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EDITED TRANSCRIPT

COO - Cooper Companies Inc at JPMorgan Healthcare Conference

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PRESENTATION

Chris Pasquale - *JPMorgan - Analyst*

Coming to the stage next we have Cooper and presenting for them is the Company's President and CEO, Bob Weiss. We'll take Q&A down the hall in the Yorkshire Room immediately afterwards. Bob.

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

Thank you, Chris, and good afternoon, everyone.

The Cooper Companies is a New York Stock Exchange company. I'll just flip through the forward-looking statements here. We've been on the New York Stock Exchange since 1983, so over 30 years. We are headquartered just across the Bay in Pleasanton, California. We have 9,000 employees, picked up 1,000 recently with our acquisition of Sauflon, which was consummated in August of last year. And our revenue is about $1.7 billion. We're a fiscal year ended October 31st so we recently, a month ago, reported our year-end results for the period.

CooperSurgical is about 20%, CooperVision is around 80% of our revenue. CooperVision is a soft contact lens business. It's a kind of a cottage industry. There are about four players that make up 95% of the world market of soft contact lenses. That includes J&J, who's number one; Alcon, who is part of Novartis; as well as Cooper, number three; and then Bausch & Lomb, which is part of Valeant, number four.

The soft contact lens industry, we talk -- we have certain buzz words. We talk about modality of wear. How frequently does it take before you throw them away; one day, two week, monthly? And we talk about type of lens; sphere, easy to fit, toric for astigmatism and multifocal for presbyopia. And I'll get into a lot more details on that.

Our women's healthcare business, CooperSurgical, is targeted towards the gynecologist and it's primarily broken into two pieces, an office and hospital business in the US where more than 90% of that business is US based, and then one-third of the business -- it's about a $300 million business so a little over $100 million is IVF or fertility. There, we're number one in the world. It is truly a global business; about 70% of the revenue outside the US. So when you combine the two, it's about a 30% revenue outside the US and basically 70% US business.

Looking at our results, we've put up consistent, solid top-line results, up 10% pro forma. I say pro forma because it gives effect to the impact of foreign exchange as well as acquisitions, Sauflon. We put up solid bottom-line results, [$7.29] (corrected by company after the call). And one thing about Cooper is we generate a lot of cash in spite of spending a fair amount of money on capital expansion. Last year we spent $238 million in CapEx and still delivered $236 million in free cash flow. For the quarter, our most recent quarter, we put up 7% pro forma numbers and delivered a solid $1.95, which was up 22% from the prior year. The $7.29 full-year number was up 14% from the prior year.

Earnings per share acceleration over the period was about 12% and that includes outlook to our midpoint of our guidance for 2015, which is $7.50. $7.50 has been impacted negatively by foreign exchange. When we refreshed our guidance in December we basically took it down $1.00. So our growth, and I'll have another slide on it, is more like basically 16% to 22% in constant currency in 2015. Much of that is reflecting some of the benefits of the Sauflon acquisition and the integration efforts.

Our guidance. I mentioned we took guidance down in December, $100 million at the top line, which translated to $50 million on the bottom line. That left us with organic growth for the total in constant currency of basically 7% to 10% in total, CooperVision being 8% to 11% and CooperSurgical

being 3% to 7%; once again organic, constant currency. And as I mentioned, our non-GAAP earnings, which were impacted $1.00, are at $7.30 to $7.70.

Our long-term objectives is to continue to grow our top line faster than the marketplace. We have done this the last five years consistently, growing in contact lenses about two times the growth of the market and we expect to continue to gain share going forward. We believe we have the right product group, particularly following the acquisition of Sauflon, which brought with it a product portfolio called Clariti and I'll get into more details on that.

We expect to deliver growth on the bottom line faster than the top line. We will leverage our operating costs as we integrate the product family. We have a -- if we look back at the last six, seven years, we basically have grown the bottom line by improving gross margins. I'm not sure if I'm fading out here. And so the contribution has been gross profit improvement. And in the last seven years we in fact have invested in some of our operating costs. Geographic expansion, we've invested there. We've invested in R&D. We've invested in sales force expansion. And looking forward we expect to leverage this going forward.

As I mentioned, we generate strong cash flow and generated -- we'll generate about $1.3 million between 2014 and 2018. And this last year we delivered basically $236 million. Our plans for that cash flow will continue to be similar to the priorities of the last five years, which is to continue to grow the business, the internal business, is a high priority. M&A activity, particularly tuck-in acquisitions, a high priority. We continue to have a priority in buying back our stock opportunistically, as well as paying down debt. When we acquired Sauflon we put on our balance sheet basically $1.4 billion in total debt now. The acquisition was $1.2 billion of that.

We will continue to expand geographically, so emphasis on the BRIC countries continues. And from an acquisitions point of view we will continue to look for strategic acquisitions in our two businesses. And we believe that in women's healthcare there will continue to be many tuck-in acquisitions that become available, partly because of the Affordable Care Act and the fact that buying groups are a lot more important in front of hospital decision makers.

If we look back at the last several years, we'll see that we put up some pretty stellar numbers. As I mentioned, we grew faster than the market and that was in each of the last five years. We grew our gross margin from 58% to 65%. We improved our operating margin from 18% to 24%. In essence, the improvement in operating margin did not come at the expense of operating costs, but by way of improvement of gross margin. That means that we are in a position to leverage going forward and we expect to do so. Earnings per share grew faster than the top line each of the last five years. We generated free cash flow and we closed 11 acquisitions, which totaled about $1.5 billion.

Our strong operating margin improvement went from really 18% around 2007 up to 21% in 2011 and then continued up to 23.5% by 2014. In 2015, partly because of the acquisition of Sauflon and partly because of foreign exchange, we have more of a moderation and we look at 2015 as a transition year, which means a lot of activity dealing with the Sauflon integration.

Looking at the marketplace, the market is $7.6 billion and we expect it to grow around 6% to close to $10 billion by 2019. Torics comprise around 20% of the market, multifocals, 6%. We frequently refer to these as specialty lenses and Cooper is number one in the specialty category of these type lenses. Why is that important? Well, you'll notice that multifocals and torics are some of your more high-growth areas when it comes to type of lenses. So we will continue to leverage or ride the coattails of our strength in these two areas as a specialty -- a company that has good specialty lenses.

Geographically, the world is about 40% Americas and then 30% split each between Europe and Asia-Pac. The growth areas, when we say we expect a 6% growth, the Americas is going to be the higher-growth area. Why is that? The Americas is the last to arrive at conversion into the one-day modality. And the one-day modality is a huge trade up, about 400% to 600% trade up of the average two-week and one-month contact lens wearer in the Americas. There will continue to be a trade up of silicone hydrogel in the one-day modality and that's a trade up of around 20% to 40%. So kind of a double trade up going on.

In Asia-Pacific, which is hurtling a very mature Japanese business, the rest of Asia, China, etc., will start building some momentum and taking shape and growing that market. So it's always been growing double-digit ex-Japan. Now it's getting some momentum there.

In Europe, that will be the continuation of things like silicone hydrogel one-days, Clariti and MyDay have done very well in that marketplace. It will also be the continuation of the expansion of torics and multifocals in that market. And the US was the first one to get more mature with torics for astigmatism and multifocals. That is now expanding around the world.

The area of modality, importantly the one-day modality, is 42% of the global market and that certainly just represents dollars, not wearers. Wearers would be much less than that, divide by two or more. Some wearers are one-day and that's kind of why it isn't the 4-to-1 ratio, if you will, that I frequently talk to.

The one-day modality is the driver of the total contact lens market right now. The last several years it's been growing close to 9% and 10%, driving the global market. And the all other planned replacement market, particularly the two-week market in the US and some niche markets, are a lot flatter, if you will; still growing and that growing reflects torics and multifocals and silicone hydrogel lenses.

The expansion of contact lenses in the market will continue. What's led the market growth over the last 10, 15, 20 years has been many of these same things. Trading up; we've done a great job of trading up. Trading up to silicone hydrogel, as I mentioned, is a 20% to 40% trade up. Trading up modality to a one-day from the average two-week, monthly wearer is a trade up of 400% to 600%. And that also means a profit trade up. We talk about a 300% to 500% trade up on profit on a one-day wearer.

The other thing is improving multifocals, presbyopia. Today presbyopia are multifocals. It's around a $450 million market. And the drivers of improving that and expanding the use of multifocals around the world is an important catalyst going forward. Geographic expansion will continue. The BRIC countries, certainly China, is starting to come into its own, Brazil is coming into its own. Still a ways to go in some areas like India.

And the increasing incidence of myopia, I think many people know, particularly in third-world countries. As people spend more time indoors than outdoors, as they spend more time reading, the incidence has continued to increase.

Importantly, it's not a one size fits all. If we look at the market in Asia-Pac, for example, 60% of that market is one-day and it's been that for a long time. One-days came into their own in Japan because they did not like contact lens care regimens, feeling -- being very anti-chemical disinfection. In the US we were last to arrive with the concept of the one-day modality. In fact, three or four years ago that 26% of the one-day market was only 11%. So there's been a rapid movement into the one-day modality. Part of that is being sponsored by all the competitors saying, look, two-week is not the way to go. One-day is the healthiest modality and, therefore, a big shift has gone from the two-week modality into the one-day modality. In fact, the two-week modality was 57% several years ago. So it's moved rapidly down, with the shift primarily into the one-day.

One important note from here is, if we talk about our larger competitor, largest competitor, J&J or Vistakon, if I look at the monthly market, which is 27% of the global market, importantly they don't play there. They're not in that market. If we look at the two-week market in the US, that's their sweet spot. Unfortunately, that's the market that went from 57% down to 41%. So you can see they have some challenges going on in their profile that will probably continue.

Looking at the four big players, J&J, 39%. Was at 43% a couple years ago. Alcon, it's moved from 25% to 27%. Cooper has moved really from 15% to 22% over the last 6-7 years. And Bausch & Lomb has moved from 16% down to 9%. The big step up in Cooper in 2014 is largely market share gains, going from 18.8% to 20.5% and then we picked up 1.5% or 1.6% share points with the Sauflon acquisition.

A little bit about the consistency of our track record in terms of gaining share. As I mentioned, we grew at around two times the marketplace over the last five years and you can see it's been pretty consistent in all the years. Importantly, we think we have a good product portfolio that's very broad in its origin: monthly, two-week, daily; and by type of lens: sphere, toric and multifocal.

This is an example of the new product rollouts that have been doing on over years. And if we were to kind of break out and look into this deeply, we would see that we have activity eight new entrees in the one-day space, giving Clariti credit for three, which is having a complete family of a one-day toric, multifocal and sphere. So all together, we believe we're moving into the one-day space on a very serious venture going after the high-growth area with the right product portfolio.

Looking at the annual sales, as I mentioned, we grew our top line 10% pro forma this last year and 9% pro forma. So we're putting up solid top-line numbers sponsored by silicone hydrogels, a good family of hydrogels with Biofinity, with Avaira and with Clariti and with MyDay. And looking at the most current quarter, once again 9% pro forma, sponsored by one-day and silicon hydrogel.

From a geographic perspective, we put up very solid numbers in Europe. And Europe, I might point out, is where we have Sauflon and we have Clariti and MyDay. In the US, only 5% pro forma where we are yet in the market with MyDay and just starting the rollout of Clariti in the US market. So a ways to go. I think many of you know that we acquired Sauflon in August, but finally got approval to go full steam ahead from the government in the UK in December. So we're really only into the integration and execution of that integration since December. And part and parcel to that is an aggressive rollout of Clariti in the US market with fitting sets, particularly with a lot of emphasis occurring from January forward.

So prior to January, the Sauflon entity had standalone distribution in a start-up mode in Hicksville, Long Island was given -- it was in a start-up mode; was having some difficulty getting product to the customer. It led to some backorders and backlog of this product. When we took it over, we decided that was not a good way to start rolling out a product, that we would kind of put things on hold. We've slowed up opening up new accounts. We took the product out of Long Island, put it in our large distribution system in West Henrietta, which is Rochester, New York, and started out with one invoice and one shipment starting in December. We're now in a pretty good integrated mode in terms of contact lenses. We're folding in some small lens care part of that business, but rapidly and aggressively moving into the US market with the one-day silicone hydrogel modalities.

In Asia-Pacific we've been doing a good job rolling out the continuation of our Biofinity product family, which included the multifocal and the toric, as well as Proclear 1-Day, which has been a real catalyst of developing our one-day modality.

In terms of categories, I mentioned that we're number one in the world in torics and multifocals. And you can see that, pro forma, we put up some solid numbers, 20% for the multifocal and 12% for the toric business. Importantly, if you look at the pie chart, 29% of our business is torics. That compares to 20% for the industry in total. So we're penetrated well over 30% in our toric business. From our multifocal point of view, 10% compares to 6% for the total market. And once again, well over 30% in terms of penetration there.

CooperSurgical sales, as I mentioned, are $325 million. It represents basically over 30 acquisitions that have been done since the 1990s and has more than 600 products. We believe that's very important in terms of the shift in the US marketplace, to be in front of buying groups. And we also believe that there will be a lot of companies over the next five years that suddenly realize one product does not a company make in this environment and will be available for sale. We will continue to do tuck-ins. We did two or three in the fourth quarter, which included a handheld hysteroscopy and so a product for the office; the hysteroscopy, a product for the hospital, which had to deal with a safe way to basically do a cesarean, and then a product to do with IVF. So one for each of the groups. And that would be the type of example we would talk about going forward in terms of how to do and continue tuck-in acquisitions.

An important thing, our IVF business, our fertility businesses, slowed up over the last quarter or two and a lot of that has to do with a shift that we made to deemphasize certain equipment that was being sold by the company we acquired a couple of years ago, Origio. It was low margin equipment, basically 10%, 20% gross margins. We decided that's not the profile. So we've put some pressure on the top line of our IVF business that will continue over the next three quarters. Beyond that, the underlying business, the media business and the IVF market globally, is a solid market, upper single digit, and we expect to regain the momentum there.

This gives you a little snapshot of just some of the acquisitions we amassed over the years. EndoSee is the one I mentioned, a diagnostic hysteroscopy, which is a clever handheld device that would replace a lot of the equipment that is used to do a hysteroscope in the office, making it a lot more convenient to have it done that way. I mentioned more than 30 acquisitions that are done. The return on asset of these investments has been terrific. It's high gross margin, low CapEx. And we like the business as it fits in with our overall tax structure, so it provides a lot of US profits and covers interest and overhead in the US.

With that, I'll summarize by saying we have two solid businesses. Revenue growth has been exceeding the market in both areas. We're investing in the infrastructure of the business. And we're positioned well for our long-term objectives and we think we have a great track record.

And with that, I'm two seconds over so I'll take questions in the room across the way.