FINAL TRANSCRIPT

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PRESENTATION

Michael Weinstein - *JPMorgan Chase & Co. - Analyst*

Next we have the Cooper Companies. And presenting for Cooper is going to be the Company's President and CEO, Bob Weiss. Bob?

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

Thank you. Good afternoon, everyone. Welcome to Cooper Companies' presentation. I'm sure every one of you is familiar with the forward-looking statement, so I won't read it to you.

The Cooper Companies is a New York Stock Exchange Company. About $1.2 billion in revenue. We have two business segments, one in contact lenses and one in women's healthcare.

Our contact lens segment, which is about 85% of the business, is in a $6.3 billion market worldwide. There really are four players in that business; Vistakon, which is part of J&J; Bausch & Lomb; Ciba Vision, which is part of Novartis; and Cooper, which is number three.

Our primary offices are in the US, the UK and Japan. And from a manufacturing point of view, we make about a billion lenses worldwide; about half of them in Puerto Rico and half of them in the UK, and then we also manufacture in Rochester. We have about 6.2 million -- or yes, 6.2 million; 6,200 employees in CooperVision and another 560 employees in women's healthcare.

Our women's healthcare business is more centrally located. It's primarily a US business headquartered in Trumbull, Connecticut. About a $200 million run rate. It is a franchise we put together over 20 years with about 27 acquisitions. Unique in the industry. It has 600 different products. It competes in about 19 different product categories. There is no one single competitor to CooperSurgical.

The purpose was to put together critical mass. That critical mass would allow us to afford a national salesforce we call in the office practice, in fertility clinic, as well as in the surgical center and in the hospital. It allows us to leverage that infrastructure with a lot of commonality. And as a result of that, we've put up some pretty good operating ratios; gross margin, as well as operating margin.

Overall, the Company is viewed as a company that is focused in on quality of life. We look at quality of life improvement in CooperVision, improving refractive surgery, or refractive correction. We look at quality of life in women's healthcare dealing with the gynecology -- gynecologists and the obstetrician. And overall, our employees, from our perspective, is our number one asset. We look at wellness and key employees within the organization and develop them likewise.

We've recently put up some very good numbers. Our fiscal year is October 31st. And the numbers we reported last month included top line revenue up 8% in constant currency and, for the fourth quarter, up 11% in constant currency. Earnings per share for the year was $3.10. That's up 35%. And we put up solid cash flow numbers of $194 million. So, the cash -- the Company has become a real cash generator over the last 18 months. We have deleveraged our balance sheet from 40% total debt to capitalization down to 27% in a span of 21 months.

We had a solid fourth quarter not only on the top line, but also on the earnings line, with $1.09 in earnings per share non-GAAP. What's excluded from the GAAP numbers is basically shut-down costs for our one facility in Norfolk, Virginia, as well as the class action settlement that we had during the year, together with normal acquisition charges that are now direct costs that are charged direct to the P&L.

We gave guidance in December for the upcoming fiscal year. Top-line growth of $1.250 billion to $1.280 billion. CooperVision, which is 85% of the business, a little over $1 billion, breaking through the $1 billion mark. That's about a 9% to 11% growth, of which about 2.5% is acquisition related. We completed an acquisition in December. That adds about $30 million. So, our organic growth is more in the range of 6% to 8%.

And we're looking at the industry, which has done very well in good times as well as bad times. The contact lens industry dropped off from about 8% growth in the last decade during the recession to about 4%. 2.8% was the low. Last year it was 5%. So, a pretty solid performance in the middle of a rather weak economy. So, we're looking at a market that will probably grow 4% to 6%, average 5% this coming year, and we expect to continue to gain share. In the fourth quarter we grew twice the growth of the market; 5% market growth, 10% for us.

Bottom line will continue to develop well. Earnings per share, a non-GAAP emphasis, $3.30 to $3.50. That assumes solid top-line growth, but we are intent on investing heavily in certain operating costs, particularly expansion of the salesforce, as well as R&D. So, there's some development in investing in the bottom line number.

And cash flow, we expect to put up another solid year on free cash flow, about $160 million to $190 million. That includes some step-up of our capital expenditures, perhaps around another $20 million beyond what we spent this year, which was $74 million. And that's in those numbers.

Our overall long-term objective is to continue to grow the top line faster than the marketplace, gain market share in both women's healthcare, as well as in contact lenses. We will continue to expand operating ratios. This coming year we expect our gross margin to range 60% to 62%. Last year it was 60% non-GAAP. And I emphasize non-GAAP. We had a large restructuring charge with the shutdown of a facility in the US.

Operating margin will be fairly stable this coming year because of the investment, but longer term will continue to grow faster than revenue. Earnings per share will grow even faster because of not only the improving operating margin, but also the free cash flow throw-off of the Company. And we expect to generate more than $1 billion over the next five years; on average, ballpark around $200 million. But that will step up a little more in the later years.

A lot of that money for free cash flow. Some of it will go through continuation of pay down debt, but we will also be in the market for acquisitions. Historically, in women's healthcare we've done two to three acquisitions a year. As I indicated, we did 27 acquisitions over the last 15 years. So, we will continue to do that. There continues to be opportunities to build on to what we've put together.

And we will also put a lot of emphasis in developing our geographic expansion, the famous BRIC countries. Certainly, China is going to be a top emphasis, but we are not going to preclude looking at India, expansion into Brazil and Russia.

And I might point out that, from a penetration point of view, the contact lens industry is penetrated around 25% in the US. Meaning about 25% of the people needing corrective vision, north of 150 million, wear contact lenses. Outside the US it's about one-tenth of that. And we can look at countries like China, which has 875,000 millionaires, so there's a lot of discretionary money suddenly showing up in -- particularly in the urban areas of developing countries.

A brief look at CooperVision, which put up a solid fourth quarter, 10% growth. And as I mentioned, its growth was double the marketplace last year.

We continue -- the drivers of that is going to be primarily our best-in-class products. Biofinity is a one-month product. We talk about contact lenses in modality; one month, two weeks, one day. Avaira is our two-week product and Proclear one day is our one-day product. And I'll get into more detail about what the marketplace looks like shortly.

Geographically, we did very solid in the fourth quarter in the Americas, with Americas being up 20%. Europe being up 8% in constant currency. Europe has been the real surprise in the marketplace. It's continued to deliver solid growth in both the market and for us the last two years, in spite of the economy. And a lot of that is -- or some of that has to do with Eastern Europe. It's coming along very nicely. But having said that, the rest of Europe, Western Europe, did quite solidly also throughout the last two years.

The one area that is a disappointment for us is Asia-Pac and that's an area where we are least presented. We have only 10% market share. But, what has happened in Asia-Pac is we are a participant in the one-day market and do very well there and that's a big part of the market there, but we are not a participant in the two-week space for silicone hydrogel lenses. And the Aime transaction, the transaction we completed in December, will allow us to launch our number one product, Biofinity, into Japan as soon as we're ready with capacity.

As far as fourth quarter results by type of product, the type of products we talk about are torics for astigmatism, multifocal for presbyopia, and single-use products, as well as other use products.

Our star product was torics, up 16%, which is Biofinity, our lead product family related, as well as non-single-use sphere, which is also sponsored by Biofinity Sphere.

Sales by material. The critical factor driving our top-line growth is silicone hydrogel, which is up 91% above the prior year, and our Proclear family of products, which is a non-silicone hydrogel product. Its family grew 7%. Both of these are about 28% of our revenue worldwide.

Hopefully, my voice cooperates here. I'm coming back from a cold, but we'll try.

Some of our new products that we're launching. I mentioned the Aime acquisition, which allowed us to take Biofinity, for which we did not have access into Japan, into Japan now. And then our Biofinity Multifocal, which we launched but had to put on the shelf because we don't have adequate capacity to support the demand for the product Biofinity in total. And I'll get into that in a little bit.

And then, Avaira Toric. Avaira Toric we launched in 2010. Likewise, it is demand constrained and we are working on expanding capacity there likewise. And then lastly, I'd point out we did some good customer expansion, one with the Armed Forces and one with a product -- with Luxottica.

During 2010 we shut down our manufacturing facility in Norfolk, Virginia. It employed 480 employees. Essentially, all 480 employees were not replaced at the receiving location. We make 500 million lenses in Puerto Rico. We make 500 million lenses in the UK. In Norfolk we only made 60 million. Those 60 million were folded into the other two locations without an add.

The impact of that will be seen in the P&L effective mid-year this year. And keep in mind we're an October 31 so, therefore, by April we will start seeing the benefit of that. That's about a $7.5 million improvement this year and a total $15 million improvement annualized. From a cash flow point of view, last year we spent about $10 million in the shutdown. This year we'll get back around $14 million going forward.

I mentioned the four competitors. The ranking is J&J, or Vistakon, number one with 44%; Ciba, number two with 22%; Cooper, number three, 16% -- last quarter it was 17%; Bausch & Lomb number four, 14%; and then all other. So essentially, four players make up the industry.

As I mentioned, it's a $6.3 billion industry now. In the United States we're number two neck and neck with Ciba. In Europe we're number two neck and neck with Johnson & Johnson. Ciba's way ahead in that area. And in Asia-Pac we're a distant number four. And our plan there is to not only play in the one-day market with the Proclear product line, but also to enter the two-week market with the Biofinity.

This slide probably does the best job of having you capture what the world looks like for contact lenses. It is not a one-size-fits-all world. In the US, for example, daily disposables are not a big thing. 13% of the market is daily disposable, but it is rapidly growing right now.

The two-week market, on the other hand, which is the sweet spot of J&J in the US, is 58% of the market. That is not a growing part of the market in the US. The monthly market is 29%.

The Companies pushing and promoting the monthly lens and the one-day lens are Bausch & Lomb and Cooper -- I should probably say it better. We are the only competitor that is pushing all three lenses; a daily, a two-week and a monthly. Daily is the Proclear one-day, Avaira is the two-week category, and Biofinity is the monthly category.

Bausch & Lomb only pushes and promotes the monthly and the daily. Ciba, on the other hand, only promotes the monthly and the daily. They're deemphasizing two-week. Vistakon, on the other hand, promotes the daily and the two-week. The sweet spot of Vistakon's franchise is that two-week space in the US. Outside the US, it's the one-day space.

So, when we look to Europe, it's more balanced. 38% is daily. Only 12% is two-week. The Europeans do not believe in the two-week concept. Partly because in the US they recognize that it's so-called two-week but, in the real world, there's a compliance issue and people are wearing it more like monthly. The average two-week wearer uses almost as many -- or as few lenses, if you will, as a monthly wearer. On the other hand, Europe believes in the monthly concept and 50% of that market is monthly in Europe.

For Asia-Pac it's very different. Asia-Pac is very one-day oriented. Part of it is their adversity to lens care regimens that had chemical disinfection in them. And therefore, some countries like Taiwan have basically said you can only promote a one-day product. Taiwan is about 80% single use. Japan is about 55%, 56% single use.

On the other hand, the active part of the market in Asia right now has switched to the two-week category, where all of the silicone hydrogel lens companies are promoting the two-week silicone hydrogel space. So, that's B&L, Ciba and Vistakon are all in there and that's the highest growth part of that market right now. Cooper's not participating, but we'll be launching Biofinity imminently.

Then, if we look at the world, it's about one-third, one-third and one-third; 34% daily, 36% two-week and 30% monthly. If we exclude the US, basically 45% of the world outside the US is single-use lenses.

The market is -- from a modality point of view, torics is about 18% of the market. And that's a higher growth area. Still underpenetrated in the marketplace throughout the world. The US is by far the most advanced with torics for astigmatism. So, we look for that to grow 8%.

Multifocal is very early in its stage as a rollout. Many of our competitors think it will turn into a $1 billion category. I happen to be a little bit more reluctant to say it really is going to get there that fast. I think presbyopia has its own challenges and there's a lot of compromise when it comes to multifocal contact lenses. And therefore, while it's growing 20% and that's a nice percentage, I don't see the $1 billion jumping off the chart real quickly. Having said that, if someone can move the needle, it would be

Vistakon can move the needle. And if we all get behind it, maybe we could. There is no doubt that the Baby Boomers need multifocal lenses.

Spheres, on the other hand, is a more mature part of the market, growing, as we see it, about 4%. Keep in mind, the market over the last 15 years has pretty much grown 8%. It decelerated during the recession. We're predicting a little uptick to and stay at around 5% this year and, thereafter, accelerate to 6%.

What is going to generate growth in the market is going to be a couple things. One is, on this chart would be a lot of emphasis of the trading up to torics and multifocal. A better treatment of the more expensive lenses, if you will. And then the second thing is really geographic expansion, which I'll get into in a moment.

So regionally, Asia is about 31%, as is Europe about 31% of the market, and the Americas making up the balance of 38%. The higher growth area is going to be Europe, which is the continuation of trading up to silicone hydrogel lenses, the expansion into Eastern Europe.

In Asia-Pac, the only reason it's slow at 4% is the fact that Japan is more than two-thirds of the market. Japan has gone somewhat stagnate in the area of the one-day modality. So, even though there is a sweet spot to the Japanese market, which is the silicone hydrogel lenses, overall the dominant size of the one-day is a weight on that right now and that's over the last two years grown around less than 1%.

Americas, on the other hand, is all about trading up. We are trading up our wearer base to silicone hydrogel lenses. We charge 20% to 50% more for that same customer. We trade our customer up to single-use lenses. We charge basically, or realize, about four to six times more revenue on that.

So, a lot about that. If I can get you to use 730 lenses a year, it's healthier. No doubt about it. You throw them away every day. And if I'm moving you from a monthly 24 lenses, then there's a huge revenue trade-up. Today, the average consumer in the US only generates about $67 at the manufacturer level in revenue. So, it's a $2.1 billion US market. There's about 35 million soft lens wearers. It's really not as big as we all think and there's a lot of leverage room to trade up from $67 a year.

There's been a lot of noise about silicone hydrogel lens over the last 10 years. And one would say is there always going to be a new material that's going to come and knock it out. Well, quite frankly, the history of silicone hydrogel lens is about 30 years long. It finally came to market in 1999. It's been in the market since the last 12 years and it's now 40%, with a lot of emphasis around the world.

I would argue that 40% is okay, but it's not like a wow factor. If you take the reciprocal piece of that, the 60% or 59% in the slide, that 60% has grown over the period of time since the launch of silicone hydrogel lenses in 1999 about 3%. So, it isn't that it went south and went away, it's just it's not growing at the rate it was.

Whether or not there's another material that would come along and knock it out, and there's always talk about technology, is technology going to move faster and faster. I guess I'll be from Missouri relative to how fast it would happen and how big it would happen. It's not one-size-fits-all. From an eye point of view, every eye is different. Different materials react differently to the eye. Some people like silicone hydrogel lenses and, quite frankly, some don't. So, just a -- I know that question is out there a lot in the debate.

Women's healthcare. Women's healthcare is one of our stellar operations. It's kind of a hidden jewel. It took a lot of work over the last 18, 19 years, but it's delivering and putting up some great numbers. This past quarter it was up 14%, 9% organically.

Importantly, our surgical business within there, we basically target in office infertility -- I'm sorry, IVF, and in the hospital. And that hospital piece has done very nicely the last couple of years.

The franchise is well protected. We have 19 core products in -- or 600 products in 19 core groups. And about 60% of that business is in the hospital, 30% in the hospital -- 60% is in the office, 33% is in the hospital and 7% in the infertility clinics.

The last couple of acquisitions have gone a long way towards stimulating organic growth. We bought from American Medical their Her Option product line. While that's taking a little work, we have a high expectation on that for endometrial ablation. And we also bought from JLJ, a smoke evacuation unit also used in the hospital.

In summary, the key takeaways you should have is we have two solid businesses with high barriers of entry. We have revenue growth that is exceeding the market and we expect to continue to exceed the market. We are investing in infrastructure, expanding the salesforce, expanding geographically and will continue to do so. We are well positioned to attain our long-term objectives. And we think we've put up a pretty good track record for the last couple of years.

And with that, I have 13 seconds left so I'll quit.