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COO - Q4 2011 COOPER COMPANIES INC EARNINGS CONFERENCE CALL

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OVERVIEW:

COO reported 4Q11 revenues of $361m and GAAP EPS of $1.15.

CORPORATE PARTICIPANTS

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

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Larry Keusch *Morgan Keegan - Analyst*

Jeff Johnson *Robert W. Baird - Analyst*

Chris Cooley *Stephens - Analyst*

Matthew O'Brien *William Blair - Analyst*

Larry Biegelsen *Wells Fargo - Analyst*

Joanne Wuensch *BMO Capital Markets - Analyst*

Anthony Petrone *Jefferies & Co. - Analyst*

Kim Gailun *JPMorgan - Analyst*

Steve Willoughby *Cleveland Research - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth-quarter and full-year 2011 The Cooper Companies, Inc. earnings conference call. My name is Regina, and I will be your conference operator for today. At this time, all participants are in a listen-only mode. Later we will be conducting a question and answer session. (Operator Instructions). Today's event is being recorded for replay purposes.

I would now like to turn the conference over to your host for today Ms. Kim Duncan, Director of Investor Relations. Please go ahead, Ms. Duncan.

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

Good afternoon and welcome to The Cooper Companies' fourth-quarter and full-year 2011 earnings conference call. I am Kim Duncan, Director of Investor Relations, and joining me on today's call are Bob Weiss, President and Chief Executive Officer; Gene Midlock, Senior Vice President and Chief Financial Officer; and Al White, VP, Investor Relations, Treasurer and Chief Strategic Officer.

Before we get started, I would 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 conditions and integration of any acquisitions. Forward-looking statements necessarily 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 of the quarter, followed by Gene, who will then discuss the fourth-quarter and full-year financial results. We will keep the formal presentation to roughly 30 minutes, 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, please call our investor line at 925-460-3663 or e-mail IR@cooperco.com.

As a reminder, this call is being webcast, and copy of the earnings release is available through the Investor Relations section of the Cooper Companies website.

And, with that, I will turn the call over to Bob for his opening remarks.

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

Thank you, Kim, and good afternoon and good evening to everyone. Another great quarter here at Cooper. Aside from the Avaira recall, the momentum continues. For the fourth fiscal quarter, we put up stellar topline growth, up 15% and 12% in constant currency. We delivered $361 million in revenue. Excluding the Avaira recall impact, our gross margin was 63%. Strong topline, solid margins, lower interest expense lifted our non-GAAP earnings per-share 34% to $1.46.

GAAP earnings per-share was a $1.15, hurtling the recall $6 million charge that we took in the fourth quarter and a settlement of a patent claim for $10 million in aggregate.

We had an outstanding cash flow quarter, generating over $78 million of free cash flow and reducing our debt to capital cap to 16%. The key takeaways for today's call we again put up great results with strong revenue growth, good margins, favorable impact from lowering interest expense and a great bottom line. The impact of our launches of Biofinity Multifocal globally and Biofinity into Japan helped continue our silicone hydrogel momentum, which fueled our double-digit results.

Our $78 million of free cash flow allowed us to continue deleverage with debt to cap now only 16%. Today our debt at $380 million is down 58% versus the $900 million it was in January of 2009.

We've done this while continuing to invest in sales force expansion, R&D and acquisitions. Without giving too much competitive information, our sales force expansion was about 25% this past year. Our sales force expansion reflects our strategy to get more feet on the street and cover a greater amount of geographic coverage for a while. We have the products. We have the capacity. Why not test our geographic strength?

Our silicone hydrogel family is driving growth. During the fourth quarter, the family achieved $103 million of revenues. That is a 39% constant currency increase versus the prior-year's fourth quarter. Silicone hydrogels are now 34% of CooperVision's revenue. We continue to feel positive about the future of our silicone hydrogel sales, driven by multiple factors, including the recent success of our Biofinity Multifocal launch in the $150 million silicone hydrogel multifocal market and the launch of Biofinity Sphere in Japan in the $400 million silicone hydrogel market.

To update you on the progress with respect to our Avaira recall, let me touch on several points. We believe the situation has been fully addressed, and no further expansion of the recall will be required. We're working closely with the FDA and other global regulatory agencies to complete the recall as quickly as possible. We have completed contacting our customers for the Avaira Toric recall and are in the final stages of product recovery. Initial notifications have been sent to our customers for the Avaira Sphere recall, and follow-up activities are ongoing. We're continuing to ship Avaira Sphere, and we are optimistic we will be able to relaunch the Toric in the April timeframe.

Let me also highlight a few recent developments with the FDA. The FDA has completed inspections of two of our three manufacturing facilities, that being Puerto Rico and New York, and no observations were received. That is no Form 483. We expect the FDA to expect our UK facilities as well, although we are not aware of the timing at this point. The FDA has also inspected our US distribution located in West Henrietta, New York. We received a 483 with five observations, and subsequently on December 7, we received a warning letter from the FDA. The observations are related to labeling and packaging and are not product specific. We are working closely with the FDA to resolve the observations. Our focus remains on doing the best for our customers, and we remain 100% focus on delivering high-quality products to the marketplace.

Now let me move on and discuss how we did geographically. Foreign exchange still played a positive role, although at a much reduced rate in the third quarter. For CooperVision currency impacted revenue versus prior year by 4%, down from 9% in the third quarter. In constant currency, we have a solid growth rate in each region. The Americas was up 10% constant currency, in Europe 4%, Asia 29%, and overall and we had 11% constant currency growth.

In constant currency, regional drivers were in the Americas trading up to silicone hydrogel in 1 Days, in Europe growth in silicone hydrogel in 1 Days, and in Asia-Pacific growth related to the Aime acquisition completed in the first fiscal quarter of the year, together with single-use primarily Proclear 1 Day, and also the Biofinity rollout now in Japan.

Soft contact lens market weakened slightly in the third quarter. That is a very challenging quarter, but it is likely to finish the current year in the 4% to 6% range we predicted. The third calendar quarter of growth was 3% constant currency. Trailing 12 months, a more important gauge, was 4%. The market was up 3%, and CooperVision was up 5% in the third quarter. Clearly CooperVision is growing at almost 2X the market in the third quarter. That was sponsored by our silicone hydrogels up 37% in constant currency versus market growth for silicone hydrogels of 9%.

We continue to gain share and are trading up. Market growth is in the 1 Day up 8% constant currency; Toric is up 7%; Multifocals is up 6%; silicone hydrogel materials ended up being up 9% and are now 43% of the total market. Recall the market remains a trade that market. Trade-ups for silicone hydrogel are roughly 20% to 40%, and for 1 Day the trade-up is roughly a 3 times to 4 times, 5 time trade-up in revenue. Worldwide Torics, or specialty lenses, are also supporting solid gains, up 7%, partially due to the fact that lenses are much less penetrated outside of the United States. A strong performance in Asia-Pacific reflects some rebound in Japan with strength in Torics and 1 Days. Japan's growth has been modest in the past two years.

CooperSurgical, our women's healthcare franchise, had another great quarter. With $57 million in revenue, it was up 14%, 8% in organic growth. Drivers continue to be surgical procedures, hospital and same-day surgery where revenue was up 24% and now accounts for 36% of CooperSurgical revenue.

Fertility also turned in double-digit revenue growth up 10%. CooperSurgical continues to impress with a solid gross margin at 65% and operating margins at 26%. With its $220 million now of run-rate revenue, multiple sales force call points, strong centralized campus in Trumbull, Connecticut. and strong franchise with the OB/GYN professional, this business was very leverageable.

In the quarter, we acquired a business called Summit Doppler. Summit, a supplier to us, has revenues of about $8 million annualized. It makes both obstetrical and vascular ultrasound doppler systems.

In addition to a strong portfolio, Summit brings a strong electrical engineering expertise that can be used to upgrade several of our older products such as the MedaSonics brand of dopplers. We paid $16 million and expect the deal to be neutral to earnings in year one and accretive thereafter.

A little bit about guidance. We are providing 2012 guidance for the first time. For the soft contact lens market, we believe the market will grow in the 4% to 6% range, in spite of its relative weakness in the past calendar quarter.

For CooperVision we expect to continue to gain share and are projecting growth of 6% in the midpoint of our guidance range. Momentum should continue sponsored by the geographic expansion of our silicone hydrogel family, particularly with our recent successes in Biofinity in Japan and Biofinity Multifocal, as well as our Proclear 1 Day. We expect to deliver earnings per share growth. That should have us achieving an earnings per-share number approaching $5.00 next year. We will do this while continuing our program of investing geographic expansion, particularly in China.

Now continuing with our successful strategy, we believe it is solid, and it has delivered results. CooperSurgical is putting up outstanding results and is leveraging operating ratios. This franchise was built with a solid understanding of the value of critical mass in the women's healthcare market, targeting OB/GYNs.

We follow the professional wherever they go -- office, surgi center, hospital or IVF centers. Although the call points are different for each, the leverage is considerable. CooperSurgical's fourth-quarter gross profit was 65%, and as I've mentioned, operating margins 26%. And due to minimal CapEx requirements, CooperSurgical generates a significant amount of free cash flow. We are dedicated to the strategy and will continue to do tuck-in acquisitions and leverage the CooperSurgical structure.

At CooperVision the strategy is more complex, and it is much more global in nature. In the $6.8 billion soft contact lens industry, because of the uniqueness of our manufacturing platforms and product portfolio, we're the only participant that solves a complex strategy, which means we're the only company that promises or promotes silicone hydrogel, as well as non-silicone hydrogel. That is the Proclear family. We emphasize branded as well as non-branded products, but private label does not translate to lower-priced products.

We actively promote and specialize in custom lenses with a high gross profit margin, of course. We support all modalities to the eye care professional. That is 1 Day, two-week, as well as monthly lenses, and we support all types of lenses -- Spheres, Torics, Multifocals. With close to 30% share in the multi-categories, Torics and Multifocal, it is acknowledged that we're pretty good at specialty lenses.

Few would challenge the success of Biofinity Toric for astigmatism. Put a great design together with a great material, and great things can happen. We have seen early successes for the same reason with Biofinity Multifocal, which hit the market in the last fiscal quarter.

On the capacity front, with the exception of Avaira Toric, things are ahead of plan to deliver considerably more product where we've been supplied constrained. The Biofinity family, Proclear 1 Day, 1 Day Torics are all ramping up nicely. So we're no longer supply constrained in these areas.

On price we like the soft contact lens industry, have a trade-up strategy. Our new wears and existing wears are targeted for silicone hydrogel, the Proclear family and 1 Day in single-use lens or single-use lenses.

Each creates more revenue per wear. A 1 Day modality, for example, results in 3 to 5 times more revenue per wear. While this strategy sacrifices the gross profit margin, it -- that is the percent -- it generally creates 2 to 4 times more profit per wear. Of course, this strategy competes head on with the lens care space since we are shifting wearers' resources from lens care to contact lenses. In my opinion, we also are the one company that is the most focused currently in the industry, lacking many of the distractions that some of our competitors are going through.

Now I might add that with Biofinity, Avaira and Proclear, we have a lot to talk about with the eye care professionals around the globe.

Just a brief comment about some management changes. As previously announced, Gene Midlock, who has help me take Cooper to the next level the past several years, will be turning over the reins at Cooper as CFO. Gene is not leaving Cooper, just taking more time to smell the roses or play more golf, if you will. He will continue to head up our global tax strategy and the tax department. At Cooper we have invested a lot of energy in grooming our bench strength. I'm happy to announce that Greg Matz, who is currently our VP of Finance and up until recently VP and CFO of CooperVision will be taking over for Gene. With an extensive knowledge of CooperVision, which is 85% of Cooper's operations and our very active successful planning program here at Cooper, Greg is already very much up to speed for this new role. I want to personally thank Gene for his hard work and dedication in getting us to where we are and welcome Greg to his new role where he, I am sure, will help continue the momentum.

Al White, I might add, will continue in his role as VP of Investor Relations, Treasurer, as well as the Company's Chief Strategy Officer reporting directly to me.

In summary, before I turn it over to Gene for his swansong on solid results, fourth-quarter 2011 continued our string of pleasant surprises. We, again, delivered on the topline, gross profit percent, operating income margin, EPS, free cash flow, deleveraging and many value enhancing projects like capacity expansion, key graphic expansion and tuck-in acquisitions. Our silicone hydrogel family products are doing well, up 39% in constant currency, exceeding $100 million this last quarter.

We're pleased with our progress in our rollout of Biofinity. We took a $150 million silicone hydrogel multifocal market, 50% of the entire multifocal market, as well as our expansion in the $400 million Japanese silicone hydrogel market.

Our CooperSurgical tuck-in strategy has continued to execute well and exceed expectations. Few would question CooperSurgical's ability to achieve synergy following these tuck-ins. In the middle of the so-called great recession, we, again, delivered impressive numbers with non-GAAP earnings per-share of $1.46 in fourth quarter, up 34%, free cash flow over $78 million, bringing our fiscal year free cash flow to over $232 million, and allowing us to lever to 16% debt to cap compared to 27% at the beginning of the fiscal year.

As always, I remind you our people are our number one asset. They delivered again. One of the key goals is to keep our employees healthy and productive, and here we have a very robust wellness program globally. Once again, we owe our employees a big thank you for all their great accomplishments, as well as their loyalty to Cooper.

With that, I will turn it over to Gene to elaborate on our impressive results.

Gene Midlock - *The Cooper Companies, Inc. - SVP & CFO*

Thank you, Bob. Good afternoon, everyone. Thanks for joining us, again.

I will briefly highlight some of the financial results and profit loss, as well as touch on some balance sheet items before we get to the Q&A. I think revenue, again, is pretty well laid out in the press release, as well as Bob's comments, so I will start with gross margins.

In Q4 GAAP gross margin was 62% compared with 60% in Q4 last year. Non-GAAP gross margin was 63% versus 61% in Q4 last year. For the full year, GAAP gross margin was 60% versus 58% in 2010. Non-GAAP gross margin was 62% versus 60% last year. CooperVision reported a GAAP gross margin of 61% versus 59% in Q4 of last year, and non-GAAP basis gross margin was 63% versus 60% last year.

The increase was attributable mainly to manufacturing, efficiency, gains and favorable product mix with silicone hydrogel sales now representing 34% of revenue, up 41% from last year. Also, remember last year's fourth quarter had a charge of $3.5 million for the closure of our Norfolk facility, which we transferred the manufacturing to our existing plants in Puerto Rico and the UK.

CooperSurgical had a GAAP and non-GAAP gross profit margin of 65%, which is the same as it had last year in Q4. Again, this is due to manufacturing efficiencies and favorable product mix.

SG&A Q4 on a GAAP basis expenses increased by 18% from Q4 last year to $129.7 million, and we are 36% of revenue versus 35% in Q4 of last year. This is generally attributable to increased sales and marketing expenses, commissions, new hires, etc. associated with higher revenue and new product launches, in addition to increased legal costs. Non-GAAP SG&A was up 19% in Q4 in 2010 and was 36% of revenue, up from 35%.

For the full year, GAAP SG&A increased by 16% to $503.1 million and increased to 38% of revenue from 37% last year. Non-GAAP SG&A increased by 17% and increased to 38% of revenue, up from 37% last year.

Turning to R&D expenses, in Q4 R&D increased by 12% from Q4 last year to $11.7 million and were 3% of the revenue, the same as last year. This increase is attributable to additional staffing and costs associated with increased clinical trials for a variety of projects. For the full year, R&D was up 24% again with 3% of revenue.

As a result of the above, operating margin on a GAAP basis for Q4 was 18% of revenue, a decrease from 20% in Q4 of last year. For the full year, operating margin was 17% of revenue, up from 16% in FY10.

On a non-GAAP basis, operating margin was 22%(Sic) of revenue, up from 21% in Q4 last year, and for the fiscal year, operating margin was 20% versus 18% last year.

Interest expense was $2.9 million and was 64% lower than Q4 last year. This reflects the maintenance, and the strong funded debt to EBITDA ratio, reduced borrowings and lower interest rates. For the full year, interest expense was $17.3 million, a 53% decrease from FY10.

The effective tax rate on a GAAP basis in Q4 was 10% versus 10.5% last year. On a non-GAAP basis, the Q4 effective tax rate was 9% versus 14% last year. The tax rate decreased from Q4 last largely because the shift of income to lower tax jurisdictions. As we have mentioned many times, we now have minimal manufacturing in the US, and most of it is not done in jurisdictions with lower tax rates, as well as decreased tax rate in certain non-US jurisdictions, like the UK, which is continuing to lower its tax rate now to 26%.

For the full year, GAAP effective tax rate was 9%, and non-GAAP tax rate was 10%, and that is consistent with our previously provided estimates.

Guidance for 2012, as we will get into a little later, will be in the 10% to 12% range.

In Q4 depreciation was $20.7 million, including $800,000 of accelerated depreciation, and amortization was $5.6 million for a total of $26.3 million of non-cash charges. For the full year, depreciation was $77.5 million, and amortization was $20.6 million for a total of $98.1 million. In the fourth quarter, we had a $1.6 million charge for stock option compensation.

Earnings per share were laid out pretty well in the press release. For Q4 we had $1.15 on a GAAP basis and $1.46 on a non-GAAP basis. As you will note in the earnings release, the main difference is attributable to the limited voluntary Avaira Sphere recall of $6.2 million. This is about $0.10 and the settlement of patent litigation $10 million, which was like approximately $0.21.

So you can model correctly for next year, the charge, the non-GAAP charges were $1.1 million of revenue, $4.9 million of cost of goods sold, and OpEx of $10.2 million.

For the full year, GAAP EPS was $3.63, and non-GAAP EPS was $4.50. Turning to the balance sheet, as Bob indicated, we have $78.5 million of free cash flow for the quarter and $232.6 billion for the full year. Total debt was reduced by $64.8 million to $380.4 million in the quarter, and debt as a percentage of capitalization is 16.4%, down from 19.1% in Q3.

At quarter-end the ratio funded debt to EBITDA was 1.03, a decrease from 1.26 in Q3. Inventories increased slightly by $10.2 million from the last quarter with 5.5 months on hand, up from 4.9 months on hand in Q3. And note, Q3 was artificially low because of the Avaira Toric recall.

Accounts receivable were also closely monitored with DSOs at 55 days, the same as last quarter, down from 57 days last year.

So, at this point, I would like to turn it back over for the question and answer period.

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

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Larry Keusch, Morgan Keegan.

Larry Keusch - *Morgan Keegan - Analyst*

Thanks. Good afternoon, everyone. You know, I just wanted to start off -- perhaps you can help us understand a little bit about what you guys are assuming for the 2012 guidance. I'm sure that is higher than a lot of people anticipated, and I think people are just going to want to understand sort of the assumptions that you guys are baking in there in terms of operating margins. It sounds like Avaira Toric you are assuming will be back in the mix, but any color on that would be really helpful.

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

Yes, Larry, we had -- obviously we came out real strong at the end of the fourth quarter indicative of the fact that our franchise products, Biofinity is doing stellar, exceeding $100 million in revenue for silicone hydrogel lenses in total for the quarter. And keep in mind that the monthly, as I've always said, when you look at gross margins, monthly is the star area for high gross margins and high profits. So we have had a lot of our growth, which, if you also reflect on the fact that foreign exchange weakened; therefore, the amount of money we delivered in constant currency with a very robust quarter, very solid gross margins because of product mix.

We are continuing to expect that Biofinity will continue to ramp up nicely. We have the capacity. So I guess I would credit, number one, why do we feel more bullish? Number one, it is the first time we have given guidance. Two, I have indicated we expected to grow earnings per-share double-digit in that range. The only area we are taking a little money off the table, quite frankly, is we are investing and will continue to invest in sales force expansion, and we will continue -- as we have indicated, we are going to go more aggressively into China in terms of making an investment there.

So the underlying assumption in our guidance is for investment in China to a degree and strong continuation of Biofinity, which had stellar operating profit contributions with it. Next question.

Operator

Jeff Johnson, Robert W. Baird.

Jeff Johnson - *Robert W. Baird - Analyst*

Can you guys hear me okay?

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

We can.

Gene Midlock - *The Cooper Companies, Inc. - SVP & CFO*

Hi, Jeff.

Jeff Johnson - *Robert W. Baird - Analyst*

All right. Hey, Gene. I just want to say good luck. Congratulations on three good successful years here as CFO.

Gene Midlock - *The Cooper Companies, Inc. - SVP & CFO*

Thank you.

Jeff Johnson - *Robert W. Baird - Analyst*

Sure. And, Bob, a question for you just on the FDA front. Let me ask it in a three-part question, I guess, so it all fits as one question.

But, on the labeling and packaging warning letter, where's the risk with this? It doesn't sound like it is product-specific. But what can you imagine spending on this? Is there risk -- if it doesn't get mitigated or resolved soon that there could be any kind of products off the market, anything like that, number one?

Number two, with Puerto Rico having been successfully inspected, can you compare and contrast maybe the upcoming or the expected inspection of the UK? What would be similar or different there, and is there a read-through from Puerto Rico passing on how we should think about the UK?

And then just lastly, talking about Avaira Toric coming back in April, with the facility inspection done and successful, does that mean that you are probably going to need a modified 510-K? Is there something there that is keeping it off the market until April?

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

Well, that is one question.

Jeff Johnson - *Robert W. Baird - Analyst*

It is all one question.

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

I guess I don't want to get too far into all of the details and tactics, other than to say we were very -- obviously we're pleased with the outcome of no 483s in our two plants that have undergone that. And I'm not going to say we were pleased with the outcome in our distribution center. But if I said there is good news, the good news is it is the distribution center, which doesn't have all the technical nuances clearly that managing our plants does.

So, I think, as we indicated and I indicated in my comments, we think we really have our arms around what we need to get to both as to, if you will, addressing the FDA. We're working with them. We are not like we're battling them. We are moving forward. There is a tie-in with obviously our expectation to get Avaira Toric back out onto the market, yes. It's does take a special or sometimes filing a 510-K, and we expect at this point in time that we will be able to get back on the market by mid-fiscal year. So that is built into our assumptions.

Keep in mind, the plant in Puerto Rico makes both the Avaira Toric and all the high-volume Spheres. The fact that we have been cleared on that side, that is that plant, and I don't want to overstate what no comments mean relative to the regulatory process. But we factored all where we think we are in the process into our guidance numbers and our expectation going forward. I think beyond that I really don't would want to get into a lots of nuances dealing with the recall emphasizing that Avaira Toric was less than 1% of our revenue. It doesn't warrant as much as time and airtime as it's been getting and recognizing that even though Avaira Sphere, which continues on the market we swapped out, that represented less than 1% of our overall revenue. That was the issue of the partial recall.

On the distribution side, I should just say the distribution side is packaging. If you can't get that fixed, kind of shame on you, so we're not thinking we can't be responsive at this juncture. Next question.

Operator

Chris Cooley, Stephens.

Chris Cooley - *Stephens - Analyst*

Thank you and good evening. I appreciate you taking my question. I mean maybe just to ask, as we think about the quarter and you look at the impressive gross margin expansion you had there, how much of that would you attribute to just what I was assuming was running those plants pretty much at capacity as you were building replacement stock both in terms of Avaira Toric and also Avaira Sphere, and are those inventories still at some level at risk just as we think about the recall process? I guess that's a two-part one question, how about that?

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

Our plants are certainly running at much better capacity in 2011 than 2010. So we're starting to see the benefits of the shutdown of Norfolk fully embedded through the quarter. Of course, we started seeing that last quarter. We are seeing the benefits of favorable mix. Relative to we think we've adequately reserved for those inventory loss that we -- were part of the recall, if you will. And the fact that we are continuing to make Avaira and ship Avaira, we are just putting more demand on those units to beat back our inventory, if you will, that was taken out of the pipeline when we had a reserve in aggregate. Most of the $20 million first quarter -- I'm sorry, third quarter and fourth quarter of the Toric and the Sphere, most of everything we are talking about is either inventories sitting in our plant or in the pipeline.

So we wrote down a lot of inventory, and that inventory also needs to be replaced. And when you think about idleness or absorption, then I don't see that as a major drain, if you will, going forward.

Operator

Matthew O'Brien, William Blair.

Matthew O'Brien - *William Blair - Analyst*

Good afternoon. Thanks for taking the question. I was hoping to just get a bit more color around the Avaira issues. I know it is fairly early since the Sphere expansion of the recall. But just any sense for anecdotal commentary around customers you may have lost because of these two recalls on top of each other, and then any sense for how many customers have actually just been pushed over to Biofinity rather than back into a Sphere? And then how much time is this consuming of your sales force at this point?

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

Once again, I think we're spending way too much time on 1% of our business. I will say, yes, there is a drain on the sales force. There's no doubt there's some energy involved in switching out and explaining that. Most of that is right when the announcement happens, so we've taken a good chunk of that discussion.

You are -- your question about, are we converting Avaira Toric wearers to Biofinity Toric? The answer is very successfully so, yes, and that is positive relative to certainly ARPs and gross margins. It's not a negative in that sense. That is the maybe the thin silver lining, and I don't want to overstate silver lining. But, aside from that, we think that we have our arms around where we are going on the way forward. Next question.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo - Analyst*

Hi, thanks for taking the question. Gene, could you give us a little more specifics around the P&L? I think Larry Keusch asked upfront about the 2012 assumptions. Just some more specifics around the guidance assumptions. And, Bob, why are you confident in 4% to 6% in 2012 for the contact lens market if the market slowed to 3%? Thanks.

Gene Midlock - *The Cooper Companies, Inc. - SVP & CFO*

Specific on guidance? So revenue 4% to 8% low to high obviously, gross profit percentage 62.5% roughly to 63%, OpEx 42% to 43%, OI around 20% to maybe 20.5%, interest expense 10% to 11%, and effective tax rate 10% to 12%.

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

And on assumptions on revenue, you are correct. The market decelerated in one quarter to 3%. I think we are all keenly aware that Europe may be taking its turn as far as softening. Could it be down to 3%, which was the worst year 2009? I suppose, but do I believe it? I'm much more a proponent of one quarter does not a trend make. That's why we put more weight on a trailing 12 months than we do on the quarter, and the trailing 12 months is still [4.3%]. And I'm not saying that this stellar, but it's in the middle of the great recession, as it is called. I don't think that's all that bad. I still remain optimistic that 4% to 6% going forward I am pleased with the life we are seeing coming out of Japan. I do think we will get more and more momentum in China and Asia, and I don't think anyone really knows what Europe is going to be about, but the US has kind of held its own nicely. So I'm still a believer the 4% to 6% is a reasonable range. We've hit it pretty well in the last four years. So I don't want to be too cavalier, but it's our best estimate. Next question.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Can you update us on how your view is changing or may have changed on acquisitions in women's health?

And, as a secondary, could you tell us what else may be at risk in the UK given that the FDA has not gone through there yet? Thank you.

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

When it comes to our view on acquisitions in women's health care, no change there. We have been successful and very successful the last 35 or so acquisitions we have done. We obviously have the critical mass. We obviously have the balance sheet strength, and there's no reason to think they can continue to handle one to two acquisitions a year. And they had two this past year that for all practical purposes they've done a good chunk of what they plan to do already in those two acquisitions in terms of the integration process.

Relative to the third plant, I would say that the people that we have overseeing the manufacturing plants and I would say we -- I will even add that we've kind of made a recent organizational change unrelated to this in terms of overseeing not only manufacturing plants, but also our distribution centers at the senior level.

I am convinced they have their arms around it with a very solid quality assurance team, as well as those running the plant. So just (technical difficulty) with what I would say is an A+ relative to how they run the plant, I will acknowledge the recall M&A out of there, and we can debate that whole process, how did it ever happen, kind of like why are you in medical devices or healthcare at all? We know that competitors of ours that are part of companies that have had in excess of 40 recalls. So that is just part of the nature of the beast of being in the healthcare arena.

I'm convinced that our people know what they're doing when it comes to running plants and good manufacturing processes. So I sleep well at night, generally. Next question.

Operator

Anthony Petrone, Jefferies.

Anthony Petrone - *Jefferies & Co. - Analyst*

Thanks. Just one on the recall going back to Avaira. If we look at prior conference calls that we have had and we focus in on J&J's recalls, the Company had mentioned that that created opportunities for Cooper, and it seemed to come to fruition in the results. So how will the Company go about extending this the other way? Has there been any share of losses not necessarily in this specific category but in other categories? And then last, on the 4% to 6%, what exactly is in there for the return of Avaira Toric by midyear? Thanks.

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

Yes, I probably missed one of the earlier questions on how the customers are dealing with it. I think there have been a number of those, including ourselves that have gone out and sampled the attitude of our customers. We have done it, others have done it, and all I can say is I think we have done a professional job as we can in dealing with our eye care professionals. Obviously they are our bread and butter. We're taking care of them.

A good many of them like the design of the products and have switched over from Avaira Toric to Biofinity. So I would say there was a substantial amount of those that said, okay, I don't have Avaira Toric available; I will switch over to the Biofinity Toric as opposed to going other ways. Some did, in fact, go to Proclear, which is another good design, and yes, we did lose a small portion and I emphasize small portion of where the Toric wearer went. Relative to the Sphere, well, it never really came off the market. We swapped it out. We do have capacity, so that was less problematic. There were no substantial time delays in getting them bought.

So, as a result of that, in keeping the customers fully informed along the way, I think we've done a good job of preserving the franchise with minimal damage. This product, once again, Avaira Toric, was less than 1% of our revenue and had just been launched. So it wasn't like it had a substantial amount of wearer base out there that you then had a lot of challenges to deal with. So that minimized it.

How much is built into the 4% to 6% guidance? Of course, that is the market. We're more like 6% midpoint for our guidance, 4% to 8%, and from the point of view of Avaira Toric, it was insignificant last year, it is insignificant, and any guidance in 2012 at the upper end of guidance, it has been at the lower end of guidance it's not in. Next question.

Operator

Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan - Analyst*

Oh, great. Thanks. So just a quick question on use of cash in 2012. You talked a little bit about the acquisition strategy in women's health, but could you also touch on your plans in terms of debt paydown and maybe at what point a share buyback might make sense for Cooper? And the follow-on to that one is, you've got your free cash flow guidance for next year, which implies a number that is about kind of flat to a little bit down versus this year. So maybe talk a little bit about what the drivers of those assumptions are? Thank you.

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

Use of cash, we will continue to be active in looking at acquisitions, both women's health care, as well as contact lenses and particularly geographic expansion.

In the absence of that, we will continue to pay down debt, and we still have $380 million of debt on our balance sheet. So we haven't run out of debt to pay off. Buybacks are a function of what other uses do you have of cash that you have on your radar. I would say we're mindful of buybacks, we're mindful that at times they are popular, and we are -- we would (technical difficulty) minds open as we look at our cash needs going forward.

In terms of free cash flow, the upper end of the range is $230 million flat with this last year. Probably some things to factor in your thinking is the settlement, for example, the $10 million against our P&L in 2011, but is a cash use in 2012. So we have a few things like that, but nothing major.

We're also assuming in 2012 that we're spending more on CapEx than we did in 2011, 2011 a little over $100 million. 2012 might be more in the $120 million to $140 million range. Some were more. The underlying assumption is being more aggressive in the capital use area, and I think that probably covers it. Next question.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research - Analyst*

Hi, thanks for taking my call. Just on internal growth this quarter, I was wondering if you could separate out how much was IME and then talk about the third-quarter calendar internal growth for the Company of 5% versus the third quarter fiscal that you guys reported of 11%?

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

The 11% includes about 3% for IME, so it is more like 8%. The 5% for the calendar quarter is actually 5.4%. So when I mention that we grew almost 2X the market, the market is down to a decimal. The market was when we were 5.4%, we were about 1.9 times the market in the calendar quarter.

We did finish strong Biofinity in October, which is off the calendar quarter. It was a solid month for Biofinity to continue the rollout of some of our products. So, in that sense, the delta between the 5.4% and the 8% for the fiscal quarter, which is the organic constant currency CooperVision for the fiscal quarter is something to do with that, the buildup of momentum. Next question.

Operator

Amit Bhalla, Citi.

Unidentified Participant

Hi, this is [Adam] in for Amit. I just wanted to go back to guidance really quick. So I believe on the last quarter's earnings call that you had said you expected low double-digit earnings growth for 2012, and the midpoint of your guidance is right at 9%. I was running if you could talk about that? And maybe the comment that you had made on outgrowing the market growth of 4% to 6% on topline growth, even though the midpoint is at 6%. So are you guys assuming very minimal feed on the market for next year?

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

That would translate, if you took the mid 4% to 6%, that is 5%, and you take our mid 4% to 8%, that is 6%. So we're basically saying we're going to continue to gain market share. We are not in guidance at all assuming you will continue to grow at close to 2X the market.

In 2000 and -- let's say, in trailing 12 months growth, we were at 1.75 the market. So, let's say we're assuming less robust marketshare gains, but continuing marketshare gains.

As far as double the bottom line is concerned, I said we would grow double digit. Obviously the earnings and a lot of the assumptions at that point in time was more in around [4.20, 4.25] as opposed to [4.50]. So, we're basically taking a lot of that phenomenal strength in the fourth quarter into next year, but the combination of that factor you are off of a much higher base, number one.

And number two, I mentioned briefly that we're investing in China. We plan on investing several millions of dollars that will put some weight on OpEx that will grow next year, as well as the bottom line. That is kind of one where there is an element of discretionary about that.

The stronger we are on the topline, the probably more aggressive we will invest along those lines. And, in fact, that will weight down some of our -- it could be the good news is we grew faster on the topline. The bad news is our operating ratios are a little bit less because we invest more. It is that type of thing where we are going to pay attention to where we are because we are mindful of our commitment towards the bottom line, but we're also pretty aggressive in our desire to continue to spend money on those things we think have good long-term total shareholder return.

So we think China does long-term. We certainly think sales force expansion is long term. So I think that will probably give you enough color on why a little like the mid of our range, a little less than 10%. Next question.

Operator

Larry Biegelsen.

Larry Biegelsen - *Wells Fargo - Analyst*

Thank you for taking the follow-up. (technical difficulty) think that's what it was in the past, and then just any feedback on CIBA's DAILIES TOTAL1 launch in Europe? Thanks.

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

China it is probably a little less than $10 million. More in the, I would say, 4% to 6% range as a starting end. But, quite frankly and quite honestly, we are not going to start spending too much until we get some key positions in place. So some of it will be a function of our ability to hire and find the right people.

So I'll be a little -- I would be from Missouri whether or not we -- even we tried to spend $10 million, we could spend that much intelligently. So it's not a fire drill. We will do it as we can and as it is prudent.

I think is more like $4 million to $5 million, $6 million, than it is a $10 million number. What's built into guidance in the range we gave you more at midpoint is ballpark around $5 million.

As far as CIBA DAILIES, if you see it, let me know. I haven't seen it, and quite frankly, silicone hydrogel dailies, if we look at the US, I don't quote HPR data, Health Products Research, too often, but it gets into on eye. And if that is any indication, the on eye experience of silicone hydrogel dailies in the US weakened in the third quarter versus the second quarter. That didn't look like a growth story to me, and I will continue to be a sceptic on how fast silicone hydrogel dailies will make it. It will ultimately, if we're talking 10 years down the road, but I have a feeling most people are not asking questions what it is going to be like in 2022. So more in the next several years. There will be a place for silicone hydrogel dailies, but it will be more nichey than it will be dominant. Next question.

Operator

Jeff Johnson.

Jeff Johnson - *Robert W. Baird - Analyst*

Thanks. Just a couple of other questions. On the daily comments you just made on silicon, can you tell us or give us an update on just kind of penetration rates on daily disposables in the US? Are you continuing to see those move up a little bit?

And then from a guidance standpoint on the revenue side, you come up against easier comps in the first half of the year relative to the second half, but you have some potential building launches and that they can help more in the second half than the first. So how do we think about revenue gating throughout the year? Should we see it relatively level-loaded from a growth standpoint, whereas the first half is going to be faster than the second half? How do you think of that?

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

On revenue I would say pretty much even over the year. The reason I say that is because you're going to have the first six months more to do with the recall related activities and ramping back up and getting back out to the market.

So I would normally say you write easier comps in the first six in the back six. Currency will play a little in -- particularly in the third quarter next year, it will be a tougher comp because the dollar looks pretty weak in the third quarter, and everybody else's currency was pretty strong in the third quarter. So that will play little into it, but overall currency next year is pretty much a wash, maybe 1% based on current rates.

Now we don't get into -- in our guidance, we do not assume future rate changes. They are set where we are today. We don't get into the betting game.

As far as silicone hydrogel, 1 Day in the US, I mentioned that the fits, the HPR, Health Products Research, had did not increase in the quarter; they decreased. It was already in a small part of the US market. So there is no evidence right now that it, silicone hydrogel, is going anywhere in the US.

When it comes to overall single-use lenses, they continue to do very well both in the US, and that is probably the one that is really driving the global growth as much as anything now is the US market has tremendous potential yet for trading up. And keep in mind, trading up when it comes to single use is still 3 to 5 times more revenue.

So, as an industry, we like it specifically since we make a lot of money in that venue of trading up. We do take money away from lens care companies that obviously, if you go to the store and buy lens care products, you know how much they charge for a bottle. I know how much they charge for a bottle. But anyway I'm happy to take the money off the retail store and put it in the eye care professionals pocket.

With that, I think we have probably concluded our hour, and I look forward to updating you, again, in March when we finish our first quarter. And it is off to the new -- I wish everyone a happy new year, and hopefully you will enjoy our numbers. Thank you.

Operator

Ladies and gentlemen, thank you so much for your participation in today's conference. This does conclude the presentation, and you may now disconnect. Have a great day.
