THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COO - The Cooper Companies, Inc. at William Blair & Company LLC Growth Stock Conference

EVENT DATE/TIME: JUNE 12, 2014 / 2:20PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Matthew OBrien *William Blair & Co. - Analyst*

Matthew O'Brien

PRESENTATION

Matthew O'Brien

Good morning everybody. Thank you so much for joining us. My name is Matthew O'Brien. I cover medical technology here at William Blair. I'm joined by my associate Kaila Krum as well.

Next on the agenda for us here at the 34th Annual Growth Stock Conference is Cooper Companies. Let me just say up front this is my favorite MidCap name, given the outlook for good, steady high single-digit type topline growth, low double-digit bottom-line growth over a multiyear period. And I think they're going to surprise some folks as well on the free cash flow side of things here in a couple of years as some of their CapEx spending starts to wind down.

So, from the company is Greg Matz, the Chief Financial Officer, as well as the Senior Director of Investor Relations, Kim Duncan.

Two quick real quick housekeeping items. The breakout for this presentation will be downstairs in the Oak room immediately after the presentation. And then I would ask that you visit our website at www.WilliamBlair.com for any disclosures that we have on our relationship with Cooper Companies.

And with that quick little preamble, I will go ahead and turn it over to Greg Matz.

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

Thanks Matt. Welcome, everybody, and thank you for taking a few minutes to hear the Cooper story.

First, a little bit of housekeeping. For those in the room, you can read the statement. You probably read about 12 or 14 of these so far this week. For those on the phone, just to let you know the presentation may mention forward-looking statements and estimates. Actuals can be different, and see our 10-K, 10-Q for our risk. Any non-GAAP numbers can be reconciled to GAAP on our Investor website and this presentation is available on the Investor website.

Again, thank you for taking the time to hear the Cooper story. We are a public company, global medical device company, and it's on the New York Stock Exchange located in Pleasanton, California.

We have two major lines of business. The first line of business, about 80% of our revenue, is CooperVision. CooperVision is the third largest provider of contact lenses in the world. The market is about $7.2 billion. It is growing 4% to 6% probably in the last year, growing closer to the high end of that range. It has two large competitors, two largest competitors J&J at 43% market share, and CIBA Alcon at 24% market share, and we have a little over 19% market share.

If you look at the other side of the house, our other business is women's healthcare, our CooperSurgical business, and they have about 20% market share -- I'm sorry, 20% of the company's revenues, so about $320 million after 2013 full revenue. And I didn't mention CooperVision had about $1.3 billion in 2013.

So CooperSurgical, a different kind of business, focused on the OB/GYN and in vitro fertilization, so an OB/GYN in the office, surgery center, in the hospital, we sell directly to doctors. And then also we have an IVF business which we expanded on a couple of years ago when we bought Origio in Denmark.

The business has grown over the last 25 years. We've done about 30 acquisitions, a lot of tuck-in acquisitions, Origio being the last big acquisition that we did on the IVF side. We also have about 600 products in that business which makes it a unique portfolio which really gives that business a strength in women's healthcare as we call on hospitals and buying groups.

So we look at -- we just had our earnings call last Thursday night, so in the earnings call, we've mentioned we have $412 million worth of revenue, up 7%, 9% excluding FX, and the divestiture of Aime. Aime was a Japanese hard contact lens and solutions business that we acquired through an acquisition where we were acquiring actually rights to Biofinity and other things in Japan. And that business really wasn't part of our core strategy, being more focused on the soft contact lenses versus hard lenses. So that business was divested October 31. So when you pull that out 9% growth, our GAAP earnings-per-share were $1.62, up 7% year-over-year, non-GAAP up $1.64, up 9%, and free cash flow at $65 million for the quarter.

Look at our earnings-per-share over a period of time, so you look at the growth, and we've been able to consistently do this, so a compound annual growth rate of about 22%. We have been able to accomplish this, one, through outgrowing the market on the CooperVision side over the last couple of years, outgrowing the market two times, so that has been good. Our women's healthcare business has demonstrated good growth over the last few years, strong improvement in gross margins.

And most recently now, we are starting to see gross margins, the improvement slowdown as the mix of products changes and going to daily and seeing our leverage and SG&A start to pick up. So the last few years, we have been investing in feet on the street salespeople, more marketing, R&D, and now we are starting to see the SG&A leverage start to come into play, improving operating margins.

You look at this slide, the 22% compound annual growth rate, the things that is not evident on the slide is the FX impact that we've had over the last three years. 2012, we had a $0.40 impact of negative headwinds on FX mainly related to euro-related currencies. Last year, we had a $0.50 impact and that was mainly related to the yen, somewhat offset by some euro currencies. And then this year, we are projecting about a $0.25 impact mainly related to the yen. So we've had some headwinds, yet still been able to put up a 22% compound annual growth rate.

So, we look at guidance, this guidance is as of Thursday night's meeting earnings call. The only guidance change that we had Thursday night was we basically increased our GAAP earnings-per-share. We raised the bottom from $6.75 to $6.78 and kept the top end of the range at $7.00. On a non-GAAP basis, we raised it a nickel from $6.75 to $6.80, keeping the top at $7.00.

If you look at our long-term objectives and what we're focused on, first off, I mentioned growing the topline. So At CooperVision, we have basically grown it 2X the market for the last couple of years. It's 1.8 times the market for the last 12 trailing months.

If you look at CooperSurgical, we believe we are outgrowing the market. It's a lot harder to tell specifics because, unlike CooperVision, the market is much more diverse. We have 600 different products. We have a number of companies that compete individually to different products so they are not competing on the portfolio as a whole. But I believe we are outgrowing the market there.

Talked about EPS, growing that. We long put out there that we are trying to low double-digit EPS growth year over year. We've exceeded that compound annual growth rate of 22% over the last five years. Puts our goal out there in 2018 of operating margins of 25%. We finished this quarter at non-GAAP operating margins at 21.8%.

Looking at -- Matt mention the free cash flow, projecting about $1.3 billion worth of free cash flow over this time period. The last three years, we've grown free cash flow from, oh, anywhere from $230 million to $239 million per year. This year, we gave guidance saying greater than $200 million.

One of the things that we have is we have a lot more capital that we are putting out there, so we are investing in single-use, in single-use silicone, and so we have a much higher CapEx plan than we've had for a number of years.

Looking at expanding, we talk about expanding the business, both CVI, CooperVision, CSI which is CooperSurgical geographically, CooperSurgical we did that through a major acquisition. I misspoke there for a second. We did that through a major acquisition called Origio, and Origio had a much broader international footprint, both in Asia and Europe. And so that helped them grow, expand geographically.

CooperVision has been expanding through BRIC countries and a lot of that is either through acquisition of distributors or they've gone out and we've been spending a lot of time in Russia, Turkey, India, China, growing that business, both holistically and organically. On the acquisition front, that's where CooperVision has done most of their acquisitions.

CooperSurgical has done a lot of the tuck-in acquisitions, going out to a doctor, buying a product that they have taken to $0.5 million, $2 million and we put it in our portfolio and channel and then push that through the channel.

I mentioned CooperVision is the third-largest provider of contact lenses in the world, 7000 employees. Our manufacturing, 99% of our manufacturing is outside the US, either in the UK or Puerto Rico. We do have some manufacturing in upstate New York. Our distribution centers are in the UK and Belgium with a large distribution center also in upstate New York. So, that's kind of our geographic footprint for CooperVision.

Looking at the market, so as we look at the market, you can see it's a $7.2 billion market, growing about 6%. We look at the different type of lenses. Toric lenses are growing about 8%, multifocal is growing 10%. And you're seeing multifocals grow faster than the market, and a lot of that has to do with the visual acuity that the new lenses have. I'm wearing our Proclear daily multifocals, so that's -- and we also have Biofinity monthly silicone multifocals. But the multifocals have now become -- the acuity is much better so people are more comfortable wearing them. People are staying in lenses longer. Baby boomers are hitting that age where needing extra help, so all that is playing into the fact that multifocals are actually growing quite well. And we are leaders in both the toric and multifocal. Sphere is growing at 5%.

So you look at geographically, EMEA is Europe, Middle East and Africa, pretty common for most companies. Again, they're growing at about 6%. We've got Asia growing at 5%. And the reason Asia is growing at 5% is Japan is obviously part of Asia. Japan is the second-largest contact lens consumer in the world, and they were growing, last year 2013 just below 3%. So that weighs down Asia-Pac to 5%, and you have the Americas growing at 7%.

So how does this market grow? Where is the growth being seen by all of the manufacturers inside the contact lens market? First is being through geographic expansion, and that's kind of obvious as we go out there and expand. Asia-Pac is very under-indexed in vision correction and thus contact lenses also. So there's a real opportunity for all companies in Asia-Pac, China, India, our big markets.

If you look at -- we are a base expansion. Kids are getting into lenses earlier and earlier, so you're seeing the bottom end of that range start to open up. Presbyopia, people -- baby boomers suffer staying in lenses longer. They're going to multifocals, those lenses. Multifocals are worlds apart different today than they were 10 years ago, and so a lot more comfortable, again a lot more visual acuity. And increasing evidence of myopia, and in some countries, it is almost an alarming increase. So nearsightedness. And some of that is if you have kids and talking to doctors all around the world and who they sell to, why they sell, which modality they sell daily, weekly, monthly, they all talk about kids. Everybody, no matter what country, seems to be holding a device about this far from their face for about 18 hours a day, so that is causing nearsightedness.

The other thing is they are finding alarming rates of nearsightedness in countries where people worked outdoors -- it is construction, farming, what have you -- and have now migrated into factories and offices. And they found that migration over time has actually increased nearsightedness. So these are all opportunities for contact lenses.

The other area that the industry sees growth in is called pricing and modality. Pricing, if you take a silicon material, which is considered a premium material, and you raise somebody from hydrogel to silicon, you'll see a 20% to 40% premium that the doctor gets by having people migrate up into that material.

The other area that you see an opportunity for the doctor is if you move somebody from a monthly or two-week to a daily, their opportunity to get a multiple effect on the revenue and the profit per patient is also there. And so both of those help grow the industry from a dollar perspective.

This slide I always found interesting. So you look at modality, again, modality is a daily two-week monthly, or the common modalities. You can get quarterly, six-month, yearly, but those have been phased out and you are really down to these three main modalities. Every region has kind of a preference in my min. So in Asia-Pac, one day is by far the largest and most popular modality. And that's led a lot by Japan. Japan, 60% of Japan is in the one-day modality, a lot of historical reasons for that, but it had to do with their sensitivity to cleaning agents. There is a mercurial agent in the cleaning agents that they are very nervous about, and so they really have pushed for one-day.

If you look at EMEA, or Europe, monthlies are by far the largest predominant modality, at 48%, with one-day coming on pretty strong.

Go to the Americas, it was a two-week market, and a two-week market that J&J really owned for decades. And so what we are seeing in the two-week market is that market is shrinking. It's $1 billion, maybe a little less than $1 billion so it's a market but still declining at a notable rate. So when you look at new fit data in the US, what you're seeing is that people -- the two-week is being fitted less and those loss and fits are going to dailies and going to monthlies.

If you look at the one-day, the 25%, four years ago, that number was 11%. So in four years, we more than doubled in the Americas to daily. So, you can see that the dailies is the most popular modality and the fastest-growing right now around the world. If you look at the trailing 12 months for dailies, they grew at about 12%. If you look at the last calendar quarter, which somewhat has a little bit of an anomaly there, but it grew 16%. So you can see in a market that's growing 5% to 6%, you've got 2X the growth in dailies versus the total market.

Of the one-day market, the one-day market is about $3 billion. In the one-day market, probably 10% to 15% is silicone one-day. Some of the larger manufacturers don't provide that information, so it becomes difficult to get an exact gauge, but we think that market is probably about $400 million.

So looking at the kind of market share, you can see our market share has grown over the last five years, a good steady increase year-over-year. A lot of that has to do with, frankly, we missed the boat early on in the early 2000s on silicone. We didn't think that material really was going to take off. It was a niche material. We were wrong. Since then, we've introduced Biofinity, so it's a premier monthly silicon lens. We've introduced Avaira, which is a top-notch two-week silicon lens, and just recently introduced MyDay, which is our single-use silicon lens. So we have a full family of silicon lenses.

We also still have very, very good hydrogel lenses. So over half of our products, about 51% of our products, are not silicone. Our silicone products had good growth this time, but, again, we still have a full family, so we can provide whatever material the doc wants. We can provide whatever modality the doc wants. And we are also one of the few companies that will do private label. So you put all that together, our relationship with the docs, we really have been able to grow market share consistently over this last five years.

This graph, it depends which chart, sometimes it looks like a yellow bar, and sometimes it looks like an orange. It depends on the machine. But the blue is CooperVision. That's our growth rate over the last few years. The yellow or orange is the market. So as I said, you can see we consistently outperformed the market over the last few years.

Looking at our new product introductions, so again we steadily brought out new products. 2013, MyDay was our single-use silicon. That's sold in Europe right now. We will bring that to key opinion leaders in the US, and so we will be selling that in the US at the end of this year with the real launch happening next year. And a lot of that is we're capacity constrained. We started in Europe, which is a common place to start for our contact lenses. And again, everything is going really, really well at this point.

Biofinity extended range, so we have a full family of Biofinity from the sphere, the toric, the multifocal. And this family is a premier franchise for us, so we are $500 million of revenue per year. Excuse me.

Financial overview. So if you look at CooperVision, and, again, we just reported our earnings this Thursday, and sales were $331 million, up 7%, up 9% excluding FX and Aime. The growth driven mainly by our dailies and our silicone products. So, our silicon products grew at about 20% constant currency, and makes up 49% of our total portfolio.

Our other family, Proclear, one of our hydrogel families, Proclear grew at 8%. And this is growing 8% in a market that is growing 6%, so it kind of gives you a flavor of just how well these products are doing.

By geography, you can see a 5% constant currency growth in the Americas. We can see a 9% in Europe and 9% in Asia-Pac. Now, to clarify for Asia-Pac, if you adjust for the divestiture of Aime, that number would actually be 20%, because Aime obviously in Japan and Asia-Pac. So without that, we would've grown year-over-year at 20%, so outstanding growth in Asia-Pac.

Look at -- by materials, for the toric lenses, grew 8%, multifocal grew 19%, constant currency. If you look at this, we have over 30% market share in these two categories, so this kind of comes back to our legacy as a specialty lens company. We are much more than that now but, again, we still hold high market share in those two products.

Single-use sphere up 15%. Non-single use sphere other, a lot of lenses going to that, flat year-over-year. That would've been 5% if you pulled out Aime. So, Aime's hard lenses and solutions actually landed in that particular category. So, 5% growth excluding Aime. And I mentioned about the material growth here.

So give CooperSurgical a little bit of time, another one of our businesses that we are very proud of. The business is located or headquartered in Trumbull, Connecticut. We have operations throughout the US in a number of states and Denmark.

And Denmark is where we purchased Origio. That was the headquarters for the Origio IVF business. So they turned in $81 million worth of revenue, 9% year-over-year growth. Fertility up 17% and they are now 36% of the total portfolio for CooperSurgical.

Office and surgical procedures were up 4%, and they were 64% of the total portfolio for CooperSurgical.

The office space has been a real challenge. We have seen that, that growth has slowed way down, fighting to be flat. If you listen to J&J's call, Urlogic, you look at a number of the women's healthcare space, and medical in general has been a struggle. Office procedures are down. Office visits themselves are down. People are struggling with the Affordable Care Act. What does it mean? How many new people have actually been insured minus the people who've lost insurance? People are on high, kind of that high payments, high deductible plan, where you pay the first $3000 and after that everything is good. So people have been very carefully monitoring their office visits and when they go out and spend medical bills, because it really feels like it's coming -- the first $3000 maybe comes out of their own pocket. And so with that there's been tremendous pressure. We still believe in this space. We are at a very great position. We have 600 products, thereabouts, a portfolio that when they start to see this combination of buying groups and consolidating who they want to go out and see -- you know, the electronics industry two decades ago, it was we don't want to see 20 vendors. Who are the top three? Who are the top four?

We see ourselves in a position with our portfolio to be called in with those buying groups because we don't want to see all these people. We want to see a handful of them. When we see that start to happen, we also think there may be some acquisition opportunities as smaller products can't get in front of these groups, and we have the opportunity to do some acquisitions. Again, we've acquired 30 companies over the last 25 years. So this is an opportunity for the future. So, it's been a little slow for this particular part of the business, but, again, we have great hopes going into the future.

If you're in this space, if you're a doctor in this space, a lot of these names you will resonate with, you will understand and recognize. So these are some of the high-profile brand names that we acquired over the last 25 years.

So, that's a picture of our two businesses. What I thought I'd leave you -- and a quick summary -- is a couple of takeaways about who we are and why we feel good about the business that we have. The first one is we are operating in two solid markets with high barriers to entry. You have to have good products in this market. You have to have relationships with docs. You have to have access to capital because you have to be buying equipment, especially CooperVision. CooperSurgical is less capital-intensive. CooperVision is like a semiconductor in my mind. That's how I relate from being back in that industry, very high capital intensity. So, you just don't walk in and set up shop and be able to produce on a global scale.

Revenue growth exceeding market, touched on that. The fact that we believe, and we can demonstrate positively we are outgrowing the market two-do-one in the past few years on the CooperVision side. We believe we are outgrowing the market on the CooperSurgical side.

We have been investing in infrastructure over the last few years, both businesses. We have been investing in selling, so going and seeing where we are under-indexed in certain geographies, so we are selling in different markets, bringing in more salespeople. We are investing in manufacturing, improving our manufacturing processes, increasing our yield, and that has gone well, but it is not cheap. We've increased our R&D. And really when we talk about, when the Cooper Companies talks about R&D, we really talking about D -- development. We do very little research, but we do a lot more development.

So we believe all of that work we've done over the last few years has positioned us for success. When you look at the CooperVision side of the house, we again can provide the doctor whatever they want. Whatever material, whatever modality, we can private label.

CooperSurgical, an unequaled portfolio of women's healthcare products. And we believe that leaves us with a track record of success from the past, and that track record will continue in the future.

So again, very, very positive about the business, excited about what's happened in the past and excited about how we've positioned ourselves going into the future.

So, with that, I want to thank you all for again taking time. I know it's valuable time. A lot of companies you can come see, and we appreciate you coming and spending a short period of time with us.

QUESTIONS AND ANSWERS

Matthew O'Brien

Do we have any questions? We probably have time for one or two.

Unidentified Audience Member

What is the competitive response from J&J (inaudible)?

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

The other big share donor has been B&L. Frankly, they've gone from low teens to what was it, 9%. It's interesting. I think everybody in the industry is kind of watching J&J as they are under a tremendous amount of pressure. And they are the big dog. They are the largest shareholder in that space. Their TruEye product, their one-day silicon, if you look, it fits and stuff. We're just not -- it's not seeing it taking off. It's getting beat up a little bit by Alcon's Total1. On the two-week market, they dominate that market. So, that market is declining, so they are feeling pressure there. And then some of the other daily products are kind of going after moist, which is their premier hydrogel daily. So they've really been getting it for all sides this last couple of years. I think people are waiting. They are a great company and kind of waiting for what's the response. And we haven't really seen much of a response in the last couple of years.

Yes?

Unidentified Audience Member

I guess you've said in the past that J&J is focused on specialty prescriptions, kind of (inaudible)

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

Yes, yes.

Unidentified Audience Member

Is that still true? They seem to be making noise that they are offering more and more SKUs.

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

You know, I think they are expanding their SKUs into torics and stuff. If you think of the Bell curve, we traditionally had very high-end, low-end prescriptions, the tough to fill prescriptions. In the past, J&J have said if you need that, you've got to get to a Cooper. And they focused on the sweet spot.

And see Alcon in the same way. I think we are seeing they're expanding out on the Bell curve but there are still things that we do, hand lathing, that they don't do and don't perceive they will do in the future. So, we still have that advantage with docs that we do some things that no one else at that scale would do. You can find an independent shop in a garage that might do a specialty lens, but you're talking about, from a global perspective, we're the only ones that do some of the lenses that are being done.

Unidentified Audience Member

Thank you.

Matthew O'Brien

And Greg, to that end, you're still taking share with the torics.

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

Absolutely.

Matthew O'Brien

Okay.

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

And we have 30% market share in torics and multifocals.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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

Yes. From a CapEx standpoint, from a margin, if you're just looking at margin, I think the way we get to that margin is, again, topline revenue growth obviously contributes. We look at -- you know, gross margins will -- it depends on the market on the gross margin front because as dailies expand, that puts pressure on margins. So you may have gross margin percent, gross margin be less, but your operating profit be more. So we still win with dailies taking off, and that goes to the bottom line.

We're getting more leverage on the SG&A front and we also have some amortization falling off. So this year we had, let's see, about a couple million dollars amortization fall off. Next year, we have about $6 million falling off. We did the acquisition of Ocular Sciences almost 10 years ago. That ten-year mark is in January 2015. And there's about $5 million of amortization that falls off just to that one deal. So, we'll get some of that as some of that amortization trails off. So it's a combination of looking at the entire P&L and getting a benefit in each area.

Matthew O'Brien

I think we need to wrap up now. So thank you so much, appreciate you coming.
