

With Two Great Franchises that are Both Solid in Their Markets, The Cooper Companies is Well Positioned for Future Growth

**Healthcare
Medical Instruments & Supplies
(COO-NYSE)**

The Cooper Companies, Inc.

**6140 Stoneridge Mall Road, 590
Pleasanton, CA 94588
Phone: 925-460-3600**



**Robert S. Weiss
President and CEO**

BIO:

Robert S. Weiss is Chief Executive Officer, President and member of the Board of Directors of The Cooper Companies, Inc. ("Cooper"), a publicly traded company on the NYSE Euronext. Headquartered in Pleasanton, California, Cooper manufactures and markets specialty healthcare products with annual revenues in excess of \$1 billion. During his 34-year career at Cooper, Mr. Weiss has performed many roles including Chief Operating Officer, Chief Financial Officer, Corporate Controller and Treasurer. He

also served as President of Cooper-Vision, Inc., a subsidiary of Cooper, which is the third largest contact lens company in the world. Under the leadership of Mr. Weiss, The Cooper Companies has received the following awards and recognitions: Top 60 Employers in the Bay Area by BayAreaNewsGroup, Gold level Start! Fit-Friendly Company by the American Heart Association and 40 Best Companies for Leaders by Chief Executive Magazine and Chally Group Worldwide. Mr. Weiss is also a member of the Board of Directors and Chairman of the Audit Committee of Accuray Incorporated, a global leader in the field of radiosurgery. Prior to joining Cooper in 1977, Mr. Weiss, a Certified Public Accountant, was an audit supervisor at KPMG LLP, a leading independent accounting firm. He also served in the U. S. Army where he achieved the rank of Captain. Mr. Weiss was awarded two Bronze Stars and the Army Commendation medal during his service in Vietnam. Mr. Weiss attended the University of Scranton in Scranton, Pennsylvania, where he graduated cum laude in 1968 with a Bachelor of Science in Accounting and recently received the Frank J. O'Hara Alumni Award for management. Mr. Weiss was recently recognized in Chief Executive Magazine among 13 listed CEO's who lead by example in the area of leadership development strategy and execution. He and his wife Marilyn have three children and two grandchildren.

Company Profile:

The Cooper Companies, Inc. ("Cooper") is a global medical device company publicly traded on the NYSE Euronext (NYSE:COO). Cooper is dedicated to serving the needs of the

healthcare professional, improving the quality of life for its employees and customers and providing market leading products. Cooper's commitment to health and wellness is reflected through its corporate culture and global initiatives to promote healthy life choices for its employees. Cooper operates through two business units, CooperVision and CooperSurgical. CooperVision brings a refreshing perspective on vision care with a commitment to crafting quality lenses for contact lens wearers and providing focused practitioner support. CooperSurgical focuses on supplying women's health clinicians with market leading products and treatment options to improve the delivery of healthcare to women. Both companies provide superior product range and quality, along with friendly customer service and a drive to continually innovate. Cooper and CooperVision are headquartered in Pleasanton, CA, and CooperSurgical is headquartered in Trumbull, CT.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Weiss, you have been with The Cooper Companies a long time. How has Cooper changed under your leadership as CEO?

Mr. Weiss: Over the last three and a half years, since I became CEO, we have remained focused on strategies that have evolved over the last 10 years. We had gone through a lot of restructuring. The last three years have been more about executing on the fine points of the integration of the major acquisition we did back in 2005. We had two companies about the same size, so it took about three to

four years to bring about the integration. Therefore, it is now more about expanding geographically and executing product rollouts globally. In addition, there has been a lot of emphasis on our number one asset—our people.

CEOCFO: Would you tell us about the two segments of the business?

Mr. Weiss: We have two business segments. The first one is CooperVision, which is in the contact lens market, representing about 85% of the business. This is a worldwide market of about \$6.4 billion. It is a niche market, as there essentially are only four primary competitors – Johnson & Johnson (J&J), CIBA Vision, which is part of Novartis, Cooper and Bausch & Lomb, taking the number four spot. That pretty much represents almost 95% of the global soft contact lens market. There are a lot of terms we use in this business, such as types of modalities – a one-day lens, which is your “throw it away everyday” lens, a two-week lens where you throw it away after two weeks and then the monthly and beyond modalities. Importantly, the contact lens industry is recession resistant. Even during bad times, it has not gone negative. This attribute has allowed us to go through the recent recession pretty much unscathed as well as continue forward with enough momentum. The industry, for example, last year grew 5%, but we doubled that and grew 10%. Our other business, CooperSurgical, is in women’s healthcare, which is a unique franchise and represents twenty-some years of work where we have been acquiring little companies and putting them together. Our primary objective is to service the obstetricians and gynecologists, most heavily in the U.S. since this is a more U.S.-centric profession. However, we also go into Europe, where there are many general practitioners that closely fill the role of what an OB/GYN does in this country. CooperSurgical is unique in that it has done well over 30 acquisitions in the last 20 years, but all of them were pretty much small acquisitions. Larger

companies, like some of our peers, do not have the time to go about doing \$10 or \$20 million transactions. This allows us to create critical mass, with a national sales force that services the gynecologists in their office practice. We also contact and service the gynecologists in the hospital setting, in the outpatient setting and also in fertility clinics.

CEOCFO: Why the decision to go into the women’s healthcare business?

Mr. Weiss: That is not the first time that question has been asked. It actually came about because of being in eye care. Cooper, back in the 1980s and 1990s, had a position in a com-

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pany called Staar Surgical, which is still a public company today. We had lent the company some money as it went through some tough times, and we ended up swapping a note position for a company called Frigitrionics of Connecticut. Staar Surgical had a technology called Cryo that was used to remove cataracts. It is not used very much anymore. Cryo was also used for pre-cervical cancer. In essence, Cryo was a technology with two applications. We swapped our note position in Staar Surgical for the operating unit. We focused on Cyro’s ability to address women’s healthcare since Cryo was going downhill in terms of its use in vision care. Therefore, the business we are in came about as a by-product of a technology driven company. Since then we built

upon this with well over 30 acquisitions. We now have 600 products in 19 primary groups.

CEOCFO: Are you continuing to grow in that area?

Mr. Weiss: We are continuing to do tuck-in acquisitions. The purpose is to leverage the infrastructure we have built. We recognize that many of the companies and people competing do not have a national sales force. They would show up at a couple of conventions and try to sell their ideas, as opposed to being in the doctor’s office every month. We were building the wheel, and we are now continuing to leverage that wheel. The beauty of this business is that it has unique huge barriers to entry; no one is going to go accumulate 600 different products, none of which is a big product, all of which when put together is a \$200 million business. Establishing the relationship where we are a household name with the gynecologists in their office practice took 20 years, and we are now at a position to continue to leverage that.

CEOCFO: Going back to the contact lens area, Cooper grew 10% when most of the industry grew at 5%. How have you achieved this level of success?

Mr. Weiss: A lot of that has to do with why we were late to the game in what is called the silicone hydrogel market. Today the silicon hydrogel market is 41% of the global market; it has grown well. It first started in 1999 when Bausch & Lomb and CIBA Vision introduced two silicone hydrogel lenses that they had worked on for years in the 1980s and 1990s. From 1999 to 2011, that whole market got a lot of attention. The first three big players, J&J, CIBA Vision and Bausch & Lomb, got there in the mid-decade around 2004-2005. Cooper merging with Ocular Sciences was like the number five company merging with the number four company to become the number three company. Upon the merger, we had accessed some technology but then found out it was easier said than done

to make a silicone hydrogel contact lens. We were great at making lenses, and we had great designs, but we did not know chemistry, consequently, taking us several years longer. The good news is the material was really a best-in-class material, and I would equate the first generation of silicon hydrogel contacts lens to that of the first generation of Teflon. It was a coated material since silicone hydrogel is hydrophobic, meaning it pushed water away. If you put a lens in your eye that is hydrophobic and it pushes all the water out of your eye, that would not be good, making it not a very practical lens. The material had to be coated to make it compatible with a contact lens being in the eye. Our generation product is not coated. What is in the middle is on the outside, so it is balanced-off in a patented formula with high water content and is also softer than the initial silicone hydrogel lenses that came out. They were quasi-hard even though they were called soft lenses. Since we did not get to the party until the last four years, given that it took us so long from a technology point of view to refine the manufacturing process, we now are in the market with the best product. When I mentioned modality, there is the one-day modality, the two-week modality and the month and beyond. The relevance of a silicone hydrogel lens allegedly is that you can sleep in it and it is comfortable; it allows the eye to breathe fairly naturally even when you are sleeping in it. That does not necessarily mean anything clinically, but from a marketing point of view, a lot of attention went into that story. We are now playing the game, if you will, in that market. We are not loyal to silicone hydrogel lenses; we will sell whatever the practitioner wants, as opposed to telling the practitioner what they should have.

CEOCFO: How important is brand to your customers?

Mr. Weiss: It is not the same all the way around the world, but in the U.S. if you ask someone what he is wearing, nine times out of ten he does not know. He will make a guess based on a TV ad he has seen, but he really does not know. That is really a deci-

sion made and directed, for the most part, by the practitioner. The eye care professionals in the U.S., which are one of the highest trained in the world, make the decisions and lead the patient down the path. Once the patient has the prescription, he will go shopping. Individuals have a right to do so in the U.S. Therefore, the individual will tend to price shop. He will go on the internet, Wal-Mart, etc. looking around for the best price. However, the initial decision is made primarily by the doctor, I would say, 95 out of 100 times.

CEOCFO: Where are you geographically and where would you like to be?

Mr. Weiss: Geographically, we are pretty diverse. We have about 40% of our business in the Americas and 60% outside the Americas. We are expanding into the BRIC (Brazil, Russia, India and China) countries. A lot of energy and time is going into analyzing how we want to best proceed. The reason why now is the best time is we now have a story to tell. We have the best product in the one-day modality, two-week modality and the monthly and beyond. However, each geographic area is different. For example, Japan is the second biggest contact lens market in the world and was almost as big as all of Europe at one point in time. It is about \$1.4 billion and is heavily a one-day market—55% of that market is one-day. Wearers throw their contact lenses away every night and there is a specific reason for that. Japan is very anti-preservative and anti-chemical disinfectant. Most contact lens care products have mercurial-based preservatives in them, such that you can wear soft contact lenses as long as you boil them everyday. However, if you boil them, they do not do very well. This pushed the market by definition towards one-day. As another example, Taiwan, which happens to be north of 80% one-day market, will not let you advertise anything but one-day lenses. Buy them, use them for one day and then throw them out, because they do not want the chemical disinfectant in them. Once you buy a one-day lens, you really do throw it away everyday because you do not buy lens care preservatives. As for the U.S., this profile does not

exist; only 13% of the U.S. market is one-day lenses. Americans are frugal and not very compliant, so they buy two-week lenses, but then cheat and use them for a month. Therefore, the least compliant market is the two-week market. In Europe, they are a little different. They are heavily into the monthly market and the one-day, not believing in the two-week. Therefore, 38% of the European market is one-day, 50% is monthly and only 12% is the so-called two-week market. In the U.S. that so-called two-week market, I say so-called, because it really does lack compliance, is 58% of the U.S. market.

CEOCFO: How do you reach the practitioners; how do you get people to use more of Cooper products?

Mr. Weiss: We put our energy in the sales force that reaches out to the practitioners. We are not a big consumer advertising company; you do not see us on TV. However, we are pretty proactive in our alliance with practitioners and how to make them more productive. We will work with practitioners on social networking for example. If they are out in a remote area or do not have the wear withal to build the website to reach out to their customer base, we will help them with that, then turnkey it and let them take it over at some point in time. Our alliance is with the eye care professional. It is with the decision maker, which is why we are not a household name and probably will never be.

CEOCFO: Where do you manufacture?

Mr. Weiss: We make about a billion lenses and about 10 million of that one billion are made in the Rochester area. Essentially, for the remaining billion, half is made in Puerto Rico, where the average production line worker is a college graduate, and the other half is made in the U.K., where many of the soft contact lenses have evolved. The Southampton area out of southern England has been the hub of numerous companies that have started up. Over the years, Cooper has bought many of these companies going back to the 1970's.

CEOCFO: You talked a bit earlier about the strength of your employees

and I know Cooper ranks quite well as an employer; how have you developed that focus, what is the corporate culture, and how does it play out?

Mr. Weiss: It really started when I took over and thought about what change I would make as CEO. I place a lot of emphasis on putting our money where our mouth is. We say our employees are our number one asset. This does not mean over paying everyone. It really means treating people with respect and acknowledging their work. I probably spend 15% to 20% of my time on succession planning; identifying the up and coming people. As I spend a lot of time on this, it also filters down through the organization. The second thing I feel very strongly about is health and wellness. There are many people that come to work simply occupying a chair, but they really are not there. So the question is how do you improve the productivity of them being present and working? I feel a lot of that is tied in with wellness. Based on the book *Zero Trend* by Dr. Dee Edington from the University of Michigan, many companies put a lot of attention on the people that get sick, which is 15% of the people that need attention. However, companies ignore 85% of the people that are well. The philosophy at Cooper as well as mentioned in the book is take care of all your employees. Keep the 85% that are well, well. In fact, make sure they are not migrating towards becoming a diabetic or having heart disease. We started our wellness initiative about three years ago. We initially started here in California with our corporate employees. It gained immense popularity; people were having fun and morale went up. We give employees a longer lunch on Wednesdays for walking and allow a jeans and sneakers dress code for the day. With the positive response, we took the wellness program global, making it competitive with global competitions and challenges with an assortment of prizes to win. First prize, which I presented, was for someone who walked the most steps in a virtual challenge. This was 23 million steps walked by one individual over a number of contests. It does not matter what activity an employee does so long as they are moving and active. Knowing the im-

portance of family and lifestyle, we then extended our wellness initiatives to involve the entire family. We want to help improve the lives of our employees and their families. Understanding the holistic nature of wellness, we expanded into nutrition programs such as Weight Watchers, stress management, massages, etc. Many of our locations have massages on site once a week, gyms, walking routes, healthy vending machines, etc. All of this serves to enhance employee morale, motivation and performance. I would argue there is some correlation between our wellness efforts and how well the company has done the last three years, with the stock price going from \$10 up close to \$70. I personally believe much of our company's business performance has been directly correlated to having employees who are happy, healthy and motivated.

CEOCFO: Do you find that people are more interested in coming to work for Cooper because of that?

Mr. Weiss: Absolutely! In the industry, we are in a position where we are the most veteran organization. Each of our competitors has gone through challenges and in some cases a downsizing. Therefore, our competitors have helped us, putting us in a great position. We are a company looking to expand. We are investing in research and development and in the sales force as well. We are also becoming more efficient in many other areas. Employees have the opportunity to work with more sophisticated sales, R&D and manufacturing. When I mentioned Puerto Rico, essentially everyone is a college graduate. Well over 90% of the people there are college graduates. They are not coming in and doing mundane things; they are being challenged day in and day out with new products, new equipment and new technology.

CEOCFO: What about the strength of your management team?

Mr. Weiss: Since the acquisition of Ocular Sciences in 2005, we took pretty much the best of the best. In the purchase of Ocular Sciences, we went through each functional area. That left us with pretty good talent throughout the organization as we

evolved. From an industry point of view, no one even comes close to having our industry experience. I go back to the mid-1970s in terms of the contact lens market. We have many people that go back to the 1970s and 1980s, and it is kind of a cottage industry. Because of what has gone on out there in our competitive environment, this leaves us with the seniority that we have experienced. Some would argue maybe you get stale, but I would argue that you do not have to. You can approach your job with just as much energy and a lot of know-how of what has gone right and what has gone wrong. We are, by far, top in the league in that area. We spend a lot of time on succession planning, identifying and assessing key leaders. Individuals on our management team, including myself, have senior coaches and mentors to help us develop our leadership skills wherever there is a void, whether that is public speaking, global thinking, etc. We groom employees for success, evaluating and identifying their areas for growth and improvement. A lot of time is spent setting CEO objectives. I, along with the board, invest many hours agreeing on what my objectives are each year. These objectives then get filtered down through the organization. There is a lot of attention on what we have to get done this year, who is doing it and who has a role in it. That is just the way the organization runs.

CEOCFO: What are your short-term goals, and your long-term business outlook?

Mr. Weiss: We recently reported our first quarter 2011 earnings results. The stock went up close to \$2 one day and over \$6 the next day. We upped our top line expectations; we added 40 cents to our bottom line earnings. A lot of that has to do with things that are in place and things that are going to happen over the next 12 months. This includes rolling out our star product called Biofinity, which is a monthly product. Capacity has been strained, so we are expanding the capacity to support it. Coming into this year, we could support a \$240 million product, and exiting this year, we will be able to support a \$400 million product. As of today, we still have not caught up with the demand for the

product, so we have the world on global restriction. Even in the U.S., we are not promoting it to all areas at this junction. Biofinity is a monthly product and we are expanding the type of monthly product it is. We initially started with a sphere, which is an easy to fit blend where all you are doing is correcting the power that someone sees. Then you move into a toric lens, which is for astigmatism. There are 13 million possibilities and, in fact, we carry a million lenses in inventory with respect to torics. In case you have an irregular eye, it is not as simple as putting something on. The image moves from in front of the retina to the back of the retina. The image will never be coming together unless you have a toric lens. Hence, we are expanding the way we apply the Biofinity material into torics and now into multifocals. Multifocals are for presbyopia, which is what happens when you get to 40 years old and cannot read the newspaper under low light conditions or your arms are too short to read the paper. We all get there in our mid-40s, so that is a huge problem with the graying of America. Cooper has been the star in this area, so we are expanding that design into Biofinity, which is the best-in-class material. We will be rolling that out in the last half of this year.

CEOCFO: Why should potential investors pay attention to The Cooper Companies?

Mr. Weiss: The Cooper Companies, I would say, has two great franchises and both are solid in their markets. CooperVision is in a great market when it comes to contact lenses as it grows even in a recession. All of its competitors are undergoing major changes, and it has now come out with a new refreshed product line. About 40% of its products that are selling now are within the last five years. CooperVision has a lot of momentum going with a great ability to expand in terms of both products as well as geography. Our women's healthcare franchise, CooperSurgical, is unique, without any head-to-head competitors. It is not as recession resistant as contact lenses. In fact, the amount of visits to the gynecologists have dropped off, which is the bad news, but the good news is, as the recession ends, women will go back for pap tests and things of that nature. They will resume visits to their gynecologists. The recession only delayed doing so. This will play well for Cooper. We have built critical mass in women's healthcare, with the ability to continue to leverage that. The next big migration will be just how to take parts of that model and go global.

Today 85% of the U.S. is the model, but if I look down the road five years from now, it will be much more balanced than it is today.

CEOCFO: What surprised you most about the development of Cooper and the contact lens industry?

Mr. Weiss: What surprised me most in my career here is that we did not see how rapidly silicone hydrogel lenses would move into the market, we did not appreciate the amount of muscle that would be placed behind it, and we did not appreciate the complexity of chemistry. As a result, we initially had one chemist in our R&D department in the mid-decade. Now, we literally have 30 PhDs here in Pleasanton and a lot of respect for chemistry. The big surprise was occasionally technology does move the needle. It is now 40% of the entire contact lens market worldwide, which puts it over \$2 billion in silicone hydrogel lenses.

CEOCFO: Final thoughts, what should people remember most about The Cooper Companies?

Mr. Weiss: We are a company making money, having fun, going global and seeing lot of room for growth.



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