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EDITED TRANSCRIPT

COO - The Cooper Companies, Inc. at JPMorgan Global Healthcare Conference

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Kim Gailun *JPMorgan - Analyst*

PRESENTATION

Kim Gailun - *JPMorgan - Analyst*

Okay, we're going to go ahead and get started. I am Kim Gailun with the JPMorgan Med Tech team. And presenting next, we have The Cooper Companies. I am pleased to introduce Bob Weiss. And after the presentation, we will breakout down the hall in the Yorkshire Room.

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

Thank you, Kim. Good morning, everyone. I think it is still morning California time. The Cooper Companies is a New York Stock Exchange company. I'll let you take a moment and read forward-looking statements. I'm sure you've read them a couple times today, but have a moment on that.

As I said, we are a New York Stock Exchange company. We have two primary businesses, CooperVision, which is our soft contact lens business and accounts for about 80% of revenue; and CooperSurgical, which is our women's healthcare franchise and accounts for the balance of 20%.

The soft contact lens company, CooperVision, participates in a $7 billion industry with four primary players -- J&J, which is Vistakon; Alcon, which is part of Novartis; Bausch & Lomb; and The Cooper Companies. And I'll get into a lot more on the details.

The soft contact lens business is recession-resistant, meaning even when the economy goes soft, we don't go negative. Industry went from about 6% down to about 3% in constant currency. And as we turn around a little, we now see we are more in the midpoint around 5% the last 12 months.

As far as The Cooper Companies, we are a fiscal-year company with an October 31 business. And as a result of that, we recently came out with our year-end results, and in our year-end results, we reported that our revenue was up 10%. And in constant currency ex acquisitions, up 7%. We have about $1.4 billion in revenue. And the bottom line, we reported earnings per share of $1.47, which is up 16% over the prior year, and free cash flow was $83 million for the quarter.

For the fiscal year, we reported $5.16 in earnings per share, and that was up 16% versus the prior year. Importantly, our free cash flow for the year was $230 million, and that allowed us to continue to deleverage our balance sheet. About four years ago, we had total of debt to total cap of around 39%. We are now down to 14%. So we've paid off a significant part of our debt over the last four years. And that has allowed us to become an investment-grade position.

Our earnings per share has grown over the last five years at 27% compounded annual growth rate. Two weeks ago, we issued an 8-K; in that, we indicated that we had amended a license agreement and we also gave new guidance. The new guidance called for earnings per share in the midpoint of $6.00, which is about a 16% growth over 2012.

Our new guidance that we gave called for revenue at CooperVision of $1,250,000,000 to $1,290,000,000. A midpoint is around 7% growth. CooperSurgical's growth is $315 million to $335 million, and the midpoint there is around 27%.

That reflects the fact that we had an acquisition called Origio, which is in the infertility field, IVF. We are now number one in the world in IVF. It was a $200 million acquisition, made in July of this year, last year. And it brought with it around $65 million of revenue. And as I indicated, put us in the number one position. That annualizes in this coming July.

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As far as our earnings per share, the midpoint, as I indicated, is $6.00. We increased that from guidance we had given just two weeks before by $0.15, and that $0.15 was basically a reflection of the impact of the amended license agreement going forward, together with a couple other variables dealing with the Yen, for example, and some investment opportunities that the Company is going forward with.

Those investment opportunities include, for example, the continuation of expansion, geographic expansion, that we've been doing in the last couple years. We started the last couple years in China, and we now are expanding into various other regions more aggressively.

In addition, we will continue to invest some of the incremental money in expansion and acceleration of R&D projects we have in the pipeline.

Importantly, the Company has a cash flow range of $210 million to $230 million. So we continue to expect to be a cash flow generator that will allow us plenty of opportunity both on acquisitions as well as continued expansion.

Our five-year objectives include to continue to grow our top line faster than the market place. And we will get into a number of slides that indicate the rate of growth compared to our overall market. And, for example, we've been growing at a rate of around 1.5 to 2 times the market over the last five years, and our market share has gone from 15% to now approaching 18% in that timeframe.

CooperSurgical has likewise been gaining market share, and it participates in three areas within women's healthcare -- in the hospital, in the office, as well as in the IVF centers -- and has been gaining share pretty much in all three arenas.

We expect to continue to expand our operating margins. Today, they are in the 20% region and we expect to get to the mid-20%s. If I backtrack a little to five years ago, we had operating margins of around 14%. We now have operating margins at 20%, an improvement of 600 basis points. Of that, essentially all of it, 900 basis points, have been contributed by reduction of our cost of goods. Our gross margins have gone from 55% to 64% in that period.

We have taken some of that money and invested it in various operating areas, expansion into China I mentioned, and acceleration of R&D. We will continue to have some expansion and investments in those areas.

If we look down the road to 2018, we expect to move from 20% operating margins to 25% operating margins. The bridge to that is pretty easy. Today, we pay a royalty of -- or we've paid a royalty of 8% under our license agreement on our silicone hydrogel lenses. That translates on 31% of our overall revenue to 2.5 percentage points, 250 basis points.

In addition, we did an acquisition of Ocular Sciences in 2005, and a large portion of the amortization of the intangibles will expire -- or be fully amortized by 2015. That will pick up close to another 100 basis points. So that is 350 basis points alone. In addition, we expect to leverage the investment we've made the last five years in operating costs, and that operating cost will start rationalizing in showing better ratios as we get further out.

So net-net-net, we've come from 14% to 20%. We are going from 20% to 25%, we believe, over the next five years. And we have a pretty clear vision on how we want to bridge that.

Below the line earnings per share we expect to grow faster than revenue. Obviously, with operating margins improving, that's one fact, growing the top line. Gaining share is another. And below the line, the free cash flow has led to rapid reduction in interest expense. When you put them all together, you end up with earnings per share growing faster than your revenue.

We generate a lot of free cash flow. We expect to generate $1.3 billion over the next five years. The priorities for that cash flow would be continued expansion of our geographic expansion in the business itself. We will continue to target acquisitions. We've made over 30 acquisitions in women's healthcare the last 15, 20 years, and we will continue on that path. However, they will not be limited only to women's healthcare acquisitions as we do geographic expansion.

Additionally, we will continue to pay down debt, which we have likewise been doing. We will also be opportunistic on buying back our shares of our stock. And the last priority would be anything to do with dividends.

As far as expansion geographically, we are talking not only in CooperVision, which has already taken certain steps to expand geographically; we are also talking about women's healthcare. The Origio acquisition, as I mentioned, expanded CooperSurgical from what was 85% US, 15% outside the US now to 70/30. 30% of our women's healthcare business is now outside the US, and quite frankly, the IVF business is essentially a global business, with more than 70% of the revenue outside of the United States.

Cooper -- as far as completing strategic acquisitions, I indicated that would be a use of cash, and we would expect to continue to be active in the future.

Looking at CooperVision, it is the third largest contact lens business. We are headquartered in Pleasanton, not too far from here. Major operations in the UK, Puerto Rico and the US. As far as production, we make about 1.4 billion lenses a year. Have indicated interest in expanding into a new footprint, which will be in Costa Rica, over the next several years. And our major distribution facilities are here in the United States, in the UK, in Southampton area, as well as in Liege in Belgium.

Profile of the contact lens business. We talk about torics for astigmatism, multifocals for presbyopia and plain spheres. It is close to a $7 billion industry. In a recession, we target that it will grow 3% to 5%. Coming out of the recession this year in 2013, we are expecting in the neighborhood -- or in the range of 4% to 6%. And in a normal economy, if there is such a thing, we expect 5% to 7% growth, midpoint 6%. So our [LRP] model, for example, looks at 6% as the sweet spot of expected growth.

Cooper is very good in specialty lenses, which in the past have been called specialty lenses, toric and multifocal. We are close to number one in the market, approaching 30% market share in both areas. You can also note that this is a high-growth area. Torics are forecasted to grow around 9%, multifocals, off of a very small base yet, expected to grow closer to 20%. And then spheres, 4%.

As far as geographically, geographically, pretty well even, with the market being sponsored in Europe, for example, by silicone hydrogel trade-ups and an expansion into Eastern Europe and greater expansion of torics and multifocals, which today are primarily a US product that is reaching better and better outside the US, as people are getting more comfortable fitting these types of lenses.

In Asia, quite frankly, one would expect a higher growth rate, but it is somewhat held down by Japan. That is a very mature market in the sense of penetration and conversion to the one-day modality. The rest of Asia, aside from Japan, is pretty much growing double-digit. So China, surrounding areas, clearly double-digit growth.

In the Americas, which is a more mature market, quite frankly, there is substantial trading up going on, conversion from two-week lenses and, to some degree, monthly lenses into the one-day modality. And that happens to be a trade-up of 400% to 600% per patient. So we make a lot more revenue when someone converts, and we make about 300% to 500% more profit. It is a good deal for us. Are we are competing with lens care? Yes, we are. We are converting people and their money going from one to the other.

What is driving the overall market wearer base? Children entering earlier. More and more, you see kids below 10, 8-year-olds, getting contact lenses. Keeping people in contact lenses longer, presbyopes staying longer. Better comfort. We've historically had a problem with dropouts. For example, the United States, there are 35 million lens wearers and there are 30 million dropouts. Some of these go to LASIK along the way and get corrected vision other ways. But many of them are frustrated contact lens wearers. They would like to have stayed in. Part of their challenge has been the lenses weren't comfortable enough late in the day or as the month progressed.

The incidence of myopia is increasing. It used to be believed that computers and Game Boys and all the technology was causing more and more presbyopia. Quite frankly, there is as many people that now believe bringing people from the outdoors indoors and spending more of your time indoors is a greater handicap to creation of myopia than strictly the computer, if you will. Whether it is both, who knows? But the speculation goes on and on.

And clearly they have some anecdotal evidence of people that worked in rural India pulled into the same population in Singapore, where they go to school every day, and the incidence of myopia in Singapore with the Indian population was much higher than the Caucasian, more like 80% myopia compared to rural area, where it was very low, 10% to 20%. So there is some indication that outdoors to indoors is the culprit.

Pricing, importantly, there are two trade-up models in the industry. Trading up to silicone hydrogel is typically a 20% to a 40% trade-up. Trading up, as I mentioned, to a one-day lens is about a 400% to a 600% trade-up.

Geographic expansion, I'm sure every industry is talking about this, but the BRIC countries, Eastern Europe and Asia-Pac are very ripe for continued expansion in the contact lens space.

The world is not one-size-fits-all. When we look at the profile, we see that the Americas is not big on the modality of one-day yet, but it is rapidly shifting that way. That one-day, 17%, for example, of revenue was only 11% about three years ago. And if we were to refresh this slide today for 2012, it would be more like 22% is the current run rate. So a rapid shift from other modalities into the one-day modality. And it doesn't take many patients to really move the needle on dollar revenue. The two-week space is still about a -- well over a $1 billion space, 53% of the revenue dollars. And the monthlies are about 30%.

When you go to Europe, they actually don't believe in the two-week space. They basically say, you know, people that buy lenses for two weeks really don't wear them two weeks. They wear them for a month. Why don't you call them a monthly? And they are right. Compliance in the two-week space is minimal in the US. Half the time, the doctor prescribes a two-week lens as a monthly, and the other half of the time, the patient does the same thing.

As far as Europe, they've stayed pretty steady-state -- 42% one-day and 48% monthly. So they kind of believe in both of those modalities.

Asia-Pac started very early on as a one-day market, partly because of cleaning regimens. In Japan, for example, they were against chemical disinfection because of its preservatives, and migrated people towards heat disinfectants, which didn't work well for soft contact lenses, and therefore the market became very much a one-day market.

One of the sweet spots right now in Asia-Pacific, different than Europe, for sure, is the two-week market, where silicone hydrogel lenses are getting approved and moving into that space.

When you put it all together, the globe, 38% of the globe is one-day lenses and, quite frankly, that is probably north of 40% as of now. And two-week is 34% and monthly is 28%. But if we were to carve out the Americas, we would see that north of 50% of the revenue is in the one-day modality.

Cooper has done a good job of gaining share the last five years. We've gone from 15% to now approaching 18%. Some of that has been -- if we look at the pie chart, the four competitors, J&J has been fairly stable, and Ciba has been fairly stable -- gained in some years, lost in some years. And Bausch & Lomb is the one that has given up several percentage points in the marketplace.

If you look at it year by year, we've pretty much been consistent at gaining share. And if you look at the last 12 months, the market has grown 5%, while we've grown 10%. If you look at it over five years, the market has grown 5% and we've grown 8%. So pretty much we've been growing at 1.5 to 2 times the marketplace.

We've done it with the introduction of a lot of new products, particularly in the silicone hydrogel space. And in 2012, we were able to add another couple of products to the portfolio -- Proclear one-day multifocal, which is doing very well in the market, and a silicone hydrogel one-day, which we've launched into Europe. Silicone hydrogel one-day is still too expensive as a modality in the one-day space. When the prices come down over the next four or five years, we will see that becoming more of a mainstay product in the one-day space. There is a lot of attention and desire to have silicone hydrogel as a material that will ultimately migrate to the one-day modality. But it is not there yet.

If we look at CooperVision over extended period of time, it has grown its revenue around 21%. It has been growing around 8% in constant currency the last five, seven years.

I won't spend too much time on its recent results, other than to say that in 2012, we grew -- the business was $1,189,000,000, up 6% and 8% in constant currency. So we've had 2% headwinds. Some of that will continue into 2013 with the headwind of [the end] now being somewhat of a factor.

As far as geographic, geographic, we had a very good quarter in Europe and in Asia-Pac. In the Americas, it was impacted by Sandy, the hurricane right at the end of our fiscal year, October, as well as channel shrinkage of one of our distributors, which impacted around $7 million.

In the -- by category, the star has been our multifocal. We introduced Biofinity Multifocal, and as a result of that, had constant currency growth of 34%. Importantly, our silicon hydrogel is now $124 million, annualizing at $500 million, up 24%. So our driver of our business is silicone hydrogel, Biofinity and the Proclear one-day has done very well.

Just a couple comments on Surgical. Over a 16-year period of time, it has grown around 18%. This last year reflects the acquisition of Origio, which, as I indicated, was in July, and stepped us up to about a $300 million plus business now, 20% of our overall revenue.

There are three components of Surgical, and hospital, in-office and IVF. And our hospital business or surgical procedures have been a catalyst to good, solid growth, up 15% in the fourth quarter and up 19% last year.

There was a big shift as we bought the fertility business to make a more balanced pie chart. Surgical procedures, 31%, office 40% and fertility, 29%. Both fertility and surgical procedures are double-digit. We've made over 35 acquisitions.

And in summary, Cooper has two solid businesses. Both of them are recession-resistant. We are gaining market share. We continue to build and invest in our infrastructure. We are positioned well for our long-term to accomplish our long-term objectives. And we think we've put up a pretty good track record. And thank you.