

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

COO - THE COOPER COMPANIES, INC.
AT JPMORGAN GLOBAL HEALTHCARE
CONFERENCE

EVENT DATE/TIME: JANUARY 11, 2012 / 7:00PM GMT



CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Kim Gailun *JPMorgan - Analyst*

PRESENTATION

Kim Gailun - *JPMorgan - Analyst*

Good afternoon. I'm Kim Gailun with the JPMorgan Medtech team. Presenting next, we have The Cooper Companies, and we are thrilled to have with us today, CEO, Bob Weiss. I just wanted to mention, before I turn it over to Bob, two items. The first is, please turn off all cell phones in the room, and the second is that we will take all questions in the breakout room, which is in the Sussex Room, down the hall here to the right.

So, Bob?

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

All I can tell is some of us are on East Coast time. It's morning in California, but that's okay. By the way, my voice has gone a couple of times this morning as we had one-on-one meetings. If it does, I'm going to quickly sit down and I'll wait, I'll get up and finish my sentence and keep going. So, bear with me, but we'll hope for the best here.

First of all, The Cooper Companies is a New York Stock Exchange company. I'll let you glance at the forward-looking statements. And obviously, anything I say that's forward-looking is covered accordingly.

As I indicated, it's a New York Stock Exchange Company. It has revenue of around \$1.3 billion. It has two primary -- two businesses. CooperVision is our contact lens business, soft contact lens business, represents 85% of the overall revenue. The soft contact lens business is approaching \$7 billion now, \$6.9 billion this year probably. We are the number three player in that market with really four primary players, J&J Vistakon, Ciba, Alcon, part of Novartis, Cooper and Bausch & Lomb.

We make 1.2 billion lenses worldwide, and of those we make 10 million in the US and the balance are made in Puerto Rico and in the UK. So, very much CooperVision is a global business.

Two thirds of its revenue is outside the US and essentially most of the production outside the US. I say that because it's important that when you look at Cooper, some of the questions we frequently get is why women's healthcare, and I'll try to hit that head-on right now when I talk about CooperSurgical.

CooperSurgical is our women's healthcare franchise. It represents 15% of our business, but importantly, 85% of that business happens in the United States. So, it's very much US-centric. From a tax perspective, since we have so much activity offshore, we need someone to pay our corporate overhead [L&I up here]. So, what CooperSurgical does is it generates significant profits for us in the US and that's an integral part of the way Cooper is structured today with an effective -- a pretty low effective tax rate.

Since CooperSurgical is a US business, its primary focus is on the OB-GYN, which is more US-centric, as a profession goes and if you were to go to Europe and various other parts of the world. We have over the last 20 years accumulated about 30 acquisitions, put them together that they formed essentially a \$200 million plus business with over 600 different products.



Cooper recently came out with its year-end earnings. We're a October 31st Company. We announce them in mid December, revenue of \$1.3 billion, up 15%, 11% in constant currency and importantly 8% in organic constant currency. A lot of that is a function of the fact that contact lens business is very recession-resistant. So, even when the economy goes soft, we do pretty well.

Second part of it is, Cooper has been gaining market share and we'll get into that in a little bit.

We also reported very strong earnings per share, GAAP earnings per share of \$3.63 and non-GAAP earnings per share of \$4.50. If I back up to the beginning of the year, we put our guidance -- the upper end of guidance was \$3.50. So we obviously didn't do a good job of giving guidance last year. Said another way, we had a fabulous year. I'm very, very happy with those things that went right and we're pretty proud of them.

We also generated a lot of cash, \$233 million in free cash flow of which \$79 million was delivered in the fourth quarter. Finished on a solid note from a revenue point of view with our fourth-quarter revenue up 15%, 12% in constant currency and once again, 8% in organic constant currency and reported non-GAAP earnings per share of \$1.46.

In mid December, we delivered guidance. This guidance is as of that point in time. I won't spend a lot of time on it other than say that while we had 8% organic constant currency growth this last year, we're guiding basically to about 6% is the mid point of this guidance.

We look for the contact lens industry to grow in the range of 4% to 6% which is what we had targeted this year. This year it looks like it's going to come in at around 4.3% depending on where the fourth quarter shakes out. So, we think that rather than assume that we are going to grow, as we did this year, close to double the market, we're assuming in this guidance about 1.2 times the growth of the market and that the market, the mid-point of that range is 5%, we will grow 6%.

Women's health care is targeted to grow 6% and that likewise they are in a mode where they grew 8% last year. All of that was market -- gaining share if you will.

The market in women's healthcare, unlike the contact lens market, is not as recession-resistant and in fact, pretty much went flat during the '09 and '10 era and is now showing modest signs of improvement. But our women's healthcare business has grown by basically the execution of the strategy of integration having critical mass to have a national sales force and leverage the product portfolio.

We also gave guidance on earnings per share of \$4.80 to \$5 for GAAP and non-GAAP, emphasis is non-GAAP in this case and the midpoint there is about 9% growth. We had indicated we expect it to grow double-digit bottom line. That's basically the delta between the 9% midpoint and achieving double digit is we plan on investing in market expansion, geographic expansion into China next year and that will dilute earnings somewhat. We expect another year of solid free cash flow, \$200 million to \$230 million.

Let's talk about our long-term objectives. We expect to continue to grow faster than the market. At CooperVision, the market we expect to grow in the 5% to 7% range and to continue to gain share. And in women's healthcare, we continue to expect to gain share in the marketplace by having created the critical mass we have. And in many cases, we're competing with private companies and/or companies that have just little niche products.

While we are doing a solid growth on top line, we expect to expand our operating ratios, improve gross margins, and improve operating cost ratios over the next five years. I'd actually like to take it out one more year to six years. This last year, we had operating income grow from 18% operating margins last year to 19.5% this year, 150 basis points. Over the next five years, we expect to improve that upwards -- the operating margin upwards to around 25%. A good chunk of that is royalty expiration we pay and 8% royalty on our silicone hydrogel lenses. They are 34% of our business, so that's a big chunk. That expires -- initially, the US expires in September of 2014 and outside the US in 2016, in March of 2016. So, that will help us get halfway there and then the other half is leverage points.

Offset partially against that will be continued investment in geographic expansion which will put some pressure on the operating margin performance, particularly if we expand more aggressively into BRIC countries. And as I indicated, we're getting into China more aggressively this year.

Growth in earnings per share should be faster than growth in operating margins. And that's a function of not only the operating margin contribution but below the line improvement in interest expense as we generate free cash flow.

What do we do with the cash? We expect to generate more than \$1 billion in cash in next five years, and of that we will continue to invest in geographic expansion, we will continue to invest, as we did this last year, in sales force expansion and R&D expansion. This past year, we grew our sales force, in 2011, 24%. So, there was a lot of emphasis on -- now we have the products. I'll get into that in a little bit. Let's see how good those products are and let's get more feet on the street.

We are very under indexed compared to our competitors by and large. That would be aside from women's healthcare. Clearly in women's healthcare we have the critical mass there. But we have been expanding in women's healthcare also.

In addition to geographic expansion and investing in R&D and the sales force, we will continue to be active in acquisitions. This last year, we spent \$50 million on three acquisitions, Aime transaction early in the year in Japan for our Biofinity product line into Japan, as well as two women's healthcare acquisitions, one recently announced, that was in Denver, Colorado area, which has Dopplers for example. So, all up, we spent \$50 million acquiring this past year.

We also recently announced in December that we are prepared to do a buyback of stock upwards to \$150 million in 2012. So, that is another option available depending on quite frankly, other options on what's available from an acquisition point of view and various other factors.

Lastly on complete strategic acquisitions, I emphasize that we will -- basically we've done 30 acquisitions in women's healthcare in the last 20 years. By and large, we look to try to do two a year. I don't see any change in our attempt to do acquisitions going forward. Some of them will be oriented towards geographic expansion, getting beyond the US and some of them will be on the -- focused in on what the gynecologist does in the various areas. We target them, the hospital, as well as the office, as well as the IVF centers.

CooperVision, just briefly, I don't want to spend too much time on this, but delivered solid results in 2011, 16% top line, 11% constant currency and importantly grew 8% in a market that's growing 4% where in the Americas it grew 10%; in Europe, 4% in constant currency; Asia-Pac, 29% constant currency. So, what the drivers were in the Americas was silicone hydrogel and the trading up to one day.

In Europe, it was silicone hydrogel and one-day expansion also, one-day disposables that is. In Asia-Pacific, it also included the acquisition of Aime early in the year, which contributed about \$30 million in revenue last year, as well as solid growth in our one-day Proclear, one-day into the market. And then we also, because of the Aime transaction, accessed the \$400 million silicone hydrogel market in Japan with Biofinity.

Relative to by category, Cooper has historically been very strong in torics and multifocal. In this case, all of our categories did well this last year. Torics up 12% constant currency on the strength of Biofinity Toric. Multifocals up 10%. We are now happy to say we rejoined that market growth with Biofinity Multifocal, which we launched in June. Then there is the single-use sphere, which is Proclear 1 Day, which did very well and very effective in the Japanese market, which is predominantly a one-day market and then other single-use spheres which includes Biofinity and Avaira, as well the Proclear family.

Two key materials that we talk about is the Proclear material which represents about \$300 million of our business, 26% of it, and that grew 6% on the strength of the 1 Day, and then silicone hydrogels where we grew 39% in a market that grew 9%. So, we're doing very well with our family of silicone hydrogels, which is Proclear and Avaira.

We have a family of products and I think that this portrays well what our strategy really is that we have Biofinity, which is a one-month product, we have Avaira, which is a two-week product, and we have Proclear which is a one-day product. And I will show you in a minute why that's so important, but the key part of our strategy is to play in all three markets and not exclude any one of them.

We also, when you cut it the other way, by a way of type of lens, we have Biofinity, Biofinity Toric, Biofinity Multifocal and that's the different types of categories, and I would say this is the best-in-class product family that we have with Biofinity. It's obviously been doing very well in a competitive

environment, and part of our strategy is to continue to be solid when it comes to torics and multifocals, but also to enter and be a more substantive player in the area of spheres, including 1 Day.

The competitors, who are they; j&j, 44% which is Vistakon; Ciba, 22%; cooper, number three, 17%; and Bausch & Lomb, 13%. J&J is very solid in the US and in Asia-Pac. Ciba on the other hand is currently the market leader in Europe.

This is probably the best slide that really captures what is the contact lens industry about. It is not one size, it fits all. What we like in America is different than what they like in Europe, is different than what they like in Asia-Pacific. In the US, the two-week, or so-called two-week market is the largest piece of it, 58%. On the other hand, the fastest-growing market in the US now is the daily market, which is 13%. That 13% is headed up to about 17%. By the way, these are last year 2010 numbers. So they have yet to be refreshed for the final numbers when they come in for the calendar year 2011. But my guess is the daily will considerably go up.

In Europe, daily is a big part of the market and monthly, but they do not believe in the two-week market. They basically say if it's a two-week and you [wear it a] month because of lack of compliance, call it what it is, call it a monthly. You go to Asia-Pac, and Asia-Pac started very much as a one-day market because Japan specifically didn't like chemical disinfection, said boil them every day and as a result of that the market took off and migrated to one-day, throw them away every day and they are by far, the most compliant and they actually are by far the area that pay the highest amount per one-day lens in the world, nearly double what we pay in the US.

The two-week market is -- a so-called two-week market -- it's -- in Japan, what is monthly outside of Japan may be two-week. For example, Biofinity is called a two-week product in Japan. That's a regulatory process where you get lenses approved for a certain wearing regimen, this case two weeks. They are not big on monthly at this juncture.

When you put it all together from a global point of view, daily is 34%, weekly is 36%, and monthly is 30%. Importantly, when we look at the competitors, J&J does not sell monthly. So they basically have 44% of the market, yet, they are only participating in 70% of the market. So, it shows just how effective they are, where they participate and that's the plus and I would say that's also the minus. That means how much better could you get in those areas, and how could you ignore 30% of the market.

Ciba on other hand, which has pretty much vacated the two-week space now only promotes monthly and daily and Bausch & Lomb, monthly and daily, but really does not promote two-week. Cooper does not [pick it]. We go into a doctor and we you decide if you want a two-week, you decide if you want a monthly, we're not going to tell you what to take, we have one for each, a one-day or two-week and a monthly.

As far as the market growth from a product type point of view, we envision the market growing 6%, post-recession I'll say, so 5% to 7% and that the torics will be 8%, multifocal has a lot of room for growth 20%, and spheres, 4%. I might point out that this last year, the torics have come in basically at 8%, multifocal actually slowed up more like 8%, but we expect that to rebound.

From geographic point of view, once again the 6% is foretasted as the overall growth, 7% from Europe, 4% from Asia-Pac, and 7% from the Americas. Obviously, with things going on in Europe more recently, that 7% actually in the last quarter turned out to be only 2%. But prior to this last quarter, Europe has been the star for the last three years. Whether or not it will get back there and how much the overall European financial crisis plays into that and how long remains uncertain, but I would say it turned in a disappointing 2%. I'm more optimistic that with the expansion into Eastern Europe and a lot of opportunity that it will continue to regenerate back to the [7%] level.

A lot of that would be trading up to silicone hydrogels, greater expansion of torics and multifocals and a continuation of trade-up of 1 Day. The 1 Day importantly is a trade-up of 4 to 6 times revenue. I neglected to point that out, but when I talk about trading up silicone hydrogel is a trade-up from a hydrogel of about 20% to 40% and a 1 Day is a whopping 400% to 600%. So, we really get a lot more revenue per patient when we move them into one-day modality.

Geographically, in Asia I'm looking for, basically Japan to accelerate a little and China to uptick and all of Mainland Asia to uptick. So, I would expect if anything, the 4% may prove over time to be a little conservative. In the Americas, we have favorable demographics actually from the baby boomer as well as the trading up to one day which as I pointed out is a 400% to 600% trade up. So, I think that will continue move the needle.

Importantly, silicone hydrogel materials are now 43% of the market and Cooper is at 34%. We've obviously been gaining share in this area and a lot of that has to do with the product family portfolio and just how well Biofinity has been accepted in the marketplace. How far will this go over the next five years, I think that 43% will migrate to the upper 50%. The big unknown is the one-day modality at this point in time. I think over the next five years, the one-day modality trading from silicone to a -- hydrogel to a silicone hydrogel has limited potential until the cost comes down. It's more a niche, in my opinion, than it is a full market, at least in the short term. Time will tell.

At any rate, Cooper would be prepared to come into the one-day silicone hydrogel market if it really does develop of any substance.

As far as Cooper's family of products, look for us to get back on the market with Avaira Toric and use that as a catalyst to make sure we have a family of products and not only the monthly with Biofinity, but in the two-week space. And then as I indicated, if the one-day market does develop, we will enter that market.

Just some brief comments on women's healthcare. Had a stellar year last year of 12%, 8% excluding acquisitions and our star performer has been surgical. We closed two acquisitions there. We have 600 different products in 19 different product categories. Our surgical procedures have done real well. They are now 36% of our revenue. We have sales forces that target the surgical procedures, fertility clinics, as well as the office and there are separate sales forces that target each.

We have a very extensive customer base, obviously, given the breadth of our product line and our market focus.

The acquisitions we did this year, I mentioned Doppler Systems, which was in Colorado, as well as Apple Medical, which I call the little apple, not the big apple and there that was a cesarean section product for OBGYNs. In total, we picked up a \$5 million revenue there and \$8 million in Summit Doppler.

In summary, the key takeaways are we have two solid operating businesses. Our revenue growth has been exceeding the market and we expect it to continue to do so. We are investing in the infrastructure both the sales force and in R&D, as well as geographic expansion. And we are positioned to attain our long-term objectives and have a solid track record.

And with that I have 18 seconds and I will conclude. Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.