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PRESENTATION

Anthony Petrone - *Jefferies & Co. - Analyst*

Good morning, everyone. Welcome to the 2016 Jefferies Global Healthcare Conference. I'm Anthony Petrone in research here with the team.

Up next we have Cooper Companies. We're happy to welcome Albert White. He's the Chief Strategy Officer.

We will go for about 23 minutes or so and then we have a breakout scheduled in Juilliard downstairs. I hope you can join us there.

So with that Al, thanks for joining us and I'll send it over to you. Thanks.

Albert White - *The Cooper Companies, Inc. - EVP & Chief Strategy Officer*

Great, thank you. Welcome everyone. I'll go ahead and jump right into the presentation here.

Most of you probably know us. The Cooper Companies is a medical device Company. We have around 80% of our revenues within our contact lens business which is CooperVision and about 20% of our revenues in CooperSurgical, a women's healthcare business.

We've been doing a lot of acquisitions on that side, so that piece of the business is getting bigger certainly as a percentage. We're headquartered in Pleasanton now north of 10,000 employees. And I'll walk through the revenue numbers and so forth as we move through the presentation.

If we look at our annual sales we've had nice sales growth here for many years. We've been outpacing the market on the contact lens side for a number of years. We have some acquisitions also rolled in there, so the business has been pretty consistent growth for a long period of time.

You can see the almost 8% CAGR over the prior five years. Sales last year being up 5% pro forma. I'll walk through some of the quarterly sales information.

We just reported our Q2 numbers this past week, sales of $484 million, up 9% pro forma. We've been impacted pretty significantly by currency over the last three, four years. And we're finally starting to see currency move swing at the other side, if you will be, and be a positive for us.

So we had that happen this quarter. It's continuing actually to move in our favor right now which is nice. But it's nice to see our actual numbers that we're reporting in our constant currency or pro forma numbers if you will be similar.

So a nice quarter with 9% growth. We had nice growth in our CooperVision franchise and also within our CooperSurgical franchise.

Reported non-GAAP EPS of $2.05 which was a nice quarter and adjusted cash flow of $66 million. So a pretty strong quarter that we just reported. I will walk through some of those details as we move through the presentation.

If we look at earnings growth we've had nice earnings growth, pretty high CAGR for a number of years here. We're very focused on this. When we look at our EPS growth as a Company one of the things that we target is maintaining kind of a longer-term mentality of being able to deliver low double-digit EPS growth.

We've obviously been able to put up good numbers here for years and we continue to feel that we can drive the bottom line, we can get some leverage in the business. We're in a pretty good position right now with both of our businesses to drive some leverage in the coming years and put up ultimately what's going to be a pretty nice operative margin. But you can kind of see the EPS growth and we continue to feel that that's a chart that you're likely to continue to see going up and to the right.

If we look at our guidance, total revenue guidance $1.929 billion to $1.960 billion. Knock on wood, currency holds we hit $2 billion this year which would be fantastic. CooperVision at $1.545 billion to $1.567 billion.

If you look at CooperSurgical it's up quite a bit, $384 million to $393 million. A lot of that driven by recent acquisitions in the IVF space. I'll walk through that when we get to the CooperSurgical section.

And we took non-GAAP EPS guidance up to $8.20 to $8.50. That was up $0.20 on the top and bottom line from this past quarter that we just reported.

If we look at our long-term objectives, take a couple of minutes on this, this slide has been pretty similar to what we've had for a number of years and this is really what we work towards as a Company. You look at, we'll just start at the top, grow revenue faster than our markets. We've done that for many years within CooperVision.

We'll continue to do that. We feel strongly about that. You could have obviously any individual quarter where you could have a little bit of a bump, but from an annual basis, and we have a slide that will show this fairly soon, we've been taking market share for a number of years.

We continue to believe we will grow faster in our markets. And we will do that also on our CooperSurgical side.

Grow EPS faster than revenues. That's what we're really talking about is leveraging the business. And when we grow a lot of our growth comes from emerging markets and even developed, if you will, emerging markets places like China where we have a relatively low operating margin right now.

We built that business up organically. We're starting to work -- I shouldn't even say starting, we're continuing to see strong growth there and we're continuing to see some leverage opportunities there. So there's a lot of different areas around the world where we're getting leverage.

Our cost of goods, our manufacturing side from our recent acquisition of Sauflon, that's driving some cost savings within cost of goods itself. So that's going to help leverage it. And you'll see our EPS continue to grow faster than our revenues.

Generate over $1.5 billion in adjusted free cash flow. This is something that people probably are missing right now if I had to guess. You look at our cash flow generation we went a number of years where cash flow was fairly low and we built out our manufacturing facilities for our Biofinity lenses, some of our other products. And as that manufacturing went well we started to pull back a little bit on CapEx and then we saw some nice jumps in terms of our ability to manufacture Biofinity in high volume and some of our other lenses.

Then all of a sudden we saw CapEx come back pretty significantly. And we saw a pretty nice jump in free cash flow.

We're in a very similar situation to that right now. So from a manufacturing perspective we've been in this situation where we've been working through bringing lines up and improving lines. If you look at some of our manufacturing, as an example you look at clariti which is our silicone hydrogel daily, when we bought Sauflon, their lines were making about 50 million lenses per year per line.

Right now through the upgrades we've done here recently those are up to about 75 million lenses per line per year. That kind of stuff is a pretty significant improvement. So if you think about doing that on two lines, well, that means you don't need one of the lines, you don't need to buy another line.

We've been able to idle some equipment. We'll bring that equipment back on over the coming years. But I think one of the things people might be missing is that we are in this kind of unique cycle, for us at least, where you're going to see CapEx come back, you're going to see an improvement in free cash flow because of that.

So you'll see some of that in a much more dramatic fashion here as we work through the rest of this year, although we will still have a decent amount of CapEx. And then as we move into next year you look at fiscal 2017 and move forward CapEx is going to come back, operating cash flow is going to continue to increase. And we should have some pretty nice cash flow years in front of us.

So you look at expanding CooperVision and CooperSurgical geographically. I mentioned just a little bit on China. We continue to do that.

We're growing throughout the world. CooperSurgical is more in infancy if you will than CooperVision. But we're adding salespeople and growing that business throughout the world also.

If you look at complete strategic acquisitions, that's a part of our business, it is part of our long-term strategy. We bought Sauflon on the CooperVision side of things a couple of years ago for $1.2 billion, that's the clariti lens that I was just referring to. And CooperSurgical we've done a number of acquisitions here since August of last year.

I think we've done seven acquisitions and an investment on top of that with a pre-FDA approved Company. But nice growth through acquisitions there.

We look for really strategic deals. And you see that within Vision, you see that within CooperSurgical also, meaning in an ideal world we're going out and we're buying a Company and we're buying those products and we can take and roll those products and put them right in a salesperson's bag and get leverage from that acquisition relatively quickly.

If we look at operating margin improvements we've seen pretty consistent operating margin improvements. We talk about 2020 operating margin target of 27%-plus. We've had that number for a little bit.

I think that you look at finally I mentioned currency moving a little bit in our favor. That's fantastic. I think that 27%-plus probably feel a little bit better about that number here with some of the recent moves in currency.

But operating margin, regardless of currency we stay very focused on our long-term incentive comp plan and so forth. They are driven by consistent long-term out-performance. So again we look for operating margin improvement and growing operating profits double digits every year.

If you look at the contact lens market let me we spend a little bit of time on that. Currency has hit these numbers but if we look at these on a USD basis, the market last year is $7 billion. About 25%, we had 28% being what we would call specialty lenses on the toric and multifocal side where we're a market leader in both of those and that's an important part of the market.

And you look at where the market is growing. We're looking at around 6% growth, so what we've been seeing the last several years is that 4%, 5% kind of growth. We're at 5% on a trailing basis right now.

We think that will actually accelerate a little bit. There's been a couple of things that are driving that. One is we've seen actually a pullback, if you will, or a holdback in the market a little bit from channel inventory.

So whether it's us, we've made comments about it and some of the competitors have also, I think that channel inventory within the contact lens space is probably at some of the lowest levels it's been of all time. We're at contractual minimums with a number of our customers. So I think that you've seen that, also some of our competitors mentioning that has probably tempered growth just a little bit.

If we look at the product lifecycle that we're in right now in terms of the Americas trading up to single use, which is a positive, and we look at some of the newer lenses that are coming out be it our lenses like MyDay on the daily silicone hydrogel side or Dailies Total 1 or Oasys daily there's products that are coming out there that are positive in terms of a product upgrade cycle. So we kind of talk about 4% to 6% usually as market growth. I think we have this at 5.5% CAGR or right in that kind of range.

I think that's probably a fair way to look at it. And torics and multifocal is driving a higher percentage of that growth.

When we look at the same kind of chart on a geographic basis you can see that one of the interesting things here is that regardless of where you are around the world we're looking at the geographies to grow pretty similar. You might think about all contact lenses kind of around the world are similar but that's not the case. It's interesting that the market shares are so different in different locations where you have J&J being the big guy in the Americas, big guy in Asia-Pac but the number three player, for instance, in Europe.

And then you have Alcon and ourselves as kind of battling out in some different regions. But from a growth perspective you are getting a lot of growth in the Americas driven by the shift to dailies. You already have that shift that's already occurred in Europe and EMEA, you're seeing more of that come from some of the emerging markets.

As a matter of fact, when we'd see some of the emerging markets, or even some again some of the more developed, if you will, emerging markets there's some really nice growth in those markets. Contact lenses are much less penetrated in those markets than they are in the developed markets. So the growth is pretty diversified.

That's why you don't see a situation where you see the contact lens industry really decline rapidly. Even if you go back to 2008, 2009 when you had the global crisis, contact lenses during those years still grew 3% as a market.

So we are probably in a tight band there. If you look at it we're probably around the 6% industry grower with 3% being on the downside depending upon what's going on around the world, product life cycles and financial situations.

In the early 2000s we had the contact lens market growing as high as 8%, 9%. So I think we're probably in the middle of that cycle right now. So a five-year CAGR of 6% is probably pretty spot on.

If we look at the daily market versus the frequent replacement market, again similar numbers here but another interesting thing and what's really driving this market growth and that's the daily side that I've been talking about. If you look at 1-day lenses they are the driver, that's where a lot of the excitement is right now. We are positioned very, very well there.

Our acquisition of Sauflon, our product launch around MyDay, our legacy products such as Proclear daily are doing well. So if there's one spot that CooperVision is underindexed it's the daily side of things. And if there's one area where we're strongest right now from a product portfolio perspective it's dailies. So when you look at a chart like this and you see the growth is going to be driven in this marketplace by dailies we feel we're really well-positioned from that perspective.

If we look at the global market we say okay, what's driving the global market? What is behind it? I've touched on a couple of these factors, but you are seeing kind of a number of factors that continue to increase, a wearer base expansion.

You're talking about kids entering contact lenses earlier. So there was a period of time that wasn't so long ago where you'd stop a basketball game because a kid lost their contact lenses. You don't see that stuff anymore. You see people converting to dailies, you put lenses in, you take them out, you throw them out and you're seeing kids get into contact lenses at an earlier age than they have historically.

The flipside is true. As we get into our 40s and we get presbyoptic you're seeing the technology around multifocal lenses be better. So you get people wearing reading glasses, well, in today's world you can continue to wear contact lenses.

You can transfer, or transition I should say, out of your sphere lens and move along into a multifocal lens. That's a very similar lens.

You look at a product like Biofinity that does so well as a sphere, you can move from Biofinity sphere relatively easy into a Biofinity multifocal. So rather than have that situation where we had a number of dropouts, that's continuing to improve.

Better comfort, talking about silicone hydrogel and the fact that you can go so far, you can take a nap, you can sleep in your lenses and so forth. This isn't the old days where that was a much bigger challenge.

You look at increasing incidence of myopia. We don't spend a lot of time talking about this but it's a very important item within the vision correction industry globally. You look at studies that are done and you look at some China is probably a leading example here of almost a crisis at times around myopia. So I mean anything where you're seeing vision correction problems increasing is a positive obviously for us.

Look at pricing and modality. When new wearers come in and they are buying and they are wearing daily lenses versus two-weak or monthly lenses, that's a positive in terms of our sales and profitability. And as we continue to move as an industry more and more to silicone hydrogel that is a trade up.

So from a pricing perspective that's a positive trade up. As a matter of fact, you're seeing this last quarter around 60% of our sales were silicone hydrogel lenses including dailies, which is a pretty spectacular number. If you exclude dailies right now I think it's around 78% of the two-week and monthly market is silicone hydrogel and it's continuing to move in that direction, so that's the kind of consistent trade up for us.

Geographic expansion, I touched on that already. But a number of countries out there growing certainly faster than the US and some of the other developed markets.

If we jump into the market data, again another interesting thing, when you look at the world it's not all the same. You can see in the Americas I've been talking about the shift over to the one-day side which is a positive for the industry and for us, in particular.

And you can see Asia-Pac at 62%. That region has already converted to dailies. You're seeing the European region continue to increase at 48% but continuing to towards dailies.

And certainly the Americas. The Americas probably if we went back seven years ago or something was significantly smaller number than that, less than half of that.

So now the global market you can see up to 45% one day. That's great news for the industry and it's great news for us with our product portfolio.

Look at marketshare, I kind of talked a little bit about the consistent market share gains where you can see that back in 2012 at 17.8%. We are up to 23%. If you look at the pie chart on the right it's going to be interesting, you know all these years of us growing faster than the market and putting up strong numbers we're at 23% of the market and Alcon is at 24%. So we're targeting that and trying to become the number two contact lens market here at some point in the near future or number two player.

Bausch still gets a decent amount of press. Obviously Valeant gets a lot of press. Bausch has become quite a bit smaller than they were.

They are about 9% global market share. So nowhere near what they were. Probably in 2010 they were probably 17% marketshare or something like that.

So a big shift in terms of Bausch. You're seeing it really be Cooper, Alcon and J&J.

Jump into the soft contact lens market growth again versus us and look at it on an annual basis. You can see how we've outperformed the market. Now we talk about targeting growing 1.3 to 1.5 times the market.

So if we're getting a market that's growing 6%, let's say, we're talking about growing 1.3, 1.5 times that 7%, 8%, 9%. You can see the numbers here where the contact lens market itself as I was talking about for a couple of reasons has been sitting around that 4%, 5% and we've been in that 7%, 8%. And before that we were growing even faster.

But I do think that the contact lens market is at 5% to 6%. So hopefully we see a little bit more growth from the marketplace. I think we will continue to take share under that scenario. So a nice chart here and hopefully we continue to post that in the future.

Part of the reason for that is new product introductions. We are very focused, as you can imagine, on contact lenses. We developed a lot of products, we've launched a lot of products.

If you go back to 2008 today on a consistent basis we've been rolling out new and improved products. And we move from what was a fast follower for a number of years into a market leader in terms of launching products and being in front of the market.

Within CooperVision you can see the CAGR here over the last five years. Our sales this last quarter again up 9%, 9% in constant currency.

A lot of that growth driven by our silicone hydrogel family of lenses. That's about 60% of our revenue which grew 20%. So nice growth in our silicons that are driving the overall family growth.

If we look at by geography, again a pretty diversified model here, up 9% in the Americas. We rebounded from a weaker Q1. Another solid quarter in Europe at 5% and Asia-Pac strong at 18% and highly diversified.

About two-thirds of Asia-Pac is Japan. But we had nice growth in Japan and we had nice growth in a number of other countries throughout the region.

If we look at it by category, again another, nice diversified story here. Nice growth in our torics, nice growth in our multifocals, nice growth in our single use sphere side.

Our non-single use sphere aside gets dragged down because of our legacy products, our old legacy hydrogel products that we have. As a matter of fact, we talked a little bit on the call about that and the need to write off some inventory. So we've accelerated a little bit of that inventory right up which you're actually seeing this fiscal year.

But it's covered in those numbers. If you look at the non-single use sphere of what we promote, which is really heavily Biofinity you'd see much, much stronger growth numbers.

I touched on, we have a little time to touch on CooperSurgical here where we've been very active. You can see CooperSurgical's CAGR, 11% growth over the last five years. A very nice growth story here.

About half of this business right now is running on a traditional OB/GYN side, the other half fertility. The global fertility market is a stronger growth market. That's probably, let's call it, 5% to 10% kind of growth market depending upon how you want to define it.

And that has very nice long-term growth characteristics. So we been investing in that through acquisitions and also through internal development.

On the OB/GYN side is probably a low at best mid-single-digit kind of grower. We have some new product launches in there so we've been doing better in that space. We will continue to do better in that space.

If you look at here recently this last quarter we were up 23% on a reported basis and 6% pro forma. Our guidance is actually going up to 6% to 8% for this year. So we're expecting some acceleration in those numbers in the back half of this year. So things are going really well within the CooperSurgical side and especially within the fertility side where we positioned ourselves fantastically in my opinion.

If you look at acquisitions, we've done a number of acquisitions recently. It's been part of the fabric of the CooperSurgical organization. Again a number of those they are all strategic and a number of those are highly synergistic, so a lot of activity on the M&A history.

So let's wrap up here. We've just a minute left on key takeaways. You've heard me kind of talk about the two markets, the contact lens market and our women's healthcare, if you will market, that we have.

Both of those are great markets. At the end of the day those markets are growing mid single digits and we're taking share in both of those. There's no reason that those markets shouldn't continue to grow mid single digits and we feel confident with our product portfolio and where we'll positioned today that we will be taking market share.

So two really nice areas. They do have high barriers to entry, certainly on the contact lens side coming from capital itself and the women's healthcare side some intellectual property and so forth.

Revenue growth, we talked about that exceeding the market. We anticipate that to continue.

We are investing in the infrastructure of the business, no question about that. You see us adding salespeople, around the world we're adding salespeople, building up on the sales and marketing side. We see leverage in other aspects of the business but we are investing in the business in terms of existing salespeople and geographic expansion.

And we feel really well that we'll positioned to achieve our long-term objectives including our operating margin objective that we talk about.

I think we have a nice track record of success. And we stubbed our tow for a few quarters there when we did the Sauflon acquisition. But you saw this past quarter, this past quarter was the first quarter where we didn't have integration-related items where you saw what the business can really do without supply chain issues and so forth.

So hopefully we have a nice future in front of us. So with that I will wrap up.

Anthony Petrone - *Jefferies & Co. - Analyst*

Great.
