FINAL TRANSCRIPT

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COO - The Cooper Companies, Inc. at BMO Capital Markets Focus on Healthcare Conference

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CORPORATE PARTICIPANTS

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Cooper Companies - President and CEO

CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Joanne Wuensch - *BMO Capital Markets - Analyst*

The next speaker is going to be dialing in. It is the CEO of the Cooper Companies, Robert Weiss. We apologize that he is not here in person today. There was a very, very minor health situation that would not allow him to be on an airplane but we are very pleased that we are going to run this as a almost a fireside chat. Bob, are you there?

Bob Weiss - *Cooper Companies - President and CEO*

I am here, Joanne.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you very much for dialing in.

Bob Weiss - *Cooper Companies - President and CEO*

No problem.

Joanne Wuensch - *BMO Capital Markets - Analyst*

You are speaking to a fairly large room of people who are here to learn a little bit more about the Cooper Companies and clearly ask some questions along with myself. So I am going to kick this off by just asking you to give a few minute introduction to people who are not familiar with the Cooper Companies and what makes -- what consist of the company?

Bob Weiss - *Cooper Companies - President and CEO*

Okay, certainly. As Joanne indicated, I am the Chief Executive Officer of the Cooper Companies and President. We are a New York Stock Exchange company with about over $1 billion in annualized revenue, 85% of which is in soft contact lenses and 15% is in a women's healthcare business that we have targeting the gynecologists primarily.

As far as I've been with the company over 30 years and took over as CEO in November of last year, November of '07. We made a number of changes in our organization over the last 12 months including a Chief Financial Officer, Gene Midlock, in February as well as President of CooperVision also in February this year.

As far as the company has gone through a lot of change over the last several years, I won't get into all the details of that but the key takeaway is if you learn nothing else over the next half hour about Cooper, I would hope that you walked out of the room with an understanding that number one, the soft contact lens industry is very recession resistant. It performs well in good times and bad times, about 6.5% this year.

We've introduced three new products and three major new modalities, the modalities being the single-use lens, Proclear, a two-week lens, Avaira, launched in April of this year and then the monthly product which is Biofinity in the monthly modality in the monthly modality. And they break out basically 34% in the worldwide market is single use lenses, 39% two-week lenses and a total of 28% is the monthly and beyond modality.

As far as some of the major developments at Cooper, we've undergone some capacity limitations; some of those are now behind between the one-day modality and Biofinity. And we've spent a fair amount of money in CapEx and I'd be happy to address issues of as our capital expenditures again to drop off in the future and what does that mean to free cash flow.

I think I'll turn it over to Joanne, I know you have a lot of questions you would like to make sure we cover so why don't I just bounce it to you.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you. This is designed to be sort of an interactive event so if you do have questions, just let me know. Otherwise I can run with questions for quite some time. So is there anything from the room? All right, I am going to run them.

QUESTIONS AND ANSWERS

Joanne Wuensch - *BMO Capital Markets - Analyst*

Bob, why don't you start off with cash flow and CapEx?

Bob Weiss - *Cooper Companies - President and CEO*

Certainly. Over the last four years, we've spent pushing $600 million in capital expenditures, revamped everyplace we make our product as far as what product is made on which line and we changed all our distribution centers and we've come out with essentially a refreshing of the product line leading toward one-day modality as well as silicone hydrogel. So, as we wrap up six major projects including our three new distribution centers going forward, our CapEx is expected to drop off.

This year we are expecting $160 million to $170 million of capital. Next year beginning -- our fiscal year is October 31 -- so beginning November, we expect it to drop to $125 million to $140 million range and then post 2009, we expect it to drop below $125 million. Primary expenditures going forward would weight Avaira, the two-week silicone hydrogel product beyond the first quarter of next year.

As far as what does that mean to cash flow this year? We are expecting around $50 million of negative free cash flow, which basically all went out the door in the first six months. We're expecting to be marginally positive in the last six months. Next year we expect to deliver $50 million $100 million in free cash flow as CapEx drops down and operating margins improve. And post 2009, expect to be well over $100 million in free cash flow.

Joanne Wuensch - *BMO Capital Markets - Analyst*

You mentioned talking about being marginally positive in cash flow in the last six months. Is that a slight change from marginally positive in the third quarter?

Bob Weiss - *Cooper Companies - President and CEO*

No, we're in a quiet period so I'm going to be a little evasive of about what exactly happened during this last quarter that ended July 31. Don't read anything in it one way or the other.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay. Why don't you start talking a little bit about manufacturing of Avaira?

Bob Weiss - *Cooper Companies - President and CEO*

Yes. We launched Avaira in April of this year. It's a two-week silicone hydrogel targeted to the US market with 65% of the US market is the two-week modality. We have two types of platforms that we use to produce the product. One is called FastTrack in the UK which was easy to do and easy to ramp up enough to launch the product. And then a second line is a sophisticated $30 million piece of equipment in Puerto Rico that we initiated production within March of this year ands said we expect to within 12 months bring it up to full capacity. At full capacity, it will be capable of delivering about 36 million lenses a year, three million a month.

I won't get totally into where we stand on that ramp up at this juncture other than to say our emphasis was that the challenges we had with the silicone hydrogel and Biofinity were both chemistry and engineering. With Avaira, it is not about the chemistry. We understand silicone hydrogel now. We didn't understand that two years ago.

So the technical challenges of Avaira ramp up is much more specific to engineering and I would say that what we've already said is that 90% of the attention of that piece of equipment in Puerto Rico goes to 10% of the line meaning 90% of the production file that we're going through is something we are comfortable with and only 10% is new and innovative. And so our expectation of getting through and ramping up is a lot higher than it ever was with Biofinity where we didn't understand the chemistry also.

Joanne Wuensch - *BMO Capital Markets - Analyst*

In addition to understanding the chemistry, is there something else that you learned in regards to the physical nature of Biofinity versus Avaira? I mean, I remember when I was in the UK looking at those manufacturing lines, Biofinity had a number of manual steps to them.

Bob Weiss - *Cooper Companies - President and CEO*

Yes, the FastTrack line in the UK is designed to leverage technologies we know how to deal with and marry that with what was unique about silicone hydrogel. There is some differences between Biofinity equipment the way it was created, if you will, that make it unique compared to any other piece of equipment we have. I won't get totally into it other than to say that the lens comes out on Biofinity in the female mold -- there are two molds, the male and female -- and on all of our other production including Avaira, the lens is on the male mold which makes it a lot easier to remove the lens from the mold. The molds are single-use disposable molds. You throw them away after you use them but once.

So the technology challenges of Avaira from that perspective are easier but by far the single biggest change is we now understand that we can have a raw material that is 99.9% pure and it fail production. That was the challenge we had with Biofinity because silicone hydrogel we now understand what makes it fail and what makes it succeed. And that is not a hurdle with Avaira.

Joanne Wuensch - *BMO Capital Markets - Analyst*

How do you find the competitive landscape right now? Johnson and Johnson has been launching a number of new contact lenses into the market.

Bob Weiss - *Cooper Companies - President and CEO*

They have been busy is right. And they have launched -- they've launched two products recently. One is Oasys Toric which is a two-week silicone hydrogel toric and Oasys I would say is the best-in-class silicone hydrogel that was not there before Avaira arrived and now those two are kind of neck and neck.

But the Oasys toric which was launched in the US, created an interesting event. It -- we just got HBR data, HBR data is what is on eye prescriptions, what people are putting lenses on eyes by eyecare professionals. And the impact of Oasys was to drastically drop the market share of Acuvue Advanced for Astigmatism. Interestingly another two-week silicone hydrogel lens. So as a result of that, Johnson and Johnson actually lost market share in the toric space in spite of launching Oasys toric in the US markets. And what happened is Oasys Torics picked up 1.6% of the toric fits but Acuvue Advanced for Astigmatism actually lost 2.6%.

So there was a net loss by this time in spite of the fact that Cooper, which is the number one toric lens company, expected to gain share -- or lose share -- it actually gained share in that space. We did expect to gain share and one-day modality with Proclear. We did expect to gain share in the spherical space with Avaira and Biofinity, which we did. So net-net, the winners of the quarter was Cooper and Bausch & Lomb and the loser in the quarter in the US was Vistakon and CIBA.

In Europe, Johnson and Johnson launched TruEye which is a single-use lens that is silicone hydrogel. Its price point is the same as their top of the line product Acuvue Moist, both sell at about in the United States at $0.65 a lens and Proclear one-day sells at $0.44 a lens. So there is a huge gap between the Cooper, if you will, second tier to Moist and Oasys.

It's a little early -- or they call it TruEye -- it's a little early to say where that is going in the UK. There's a lot of people that don't understand the use of silicone hydrogel material in a one-day throw it away market since the feature is really about being able to sleep in your lenses with a higher oxygen. And I would say it's too early to tell but I think J&J is trying to be a little defensive of trading into silicone hydrogel to better protect their leading market share worldwide in the one-day space.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Let's talk about your one-day product which was recently launched in the United States, Proclear 1 Day.

Bob Weiss - *Cooper Companies - President and CEO*

Yes. Proclear 1 Day, when we initially launched it late last year, we had capacity challenges. As of March of this year we have unlimited capacity to supply our needs. Proclear 1 Day is growing and it is off a small base so it's growing hundreds of percent. But suffice it to say we are making good progress in the US and more importantly in some of the bigger markets where there are more one-day such as Europe. And we have yet to introduce it into Japan which is 57% of the market in Japan is the single use disposable market. So, so far so good.

The one-date space in the United States grew 15% last quarter so it continues to do reasonably well off of a small base. It only accounts now for 11% of the market is a one-day market in the US compared to 46% of the market outside the US. So there is a huge difference between the profile of those two markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

How is the one-day product priced?

Bob Weiss - *Cooper Companies - President and CEO*

Our one-day product is priced at $0.44 a lens which compares to Moist at basically $0.65 a lens list price. So the price point I would think of it this way. It is true that a one-day modality is marginally more expensive than a two-week modality and certainly a monthly modality where you throw it away after a month. But having said that, the reciprocal is you don't need lens care products and you can take some savings of the lens care products and end up with a modality that is not too awfully more expensive than the two-week modality itself. So by and large, a lens wearer could be on the modality for about $1.00 a day, $365 a year.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Let's think outside the United States for a couple of minutes. When we look at Europe and we look at Japan, what kind of trends are you seeing in those markets in regards to different modalities and product uptakes?

Bob Weiss - *Cooper Companies - President and CEO*

Well right now Europe is very much a monthly market. 50% of the market there is monthly and 38% of the market is daily and almost none of the market or I should say only 12% of the market is the two-week. As far as the trends there, overall the daily modality continues to grow worldwide at around 12% and I think that is true in Europe as well as Japan. The US is off of a small base when I say it grew 15%, that is true but it is still a very small base that is not greatly influencing the world growth.

But one-day continues to grow and what happens is once someone is in one-day, very rarely, almost never do they move from a one-day modality to a different modality. For example, the change in Europe, a Specsavers, the way they promote their product is pretty much people that are on a one-day modality get their lenses once a month. They just use their charge card once a month. They build it into their budget. They don't think of keeping their one-day lens two days and as a result of that, you end up with a compliant wearer and one that is really very disciplined from an annuity stream perspective. Specsavers is a large chain in Europe as is Pearl and Howell and pretty much that model is fairly common in Europe.

Joanne Wuensch - *BMO Capital Markets - Analyst*

You mentioned that you think of contact lenses as being recessionary proof. You are not seeing any weakness in the market at this stage?

Bob Weiss - *Cooper Companies - President and CEO*

The US just a little. I should say the first quarter was over 6 and the second quarter was a little over 5. Globally, it was 6.4 and 6.4 in the first quarter and the second quarter. So I would say that is not much different than all the prior recessions over the last 30 years. There is a little but not much.

One could argue there is some of a windfall, if you will, with Lasik where let's say someone that is in their 30s thinking of getting Lasik says I'm not ready to do it right now it's too expensive. I will have to go on a budget and I will stay in my contacts a little longer. Is that greatly influencing our market? No. Because at the end of the day, there is maybe one million eyes done in this country, 500,000 people right now.

So a 100,000 staying in a little longer in contact lenses or 200,000 is not going to be a great influencer of our market. But by and large, frames, expensive frames would take more of a hit because there's a lot more discretion in spending $600 or $700 on expensive frames; you may trade down. Contact lenses, if you start wearing lenses when you are 12 to 14 years old, you are not going to suddenly stop wearing them just because you are going through a recession. It's part of your life.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Shifting gears to the women's health business, CooperSurgical. That constantly get lost when I talk to investors in the investment thesis. How do you think about that being part of the larger Cooper Companies organization?

Bob Weiss - *Cooper Companies - President and CEO*

Well, women's healthcare business has been about 12% to 15% of Cooper for quite a while. It is a very profitably business. It generates operating margins around 20%. It does not have capital requirements unlike CooperVision, so CapEx is very low. It's mainly a US business. So, its inventory requirements and receivables are much better, so it throws off a lot of cash.

Relative to does it deflect the CooperVision people? No. Those two are separate and discreet. There is a handful of people at corporate that worry about both businesses but obviously a lot more about contact lenses than women's healthcare. It does fit our strategy from two perspectives. One is, we have a very low effective tax rate. Having a US business generate a lot of profit is good to help use $140 million NOL we have. We are not really a US taxpayer.

Be mindful of the fact having said that, it doesn't influence our GAAP effective tax number or our non-GAAP effective tax number. It only influences cash flow. But women's healthcare helps from a cash flow point of view, from an effective tax rate point of view, and from the perspective of if we look down the road over the next five years, Cooper as it cuts back on CapEx and as it improves its operating margins, we think CooperVision is going to generate a lot of cash. We can either become a dividend payer; there isn't another contact lens company -- we are not going to buy J&J or Vistakon or Bausch & Lomb or CIBA Vision. So your flexibility in how to redeploy the cash on the contact lens side is limited.

Women's healthcare has always given us plenty of small acquisitions, tuck-in acquisitions, that we can continue to do.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Would you be interested in a contact lens solution business?

Bob Weiss - *Cooper Companies - President and CEO*

Well, I think if I were Vistakon I would be. If I had 43% of the global market of contact lenses and there's been two or three recalls over the last four years, I might say, gee, why don't I just tie a lenscare product to contact lens.

If you are Cooper and you don't have the manufacturing platform like you would if you were a pharmaceutical manufacturer and you don't have the manufacturing distribution as a pharmaceutical distribution channel, and you are not good at fighting for retail shelf space at a Rallys or a Safeway or pick up a large chain, it's a different battle. Selling a lenscare product that the consumer can't find on the shelf is not good. So I would say short of acquiring shelf space, you wouldn't try to fight your way in unless you were Vistakon.

Joanne Wuensch - *BMO Capital Markets - Analyst*

When do the net operating loss carryforwards expire for CSI?

Bob Weiss - *Cooper Companies - President and CEO*

For the most part it is good for 15 years plus. We have a small piece that is expiring this year and next year that's likely to be utilized. But we are expecting that the bulk of the NOLs that are good for the next 10 plus years will protect our requirements for the next five years plus in the United States.

Joanne Wuensch - *BMO Capital Markets - Analyst*

You made a number of acquisitions over the years in CSI usually about two to three per year. And then you have slowed down over the last 18 months. What is the thought process in starting to acquire again in that space?

Bob Weiss - *Cooper Companies - President and CEO*

Well, good question. The fact of the matter is we have slowed down since I think we did the Wallach acquisition a little over a year ago and we have slowed down the last 12 months partly because we are leveraged to our threshold of tolerance. We are up to 40% debt to cap and until we reduce that debt to cap a little and until we turn cash flow positive, we basically are going slower than the past in women's healthcare.

I would say 12 months from now, 18 months from now as we turn cash positive, we -- I would expect us to continue our pursuit of tuck-in acquisitions leveraging not only women's healthcare in the in office space but we have also done a good job of building about a $50 million business in the hospital side of the equation also.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Turning to gross margins. Last quarter the gross margins were somewhat weaker than people expected. Could you flesh that out a little bit?

Bob Weiss - *Cooper Companies - President and CEO*

Yes, our gross margins, particularly from a GAAP point of view, are going to reflect a lot of our manufacturing inefficiencies of the latter half of '07 and then the first two months of '08 through the end of July. In other words, what we made -- we have seven months inventory on hand. With FIFO accounting, what we made in November hits the P&L in June. What we made in December hits the P&L in July. What we made in March hits the P&L in October. And why is that important? We doubled our yields of for example, Biofinity between November and March.

So, March gross margins for Biofinity will skyrocket between July and October, more than double. So put that in context, a lot of that has been in the form of call outs. We've talked about having call outs in the end of this fiscal year. We also emphasized that in the fourth quarter, there will be next to no call outs meaning essentially all the call outs will end by the end of the third fiscal quarter ended July 31.

So I can't get too far into what that translates to other than to say that expect a gross margin to look more like our called out gross margin, the non-GAAP member going forward after the third quarter.

We continue to project in our guidance 61% to 63% gross margins. I would expand that and say let's say 60% to 63%, part of that being influenced by the mix of one-day. We had one-day grow over 60% in the second quarter.

So, what is the impact of one-day? If we have -- today we have about 20% of our business in the one-day modality; in 2012, we should have around 30%. It has gross margins in the mid-40s moving to about 50%. And that means there will be a negative impact on gross margin but not on operating margin caused by the one-day mix over the next four or five years.

That negative impact of around 2 percentage points will be more than offset by other improvements on the silicone hydrogel front and other modalities. So net-net, we continue to expect 60% to 63% range on a go-forward basis with some important shifts within it.

Joanne Wuensch - *BMO Capital Markets - Analyst*

But foreign exchange also played a character in gross margins in the last quarter, correct?

Bob Weiss - *Cooper Companies - President and CEO*

That is correct. In September of '07, we in order to take currency movement out of our budget we basically locked in contracts that took us through the end of about September -- September to September -- so largely 12 months forward. The impact of that was mainly lost opportunity so the rates that we are charging our cost of goods at are distorted by those hedging contracts and impacting them negatively more than 1%. And that will end for all practical purposes. It will start phasing out early in the fourth quarter. By the end of the fourth quarter, there will be no negative impact caused by currency hedges.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Any questions from the room?

Unidentified Audience Member

(Inaudible question - microphone inaccessible)

Joanne Wuensch - *BMO Capital Markets - Analyst*

Did you hear that, Bob?

Bob Weiss - *Cooper Companies - President and CEO*

No, not at all so you are going to have to repeat the question.

Joanne Wuensch - *BMO Capital Markets - Analyst*

No problems. The question from the room is can you expand on your comment that Johnson & Johnson has lost some toric market share. Some of my friends in the field out there are writing notes about how actually Cooper has lost toric market share.

Bob Weiss - *Cooper Companies - President and CEO*

I'm aware of one survey that said that. HBR data. Probably the best way to address that is total fits. So total fits in the United States for torics, Bausch & Lomb for example, lost 1.5 share points of the soft toric market. CIBA Vision which launched Air Optics for astigmatism gained overall 2.3 share points to bringing it to 8.4. And Bausch & Lomb to 24.8, by the way. And then

CooperVision, which was expected to lose share without its silicone hydrogel actually gained 0.6% to 34.3%. And Johnson & Johnson, which was expected to gain share lost 0.9%, dropped to 31.6%.

And importantly, I mentioned that Acuvue Advance for Astigmatism, which was the number one product, lost 2.6 share points bringing it down to 28.1. Whereas Acuvue Oasys for Astigmatism launched in the quarter, picked up 1.4 share points. But net-net-net, the two losers was Vistakon and Bausch & Lomb and the two winners was Cooper and CIBA Vision in the toric space. Overall, Bausch & Lomb and Cooper gained share whereas J&J and CIBA Vision or Vistakon and CIBA Vision lost share.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Other questions? We've got another one, Bob. Hold on.

Unidentified Audience Member

Bob, can you talk about the operating margin expansion that you foresee over the next two to three years. We're currently at 16. I think you've put some long-term goals out there in the low 20s. What can we expect on an annual basis in 2009 and 2010?

Bob Weiss - *Cooper Companies - President and CEO*

Yes, we are projecting earnings per share growth 15% to 20% so looking at the bottom line, that would translate if you look at our current guidance of 210 to 235 to next year being 242 to 282 as a range. Now our operating margin -- what will happen as call outs go away, gross margin will improve from where it is today in the mid to upper 50s to the 50% range. So we will pick up a lot of improvement in operating margin because of a gross margin improvement removing the call outs.

As far as operating expenses are concerned, the driving factor of the improvement from 16% operating margins to the 20s is by and large leveraging operating costs. And the determinant will be how fast we leverage will be a function of to what degree we are gaining share in the marketplace. So if we were to get a lot of value out of growing our share more than 1.5 times the market place, that could actually slow the reduction of the operating expense percentages meaning we would -- if we are not going to get incremental value for heavy investment spending with fitting sets and hiring new salespeople, we will go a little slower targeting the 1.5 times growth.

But the motto going from 2009 forward which in 2009 is about 60% gross margin and around ballpark 16% OI, would improve about a share point a year in that a model that would lead to 20% earnings per share growth.

Joanne Wuensch - *BMO Capital Markets - Analyst*

All right. With that, I need to wrap this up as we move to the next session which would be lunch. And, Bob, thank you very much for dialing in.

Bob Weiss - *Cooper Companies - President and CEO*

You are so welcome, Joanne. Thanks again for having us this way. Take care.
