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EDITED TRANSCRIPT

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

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PRESENTATION

Matt Taylor *- Barclays Capital - Analyst*

Good morning. We have our next presentation from The Cooper Companies, and really pleased to have them joining us this morning. Cooper has performed very well in the surgical market, in the ophthalmic market, with a lot of growth in their contact franchise over the last couple years.

This morning, we have Greg Matz, who is the VP and CFO. He is going to give a formal presentation and go through some slides on the Company. So I am going to take a break while he does his thing. Greg?

Greg Matz *- The Cooper Companies, Inc. - VP & CFO*

Matt, thank you. First, welcome, everybody. Thank you for taking time out to hear the Cooper story.

First off, for those who are in the room you can read the statement. For those of you online, let me just give you a couple highlights.

This presentation contains some forward-looking statements as defined by the Private Securities Litigation Reform Act of '95. We do have some forward-looking statements that necessarily depend on assumptions, data, and methods that may be incorrect or imprecise and are subject to risk and uncertainties. So for more understanding of our risk and uncertainties, please look at our Security Exchange Commission filings on 10-K and 10-Q.

So, again, thank you very much for coming to listen to the Cooper story. From a perspective of -- The Cooper Companies is a New York Stock Exchange Company. We are located in Pleasanton, California, and that is just outside of San Francisco.

We employ about 7,800 people and our business is in two different segments. The first segment is CooperVision, and that is about $1.2 billion. It is a contact lens business.

We are the third-largest manufacturer of contact lenses in the world. We compete in a $7.3 billion market, and our key competitors would be J&J Vistakon, CIBA/Alcon/Novartis, and Bausch & Lomb.

On the other side we have CooperSurgical. CooperSurgical is about a $250 million business. It is women's healthcare, focused on the OB/GYN and IVF, or in vitro fertilization.

We look at -- we just did our earnings announcement last Thursday night, and in that we announced we had $380 million of sales for the quarter, grew 16% year-over-year. We are up 11%, excluding currency and acquisition.

Our GAAP EPS about $1.50; our non-GAAP EPS was about $1.23. Difference between GAAP and non-GAAP is really that predominantly we had a $14.1 million business interruption claim that was settled; so that is the basic difference between those two numbers. Free cash flow for the quarter was $19 million.

Looking at our earnings per share, good story over this last few years. Grown, a compound annual growth rate of 27%.

And when you look at this growth rate what really highlights what the Company has been doing is we have been outgrowing the top line. We have been growing CooperVision 1.75 to 2.2 times the market. Over the last few years we have improved our gross margins every year systematically.

You look at our interest expense, something that is not really highlighted here, but if you go back to 2008 we had $50 million of interest expense and $905 million worth of debt. 2012 we ended the year at $12 million in interest expense and about $374 million in debt. So really that has had a big impact on our financials also.

Finally, more recently, operating leverage with our OpEx.

Look at our guidance; we revised the guidance on Thursday night. We have -- our total revenue, and I won't go through all of these numbers, about $1.575 billion to $1.625 billion in revenue. We are looking at GAAP or non-GAAP EPS of $5.95 to $6.10. Difference between GAAP and non-GAAP is basically the business interruption insurance I mentioned earlier.

Free cash flow, $170 million to $200 million; that was $210 million to $230 million. We did announce Thursday night that we have brought that down as we look to make some capital investments in our one-day business, specifically or predominantly around the silicone single-use.

Here is really the story of what The Cooper Companies is about and our management philosophy as we go forward. One, as I mentioned, grow revenue faster than the market. We are doing that in both businesses.

It is a little more difficult on the CooperSurgical side to show that, because that business really has no one-on-one competitor or peer. We have a lot of different products in that business, and people compete against the products; they don't compete against the portfolio. But we are growing that business well.

Expand our operating margins, going from the 18%, 19% to mid 20%s, and that is a threefold plan. One of the components of that is we do pay a royalty to CIBA, and the expectation is -- to get to the mid 20%s -- is that over time that royalty will expire and go away.

The other thing is we have some amortization. We will drop about $5 million worth of amortization in 2015 related to our Ocular Sciences acquisition that we did many years ago, 2005; so that will drop off $5 million. We have some other amortization that will drop off, and you will see that happen in 2014 and 2015.

The remaining bit is really operating leverage, to be able to get the leverage from the infrastructure that we put in place, the feet on the street we put in place.

Growing EPS faster than revenue. We have been able to do that; you saw the 27% compound annual growth rate. We continue to look at that as we look at our capitalization structure, as we look at our gross margins, improving gross margins, leveraging our OpEx. And again, we'd continue to see EPS growth in the double digits.

Generate $1.3 billion in cash. Even though we announced that we're going to do more CapEx in 2013 and 2014, we still see over this period, the 2013 to 2017, that we can generate the $1.3 billion in free cash flow.

The next two boxes, expand CooperVision and CooperSurgical geographically and also complete strategic acquisitions, these are really tied together. Because if you look at CooperVision, over the last few years CooperVision has grown in Eastern Europe, Poland, Hungary, Czechoslovakia, Asia, in Malaysia, Singapore, by buying out distributors. So our growth and our geographic dispersion has also come by buying out our partners who were selling our lenses.

We are also looking at China and India and focus Brazil. So like other companies, looking at the emerging economies and growing in those areas.

CooperSurgical, which was about 15% international up until July last year, when we bought Origio which is headquartered out of Denmark, and it was the leading in vitro fertilization company, IVF company, and now that probably doubled their geographic footprint. CooperSurgical has also grown, and their business model has been around investing in companies, and I will talk about that later. But they have amassed a portfolio of products focused on women's healthcare, mainly OB/GYN and IVF.

Let me just focus a little bit on CooperVision, give you a flavor. I mentioned they were the third-largest manufacturer of soft contact lenses. They employ a vast majority of our people, 6,800, headquartered also in Pleasanton.

Their manufacturing UK, Puerto Rico, and the US. The US is upstate New York. Our major distribution centers are in the UK, Belgium, and the US, which is also upstate New York.

Looking at the industry, give you a flavor of what the industry is doing. We are looking at a growth rate at 4% to 6%. If you look at the various lens categories, multifocal, toric, and sphere, you get a sense of where they are growing.

Cooper companies has always been known as a specialty company. We were the Company that did the lenses that really were the advanced vision correction.

When you look at lenses like the torics and the multifocals, those are more advanced vision correction than the sphere. We have held about 30% market share in those two categories.

So you can see the growth, multifocal growing the most. The main reason for that is we are having people, like myself, stay in contact lenses longer than normal. Usually when you get to that 40-, 45-year range and you find your arms aren't quite long enough to do the reading you want to do, people drop out and they go to glasses.

Multifocals are the most difficult lens to fit because you have three different vision ranges that you are focused on. What we are seeing is people, because of the technology and the comfort, are staying into their 50s and 60s wearing the multifocal.

Look at geography. Starting off, EMEA is our Europe, Middle East, and Africa. You can see geography-wise or geographically growth is about the same. Americas, we have got the BRIC, Brazil is in there, we have got Mexico, and other Latin American countries bolstering some of the growth.

Asia-Pac, you might say -- well, I would expect Asia-Pac would really be growing like crazy. Why is it only growing at 5%?

The reason being is that in Asia-Pac is Japan, and Japan is a very mature contact lens market, about $1.4 billion and growing at about 1% to 2%. So from that perspective, Japan is holding the region's growth rate down; but we are seeing strong growth in places like China and other Asia countries.

Looking at what drives the market. So we look at the contact lens business; what is actually giving us the growth? We talked about the geographic expansion, so that is one piece of it.

The wearer base we started to touch on. In the wearer base we are starting to see kids. Where usually 12 to 14 would get into contact lenses, now seeing people get into contact lenses at 10 to 12. So people are getting into contact lenses earlier.

We are seeing people at the other end of the spectrum staying in contact lenses longer, and so that combination is growing the market. Presbyopes are the people who can't get their arms out far enough to read the paper, so people like myself who are getting up in age and are wearing more of the multifocal/bifocals.

Better comfort. The whole industry is about comfort. The more comfortable you can make the lens the less dropout you have of people wearing contacts.

Increasing myopia and nearsightedness. There have been a couple of studies. One study would suggest because myopia is increasing in some cases, in certain countries, at an alarming rate. And part of it is, people suspect, using computers, using gaming toys where people are closely focused for hours at a time, are creating more and more myopia.

The other study I have seen -- and I am not a doctor or a scientist. But the other studies talked about people coming out of daylight and going into more artificial light, and that when they have seen cultures or groups of people switch from being outdoors a lot to indoors a lot, they have also seen an increase in myopia. So just something to keep in mind.

The last place we are seeing growth in the industry is what we call pricing modality. The first one is we have hydrogel material and we have silicone material. Silicone is the newer material, considered a premium material, breathes better in oxygen to the eye. So what we are seeing is practitioners are trading people up from hydrogel to silicone, and that is usually a 20% to 40% uplift.

The other area is single-use lenses. We are seeing people go from monthly or two-week lenses down to dailies. That, from a practitioner's standpoint, you see 4 to 6 times the patient revenue, 3 to 5 times the patient profit on those lenses.

So that is kind of -- if you look at it, those are the growth dynamics of the market.

The next thing, which I found interesting when I first saw this slide a couple years ago, is each geography has a modality. A modality is a daily, two-week, monthly; it is a period of wear.

In that, you will see in Asia-Pac one-days 59%. The reason why this number is so high, one, is Japan. Japan is a large daily market. I won't go into it here but there is a lot of history that goes behind why Japan had switched out of a longer-term lens to a daily lens.

You go to Europe, Europe has been pretty steady for a number of years. You can see their largest modality is monthly at 48%, with one-day being a close second.

Then you go to the Americas, and Americas it's the two-week segment. One of the things that we are excited about in CooperVision is that we weren't efficiently or effectively competing in two-week until we got Avaira back in the market. Now with our Avaira lens we are back in the two-week space with good opportunity.

The other thing that is interesting -- if you look at one-day at 21%, three years ago that was at 11%. So in three years a huge, almost a doubling of the one-day.

We look at patient fits, we are starting to see patient fits going out of two-week, going into monthly, and going into daily. So we are seeing the continual trend for dailies in Americas to go up.

Market share. We look at our market share, we have grown market share over the last few years, going from 15% to 18%. A lot of that is on the basis of our new silicone franchise.

We were late getting into silicone. We provide hydrogel lenses; we provide silicone lenses; we provide all modalities. But we were late getting into silicone.

So we started to regain some lost share and really building a good pace of market share based on our silicone family, led by Biofinity. The other competitors, CIBA and J&J, have been pretty constant over the last few years, and our share probably coming at the expense of B&L and others.

I mentioned about growth. This is just to pictorially show you that we have outgrown the market 1.75 to 2 times the market. You can see in current year '12 -- and this is the CLI data, so Contact Lens Institute data -- market grew 5%; we grew 11%. In the fourth quarter the market grew 5%; we grew 10%. So again, good growth coming from our dailies and our silicone family.

Looking at some of the actual products, you can see Proclear 1-Day, it's our non-silicone material, actually doing very, very well. One of our best performing one-day products.

2009, we see the Biofinity Toric; 2010, Avaira Toric. We just relaunched the Avaira Toric at the end of last year. That is doing well. We saw Avaira, the family, go up more than 50% year-over-year, so good growth this past quarter.

Biofinity Multifocal, fairly new; we launched it probably about 18 months ago, but we have not launched it globally. We are continuing to launch it in more and more places. Doing very, very well.

I wear this lens, love it. It is probably one of the best lenses on the market, in our opinion, and we are really seeing some good growth out of it.

Proclear 1-Day Multifocal. I actually also wear this one. When I am traveling I usually throw a handful in my bag so I can skip the solutions and just pull out a lens when I need it. That is also -- that was launched just a few months ago, and it is also doing very, very well.

Finally, the silicone hydrogel one-day. Brand-new lens, we have been trialing it out in Europe, in various parts of Europe. It has done very well; the clinicals have gone very well; we are very excited.

We still see silicone one-day as a niche market. But we do see the fact that that market will develop over the next three to five years.

It is really not about lens quality, but more about cost to manufacture. Silicone is more expensive. All of us, J&J, CIBA, ourselves, have to be able to get the price, the cost of that lens down for that lens to be a viable market lens.

CooperVision, again, I mentioned that we had our earnings call on Thursday night. CooperVision grew. Total sales $301 million, grew 12%; 14% in constant currency. And that was on the strength of our silicone family and our one-day family.

Sales by geography, if you look at Americas grew 18%; Europe grew 7%; Asia-Pac grew 10% -- 17% in constant currency, which there is the difference is in the yen. The yen has had a big impact on us. We have $200 million plus in Japan annually, and so we definitely feel the yen.

Looking by category, and I won't go through each of these, but generally each category is growing 12% to 13% in constant currency. Our multifocal, as I mentioned before, 31%; so really strong growth, real strong growth against the market.

If we look at material, our silicone family grew 38%. So 40% of our total volume is in silicone now. Then our Proclear family, which we have had for some time, led by the 1-Day Proclear lens, up 7%; 8% constant currency.

Let me spend a little bit of time on CooperSurgical. Again, our premier women's health business, focused on OB/GYN and in vitro fertilization. They're headquartered in Trumbull, Connecticut, and they also have core operations not only in Connecticut in the US, also Texas and a couple other states, but also Denmark is our headquarters for Origio, the company we bought last July.

Surgical announced sales of about $78 million, up 37%; 1% excluding acquisitions, which is basically excluding Origio. On the conference call, Bob, our CEO, threw out the 7% growth number, and that number is really focused on the fact that we had an in vitro fertilization business called Sage. We bought Origio.

When you start to integrate those businesses, some of the lines start to become fuzzy, as they should. The better you integrate, the more you lose both businesses and you have one business.

So if we had had Origio all the way back in the first quarter last year, our growth year-over-year would have been about 7%. That is our estimate, our base CooperSurgical growth.

Outside of IVF, we have two other businesses. One is the office, so the OB/GYN. The other one is the surgical procedures or surgical/hospital.

So we had some tough compares this year versus last year. We had some strong growth last year, Q1 '12. So in the office space we actually saw that decline 3% year-over-year.

In the surgical space, that actually increased 9% year-over-year. Again, both of those are against some very strong compares from the prior year.

If you look at the percentage of our business, you can see fertility now is about 30%. Our office is about 38% and surgical 32%. So all of those businesses pretty close.

For those of you who are tracking women's healthcare and medical devices, a lot of these names you probably resonate with or you will be familiar. These are the acquisitions we have done over the last few years, 30 acquisitions since inception.

Again, the business model of this business is really to go out and identify leading-edge and new technologies in women's healthcare, again specifically around OB/GYN and IVF, and add that to the portfolio. CooperSurgical is in a unique position that we have amassed a portfolio that is not a direct competitor with anybody. Each of our products have competitors, but nobody has put together this kind of a portfolio.

In summary, let me just give you -- leave you with five key takeaways for our business. First is we're operating in two solid markets with high barriers to entry.

If you look at contact lenses, capital intensive, but it goes beyond capital. It goes to -- we are building a device that goes in somebody's eyes. We have a relationship with doctors; we have worked with the FDA; there is a lot that you have to do to be in this business. So you can't just step into this business.

On CooperSurgical, I mentioned the portfolio. Again, we have competitors on every product we have, almost; except nobody has the portfolio, nobody can take on the whole portfolio. So we are a one-stop shop for our doctors and for the hospitals in a lot of the OB/GYN products.

Revenue growth exceeding market. We see that on both businesses. It is harder to pull out for CooperSurgical because we don't have a one-on-one competitor.

Easy for CooperVision. Again, this past time grown over 2 times the market.

Looking at investing in the infrastructure. Very, very important. As we look at our infrastructure it is not just putting in the capital in place, which we are obviously doing and focused on, on getting stronger in the one-day market and the one-day silicone market.

But it's also putting the feet on the street, the marketing that goes behind it. Social marketing, if you look at the fact that that is changing the way that the world learns about products, a lot of our products in CooperVision, are kids. And kids are into social media, and so how does -- what does that mean? So looking at the structure for that.

Investing or looking at positioning for our long-term objectives and track record of success. I think when you put both of those together we have put that business together, both businesses, so that we can hit our objectives.

We have done great in outgrowing the market on a revenue side. We have improved our gross margins. We have brought down our debt. We have been able to do acquisitions, tuck-in acquisitions, in a variety of our businesses, including geographic expansion. We have really positioned ourselves well.

As you look at our list of products, we sell all modalities. We sell hydrogel and silicone. We do private label. We really opened our business up and really feel that we are in a great position as we go forward from today, which has had great success over the last few years, a tremendous first quarter. And going forward now for the next few years, we feel we are very, very well positioned to build shareholder value in the coming years.

With that, thank you for your attention and I know we do have a breakout session in a few minutes, I think, down the hall.

Matt Taylor - *Barclays Capital - Analyst*

Yes, the breakout will be in Poinciana 4. So we will break --

Greg Matz - *The Cooper Companies, Inc. - VP & CFO*

Did I take your job, Matt? Sorry about that.

Matt Taylor - *Barclays Capital - Analyst*

Okay. Well done. Thanks. Thank you for your time.