

FINAL TRANSCRIPT

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COO - The Cooper Companies Inc at Jefferies & Co. Global Healthcare Conference

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CORPORATE PARTICIPANTS

Bob Weiss

Cooper Companies Inc. - President & CEO

PRESENTATION

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All right, good afternoon everyone. Welcome to the Jeffries 2011 Global Healthcare Conference. Next up we have Cooper Companies, one of the largest providers of contact lenses across the globe as well as a large provider of women's health products. Admittedly, Bob, I still have to switch over. I still use Acuvue. But I am going to change. I am going to change.

And, we have Bob Weiss here, the Company's CEO. Afterwards we will be going to Julliard for a break-out. Thanks.

Bob Weiss - Cooper Companies Inc. - President & CEO

Thank you. We will work on the changeover. Good afternoon, everyone. We had a very productive, a lot of one-on-ones today, so we will get right into the Cooper Companies. The Cooper Companies is a New York Stock Exchange Company. I think you all have seen forward-looking statements so I won't spend much time on that. We have two business segments. CooperVision is 85% of our business in soft contact lenses. That is a \$6.6 billion worldwide market. It really has -- it's [Bausch]. There's only four players that account for about 95% of the market; J&J or VISTAKON, CIBA VISION, which is part of Novartis and soon to be integrated into Alcon which has been bought by Novartis. As well as Cooper is number three and Bausch & Lomb is number 4.

We currently manufacture our product in the UK and in Puerto Rico. We make about one billion lenses a year of which 10 million are stateside, about half a billion in both Puerto Rico and in the UK. Our primary offices are in the US and in the UK. And it employs overall 6,400 employees.

Our women's healthcare business is CooperSurgical. It represents the acquisition of around 30 plus acquisitions over the last 20 years. It has 600 different products and basically has a tremendous barrier of entry -- it would be very tough for anyone to replicate the 30-some acquisitions we have made over the last 20 years which are very diverse in their nature.

Cooper recently reported its second quarter results. We had our revenue up 12%, 8% in constant currency. Our non-GAAP earnings per share of \$1.02 was up 67% from a year ago. And we reported free cash flow of \$42 million which was net of about \$12.5 million on a pre-payment penalty or refinancing of our debt and taking out our senior notes. As well as investing about \$10 million in the inventory for several product launches we have in the third quarter. We are an October 31 year-end company so our results were as of April 30.

We recently updated our guidance and upped it for the second time this year. Our revenue has increased another \$20 million to \$1.28 billion to \$1.3 billion. And our earnings per share in non-GAAP was increased to \$4.15. That is up \$0.30 at the low end. And \$0.25 at the high end. So, so far this year we have upped our earnings in aggregate \$0.70 at the low end.

Our free cash flow, we narrowed the range, upping the bottom end to \$190 million to \$210 million, \$200 million and we are running in a ballpark in that area.

We have, over the last two plus years, paid down our debt from \$900 million to \$550 million. Deleveraged the company from 40% debt-to-cap down to 23% in, once again, a little over two years.



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Our strategy is to focus in on growing our revenue faster than the market. We have, last year for example, grew our top line in contact lenses at 10% when the industry grew 5% in constant currency. So we doubled the market. Actually started off a little slower in the first quarter this year; I will get into some of the reasons for that.

Our objective is to improve operating ratios over the next five years. And quite frankly our target is to move from about 18% today to 25% by the end of 2016 when we go off royalty; we have a large royalty we pay to one of our competitors, CIBA, 8% on all of our silicone hydrogel lenses. And as a result of that, it goes off royalty in the US in 2014, off royalty; the rest of the world, 2016. So, that will be an influencer.

In the interim there is a lot of cost-cutting, things we are doing to improve gross margins as well as short-term we are leveraging operating costs, longer-term -- or short term we are investing in operating costs, expansion of the sales force and expansion of R&D. Longer term, post-2011, we expect to continue to improve our operating ratios.

We expect to grow our earnings per share faster than the revenue line. We certainly have been doing that. As I mentioned last quarter we grew our earnings per share 67% above the prior year. Last year 2010, that we ended in October, we grew our earnings per share 35%. Our guidance for this year is to grow earnings per share 29% to 34%.

We do not expect to continue at that rate going forward, but we do expect to grow faster in top line and arguably grow double digit bottom line.

Our ability to generate free cash flow last year, we generated \$194 million of free cash flow. We look to continue at least at that level, \$200 million on average a year. And continue to pay down debt and redeploy some of that money in acquisitions.

We will be aggressive when it comes to geographic expansion. This last quarter we expanded into the Czech Republic and Slovakia. We are spending this year focused primarily on the BRIC countries and most notably China in terms of how we want to expand our presence there. Right now it is very narrow and limited. We do have operations in Hong Kong, in Taiwan and in Shanghai, but limited at this juncture.

We will continue to acquire and make, ballpark we have made over 30 acquisitions in women's healthcare, or about two-year our target would be to continue at that level at least.

CooperVision last year grew its top line at 7% and in constant current 7%. And importantly grew it in the market 10% against a market that grew 5%. As I mentioned this last quarter, we did not keep up with the market. We grew 4% while the market grew 5% in constant currency. We, basically, redirected. We are capacity-constrained in silicone hydrogel lenses, most notably Biofinity. As a result we took some lines down to make revenue-producing products. We switched them to build inventory for several launches we have in the third quarter, one of which is called Biofinity Multifocal to be launched June 20 at the North American Optometric Association in Utah. And a second is a launch in Japan of Biofinity, our main product line in the silicone hydrogel area.

When it comes to geographically, we grew around 6% in the Americas, 5% in constant currency in Europe and 19% in Asia. The 19% in Asia is primarily acquisition-related. We acquired a company called Aime, paid \$31 million in December. Aime brought with it access to Japan for Biofinity. They were our supply source and also bought rights to alter the silicone supply source in Japan to multiple locations which we are doing. And also some other rights to future technology.

From the point of view of the types of lenses, Torics are for astigmatism, Multifocal for presbyopia. We had solid growth with our Toric product line where last year we rolled out Biofinity Toric around the world and expanded our market share there. Our Multifocal was down 3%. That is indicative of the fact that as of today we do not have a silicone hydrogel Multifocal. That is a \$300 million market overall, Multifocals. Silicone hydrogels are \$150 million. We have zero share on that \$150 million. We have over 50% share in the non-silicone hydrogel part of that market. So we do well. The design is well. What we are marrying is the design of our Multifocal together with our best material called Biofinity.



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And we are, obviously, pretty optimistic about that. It is a new entry into a \$150 million space.

Our single-use product did well. It's Proclear 1 Day, up 8% constant currency. Importantly we have two primary materials and we are essentially the only company promoting silicone hydrogel and non-silicone hydrogel. Proclear is our family of non-silicone hydrogel. It was up 3%. It represents about 27% of our worldwide market. And that is a declining market as all of the energy shifts toward silicone hydrogel. But today, non-silicone hydrogel is still 58% of the market. Once again, it is a \$6.6 billion market. Everyone is looking at the growth there and that is fine. We have a material that we like within the declining space that continues to gain share.

Having said that, our silicone hydrogel products, Biofinity and Avaira grew 45% last quarter. So, we are late to the game, silicone hydrogel is growing off of a base that is starting to become meaningful and pretty excited about that continued rollout around the world.

The products that are really driving CooperVision, most of which have been supply-constrained as we entered this year, but by the end of this calendar year will no longer be. For example, Avaira Toric, we couldn't make enough of that entering this year. We are now going national in May of this year, meaning we have gone national since the end of the quarter. Biofinity and Biofinity Toric and Biofinity Multifocal all are made on the same manufacturing platform, all supply-constrained. By the end of this year we will grow capacity to support those three products from \$200 million to \$400 million as we exit 2011.

And, lastly, we have the Proclear 1 Day Toric which is being rolled out and is doing very well in Japan. Japan is basically a very large market that is essentially 55% one-day, so that has been the sweet spot of the Japanese market.

Who are the competitors, how are they doing? J&J, VISTAKON is 44%. They are kind of holding their own market. They are gaining in some markets, losing in some markets. CIBA VISION has been pretty active, has 22% of the market. Once again, they are part of Novartis. They have gained in some markets, lost in some markets. This last year Cooper went from 16% to 17% while Bausch went from 14% to 13%. So, the one that is not holding its own, is losing market share right now is Bausch & Lomb. They are undergoing a fair amount of restructuring.

When we look at competitors, the four of us, Cooper has gone through its tough restructuring in the last decade. It bought Ocular Sciences, a company that was number 6, married with number 5 to become number 3. So, that was a painful three years. We are out of those three years. And the last three years we have basically gotten many of the benefits of things put in place with that marriage of those two companies.

On the other hand, CIBA is not being integrated into Alcon. We know what integration is about. It's their turn. And there are a fair amount of activities going on within CIBA that are somewhat disruptive. J&J and VISTAKON, of course, we know that they have had some of their challenges in the marketplace this last year.

Importantly, we are neck and neck with CIBA and number two in the US. Number two in Europe, neck and neck with J&J there. CIBA is dominant in Europe. J&J is much more strong in the US. But, importantly, J&J is really the king in Asia-Pac. And Cooper has moved up to the number 3 spot primarily through gaining number 2 position in the single-use market. And, once again, we have yet to enter a \$400 million silicone hydrogel market in Japan which is where we will be later this month.

The world is not a one-size-fits-all. If we look at the Americas, we are big on the so-called two-week market, 58% of the market. The one that is growing the fastest right now is the daily disposable. J&J is pushing it, CIBA is now starting to push it. It grew over 20%, but still, it only accounts for 13% of the US and the Americas market.

On the other hand, when we go to Europe, 50% of that market is monthly, 38% is daily, and only 12% is two weeks. They just don't believe in two-week life because the two-week market is essentially about non-compliance. People in the US buy a two-week product, they stretch it out and use it monthly. And when we look at replacement levels we know how many lenses



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they go through a year and it doesn't measure up to a two-week market. Half the time it is the doctor who is prescribing it that way, so I don't want to only blame the wearer.

In Asia, on the other hand, it is very much a daily market, but having said that, the hottest market right now is the two-week space where all of the silicone hydrogel market products have come into that two-week space in Japan. That is where the \$400 million market evolves for silicone hydrogels that Cooper will enter later this month with Biofinity.

When you look at the world it is about one-third, one-third, one-third. Daily is 34%, two-week is 36%, monthly is 30%. But, importantly, outside the US, daily averages 45% of the market outside the Americas.

The market it is a healthy market. We foresee it growing 5% to 7% on average, around 6% going forward. The market, even during the worst of the recession, doesn't usually go negative. It went down to 2.8% in 2009 and was 5% last year. So it does all right in soft economies. In the last decade it pretty much averaged 8% constant currency. Whether or not we can get back to that level post-recession, if you will, who knows? What it really would take to get back to the 8% level would be a solid expansion of Torics and Multifocals. Today in Multifocals is only a \$300 million market. A lot of it leaves, I shouldn't say us, a lot believe it should be a \$1 billion market.

There are some tricks with presbyopia that are unique so we will see. But if it turned into a \$1 billion market, with Cooper having a very good design, I would be all for it. It would take J&J and CIBA and Cooper to move the needle on that though.

As far as the Spheric category, if it is going to grow well it is going to be a lot about geographic expansion and I will cover that right now.

Geographic expansion, we look at Europe. Europe has grown very nicely and we expect it to grow around 7%. Asia-Pac is only 4%. And the reason it is only 4% is because today two-thirds of the Asia-Pacific market is Japan. Japan has gone slow and flat, in fact, in the one-day market. It does have growth in the silicone hydrogel space, but it is just starting to show a little regrowth right now.

Given that it is so big, it is masking the fact that the rest of Asia is growing double digit. We are obviously very excited as is many industries about China and the potential there. And that will continue to get a lot of attention. Cooper is spending really this entire year analyzing how we want to proceed in expanding there, whether or not we acquire, whether or not we JV, whether or not we get a lot more aggressive with chains, large retail chains that are entering China. Who knows? We are going to do our homework first and then see where we go.

As far as the Americas, the trading up there is more about moving people into a one-day modality and I might point out, a one-day modality basically trades up a wearer three to five times, meaning three to five times more revenue, two to four times more profit. So we take it all the time. What it does sacrifice, however, is gross margin. When gross margin goes down, you make a lot of operating, meaning your gross margin percent goes down. Think of it as a one-day is about 50%, a two-week is around 60% to 65%, a monthly is north of 70%. When you blend them all, you end up at around 60%. But one-day drives a lot of profit.

So, the industry has done a very good job of growth through trading up, meaning more revenue per patient. We have done that with silicone hydrogel, it is a trade up of 20% to 40%. Take a wearer, say you are in hydrogels, conventional hydrogels, why not take a Biofinity that is basically a 20% to 40% revenue generator.

What the industry also does is actively increase its prices on its legacy products, those that are the conventional hydrogel lenses that are going away slowly.

Much more about that, trading up, then it is about any decline in ARP or pricing that goes on in the industry.

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Today the world, since its launch in 1999 of silicone hydrogel is now 42% of the marketplace. Said another way, the 58% of hydrogel since the launch of silicone hydrogel has not declined. It's ballpark the same size it was in 1999. It just hasn't grown. It is now starting to show a little decline and that is partly because Cooper is showing the other three companies in migrating over and trading up and trading over.

We are not doing it overtly. We are basically saying, look, it is the doctor's choice. We sell, our strategy is to sell all lenses that the doctor wants. We will sell them the one-day, a two-week, a monthly and beyond. VISTAKON does not sell monthly lenses. CIBA, on the other hand, has just vacated the two-week space. And so the only two companies promoting the two-week space is Cooper and VISTAKON. And when we get to private-label, Cooper will private-label, our competitors will not. We are big on -- we are not hung up on our name. If you like your name as a retailer better, we will give it to you. Private-label does not translate to a lower price. We will give it to you at the price we sell a branded product if you think more of your name than you think of our products.

We are the one company that fits all contact lens wearers. We will custom-make a lens for a price. We have a technology that allows for that.

So, one of the things that makes us who we are and why we think we can gain share is we are the most flexible in dealing with the consumer and with the eye care professional. Not a household name. Do not consumer advertise.

We have woman's healthcare business that has been very active in acquisitions. It closed two transactions last year and another one in the second quarter this year called Apple which was a retractor use for cesarean surgery, the removal to facilitate in that.

Our fastest growing area is our surgical procedures which in the second quarter was up 16% and now accounts for 36% of our overall revenue. As I mentioned, we have 19 core products but 600 different products in total. It positions CooperSurgical which is primarily a US business, 85% is US, as basically having the critical mass out there compared to a lot of our competitors. So, we have an extensive customer base. We have a strong brand in that space targeting the obstetrician and gynecologist. We have depth of product offerings for sure and we have a market forward focus.

We focus in on the OB/GYN, whether they are in the hospital setting, outpatient setting, the infertility clinics or in their office practice. We have separate sales forces that go to each. In other words, we don't take a person that is selling in the hospital, move them to the office, vice versa. We say, know your way around, know who is making the decisions. But always the focus is what does the gynecologist, what does the obstetrician need to enhance the quality of their practices.

We have done a good job of acquiring, integrating and leveraging. Our operating margins at CooperSurgical have moved up well over 5 points to 65%. I'm sorry, gross margins are 65%, our operating margins are now 24%. So we have proved to take a product line, fold it in, and get a lot of value out of it. We are not afraid of that. That's what we do very much for a living.

Our last three acquisitions have added in the neighborhood of \$30-some million of revenue. And, I'm sorry, they have added \$20-some million of revenue, \$30-some million of acquisition price, so you get some flavor for the type of multiples we pay.

And in summary, we are in two solid markets with high barriers of entry. We have high growth exceeding the market in both cases. We are investing in the infrastructure, meaning we are expanding the sales force and our geographic expansion. And, we are positioned well to meet our long-term objectives.

And we believe we have a true, proven track record. With that, I ran out of time, and I guess we are ready to take questions in the move-out room.



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We will take the breakout down in Julliard. That is downstairs in a couple of moments. Thanks.

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