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

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PRESENTATION

Matthew O'Brien - *William Blair - Analyst*

Good afternoon, everybody. Thank you for joining us. My name is Matthew O'Brien. I cover the medical technology sector here at William Blair. I'm very, very pleased to have with us Cooper Companies. From the Company is Al White, the Chief Strategy Officer, as well as Kim Duncan, Director of Investor Relations. Cooper in my mind is a multiyear growth and earnings story, one of the more unique assets in all of medical technology, so I think the presentation here will be quite interesting for most everybody.

A couple of quick housekeeping items. The breakout session for this presentation is down the hall in the Bellevue, and I would ask that you visit our website, www.williamblair.com, for a list of all of our disclosures on Cooper.

And with that I will go ahead and turn it over to Al.

Al White - *The Cooper Companies, Inc. - VP, IR & Chief Strategic Officer*

Thank you. I like that, unique and exciting.

All right. We'll walk through our regular investor presentation here. It's only so unique and exciting, but -- for those of you who do not know us, we're The Cooper Companies, a global medical device company with two business units.

We sell through CooperVision, or operate through, I should say, CooperVision, which is our contact lens company. We're headquartered in Pleasanton, California. We have roughly 7,500 employees on a global basis, CooperVision being the biggest of the two, having roughly 6,800 employees, also headquartered out at -- out of Pleasanton, California, with manufacturing primarily in the UK and Puerto Rico and then in Rochester in the US.

Our women's healthcare business is called CooperSurgical. They're headquartered out of Trumbull, Connecticut, with manufacturing primarily in the US, roughly 615 employees. I'll walk through the details on each of those and on a consolidated basis as we move through.

So, our fiscal year end is October 31. In 2011 our sales were up 15%, 11% in constant currency, so a nice year last year, with GAAP EPS at $3.63, non-GAAP, as you could see, at $4.50, and $233 million of free cash flow. So, the cash flow story is a nice one. We continue to be a driver of some significant free cash flow. I'll touch on that later in the presentation, including what we're using some of that cash flow for.

For our second quarter that we just reported last week we had sales up 6% year over year and up 7% in constant currency. Our GAAP and non-GAAP EPS was $1.12, and our free cash flow for the quarter was $61 million.

Jump to the next [guy], which is guidance. From a guidance standpoint we held guidance with our revenue at $1.4 billion to $1.44 billion, and CooperVision we narrowed slightly to, as you can see, $1.175 billion to $1.205 billion, even in the face of currency. So, as everyone knows, I'm sure, we've had some struggles with the euro. I mean, the euro for us is down -- for everybody, obviously, $1.25. Our last quarter, our third quarter of last year the euro was roughly $1.42, and it was fairly high in the $1.30s in the fourth quarter, so that's a pretty significant headwind for us.

CooperSurgical is primarily a US-based company, so we took the revenues up slightly, to $225 million to $235 million to reflect the strength in that business. I'll walk through it later, but that business is doing really, really well, driven by the surgical side.

On a GAAP basis we had earnings of $4.88 to $5.13 as guidance. That's slightly less than the non-GAAP number. We refinanced our credit facilities this past quarter and because of that we'll be taking a charge for $0.02 in this coming quarter to reflect the transaction costs that are being directly expensed.

From a free cash flow standpoint, we're giving guidance at $200 million to $230 million, just slightly less than what last year was.

Long-term objectives -- so, when we look at the business and we look at it over the next five years, which is how we do our long-range strategic planning, there are six key areas that we maintain focus on, starting with growing revenue faster than our market. We look at that. There are some easy ways to track that on the contact lens side. We have CLI data, which is Contact Lens Institute data, and we have been growing faster than market. I'll touch on that. Last quarter, or last calendar quarter, we grew 12% against a market that grew 6%. In our women's healthcare space that's a little bit more difficult to define, but we continue to focus on gaining market share and growing there.

Expanding operating margins into the mid-20s -- so, this year we're looking at operating margins of roughly 20% to 20.5%. We continue to expand operating margins here over the prior years. And we believe we've got some pretty good legs behind us here for the next five years to focus on increasing operating margins 100 basis points a year, moving them into the mid-20s. And that's going to be a combination of a couple different factors. It's been heavily gross margin driven here recently, and it will continue to get gross margin leverage, we believe, in conjunction with getting some leverage on the SG&A side.

Then we also have a royalty that we currently pay to Ciba right now. We pay an 8% royalty on all our silicone hydrogel sales. That rolls off in the US in September of 2014 and OUS in March of 2016. So, given the fact that we had $100 million of sales, a little bit north of $100 million of sales last fiscal quarter in silicone, that was an $8 million check, roughly, that we wrote. So, that will be nice when that rolls off, obviously.

Grow EPS faster than revenue -- obviously our intent is to leverage the business going forward. We believe we're in a good position to be able to invest in the infrastructure of the business in places like China, as an example, and still be able to grow our EPS nicely.

Generate over $1 billion in free cash flow -- as I mentioned, we did roughly $233 million last year, and we'll do north of $200 million in our guidance for this year for free cash flow, so the business throws off a lot of cash. The majority of that cash is offshore, which we're using to acquire Origio, which is a CooperSurgical acquisition I'll touch on in a little bit.

Expand CooperVision and CooperSurgical geographically -- two different stories there. CooperVision geographic expansion is a little bit more focused on the BRIC countries, and China, I mentioned earlier, that's a specific focus of ours. CooperSurgical has started some geographic expansion, and we'll certainly see more of that with the IVF acquisition.

And that touches on the last bullet point, which is completing strategic acquisitions, which we do pretty consistently in the CooperSurgical business. That's a nice rollup model that we have. And CooperVision, which we do look at acquisitions now and then. The last one we did that was material was in December 2010 when we bought Aime, a Japanese company, to get the rights to Biofinity and to get better control over our supply chain.

So let me walk through some of the individual details here. So, for CooperVision, last year we had sales of $1.121 billion, up 16%, up 11% in constant currency. So, obviously, on an as-reported basis, currency was helping us. That has clearly turned against us this year. But, having said that, we grew 7% last year in constant currency versus market growth of 4%. So, our focus of growing and taking market share remains, and we've been proving that through the years.

As I mentioned, if you look at the bottom bullet point, in Q1 we grew 12% against a market that grew 6%, and if we look at that on a trailing 12-month basis we grew 9% against market growth of 5%. For the quarter, or for this past quarter, we had growth as reported of 5% and 6% in constant currency. So, keep in mind the market growth statistics, when we quote those, are on a calendar basis, and we're on October year end, so you'll get a month off on all that reporting.

Revenue by geography -- for CooperVision, the Americas was up 4%, to $122 million. As you could see on the pie chart, it breaks out the percentage, 42% of sales; EMEA $98 million, up 1%, but up 6% in constant currency, so you can clearly see the impact of currency there; Asia-Pac up 12% and 10% in constant currency, Asia-Pac now representing 24% of our overall CooperVision business.

If we break sales down by category, we have torics, where we're very strong, and multifocals, where we're very strong as a company, and we continue to be strong in these more specialty-based lenses. Torics were up 8% in constant currency and multifocals up 26%. The key point on multifocals to touch on is that the multifocal market, like the rest of the contact lens market, was moving to silicone hydrogel lenses as material. We launched our Biofinity multifocal a couple of quarters ago, and, similar to what Biofinity has done in the sphere space and the toric space, it's been very, very successful. So we're starting to see that growth and clearly taking market share there.

Single-use sphere is up 6%, non-single-use sphere is up 2%. I mentioned silicone hydrogel. You can see the numbers there, up 32% in constant currency. So we continue to get nice strength in our silicone hydrogel business, which is now roughly 36% of our contact lens sales. We don't have the data broken out by CLI anymore, but on a global basis silicone hydrogel is probably running around 44% in the global market. So we still have some room there where we can grow and continue to expand our silicones, which is primarily driven by Biofinity. It's probably 90%, roughly, of that product, so nice margin, nice growth there, and we see some nice growth in the coming years.

Proclear, which is the traditional hydrogel family, down 2%. That's roughly 25% of our revenues right now. It's still an important product segment for us, but I think it -- the fact that that's down illustrates that you see the market moving to silicone hydrogels away from some of the traditional lenses.

We did some work on branding which is interesting. So, what you see in the contact lens industry over the years has basically been blue and white boxes, and that's been it. And they all pretty much look the same. So CooperVision did some kind of cool marketing and some analysis, won some awards for this and came out with some new branding. So you could see Biofinity, one of our clear leading products; Avaira, which we went through our issues, for anyone who's following us, with a recall and so forth. We now have Avaira Toric fully approved and going back on the market. We started launching fitting sets in April, and we continue to roll those fitting sets out in support of the sphere, which remained in the market the entire time. And then Proclear, our other product to highlight there.

So, if we look at the competitive dynamics, this slide is a little interesting. You can see the change in Bausch & Lomb, how they've come down from where they were in the more mid-single digit down to 10%, us taking market share up to 17% now on a global basis. You have Ciba in the mid-20s and J&J the clear the market leader at roughly 42%. Small slice for Other. You see that with some European companies and some Asia-Pac companies.

If we break it down, if you look at the United States you've got J&J as a clear number one, us as number two and Ciba as a close number two, certainly, with us, and then Bausch is number four. EMEA you get that flip, where you have Ciba under Novartis as the market leader in that space and us as number two, closely followed by J&J. And then Asia-Pac, where we're a late entrant to that -- we got into the Asia-Pac market really through our acquisition of Ocular Sciences in 2005, and we've made some progress. We were number four there until this past year when we moved up to the number three spot. So, continuing to do well in Asia-Pac. We've moved in the number two spot for single-use lenses in Japan. So we are making some progress and things are going fairly well there.

If we look at the modality breakdown -- this is another interesting slide to tell you that the world's not all the same -- if you look at the bottom left you can see on a global basis that daily lenses are roughly 38% of the market, with two-week 34% and monthly at 28%. What gets interesting is when you pull that about -- pull that apart by the regions. Americas at 17% dailies. It's been a relatively [decent] change. I would guess probably five years ago, four or five years ago, you saw that number in the upper single digits. So you're seeing the Americas move to what the rest of the world is.

The daily lens wear is a more compliant wear. A lot of times you'll see doctors push in that direction for compliance and also for the best lens for your eye. Put it in at the beginning of the day. You throw it out at the end of the day. You're not dealing with cleaning solutions. You're not dealing with bacterial buildup and so forth. So the Americas has been moving in that direction.

You can see -- you'll remember that I mentioned earlier J&J's strength in the Americas. Well, remember that J&J sells single-use and two-week lenses. Ciba and Bausch focus on the single-use and the monthly space. We sell lenses in all space. So when you see the Americas and you see 53% in two-week, it's not surprising that J&J is the dominant player there. EMEA 42% daily, and then Asia-Pac is interesting at 57%.

Certain countries within the region are very high percentage, you'll see upwards of 80% single-use wearers there. It'll be interesting to see how that space changes kind of over time here as you get more and more silicone hydrogel, the two-week or the monthly lenses, into Asia-Pac and if we see kind of a transition more to the silicone hydrogel space.

But I would say I'd kind of wrap that slide up by saying to us to some degree it almost doesn't matter. We sell the single-use lens. We sell the two-week lens. We sell the monthly lens. So we're focused on providing the practitioner whatever modality they want. Whatever kind of lens they want to fit their patients in we're going to be there to support them.

If we look at the market over the next five years, or here we've got 2011 to '16, which is the market data we have, you're looking at a market that's closing in on $7 billion. We believe the market will grow roughly 6% per year over the next five years. That's driven by, if you go back and look at 2009, we roughly had as an industry 3% growth. So when the economy was really bad, you've got the real global economic issues, the industry still grew 3%. And when you've seen more strength you've seen it grow upwards of 9%. So 6% kind of would be the middle of that bell curve, if you will, for what we've been seeing over the years.

That growth ends up getting driven by multiple different factors. One is you get an expansion of the wearer base, where you're getting younger kids wearing lenses. You don't necessarily stop the basketball game anymore to go find that contact lens if it popped out. So you're seeing more kids wearing lenses. You're also seeing improvements in multifocals. So when you look at lenses for people like myself, frankly, that your arm's not long enough to be able to read whatever you're trying to read any more you can wear reading glasses or you can use multifocals, and those lenses have made a lot of progress.

Another area of growth is geographic expansion. So when we talk about a roughly $7 billion market, you've got China in there at $200 million. You've got India at around $30 million. So there's markets that are growing significantly on a percentage basis and offer some very, very significant long-term opportunities that are relatively small right now, but they are impacting that total global growth number.

The other thing is -- that would help drive this is technology and price increases. So, as an industry we're rolling out new products. When we roll out new products, including these silicones, you'll frequently see 20% to 30% higher prices on that. So if you said the market's growing 6% it would be somewhat easy to break that down between those three and say it's 2%, 2%, 2%, and then you'll see industry participants like us who are growing faster than the market, driven by a variety of factors, especially, for us, the trade up to Biofinity, the silicone hydrogel side.

You'll see here the other thing I mentioned on multifocals up 20% in [our] growth. We're one of the drivers of that space to continue to get the multifocal space growing in that direction.

By geography, this is an interesting slide. It doesn't tell the entire story. You really need to peel back the onion. When you look at it and you say, "Oh, the Americas growing 7%," this is based on manufacturer sales. So as the US continues to move to a single-use market we're actually selling more dollars' worth of product. You look at Asia-Pac, which is potentially moving away from single-use a little bit to more traditional two-week or monthly lenses and silicone hydrogel lenses, that's arguably less sales on our behalf, which brings down the market growth. Having said that, if you look at the dynamics of the wearer base you're getting more wearers there as you get an expansion in China and some of the other countries in Asia-Pac.

CooperSurgical, up 12% year over year last year, and 8% excluding acquisitions. This business has been doing really, really well, and it's done really well last year and it's doing well this year, and kudos to the team here. They've done a phenomenal job of building this business and rolling in acquisitions over time and leveraging those acquisitions. You could see last year where 4% of the growth was tied into acquisitions, but having said that they still grew 8%.

Surgical procedures were up 23%, now represent 37% of our sales. Some examples there are like laparoscopic closure devices which we have that have been doing very, very well; a uterine manipulator product that we have that's been doing very well. Those products are not only driving growth. They're also high-margin products. So as we move along and you look at this year, we had our gross margins increase up to 68% in Q2, up from 65% last year. We also had operating margins at 29% when you exclude corporate overhead, so a very nice business here.

For the second quarter that we just reported, consistent with last year, sales were up 13% year over year, up 8% excluding our acquisitions. You can see, again, surgical procedures up 22%. So the base is getting a little bit bigger, but we're continuing to see some very nice growth there, and we're forecasting nice growth when we look at the guidance side.

One of the advantages of CooperSurgical is they've done many acquisitions over the years, and they've done a nice job of rolling those together into 19 core product categories, with over 600 products, so it's a very diversified business. It's very well positioned in the women's healthcare space also. It has a nice customer base, pretty strong brand awareness. We've been bringing those acquisitions together under the CooperSurgical name, and that's creating some value. The product offering, the depth of those product offerings, is also nice, and OB/GYNs appreciate that value. And we're very focused on the space. So, you'll see companies in the women's healthcare space obviously focused outside of women's healthcare. We remain very focused purely on the women's healthcare space.

You'll see on this slide where you have surgical procedures now 39% of our sales. Fertility we've always broken out separate because of the call point. So when you look at surgical procedures and the office products, those are sales to OB/GYNs. The fertility sales are to fertility clinics, the IVF centers, if you will. So we've always broken that out separately, and it kind of slides into this next slide, which is this Origio acquisition. So we announced this just recently

Origio is the number one global IVF company, based right outside of Copenhagen. So we're in a process of working through an acquisition of that company with an outstanding tender offer right now for a transaction size of approximately $189 million, with revenues at acquisition of $65 million, as you can see. We're very excited about this deal. So we have our women's healthcare business, which is roughly $16 million in sales, half US, half US -- half OUS, and we're combining it with Origio to be the -- to strengthen their position as the number one player in the global IVF space. So it'll be interesting as we drill into that space and look at the profitability of that company and how we run it and strategically decide what's the best focus and the best growth characteristics.

But it's a deal that makes a lot of sense for us. It fits very nicely. It expands us on a global basis. And outside of the list of strategic rationale within CooperSurgical, it's also a nice use of our cash. So, as I mentioned, we generate significant cash. That cash is offshore in our international holding company. So where we're sitting with over $200 million of cash now earning almost nothing, we're able to invest it into a business here which makes a lot of strategic sense and also offers some nice returns.

We did two other deals last year worth noting, Summit Doppler and Apple Medical, both of these deals you could see, one two times revenues, one one time revenues. Those are the kind of acquisitions we love to do. If we could continue to find those we'll continue to do those. Nice deals where we buy nice product lines and we take that company and we roll it into our company and we take all their strengths and keep them and obviously move out the areas that are not going to add value to us. And this strategy, and when you look at the top-line growth every year since 1996 and over 30 acquisitions since founding, is what's supporting those 68% margins and the consistent margin growth there and 29% operating margins. They also throw off significant free cash flow, so, although a smaller part of our business, one that we're pretty fond of.

So, let me wrap up here with five key takeaways.

We operate in two solid markets with high barriers to entry. As I touched on, you have CooperVision. You have four players right now. It's what you would kind of call happy oligopoly. Everyone's doing well. Everyone's taking advantage of the fact that contact lenses are recession resistant. They've been growing for years. We believe they'll continue to grow.

Having said that, there's significant capital that goes into CooperVision. We're going to spend in the range of $120 million of CapEx this year as a company, with a significant portion of that being in CooperVision, and we'll continue to spend that. So, whether it's capital in terms of pure capital for manufacturing equipment or whether it's R&D investments in technology and IP, there are some fairly high barriers to entry in the space.

CooperSurgical is a little different in that the barriers to entry there are more in the product categories, meaning you need a lot of products. You want to be able to walk into the OB/GYN's office and offer a large number of products, and that diversification creates a high barrier to entry.

Revenue growth exceeding the market, I spoke about that. Again, we saw nice growth, 9% over the last 12 months versus 5% for the market in the contact lens space. We believe we're continuing to grow faster in the women's healthcare space, certainly posting upper-single digit constant currency growth.

Investing in the infrastructure of the business -- we spent the last couple of years within CooperVision expanding on the sales and marketing side. So, whether that's hiring additional salespeople, which we've been doing; strongly supporting our product rollouts around the world; spending more time on the brand time, whether that's kind of the website and social media and so forth, we've put a lot of time and energy into that to support taking market share.

We're going to continue to do that, but what you saw at this last quarter was kind of the getting to the end of where you're going to see SG&A growing significantly more than sales. And we're in a position now where we're going to be able to start having SG&A grow closer to sales and start leveraging that as we move into next year and some of these bigger product launches and new hires are behind us. In CooperSurgical we continue to clearly invest in that business through acquisitions and also on the R&D side to continue to support some of the proprietary products we have.

We believe we're positioned to attain our long-term objectives. I mentioned the Ciba royalty that rolls off. That's obviously going to help us in the outer years. But in these earlier years we have some excellent technology with some of our lenses, and we believe we've invested sufficiently in the infrastructure to offer some long-term growth characteristics which are pretty attractive.

And we have a track record of success. We're very proud of what we've done. We bought Ocular back in 2005. We went through some turmoil there, getting manufacturing up to speed and getting silicones to where we wanted them to be. Having said that, we got there, and we've been taking market share for a considerable period of time, and we're very, very focused on return metrics and delivering shareholder value. We believe we have a nice track record of success, and we believe we'll continue to be able to deliver that for the foreseeable future.

So, with that, I will take questions, or we'll go to --

QUESTIONS AND ANSWERS

Matthew O'Brien - *William Blair - Analyst*

Probably have time for (technical difficulty).

Unidentified Audience Member

(technical difficulty) hydrogels, what's going on over in Asia-Pac with the different types of -- or the move towards monthlies. Can you help just kind of bracket the worst case scenario if daily silicone hydrogels were to really elevate in terms of utilization, or the upside of just more and more silicone hydrogel utilization for your products, the outcomes that we could see on either end, good or bad for Cooper, from a revenue and profitability perspective? And I know that's a long question, but --

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Al White - *The Cooper Companies, Inc. - VP, IR & Chief Strategic Officer*

Yes. If you look at the space, single-use silicones, which are important -- they carry, from our standpoint, four to six times the sales of a monthly, so you're getting a lot more dollars flowing through the P&L. Having said that, the gross margins on single-use lenses are around 50%. So you're seeing lower gross margins, more dollars flowing through the P&L. So we're certainly fine if it moves -- if the marketplace moves in that direction.

When you look at a single-use silicone hydrogel lens, one of the challenges people have with silicone hydrogel lenses is driving down manufacturing costs, and that's a focus of all of us in the industry. Part of that is related to alcohol in the process and the fact that at the end of the process alcohol is used in the extraction and hydration process, which is a bottleneck, and, frankly, a fairly expense bottleneck. Where we are in silicone hydrogel single-use right now is J&J's out in the market, Ciba's out in the marketplace in Europe with a lens. We are going to launch a single-use silicone by the end of this year.

Having said that, for right now that's actually a P&L hit for us. We're manufacturing that lens for more than we're going to sell the lens for. So, from an accounting standpoint that net realizable value is a direct hit. It's directly expensed through cost of goods. So, the question kind of goes back to saying, okay, well, where is the silicone hydrogel market going to go with respect to single-use?

Single-use is a nice market. It's a growing market. Silicone hydrogels now probably make up two-thirds, if not even a little bit more than two-thirds of the market, excluding silicone -- excluding single-use. Could they go there? Yes, they could, and you could see a significant portion of the single-use market being silicone hydrogel lenses. But as an industry we need to drive down costs, so one of the things you see us focused on, and you'll see it in our R&D numbers, obviously, is more on the D side, and that's the developmental side of driving down costs associated with silicone hydrogel manufacturing and specifically focusing on single-use lenses.

So, it's hard to answer the question. Right now they're very high priced. If you look on a global basis in Japan where J&J is or you look in the Americas, you look in Europe, those lenses are very high priced. And they are attracting some market share. But, having said that, it's a unique audience who's willing to pay the amount of money you have to pay for that.

So it'll see -- we'll see how that plays out over time. I mean, my guess is that that plays out similar to what some other lenses have is that the competitors and ourselves do a good job of driving down costs and getting that product out into the marketplace and getting people to trade up to that at 20%-, 30%-type premium. Right now you're probably closer to 100% or 200% premium, and really, frankly, that's too high to get a lot of conversion over into the single-use silicone space.

Unidentified Audience Member

So basically just a nice evolution over time versus any kind of quick share shift like we see in other device-type products.

Al White - *The Cooper Companies, Inc. - VP, IR & Chief Strategic Officer*

Yes. Yes, I believe so.

Unidentified Audience Member

Could you just say a little bit about breaking into a market like China? I mean, how do you go about it? Is it just sort of through the medical practitioners (inaudible)? How do you make the first break-in?

Al White - *The Cooper Companies, Inc. - VP, IR & Chief Strategic Officer*

Yes, it's -- well, and with any company looking to getting into China there's a whole slew of questions. So I've been over there. We looked at some acquisition opportunities. We looked at internal growth. What's the best way to invest and grow that business? There's a lot of questions there about brand. Do you create a brand? Do you need a brand there where we don't have a brand in other locations and so forth? You have some local competitors there. You have one local competitor, in particular. It's about 25% of the market. You have J&J, who's about 25% of that market.

So, long story short, what we ended up doing was looking at all the alternatives, evaluating the marketplace, evaluating our position and what we could do. We've hired a new general manager there we're pretty excited about, but it's basically to grow that business as we're growing it, meaning don't -- let's not necessarily look to go do something too aggressive, but let's invest in the business. Let's build infrastructure. Let's hire some salespeople. Let's hire a new general manager, come up with a good strategy, and just take time getting into that market.

You're basically talking about the retail chain more than anything. They don't have a ton of optometrists. So what you're doing is you're going into that retail store. If you go into a retail store in China you'll see, very similar to here, a lot of glasses, a lot of spectacles as you're walking along, then you'll see contact lenses in the back. Now, interestingly, you'll also frequently see contact lens solution, so there's actually a link in that industry between those two products that you won't see in the US.

But it's a process. I would say we're no different than any other company trying to get in China at the early stages. It's just that that market's only $200 million right now in contact lenses and growing fast, where a lot of other marketplaces are well past that. You saw that growth from starting 10 years ago, as an example.

Matthew O'Brien - *William Blair - Analyst*

We just have time for one more quick one, if -- I think you had a question.

Unidentified Audience Member

(technical difficulty)
