help fuel the growth of Alcon longer term in a very sustainable manner.

Thank you for your attention. And I will now hand over the floor to my colleague, Mr. David Murray, our Chief Financial Officer.

David Murray - *Alcon, Inc. - CFO*

So thanks, Franck. You've never addressed me like that before. I feel so formal and privileged. I've heard Franck's presentation many times before, but I have to say that the more I hear of it, the more inspired and excited I get about the great work that him and his team are doing to bring innovation to the portfolio, which is just so critically important to the success of our business. So Franck, congratulations to you and your team.

So I had the opportunity to meet some of you over lunch. For those who I've not met before, my name is David Murray. I am the CFO for Alcon. And I have been with Novartis for 19 years. And in that 19 years, my experience has spanned across 3 separate divisions. So initially, I started in Pharmaceuticals. Then I moved to Vaccines and Diagnostics. And then I moved to Alcon in the summer of 2015.

Prior to that, I actually spent 10 years with General Motors. And then now with 30-plus years of financial experience that I've had, I've seen the good, I've seen the bad and I've seen the really ugly. And I'm sure that all of that will stand me in good stead for the challenges and opportunities that lie ahead for Alcon as a public stand-alone company.

So what I'm going to share with you this afternoon is actually 3 things: one, where are we on our turnaround; secondly, how should we be translating each of the strategic imperatives that you've heard thus far today into the financial plan that we have for the next 5 years; and then last but by no means least, what our capital allocation strategy is. But before we get into it, I think the punchline for us is that Alcon is really a top line growth story, which will be fueled by the strong demographics that we see in the marketplace together with the amazing portfolio that Franck and the team have put together. And we think that the infrastructure that we have in place today will be sufficient to actually carry us through this 5-year period, therefore allowing us to deliver the strong leverage on the bottom line.

So without further ado, let's rock and roll and get into some of the details. And on this first slide here, the financial framework that we have is really anchored around these 4 key pillars of sales growth, the operational excellence, the cash flow and the capital allocation. So if we first of all go to sales growth. You've heard repeatedly today that the fundamentals in the market are very strong. We believe that we have some very strong tailwinds that will help us in our endeavor to get where we want to get to. And then if we look at the 5-year period, it really is split between the near-term growth, which is anchored around the 4 key strategic priorities around 2 for Vision Care and 2 for Surgical. And I'll cover those later as we get into the details.

On the operational excellence, Mike actually started off today by saying we have invested a significant sum of money in the business. That was a very conscious decision that we made. And we did that, and we saw the margins reach a trough point in 2017. That being said, we now believe that we've got sufficient infrastructure in place to actually see us through the end of the period, and that will allow us to get to the margins we want to get to.

On the cash flow, we believe that we can get to 2.5 to 3x where we are today, so we'll see a significant improvement on the cash flow front. And then on the capital allocation, first and foremost, it's about maximizing for the shareholder value and investing in our -- for our future growth in terms of the capital allocation plan. I'll go into more details on that. And importantly, we expect to pay a dividend in 2020 related to our core net income in 2019.

So if that's our plan, what's the portfolio that we've got to actually deliver that? Well, I'm pleased to say that the portfolio that we have is well diversified. And if I draw your attention to the left-hand side of the slide here. As we look at the category, Surgical represents about $3.7 billion in sales or 55% whilst Vision Care is $3.1 billion. And within that, you'll hear us continually talk about the 5 key segments that we have within the business, so 3 within Surgical and 2 within Vision Care.

And then if you look at the right-hand side of the slide and we look at it on a -- from a geographic standpoint, then international represents about 60% of the sales at $4 billion. And the key countries that we've got in there, for example, would be Japan, China, Germany, France, Italy. Those top 5 will make up a significant piece of the international business. And then not forgetting the U.S., which is a very important market for us at 40% or $2.8 billion. So with this diversification, I think that we have got sufficient coverage to actually address the challenges that will come our way and mitigate some of those, but also to capitalize on the opportunities that will come our way, whether it be on a segment or geographic basis.

So let's look at the sales. And we're very happy and I'm proud because now we can report that we're in positive growth, and we've been able to do that now for the last 8 quarters. But more recently, in 2018, you've seen, by virtue of the reporting that Novartis had done, is that we're at this mid-single-digit range, and that's a place that we're very happy being at right now. We're growing slightly ahead of the market, but not forgetting we're actually lapping a depressed prior period.

So we should keep that in mind as we're thinking about the future modeling.

On the right-hand side of the slide, you can see actually what had been the core elements to actually drive that sales growth. And at lunch, I was able to address many of these with you in terms of what were the key fundamental points that actually allowed us to turn this business around. What I will draw your attention to is back in Q1 of 2017. So we reported a dizzy 1% sales growth, not very inspiring.

But I got to tell you, when Mike got off on that town hall stage in Q1 of '17 to report that, the rapturous applause that he got from the colleagues around the organization, the 20,000 people that work for Alcon, I've never seen anything like it in all my life. And the feeling that was energized back into all of those 20,000 people has actually perpetuated since then. And it's that energy and excitement that is keeping this momentum going as we continue to take this business forward.

So how does that translate into the margin? Well, again, you've seen by virtue of the Novartis reporting that the margin thus far in 2018 has been in the high teens. And we expect that in the near term, we'll be in this mid- to high teens following the trough year of the 16% that we saw in 2017.

So $400 million was what was invested into the business. And as we've said repeatedly, a very, very conscious decision. We realized that we had to put more money into the front line. We had to put more money into DTC. And you saw Andy's superb commercial earlier this morning. And we put money into samples to invigorate the excitement back out there at the front line.

In addition to that, on the right-hand side of this slide, you can see some of the elements that actually also added to this increased energy that allowed for the improved profit margin. And I will draw your attention to the second box there, which is the allocation of the more to DTC, the samples and the field force, but then the second from the bottom, which is this investment to reinvigorate the pipeline. You will have read in the 20-F that actually, we've concluded more than 20 BD or M&A deals in the last 2 years. So it's a phenomenal number, and each of these have been in the range of $50 million to $300 million, is the kind of sweet spot of the range. But I'll talk more about that in a second when we get into the capital allocation strategy.

So how are we doing so far this year? Well, the sales year-to-date is actually pretty good, and it's not a new number to you. So this is through September, 6% sales growth. But the sales growth on Surgical at 8% is being driven predominantly because of the AT-IOLs and the consumables. We're seeing very robust response there from the activity that we're putting in the marketplace. Whilst on the Vision Care, we're seeing a 3% sales growth driven by the DT1 and the new dry eye portfolio that we have.

So as with any new stand-alone company, there is an effort that's required to actually put some new stand-alone functions in place. And that's what we've been doing since we got the go-ahead to start preparing for this way back in June of this year. So we've been standing up each of the corporate functions of tax, treasury, Investor Relations. And the bottom line of all of that is we think that's going to have an impact of about 100 basis points on the margin.

So if you focus in on the 2017 column here, as a division within Novartis, we reported a core op inc of $1,168 million. We think that with the new stand-alone functions that will come up and running, we will take that down to $1,086 million, so the margin will drop from 17% down to 16%.

I'm happy to say that we're really well advanced with this. So each of the functional heads are now in place. They're building out their teams. And the most important thing for them right now is to make sure that we have a seamless transition from Novartis to Alcon as we prepare for day 1.

So with any great plan that's out there, it's only as good as the assumptions that go into it, and we've listed here many of the assumptions that have gone into it. And I won't go through them all, but what I will do is draw your attention to 2 or 3. So on the top there, that's really important in the near-term growth to have the successful execution of these 4 near-term growth initiatives, and I'll cover that in a second.

Secondly, in order to accelerate beyond the market in the mid- to latter stages of the plan, we have to do 2 things, which is to outgrow the market, of course, and we'll do that by way of the innovation that we will bring to market, together with capitalizing on the emerging markets that David referred to.

And then last but by no means least, on the capacity constraints for Vision Care, Andy is doing such a great job with his marketing and selling that we need to put more capacity in place for these Vision Care lines. As you can imagine, as you move from the reusable modality to the daily modality, instead of producing 24 lenses a year for each patient, now we got to produce 720 lenses a year. That eats up a phenomenal amount of capacity, and we're right in the midst of putting in that in place. And you saw some of the great financials around that, that Franck shared with you earlier.

What's not included in here is any new BD or M&A activity that we will undoubtedly enter into in the 5-year period. So the revenue is not in, but the cost is not in either. But what I will tell you is that we are sufficiently far advanced. And Franck was teasing you a little bit with some of the excitement that is going on there as to what you might expect in the coming years. But just to be clear, the revenue and all the cost is in as we speak today.

So what is the guidance that we're going to give for the 5-year period? On the top line, the guidance we're giving is mid-single-digit growth. On the core op inc, it is in the low to mid-20% range. On the CapEx, it will be on the mid-single digit. And on the tax rate, the guidance we're giving is to be in the high teens.

So let's double click into each of these individually. First of all, looking at the sales growth. I think it's abundantly clear that the next 24 months is all driven around the AT-IOLs and the vit-ret business on Surgical together with the DT1 and the dry eye on Vision Care.

I had some comments on lunch which said, "Well, are you ignoring everything else?" Well, clearly not because everything else makes up a big sum of the pie. Well, this is what's going to drive 80% of the revenue in this next 12- to 24-month period. And we feel very confident about this, and I hope that you sense that as well from the presentations you've had today.

Now the big green bar, which is the accelerated growth out there, it comes from the new innovation that will come to market. It comes from the demographics that we told you about, so the aging population; the ability of patients to actually afford the technology that we're bringing to market; and the emerging markets which are coming into play; and this myopia predominance, which is super scary, that by 2030 to 2050, 5 billion people on the planet will have myopia. That's a scary thought. And so that's what's going to be helping us as we try and accelerate the sales growth in the latter -- amidst latter stages of the plan.

On the margin today, we're in this mid- to high teens, and our expectation is that we will get to the low to mid-20s by the end of the plan period. If you look at the right-hand side of this slide here, you can see what are the real drivers that are associated with that. Sales plays a big part, of course. With any business, sales growth line is critical to actually drive that leverage in the P&L.

We expect to see continued efficiencies in our manufacturing line, so on our gross margin. And this will really come from 2 areas. One is just a continuous manufacturing optimization that we look to bring into the business but also the mix of products that we're bringing in. So these more sophisticated products will tend to carry a slightly higher margin with them as well.

But importantly, on the bottom right-hand box there, is this leverage of the SG&A. And we're going to do that by virtue of 2 ways. One is the investment is already in place. We see a modest increase in the SG&A over the 5-year period. But what we will do is we will continue to optimize by putting more resource towards the front line. So as we move to becoming a much more nimble and flexible medical device company, together with our brand-new ERP system, which will allow us to standardize processes and back-office functions, we see that there's some significant opportunity to actually get much greater leverage out of this SG&A. And so all 3 of these components will actually allow us to drive the margin from the mid- to high teens where we are today to the low to mid-20s that we will see at the end of the plan period.

So how does this reflect on cash? We see cash actually growing 2.5 to 3x where we are today. And we will use this cash in a very diligent way to run and operate the business as we see fit but also to return to shareholders in the most appropriate way. And I'll cover that in my next slide as we get into the capital allocation.

Importantly to note here, you see the comment at the bottom, that this includes separation cost of about $300 million that we foresee will be what it costs to actually disentangle Alcon from Novartis. Now the bulk of that will happen in 2019, but there is some of that in 2018. And there will be a legacy of that, that carries over into 2020.

So how does our capital allocation strategy look? Well, first and foremost, if you look at the right-hand side of the slide here on the pie, our primary goal is to achieve an investment-grade credit rating. And in the last 2 to 3 weeks, we've been engaging with the credit agencies and giving them our pitch and answering any questions that they may have with respect to our standing. And we hope that in the coming weeks, we will actually get a definitive position back from them as to what our rating will be. But our goal, make no mistake about it, is to actually be investment-grade.

And then on the left-hand side here, you can see our key priorities. So first and foremost, it's about investing in our organic growth drivers. These 4 key areas that we talked about for the initial 12- to 24-month period are super critical to make sure that we can maintain the momentum before the deluge of the new innovation launch that will come in 2020 and beyond. Franck presented that he's going to be spending wisely another $2.5 billion over the next 5 years. So again, we put very strict barriers against this in terms of actually prioritizing where this R&D investment will go, both in terms of the financial returns that it will deliver together with the strategic importance of the R&D to the portfolio.

We will have disciplined BD&L and M&A. So you've heard already today that just by our sheer presence in the market, we tend to get to hear about most of the new innovation that's coming our way. And some of that can be opportunistic, and we will continue to look at that and pay serious attention as to how that -- we can use that to bolt on to our innovation technology from within.

And last but by no means least, we will look at return to shareholders on both dividend and share buyback. But the first priority will be on dividend, and I'm pleased to say that we will, subject to Alcon approval and our shareholders' approval,

pay a dividend in 2020 related to the core net income in 2019, and that will be at a rate of 10%.

So capital is a very important part of our business. we are a capital-intensive business, particularly on the Vision Care side. And if you look at the pie chart here, you can see that the majority of our capital spend is around the capacity expansions that Andy needs for his daily modality requirements. We've got a big chunk that's required on maintenance. We've got 18 manufacturing sites around the globe that needs recapitalization on a regular basis.

And then we've got IT. We're about 2/3 of the way done with our ERP launch. We expect to be complete with that by the end of 2020, with just LACAR, Asia and our manufacturing sites to go. And so as we get to the end of this 5-year period, as we begin to stabilize on the efficiencies with which we can actually produce Andy's lenses and our ERP system winds down, we actually think that the CapEx will moderate to a lower level.

So looking at the BD&L and M&A, there was a lot of questions around this, this morning. I draw your attention to maybe just 3 of the points on here, and Franck has already mentioned one of them, which is we're agnostic as to where this innovation comes from. We would like if it came from within, but actually, we don't mind. We get plenty of opportunities from third parties out there, and we're very pleased to take them. And we'll continue to use a mix of the 2 to augment to the portfolio.

We're really focused on bolt-ons though, and it's not big M&A that we're looking at here. This is incremental innovation. And I was talking to some of you again over lunch, where Pharmaceuticals looks at breakthrough technology, that's not in our space here. We're about this incremental innovation that can continue to add to the portfolio, and that's what we're going to continue to do.

I would say that the range is roughly in this $50 million to $300 million range per deal. But it could go beyond that. It could go up to $500 million, and we won't dismiss anything actually beyond that. We look for anything that can try and enhance the shareholder value that we're looking to achieve.

And then on the top there, you can see that we're looking for these next-generation technologies. So this is super important for 3 reasons. One, we want to be the leading provider of leading technology to our patient base out there.

Secondly, our customers, the surgeons and the ECPs, they are expecting of us to continue to deliver this new technology to the market. And so this actually strengthens our relationship with both of those on both the Surgical and the Vision Care side. But lastly, it also gives us a pricing opportunity. As you bring this new technology to the market, so there is an opportunity to actually bring prices in, in a stealth manner.

If we turn to the balance sheet, it's in the 20-F that we will have a net debt of $3 billion at spin. And we expect to have most of this complete in the immediate period pre-spin. And the last point on there again, our goal is to have an investment-grade credit rating from the rating agencies.

So what are the key takeaways? On the sales side, it is that our aim is to grow in line with market in the near term. In the mid- to long term, our goal is to accelerate ahead of the market for all the reasons that you've heard earlier today.

On the core operating margins, we see an opportunity for us to get to be more in line with our medical device peer set, and the sales growth and the gross margin improvement will help us to get there together with this spin leverage in trying to actually move more to the front line and become more efficient in our back-office processes.

On the cash flow, we see the cash flow increasing 2.5 to 3x where it is to date. And then on the capital allocation, I hope that I've been able to share with you that we have a very clearly defined framework and that we expect to pay this dividend in 2020, subject to both the Alcon Board and shareholder approval and that we are targeting the investment-grade credit rating.

So at that, I'd like to just sum up by saying that Alcon is really all about this top line growth story. The investment is in place with which to serve that, and that top line will be fueled by the very strong market demographics that we see, together with the portfolio that I'm truly excited about. And if you take all of that together, that will actually allow us to have a strong leverage on the bottom line of the P&L.

So I personally am very excited about this. I hope that you have sensed that from the energy, the excitement and the creativity you've heard today from each and every one of my colleagues that we also all believe that this is a very credible plan upon which we can deliver against. This is a unique and very exciting investment opportunity that's out there. And I hope and trust that you will take that away from what you've been able to hear from each and every one of us.

So at that, I'm going to close and hand back over to David. I thank you for your attention, your interest and your time in Alcon today. It's a pleasure having you here, and I hope I get the chance to meet more of you in the forthcoming road shows that we will do in Q1 of next year. So thank you.

David J. Endicott - *Novartis AG - CEO of Alcon*

All right. Well, let's try to bring this thing a little bit around the circle. We've got a little bit more to do, and then we'll take some questions with the whole of the management team and we'll finish up here.

I want to just start by with the kind of beginning thoughts in mind. I think what we're trying to demonstrate today is that we have a management team that is in control of this business and feels like we've got a really good opportunity in front of us and that we have the people that can really deliver that.

Like obviously, we were talking a lot about products. And one of the things that I'm importantly kind of describing here is that we have the products to drive both near term and long term. I hope you've seen that.

And the last, but not least, I think David just went through a really nice summary of how we think about this financial plan and what it actually means in terms of what we can deliver. So we'll take more questions on that detail. But let me just finish up by talking briefly about the transaction itself and how we process from here.

So everybody is aware that Novartis has made a strategic decision in June to do 100% spin-off of Alcon to its existing shareholders. So very importantly, that decision made will have further work in this view. This is obviously subject to general market conditions, tax rulings and obviously, the final Board of Director endorsement as well as shareholder approval at the February annual meeting. So all of those things need to be true. But obviously, we anticipate those things coming forward.

We will be headquartered, as we have been for many years, in Switzerland. Our new headquarters is going to be in Geneva. We still have a Fort Worth location, as we always have. Many of you know that we've been Swiss for 40 years. So it's not new news that we're in Switzerland. Many of us have been working in and out of there for a long time.

So importantly, we'll both list for many of our existing shareholders who are Swiss-based or Novartis shareholders would be on the Swiss Exchange as a primary listing and then obviously, here in New York as a dual listed with one global share. So I think easy access for lots of different reasons for both parts of the world. And we'll talk a little bit more about that. Hopefully, we complete this transaction. Our target is to do this in the first half of next year. And we'll work our way through that presuming shareholder approval, and we're excited about getting on with that.

So just a quick note on being dually listed. Look, it's a natural location for us as a follow-on spin-off from Novartis and a Swiss-headquartered company to be on the Swiss Exchange. So we're happy to continue there. It enables continuity for those of you who may be Novartis shareholders who want to stay listed on there and want to keep us on there. Obviously, we would like to be included in the SMI. We're working through that, whether that occurs or not.

Importantly, we also recognize there's a lot of capital in the United States and coming through the New York Exchange. So we want to get access to as many investors as we can. That obviously means we want to list here in New York, so we'll do that as well. We will work through these processes in the near term, and then we'll get our information out as we kind of work into next year as to how we're going to process all of this specifically.

Okay. So a couple of last thoughts before I bring up the rest of the team, and we can then take final questions. What I hope you saw today was really great markets with good underpinning of sound fundamentals. So good, solid markets growing in the 4%, plus or minus a little bit depending on which market we're in. But opportunities over the long haul to significantly expand. So really solid markets with a big opportunity in the long run there.

What we believe is really unique about this company is its expertise in eye care. We have a strategy with a management team in place that is really built on us making good decisions about technology and about markets and then deploying capital against those. That's really what we're going to go do. That's how we win. All right?

And then it really becomes about products. And so we have a strong pipeline with significant innovation. Some of it matures more in the 20 frame. And then we'll see as that matures, that is kind of the dependency as we look at sales, our revenue growth is dependent on product flow. So it is a bit of a product flow story. It's clearly a sales story, right?

So we're also keen that we think we know what we're doing here, but there's a lot of ideas out there that are not our own. And we believe with our relationships and with the knowledge we possess, we can go and find these ideas even if they're not our own to kind of maximize the value of assets in the eye care space. So we feel good about what we can do there.

And then obviously, what I think you saw from David, hopefully, was a disciplined capital allocation framework. We intend to invest in this business. This turnaround is kind of fresh. It's a couple of years in. There's more to do, all right? So we're going to certainly, first and foremost, put capital back into products and efficiencies and drive long-term value with this.

So right after we do that, we'll start thinking about BD&L and anything else that really drives long-term value as well. But that's really the disciplined framework we want to take forward so that we can really create long-term value for everybody in the room. So that's the exciting part of this thing.

I think what I should do at this point is remind you that we've had a few objectives. Hopefully, we've gotten through most of them. But if we haven't yet, we have another opportunity for you for the next few minutes. So what I'm going to do is invite up the rest of the -- the whole of the management team, and we'll just take any questions that may be on your mind from the last presentations but also from anything that has come along during the day. So why don't you come on up, guys?

QUESTIONS AND ANSWERS

Karen King

Okay. So we have about 20, 25 minutes left. Let me give them a chance to take it up here real quick. Okay. Do we have microphones? Okay. Go ahead, Larry.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Larry Biegelsen, Wells Fargo. A couple for David Murray. So people might look at Alcon before the acquisition and see the operating margin was 36%, you're at 18% year-to-date. How much is due to not having pharma? How much is operational? You added contact lenses, but Cooper is at about 30%. So that can't be a big factor. But people are probably going to kind of look pre- and post and try to bridge. Can you help us with that? And then I had one follow-up.

David Murray - *Alcon, Inc. - CFO*

Yes. So the answer to that, it's mostly pharma. And I mean, we lost a significant piece of highly profitable business that went back to Novartis, and that's what's caused the difference of the swing. Yes.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

And then on 2019, when are you going to be in a position to kind of give guidance, color? Any help calibrating Street models and expectations?

David Murray - *Alcon, Inc. - CFO*

So the -- I don't think we finally decided yet. But my understanding is that Novartis at FRESCO will give guidance for 2019, both with Alcon and without Alcon. And so our expectation is that, that will happen, but it hasn't been finally decided. And then secondly, we, Alcon, as a separate standalone company, would look to give guidance in the first half of next year.

Karen King

Also we have David up here. Oh, you've got somebody over there. Sorry, Bob. Go ahead.

Robert Adam Hopkins - *BofA Merrill Lynch, Research Division - MD of Equity Research*

Bob Hopkins of BofA. Just a question on the balance sheet. I appreciate the disclosure about the $3 billion in net debt. I saw another disclosure in the filings that you'd be raising $3.5 billion. So does that simplistically assume you'd have $500 million in cash from the balance sheet at the time of the spin and then roughly $3 billion would go to Novartis?

David Murray - *Alcon, Inc. - CFO*

So yes, we will have $500 million on the balance sheet and spin, yes, in cash. That's correct, yes. And we have about $150 million-ish today. So Novartis will then extract the net amount from us, yes.

Robert Adam Hopkins - *BofA Merrill Lynch, Research Division - MD of Equity Research*

Okay. And then just one other thing on the free cash flow commentary about the increase to 2.5 to 3x from where you are now. Apologies if I missed it. But where are you now? What's the base that you're growing from with that disclosure?

David Murray - *Alcon, Inc. - CFO*

So I don't think we've disclosed 2018. But 2017, we were around the $800 million mark. What I think what we can say is that we will likely to see that come up slightly for 2 reasons. One, our CapEx is a little bit higher this year to satisfy the needs of the Vision Care requirements, plus also the separation cost that are starting to be incurred will lead into the cash.

Robert Adam Hopkins - *BofA Merrill Lynch, Research Division - MD of Equity Research*

So cash was down a little bit in '18 then?

David Murray - *Alcon, Inc. - CFO*

We expect that we will see a little bit of erosion there.

Karen King

David?

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

David Lewis, Morgan Stanley. David, just to follow up on that last point. Your free cash flow conversion that you would target by 2023, should we think about 80%, 90%? Could you give a sense on where that lands by the end of NLRP?

David Murray - *Alcon, Inc. - CFO*

Well, it actually depends on 2 things because our businesses are very different as we look at the Surgical and the Vision Care. There are very, very different mechanics lie behind each of them. And I was explaining to some of the folks at lunch as we think about the cash conversion cycle. One of the mistakes that was made, if we can realize that 2 years ago, is that we actually brought our inventory levels down too low. And that's what caused all this chaos in the marketplace. And unfortunately, when you go to a patient lying on the table waiting for an IOL, you can't say come back tomorrow when we have the IOL. So Surgical will be at a higher level than Vision Care. And then we're also looking at, I think Andy alluded to this, different channel mechanisms by which we actually address the marketplace. So I don't want to get into the details of one versus the other, but I would just draw your attention to Surgical is much higher than Vision Care.

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

Okay. And then just 2 related questions. A lot of commentary about operating margins, what will it be in '23, not as much comment on gross margins. So we sort of assume gross margins today are in the low-60s. Should we assume low-60s or maintaining gross margins at those levels to the next 4 to 5 years? So basically, gross margin trends of NLRP. And the second question is you've given us a lot of components here to get to kind of a -- we have a top line profile. From a bottom line profile perspective, you showed us -- given us pieces to say Alcon is a double-digit earnings grower. What's less clear is whether it's a 10%, 11%, 12% earnings grower or a mid-teens earnings grower. How do you see gross margins earnings growth?

David Murray - *Alcon, Inc. - CFO*

Okay. All right. So on the -- what was the first question? The gross margins, yes. So on the gross margin, we see that there will continue to be optimization on the gross margin. It will definitely contribute to this 500-ish basis points that we're looking to, to take the margin up by. And it will be driven by 2 elements. One being just the continuous efficiencies that we put into our manufacturing process, plus also the mix of products that we have coming through. So I think that you will see improvements on there. And then on the second point was on the how quickly do we get to the margin?

David Ryan Lewis - *Morgan Stanley, Research Division - MD*

What's the rate of earnings growth, more or less?

David Murray - *Alcon, Inc. - CFO*

Right. So I won't go into that level of detail. But I'll let you work on the models by doing some reverse engineering there. But I think we clearly said that the revenue growth will be roughly in line with the market for the next 12 to 24 months, and then it will accelerate beyond that. And that the infrastructure we have in place is largely intact for what we need to do to deliver the next 5-year plan. We'll see some modest growth in that but nothing significant.

Karen King

Over here.

Anthony Charles Petrone - *Jefferies LLC, Research Division - Equity Analyst*

Anthony from Jefferies. Just 3 quick questions, financially related. So adjusted operating margin in the first 9 months, 18%, but the third quarter was 16% and you're adding additional cost for separation. So at spin, should we be thinking 15% to 17% is the range for adjusted operating margin? And then in terms of the manufacturing lines for Vision with the 30% to 40% cost savings, when do those fully come online? And then last would be just on M&A contribution. Is it reasonable over time to expect maybe 50 basis points top line growth contribution? Is that reasonable?

David J. Endicott - *Novartis AG - CEO of Alcon*

So let me take the first one. And yes, I think -- well, actually, the last one first. The BD&L thing, we haven't included, as we've said, any significant revenue growth or costs associated with the BD&L activity. I think we're comfortable that there is going to be BD&L activity. I think we're a little

THOMSON REUTERS

uncomfortable giving some kind of an increase over the top. Because a lot of this depends upon -- the revenue growth fundamentally depends upon how quickly we get our new product flow and how productive we are with it. So part of the challenge in this model is that we see product flow. We're optimistic about it. We feel good about where we're going. Of course, that has to hit, and then it has to hit on time and then it has to produce what we expect it to. So we've given you guidance, I think, around top line that we think we're comfortable hitting. If we do a little better than that, great. If we do a little worse than that, we have the BD&L piece to kind of come in and offset it. So I think that's a way of thinking about that. The first one was the margin for '19, yes.

Karen King

Margin.

David J. Endicott - *Novartis AG - CEO of Alcon*

Which one? Right, right. Right. What we've said has been that the trough year for us was going to be 2017, and that was at about 17% before stand-up cost. So I think the way to think about this, David, is given you have the stand-up cost at about 100 basis points. So I think that's probably the way to think about the way we move forward, which is we'll be up from '17, what will be accretive clearly to '17 in 2018. And again, in '19, it will be accretive to '18. We haven't given a trajectory on it because, again, we feel like that's very dependent upon the revenue. And our intent really is to invest back in the business as a primary idea, at least in the near frame.

Stephen Michael Scala - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Steve Scala from Cowen and Company. What does the tax rate assumption of high teens assume relative to Swiss tax reform, if anything? And if it's not assumed, then what would the tax rate be should reforms go through?

David Murray - *Alcon, Inc. - CFO*

So it assumes that Swiss tax reform will get approved as it's kind of being thought about right now. So the Swiss will vote on this on the 19th of May 2019. And once they do, then we'll know whether or what the content of the proposal that's getting proposed. But the guidance that we're giving on tax of high teens assumes that Swiss tax reform will get approved as it's currently being proposed and thought about.

David J. Endicott - *Novartis AG - CEO of Alcon*

Just one follow-up. We forgot your third piece of that question, which was the -- what's the Vision Care gross margin and the productivity, at the rate of which we have productivity in. Andy, you want to take that one?

Andrew Pawson

Yes. I mean, obviously, as we start our asset base, we're currently starting our first new asset technology, as Franck alluded to. Those will progress significantly over the next 2 to 3 years. But obviously, they're going to be going through start-ups. So as Franck also described, we get to our end of cost on our new asset base within 3 years from the time of our previous technology. So we're expecting a faster ramp-up to our end-of-curve gross margin. But because we're starting multiple assets there, there will be that start of diluted margin impact, particularly on our Dailies portfolio.

Karen King

Other questions?

Unidentified Analyst

[When is the next disclosure of the] company?

David J. Endicott - *Novartis AG - CEO of Alcon*

Next disclosure event. You want to -- 20-F?

David Murray - *Alcon, Inc. - CFO*

So we will put another 20-F out at some point in Q1, which will have the 2018 numbers on the stand-alone basis as opposed to being on the division basis within Novartis.

David J. Endicott - *Novartis AG - CEO of Alcon*

And then we'll also have FRESCO kind of in the beginning of the year. That will be our first, and that'll be year-end '19, which -- sorry, '18, which will be available at that time with the Novartis team, which I think that's the beginning of January.

Unidentified Analyst

David, are there any risk to the separation that we should be aware of just logistically?

David J. Endicott - *Novartis AG - CEO of Alcon*

Yes. Well, it's a complicated thing. I mean, I've learned a lot in this process of trying to separate things out around -- particularly the systems issues. And I would just say, our biggest concern, although I think we feel comfortable that we have it under control, is just that systems work. So I think we are in the middle of doing a number of things. We're setting up a new tax system, a new treasury system. We have a backbone ERP system that's going in at the same time, coincidentally. And then we've got a lot of kind of cutovers of processes that we are testing starting -- we'll be testing it through the first quarter, which should give us time to look and see and make sure that we are able to flip the lights on in the start. The server start up and the lights come on, and we've got e-mail and all kinds of things. But fundamentally, I think we have it in sight. We know what the scope is. We know how to test for it. We feel like we have it under control at this moment. But I think what I worry a little bit about is just all of the work that goes on in getting things to run the way they were running when they were together and just pulling stuff apart is inherently different process, different system, different something, different people. All of those change, management ideas are important. And the team has done a great job of staying on it. But if you wonder what the big issues are, I mean, that's kind of the -- it's probably that Day 1 readiness stuff, which I think in the near term is certainly on our minds. Yes, please?

Unidentified Analyst

I would not call your revenue guidance of 4% at market growth in the beginning and then accelerating from there in the back half of your 5-year plan aggressive. In fact, I might even label it conservative. What takes you above that? And what do you worry about you'll miss and come in below that?

David J. Endicott - *Novartis AG - CEO of Alcon*

Well, yes, I think it's important to remember where we started from, right? So we started from a net decline 4 consecutive quarters. So to turn that around, remember that we're climbing back to market growth. So as we've grown, we're getting back to market growth. And if you go through and you just kind of flip on those quarterly slides, if you look at them just quarter-on-quarter, we had a lot of soft comps in the first half of this year, and again, you've got a little bit of getting back to market still that we need to stabilize and continue growing. It's very product-dependent. And I just would keep saying that the big ideas are when do we get PanOptix in the U.S. I think that's something to watch for. I think it's when do we get PRECISION1 capacity so that we can launch it globally, another one important. I think those are the things that I get excited about in the kind of the near-term frame. There are others, but they're probably smaller. In the longer run, I think what we believe is if we have the IOL portfolio mature, if we have some of the Vit-Ret market expansion go forward, those are things that I think we can follow in the near term, but we know what they look like if they start to get traction in the outer years. So I feel like, again, it's a pretty big lift to get -- it was a pretty big lift to get. So maybe the language may not be right. I think it's been an interesting journey to get from where we were to where we actually are, which I think is a pretty big lift. On the other hand, I concur that it's not the aspirational idea, and I think we can grow faster than market, which is what the plan says towards the end of it.

Unidentified Analyst

And you mentioned operating margins coming to your -- closer to your peers. Who do you consider or which companies do you consider to be your peers?

David J. Endicott - *Novartis AG - CEO of Alcon*

Well, I think we consistently call on J&J and Bausch & Lomb, ZEISS, Cooper. Remember, Cooper is a pure contact lens company. So when you're comparing Vision Care, our business, to CooperVision, we've got a couple of businesses in there they don't have, which is our contact lens care products, which are relatively low growth right now, and our eyedrops, which are mixed-growth buckets. So we've got a fast growing sustained with an underlying business there that's also kind of slow growth. So you've got to be a little careful with those comparisons to Cooper. But I do think those are the big ones, and then there's lots of really good companies that are in this space. But I think those are the ones we think about directly.

Karen King

We've got about 5 more minutes. Any other questions? Well, I think they've asked the questions. Yes.

David J. Endicott - *Novartis AG - CEO of Alcon*

All right. Well, let me just try and wrap up then. Let me just say that, first of all, I want to thank everybody. It was a real pleasure to meet many of you. Those of you I didn't get a chance to meet, I look forward to meeting you. And I want to thank you for your interest in Alcon, for being here today. I will say that we are excited about this. This is a fun opportunity for us. We all -- many of us came here for this particular moment. So we are really excited about what we can do with this asset, really excited about the prospects in eye care. Most importantly, we get up every day and we try and help people see better, and that's a pretty cool thing. So thank you very much for your attention today. We appreciate you coming.
