THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COO - The Cooper Companies, Inc. at William Blair Growth Stock Conference

EVENT DATE/TIME: JUNE 12, 2013 / 7:00PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Matthew O'Brien *William Blair & Company - Analyst*

PRESENTATION

Matthew O'Brien - *William Blair & Company - Analyst*

Good afternoon. Thanks for joining us here. My name is Matthew O'Brien. I cover medical technology at William Blair. I am extremely pleased to have Cooper Companies come out and join us today. From the Company is CEO Bob Weiss, as well as Kim Duncan, who I believe is the Director of Investor Relations. Hopefully I get that right.

Cooper is one of the best franchises in all of medical technology, as Bob will walk you through here in a minute.

A couple of quick housekeeping items. William Blair does have a banking relationship with The Cooper Companies. I would ask that you visit our website, www.WilliamBlair.com, for all of our disclosures. The breakout session for this presentation is downstairs on the seventh floor in the Allium room. So with that, I will go ahead and turn it over to Bob.

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

Thank you, Matt. Hopefully I still have a voice left. We started this morning, I think, at 7.00 am sharp and I've been talking ever since. A lot of good questions along the way.

First of all, I'm not going to read this to you. I think everyone has a clear understanding of forward-looking statements.

The Cooper Companies is a New York Stock Exchange company. We've been on the New York Stock Exchange for 30 years, with an initial public offering way back in 1983. As far as the nature of the business, 80% of our business is soft contact lenses, 20% women's healthcare. Soft contact lenses is a $7.1 billion market with really four players. Vistakon, which is J&J, is number one by far with 43% share; number two is CIBA at 25%; Cooper, number three, 18%; and Bausch & Lomb, number four at 10%. That's pretty much 95%-plus of the marketplace.

It's a great business in the sense that we do good in good times and in bad times. During the last five-year period, the market has been up almost 5%, so in spite of a soft economy, we've done very well.

We have -- basically, we're in a position where we make 1.4 billion lenses worldwide, and essentially all of those are made outside the United States; 10 million of them are made inside the US.

As far as women's healthcare, that represents 20% of our business. It targets the gynecologists, whether they're in the office, in the hospitals, in the IVF centers or outpatient surgery. It's an amalgamation of over 30 acquisitions the last 20 years. It represents 600 different products, and it's an area where we're the main game in town, unlike contact lenses where we're number three. Clearly, we are the one that amassed all these products over the years. I'll get a lot more in depth into both of these.

Cooper has put up some pretty good numbers. If you look at last year, we were up 11% constant currency with $1.4 billion in revenue. You can see our compounded annual growth rate over the last five years is 10%. We are targeting this year to come in with 10% growth also. We just reported our second-quarter results last week, and that included topline growth of 11% year over year and constant currency up 15%. And importantly, our earnings per share at $1.50, which was up 34% above the prior year.

We do generate a lot of cash and we put up free cash flow of $77 million for the quarter, which brought our trailing 12 months to $243 million in free cash flow. That has allowed us to delever over the last four years from having over $900 million of debt down to only $300 million of debt, and our debt to total cap is now down to 12%.

Our earnings per share over this period of time have done very nicely, up 28% on a compounded annual growth basis. And importantly, last year we grew about 15% in earnings per share and we're forecasting this year to be up around 20% at the midpoint of our guidance.

We recently refreshed our guidance, when we gave earnings last week. We took our topline down, actually, at the top end, $20 million. $10 million came out of CooperVision, which was primarily the yen, which we have a $200 million business in Japan. And so, when the yen average is down 17%, it's a big number to us.

And in surgical, actually we had some softness in the market, and part of the integration of our business, we bought a company in the IVF business a year ago. There was some integration activity, but primarily there was a third item, which was the conversion of one of our products that had been growing 20% to a new product, which led to hospitals trying the product and that ended up flatlining part of the business within our surgical environment -- our business.

Once again, earnings per share, we gave guidance on our non-GAAP earnings per share, which excludes certain one-time pickup activity and business interruption, of an improvement of $0.15 to $0.20 with a new range of $6.15 to $6.25, and that basically is in spite of hurdling, what this year is going to be about a $0.43 negative impact from the yen on our bottom-line results. So, a good year, I would say in spite of the yen, for us.

Our five-year objectives, similar to the past five years, are to continue to gain share. And we've been growing at about 1.75 times the industry. The industry is around 5%, 6% in the past. So we have been gaining share, and I'll put some color on that.

In women's healthcare, in spite of a declining business, we -- in the area of office, we have been gaining share overall in our surgical business, partly because of critical mass; partly because of the global reach; and thirdly, because we are in the IVF portion of women's healthcare, which is a high-growth area, growing double digit.

In addition to growing the topline, we will continue to improve margins. And I've indicated in past presentations that we expect to take our operating income from 20% in 2012 to 25% five years down the road. And the way we're going to do that is fairly easy. Number one, half of the way there, or 250 basis points, will be a function of royalty expiration and/or modification. That is half of the bridge to 25%.

Another 100 basis points comes from the amortization -- dropoff of amortization of intangibles brought about by a large acquisition we did in 2005 called Ocular Sciences. So that is 350 basis points there.

And then, the last 150 basis points. Over the last five years, we have been investing in operating expenses. We have not really been cutting back in that area. We've been growing our gross margin a lot, from 56% to 65%. So we will expect to get some return on our investment in operating costs that we've put in over the last five years. Those operating costs included global expansion, which we continue; included more feet on the street. We are under [gun] compared to J&J and CIBA, for sure. And it included expansion of R&D. We will continue to expand R&D at least as fast as the, top but suffice it to say the bridge to 25% is there.

We generate a lot of cash flow through the combination of improving operating income and improving reduction in interest expense. As our cash went from â€" our debt went from $900 million down to $300 million, it led to an improvement in operating earnings per share, and that will continue into the future.

We expect to reinvest some of our $1 billion-plus of free cash flow, $1.3 billion, in continuing geographic expansion, into continuing acquisitions. I mentioned in women's healthcare we've done 30 acquisitions in the last 20 years. We will continue to have women's healthcare acquisitions. We will continue to buy things that lead to geographic expansion in both of our businesses.

CooperVision is in over 100 countries. We have 6,800 employees. I'm proud to say, actually, and coming back to the 7,800 employees that we have in total, that if we were to look at 2005 after we did the Ocular acquisition, we had 7,800 employees. So we've gone from about $800 million in revenue to $1.6 billion in revenue without adding people.

Now, that's a little simplified. We've taken people away from manufacturing with more efficiency in production. We've added a lot of feet on the street in terms of sales effort. We've added a lot of areas like R&D, but we've shifted the employee population, we've upgraded it. The people running the plants and the people running the equipment are much more sophisticated and/or educated that we've trained them. But the productivity of that group of people has been enormous over the last five years.

We take a lot of pride in the way we take care of our employees, wellness and things of that nature. And I can't speak highly enough about a good wellness program in terms of minimizing healthcare costs; in terms of minimizing diabetes, cancer, and things of that nature by way of the way employees take care of themselves. To me, that leads to a lot of our productivity that we've seen in the last five years and we'll see in the next five years.

Our primary manufacturing locations are in the UK, Puerto Rico, where we make -- out of our 1.4 billion lenses, only 10 million are made in the United States; 800 million are made under one building -- under one roof in Puerto Rico. And they do a fantastic job on it. And another 500 million are done in the UK. We've now talked about expansion into Costa Rica, where we are building out a plant as we speak.

We have three major distribution centers, US, UK, and a third one in Belgium.

The contact lens business has three types of lenses, the easy-to-fit spheres, which are 76% of the $7.1 billion market; the more complicated or specialty lenses, torics for astigmatism, multifocals for presbyopia. The future growth of the industry, and we think it will go escalate from 5% the last five years to 6% going forward, more like it was in the prior decade, which was closer to 8%, but the reasons for the escalation, we think, is a more robust economy, hopefully, in the future, modestly more robust, and we're pretty recession-proof as an industry, as I indicated.

Torics will continue to outperform the industry. They're way underindexed outside the US, at 8%. Multifocals for presbyopia, and we know there's a lot of contact lens wearers that are now entering their 35-, 40-year time age, and as a result start having presbyopia. And then, the overall sphere business, which has been a trade-up strategy within the marketplace.

If we take another look at it geographically, we see that Europe we expect to grow 6%, a lot of that on the strength of the underindexing of torics and multifocals, the trading up to silicone hydrogel, the trading into one-day, and Eastern Europe as it expands fairly rapidly.

In Asia, one would expect much higher growth than you see here, 5% only. And the reason for that is Japan is such a huge part of the Asian market. Two-thirds of the market is Japan. It is a $1.5 billion market; it's huge, but it's just not growing that high right now. So while it's growing 2%, it is masking the double-digit growth that is going on in China and the rest of Asia. That will start minimizing as China takes hold of a bigger and bigger market. As we look down the road, we expect escalation of the growth rates in Asia-Pac in future years.

The Americas is doing -- actually outperforming the rest of the world, in spite of the fact it's the most mature market. And the reason for that is the trade-up strategy to one-days. One-days represents 400% to 600% â€" that's 400% to 600% -- trading up on a one-patient basis, meaning if I can take someone from a monthly product or a two-week product, convince them to throw them away every day, I make 400% to 600% more revenue. I also make 300% to 500% more profit. It sounds like a good deal. That's just arriving in the US.

If you look at Japan, Japan was forced into a one-day market by the government, by the government saying, boil your lenses every day. Well, they don't boil very well. It naturally became a one-day market. 60% of the Japanese market throws it away every day, so that's why it's such a big market. They happen to pay twice as much as we do in the US for a one-day lens also, which was a double additive, making it a very attractive market.

So one-days in the US, it's just starting to arrive. It's moved from 11% of the US market, which is about $2.5 billion, to 23% in the last three years alone.

What are the drivers of the market? We have a great market, geographic expansion. I'm sure everyone says geographic expansion. But certainly in contact lenses with 95% of the eyes outside the US, geographic expansion is a big deal. The BRIC countries are a big deal. Eastern Europe is doing very nice or overall Europe, and Asia-Pac, as I mentioned, ex-Japan right now, has got a lot of opportunity.

The wearer base, children are coming into contact lenses younger and younger each year. It proves even an 8-year-old can put on contact lenses. Presbyopia, those people that have been in contact lenses a while, they get to their 40s and they suddenly look for multifocal lenses. Better comfort.

Our industry has had a problem with dropouts. We have 35 million wearers in the United States. We have 30 million former wearers in the United States. Some people ask about LASIK, and quite frankly, LASIK gets some of the dropouts in the contact lens industry along the way. Frustrated people looking for a better alternative.

Comfort has been the number one issue for dropouts over time. People at the end of the day saying, I wish I can get these things out. I want to get home, and that's just not the perfect outcome.

The incidence of myopia continues to increase, particularly in countries that are going from rural to urban. Take India, where people are moving to the service industry, bring them from being outdoors indoors, and they get a higher incidence of myopia. It used to be thought that computers caused it. Now it's thought that being outside in the sun, actual sunlight, is a bigger cause of myopia than sitting in front of a computer.

As far as the other big trade-up in the industry, silicone hydrogel, which is today 48% of the market, is about a trade-up of 20% to 40%, meaning if I convert you from one material to another called silicone hydrogel, I charge you 20% to 40% more as an industry. And then, the single-use, I mentioned, is a 400% to 600% trade-up. So there's some big drivers in the industry.

Importantly, the world doesn't look the same. From a modality point of view, the US, as I mentioned, just moved from 11% now to 23% one-day. That came at the expense of the J&J sweet spot, which is the 44% that is in the two-week. And I say the J&J sweet spot because that is where Oasys and Acuvue Advance owns that part of the market, and pretty much Bausch & Lomb, Cooper, and CIBA are in the monthly and the one-day modality, much more so than the two-week, although Cooper doesn't think we should leave J&J as the only one there.

In Europe, it's big to have one-day and monthly. They don't believe in two-week. Why? That's mainly a noncompliant wearer.

In Asia-Pacific, as I mentioned, it's governed by Japan, which is heavily a one-day modality. And quite frankly, Taiwan is 80% one-day because the government doesn't let you advertise anything but one-day lenses. They don't believe in chemical disinfection, either.

When you put it all together, 40% of the market is one-day, 33% is two-week, and 27% is monthly.

Importantly, Cooper's strategy is to address all markets and all modalities. We don't care if you are looking for a one-day lens. We have Proclear 1 Day and we have now a new product we just launched called MyDay. We don't care if you are looking for a two-week lens; we now have Avaira that we have relaunched. And if you are looking for a monthly, we have Biofinity. So we play the entire spectrum in all geographic areas.

Cooper's market share has done all right. We moved from 15%, 15.8%, to 18.7%, gained a lot of market share over the last five years. When you look at the pie chart, it has really come from one company, Bausch & Lomb. Bausch & Lomb five years ago was 13%; now it's 10. We were 15%, now we're 18%. J&J and CIBA have swapped back and forth a couple of points, but J&J has had 43% and CIBA, which Alcon, Novartis, is 25%.

This chart certainly indicates that we've been pretty consistent at gaining share, generally, leading up to this last year, growing at a 1.7 times the marketplace. And over the last 12 months, we've been growing more than two times the market. And the last quarter, we grew more than three times the market. So we've built a little momentum as we've expanded into more modalities with more products.

Some of those products, we've had a pretty robust pipeline. The last couple of years, we've launched a couple of good multifocal designs. Biofinity Multifocal, which is doing great around the world, led to about 34% increase in our multifocal business last quarter. We launched on a test market basis in Europe last year a one-day silicone hydrogel to join the fray with our competitors, J&J and CIBA, in the area of the one-day multifocal -- I'm sorry, one-day silicone hydrogel lens, which currently is a niche market, priced a little too rich, meaning off the chart. And that is not going to be sustainable over time if it's going to become a meaningful part of the one-day market.

Last week, we launched in the UK, at BCLA, which is the British Contact Lens Association convention, which for contact lens wearers, that is the convention in the world, better than anything we have in the US by the way of a contact lens convention. It's truly a global event. And we launched MyDay as a one-day branded silicone hydrogel. Stay tuned on pricing; it will be launched in Europe in September, rolled out in September, and we'll get to the US next year, 2014.

As far as CooperVision's numbers, I won't spend a lot of time on it. We came out with the last quarter results up 7% and 11% in constant currency, so currency impacted our revenue 4 percentage points. And importantly, the driver of that was silicone hydrogel was up 33% over the prior year, and our Biofinity product is now a $500 million run rate product. So it's clearly arrived in the $7 billion market. And single-use lenses have done very well; we've been growing at about 2X the market. The market grew 9%; we grew 18% in the calendar quarter.

As far as geographically, I mentioned we're pretty much gaining share in each geographic location. Americas, the market is up 6%; we were up 12%. EMEA, the market is up 2%; we were up 8%. Asia-Pac, we were up 13%; the market was up 2%. So clearly gaining market share in each region of the world.

In terms of torics, solid numbers for torics, which, as I mentioned, we are number one in the world for torics for astigmatism. We are up 10%. We are number one in the world in multifocals; we were up 34% there. And single-use is one where we're very much underindexed, one half market share in single-use, for the most part, about 10%. So we have a long way to go, and that's one of the reasons for the MyDay product in that space.

A couple of comments about our women's healthcare. I mentioned there we have about 600 different products, 900 employees. It is headquartered in Trumbull, Connecticut. And we recently, a year ago, bought Origio, an IVF company. We are now number one in the world in IVF. It is about a $250 million market, growing double digit, and bought a company headquartered in Denmark with Origio.

Some of the numbers, revenue was $75 million in the second quarter, up 32%, caused by the impact of the acquisition. Our fertility business was up 500% and is now one-third of our overall women's healthcare business.

And I mentioned that office practices are down 6%. There's some consolidation going on in that space. I think if you looked at numbers from Boston Scientific or J&J or Hologic, Conceptus, any particular company, they all talked about procedures down in the office practice. There's a lot of consolidation as 85% of the gynecologists leaving the practice are male; 85% of the women -- gynecologists coming into the practice are female, a huge shift in the demographic of what a gynecologist â€" who they are. And that's leading to more and more group practices and less and less someone wanting to put up a sign and say for the next 40 years I'm running an individual office practice. So that consolidation is a dynamic that continues.

The surgical procedures were down 3%, caused by our conversion of that product, introducing a second product as a closure device. That led to hospitals trying the new product and not paying revenue for the old product. That is temporary; it will probably happen over the next 12 months that we'll phase over.

We've been very active in acquisitions over the last 20 years. Here's just a sampling of some of those. Origio for infertility, as well as the Carter-Thomason is the device that is used to close laparoscopic ports. That's the one that represents around $36 million in revenue, and we converted and added another product, which led to it going from a 20% growth product to a flatline growth for the quarter. So that was one of the catalysts of why we flattened in the second quarter.

In summary, we have two great businesses. Both of them are in sweet spots in the device market, if you will -â€" contact lenses, which are recession resistant, and women's healthcare where we have 600 products and we're by far the broadest carrier of products in that, particularly targeting the gynecologists. We have been greatly exceeding the growth of the market, gaining share.

We have an infrastructure that's easy to leverage. We've talked about our long-term objectives and particularly our belief that we will move from a 20% operating income to a 25% operating income over the next five years. And we think we have a pretty good track record.

And with that, I think I've about run out of time, and I know that we're going to break out for some Q&A.

Matthew O'Brien - *William Blair & Company - Analyst*

We have time for one question (inaudible). Okay, downstairs â€" sorry, go ahead.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Are you raising prices (inaudible) are you planning to raise prices now?

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

I'm sorry, raise prices in â€"

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

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

In Japan?

Unidentified Audience Member

Yes.

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

No particular plan there. Biofinity in Japan is 2.5-fold, so 250% above prior year. It's gaining share; no need to change the pricing strategy.

Unidentified Audience Member

(Inaudible question â€" microphone inaccessible)

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

I got you. The answer is no. And the reason is we didn't â€" when it went the other way, the yen, from five years was strengthening and strengthening. We pretty much kept with the local pricing there.

And the Japanese pricing is already in many areas -- I mentioned the one-day -- is 2x the rest of the world. So they are already 100% above the prices. We don't need to do that. It's still attractive from the point of view of our cost structure. A good question.

Matthew O'Brien - *William Blair & Company - Analyst*

Thank you.
