THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: MARCH 13, 2012 / 7:45PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Albert White *The Cooper Company, Inc. - Chief Strategy Officer*

PRESENTATION

Unidentified Participant

Good afternoon. Thanks for joining us. It's a pleasure to introduce Al White from the Cooper Companies. We're going to have about a 25 minute presentation in here and then we'll do questions upstairs in the breakout room afterwards. With that, Al, I'll just let you take it away.

Albert White - *The Cooper Company, Inc. - Chief Strategy Officer*

Great, thank you. I'll take a quick minute here on the forward-looking statements. I think most of you in the room I think I recognize, so probably know the story. I'll touch on a little background on the Company and also try to hit on some of the key questions and focus areas from today.

For those of you who do not know us, we're The Copper Companies, a medical device company focused on contact lenses and the women's healthcare space, specifically the OB/GYN space. Headquartered out of Pleasanton, California with almost 7,500 employees.

On the contact lens side, we have roughly 6,700 employees and this is a global contact lens business with four main players. I'll walk through the details of that as we get into the presentation.

CooperSurgical, the same well positioned Company within the OB/GYN space focused very, very much on the OB/GYN. Headquartered in Trumbull, Connecticut and with a little over 600 employees.

If you look at the financial overview, we just reported our first fiscal quarter earnings last Thursday. Last year sales were up 15%, up 11% in constant currency for another growth year for us. For the year, we had non-GAAP EPS of $4.50 last year; free cash flow of $233 million.

It was a good year. We closed out a good year and we started this year off well also. We just posted a pretty solid Q1, with sales of $326 million, up 11% and 11% in constant currency also. Our GAAP and non-GAAP EPS were the same in Q1 at $1.12 and free cash flow was $23 million.

Let's look to guidance. We did update our guidance with our first quarter results. We took our EPS guidance up from $4.80 to $5.00. We increased that range to $4.90 to $5.15, on a GAAP and non-GAAP basis. Free cash flow we held at $200 million to $230 million and sales we held in the $1.385 billion to $1.440 billion. We obviously came out with a good quarter in CooperSurgical, trending towards the higher end of that range.

On the flipside, we did have some currency that is impacting us for the remainder of the year. As a matter of fact, if you look, from a currency perspective, if you look at when we gave guidance back in December 8th versus the guidance that we just gave at the end of last week, you'll see that the euro and yen, which run about half of our revenues in the vision side, were 2.0%-plus against us. So definitely some revenue hit and subsequent EPS hit, from a currency standpoint. We will hurdle that and we did put that in our guidance.

If we look at the long-term objectives, this slide I'd like to actually talk to and go through a couple key points here as I walk through. We continued to grow revenue faster than our markets.

If you look at women's healthcare space -- or, I'm sorry, if you look at the contact lens space, the market grew 5.0% last calendar quarter. We grew 7.0% for the prior four quarters. The market was up 4.0%, we were up 7.0%, so we're growing faster than the market. We continue to feel good about that.

We're very focused on investing in our business, investing in sales force expansion, investing in new product launches and so forth to drive market share gains. We feel we're in a really good spot, especially with Biofinity, our silicone hydrogel family of products, in terms of taking market share.

Expand operating margins into the mid-20%s. This year we've given guidance of 20% to 20.5%, so very low 20%s for operating margins.

The way we focus, on a go-forward basis, is to grow operating margins approximately 100 basis points a year, resulting in low double-digit EPS expansion Now there's a couple different things that are driving that. If we look at the coming years, the next couple of years, we've got a lot of growth coming from Biofinity and some products that are driving margin expansion while we still invest in the business.

We're getting some nice gross margin expansion. That's driven by product efficiencies, manufacturing efficiencies, but also some product mix, as you see a mix shift in our silicone hydrogel products, which are greater than the overall family gross margins.

The other thing to note here is the royalty that we pay. We pay an 8.0% royalty on all our silicone hydrogel sales. That royalty goes away as in September of 2014 in the U.S. It goes away in March of 2016, OUS and that again is 8.0% on all our silicone sales, so that's obviously a cash flow and P&L impact. That alone will clearly pull margins up. Depending upon your numbers, you'll see some pretty significant improvements there in terms of what's going to flow to the bottom line

As a side note, if you're modeling that, I would look at it and say that roughly half of our silicone hydrogel revenues are in the U.S. and half our revenues are OUS.

Grow EPS faster than revenue. Again, that goes back to the operating margins to grow in operating margins 100 basis points and having that be a driver through the P&L, so if we stick with this it's going to consistent low double-digit EPS growth.

From a tax perspective, we do have a relatively low tax rate compared to some of our peers. We've given guidance this year of 10% to 12%, based on a tax settlement we had with the IRS in the first quarter. We now think we'll be on the lower end of that guidance range, but then we'd kind of focus people on that 10% to 12% and that middle kind of range over the coming years.

We generated over $1.0 billion in free cash flow. As I mentioned earlier, we did a little over $230 million last year. We've given guidance of $200 million to $230 million. We continue to feel as though we can generate a lot of cash flow. We're in a good cash flow business, even investing in the Company and this year we're giving CapEx guidance of $120 million to $140 million.

Even with that type of CapEx, we're still going to be able to generate over $200 million a year of free cash flow. A lot of that cash gets generated offshore. It'll remain offshore unless Obama or someone comes and gives us a special day to repatriate some of that cash.

Expand CVI and CSI geographically. For both of those businesses, we are expanding geographically. If you look at CooperVision first, we're looking at acquiring distributors that we have. So, our general model is we'll go into a country, we'll go through a distributor, we'll build up a presence there and then would turn around and buy that distributor at the end of that stage.

So we're continuing to do that. We're continuing to look to expand within CooperVision through distributor acquisitions and also, through organic growth. As an example, if you look at mainland China, which we spoke about, we have a business there headquartered in Shanghai. It's a nice business and that's a nice marketplace. We'll continue to put dollars there.

As a matter of fact, when we look at China this year, we have that business and it's roughly close to 30 people right now and you're talking a business in China that's in total probably $200 million and for the main four, around 100%, but it's growing around 20% a year. Our business has been growing a little bit north of that, but for a marketplace that's growing 20% a year it's a market that we clearly want to continue to invest in.

Complete strategic acquisitions within CooperVision and CooperSurgical. It's a little bit more difficult in CooperVision. When you look at J&J, Ciba/Novartis, ourselves, and Bausch and Lomb, we're roughly 96% of the global contact lens market.

We did buy Aime, which was a Japanese company, in December of 2010, a nice acquisition for us. The core of that was clearly to buy the right to be able to sell Biofinity in Japan and also get some R&D expertise. We'll continue to look at those kind of acquisitions and we'll certainly do them when we can find them.

On the Women's Healthcare, we've been an consistent acquirer in this business. We'll continue to look for acquisitions in this space and do them when we can. One of the nice things is that we just built some volume, so we have a business now that's north of $200 million in revenues. We have an infrastructure in place, a sales force in place.

Any time that we can go and go a buy products, especially you'll see the acquisitions have been smaller. These smaller acquisitions where, if someone comes up with a product, they start selling the product, they're building their own infrastructure, we can go buy that product. Bring it in, hopefully manufacture it a little bit more efficiently than they were, and put it through our distribution network. That's pretty advantageous for us and those deals are generally accretive within a year.

If we dig into details a little bit more and we talk about CooperVision itself, last year we had sales up 16%, 11% in constant currency. As I mentioned, currency is a little bit of headwind right now with the dollar strengthening. It wasn't last year. That benefited us.

When you look at the marketplace, I had mentioned before 7.0% growth in calendar year 2011 versus market growth of 4.0%. More importantly, when we look at the first quarter here, we grew sales 10%, 10% in constant currency, so we're continuing to do well. We're continuing to drive growth. Again, we grew 7.0% with a market growth of 5.0%, so we feel pretty good about those numbers.

Revenue by geography. If you peel back the onion within CooperVision it gets interesting, whether you're talking modalities, or whether you're talking geography, and so forth. If you look at geographies for our first fiscal quarter, which ended in January, we had revenues in the Americas of $106 million, up 11% in constant currency, in EMEA, $95 million, up 7.0%.

When you look at Europe, we're similar to a lot of other people. There's been some economic concern over Europe. We still put up good numbers. Europe has been growing faster than this in the past. We would certainly hope that would come back and we would see growth accelerate there. Having said that, 7.0% growth in constant currency wasn't bad.

Asia-Pac $68 million, clearly a growth region for us. It's dominated by Japan, which is roughly two-thirds of that marketplace. We grew 13% there.

If we go sales by category, we look at the Toric market where we had sales of $82 million in our first quarter, up 9.0%. We've had some issues - and I'll touch on that right now - with Avaira. As most of you know, or people who follow us, we did have a recall on our Avaira Toric product in August of last year and then we had a recall of certain limited lots of the Sphere in November.

A couple data points off that. We did submit a modified 501(k) to the FDA at the end of December, with respect to our Avaira Toric, to get that product back on the market. We have had good dialog with the FDA. We've gone back and forth with them through this process. It's currently back in their hands to respond to us. At this point in time, we are producing Avaira Toric. We do have it in inventory - its inventory at risk - in preparation for an April launch. So we feel obviously, we're producing the inventory, we feel good about that. However, we are still working through the FDA process.

The Avaira Sphere, just as reminder, that was a replacement of certain lots that were out in the marketplace. We did not take that product off the market. We continue to sell Avaira Sphere and actually, a little surprising to me, perhaps, was that our Q1 Avaira Sphere sales were up year-over-year.

So that was kind of just a nice data point to say that that Avaira family, which was growing north of 40% year-over-year for a couple quarters, still has legs to it. And I think, once we get Avaira Toric back in the market and we have that family of products, that we can go back to the retailers with and go sell that and look them in the eye that everything is good and we have things fixed with this product, I think that product will gain some traction again.

If you look at the Multifocal, up 26% in constant currency, that's driven by Biofinity. So we've always been strong on the Multifocal side. Roughly half the market is silicone, so, when you look at what's happened over the last year or so where we've lagged the market, it's because the Multifocal market has moved to silicone.

Now that we're in that, we have a great product. Biofinity is a great lens, great material and so forth, great design, so we're starting to take some share back there and we're gaining traction with that. That Multifocal was launched last summer, so we're, for a Multifocal launch, still relatively early in the launch right now, but that's clearly going well.

Single-use Sphere up 10%. I'll touch on this a little later. As you see, the overall global market moving to single-use, especially in the U.S. where single-use has moved up quite a bit over the last four or five years. Non-single-use Sphere "other", which is picking up your two-week lenses; your monthly lenses, the Sphere, is up 8.0%.

I'll touch on a couple here, in particular Proclear, which is a traditional hydrogel product that has just been a great product for us for many, many years, was up 6.0% in the quarter. Even though hydrogels continued to decline, this business and specifically the Proclear product, has been a nice product for us.

Silicone hydrogel, $87 million, up 40% in constant currency. That remains driven by Biofinity. Obviously, with the recall on Avaira, we need to get that product back out there and get energized on that again, but 40% constant currency growth driven by Biofinity with the Multifocal launch, with putting Biofinity Spheres in Japan, which is around a $400 million market that we just entered last summer. We've got some legs on that product.

So, I think, when you look at silicone hydrogels, you look at Biofinity, we're talking about several more years of rolling that product out and continue to take market share and grow silicone hydrogels. And that's a market, when you look at Biofinity again, that has gross margins above our corporate average, so it continues to be a product mix shift driving gross margins higher and supporting topline growth and market share gains.

Some boxes that we have. We changed some of our branding within CooperVision. It's kind of neat. The industry has always been kind of blue and white and we went with some new branding that's been received really well.

If we break down the competitive dynamics a little bit, you'll see that J&J is number one in the market with approximately 42% market share. Ciba, in the mid-20%s, ourselves at 17%, Bausch at 10% and all others at 6.0%. So you've seen Bausch & Lomb declining in their market share. We'll see what happens. There are a lot of rumors about them going public or something happening later this year, but, to date that's been a company that we've been taking market share from.

If you look in the United States, we're number two behind J&J, who is a pretty strong number one. We're very close to Ciba. If you look at Europe, we're also number two, close to J&J, behind Ciba. And then, if you look at Asia-Pac, where we're a relatively late entrant and we got in there mainly through our acquisition of Ocular Sciences, we've been growing our business there. We've been doing better. We were number four and moved up number three, looking to continue to grow business there.

When we look at our modality breakdown, this gets a little interesting. The Americas, as I had mentioned earlier, it was probably only four or five years ago, back when you first started seeing the solution recalls, that the dailies in the Americas were 8.0%, 9.0% of the market and even three years ago they were probably closer to 10%. So we've seen some acceleration in single-use in the Americas, which makes sense.

That's the most compliant lens out there. People put it in for a day, they take it out at the end of the day, throw it away, unlike compliance with two weeks and monthly compliance is okay. But you're seeing that growth in dailies. You've see daily growth in EMEA also. As a matter of fact, dailies are 38% of the market overall. So even though the price point's a little bit higher from a contact lens perspective, you don't need solutions.

So, if you net that out, it's not that much more expensive and you see a lot of people moving in that direction. And clearly, we're not in a world anymore where someone's wearing contact lenses and the lens pops out and they have to stop the basketball game while you search for the contact lenses. You know that's not the case anymore, so, as you've seen comfort improve, as you've seen prices and so forth come down, you're seeing continual gains in the daily space.

If we look at where we see the market over the coming years, we have a market that's approaching $7.0 billion right now. We continue to think Multifocal to be a driver of that growth and we will be one of the companies clearly driving that. That's a somewhat unique fit for guys like myself who are presbyopic. You hit your early 40s and your arms aren't long enough to be able to see anymore. So that's a market that we're continuing to see growth in.

Torics I've touched on, growing a little bit faster than the market and then Spheres at 4.0%.

If you look at the market in total, we're talking about 4.0% to 6.0% growth this year for the market; 4.0% to 8.0% for us. We have 6.0% here. If you go back a little bit, you'll see the contact lens market grew roughly 3.0% in 2009 and it was growing as high as 8.0% and 9.0% in the early 2000's, so we have somewhat of a bell curve around 6.0%.

If you look at geography, there's not a of variance there. As I mentioned, you might think there'd be more growth in Asia-Pac, but two-thirds of that or so is tied to Japan, so until China and some of the other countries' numbers get a little bit bigger, you continue to have growth around market.

This is an important slide, I think. When you look at the market having 43% silicone hydrogels and you have us at 33%, that's a key. You know one of the things that's growing for us, as I mentioned, is Biofinity. That's a margin-driver. It's a product driver where we're taking market share. There's no reason we shouldn't be at least at 43% and, I would argue, with Avaira and our private label strategy that we should be north of 43%. So, as time goes by and we continue to take share, you're going to see that percentage of silicone hydrogel in the market continue to grow.

We'll touch on CooperSurgical for a little bit here. We had a good year last year. We had $210 million in sales, up 8.0% excluding acquisitions. That's a pretty solid year for anyone following the women's healthcare space.

We focused on the OB/GYN. We do have a focus on surgical products. I think, if you look at that, a lot of the growth has been driven by the surgical side where sales were up 23% and now are 37% of our sales. There are some products there, including a laparoscopic closure device, a uterine manipulator, a couple other products that we're seeing some nice growth on So, a good, solid year last year.

That momentum continued in this year and we posted Q1 sales of $57 million, which were up 15% when you include the acquisition, but up 9.0% excluding acquisitions and again, anyone following this space knows that that's a pretty good number. They had gross margins of 67%, so this is a business unit that sometimes people wonder about within the family at Cooper, but it's clearly doing well.

When you look at the topline growth, if you look at the margin expansion story here, if you look at minimal R&D, minimal CapEx, it's got great cash flow. This is a really nice business that we're really happy about tucked within the Cooper family. Surgical procedures, again just to mention, were up 24% year-over-year when you look at the Q1 numbers.

If you look at CooperSurgical, it is a diversified business model, 19 core product categories with over 600 products, so we are focused on the surgical space and growing the surgical space, but we do have a very nice diversified business model. This is part of our history of acquisitions. This Company was founded in 1990. We've done over 30 acquisitions, so part of that acquisition strategy is just building up a diversified portfolio.

If you look at the sales by category, the way we break them down, you have surgical procedures. I've touched that. You have our fertility business, which grew 7.0%, a relatively small piece or 7.0% of the pie. And then you have office and other, which is a lot of products that would be sold into the OB/GYN.

If you look at how we're positioned, we do call on the OB/GYN. We do call on them in their office. We believe our extensive customer base and our strong brand awareness that we have, CooperSurgical is becoming a much more well-known brand within the space. The product offerings we have, the large number of products, the market focus, the national sales force all are things that are driving improvements in this business and should continue to drive improvements in this business in the coming years.

A proven track record of execution and integration of acquisitions; we've done a nice job over the years. Here are some examples, when we bought Summit Doppler and you look at these acquisitions, $8.0 million of revenues for $16 million; $5.0 million for $5.0 million when we bought Apple; $10 million for $21 million. So we haven't historically, certainly, gone out and paid five, six, seven times revenues. That's not to say we wouldn't, but what we look for in an ideal acquisition here is to buy these companies, as I mentioned, roll them into our strategy, take advantage of the manufacturing, take advantage of the distribution and make them accretive to our numbers.

So, before I hit the five key takeaways here, I just want to take a minute to step back on some of the questions that are big items from today. One was the FDA. I think I've talked about that with the recall. The other one was gross margin.

We had pretty strong gross margins in the first quarter, 64.5%. If you look at our guidance, we guided to 62.5% to 63%. One of the reasons we guided to that is I think you can look at Q1 and say that's a good, solid number for Q1. Now, we had -- it actually would have been a touch higher. We had about $2.9 million in recall-related expenses split between sales and SG&A.

But, excluding that, if you look at the 64.5% a good, solid margin quarter. When we look at the rest of the year, we are going to have some items that are going to pull gross margins down.

The re-launch of Avaira Toric, as I mentioned, we're anticipating an April launch of that. We have some relatively high costs inventory on the books. We get that product back out into the sales channels, sell that product through, that'll be a drag on gross margins. Certainly it's something we want to do. It's certainly something we're excited about. We believe that Avaira and the Avaira family is going to be a key driver in 2013, so clearly we need the Toric as part of that story.

A couple other items. We announced that we are going to launch a single-use silicone lens following the recent announcement by Ciba and their rollout of a single-use silicone. That's a product that is going to be a gross margin drag here in the short-term.

Now, we're rolling that out. We're going to go in that and put our toe in that market, get some feedback and so forth. We're going to launch that in Europe. It's going to be a small, select launch, but it's something important for us to do as a Company within the industry and as you see the trend toward silicone hydrogel sales, that trend is also going to include single-use. So it's important for us to be in that space and now is certainly a good time for us to go ahead and launch that product.

So, if you look at that, a couple other things that I'd mention on gross margins this year, one is Biofinity. We do all our Biofinity manufacturing in the UK right now. We are going to put a Biofinity manufacturing line in Puerto Rico. That's basically just for diversification, but the fit-outs costs, if you will, and those will get expensed through the P&L, so that will actually be a gross margin hit.

The other thing would be some of the changes we made to Avaira. The inventory on those changes, including Avaira Sphere, will start working their way through the P&L this year, I would argue all positives.

When we look at that stuff and we're doing this investment and we're investing in sales force expansion - we're investing in product launches, we're investing in new products, Avaira, we're investing in the single-use silicone are all things that we want to do to really drive this low double-digit EPS growth for years to come. So we feel pretty good about all that stuff.

Five key takeaways I want to highlight and I think I've touched on these, so I'm not going to spend a lot of time on them, but we're operating in two solid markets with high barriers to entry.

I touched on both the different CooperVision and CooperSurgical. Revenue growth exceeding the market. That continues to be a focus. We continue to feel as though we can grow faster than the market.

Investing in the infrastructure of the business. We are hiring sales people, have been hiring sales people, spending money on product launches.

We're positioned to attain our long-term objectives. When you look at that, that's the over $1.0 billion in cash flow in the next five years. That's the low double-digit EPS growth. That's the long-term strategic, the six long-term strategic focus areas that we had from earlier.

And the other one is track record of success. I'm not exactly positive. I think it's five, six, seven quarters that we've beaten Wall Street expectations. That's not our goal to run around beating Wall Street expectations, but we do have a track record of success of putting up some good numbers. We continue to be very focused on putting up good numbers and we're pretty proud of our track record of success, certainly over the past two, three, four years.

So, with that (multiple speakers).

Unidentified Participant

Perfect timing. Thanks. We'll have a breakout in the Crown Conch Room.

THOMSON REUTERS