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EDITED TRANSCRIPT

COO - Cooper Companies Inc at William Blair Growth Stock Conference

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PRESENTATION

Matt Larew - *William Blair & Company - Analyst*

Okay. Good morning, everyone. We'll get started here. Thanks for joining us for the Cooper presentation. My name is Matt Larew. I cover Cooper with Brian here at William Blair. First, I just want to inform you that you can obtain a complete list of disclosures or conflicts at our website, Williamblair.com.

With us today from Cooper we have Greg Matz, the Company's Chief Financial Officer and Chief Risk Officer, as well as Vice President of Investor Relations, Kim Duncan.

Quickly on the Company, Cooper has two businesses. CooperVision is a leading player in the $7 billion-plus contact lens market, and CooperSurgical is a women's health care franchise that has been boosted by a number of acquisitions here in the last 12 months. CooperVision has consistently posted above-market growth, moving market share globally from the midteens in the early part of the decade to roughly 25% today. The Company also has expanded the operating margin from the low to mid 20s in the last couple of years, and it is forecasted a couple hundred more basis points of improvement by 2020.

We're going to take all questions in the breakout session, which will be held down in LaSalle A immediately following the presentation. So with that, I will turn it over to Greg.

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

Thanks, everybody, for taking time to hear the Cooper story this morning.

For everybody who is on the phone, for the recording -- the forward-looking statements -- just want to remind everybody that you can look at our 10-K and 10-Q for our business objectives and risk statement. I will also be covering some non-GAAP so you can look at it on our investor relations website for our GAAP to non-GAAP reconciliations.

Again, thanks a lot, everybody, for attending.

The Cooper Company is a medical device Company. Two businesses, and those businesses are focused on, one, the contact lens business. It's a $7 billion industry. That industry is led by four players. Johnson & Johnson, with about 40% market share; Alcon, CIBA, Novartis, with about 24% market share; and The Cooper Companies with 23%; and then Bausch & Lomb is there with 9%. That industry -- our business is about $1.5 billion, and that is as of October 2015, which is our year-end.

The other side of the house, CooperSurgical, about a $300 million business. It has done about 40 acquisitions since 1990. It has about over 600 products, and it's really focused in two areas. The business is focused in OB/GYN, and so we provide products to the OB/GYN in both the office, the surgery center and the hospital. The other part of that business is in vitro fertilization, and we provide media, capital equipment and now genetic testing. That's something new, and I'll touch on that in a moment.

Looking at our financial performance, last year we were up 5% -- $1.8 billion. Our non-GAAP EPS was $7.44. It was up 2%; 26% on a constant currency basis. This was a major factor for us last year. Currency has gone against us for about five years. Last year, we were down $153 million in revenue based on FX. We were down $1.76 in earnings per share based on FX.

Here, when I talk about pro forma, I'm also referring to taking out the impact of FX. And also, where we have an acquisition, putting the revenue in the prior year so that when you look at the growth, pro forma is really showing you the organic growth of that business.

So, looking at Q2, we announced in the quarter we did $484 million, up 9% on a pro forma basis. Our GAAP -- non-GAAP earnings per share is $2.05, so we were up 19%; 13% on a pro forma basis.

When you look at FX, we started the year and said, look, we're going to have a $58 million revenue hit because of FX and a $0.58 hit on earnings per share. In our last earnings call, which was two weeks ago, we announced that we would have -- that $0.58 is now $0.30; $0.24 of that has already happened. So you can see that FX is -- we are starting to feel some positive impact from FX. The $0.58 hit that we talked about in December is actually now probably at breakeven. So, right now we are hoping that we can hold the FX rates where they are at. We're going to watch Brexit and other things to see how that impacts us.

Looking at earnings growth, one of the things that we are trying to do as we've tried to deliver consistently is earnings-per-share growth of low double digits. If you look over this period of time, you can see that. How we've done that -- one is outgrowing the market on the revenue on the top line. The next is improving gross margins. So, from 2008 through 2013, pretty dramatic improvements on the gross margin front. In 2014, it was a little bit even. 2015, we had a decline in margins. But if you look at that and you lose $153 million on the top line without not selling a lens, that has a pretty dramatic impact on all our margins. So, we are hoping to see that turn around. Also on the operating expense side, seeing some good SG&A leverage from about 2013, some R&D leverage over the last year.

Now, when you look at the earnings per share, you can see that double-digit growth -- 11% compound annual growth rate. 2014 to 2015, that's where you see 2% growth. But, again, 26% constant currency growth. So, the FX really had a dramatic impact. Going from 2015 to 2016 at the midpoint of the guidance that was provided two weeks ago, it's about a 12% constant currency earnings per share.

Looking at the guidance that we provided, two weeks ago we did up our guidance. We brought it up $60 million. At the midpoint, we have a $0.20 earnings-per-share increase on both the low end and the top end.

And when you look at our growth rate -- so from a CooperVision perspective, we expect CooperVision to grow in that 5.5% to 7% constant currency. If that really equates to about 6.1% growth for the second half.

If you look at CooperVision -- I'm sorry, CooperSurgical, we are expecting them to grow on that 6% to 8% constant currency pro forma for the year. That equates to about a 7.9% growth in the second half. So what you're seeing is CooperSurgical starting to accelerate, especially because of some of the acquisitions that I'll touch on later.

Looking at the objectives for the Company -- and these have been pretty consistent over the last few years, growing revenue faster than the markets. On the CooperVision side, that's really easy to see for this past quarter from an industry perspective. The industry grew 3%; we grew 9%. We believe that a better way of looking at that is a trailing 12 months. The industry grew 5%; we grew 8%. So, again, continuing to outgrow the market.

CooperSurgical -- we think we are seeing good growth in outgrowing the markets. A little harder to tell. We don't have three or four competitors. We have 600 products. We compete against a whole lot of companies in individual products, but feel really good about the growth and especially recently.

Growing earnings per share faster than revenue. So, revenue growth being in that 8% range, compound annual growth rate, and you are looking at earnings per share around the 12% compound annual growth rate. Again, think about $153 million worth of revenue evaporating last year and the impact that has on that. We have also lost probably over $3 of earnings per share just on that fact in the last four years. The biggest hit was last year with $1.76.

Operating margins -- still continuing to improve those. In 2020, we had the stake in the ground of plus-27%, and I will touch on in a moment. Generating $1.5 billion of adjusted free cash flow. Our guidance -- two weeks ago when we gave guidance, we said that we expected the year would be around $300 million.

We see real positive attributes going forward into next year. We talked about CapEx in our call, that we have built a lot of CapEx and a lot of capacity, especially on some of our newer products. We have also had tremendous operational efficiencies done by our manufacturing team, which has got more lenses per line. What that means is basically we have some equipment that we idled and we will probably have idled throughout the year. The good news is we've got the equipment. It's ready to go, and produce -- can produce lenses. But what it also means is that from a CapEx perspective, where we have been ramping CapEx the last couple of years -- last three years, this will allow us as we get into 2017 to really pull back on the CapEx, which will increase the free cash flow.

Looking at how we've grown, expanding on both CVIN and CSI geographically, both businesses have been focused on this. From a CooperSurgical perspective, many years ago it was predominantly a US business. It's now much more international. Taking advantage of that for several products that were only sold in the US, but also expanding our reaches in Japan, China, India, Russia. And the same thing for CooperVision -- focused on those markets. Again, continuing to build the business in China; been in Korea, Malaysia, Russia, India. So, again, good expansion outside the US.

Strategic acquisitions -- absolutely been involved in that. But for CooperVision, the last big strategic acquisition was Sauflon. That acquisition put us from a follower in the contact lens industry to a leader in that industry. With that acquisition, we are the only company in the world that has a low-cost, mass-market silicon daily lens and the whole family. So, we have not only the low-cost sphere, but also a toric and a multifocal. No other company in the world has that. So, we went from being a follower to a leader with that acquisition.

When you also look at CooperSurgical, a number -- about seven acquisitions over the last seven months in the IVF space. Some of those acquisitions -- a lot of them in the genetic testing for IVF; very, very exciting field, and I will touch on briefly later.

But, again, this is kind of the model. It shows you how we are growing and what we've been delivering over this last few years.

Operating margin improvement -- again, continuing to make that operating margin improvement year after year at 90- to 100-basis-point improvement. If you look at 2014 to 2015, we actually declined 40 basis points. And, again, had it not been for FX, we would have actually had -- FX had a 280-basis-point impact on our operating margin last year. So, it had a dramatic impact.

Now, in fairness, if we didn't have the pressures of FX, we would have spent more in other areas. We were cutting trying to offset some of that FX impact. But, again, definitely shows that we had the ability to do way in excess of 100 basis points last year without FX. It's also kind of disheartening because there was a lot of good work done, a lot of parts of the Company that were hidden by the fact that we had a hit by FX by such a dramatic amount.

Take a look at the market. We look at the market -- three types of lenses, for those of you that don't follow us. One is a sphere, which is 70% of the market wears. And that's if your eye's nice and round. That's what most people are.

If you have astigmatism, your eye may be shaped more like a football -- an American type football. More complicated to fit that lens, more axes that you have to worry about.

And then multifocal, which is what I wear. That is when you get old enough and your arms aren't long enough to read the paper. It gives you a lens where you can see far away, near-term and reading view.

In the toric in the multifocal realm, we are the industry leaders. And we have been -- those are known as specialty lenses. We have been that leader for many, many years.

Looking at the market, you see toric is growing at about 8%, market growing at 6% overall. Multifocal growing at 10%. That lens is growing from a smaller base, but you can see that lens is growing for a number of reasons. One is people are staying in contact lenses longer. The other one is that the acuity of the lens and the comfort of the lens is getting far better. And the last thing is you have people who were out of contact lenses who decided, hey, I'd really like to wear contact lenses, not necessarily every day. But I would like to have them for weekends, maybe nights, outing events, sporting events, whatever. And you're seeing more people coming back in wearing contact lenses and the multifocal sporadically. So they may wear them a couple of times a week.

Looking at geographically, you can see the market is pretty much growing similar in all regions. You've got the Americas at 7%, Europe at 6%. Asia-Pac -- a lot of exciting things happening in Asia-Pac. You say, but they are only growing 5%. The reason there is that Asia-Pac has Japan. Japan is the second-largest contact lens market in the world. They're the largest daily market. They are a very mature market. Because of that, their growth rate is far less than the market average. And what you are -- what it's hiding is you have China, India, Korea, Malaysia -- all these countries are growing at rapid rates, big double-digit numbers, but being offset by Japan because Japan is such a large base in Asia-Pac.

Looking at the types of lens, you see frequent replaceable lenses are the two-week and the monthly. I will touch on this a little bit in a moment. But, two-week market is declining. The one-month market is still growing. You can see that that market is growing 3% in total, dailies are growing 9%. So, dailies are growing 3 times the amount of other lenses.

We are under index in dailies. So we are not the market leader in dailies, but we have the best portfolio. So we are really excited about this shift because we think in the industry we are the best-positioned to take advantage of this growth. Dailies -- the one-day lenses grew 12% in the last 12 months. Our growth rate was 16%. So, again, continuing to take share.

From an industry perspective, how do we grow? We grow really three different ways the industry grows. First is we're based expansion. So, children entering earlier. People like myself, (inaudible) staying later -- so, comfort of the multifocal lens which I touched on.

Then increasing instances of myopia, and this is actually becoming an epidemic around the world. China and India -- absolute epidemic. It's hitting the US the same way. Part of the problem is you've got kids who are sitting there with a device about 12 to 14 inches away from their face all the time.

When I was a kid, you were thrown out of the house, you were running around, your eyes were focusing on different fields of vision, your eyes were being exercised. When someone is sitting in a house because you can't be outside because of the glare on the screen -- you're sitting in a house, you are looking right here for hours at a time. It is causing nearsightedness. And it's been pretty dramatic, the increase over the last few years. And so scientists have come back and said, this causes it and also sunlight. The fact that between the distance and not moving and not getting the sun is causing that dramatic increase in myopia. So that obviously impacts vision correction -- glasses, and also does impact contact lenses.

The other way we grow the business is through pricing and modality. One is -- for a premium material, as you move people from hydrogel to silicone, that's probably about a 20% to 40% premium for that premium material, the silicone. When you move someone from a monthly, let's say, to a daily, you are getting a multiple of additional revenue and profit on that transaction. So as the market moves to dailies, the industry grows.

Other ways of geographic expansion -- US and Europe, largely mature markets. Japan, mature markets. But there's a lot of other areas -- Eastern Europe, Middle East and Africa area, Asia, where, again, it's more newly developed and a lot of opportunity for growth. China and India -- India is a big country, but a very small market right now and growing rapidly.

When I first started with the Company about six years ago, this slide to me was very interesting. Every geography had a different -- they basically had a different modality of choice. So Asia-Pac was one day and still is. EMEA -- Europe, was basically monthly. And now over the last couple of years, dailies have taken over. Americas -- that daily, the 32% number was 11% five years ago. So you can see the growth in dailies.

What is happening is new fits are coming out of the two-week market, which is still about $1 billion but shrinking and owned by J&J. And they're growing in the monthly but predominantly daily.

In the global space, the one-day market is about $3.2 billion. Of that, about 23% is now silicon dailies. And, again, that market is a little hard to tell because you are looking at about $600 million to $700 million market in silicon dailies, again, where we are uniquely positioned.

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Looking at market share, J&J I mentioned was the global leader. They are not number one in every geography, but they are number one overall. Over this period of time, we've been able to grow by adding it to our portfolio. Again, I mentioned adding the silicon monthly with Biofinity. We've got the two-week with Avaira silicone. We've got the dailies with MyDay and clariti. We have really built our portfolio to be second to none, and that has really allowed us to grow well above the market for the last several years.

This is just giving you a visual depiction of that. The dark line is us. The turquoise type line or blue line is the market.

New products -- again, we've been able to outgrow the market by the continuous development of new products. Even our Biofinity family, we've increased the extended range for the sphere. Now the Toric -- continuing to bring out new products to meet the needs of eye care practitioners and their patients.

Real quickly, touch on CooperVision. CooperVision grew about 9%. You can see currency was less of an impact in Q2 as the as-reported and constant currency were about the same. This business grew because of the silicon family. So Biofinity and Vera combined, our frequently replaceable lenses, grew at about 14% year over year in Q2. Our daily silicon family, CLARITY and MyDay, grew at 52%. And overall, silicon family grew at about 20%. Silicon is about 60% of our revenue now.

Looking at geography, again, good growth across all geographies. If I give you the trailing 12-month industry averages for the market, the market grew for Americas and EMEA about 4%. We grew 6% and 8% respectively. For Asia-Pac, the market grew about 6% and we grew at about 14%. So, again, you can see the good growth in all geographies. Look at lens types again -- toric multifocal, we are the owners of that category, and good growth there. And, again, you can see single-use growing at a 14% constant currency.

CooperSurgical -- let me spend a little bit of time on CooperSurgical. Last year, you see them down year over year 2%. The business really struggled for a couple of years. What we are seeing this year is we are up 6% pro forma, so good growth. We are seeing the optics and surgical products up 5%. It's the second quarter in a row that they have been able to grow, so that's a real positive. And we see that by increased selling effort, more salespeople, more focus. We would see the office visits starting to stabilize where office visits have been declining the last few years in all -- kind of all specialties, but now seeing that stabilize. I won't say really growing, but at least stabilizing.

And new products -- we have a new hysteroscope out there with some of our older products that we had purchased or completed a couple years ago are doing well. So, really positive.

On the fertility side, up 8% pro forma. And, again, a lot of it was acquisitions.

So from that position standpoint, I talked about the genetic testing, and a number of acquisitions there. It's exciting for us, it's fulfilling to be able to help families bring in healthy babies. And the genetic testing in the IVF field is really starting to take off, and a very, very exciting opportunity. And really kind of fills out our whole IVF portfolio. So, we can now test a family prior to pregnancy. We can test embryos to make sure they are not carrying disease, they have the right chromosomes and then carry them through the traditional OB/GYN space.

Some of the names -- if you look at this chart and some of acquisitions, nine months ago, over half these companies weren't on this list. So, just tells you the amount of effort that's gone into it over the last seven months.

Let me leave you with a couple of key takeaways. First off, operating in two solid markets with high barriers to entry. It's not easy to get into these businesses. You look at the contact lens business, but even in CooperSurgical, we've invested in manufacturing, we've invested in sales and that investment in infrastructure has paid off. We've invested in new products either through acquisition or through development, and that has paid off.

The other area, then, is the relationship that we have with the doctors, both on the CooperSurgical side and the CooperVision side. You don't build those relationships overnight. So, those are really strong areas where we have come to be known by the docs based on our product quality and our breadth, and are willing to work with them.

Revenue growth -- we touched on that, and exceeding market in both businesses. Investing in infrastructure. We have talked about the sales, the manufacturing.

All of this has come together to put us, I think, in one of the best product portfolios that we've had in a number of years. And really positions us to achieve the objectives I shared on the prior slide. The track record of success really covers the fact that I think we have been successful over this last many years as we have built up our products, we have reached the markets. Being able to outgrow the market, improve our operating performance, even to some extent, being able to hurdle this tremendous FX that has hit us over the last few years.

So, with that, thank you for taking time, and look forward to question-and-answer period.

Matt Larew - *William Blair & Company - Analyst*

Thank you so much for that. Sorry about the elevator situation at the beginning. We will take Q&A in the breakout session, which is in the LaSalle Room A, which is down on the seventh floor. I look forward to seeing you guys down there. Thank you.
