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COO - The Cooper Companies, Inc. at Wells Fargo Health Care Conference

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PRESENTATION

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Good afternoon everyone. I'm at Larry Biegelsen, the medical device analyst at Wells Fargo. It is my pleasure to introduce the Cooper Companies. With us today we have Bob Weiss, who is the President and CEO, and also somewhere in the audience Kim Duncan of Investor Relations. So, Bob, thank you for much for joining us.

We're going to do a Q&A format. If anyone has questions in the audience, you can just raise your hand and we will bring a mic over to you.

Why don't we just start, Bob, with kind of how your 2012 has started for you guys and your expectation for the remainder of the year.

QUESTIONS AND ANSWERS

Bob Weiss - *Cooper Companies Inc. - President, CEO*

Well, thank you, Larry, thank you for having us. The year obviously started out first quarter very solidly. We came back in the second quarter and reported \$1.12 in earnings against a consensus of \$1.20, so it was actually the first quarter in I think nine quarters that we missed consensus.

The disappointment or the challenge really was not so much the business. The business has been performing solidly. It was heavily foreign exchange related. Typically in the past, we have indicated that foreign exchange were fairly naturally hedged if every -- if the dollar moves up in tandem against all other currencies. In this case, it did not. As a result of that, we ended up with a \$0.07 hit from foreign exchange. Then we made some decisions ourselves to shut down a couple of facilities, one of which we recently acquired with the Doppler acquisition in Colorado. The other was with a remote manufacturing location in Australia. That cost us \$0.02, so aside from that, they were the two, if you will, hurdles against consensus numbers.

For the year, what we are faced with is a continuation of foreign exchange headwinds from the euro. We have our largest market share in Europe, over 20% market share, and therefore the foreign exchange headwinds are more traumatic. Luckily they are being masked by solid performance in primarily cost of goods which is coming in higher, so we did not change our overall range of earnings but masked basically the hit of foreign exchange with the strong gross profit that it's showing.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

So when we look at the second quarter, your contact lens business, the growth slowed to 6% constant currency from 9% the previous quarter. You attributed that to the slowdown in April. Do you think that there was kind of a hangover effect in April from the other manufacturers doing buy-ins in March?

Bob Weiss - *Cooper Companies Inc. - President, CEO*

Well, something certainly happened in March and something certainly happened in April. I tend to think what happened in March was more (inaudible) was the manufactures out the door to the middlemen which in this case has been distributors. That wasn't only our competitors. It was our cell phones that we ended up with a first fiscal quarter -- calendar quarter, excuse me, ended March 31 where the industry grew 6% worldwide and particularly the US grew 11% and we grew 12% worldwide and in the US 14%. They were higher than clearly the industry was growing, so



there was a correction that took place in April. That assessed itself a lot more in the last two weeks of April. That was more like a cliff where typically we would have stronger period towards the end of the quarter. We didn't have it this year for a variety of reasons. That showed -- those revenues showed back up in May and we ended up with a very nice May.

Larry Biegelsen - Wells Fargo Securities - Analyst

So what we heard was the other manufacturers took price increases so there were distributor buy-ins in March, but you guys did not take a price increase. Is that -- do you think that is accurate?

Bob Weiss - Cooper Companies Inc. - President, CEO

Yes, I think the manufacturers' price increases were probably their legacy products, and I think we took a legacy product price increase earlier in the year. Typically, what you do when you have a mature product is you tend to keep increasing the pricing until people get a hint that maybe they should be moving into other products.

Larry Biegelsen - Wells Fargo Securities - Analyst

You talked about the rebound in May on the call and you talked -- I think the words you used were very respectable growth in May. I was intrigued by you grew 6% in the second quarter at least in the contact lens business; I think 8% in surgical. But your guidance for the second half of the year implies 6% to 12% excess adds. So the midpoint of that is about 9%. So, you expect -- it seems like at least at the midpoint that you're aiming towards the midpoint and acceleration in the second half of the year. Is that a fair characterization?

Bob Weiss - Cooper Companies Inc. - President, CEO

Let me -- I will tweak those so to speak. Our year-to-date growth in -- for provision in constant currency is 8%. So we had a strong first quarter, a weaker second quarter, you are right. But when you put the two together and we tend to say one quarter does not a trend make in this case with the anomalies that took place in the March period, April period, that's as true as ever. So from my perspective, it is an 8% constant currency growth provision, an 8% constant currency growth for organic growth for surgical. We are forecasting basically that going forward with about 3.5%, 3.7% foreign exchange headwind. That changes on a day-to-day basis, quite frankly, when I look at it. But the -- as a result of that, we are looking at same constant currency growth front half, back half for the back half. Part of the rationale of expectation is we have several launches in the back half of the year that really come into play.

Larry Biegelsen - Wells Fargo Securities - Analyst

You have the (inaudible) which becomes a tailwind where it was a headwind in the first half of the year. Is that fair?

Bob Weiss - Cooper Companies Inc. - President, CEO

That's correct.

Larry Biegelsen - Wells Fargo Securities - Analyst

Maybe you can -- it's a good point to talk about some of the new launches. I mean tell us where you are in the relaunched that are (inaudible) that was in April approval in the United States or re-approval, if you will. You've got Biofinity Japan, Biofinity Multifocal, a lot of launches. On this last call, you even talked about to make things even more complicated Biofinity Toric and then we will get to it, the daily disposal. But maybe the ones at the recent launches, Biofinity Japan, Biofinity multifocal, and a varied toric. Where are you in those?



Bob Weiss - *Cooper Companies Inc. - President, CEO*

Biofinity in Japan I would say is going to plan. We are making good headway, gaining market share there. Of course Biofinity, wherever it shows up, seems to do well. I think the proof in the pudding on that is we reported 32% constant currency growth of the really silicone hydrogel family in the second quarter and assume that is chosen by Biofinity, that Biofinity is higher than that number. It's obviously (inaudible) recall is not growing and not supporting that growth. So, very happy with Biofinity in Japan.

On the [seer] side, we haven't introduced the toric yet. The Biofinity Multifocal, if you look at the growth of our multifocal number be it for the quarter or be it for the CLI data, you will see very healthy 34% growth for the calendar quarter. It is 26% constant currency for our multifocal family, if you will, so that is being carried by Biofinity once again.

We did relaunch Aspherictoric, got approval for the relaunch at the end of -- in April. There were essentially no real sales in April. We started putting (inaudible) back together. I think we sold one account. That will be kind of a slow rollout in the sense of the complexity and the amount of inventory it takes to pull out a toric fitting set. It takes a fair amount of time and complexity and so we will have a very programmed rollout targeting those accounts that previously had it and that have been waiting for it to come back.

Obviously, there will be somewhat [DA] accounts with higher productivity, so we're treating it somewhat like gold, if you will, at the moment.

We also launched in June now the multifocal Proclear one day multifocal, so there is a another launch that we're in the middle of. So a lot going on in the Company at this point.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Astigmatism is common in Japan, so the toric is an important launch there?

Bob Weiss - *Cooper Companies Inc. - President, CEO*

I would say astigmatism is very common in Japan. In the past it's been masked with hard gas lenses. More the new fits like everything else, there will be a migration. It will take a while for all the new fits to suddenly become a very large part of the industry there, but it should in theory be a very large industry just not because of history.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

And you haven't said specifically exactly when you are going to launch Biofinity Toric in Japan?

Bob Weiss - *Cooper Companies Inc. - President, CEO*

Other than to say by the end of the fiscal year we expect to launch it.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Questions? So the daily disposable silicone hydrogel, how competitive do you think -- do you expect the product to be versus TrueEye and CIBA's Dailies Total One?

Bob Weiss - Cooper Companies Inc. - President, CEO

Well TrueEye has been out there for a while, three or four years now with a recall in the middle. Ciba is just now launching into Europe. I would expect our single-use silicone hydrogel out the door to be modest. It is really to get the learning curve under our belt and not to take over the market. The market remains a niche market. By that I mean while it puts up reasonable dollars because you are trading up the wear 600%, there is only X amount of people that are going to afford that. So if you take what -- I typically say if you look at a one-day market like the US is 17%, divide by 4 or 5 and that tells you the wear base. So you could say we're at 18% in the US. That is basically sub 5% of the wearer base.

With silicone hydrogel lenses, I think it is probably around 6%, 7% worldwide revenue dollars. That is about 1.5% of the wearer base. A small part of the wearer base can afford it. It's very expensive. We talk about a one-day trade-up and normally at 4 to 5 -- 4 to 6 times so 400% to 600% trade-up. The average wearer in the United States spends at the manufacturer's level around \$65. That's a \$2.3 billion market divided by 35 million wearers. We then take that \$65 and we move it up 400% to 600%. Now, if we go to silicone hydrogel one day, you are now pushing that -- the content in that range maybe a little beyond that.

Larry Biegelsen - Wells Fargo Securities - Analyst

So but on the product profile, CIBA Dailies Total One has gotten some good initial feedback from our chats. In terms of the product focus, I understand the commercial opportunity would be modest for a daily disposable silicon hydrogel. But you haven't disclosed much on the property of your -- all you have said I think is that it's going to be a different material from Avaira and Biofinity. We don't know -- I don't think we know anything else about the product. Is there --

Bob Weiss - Cooper Companies Inc. - President, CEO

That's correct.

Larry Biegelsen - Wells Fargo Securities - Analyst

So from a competitive -- so the CIBA product does at least have kind of a market, it's kind of a sexy marketing message, if you will, with the oxygen -- the properties. And so I guess my question is how competitive do you think it will be from a product profile standpoint?

Bob Weiss - Cooper Companies Inc. - President, CEO

Let's put it this way. We will sell what we are capable of making, so we're not going to invest a ton of money creating a demand we can't deliver and I think CIBA has the same problem. They're capacity constrained; they're cost constrained. I can't imagine they're going to spend a ton of money creating demand when they have limited capacity to support it. We're in the same position. We don't have unlimited capacity there.

Larry Biegelsen - Wells Fargo Securities - Analyst

So if we look at the silicone hydrogel market worldwide, it is about 43% of contact (inaudible) sales I think in the first or second quarter this year --

Bob Weiss - Cooper Companies Inc. - President, CEO

Correct.



Larry Biegelsen - Wells Fargo Securities - Analyst

-- for the industry, 36% for you guys. As you get closer, where do you see those numbers going over the next one to two years? My question is, the second part is when you reach about the same percentage as the rest of the industry, does it make it more difficult for you guys to grow faster? The reason is because you guys were coming -- you guys are related to the silicone hydrogel party so to speak and you have been growing faster partly driven by your silicone hydrogel mix, the mix benefit you've been getting. But you're getting close to parity, if you will, with the rest of the industry.

Bob Weiss - Cooper Companies Inc. - President, CEO

Got there in a hurry. Yes, the market is at 43%. They didn't report last quarter at a worldwide basis partly because of some disclosure that they want to get into on Monday. So as a result of that, I don't know for sure where it went. It grew double digit my best guess, so I think the market will, in the next two years, still get close to 50%.

Cooper is moving up rapidly. We went from 33% to 36% in a quarter. So as a result of that, when we get -- if we were to catch-up with that 50% -- and I don't know will there be a deceleration before then? Probably since keep in mind we're the one company promoting both sides. We're not trying to see if the whole world can go to silicon hydrogel.

Having said that, we have a good family. Biofinity has been the workhorse, if you will, of the entire Company at this juncture, that and Proclear with Avaira coming out into the J&J sweet spot, the two-week market in the US, we should be able to make good headway. I'm not sure we feel strained by that. If the market is that 15%, we get 50% we have to stop there because those products are really that good and in spite of the fact we are promoting both sides of the aisle, I think it could wait a little in the favor of the silicone hydrogel.

Larry Biegelsen - Wells Fargo Securities - Analyst

So you think you can still grow faster than the market even if your -- the silicone hydrogel share of your businesses about the same as the industry, you could still outpace the industry somewhat?

Bob Weiss - Cooper Companies Inc. - President, CEO

I believe so.

Larry Biegelsen - Wells Fargo Securities - Analyst

So let me turn now -- CooperSurgical -- any CooperVision questions while we're on CooperVision? We can come back to it, but CooperSurgical, you just did a large deal there, Origio?

Bob Weiss - Cooper Companies Inc. - President, CEO

Origio.

Larry Biegelsen - Wells Fargo Securities - Analyst

Origio. So we took -- CooperSurgical before the deal, 15% of sales, after the deal, remind it, it's 20% --

Bob Weiss - Cooper Companies Inc. - President, CEO

20%.

Larry Biegelsen - Wells Fargo Securities - Analyst

20%. Do you have a goal in mind for CooperSurgical let's say over the next three to five years in terms of the balance between CooperVision and CooperSurgical?

Bob Weiss - Cooper Companies Inc. - President, CEO

It wouldn't bother me to keep going. In other words, we're at -- we have CooperSurgical which has put up some phenomenal numbers, 68% gross margin, 29% operating margin, so they've executed all of those. So if it went from 20% to 40%, that would not bother me at all. Having said that, obviously it is a function of having the right acquisition at the right price in front of you. So we're not going to feel obligated to any one percent as long as it makes -- the acquisition makes sense but we will keep going as long as the right deals are out there.

Larry Biegelsen - Wells Fargo Securities - Analyst

You've done -- before Origio, you did like 30 tuck-in acquisitions. You integrated them very successfully. This I think is the largest deal you have done in CooperSurgical.

Bob Weiss - Cooper Companies Inc. - President, CEO

That's right.

Larry Biegelsen - Wells Fargo Securities - Analyst

Is this -- after you have a chance to digest this acquisition, would you go back in to your tuck-in acquisition strategy or would you look for other kind of larger similar sized deals?

Bob Weiss - Cooper Companies Inc. - President, CEO

Well, I would still call it a tuck-in, maybe not of the same type we have had in the past which is total fold-in where you blow up a lot of locations and integrate. This one you may recall we had an objective to go global with surgical. This is a bid platform. Truly IVF is a global business, unlike some of what is within our surgical business. So look for us to leverage a little the infrastructure. They've done a great job of building a business outside of the US. 73% of the business of Origio is outside the US. They have direct presence in China already, in Japan, in India, in Russia, places that we clearly are not in surgical. So we will leverage that know-how in the product family.

In the US, we happen to have actually a \$16 million IVF business called Sage. So it's in the media part of the business or it's media, there's needle and there is catheters, if you will, at the business. So we will leverage the Origio deal relative to our Sage business somewhat.

Larry Biegelsen - Wells Fargo Securities - Analyst

So, my understanding is that Origio is more like a biotech pharma company with relatively high R&D spending whereas CooperSurgical has traditionally been more of a device company. Do you think that is a fair characterization? If so, how do you avoid kind of a culture clash, if you will?



Bob Weiss - Cooper Companies Inc. - President, CEO

Well, I think you are right. There is some nuances between IDS if you will in-office gynecology and then a hospital with its own equipment, which is our surgical business which is growing the fastest and has the highest gross margin. The IVF business is with Origio, it's been a collection of two or three acquisitions that we have looked at over the last 20 years. So they were on our radar screen. It just happens to be that Origio ended up what we used to call (inaudible) and we bought up a company called [Imagen] and so many of the pieces we are familiar with.

How much has to be intrinsically R&D? I'm not sure it's all that different than our overall model. We have been stepping setting up R&D modestly and for example the driving force of our growth in surgical has to be a product we reinvented and upgraded called the Uterine Manipulator and why surgical has been doing so very well with an R&D effort, a modest one at that. There will be other products in the portfolio that we will upgrade with R&D. Having said that, I do think you are correct that there will be a little bit more R&D on the IVF side than clearly some of our in-office gynecology products that we have.

Larry Biegelsen - Wells Fargo Securities - Analyst

Is it correct that the IBS market in developed countries, US and Europe, was relatively flattish or slow growth and that the growth is really in emerging markets? I guess you talked about Origio having a greater presence in places like China than you have. Is that -- obviously does that help you penetrate those emerging markets?

Bob Weiss - Cooper Companies Inc. - President, CEO

Absolutely. You're correct that the growth the last 12 months has been heavily weighted towards the new emerging market and lesser so in Europe and in the US. Part of that, however, is improved efficiency, the accuracy, if you will, or the success factor has improved, which is masking the fact that there is actual expansion of the number of couples that are getting IVF. So at some point in time, that will level off and I think the underlying growth will be sustained.

One of the important thing to understand about IVF is the demographics in the world are such that most populations around the world are not growing, maybe with the notable exception of India which is they have about 2.6 births per woman. In China for example, it is only 1.5. The breakeven point of holding your population static is 2.1, so if you are below 2.1, you're going to be losing population aside from immigration and stuff like that. Europe for example is 1.5 to 1.9 times, so it is clearly not growing in terms of population. Looking at that another way is if you delay your births -- and what happens in the United States this moves from about 23 to 25 years old first birth of a woman. In Germany, it has gone from I think 24 to 29 years. When you get to 29 years old and you suddenly decide you want to get pregnant, number one, your odds get a little less. Number two, there is a sense of urgency when you have decided that. That is very conducive to the fact that women are waiting later around the world and they have more disposable income when they suddenly get to a point where they want a baby and it's not going as planned and suddenly there's that sense of urgency. So, the overall demographics are extremely favorable globally there.

Larry Biegelsen - Wells Fargo Securities - Analyst

Just transitioning, you have an analyst meeting in September and it's still three or four months away. But maybe you can give us kind of a sneak preview of what your goals are for that meeting, what we'll learn. I'm just curious. It's been a while since you've done an analyst meeting I think.

Bob Weiss - Cooper Companies Inc. - President, CEO

No major -- we're not going to be like Apple introducing some whizbang new thing or Microsoft or whatever. But I would say that we haven't had an analyst meeting for a number of years. We think we have a lot going that is exciting in total. We'll be able to give a better report card on where we are on some of our new product rollouts and the way we see the future developing. It will also give us the chance to showcase a little bit more our women's healthcare business, which hopefully is in the post-Origio mode and we can talk a little bit about that also.

Larry Biegelsen - Wells Fargo Securities - Analyst

In China, it seems like you've kind of scaled back your plan there for 2012. Is that a fair characterization and why?

Bob Weiss - Cooper Companies Inc. - President, CEO

Yes, I would say things are going a little slower in China not because we scaled it back but it's the process. The process of hiring. We want to make sure we have area of the precedent of that -- of either number one that was very Asian comfortable, have done a lot of business there. But most important, we wanted to have a country manager that was a local in China. The notification period there is three months (inaudible). We found the individual early in the spring and we had to wait three months to get them aboard. So we didn't want to put the cart in front of the horse so we had to wait it out and we're good to go now.

Larry Biegelsen - Wells Fargo Securities - Analyst

Good to go now. So what does that mean?

Bob Weiss - Cooper Companies Inc. - President, CEO

That means now we have all of the pieces to develop the plan and roll it out. I might say we have been adding -- there are certain areas where we've added sales reps because we basically knew where we were headed on certain parts of the plan, but we wanted to be the country managers plan that has developed. We will give them the financial resources and the support but they'll probably have (inaudible)

Larry Biegelsen - Wells Fargo Securities - Analyst

We are almost out of time here. I forgot to ask you the required question on Europe. What -- big picture, what is your view of what's going on in Europe with the consumer for example in your contact lens business? You did take a little bit of a step down in the first quarter of the growth in Europe?

Bob Weiss - Cooper Companies Inc. - President, CEO

Yes, there was some modest slowing in Europe and quite frankly it continues that way. In the past, the last deep part of the recession I would say Europe came out unscathed. It held around 6% constant currency and Japan and Asia flowed up, almost flat-lined. It looks like it is flip-flopping right now where Asia-Pac is doing better with the momentum of China and that Europe is going to be more that low double-digit 2% to 3%, so it wouldn't surprise me if just given the chaos of what is going on over there, whether it is emotional or factual, that there is some slowing in Europe.

Larry Biegelsen - Wells Fargo Securities - Analyst

So what was the second quarter -- first-quarter constant currency growth in quarter? That is the last quarter we have audited data, right, from (multiple speakers)?

Bob Weiss - Cooper Companies Inc. - President, CEO

Yes, it was 2%.



Larry Biegelsen - Wells Fargo Securities - Analyst

2%. And you think in Europe --

Bob Weiss - Cooper Companies Inc. - President, CEO

On a rolling 12 trailing months, it was 4%. It dropped to 2%. I think it is more going to be that 2% to 3%.

Larry Biegelsen - Wells Fargo Securities - Analyst

Do you think you can hold -- it can hold at that 2% --

Bob Weiss - Cooper Companies Inc. - President, CEO

Yes.

Larry Biegelsen - Wells Fargo Securities - Analyst

-- in Europe in Europe, for Europe fiscal Q2 --

Bob Weiss - Cooper Companies Inc. - President, CEO

Yes, it did.

Larry Biegelsen - Wells Fargo Securities - Analyst

It held at 2%, you didn't see a deterioration?

Bob Weiss - Cooper Companies Inc. - President, CEO

No.

Larry Biegelsen - Wells Fargo Securities - Analyst

I think we are out of time. So, with that, Bob, thank you very much for joining us today.

Bob Weiss - Cooper Companies Inc. - President, CEO

Very welcome. My pleasure.



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