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EDITED TRANSCRIPT

COO - Cooper Companies Inc at JPMorgan Healthcare Conference

EVENT DATE/TIME: JANUARY 12, 2016 / 11:00PM GMT

THOMSON REUTERS

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PRESENTATION

Unidentified Participant

Okay, we're ready to start with the next presentation. Coming to the stage now, we have Cooper Companies and presenting for them is Company's President and CEO, Bob Weiss. Bob?

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

Thank you, [Chris]. Thank you and good afternoon everyone. The Cooper Companies -- if I could get a dossier -- Cooper Companies is our New York Stock Exchange company. We've been listed on the exchange since way back in 1983. We have two business segments; CooperVision, our contact lens company. CooperVision participates in the $7 billion soft contact lens industry. It's clearly a cottage industry. Four key players make up 95% of the industry; Johnson & Johnson Vistakon; Alcon, which is part of Novartis; Cooper, number three; and then Bausch & Lomb, part of Valeant, number four.

When we talk about contact lenses, just to give kind of 101 on it, we talk about modality, one day wear throws -- throw lenses away everyday, two week wear is supposed to throw the lenses away every two weeks and then the monthly wear that throws them away every month. It doesn't necessarily mean you were on two weeks overnight or monthly overnight. We also talk about the industry from the point of view of type of lenses, sphere, the easy to fit [myopia], a toric for astigmatism, which is an irregular shape of the eye and then a multifocal for presbyopia, when your arms get too short to read the newspaper, you can't read the menu at night.

As far as our women's healthcare business, our CooperSurgical, better said, it really is bifurcated into two pieces, kind of US business targeted towards the gynecologists via in the office practice in the outpatient surgery center or in the hospital and about $200 million out of our $300 million business in CooperSurgical, which overall represents 13% of our combined sales, is in that part of the business. We have about $100 million in IVF in fertility -- fertilization -- in-vitro fertilization. And in that area, it's mainly a non-US business, 70% of the revenue of IVF is outside the US compared to in our surgical women's healthcare business, it's mainly a US business with the export operation.

I didn't mention, but our contact lens business is 87% of the overall business and it's -- or 83%, I'm sorry, $1.5 billion. We are a fiscal company, reported our year-end results in December. Overall good results, we reported $7.44 earnings per share. I might point out, I'm sure you've heard throughout the day and throughout the week, foreign exchange was a big factor, and to Cooper, it was a very big factor. It impacted our bottom line $1.76. Excluding foreign exchange, we would had $9.20 in earnings per share, which would have been up 26%. That 26% is indicative of the fact that we had integrated the business Sauflon that we purchased a year before. The integration actually went very well overall. So about -- of that 26% growth, about half of it was contributory from the accretion of the Sauflon acquisition and the other half, about 13% from our normal operating business. All that kind of got mask in last foreign exchange. The foreign exchange took about $154 million off of our topline and certainly was impactful.

From our earnings per share point of view, I mentioned the $7.44 and the growth. Our overall growth is 8.8% compounded. And quite frankly if we look at foreign exchange kind of continue that theme shortly, if we look at impact to foreign exchange, we would have grown 2x that or not for foreign exchange, meaning more like 19% compounded growth instead of the 8.8%. If we think back in 2011, the yen was at JPY80. It went from JPY80 to over JPY120, more than a 50% change. The euro was about $1.39, and it dropped as low as $1.05 recently, a 33% decline. So it certainly took its impact on our results. As we look to 2016 guidance, our guidance at $7.75 basically is 10% to 14% constant currency growth. So currency is impacting us basically 8%.

I mention we're October 31 company. We came out what our guidance in December. Our overall guidance for CooperVision growth this coming year is for the industry to grow 4% to 6% and for Cooper to grow 5% to 7%. That's considerably less than the type of guidance we gave this last year, and it's more reflective of basically saying that the industry has been growing more like 4%. We think it will grow probably at the upper end of that range this year, but that's once again in constant currency.

CooperSurgical, which last year had modest sales decline and went through a rationalization of some of its product line between the IVF equipment part of the business, is looking to turn around and show growth numbers this coming year 1% to 4%; midpoint is 2.5%. And once again, our earnings per share guidance, $7.60 to $7.90; midpoint $7.75, which is a 10% to 14% constant currency growth.

Our long-term objective in 2016 through 2020 is to continue to grow our topline and gain share. We think we have the right product portfolio. We think that our 1 Day clariti silicone hydrogel is the right product in the right place and the 1 Day market, which is the growth driver of the overall industry, and I'll get into that in greater detail. We think that our IVF business tied in with our overall CooperSurgical strategy. We will continue to grow and gain share. And that our topline growth will lead to an acceleration of our bottom line growth. We expect to move our operating margin from around 23% to 27%, mainly leveraging operating costs. The last five years, last six years, we improved our operating margins considerably and they were really driven by improving gross margins. So the story going forward is more about operating expense leverage, and there is a product mix as we evolve to one-day lenses and we're away from two-week and monthly lenses, and I'll get into what that means in a little bit.

On the bottom line, we generate a fair amount of cash and we use some of that cash either to make acquisitions, grow geographically or reduce that and that will lead to improved earnings per share growing faster in the topline. Last year, we generated over $200 million in free cash flow. We look to generate close to $300 million in 2016 and over $1.5 billion over next five years, and we will use some of that cash to continue geographic expansion. We will use some of that cash to make strategic acquisitions. And then, other priorities, of course, are debt paydown as well as buybacks; we've done buybacks in the past.

Looking at our operating leverage, in 2015, we had a 23.1% operating margin. That was negatively impacted 280 basis points because of foreign exchange, so we're not for that. We would see our operating margin moving from 23.5% in 2014 to almost 26%. Once again, that's a reflection of how well the Sauflon acquisition went in the related synergies of that acquisition, which included improving cost of goods, much better than we expected and basically delivering on all the integration savings that we anticipated out of that acquisition.

If we look at the contact lens business, as I mentioned, $7 billion business, 21% of it is in torics and 6% of it is in multifocals and balance is spherical. One of the growth drivers of the industry is the torics and the multifocals. They are still a lot less than fully matured around the world, so lot of the growth around the world outside the US is in the area of multifocals and torics. And in fact, multifocal is still fairly immature as an industry, $400 million range and that there is still a lot of trading into multifocals going on in the industry. Important to know, we said Cooper is number one in the area of specialty lenses, which are multifocals and torics. And so, part of our growth driver in the topline is the expansion and continuation of our participation in torics and multifocals.

If we look at it geographically, Europe or EMEA is growing around 6% in our outlook and by the way, we are forecasting 4% to 6%, but for a variety of reasons that will get into, we believe, probably this year will be closer to 6% than 4% and some of that will be basically geographic and some of that will be the acceleration of the trading up of the lenses, but geographically, Asia, it's only 5% even though one might argue, well (inaudible) in China, big part of influencing the market is in India, all part of Asia influencing the market. And the fact that the matter is Japan is so big in the Asia-Pac theater and it is a mature market that is not growing at the rest of the industry, if you will, that it puts a weight on it. Five years from now, that will matter less China, mainland Asia will matter a lot more in terms of driving the topline growth, but for the interim, Asia is actually only 5%. The Americas, which is a very mature market in terms of the size and the penetration, on the other hand, is growing 7% and that's reflecting the fact that the Americas is the last to arrive in the 1 Day modality. So there is a huge trade up going into the 1 Day modality, and I'll get into that momentarily.

This is probably where you really should start paying attention. In the next three or four slides, it's kind as the meat and potatoes of why the 1 Day -- why the contact lens industry is such a good predictable and solid growth area. We've been strong both in good times and bad times. It's fairly recession-resistant even in 2008, 2009. It only dipped to 3% constant currency. Part of it is and one of the main strategies that started way back in 1987 with a little company called J&J, developing the concept of planned replacement throwing away lenses and continuing on the curve of throwing them away faster and faster and faster until you got to one day. One day happens to be a huge trade-up of a patient where in the US that it replaces their lenses every two weeks generates about $60 to $70 in revenue at the manufacturer level.

If you move them into 1 Day modality, you're talking about trading up 400% to 600% and if you move them actually into the premium part of the 1 Day modality, where Total 1 and TruEye and Oasys 1 Day and MyDay are, you're talking about 700% or 800% trade-up. Huge revenue generator, it doesn't take a lot of patients to move into that modality. What we did learn is that that modality, I'll call it the Mercedes Benz of the 1 Day market, the expensive part that doesn't care as much about total cost to the consumer is growing a lot faster and I never would have predicted it two, three, four years ago with Total 1 and the group that is up there.

So there is -- that continuation of where the market is now 42% of the total market around the world, $3 billion will continue to migrate and it doesn't take a lot of wears to move that needle to the point where it's 50/50 and then continues. And within that, there's another trade-up which is from hydrogel lens, it's a material, to silicone hydrogel lenses. That's another 20% to 40% trade-up. So we've trade-ups on top of trade-ups.

The industry has been a master at taking a patient base and continuing to grow it, and I would argue that will continue over the next five years just on the trading part of it. So, as we look at it, what does this mean to Cooper? Cooper and its acquisition strategy with Sauflon was very focused on this very graph, the fact that we are shifting into the 1 Day modality. We wanted the best-in-class product, a silicone hydrogel 1 Day and importantly a one-day product that had all types of lenses; sphere, toric, multifocal. We are the only game in town when it comes to a 1 Day silicone hydrogel with a sphere, a toric and a multifocal. That's why we strongly believe clariti will win. Yes, there is some work involved in that, but we feel real good about what this graph is, where it's going. The fact that over the last four years the driver of the market has been the 1 Day modality shift and we're in the right place to deal with that.

Here are the drivers of the overall industry and as I mentioned, I think they're more -- we say 4% to 6%, the last five years have averaged out 4.4%. But I think it will move up, you'll see solid numbers from J&J because of easy comps. A year ago, they were growing negative 10% and higher in the domestic market for each of the quarters. Now, they're not. But the drivers include the wear base. Of the wear base, one of the things you'll hear a lot about is the incidence of myopia is continuing to increase. Why is that? Because our children are spending less time outdoors and more time indoors, and they're not only spending less time outdoors and more indoors, but they're also spending a lot of time on iPhones and Game Boys and things of that nature. Game Boys are probably becoming obsolete, I don't know, but it's probably [in all dinosaur harming it].

The other trade-up and the biggest driver is silicone hydrogel, as I mentioned, 20% to 40% and the 1 Day modality on average 400% to 600% trade-up. And then, the third piece is geographic expansion and of course, Eastern Europe and Asia. If I were going to slice this apart into the 6%, it would be 1% in the wear base; it would be 3% pricing and modality; and it would be 2% geographic expansion. I can argue geographic expansion and the wear base are one and the same and they kind of are, but I break it out for purposes of making that point.

So overall, where is it now? Where is it headed? Down the road, it will shift more to geographic expansion. Expansion being a bigger part of driving the industry; the China, India down the road obviously will be a bigger influencer. This is kind of a depiction of the fact that it's not one size fits all. The way we deliver lenses in the US is not the way in Asia-Pac. We all had a different read on the importance of lenses. Asia-Pac was solid after 1 Day. They didn't like chemical disinfection. Japan pushed everyone [to boil their] lenses everyday. Taiwan wouldn't let (inaudible) advertise anything, but 1 Day lenses. And so, that market nationally went to the 1 Day modality. Europe had a more balanced approach. They didn't understand the two-week market. It seemed to be all about non-compliance, and they shunned it and basically went to 1 Day and monthly and continue them. The US was the last to arrive. Four years ago, the two-week space was 58% of the revenue in the Americas. Now, it's dropped to 35%. Why is that important? This is what J&J owns. They own 80% of that market. Do you think they have a problem? Yes, they do. If you think they're not going to react, they're going to react.

So the importance of the Oasys 1-Day shift is we got to do something about all the share loss we're incurring because of the two-week space. And if we just sit here passively, we're going to lose a lot of it and will continue to shrink. So good strategy, I applaud them for what they're doing, trading up and it's certainly good for the industry. Overall, the market is 44% now 1 Day; 25% two-week; five years ago, that was over 30% two-week. So that's how drastic that shift is.

The players again, J&J is the biggest one, 39%; Alcon, 26%; Cooper, 22%; and Bausch & Lomb, 9%. Six years ago, Cooper was in around 15% and it's now 22%; B&L was actually at 16%, they dropped down to 9%, I think they're at a point where they have closed the bottom out that probably make progress with geographic expansion. China and India, they're spending a lot of energy they are in and rightly so. Alcon, stay tuned, they're going through some disruption right now, and they're kind of lost; the contact lens business is lost within a big $55 billion acquisition obviously and one where the focus appropriately should be on back-of-the-eye diseases and cataracts as well as glaucoma and things of that nature.

Here's our scoreboard, a report card. We've done a pretty good job of beating the industry consistently. As I mentioned, the industry overall average 4.4% growth. We [met] average 9.2% growth, and it's been pretty consistent year-after-year that we put up good numbers. Our guidance is a little bit more conservative, if you will, [at retrospect] our competition. And so this year, when we're guiding 5% to 7% against an industry, we're saying 4% to 6%. It's obviously not promising, a 2x growth in our guidance.

We have pretty good product portfolio and continue to expand the family offering. The big names for us are Biofinity. It's $600 million, $700 million product. You'll hear a lot about clariti and our roll-out of the 1 Day and the fact that it's the only game in town when it comes to silicone hydrogel 1 Day toric, multifocal and sphere, and that it's after the mass market, which is this very market where J&J plays with Moist and Alcon plays with Dailies AquaComfort Plus. We continue in that roll-out of clariti. We will take years to complete a roll-out around the world. And then of course, we have the premium 1 Day, which is MyDay which is a product that is going straight after market where Total 1 is as well as Oasys 1-Day participates.

Overall, good growth in CooperVision. The point I made about 7% growth this last year was in constant currency, excluding the solution business. Solutions is one area we're actually competitive to. We convince you to move from a two-week space to one-day space by taking about $180 of money you're spending on your lens care and then using it for the convenience of a daily disposable. That funds a good chunk of what our consumer needs and our consumers are, 75% of them are under 35 and they are on budgets. So for most of the consumers, the amount of money they're spending on contact lenses matters. There is a group that really doesn't care that much. They're not price sensitive, but the bulk really are, so that's the importance of that.

One thing I want to emphasize again is that when it comes to market penetration, we have solid penetration in Europe. That's where MyDay and clariti are. So we have -- basically 40% of our revenue is in that market against the market that's 30%. So we have about 40% share in Europe. We're under index clearly in the area of the Asia-Pac, but we also have MyDay coming into Japan and a number of things going on in the theater.

Overall, the other point I'd make is torics at 30% compared to the market at 21%. We have 30% share there. Multifocal, we have 37% share there. So solid market share in high growth areas. I'm not going to say too much about our CooperSurgical business other than we -- it's the amalgamation of a lot of acquisitions over the last 20 years. We have some pretty solid product lines within it. The big shift and expansion is in the area of in-vitro fertilization and you'll continue. We've made a couple of acquisitions in that arena to continue that growth, which is very much a global event.

Last comment is just -- to kind of recap that, we have two great operating businesses. We've been gaining market share. We've invested over the last five years in the infrastructure and we will leverage that in the future and think we put up a pretty good track record over the last seven years. And with that, I have no seconds left, and we'll conclude.