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PRESENTATION

Greg Matz - *The Cooper Companies - CFO, Chief Risk Officer*

Good to go? All right. Well welcome everybody. I thank you for taking time to hear a little bit about the Cooper story. I'm Greg Matz. I'm the Chief Financial Officer and Chief Risk Officer for The Cooper Companies.

To start off with we'll go through the standard forward-looking statements and Safe Harbor. You all can read that. For those that are on the phone, basically the presentation may mention forward-looking statements and estimates. Actuals can be different. See our 10-Q and 10-K for our risk factors. Any information or reference to non-GAAP numbers can be reconciled to GAAP on our investor relations website.

The Cooper Companies. We are a medical device company. We have 2 business segments. The first segment, 80% of our business, is CooperVision. And CooperVision did about $1.3 billion of the revenue in 2013. Has about 7,000 employees. And we are the third largest provider, manufacturer of contact lenses in the world.

If you look at the market we serve, it's about $7.5 billion. The 2 leading competitors in that market would be J&J at about 43% market share, CIBA at about 25% market share. Market $7.5 billion, growing 4% to 6%. Recently has been closer to the high end of that range.

On the other side of the house we have CooperSurgical. And this is our OB/GYN business along with our IVF, in-vitro fertilization business. It did about $320 million last year. It has about 1,000 employees, and again focused on an OB/GYN. We serve the doctor in the office, in the surgery center, in the hospital. It's grown through acquisition over the last 25 years doing about 30 tuck-in acquisitions and also has about 600 different products.

We look at The Cooper Companies and look at where we've been this last year. We're about $1.6 billion. We have an October 31st yearend. Up 10%, 8% in constant currency and excluding acquisitions. Our free cash flow, about $239 million.

Q1, we just had our earnings call Thursday night, so all our numbers are pretty fresh. $405 million, up 7% as reported, 11% year-over-year constant currency and excluding Aime. Aime is a Japanese business that we bought a couple of years ago. We bought it for many reasons. One of the pieces of it that we did not want and eventually divested was the hard contact lenses and solutions piece. And so that's -- when I refer to excluding Aime, that's that particular piece. It was about $7.2 million this past year, or this past quarter.

So looking at our growth for the first quarter, GAAP, non-GAAP, we did about $1.47 both. Non-GAAP was up about $0.24 year-over-year and free cash flow about $9 million. Q1 is our lowest free cash flow quarter, and that's just a seasonal historical thing.

Look at our earnings. So over this period of time, a compound annual growth rate of about 22%. And that growth has come from a variety of things, starting off with gross margin improvement. Up until recently we had significant gross margin improvement each year and followed up by interest expense savings. Just to put some context around it, our interest expense in 2008 was $50 million and our debt was $905 million. At the end of 2013 our expense was $9 million and our debt was about $344 million. So give you a flavor. So we've had significant savings on the expense line or interest expense line, and more recently starting to see the leverage on SG&A, and that's helping to improve margins.

Another thing to point out here that's pretty relevant is currency. We've had FX headwinds in the last couple of years. In 2012 we had a $0.40 headwind due to the euro. In 2013 we had a $0.50 headwind due primarily to the yen. And in 2014 we're right now, based on the rates of last Thursday night, we would expect about a $0.22 headwind in 2014. So even though we've had great growth in earnings per share, you can see we've been able to grow despite some of these headwinds.

Guidance. Thursday night we did modify our guidance slightly from our annual guidance. We raised the bottom of the revenue range up $10 million. We took the top down $10 million so the center point is still the same. Looking at $1.685 billion to $1.725 billion for The Copper Companies.

We accomplish that by taking CooperVision up $10 million on the bottom, leaving them alone on the top of the revenue line, and then CSI, our CooperSurgical, we took their top end of the range down to $330 million, so $10 million.

GAP and non-GAAP earnings per share, moved that up $0.05, $6.75 to $7.00 from $6.70. And that $0.05 move really is reflective of a couple things. We beat consensus last week by a couple of cents and also we had bought some shares back in January and see that being up to a $0.04 positive in the fiscal year.

This line gives you the perspective of what The Cooper Companies is all about. Here are the key objectives as we look at it and we manage our business. The first one, grow revenue faster than the markets. And I'll talk to this a little bit later, but in the contact lens business, the last couple years growing more than 2x the market, so 2 times.

On the CooperSurgical side, a little harder to tell because we don't have competitors that compete against CooperSurgical. What we have is 600 products and competitors to compete against different products. But we believe that we're outpacing the women's healthcare market.

Grow earnings per share faster than revenue. You saw the 22% compound annual growth rate for the last 5 years. We mentioned the FX headwinds that went against that. Operating margins, we expect in 2018 to have operating margins in the 25% range. We finished the quarter at 20.2%. Our guidance for the year is approximately $0.22 operating margin.

Generate over $1.3 billion in free cash flow. Again, important, we've been generating the last 3 years in that $230 million to $239 million worth of cash flow. Our guidance would suggest -- our guidance has basically said that we will grow north of 200 on free cash flow. This past couple of years, heavy CapEx expenditures as we expend money on lines for single use and a silicone single use.

Expanding geographically. Both businesses have expanded. We bought an IVG company to supplement our existing IVF company in July 2012. That business had heavy partnerships and organizations in Russia, China, India, parts of Europe. And so CooperSurgical's really expanded their geographic footprint through that acquisition. CooperVision has always done a variety of geographic distributors and bought out distributors, plus direct sales in a variety of companies, most recently Columbia, but doing work in China, doing work in Russia, Turkey, et cetera.

Looking at CooperVision specifically, again the third largest manufacturer of contact lenses, 7,000 employees. Headquartered in Pleasanton, California, so in the Bay Area, San Francisco Bay Area. Main manufacturing sites would be the UK and Puerto Rico, and that's where about 99% of our lenses are actually made in those 2 locations with some handmade lenses, [lathing] lenses done in Upstate New York and a little bit in the UK.

Taking a moment and just looking at the market. So we look at the market, estimated in 2013 to be about $7.5 billion, growing 4% to 6%, and again, toward the upper end of that range going forward. So market growth at 16%, multifocals growing at 10%, torics at 8%, and spheres at 5%. If you look at multifocals, good growth in the multifocal side, and this is people staying in lenses longer as visual acuity and comfort increases. We actually have people coming into lenses later and going directly into multifocals, for those people who, their arms aren't quite long enough for the reading material that they have, presbyopia. And so that's good growth in the markets and also in Cooper Companies.

Look at geographically, so geographically see Americas growing at 7%, EMEA which is Europe, Middle East, and Africa growing at 6%, Asia-Pac growing at 5%. The reason for Asia-Pac, Japan is part of obviously Asia-Pac. Japan is growing about 2.7% last year, and so that weighs down the overall average for Asia. Japan's the second largest market for contact lenses.

When we talk about how do we expand the market, so from all companies looking at this geographic expansion we touched on, wearer base expansion. A couple of things to be considering here. One, children are getting into lenses earlier and earlier, so wanting to wear contacts versus glasses. So we're seeing the market grow there. And people are staying longer. So presbyopes, like myself, I know I'm wearing glasses right now. It's been a busy day. I haven't had a chance to actually get them in yet, but staying into contacts much longer because of the comfort and the acuity.

Increasing evidence of myopia. So myopia, near-sightedness, is increasing. And part of that they attribute to you've got a lot of kids that are holding gaming devices and iPads and iPhones 6 inches away from their face for 20 hours a day and they think that's having an impact on increasing myopia.

Other studies have also just suggested people who've come out of an outdoor environment, farming, agriculture, moving into a factory internal environment, they also believe that that's also increasing myopia, and they have done a number of studies in India and Singapore to kind of validate that.

The other area of growth in the contact lenses is what we call pricing and modality. And so from a pricing standpoint, you have different types of materials. Standard material, hydrogel, [hembra kind of] lenses, and then you have silicone hydrogel. And so a silicone hydrogel, that grows and about 48% of the market is silicone hydrogel. That material commands a premium, and it can be up to 20% to 40% as you move from a non-silicone lens to a silicone lens.

The other area of growth in the market is single-use lenses. So as you go from let's say monthly lens to a daily lens, that provides a multiple effect to profit for the doctor and for the companies along with multiple 4 to 6 times the revenue and 3 to 5 times on average the operating margin.

Slide pretty interesting to me. If I look at this, each geography -- if you look at modalities, if you don't [follow us], so modality is a daily, a 2-week, a monthly. Those are the primary modalities. You can get quarterly, you can get annual, but the 3 that you really see are those 3. Each region has a different modality that they focus on. So Asia-Pac is heavily dailies, and that is driven by Japan. There's a lot of historical reasons for that. But again, you can 60% dailies.

When you go to EMEA, mainly a monthly. That's what you see, but you see dailies a strong second. And when you look at Americas, we're 2-week. This is the J&J stronghold in the 2-week market. But you also see dailies at 23%. Four years ago dailies was 11%, so in 4 years dailies have actually doubled.

When you look at the 2-week market, that market is shrinking but it's still a $1 billion market. So when you look at new fits, what you're seeing is all 3 of these modalities are being fitted, but you're seeing a loss of share in fittings in the 2-week and that's going to dailies and it's going to monthly. And that's been a pretty steady pattern over the last couple of years.

On the 1-day market, 40% globally. The belief is and we lost visibility to this, but we believe that silicone dailies are about 10% to 15% of the total, so you're looking at a market of about $400 million. We have lost visibility because a couple of the other manufacturers have stopped providing that information to the contact lens industry.

Market share. You can see that we've grown our market share over these last few years. Part of this relates to the fact that we were behind on silicone. We missed the boat early on, and over the last few years we have come back and regained market share. When you look at our portfolio, hydrogel -- we have hydrogel and silicone. Our hydrogel portfolio is growing, and I'll touch on that in a second. Silicone, we have a silicone monthly, Biofinity, a premier product. We have silicone Avaira, 2-week, and we have MyDay, which is a silicon daily which we're just bringing out and been selling in Europe this last year. So from a market share perspective, again, about 19%.

Real quickly, the yellow or orange, however you see that bar, that's the industry growth rate, and the blue is Cooper. And again, the last couple years we've been growing 2x the market.

These are some of the key products, and the message here would be simply that we've brought out a number of key products that have been recognized around the world in various trade shows and British Contact Lens Association, probably the most prestigious contact lens association that's out there, recognized some of our key products as product of the year.

Looking at CooperVision, again mentioned they were $1.3 billion, up 7%, 10% constant currency last year for the quarter. $326 million, up 8% year-over-year and 14% excluding constant currency and Aime. And again, Aime was $7.2 million in Q1 '13.

Look at by geography, good news, all geographies double-digit growth. Americas 13%, EMEA 13%. You look and say well Asia-Pac at 6%, that's not double digits. But if you pull out Aime, actually Asia-Pac grew 17%. So Aime, all of Aime's business was in Japan, so that's why it plays in that space.

If you go look at categories, again, double-digit growth across the board. Torics up 12%, multifocals up 24%, a category that's been growing leaps and bounds for a couple of years. Non-single-use other 6%. Again, this is where Aime sat in the others category, and if you take that out, this category actually grew 13%. So again, geographically growing well, product growing well. Our silicone sales are up 30% making up about 47% of our portfolio on the contact lens side. And Proclear, our hydrogel material, growing 12%. So a market growing 4% to 6%, and we've got a hydrogel that's growing 12%, and this is the whole portfolio. We don't disclose our daily piece of this which is actually growing much faster.

Give a little bit of time to CooperSurgical. And again, CooperSurgical's headquarters is in Trumbull, Connecticut. Our IVF, or in-vitro fertilization business is mainly done out of Denmark. We have a California operation that is joined with Origio, the company we bought in July 2012. This business is about two-thirds OB/GYN and one-third, 35% IVF.

Looking at 2013, sales of about $320 million, up 25% year-over-year, 3% after acquisition. If you look at Q1 '14, sales $79 million. Pretty much flat, three-tenths of a point percentage growth for the year. Office and surgical were down 6%, and if you look at Pro-Logic, Boston Scientific, J&J, J&J reported numbers just 4 or 5 weeks ago. Their women's healthcare business I believe was down about 12%. So we're seeing the impact -- the continued impacts of the struggle with Obamacare and getting -- where are we going with healthcare? Who gets what? How is it provided? We are seeing across the board fewer office visits, so right now a decline in office visits, a decline in hospital procedures. You're seeing health insurance where you have the high deductible plan and that having an impact. So a lot of turmoil in the women's healthcare, in fact in the medical industry.

Fertility, we did see fertility, IVF grow 15% for the quarter year-on-year, so good growth there.

If you're in this space, if you're a doctor in this space or you follow this space, these are all names that you will know. Again, 600 products. These are some of the product families that are well known in the industry and across OB/GYN but also there's some general surgery, like the Carter-Thomason Closure System. I had a double hernia operation a year ago and they used that product. So we have products that we don't push into other places but have the potential to grow in those markets.

In summary, let me just leave you with a few points. First one, we're operating in 2 solid markets with high barriers to entry. And when I say that, on the CooperVision side, very capital intensive. You listen to J&J, you listen to CIBA, getting in this market and keeping current, very CapEx intensive.

The other barriers to entry are the relationships with the doctors, that both businesses have strong relationships with the doctors. The other one is the strong portfolio of products. If you look at CooperSurgical, I mentioned 600 different products. We've got CooperVision where we sell hydrogel, silicone, we sell dailies, 2-week, monthly. We're able to cover the broad spectrum and meet whatever the eye care practitioners' needs really are.

Look at revenue growth exceeding the market. I mentioned CooperVision growing 2x the market the last couple of years. CooperSurgical, harder to get a number on CooperSurgical, but we clearly believe that they're growing above the market.

Investing in the infrastructure of the business, another thing that we've done over the last couple of years. So in both businesses we've added feet on the street. So looked at where we're selling, where we're under index, and made sure that we had the right sales commitment and marketing commitment.

In addition we've also looked at manufacturing and a lot of effort to improve efficiency and manufacturing and reduce costs for manufacturing efficiencies. And the last area we've really invested is R&D, and that's mainly the D, the development versus the research. And so we've done a number of investing there. We grew R&D this quarter 1 over last about 15%, and our guidance has said that we would continue to see it growing probably above revenue for the rest of the year.

And then finally, positioned to achieve long-term objectives and a track record of success. We believe if you look at this business over the last few years, we have set out aggressive goals, we've delivered on those goals, and that we're well positioned to go forward into the future.

So with that, I want to thank you for taking time to hear the story, and we do have a breakout session after this session. Good, thank you.