THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COO - Cooper Companies Inc at William Blair Annual Growth Stock Conference

EVENT DATE/TIME: JUNE 09, 2015 / 8:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Greg Matz *Cooper Companies, Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Brian Weinstein *William Blair - Analyst*

PRESENTATION

Brian Weinstein - *William Blair - Analyst*

It is 3:30, so we'll go ahead and get started. First of all, my name is Brian Weinstein. I cover Cooper here at William Blair. It's good to see a lot of familiar faces and some new faces in here.

For a list of disclosures, my compliance officer, the best compliance officer in the business, if he's listening, Mike Besenjak has told me to tell you guys to go to WilliamBlair.com for a list of all appropriate disclosures.

Quickly on Cooper; we recently inherited this name and could not be happier about it. We see this business as very well positioned for sustained, high single digit top line growth through new product introductions as well as market dynamics. We see those dynamics playing our favorably for quite some time.

We see the name as a core holding for midcap investors and view the risk adjusted opportunity here is very very favorable.

With us to discuss the company or the companies is the company's Chief Financial Officer, Greg Matz and from Investor Relations is Kim Duncan. I'll let you know that the breakout for this is down in the Oak Room. I'll remind you of that at the end of the presentation and hope to see you guys down there.

So with that, I'll turn it over to Greg. Thanks.

Greg Matz - *Cooper Companies, Inc - CFO*

Thanks Brian, appreciate it. Welcome everybody and thank you for taking time to hear the Cooper story. To start off with, don't expect you to read this, but for those on the phone, we have the forward-looking statement up and for any risk, please refer to our annual report on 10-K and our 10-Q.

Cooper Companies; we are a global medical device company headquartered out of Pleasanton, California. We have two lines of business. The first line of business is our CooperVision; it's our contact lens business. That's basically a $7 billion industry. It's led by three major players; J&J at about 38% market share; CIBA, Novartis Alcon with 27% market share and ourselves at 22% market share.

That industry has been growing at about 4% to 6%. It's been referred to as recession resistant. And most recently, the growth rate, and I'll touch on this later has been a little below that range for some anomalies. That business, as of 2014, was about 81% of the total Cooper business at about 1.4 billion.

If you look at the other part of our business, it's the women's healthcare business; it's about 325 million as of the end of last fiscal year. That space is focused on ob/gyn, so we service the doctor in the hospital, the surgery center and also in the hospital surgery center and in the office. In that business also we have an IVF business; in-vitro fertilization. Those are the two major pieces of women's healthcare.

If you look at the women's healthcare business, over 600 products in the ob/gyn space. Done over 30 acquisitions since 1990 and again, think it has a unique value proposition which I'll touch on later.

Looking at our financial overview, last year we did $1.7 billion. We just finished our quarter and reported our earnings Thursday night. Sales for Q2 were $435 million, up 4% on a pro forma basis. Pro forma, we acquired a company called Sauflon on the CooperVision side. We included Sauflon sales. We bought them last Q4; we included them in Q2, so you could see a good comparison of what our business portfolio really was growing. That assumes that growth rate of 4% has Sauflon in Q2, as if we had owned them at that time. It also takes out the effect of currency.

GAAP earnings per share at $1.23; non-GAAP EPS at $1.72. Major differences in the EPS from GAAP to non-GAAP is the fact that the Sauflon acquisition costs and integration costs are taken out, facilities startup costs are taken out and amortization, so we exclude those from our non-GAAP numbers. For more information on our GAAP to non-GAAP reconciliation, because I will mentioned a couple of non-GAAP numbers during the presentation, please refer to our Investor Relations website.

Looking at earnings per share. Accelerated earnings growth since 2011, almost 12% compound annual growth rate. We've been able to do this by several factors. The first way we've been able to do it is outgrowing the top line. And as you'll see in later slides, we've been able to outgrow the competition in our market.

Second way is improving gross margin. From about 2008 through 2013, strong improvement in gross margin. You saw that flatten out a little bit in 2014 and that was probably due to two reasons. First is FX.

On the FX front; FX has not been our friend over the last four years and definitely not this last year. In 2012, we probably had a $0.40 due to FX, mainly the euro; 2013 we had a $0.50 hit on earnings per share, mainly the yen. Last year we had a $0.36 hit on EPS and that was the yen and the euro.

And then last September/October happened and this year we have $1.68 hit on FX; 147 million off the top line and $1.68 off the bottom line. So FX has gone against us. All currencies, as you can imagine, have all been aware of the FX change and the strengthening of the dollar.

The other aspect that impacted gross margins is as we expand into daily lenses, our daily lenses have a lower margin than our average margins. So our monthly silicon lenses, as an example, high margin; dailies a lower margin, so that has an impact. Still good and I'll go into the dynamics in a later slide.

Operating expense leverage is another area that's allowed us to continue to grow our earnings per share and we've been able to leverage that since probably the second/third quarter of 2013. Then finally, lower tax rate. Our tax rate, on a non-GAAP basis, has been in the last few years, in that 8% to 10%.

Looking at guidance, this guidance is as of Thursday night when we gave it. We did take our guidance down at the midpoint about 44 million in revenue, but we kept our earnings per share non-GAAP on a $7.40 to $7.70. Even though taking the revenue down to strengthen our operations, I think the success we've had on the integration of Sauflon and the speed of which we were doing that really allowed us to keep our non-GAAP EPS.

Look at long-term objectives of what the company stands for and what we're trying to accomplish over this period, 2014 to 2018. First is, complete strategic acquisitions. We're an acquisitive company. If you look at our contact lens business, that business has the last big acquisition we did in that business was Sauflon, which was Q4 last year. That integration is going well.

That acquisition brought us a unique value proposition to the industry. It gave us something that no one else in the industry has. What we ended up picking up from Sauflon is a daily silicon family and that family has a sphere, toric and multifocal. No other company has that combination right now. Other companies like Alcon and J&J and us, before the acquisition, we had a daily sphere and silicon, but we didn't have the family. And it's important to the docs to have the whole family; so having the toric and having the multifocal. That's the one thing that acquisition brought to us.

On the women's health side, almost three years ago now, we purchased Origio, which supplemented our in-vitro fertilization business. The other thing that we've done in CooperSurgical, and this is more traditional for CooperSurgical, is a lot of tuck-in acquisitions. And in Q4, we did a couple of tuck-in acquisitions; one of those called Endo See.

Just to bring that up, Kim and I were at a trade show, 1st of May, and the volume wasn't that great except for our booth. As we walked around, it was a little disappointing. You go to our booth and it was packed shoulder to shoulder with doctors looking at these new products that Endo See had. So very exciting and that's how CooperSurgical has grown over the past.

Next, from a revenue perspective, outgrowing our revenue, compounded annual growth rate of 8%, growing EPS faster than revenues and we've been growing it 12% on a compound annual growth rate. If you reverse out the impact of FX, those numbers would be dramatically different. You take $147 million off, you add that back to revenue and the $1.68 and you add that back to earnings per share, then you can see that revenue growth could be a lot higher and that EPS growth would be a lot higher.

We have a commitment on the operating margin side to be at 26% plus operating margin in 2018. We made this comment in our Analyst Day and we continue to have that as a goal. The issue, even though we have all this currency, we're hurdling that and still committed to making that 26% margin.

We're also generating free cash flow; about $1.3 billion of free cash flow over this period. The last four years, we've generated about $230 plus million of free cash flow per year. The thing that's changing, in 2014 and 2015, we've invested a lot in CapEx. We saw the one-day market taking off. We saw the one-day silicon market taking off. And so we made investments in those markets and have added significantly to our CapEx for those two years and we see that trending off in 2016. Again, very committed to $1.3 billion in free cash flow.

Looking at operating margins, we kind of talked about all the reasons why, but you can see that steady growth of operating margins as a percent and also the operating income, it flattens out at that 23% in 2015 and again that's currency. You saw the massive impact currency has had and without that, the operating margin itself would be up higher. Again, we're committed to making the 26% plus operating margin in 2018.

Let's talk a little bit about the market itself. The market is growing, up 4% to 6%; it's a $7 billion market. Recently, I said there were some anomalies and the anomalies is that on the trailing 12-month basis, the market this past year grew 3%. There were a couple of factors that impacted it. The market grew 3%; we grew 8%. A couple of things that impact that and I won't go into great detail, but the Japanese back tax that became effective April 1, 2014 pulled a lot of business into March, which was the first calendar fiscal quarter for the industry; it's our second fiscal quarter. So that had one impact.

Then UP, this universal pricing policy, it's had an impact and measuring that impact is rather difficult, but that has also had an impact. Those are the two anomalies that jump out. Because when we look at the industry, the industry has been growing in the last couple of years at that 4% to 6% range, at the upper end of that range. In the worst of times, 2008, in the financial crisis, the industry grew at 3%. So for the industry right now to be growing at 3% the last trailing 12 months, when the economy is picking up, obviously there's an anomaly and we expect that in the second half of the year, you'll see mid-single digit growth in the industry, which would be about 5%.

You look at where the growth is happening, you see torics growing at 8%; sphere growing at 5% and then multifocal at 10%. I think in multifocal what you're seeing is that technology is getting better, comfort level is higher, you have people staying in contact lenses longer, you have people coming back into contact lenses who wore them but the multifocals of two years ago weren't that comfortable, weren't that effective for them.

And a lot of people who want to wear them, don't want to wear them during the day necessarily; what they want to do is wear them on nights and weekends, special events. So they're coming back into multifocals.

Looking at it from a geographic perspective, growth fairly even across the geographies. EMEA, Europe, the Middle East and Africa growing at about 6%. Americas growing at 7%. Asia Pac down at 5%. It's not down from prior presentations, but it's lower than the others. Inside Asia Pac, we have Japan. Japan is the second largest contact lens market in the world and they're growing at a rate less than that 5%. That kind of holds down Asia Pac, even though they're a bunch of small countries from a contact lens perspective like China, who are growing at a good double-digit clip and are pushing that number up.

Looking at the market itself and you're seeing the market from a perspective modality. Modality is how you wear the lens; daily, two-week or monthly. So frequently replaceable is really a two-week and a monthly lens. You see that market growing at about 3%. As I'll touch on later, that's largely the monthly side of that, not the two-week. The two-week market is actually declining. Then one-day is growing at about three times of frequently replaceable.

When we look at this industry and we look at where you get growth in contact lenses, really, three areas kind of jump out. First is wearer basic fashion. You have people come in earlier to wear contact lenses, so kids are coming in at younger ages wearing contacts. You have (inaudible), myself, the cell phone just can't get out quite far enough to see the fine print, so the multifocals as I talked about earlier. That's expanding.

Better comfort. The holy grail of contact lenses is that somebody can wear the lens and be wearing it 12 hours and still feel as good as when they first put it in.

The other area is increasing instances of myopia, nearsightedness. What's happening here, in some countries it's considered almost an epidemic and if you think about, you know, when I was a kid, nights after school or weekends, you were thrown out of the house, you went out, you were doing a lot of stuff outside, you were looking at stuff in the distance, you were looking at stuff in midrange, you were looking at stuff that was close. Now what happens is kids are looking at stuff that's 12 inches away and they're looking at that for long periods of time. The belief is that that is creating myopia.

There are also studies saying that as people come out of daylight, so people who are outdoors a lot, now coming into office and factory settings, a similar phenomenon increases myopia. So what does that do? That causes an increase in vision correction needs. With vision correction needs, that also means an increase in contacts.

The other area, pricing modality; so pricing, when you look at materials, you have a hydrogel material and then you have a silicon hydrogel material. Hydrogel is more traditional. Silicon has been around for the last 10 plus years; that's more prevalent now. More fits are going into silicon than hydrogel. When you do that, you move people up. You get a premium on that material of 20% to 40%.

So part of why the industry is growing is because they're being able to uplift as they move people into the new material.

The other area is people go to one-day. To go to one-day from monthly and two-week, what you do is you generate a fact of more revenue per patient and more operating profit per patient. You do have a negative or a headwind on gross margin, but you make it up on the operating margin.

Finally, geographic expansion. I mentioned one area that we're under indexed in is Asia and we're working on that. If you look at it from an Asia specific standpoint, China, big country, small market right now relative speaking, in contact lenses.

You look at India, very big country, very small market contact lenses. Bausch has been trying to grow that market I think for 30 years. It's very very small. At one point someday, that market will take off like China is starting to take off.

Looking at the modalities, if you look at it by region and it's kind of an interesting story and this has shifted over the last few years. Asia Pac 60% dailies and that's been pretty consistent the last four or five years. EMEA, it used to be, a couple of years ago that monthly was much more dominant than one-day and then one-day was the second most popular modality.

Then Americas at 29%; four years ago, that 29% was 11%. What's happened is two-week used to be the dominant in the Americas modality and what you're seeing is new fits are coming out of two week, they're predominantly going into daily, but they're also going into monthly.

J&J owned the two-week market and this has put a lot of pressure on them, because this is the one part of the market that is shrinking. It's a big market still, but it is shrinking and putting a lot of pressure on J&J.

When you look at the global side, 42% are one-day; that's a $3 billion market. Of that $3 billion, about 19% -- and again the visibility is just a little because not everybody reports their daily silicon sales; about 19% is daily silicone. That means that you've got about a $550 million to $600 million market. The dailies are the fastest growing in the industry.

Market share, I'm not going to go into a lot. Only to show you that the rate of market share gains that we've had, we've done this because I think we've had a great portfolio that we've been adding to. At this point, I think we have the most robust portfolio in the industry and the fact that we have silicon and hydrogel, we have daily, monthly and two-week lenses. We do private label.

But we also have something no one else has that I mentioned earlier. We have a daily silicon family that no one else has. We have the sphere which everybody has. We have a low-cost sphere which nobody has. We have a toric and we have a multifocal. Everyone else, being J&J and Alcon, Bausch actually doesn't have a daily silicon.

But the other two have what we had with my day, a high end silicone daily sphere. For a doc to fit, they like to have the whole family. So again, we have something right now that takes us from a following position to a leadership position.

This just really quickly shares with you the growth that we had each year for the last few years. We've steadily outgrown the market from a CooperVision perspective. How we've done that is basically new products, continually delivered year after year.

Talking about CooperVision specifically; 8% compounded annual growth rate, great product portfolio, their sales turned $60 million in Q2, up 6% on a pro forma basis. Done well. We've talked to a lot of folks today about the ramp in the second half with Clarity and with My Day, Biofinity. We have some low compares in the second half of this year. So again, we have a good ramp and feel pretty positive about that.

You look at what's driven that success; it's been the one-day market. The one-day market has driven it and the silicon one-day market has driven it. Saying that, we look at some of our other products, Biofinity and some of our other silicon monthly and two-week products have also grown double digit over this period of time. So the whole portfolio is doing well from that perspective.

By geography, and I'm not going to go into each geography. We're growing in each geography. Asia Pac (inaudible) growing 2%; it's below the market average. The market actually shrank in this time period and this has to do with Japanese back tax that I mentioned. On a calendar quarter one, the market shrank 7%; we shrank 6%, so we actually did better than the market.

Last year at this time, Asia Pac grew 20% and so we grew 2% off of that 20%. And again, we've now annualized the back tax in Japan, which really was March of 2014. I just wanted to clarify that.

Looking at material, toric and multifocal; again, for those who don't follow the industry, most people in a contact lens wear a sphere. Your eye is round, fitting is easy. If you go to a toric, your eye is more elongated, so for Americans, you can think of basketball versus football. It's a tougher lens to fit, there's more axis to make sure that the lens adheres to the eye and you move your eye, the lens stays on the eye.

In toric and multifocal, multifocal, what I wear, it's a unique lens, it gives you a distance view, a mid view and then an upfront reading view. One of the most complicated lenses to fit because of those three views. There's usually a compromise somewhere in those three ranges. But those lenses are actually doing well and growing quite a bit.

Toric and multifocals; we have over 30% market share. It's a historical strength for us, but with our Biofinity family, our Pro Clear hydrogel family and now with Clarity, toric and multifocal is a good foundation, a lot of products in the portfolio.

The other thing that's not up here is our total silicon. A lot of people ask about that. $197 million in Q2. It's about 50% of our total revenue and it grew on a pro forma basis, constant currency basis, about 16%.

Looking at CooperSurgical, this business, I mentioned it's growing at a compounded annual growth rate of 10%. A little bit of a struggle the last couple of years and this has been an industry phenomena. Office visits are down. People attribute that to the Affordable Care Act, to changes in insurance. A lot of things going on that impact that business. You also have a lot of litigation going on in certain things called mesh, certain things called morcellation. And that has actually, from a doctor's perspective, caused a lot of concern. Morcellation is newer, in the last six to nine months.

So doctors are a little hesitant to do procedures that they normally would do. What that's doing, they're stepping back and saying maybe what we'll do is try drug therapy or hormone therapy and see if that makes you more comfortable. If it doesn't, then we'll go back to something else. We do a laparoscopic or we do something that's actually much more invasive.

One of the things that some of these lawsuits are actually creating situations where you are actually going to do procedures that are more invasive than what they were doing before. They had their own risks. So that's causing procedures to slow down. When that changes, we're not sure.

What we do know is the industry is evolving, from a women's healthcare perspective and it even goes beyond women's healthcare. Doctors are getting out of private practice. It's too expensive, too difficult, going into larger doctor offices or co-ops, going into hospitals, going back to hospitals. And with that comes a buying change.

So instead of going to see all these doctors to sell instruments, you're now going to be seeing procurement managers and buying groups. We think we're uniquely positioned for that; 600 products in the ob/gyn space alone. I've gone through this in the electronics industry; when you go to that situation, a procurement manager doesn't want to see 1,000 people. They can't. They start to limit that list and they start to shrink who they're going to talk to. We're one of the premier portfolios in ob/gyn, so we're going to be in.

It also gives us an opportunity for acquisitions, because the reality is that a lot of companies that only have one product or two products aren't going to have access and it gives us an opportunity to continue to do tuck-in acquisitions around that space.

Looking at the business in Q2, $75 million, down 3% on a constant currency basis. Look at fertility, our IVF business, we never talked about FX when it came to CooperSurgical; it was mostly a domestic business. Our IVF business is more international and has an impact. Fertility was down 15% but only down 1% on a constant currency basis.

The Danish kroner, Japanese ken, Russian ruble; all those had an impact on the business. The office and surgical business down 3% and 3% constant currency, so you can see there wasn't a lot of currency impact on that particular business.

You look at these products, they are basically products that every ob/gyn recognizes. So they're the mainstay of the industry.

Looking at the five key takeaways before we wrap up. One is, we're operating in two solid markets with high barriers to entry. I look at the barriers to entry, I see three things. I see first off infrastructure and the infrastructure is the manufacturing footprint that you need and also the selling footprint. I see product portfolio, because you can't replicate a portfolio like this overnight. It takes a long time to have a portfolio that we have and that J&J and an Alcon would have.

The other thing is reputation with the docs. We're selling in both businesses, CooperSurgical and CooperVision, we're selling directly to the docs. So that relationships of understanding their business, what they're trying to accomplish, what products they need is one that you can't just create overnight.

We talked about revenue growth exceeding the market. Investing in the infrastructure of the business, the manufacturing infrastructure, the selling infrastructure; we've done that and we've got the products and it has positioned us well for the future. We're very excited about the future, because we hold a unique portfolio no one else has, both on the women's surgical side and the CooperVision side. That has proven to be a track record of success over the last few years and it's positioned us well for the rest of 2015 and 2016.

With that, thank you for taking time to hear the Cooper story. We do have a Q&A after this meeting.

Brian Weinstein - *William Blair - Analyst*

That will take place in the Oak Room down on the 7th floor. Thank you Greg.

Greg Matz - *Cooper Companies, Inc - CFO*

Thanks everybody.