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COO - Q1 2015 Cooper Companies Inc Earnings Call

EVENT DATE/TIME: MARCH 05, 2015 / 10:00PM GMT

OVERVIEW:

COO reported 1Q15 consolidated revenues of $445m, GAAP EPS of $1.25 and non-GAAP EPS of $1.75. Expects FY15 revenues to be $1.858-1.910b and non-GAAP EPS to be $7.40-7.70.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2015 The Cooper Companies Inc.orporated earnings conference call. My name is Tony, and I will be your operator for today. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to Ms. Kim Duncan. Please proceed.

Kim Duncan - *Cooper Companies Inc. - VP of IR*

Good afternoon, and welcome to the Cooper Companies first quarter 2015 earnings conference call. I'm Kim Duncan, Vice President 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 anticipated results of operations, market or regulatory conditions, and integration of any acquisitions 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 forward-looking statements, are set forth under the caption, forward-looking statements, in today's earnings 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 highlights on the quarter, followed by Greg, who will then discuss the first-quarter financial results.

We will keep the formal presentation to roughly 30 minutes, and then open up the call for questions. We expect the call to last approximately one hour. We request that anyone asking questions please limit yourself to one question. Should you have any additional questions, you can call our investor line at 925-460-3663, or email ir@cooperco.com. As a reminder, this call is being webcast, and a copy of the Earnings Release is available through the Investor Relations section of the Cooper Companies website. And with that, I'll turn the call over to Bob for his opening comments.

Bob Weiss - *Cooper Companies Inc. - CEO*

Thank you, Kim, and good afternoon, everyone. Welcome to the first-quarter conference call. We're off to a good start this year, and there's plenty to talk about. Let me start by highlighting three key points for the call.

First, Sauflon integration is going extremely well. We've made significant progress, and we are either on or ahead of schedule across the board. We can see this reflected in our operating expenses, where synergies are evident. I'll provide more detail during the call, as there are still a number of integration items in process. But I remain confident we'll complete the vast majority of integration work by the end of the fiscal year.

Second, CooperVision posted 7% pro forma revenue growth for contact lenses in our first fiscal quarter. Compared to the total contact lens market for the last calendar quarter, CooperVision grew twice as fast as the market, and gained share in every region of the world.

Third, we're putting up solid results, as our business fundamentals are strong. You can see that clearly in our market share gains, along with our margins, which led to a very strong earnings per share. Even with currency forecasted to negatively impact our second through fourth-quarter revenue by an additional $40 million, or $0.43 per share, we're increasing the lower end of our earnings per share guidance to reflect this strength.

Overall, the quarter's performance continues to support our long-range plan, which includes achieving operating margins over 26% in 2018. Although currency remains a significant headwind, I believe we have a fairly straightforward path to achieving our margin goal by staying focused and executing on our business -- our existing business, as we did this quarter. Now, let me get into some of the details for the quarter. On a consolidated basis, the first-quarter revenues grew 10% year over year to $445 million. We posted non-GAAP earnings per share of $1.75, and recorded free cash flow of $28 million. CooperVision posted revenues at $369 million, up 13% year over year, and this included a fairly decent negative currency impact, led by the euro.

Since our last earnings call, our Q1 revenues were negatively impacted by currency by roughly $4 million. Regardless, our strong product portfolio performed well, and we posted solid results. On a pro forma basis, our contact lens business grew 7%, and CooperVision overall grew 6%, when including solutions. As a reminder, when I refer to pro forma, I mean adjusting for currency and including Sauflon in both quarters. Overall, our silicone hydrogel family drove top line growth, with $195 million in revenues. Our silicone hydrogel family is very deep, with our monthly Biofinity family leading the way, posting 14% constant currency growth in Q1.

Our two week Avaira family of silicone hydrogel products grew 9% in constant currency. It's important to note, we're still under-indexed against the market in the two week and monthly silicone space. Silicones represent roughly 73% of that market, and we're at 64%, so we should continue growing our two week and monthly silicones nicely for many years. Regarding silicone one day lenses, clariti had a very strong quarter, up 24% pro forma, and MyDay was up 62% in constant currency. As a reminder, with the acquisition of Sauflon, we're now the only Company offering a two-tiered approach to the daily silicone hydrogel market, with clariti positioned as our mass market offering, and MyDay as our premium offering.

We continue to believe there's a great opportunity to split the daily silicone market with a premium and mass market lens. We also believe we have the premier portfolio to become the market leader in the coming years. In addition to being the only Company offering a two-tiered strategy, our mass market portfolio includes a sphere toric and multifocal, which no one else has. Regarding clariti in the US, we're off to a great start, distributing fitting sets, with a significant number going out in January and February, and many more to come as we progress through the year.

To add a little color to the US clariti story, it's important to note clariti is the largest and fastest product roll-out in CooperVision's history. The only challenge we're experiencing is that demand is stronger than we anticipated. We're working hard to address this by maintaining a strong focus on minimizing back orders, while also working to meet a significant number of requests for fitting sets. An important point to mention is that manufacturing is going extremely well, and we'll work through this very quickly. I will admit, it's nice to say our biggest challenge is too much demand.

Regarding MyDay, we continue to make progress in Europe, and we'll be releasing lenses to key opinion leaders in the US this month. We also remain a target for the US launch later this year. Going forward, we expect to continue rolling out MyDay as a premier -- a premium lens, and we're optimistic we'll see faster margin expansion than we were expecting prior to the Sauflon acquisition.

We're also keenly focused on receiving regulatory approval in Japan, which is in process. Regarding timing on that, we still anticipate a Japan launch in FY16, with clariti to follow thereafter. Combining clariti and MyDay, we still expect around $175 million of sales for the fiscal year, with clariti being about 75% of that. Note, this is slightly better than previously indicated, as a weaker euro is hurting reported sales.

Our specialty business remains strong, with torics growing 9%, pro forma and multifocals growing 23%, pro forma. We continue to lead the global market in these specialized categories, and we're taking market share. Regarding Proclear, sales were up 3%. This was pretty solid -- a pretty solid quarter for Proclear, as it shows there's still growth in the non-silicon space. On a regional basis, we were especially strong in the Americas, up 11% pro forma. This was led by a strong quarter for Biofinity. Going forward, I anticipate the US growth will remain strong as we roll out clariti -- or as it continues to progress.

Europe posted another solid quarter of 4% pro forma. My hat's off to the team for posting solid results while completing significant integration activity. At times we get so excited about clariti, we don't offer sufficient congratulations to the folks working extremely long hours on integrating the business while selling product. So again, congrats to our European team.

On a fiscal quarter basis, Asia-Pac was softer than usual, up 1% pro forma. Having said that, the comp for Q1 of last year was 17% growth in Asia-Pac. So it did well, holding its own, if you will.

To provide more details on Sauflon integration activity, as I mentioned, we're making a lot of progress. You'll notice a non-GAAP adjustment this quarter associated with the integration, which includes equipment write-offs tied to adjusting our manufacturing platforms. We also incurred a number of one-time charges within operating expenses associated with integrating the sales force and other commercial areas. At this point, I believe you'll see similar charges in Q2 as we finalize decisions around our one-day manufacturing, while we also -- while also completing additional integration activities within operating expenses. I believe you'll also see additional one-time charges in Q3 and Q4, but I'm confident the vast majority of this work will be completed by the end of the fiscal year.

Finally, on Sauflon, it's important to note, this acquisition was a major step forward on a number of fronts, and this includes R&D. This line, I'm happy to say, the head of Sauflon's manufacturing has assumed the position of the Head of R&D for CooperVision. This is a great move, and I'm confident it will yield positive results in the coming years as we incorporate Sauflon's knowledge around material formulation into our existing and future product lines. And remember, Sauflon's manufacturing lines cost roughly one-third the price of ours. They receive lines in half the time it takes us, and their lines have better flexibility around shifting production from one product to another.

A large reason for this is the material formulation, which provides the ability to produce silicone lenses without alcohol. This is a major step forward. And as we integrate this new manufacturing platform and formulation expertise, it will allow us to add manufacturing lines in a much more cost effective manner. This will reduce future CapEx, thus improving free cash flow, allowing, along with yielding a lower cost per unit, which we anticipate seeing in the P&L beginning in mid FY16.

To conclude on integration activity, nothing has changed with respect to my belief around the future. Our team continues to do a great job integrating the business, and that includes ramping up production. Everything remains on or ahead of plan.

Now let me comment on the overall contact lens market. As a reminder, this data is listed on the last page of our earnings release. For 2014, we are not including Sauflon in our results, but we will do so in 2015. Had we included Sauflon in 2014, our performance against the market would look even stronger. But even so, we're solidly taking market share. Overall, the market rebounded slightly from Q3, up 4%. CooperVision grew twice that, up 8%. And again, this is without Sauflon.

Regionally, market grew 5% in the Americas, with CooperVision posting growth of 7%. In EMEA, the market grew 5% and we grew 7%, while in Asia-Pac the market grew 1%, and we were up a strong 11%. I couldn't be happier to say we grew twice the overall market, and faster in every region of the world. Also, if we look at the market on a modality basis, the single-use market continued to drive growth up 5%, while we grew 10%. Non-single-use lenses grew 2%, and we grew 7%. In general, when I look at the market, it's running a little softer than the 5% to 6% I'd expect, but there are a few interesting dynamics right now, including UPP, or unilateral pricing policy, which are having an impact on the US market.

At the end of the day, though, I'll be surprised if we don't return to a market growing in around 6% for this calendar year. We're seeing pricing from the manufacturer perspective being fairly stable, if not up slightly, and we're seeing growth in the single-use market, which will continue to drive overall market growth. The additional capacity coming online for daily silicone hydrogels will also drive stronger market growth. Overall, the takeaway is that we have a fairly healthy market. And I believe you'll continue seeing us taking share, especially with the addition of clariti portfolio.

Moving to CooperSurgical, revenues were flat in constant currency, but gross margins improved 1 point to 64%, as we continue executing on our strategy to rationalize certain low margin capital equipment sales. With respect to our fertility business, we grew 1% in constant currency, which was the result of a solid disposable sales, offset by a reduction in capital equipment sales. Going forward, I expect we'll continue to see lower revenue growth in fertility, until we annualize the removal of certain low margin capital equipment sales, which should begin in fiscal Q3. Meanwhile, our office and surgical procedures business was flat as it continues to deal with the pains of a challenging OB/GYN environment in the United States. On the plus side, our strategy to focus on improving gross margins while staying focused on operating expenses resulted in a standalone non-GAAP operating margins, increasing 1 point to 23%.

Now let me touch on guidance. Our FY15 guidance remains the same for revenues on a pro forma basis. We're still expecting CooperVision to grow in the 8% to 11% range for the year and more strength in Q3, Q4, as clariti becomes more readily available in the United States.

For CooperSurgical, the story remains the same as we continue to forecast 3% to 7% constant currency revenue growth for the year, with more strength in Q3 and Q4. In total, the results -- this results in a 7% to 10% pro forma growth for the year. For earnings per share, we're increasing the bottom end of the range to reflect fundamental strength in the business. And remember, this is in the face of additional currency headwinds, which are negatively impacting us by roughly an additional $0.43 in Q2 through Q4, from where we last provided guidance in December. I'll let Greg get into the specific details behind the P&L and currency in a few minutes.

Lastly, on the financials. Improving free cash flow while investing in the business remains extremely important to us. We're maintaining our guidance of having both free cash flow and CapEx over $200 million this fiscal year. Having said that, I continue to believe we'll see lower CapEx in FY16, while operating cash flow continues to grow. So I anticipate very strong free cash flow in 2016 and subsequent years.

Regarding strategy, we're continuing with our successful strategy, which I frequently articulated in the past. This includes investing in our business to take market share by expanding geographically, aggressively rolling out products such as clariti, and investing in emerging markets such as China. We do this all while remaining keenly focused on delivering solid earnings per share growth. And finally, we'll buy back shares if it makes sense, as we did in Q1, repurchasing 100,000 shares at an average price of approximately $160. We believe we can accomplish all our objectives by reducing debt and increasing profits, which supports our investment grade debt rating.

In summary, before I turn it over to Greg, let me say how happy I am with our business. We're making significant progress integrating Sauflon, and this year is looking good. We're also positioning ourselves for a strong FY16. Our profit margins are solid, and our free cash flow generation is strong, and I remain bullish on the future. With that, let me express my appreciation to our employees, our number one asset. Their hard work and dedication is creating value -- is the backbone of this -- of our success. And now, I'll turn it over to Greg to cover our financial results.

Greg Matz - *Cooper Companies Inc. - CFO*

Thanks, Bob, and good afternoon, everyone. Bob shared with you a pretty thorough review of the market, and our revenue picture. So let me start with gross margins. Looking at gross margins in Q1, the consolidated GAAP and non-GAAP gross margins were 62.1% and 64.2%, respectively, compared with 64.9% for GAAP and non-GAAP for the prior year. The primary difference between GAAP and non-GAAP is related to equipment rationalization due to the Sauflon acquisition. When comparing non-GAAP gross margins for this quarter to Q1 2014, we experienced a significant negative impact to revenues from FX, combined with higher pound-based inventory turning through the P&L.

In addition to the FX headwind, the inclusion of Sauflon in this year's first quarter reduced gross margins, as that business operates at a lower margin due to their high percentage of daily sales. These headwinds were partially offset by product mix, led by Biofinity, as well as some other favorable manufacturing period expenses. With respect to gross margins for this quarter, they did come in higher than we had anticipated. There were several reasons for this, including better product mix from higher Biofinity sales in the US, and lower daily sales in Japan, along with lower manufacturing period expenses.

As a reminder, Biofinity margins run solidly north of 70%, while our daily sales in Japan are around 50%. For the remainder of the year, we expect gross margins around 63%, such that the year will be just north of 63%. CooperVision, on a GAAP and a non-GAAP basis, reported a gross margin of 61.7% and 64.2% respectively, versus 65.4% for GAAP and non-GAAP in Q1 last year. The difference between GAAP and non-GAAP is largely related to equipment rationalization from the Sauflon acquisition. The drop in non-GAAP gross margin, as I mentioned earlier, was due to FX and Sauflon, partially offset by product mix led by Biofinity, as well as lower favorable manufacturing period expenses.

CooperSurgical had a GAAP and non-GAAP gross margin of 63.8% and 64% respectively, which compares to Q1 2014 of 63.1%. As Bob mentioned, gross margins improved as we have reduced low margin capital equipment sales within our fertility business. The difference between GAAP and non-GAAP relates to approximately $200,000 worth of severance costs.

Now looking at operating expenses. On a GAAP basis, SG&A expenses increased by approximately 10% from the prior year to approximately $173.5 million, and were 39% of revenue, same as the prior year. On a non-GAAP basis, SG&A increased approximately 6% to $167.2 million.

The difference between GAAP and non-GAAP was $6.3 million, due largely to integration and restructuring costs related to the Sauflon acquisition. SG&A, on a non-GAAP basis, decreased 1% sequentially, led by synergies from Sauflon. Now looking at R&D. In Q1, R&D, on a GAAP and a non-GAAP basis, was approximately $16 million. R&D was 3.6% of revenue, down from 3.9% in Q1 2014. Depreciation and amortization. In Q1, depreciation was $29.3 million, up $5.4 million, and amortization was $13.6 million, up approximately $6.1 million.

Moving to operating margins. For Q1, consolidated GAAP operating income and margin were $73.1 million and 16.4% of revenue, versus $81.6 million and 20.2% of revenue in Q1 last year. This drop is primarily due to the Sauflon acquisition and the related integration cost. Non-GAAP operating income and margin were $102.6 million and 23% of revenue, versus $89.1 million and 22% of revenue for the prior year. This represents a 15% increase in operating income over the prior year. In Q1, CooperVision had a GAAP operating income and margin of $73.2 million and 19.8% of revenue, versus the prior year Q1 of $84.1 million and 25.8%.

On a non-GAAP basis, operating income and margin were $98.4 million and 26.6% of revenue, versus $88.4 million and 27.1% of revenue in the prior year, up 11% year over year. CSI had GAAP operating income and margin of $13.2 million and 17.4% of revenue, versus the prior year of $14.2 million and 18% of revenue. Non-GAAP operating income and margin were $17.5 million and 23.1% of revenue, versus Q1 2014 of $17.4 million operating income and 22.1% of revenue. Looking at interest expense. Interest expense was $3.9 million for the quarter, up $2.3 million year over year, primarily due to the acquisition of Sauflon.

Interest expense is expected to be higher in the coming quarters, as higher interest rates on our bank pricing grid became effective in Q1. We're still forecasting interest expense for the year around $18 million. Looking at the effective tax rate in Q1, the GAAP and non-GAAP effective tax rate was 8.5% and 10.8% respectively, versus Q1 2014 GAAP effective tax rate of 9.1%, and non-GAAP effective tax rate of 10.2%. As we have mentioned before, the effective tax rate continues to be below the US statutory rate, as the majority of our income is earned in foreign jurisdictions with lower tax rates. With respect to Sauflon, we continue to make progress in incorporating them into our global trade arrangement.

Looking at earnings per share, our Q1 earnings per share on a GAAP and a non-GAAP basis was $1.25 and $1.75 respectively, versus $1.47 and $1.58 on a GAAP and a non-GAAP basis in the prior year. Non-GAAP EPS grew approximately 11% year over year. During Q1, we repurchased 100,000 shares, with an average share value just below $160 per share, for a total cost of just under $16 million. This leaves approximately $170 million available for future share repurchases under the current approved plan.

Regarding foreign exchange, we're using rates as of March 5. For our main currencies, we're using 1.11 for the euro, 120 for the yen, and 1.53 for the pound. The net impact year-over-year for Q1 was an unfavorable impact of $0.41. In our Q4 earnings call, we discussed this year-over-year EPS deterioration, which is primarily related to the yen, euro and euro tracking currencies. But in addition, a majority of the other currencies have also weakened against the dollar. Based on the differences in rates from our Q4 earnings call and March 5, we expect to see an additional negative $0.43 impact to EPS in Q2 through Q4 2015, split roughly evenly over the three remaining quarters.

Looking at the balance sheet and liquidity. In Q1, we had cash provided by operations of $79.8 million, capital expenditures of $65 million, and excluding acquisition related costs of $13.3 million, resulting in $28.1 million of free cash flow. Total debt increased within the quarter by $13 million to $1.395 billion. Inventories increased approximately $8.6 million to $390.1 million from last quarter, largely due to an increase in daily lenses. For the quarter, we're seeing months on hand at 6.9 months, 7.3 months on hand, excluding inventory and equipment rationalization charges, which is up from a months on hand of 7.2 months last year and up from 6.6 months on hand last quarter. Days sales outstanding is at 57 days, which is up from 53 days from the prior quarter and last year.

Now turning to guidance. Bob had mentioned guidance. In order to provide a little more color for your models, I will share some additional specifics on our non-GAAP guidance. But before getting into the details, remember the significant impact of currency I discussed earlier. Not only has currency impacted revenues and earnings per share, but it obviously also affected the rest of the P&L, including margin percentages.

The revenue range for the Company is $1.858 billion to $1.91 billion, or 7% to 10% pro forma growth. CooperVision's revenue range is $1.535 billion to $1.574 billion, or 8% to 11% pro forma growth. CSI's revenue range is $323 million to $336 million, or 3% to 7% constant currency growth. We expect non-GAAP gross margin to be just north of 63% for the year. OpEx expected to be around 40%. Operating margin is expected to be around 23%. Interest expense, as I mentioned earlier, is expected to be around $18 million.

Our effective tax rate is expected to be in the range of 9% to 11%, and this includes transitioning Sauflon into our global trade arrangement. Our share count is expected to be roughly 49.5 million shares for the year, which is lower than our initial guidance, primarily due to updating our models after our Q1 equity grants and share repurchases. Our non-GAAP earnings per share is expected to be if the range of $7.40 to $7.70, or 22% to 26% growth on a pro forma basis. Finally, we expect capital expenditures and free cash flow for the year to be north of $200 million. With that, let me turn it back to Kim for the Q&A session.

Kim Duncan - *Cooper Companies Inc. - VP of IR*

Operator, we're ready to open up the call for some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Mr. Jeff Johnson of Robert W. Baird. Please proceed.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Thank you. Good evening, guys. Can you hear me okay?

Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, Jeff, we can.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Great. Bob, just wondered, on the Sauflon capacity side, I guess a couple different questions there I'll roll into one. But I think at your analyst day, back a few months ago, you -- or more than a few months ago -- but you talked about a $420 million capacity split, primarily Budapest, but also some in the UK. Can you remind me how many lines that $420 million was spread over? And then, how do we think about maybe the increment lines that will be coming on over the next 6 to 12 months? And, sorry, one other part to that. If you're going to be converting any of the other Sauflon lines maybe to clariti lines, away from other Sauflon manufacturing? Thank you.

Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, what we have done, to keep it focused and simple is, we're basically just running one day through Hungary. So it's north of a $400 million run rate, with lines that, I want to say, are 9 or 10 lines. One of the important things about the lines is they are -- the time line to get new ones added, and we continue on that path. And of course, as I indicated, they're a lower cost. And in fact, even much lower cost now, with the euro and everything going down. So that's the one silver lining of foreign exchange. If you're spending a fair amount of money on CapEx, it's even lower cost at this juncture.

But right now, our driving factor is much more the distribution channel, from that point forward. In other words, we can ramp up pretty robustly in Budapest, and then our continued expansion. All the other products from Sauflon have pretty much shifted into the UK operation, the monthlies. So the focus there is on -- in Hungary, on low cost production, and that's going well. That is not our primary concern right now.

Our primary concern is the middle piece, which is getting the fitting sets put together, catching up with the demand. And as I indicated, there's some start/stop that we've -- we got fitting sets out there. They were so well-received that we suddenly had to play catch-up, replenishing them and filling the demand that they created. And that's created a miniature bottle neck that -- when we're talking about a bottleneck, we're talking about weeks, as opposed to months, or anything like that.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Okay. So if I understand correctly, it's not that you're having manufacturing capacity constraints, even with the strong demand. It's more just getting those lenses out to the end user?

Bob Weiss - *Cooper Companies Inc. - CEO*

That's correct.

Jeff Johnson - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Chris Pasquale of JPMorgan. Please proceed.

Chris Pasquale - *JPMorgan - Analyst*

Thanks. I want to start with the surprising bottom line strength this quarter. So Greg, on the 4Q call, you said that you thought both 1Q and 2Q would be down year over year. And I think you even called out 1Q as being the bigger challenge, from an earnings perspective. So what changed in the last half of the quarter, relative to where you thought you would be?

Greg Matz - *Cooper Companies Inc. - CFO*

I think if you look at where we'd be, there's probably one-third of it was in gross margins, and two-thirds of it was in OpEx. So on the gross margin front, I think as I mentioned earlier in my comments, there were probably several areas that contributed to the favorable margins. There's nothing that was really out of the ordinary driving margins. But as I mentioned, the high US sales, with no FX impact, especially with the higher mix of Biofinity versus sales in Japan, which would have had a higher mix of dailies and lower margins, as well as the revenue hit you get from the -- where the yen is at.

In addition, there were lower manufacturing period expenses. We don't think this is necessarily a trend. And so that's why we guided, on the gross margin front, to around 63% for the next three quarters, and a little north of 63% for the year. I think on the OpEx front, the teams did a good job, and good expense management. At the same time, I think we appreciate some of the synergies that we've gotten from the Sauflon acquisition. Some of those are coming to fruition. And it was an -- overall, it was just a very good quarter.

Chris Pasquale - *JPMorgan - Analyst*

Okay. And then I just want to understand the moving pieces here with guidance. So a $0.21 beat this quarter, relative to consensus. But now you're saying FX, $0.43 greater headwind for the year. So that's a $0.22 negative net. And you're raising the guidance by $0.05 at the midpoint. So is the right way to think about this that you see $0.27 of additional operating leverage over the final three quarters of the year? Or is your math different?

Greg Matz - *Cooper Companies Inc. - CFO*

No, I think that's --

Bob Weiss - *Cooper Companies Inc. - CEO*

That makes sense.

Kim Duncan - *Cooper Companies Inc. - VP of IR*

Operator, next question.

Operator

Your next question comes from the line of Larry Biegelsen of Wells Fargo. Please proceed.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Good afternoon. Thanks, guys, for taking the questions. Hopefully you can hear me okay. I wanted to ask about the top line growth. So the pro forma sales growth for CooperVision is still 8% to 11%. You did about 6% this quarter. Can you talk about the cadence of sales, and also EPS growth through 2015? Back to sales growth, do you expect the pro forma sales growth to improve in the second quarter from Q1? And then I had one very brief follow-up.

Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, I think from a phasing point of view, the second quarter is similar to the first quarter, in terms of year-over-year challenge. You may remember a year ago, we had the Asia -- I'll just call it the Asia event, or the Japanese event, with VAT tax. And a whole bunch of revenue coming into the second quarter, not only for us, but on a calendar year basis, for the industry. So that's a tough comp that we expect, all other things -- forgetting about foreign exchange as a factor. And then obviously, the foreign exchange comp will go down towards the back end. We hope, anyway, that presumed stabilization, if you will. Our comps are easier in the back half, for a variety of reasons.

One is just the prior-year comparison. In other words, some of the VAT tax in Japan came out of the third quarter, so there's somewhat of an easier comp there. In the fourth quarter, we had a number of events we talked about at year end, regarding distribution channels and -- as well as the recasting of the US Sauflon launch, as we migrated distribution from Hicksville into our West Henrietta facility. So those comps are easier in the back half. And in addition, we have the -- of course, the ramp-up and roll-out of the new products. So we would expect a much more robust back-end growth than the first half.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Yes, but Bob, just to make sure I heard you correctly. You think second-quarter pro forma growth will look similar to first quarter, about 6%? Is that what you said? And then just lastly, clariti fitting sets, when do you expect to be distributing new fitting sets in the US? And I'll drop. Thanks.

Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, the 6% is not a bad -- plus or minus, it's not a bad gauge in the second quarter. Fitting sets is -- when I mentioned, it's more like weeks, as opposed to months. The fitting set time line, if you will, is, we stopped shipping fitting sets a couple weeks ago, while we played catch-up, being responsive to those people that already had their fitting sets. We will remove that bottleneck of the fitting sets within weeks. And therefore, it is not a limit -- a rate limiter, as we get into -- really into the third quarter.

Larry Biegelsen - *Wells Fargo Securities, LLC - Analyst*

Thanks for taking the questions, guys.

Operator

Your next question comes from the line of Mr. Anthony Petrone of Jefferies. Please proceed.

Anthony Petrone - *Jefferies & Company - Analyst*

Thanks, and congrats on the good quarter. Maybe Bob, a little bit on your comments on the marketplace. The little bit of a slowdown in growth broadly, and you mentioned UPP pricing. So can you specifically give us a little bit more color on where that practice is, just industry-wide? In other words, how deeply is it implemented across the US? What has been the feedback from optometrists? And maybe, what has the feedback been from larger retailers?

Bob Weiss - *Cooper Companies Inc. - CEO*

It's pretty predictable. The independent eye care professional loves it. The retailers hate it. They're very vocal about that. And as far as where the practice is right now, of course, J&J was the most aggressive, going well beyond new products, whereas the other competitors have pretty much been selective with new products. There is a lot of energy on all fronts.

That can be imagined going on in that arena, that -- who knows where it will shake out? I personally think that there are other options to address our loyalty, and everyone's loyalty, to the eye care professional who is the one that spends all the time fitting the patient. And that's a little bit what is the undercurrent there. But just stay tuned. I'm more wishy-washy on where it goes. But I respect the individual parties weighing in on it.

Anthony Petrone - *Jefferies & Company - Analyst*

And just to clarify, Cooper's position is still that they have not joined in on the new pricing structure?

Bob Weiss - *Cooper Companies Inc. - CEO*

We adopted clariti's -- or the Sauflon position on clariti, and continue that. And that's all we have done thus far.

Anthony Petrone - *Jefferies & Company - Analyst*

Helpful. And then the last one from me is just for Greg. Maybe an update on the extent of the Ciba royalty? What is still being paid overseas, the timing on when that rolls off? And maybe what you think the benefit could be, come 2016? Thanks again.

Greg Matz - *Cooper Companies Inc. - CFO*

Yes, that's a topic that we just don't cover. Again, we have contractual obligations, and privacy on that, so we have not gone into that level of detail. Sorry about that.

Operator

Your next question comes from the line of Mr. Jon Block of Stifel. Please proceed.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Great. Thanks. Good evening, guys. I might just be asking an earlier question a different way, and then I have one incremental. But on the guidance, I think the FX was actually $0.47, relative to the last time you guided. In other words, I think you said $0.43 for the balance of the year, 2Q, 3Q, 4Q, and $0.04 in 1Q. But you took up the midpoint by $0.05.

I get roughly a $0.50 raise on, call it, operations. But Bob, constant currency revenue growth really didn't change, and it didn't sound like you were running well ahead on synergies. So can you just talk to where the $0.50 came from? Is it operations? Or it seems like, is it more synergies? And if so, where are you overall with synergies? Thanks. And then I've got a follow-up.

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Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, the synergies is a big factor of it. As Greg indicated, some of it was expense management. Some of it was the gross margin, and the favorable mix, with a stronger US showing, which, of course, was more immunized from foreign exchange. In fact, it had the benefit of a lower landed cost. So that was a part of -- a factor on the gross margin. But having Biofinity perform well, with very high gross margin, certainly helped gross margin, operating margin. So top to bottom, if you will. A little less on the top line, but a lot on the gross margin and OI line.

Synergy, clearly, some of the early, easy decisions, if you will, in terms of bigger dollars in the integration, are contributors. So yes, we are running favorable on synergy, relative to this year, and getting to where we wanted to get. And that's a factor, as was indicated the buyback of 100,000 shares, and less of an overhang of shares is a factor. You're a little right, in the sense that, in the quarter, we had some modest increment of earnings hurdling foreign exchange. I think it was more like a $0.01 than it was $0.05, however. I'll let Greg maybe comment on that.

Greg Matz - *Cooper Companies Inc. - CFO*

Yes, absolutely. So we were -- we had said $0.40. We had about a $0.41 impact in the first quarter.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Okay. Got it. And then, just as a follow-up, I think you mentioned, I believe, MyDay revenue is up 62%, constant currency. Big number, but off of a small base. I'm guessing the absolute was probably around -- I don't know -- $7 million or so. What are you seeing in Europe with MyDay? And are you running into any situations where clariti is actually cannibalizing MyDay, with people trading down? Thanks, guys.

Bob Weiss - *Cooper Companies Inc. - CEO*

I think we have a pretty good spread between the two. And of course, that spread, over time, as we really solidify the two tier system, will even get further apart. But by and large, those two products were competing in the marketplace prior to the Sauflon acquisition, and really, all the way through the end of 2014, for the most part.

And found their niches, both in private label -- in a private label sense and otherwise. There already was some element of economic ARP spread between the two. And of course, we want to make it a lot clearer that, as MyDay ramps up, it is really going after the premium part of the portfolio, which is the bulk of the dollars today. But longer term, will not be the bulk of the dollars, as clariti goes after moist and the mass market.

Operator

Your next question comes from the line of Steve Willoughby of Cleveland Research. Please proceed.

Steve Willoughby - *Cleveland Research Company - Analyst*

Good evening, guys. Thanks for taking my question. I actually have a couple of them, if you don't mind, circling back on some earlier questions. First, and I'll just kind of rattle off the questions, and let you guys have them. First, Bob, I'm just curious as to how important, or the importance, of UPP is to Sauflon, in your mind? I heard your comments earlier. I do know that there's been a class action lawsuit filed within the past day or two, regarding UPP. And so just wondering how important it is to Sauflon and its growth? That's the first one.

Then secondly, on the clariti roll-out, I'm trying to figure out what's going on, in terms of why you're halting the fitting sets. Is it more that you -- is it a manufacturing capacity issue? Or is it something going on with the distribution of lenses that is causing the bottlenecks? And then the final thing is just for Greg. Greg, I heard your response to some earlier questions. But with the revenue guidance coming down, but still expecting operating margins around 23%, I'm not -- I don't understand how the EPS guidance is what it is. I would think that, given the revenue coming down, operating margins would have needed to go up for the full year, to maintain the guidance like you have. Thanks, guys.

Bob Weiss - *Cooper Companies Inc. - CEO*

Okay. I'll start with the first couple, and maybe add a little to the third one. The class action at UPP, how important is it to clariti? Of course, our view is that there are other ways to support the eye care professional than UPP. But we are going to respect the fact that that decision had already been made at the time we acquired it. And we're not going to renege on that, if you will. And of course, we also stay on the fence, and have not committed, one way or the other, where we're going, with future roll-out of the new products.

Having said that, if it went away tomorrow, I wouldn't care, as an industry. Because I firmly believe we will take care of the eye care professional, the individual that fits the prescription, the Rx. And UPP is not necessarily the total answer to that requirement, if you will. The -- relative to the fitting set bottleneck, if you will, it is only -- and why did we stop issuing fitting sets? We stopped issuing fitting sets because demand had already -- out of the existing fitting sets, already exceeded our ability to try to do two things at once. Continue to build fitting sets and ship them, and to sell product, and be responsive to existing fitting sets.

So of course, you're going to take care of your existing customers first, that have that. And part of it was as simple as, the lenses are being produced, but the pipeline is still being improved. For example, some lenses were on a ship, as opposed to in the air, so you had part of the inventory in transit. And that's just a matter of getting there. There was plenty being produced in Hungary. But staging it, and getting it from Hungary to West Henrietta, where they put the fitting sets together for distribution, is the bottleneck. That's the short-term problem.

The lenses arriving, as we speak, they then have to get put into fitting sets. But importantly, we were going to give first priority to existing fitting sets, where doctors actually prescribing them on patients. So that's why it's a short-term problem. And it was not a problem with the manufacturing side, but what was going on in the middle. Relative to the third one, why has revenue come down in GAAP, not constant currency. Of course, constant currency stayed the same, but revenue came down, recognizing foreign exchange. Some of that coverage was the mix we talked about with Biofinity. So a better Biofinity profile.

And some of it had to do with things that -- the accelerated synergy, from the Sauflon integration, that started showing up sooner than we would have thought when we were sitting here in mid -- in early December, giving previous guidance. Which was one day, or the day of, the CMA approval in the UK. So we were one day into it -- or a few minutes into it, actually. And now we're a lot more educated on what we can get done, and by when. And that has favorable implications on operating costs, for example. So we can get to the same operating income, if you will, on less revenue, because there are less operating costs. Greg?

Greg Matz - *Cooper Companies Inc. - CFO*

Yes, and I think, Steve, you're bang right -- I know where you're coming from. As we gave around 23%, and you look at it, and we're still around 23%. We're probably a little north of where the original guidance was. But it's still rounding in that same ballpark. So yes, the margins have actually inched up a bit, and that's where you get that extra, to add on to what Bob had said.

Bob Weiss - *Cooper Companies Inc. - CEO*

Unless there's outstanding. So some of it's on the bottom line, also.

Greg Matz - *Cooper Companies Inc. - CFO*

Yes, that's a good point.

Steve Willoughby - *Cleveland Research Company - Analyst*

Got you. Thanks, guys. Okay.

Operator

Your next question comes in from the line of Joanne Wuensch, BMO Capital Markets. Please proceed.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Hi, can you hear me okay?

Bob Weiss - *Cooper Companies Inc. - CEO*

We can.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Terrific. Thanks. And nice quarter. Particularly your gross margin number. I'm curious, if you did 64.2% in the first quarter, and your guidance for the full year is just north of 63%, what is happening, over the next three quarters, that would drive that down?

Greg Matz - *Cooper Companies Inc. - CFO*

Joanne, we're still expecting major headwinds in the FX. So on revenue, as you saw, going out until the next three quarters, still -- currency is still being an issue. So that hasn't changed. Also, the fact of the matter is that, as we are successful with clariti, and we add more one day, we're going to see -- again, we'll continue to see the pressure on -- the headwind on gross margin. So we feel very comfortable with the 63% range, at this point, and think that's the right number, going forward.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay.

Bob Weiss - *Cooper Companies Inc. - CEO*

(multiple speakers) The first quarter did not get the full brunt of the headwind from currency. That -- the first half of the quarter was already in the bag when we gave guidance previously. And so your headwind continued to grow, and it actually accelerated, I think, as we got into -- even the post-first quarter timing. So February has not been kind to the euro.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Okay. And then my follow-up question. Your SG&A, which we've been really focused on as a leverage point for you, has come down quite a bit year over year. Is -- how much more is that -- or how much more room is there to move that metric down?

Bob Weiss - *Cooper Companies Inc. - CEO*

I would say we're still north of 40. And I don't think north of 40 is -- reflects strong leveraging, and still reflects a lot of investment around the world, in the area of geographic expansion and whatnot. So I don't call 2015 a high-leverage scenario. In other words, we still see that the way forward to 2018 is going to be more about leverage of operating cost, and less about improvement of gross margin.

While I would say, there will be substantial cost reductions in manufacturing, meaning the costs will be coming down. The mix, it will be offsetting a lot -- some of the mix factor. But mix will outplay cost reductions on cost of goods and gross margin. And then we will get leverage out of operating cost, part of which is the operating cost in a one-day modality are less than the operating cost in your monthly and your two-week modality.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Terrific. Thank you so much.

Operator

Your next question comes from the line of Mr. Matt Mishan of KeyBanc. Please proceed.

Matt Mishan - *KeyBanc Capital Markets - Analyst*

Great. Thank you for taking my questions. You've had Sauflon for a couple months now, and you've been talking a lot about the synergies. Have you given a total number? And are you ready to give a total number for what the synergies could be for Sauflon?

Bob Weiss - *Cooper Companies Inc. - CEO*

It's lumped in the guidance we've given, which, of course, has been gobbled up by foreign exchange. And I think when Greg gives his earnings -- translates the earnings per share guidance to what it would be, were it not for foreign exchange, which is basically 22% to 26%, it's best to think of that increment, and then some, as being contributed by Sauflon synergy. In other words, we were running low double digits, and now we're running basically 22% to 26%, were it not for foreign exchange gobbling up some of that.

Matt Mishan - *KeyBanc Capital Markets - Analyst*

Okay. And then I believe you also mentioned that, at least of for MyDay, you think you get faster margin expansion than you expected, going forward. And I was just curious why that was?

Bob Weiss - *Cooper Companies Inc. - CEO*

I'm sorry, say that again?

Matt Mishan - *KeyBanc Capital Markets - Analyst*

I think you mentioned, when you were talking about the ramp in MyDay, that you expected faster margin expansion than you thought you'd get?

Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, part of that is a reflection of the fact that, number one, we're taking a little bit more time to roll out MyDay, meaning have taken the time to upgrade some of the manufacturing platform. An example of that might be, part of the platform has been upgraded to have automated inspection instead of manual inspection. So a whole bunch of direct labor comes off the line, sending margins higher. Part of that is the luxury of having a little bit of time. The other thing is, we indicated that the pricing strategy of MyDay will be basically more of a premium. So the fact that we will have more of a premium pricing than the mass market pricing, or someplace in the middle, is the second contributor, higher ARPs.

Matt Mishan - *KeyBanc Capital Markets - Analyst*

Okay. Great. Thank you very much.

Operator

Your next question comes from the line of Mr. Steve Lichtman of Oppenheimer. Please proceed.

Steve Lichtman - *Oppenheimer & Company - Analyst*

Thank you. Hi, guys. Just two questions. First, as we think about a launch of MyDay later this year in the US, can you talk a little bit about how it's being positioned versus other premium si-hy dailies in Europe? And thus, what your positioning will be here in the US? Anything on the messaging around that lens would be helpful.

Bob Weiss - *Cooper Companies Inc. - CEO*

It's going to be positioned, obviously, out of the mass market sector, meaning a premium to that. We have not necessarily indicated exactly where we're coming out, relative to the pricing versus Total1 and TruEye, which would be your two premium price products. Whether or not it's above or below TruEye, we have not indicated at this point in time.

Relative to the separatism, of course, since we have not launched it in the US, that's kind of a blank piece of paper. The description of MyDay, we believe MyDay, versus TruEye and Total1, measures up very well. And particularly has issues of not only the price point factor that may come into play, but also certain things to do with handling ability, and whatnot. So there's certain features that MyDay had that, when we get into detailed marketing literature, we will play up.

Steve Lichtman - *Oppenheimer & Company - Analyst*

Got it. And then Greg, on a follow-up on gross margin. You mentioned lower period expenses in F1Q? Are you anticipating those expenses to bump higher, looking forward? Does that play a part in gross margin, maybe, coming down a bit from FQ1 levels, beyond, obviously, the FX and daily mix that you talked about?

Greg Matz - *Cooper Companies Inc. - CFO*

Yes, I think it's some of the period expenses. They were a little lower than we normally run. But that being said, they do fluctuate. So they were lower than we expected. We have seen quarters where they more lined up, and were higher than we expected. And so we just felt they were probably running at a lower rate than is reasonable, through the remainder of the year.

Steve Lichtman - *Oppenheimer & Company - Analyst*

Okay. Got it. Great. Thanks, guys.

Operator

Your next question comes from the line of Mr. Larry Keusch of Raymond James. Please proceed.

Larry Keusch - *Raymond James & Associates, Inc. - Analyst*

Thanks for fitting me in. Just two questions. Obviously, a lot of talk about Biofinity, and the strength in the quarter, and the positive benefit that that has on gross margin and mix. Just trying to figure out what was perhaps behind Biofinity doing as well it was? So I'm curious geographically, where you were perhaps were seeing that strength? And you also, obviously, had some distributor reductions in the fourth quarter. And just was curious if you're seeing some improved buying?

And then the second question was Bob, you had made some comments about feeling like the market would improve, and move up towards 6% in 2015. And obviously, I understand the benefits of some of these higher price lenses. But from a demand perspective, are you expecting much change in volume? Or is it really all, again, mix towards higher price lenses?

Bob Weiss - *Cooper Companies Inc. - CEO*

Yes, it's a little of all those. So I would say the continuation of the success of the silicone hydrogel moving into the one-day space is a strong plus. The -- meaning Total1 is doing well. I believe clariti will do well. And when MyDay gets to the US market, I believe it will do well. So that will push up, clearly, ARPs per wear, if you will. The shift continues from the two week sector -- where, of course, J&J's sweet spot is -- into the one month, which is still growing, and the daily. So that shift is a continuation plus.

I think what has muddied up the growth, as much as anything, is clearly, UPP, and some of the tactics that have gone on. And it's hard to work through what that all means. But some retailers, for example, have withdrawn somewhat, contracted somewhat. And how it shakes out, or how long it takes to shake out, may take a little while. But I do think there's been a distortion, caused by UPP in the marketplace, that will flush out in the near term, meaning over the next 3 to 6 months. Relative to Biofinity, I think Biofinity just has good karma.

We have continued to round out the parameters, if you will, and part -- a lot of it is geographic expansion. So Scott, a good name, it's well respected, and it's doing well, going globally, as a factor. But I think it also is getting some windfall from a maybe more rapid shift out of two week, coming into the growth of the monthly sector, as well as into the one day. It's picking up its fair share of the monthly sector.

Steve Lichtman - *Oppenheimer & Company - Analyst*

Okay. Great. Thank you.

Operator

There are no further questions in the queue. We will now turn the call back over to Mr. Bob Weiss for closing remarks.

Bob Weiss - *Cooper Companies Inc. - CEO*

Okay. I want to thank everyone for participating. We're obviously excited about where we are, relative to the quarter. I had a recommendation I will not share with you on how to fix the dollar. Everyone would laugh too much. So I won't give you the recommendation. But some day in private, I may share it with some of you. But we have a long way to go to figure out where currencies -- when they're going to stabilize.

But I certainly hope they do. That's our, by far, number one pain in the neck right now. Although I also respect the fact, everything goes in cycles. So with that complaint as a parting comment, look forward to updating you on the great progress we're making, and the great roll-out of our products on our call on June 4, the end of our second quarter. That will be it, operator.

Operator

Ladies and gentlemen, we greatly appreciate your patience and participation in today's conference call. You may now disconnect, and everyone have a great day.
