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COO - The Cooper Companies Announces Definitive Agreements to Acquire Sauflon Pharmaceuticals Ltd

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OVERVIEW:

COO announced that it reached definitive agreements with Sauflon to purchase its business in a transaction valued at \$1.2b.



CORPORATE PARTICIPANTS

Kim Duncan *The Cooper Companies, Inc. - Senior Director, IR*

Bob Weiss *The Cooper Companies, Inc. - President & CEO*

CONFERENCE CALL PARTICIPANTS

Jeff Johnson *Robert W. Baird - Analyst*

Chris Tesco *JPMorgan - Analyst*

Joanne Wuensch *BMO Capital Markets - Analyst*

Steve Willoughby *Cleveland Research Co. - Analyst*

Matthew Mishan *KeyBanc Capital Markets - Analyst*

Larry Keusch *Raymond James - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Cooper Companies announces definitive agreement to acquire Sauflon Pharmaceuticals Ltd. conference call. My name is Kim and I will be your operator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Ms. Kim Duncan. Please proceed.

Kim Duncan - *The Cooper Companies, Inc. - Senior Director, IR*

Well, sorry for delay, everyone. Good evening, and welcome to the Cooper Companies conference call to discuss the acquisition of Sauflon Pharmaceuticals Ltd. I'm Kim Duncan, Senior Director of Investor Relations, and joining me on today's call are Bob Weiss, Chief Executive Officer; Greg Matz, Chief Financial Officer; and Al White, Chief Strategy Officer.

Before we get started I'd like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including all revenue and earnings per share guidance and other statements regarding the proposed acquisition of Sauflon, including: Sauflon's financial position; market position; product development and business strategy; expected cost synergies; expected timing and benefits of the transaction; as well as estimates of our and Sauflon's future expenses, sales and earnings per share or their failure to achieve anticipated benefits.

Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the Company to differ materially from those described in the forward-looking statements are set forth under the caption, forward-looking statements, in today's press release and are described in our SEC filings, including the business section of Cooper's annual report on Form 10-K. These are publicly available and on request from the Company's Investor Relations department.

Now before I turn the call over to Bob let me comment on the agenda for the call. Bob will begin by providing some details on the strategic plan to acquire Sauflon and then open up the call for questions. We request that anyone asking questions please limit yourself to one question. Should you have any additional questions please call our investor line at 925-460-3663 or email IR at cooperco.com.

This call is being webcast and a copy of the press release and related presentation is available through the Investor Relations section of the Cooper Companies website. And what that I will turn the call over to Bob for his prepared remarks.



Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Thank you, Kim. And good evening and thank you for joining us tonight. I am extremely excited to announce we have reached definitive agreements with Sauflon to purchase its business and transaction valued at \$1.2 billion. This is a business that is highly strategic and positions CooperVision as the premier contact lens Company, with a full suite of 1-Day lenses.

By full suite I mean a mass-market silicone hydrogel, sphere, toric and multifocal, through Sauflon's 1day clariti portfolio, a premium silicone hydrogel lens with MyDay and a strong portfolio of traditional hydrogel lenses with Proclear 1-Day and ClearSight.

Before getting into the strategic rationale let me tell you a little bit about Sauflon. Sauflon was founded in 1985 and currently has approximately 1,000 employees, primarily located in the UK and Hungary where it has a total of three manufacturing facilities. The Company has a global presence with a sales office in over 10 countries, or with sales offices in 10 countries, and products sold in over 50 countries.

Sauflon has a great family of 1-Day silicone hydrogel lenses branded under the clariti name along with monthly silicone lenses and traditional 1-Day hydrogel lenses. It's clariti family of 1day and monthly lenses recently received FDA clearance and launched in the United States in March of this year.

Sauflon has a nice contact lens business -- or contact lens solutions business. They have the same fiscal year as Cooper Companies ending October 31. And Sauflon is forecasting revenues for fiscal year ended 10-31-14 of approximately \$210 million, up 22% year over year. This forecast includes \$85 million of 1-Day silicone hydrogel sales growing 43% year over year.

At this point that is all the financial information we will provide on Sauflon until we close the transaction, which we expect to occur prior to the end of the fiscal year. Having said that, I am sure some of you will search on their website for their financial information, which they file statutory tax requirements in the UK. These numbers are based on UK GAAP and thus some adjustments need to be made to convert to US GAAP.

We will be issuing pro forma financials within 75 days of close, so you will have the details, but if you are looking at these statements in the meantime we believe the 66% gross margin listed in their tax returns is closer to the lower 50% range in US GAAP as items such as depreciation are classified in operating expenses in the UK. We expect the 15% operating income they had in their fiscal 2013 will be similar in US GAAP -- on a US GAAP basis.

Now let me spend a few minutes on the strategic rationale for this deal. First and foremost is the addition of the mass-market 1-Day silicone hydrogel family of lenses. This acquisition provides CooperVision with a multi-tier 1-Day strategy by giving us the widest range of product offerings including being the premier Company with 1-Day silicone hydrogel toric and multifocal lenses.

From a market perspective, the 1-Day segment is the fastest-growing segment of the soft contact lens market and the fastest-growing sub-segment and silicone hydrogel lenses. Industry data shows the global 1-Day market growing 10% last year and we estimate the 1-Day silicones grew 25%.

Of the \$3.1 billion 1-Day market, 1-Day silicone hydrogel lenses account for approximately \$400 million of that market. We estimate J&J and Alcon comprise the majority of the market now -- as it's now defined, CooperVision and Sauflon holding a number three position with roughly 20% share, growing faster than the market.

And remember, as of today, 71% of the two-week and monthly markets are silicone hydrogel lenses and it is only 13% for the 1-Day lenses. Assuming the 1-Day market moves to the same percentage, this creates a \$1.8 billion annual revenue opportunity. We believe this can happen if we can get the right products into the market at the right price points and at the right time.

That time is clearly now and CooperVision is extremely well positioned to capitalize on this. This acquisition also enhances our position with key retailers around the world, particularly in Europe. We have been under indexed in the 1-Day market segment and with large retailers and the demand for clariti 1day and MyDay will give us a strong position of products to increase our share in both.

Additionally, this new strength with 1-Day's will provide a halo effect opening many new doors for other products, especially Biofinity. The acquisition also provides opportunities for synergy. But I may stress this deal is not based on obtaining cost-cutting synergies but on CooperVision's utilization of our global footprint and manufacturing excellence, allowing us to more aggressively roll out Sauflon's products and adding manufacturing capacity more quickly.

In summary, on the strategic side it meets our strategy of focusing on underpenetrated markets within contact lenses and in this case the mass-market 1-Day silicone hydrogel segment.

Now let me comment on a couple of additional items. First off, from a total market share perspective on a global basis this will increase our market share from 19% to 21%, strengthening our number three position versus Alcon and J&J. In Europe this will move our market share from 24% to 30% making us a solid number two player behind Alcon.

From a financial standpoint, as I mentioned, we will be paying approximately \$1.2 billion. The actual purchase price is in British pounds and is a little over GBP700,000. So the final purchase price will change in terms of US dollars based on currency movements.

Financing will come from offshore cash and credit facilities making this a very attractive transaction that fits our global tax structure and allows us to effectively utilize our offshore cash. And as previously stated, we anticipate this transaction will close prior to our fiscal year-end in October of this year.

From a return perspective this transaction is also very attractive. It offers a double-digit rate of return and the transaction is expected to be accretive to our fiscal 2015 earnings per share, excluding acquisition-related charges and deal-related amortization. We plan to provide additional information on our fiscal third-quarter conference call and at our Analyst Day on September 11 in New York City.

Now to summarize, before we take any questions, let me say again how excited I am about this deal. I believe it truly makes CooperVision the premier Company in the 1-Day space. Combining Sauflon's products with our infrastructure and financial position will allow us to aggressively roll out their products globally while increasing production, increasing our overall market share.

They have proven technology, a great brand name, a strong product portfolio and a well established presence with key accounts throughout Europe. This is a great strategic acquisition which aligns our long-term objectives and one that will benefit our shareholders for years to come.

A special thanks goes out to our employees who worked so hard to make this transaction happen. This is one more great example of when I always close my calls by saying our employees are our number one assets, and they went ahead and made this transaction happen. With that, let me open up the phones for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jeff Johnson, Baird.

Jeff Johnson - Robert W. Baird - Analyst

Congratulations on the deal. Bob, I want to start with you. Wanted to see -- I just want to make sure you can confirm this in no way changes your commitment to MyDay? And could you maybe -- I can imagine some ways this maybe even allows you to accelerate your US launch of MyDay, but could you maybe address that point as well?



Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Yes, Jeff. By the way, I want to correct one thing. I made a comment of GBP700,000 I think, it is GBP700 million. So just for clarity on that.

MyDay, as far as our plans, it will not alter them. We will continue on the same path of roll out. Since MyDay is capacity constrained we will continue down that path of trying to move it forward as fast as we can with the intent to go from Europe initially into the US in 2015 and then into Japan in 2016. So, no change on that front.

Jeff Johnson - *Robert W. Baird - Analyst*

Okay. And just a follow up question if I could. I just wondered how you are going to focus on the channel in the US with the Sauflon deal now as part of your Company. J&J is obviously getting more friendly with the independents, you are going to have a lower priced option now on the daily side, [high] side with clariti and to me lower-priced options sometimes skews more towards the retail channel.

So you guys have always been so big in the independent channel, is that focus changing at all? Are you kind of starting to eye more the retail side more aggressively than you have in the past at the expense of the independents? Just any comments there would be helpful.

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

We are clearly not abandoning our loyalty and the support we've always had with the independent eye care professionals. Having said that, the more recent trend towards UPP, the unilateral price strategy that has been adopted by a number of competitors, is certainly presenting some opportunities on the retail side with them being somewhat troubled, if you will, by that strategy.

Our intent will be certainly to be loyal to the independents, but by the same token to make sure we are making product available on both sides of that fence, if you will.

Jeff Johnson - *Robert W. Baird - Analyst*

All right, thank you, guys.

Operator

[Chris Tesco], JPMorgan.

Chris Tesco - *JPMorgan - Analyst*

Bob, I recognize you guys want to give more detailed guidance further down the road. But can you give us any sense of what you are targeting in terms of year one synergies to get to the accretion?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Yes. All we have said is at this juncture we are not going to get into operating cost synergies. And quite frankly, this is a lot more about top-line rollout. So we are assuming minimal synergies to, if you will, effect that accretion next year, once again excluding restructuring costs and acquisition accounting costs and related amortization. So they have a 15% operating margin already. They have a good product portfolio. It is more about executing and leveraging up.

They would be -- were they to stay independent they would have been in a major expansion mode to build the infrastructure to launch into certain locations like the US. We will not have to approach that the same way obviously for reasons, in fact, that we already have that infrastructure. So a lot of it will be leveraging the existing infrastructure we have going forward.

Chris Tesco - *JPMorgan - Analyst*

And it looks like about 40% of the business is the clariti line. Can you give me any color on what the other 60% of the business consists of? And in particular how much of the business is solutions versus lenses?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Yes, about I want to say 37% of the business in 2013 was lens care, that is obviously growing much less fast than lenses. And lenses in aggregate are growing a lot less than the silicone hydrogel 1-Day product. So I think we indicated the 43% growth of the 1-Day silicone hydrogel and the size of that product portfolio.

Chris Tesco - *JPMorgan - Analyst*

Thanks.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

I apologize, I joined the call late. Do you plan on keeping this lens care business or splitting that out ultimately? And I am quite frankly a little surprised by this acquisition. So I am sort of curious what sort of prompted you to do this at this stage?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Well, Joanne, I think I covered it in the earlier part, but I will just briefly say that obviously the 1-Day market is growing. It is the growth of the contact lens market. It is growing 10% in a market that is growing 5%, but the non-1-Day is growing too. So what this allows us to have is the premier line in that area.

Why not be in the hottest part of the market where, as I indicated, this brings the family of products that clearly has a lead in the marketplace because you have a silicone hydrogel sphere, silicone hydrogel toric and a silicone hydrogel multifocal in the 1-Day space. So we believe that it will allow us to go for the mass -- the biggest part of the 1-Day market where we are obviously under indexed with a complete range of products.

As far as the lens care business is concerned. We are intent on making no major decisions on that. And it is primarily in Europe where there is a slightly different model. So there are no plans to do anything with that.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay, thank you very much.



Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Co. - Analyst*

A couple of questions for you, if you don't mind. First, I was wondering if you could just comment on if this was a competitive deal at all or just yourself.

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

I'm not going to comment on that.

Steve Willoughby - *Cleveland Research Co. - Analyst*

Okay. And then I guess could you explain maybe a little bit more of the rationale behind your deciding to continue to invest in MyDay as well as the clariti lenses? And then I guess with that if you could just maybe share with us kind of where the manufacturing capacity currently stands for both Sauflon and MyDay as well?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Yes. As far as the rationale for continuing to roll out MyDay, not slowing that up as well as having the clariti line. Clariti line, if you think of the mass market in the 1-Day space, the 1-Day space is over \$3 billion, it is 42% of the global market. The biggest product, for example, in there is Moist.

Think of MyDay being at the premium half of the Moist pie, if you will, and think of clariti at the lower half of that pie, both going after Moist but from different directions. So one is more a price point. We have in the past indicated many times that what will move the needle in this market is a reasonably priced silicone hydrogel 1-Day.

And it will kind of get stuck in slow gear if all you have is that super premium price silicone hydrogel 1-Day market where most of the people that are converting out of the two-week space into the 1-Day market cannot afford that premium price. So, we believe having both is where we want to be.

As far as capacity goes, the Sauflon piece, obviously they have enough capacity to support their forecast for this year of \$85 million in the 1-Day modality. They are ramping up like everyone else in the 1-Day silicone hydrogel space is. And one of the things we will do is continue to make sure they can optimize the speed of that ramp up with our resources. We will continue, for the reasons I said, going after the top half, the premium side with MyDay not to slow that up either.

Steve Willoughby - *Cleveland Research Co. - Analyst*

Okay, and then I guess just a final thing following up on a previous question. If you could maybe expand or provide any more clarity on what caused this decision now? Sauflon has been around for a long time, they have obviously been FDA approved for almost a year now. I guess what was the trigger that made you I guess pull the trigger right now?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Actually we have been courting them for several years, so it represents a culmination of a lot of years of work.

Steve Willoughby - *Cleveland Research Co. - Analyst*

Okay, thanks very much.

Operator

Matthew Mishan, KeyBanc.

Matthew Mishan - *KeyBanc Capital Markets - Analyst*

Thank you very much and congratulations.

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Thank you, Matt.

Matthew Mishan - *KeyBanc Capital Markets - Analyst*

I just want to follow up on your comment where you said it is accretive to earnings post amortization. How much amortization is this likely to create and does this mean you will exclude it from earnings going forward?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

The amount of amortization is totally unknown, that will be function of appraisals, which usually are pretty exhaustive and they will come out wherever they come out. And, yes, it is our intent, like many of our competitors within the device industry, or I should say most of them, do in fact call out amortization of intangibles. So we are intent on joining that group.

Matthew Mishan - *KeyBanc Capital Markets - Analyst*

And how are you planning to prioritize CapEx going forward? Is it still going to be towards MyDay or are you going to move some of those dollars over an expanding capacity over for clariti?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Both sides of the aisle will get as much cash as they need to develop the market. So, we are not restricting CapEx with MyDay, nor are we with Sauflon and clariti.

Matthew Mishan - *KeyBanc Capital Markets - Analyst*

All right, thank you very much.

Operator

Larry Keusch, Raymond James.



Larry Keusch - *Raymond James - Analyst*

A couple quick ones for you, Bob. Obviously the integration of Ocular was a challenge for Cooper. How are you thinking about this transaction with the three manufacturing facilities? And maybe talk about just again how you are thinking about the integration. I recognize it is early, but any thoughts would be appreciated.

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Sure, Larry. The Ocular integration was one where you had almost equals merging. You had a \$300 million company merging with a \$400 million company, in the middle of that major new platforms that are going to be used.

In this case there is no intent to shift the manufacturing platform for clariti on its existing platform. Nor is there to shift the MyDay platform off of that -- one into the other. With the Ocular one we bought what was known as Gen 2 technology which we still used today extensively. And that was a catalyst to move into the 1-Day modality which we couldn't do on the Cooper platform.

So there was some pretty extensive complexity there. And then overlay or the size of the two transactions globally and then overlay our silicone hydrogel right in the middle.

I would say this should be much, much simpler. We are not going to change the platform. We are going to leverage our infrastructure. We are obviously much more global and large in terms of our reach. And the product is already an approved product portfolio as opposed to developing Biofinity and Avaira that came out of the Ocular acquisition. So the risk from that point of view is minimal and also it is more a product rollout than it is extensive synergies, if you will.

Larry Keusch - *Raymond James - Analyst*

Okay, got you. And then just a couple Cooper fast ones. If you can remind us how much tax you have offshore? You had been talking about CapEx for the CooperVision business peaking this year. I'm wondering if that is still the thought there. And then I will leave it at that. Thank you.

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Well, I will just say the cash offshore will be consumed in this transaction, it will allow us to put in place the right balance of debt, if you will, which will allow us to plan our future cash flow for years to come. So these transactions come around every so often that allow you to level out the entire playing field.

I have always said that since 95% of the wearer potential is outside of the United States and only 5% is inside the US that we should be able to continue to grow our business very handsomely outside the US for decades to come. This is the perfect example of that opportunity.

We are obviously not talking about growing their production into the US. It's resident mainly in Hungary, which is a very favorable labor rate base. So it has an added benefit, if you will, even on that front. So cash flow and use of cash is just perfect with this acquisition.

Larry Keusch - *Raymond James - Analyst*

And the CapEx on CooperVision?

Kim Duncan - *The Cooper Companies, Inc. - Senior Director, IR*

CapEx on CooperVision?

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

Yes, the CapEx on CooperVision, we are planning this year North of \$200 million and North of \$200 million next year, this would be somewhat additive. But I might point out that their capital requirements are a different model than Cooper, it is much less capital intense in terms of dollars per line, if you will.

So there are some favorable benefits on that as they expand. But it would be additive, it would be basically saying we will be well north of \$200 million next year and in spite of that it will hurdle that CapEx and be cash generative.

Larry Keusch - *Raymond James - Analyst*

Okay, great. Thank you very much.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I will now turn the call back to Dr. Bob Weiss.

Bob Weiss - *The Cooper Companies, Inc. - President & CEO*

I want to thanks for the promotion on the doctor. But I want to thank everyone for joining the call and we look forward to updating you a lot more when we have our earnings release call in early September. And then look forward to meeting with many of you and talking further about it when we have our Analyst Day in New York City on September 11. Thank you again for joining us and that will conclude the call.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. And have a great day.

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