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COO - Q2 2012 The Cooper Companies, Inc. Earnings Conference Call

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OVERVIEW:

Co. reported 2Q12 EPS of $1.12.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2012 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, Senior Director of Investor Relations. Please go-ahead.

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

Good afternoon, and welcome to The Cooper Companies' second-quarter 2012 earnings conference call. I am Kim Duncan, the Senior Director of Investor Relations, and joining me on today's call are Bob Weiss, President and Chief Executive Officer; Greg Matz, 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 depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the Company to differ materially from those described in the forward-looking statements are set forth under the caption, Forward-Looking Statements, in today's 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. Bob will begin by providing highlights on the quarter, followed by Greg, who will then discuss the second-quarter 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 a copy of the earnings release is available through the Investor Relations section of The Cooper Companies website. 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 evening everyone. We continue to maintain the same strategy and we continue to execute on it. This quarter was another successful step within our long-range objectives of taking market share, posting gross margin expansion, investing in infrastructure, delivering double-digit earnings per share growth, and delivering significant free cash flow.

Let me address the elephant in the room, however, and that is our results versus analyst expectations. First off, as we discussed last quarter, we did have cost tied to the Avaira recall, the startup cost on the single-use silicone hydrogel lens, our Biofinity startup costs in Puerto Rico, and higher manufacturing costs for Avaira, so nothing new on that side.

More importantly, for new items, if you will, year-over-year currency reduced revenues $4.8 million or $0.07 in earnings per share. Outside of that was another $0.02 for shutdown expenses associated with our Australia manufacturing plant and a smaller amount of shutdown costs tied in with our CooperSurgical acquisition of the Summit Doppler, which was acquired in 2011.

Most of these were built into our previous annual guidance we provided in the first quarter of 2012, our call in March. In fact, overall we were quite pleased with much of our progress, and particularly our gross margins. Even given the current foreign exchange impact and the overall economy we have less impact to our guidance range for the year, excluding the charges associated with recent credit refinancing, or the non-GAAP, if you will.

Some other key events or takeaways today to consider. Our strong cash flow led us in the quarter to get upgraded by S&P to a BBB- investment grade. This update in our financial strength also led to recent amend and extend of our credit agreement, increasing our credit to a $1 billion line of credit, lowering our interest borrowing grid; eliminating our term loans; and extending our lines of credit for the $1 billion to May 2017 or 16 months.

We recently announced a very exciting acquisition where we have tendered to purchase Origio, the world's number one IVF company. This is a perfect fit with our existing IVF business which has been doing great.

One other very important note, of course, is the relaunch of Avaira Toric following receipt of clearance from the FDA.

Our silicone hydrogel family is driving our growth. During the second quarter our silicone hydrogel family continued on its path to sponsoring our overall revenue growth. Silicone revenues -- silicone hydrogel revenues were up 32% to $103.8 million in constant currency. The family now reflects 36% of CVI's or CooperVision sales.

The exciting rollout of Biofinity Multifocal into the [$150 million] plus silicone hydrogel multifocal market continues. We are very pleased to now be returning to the marketplace with our Avaira Toric relaunch. This will once again allow us to aggressively get behind the Avaira product family, targeting the two-week part of the US market, which account for over 50% of the US market and its is largely owned by J&J VISTAKON.

Geographically foreign exchange has taken its toll on the second quarter. Foreign exchange negatively impacted CooperVision sales by 1.7%, almost 2% or $4.6 million. This is the first meaningful foreign exchange headwind we have had in quite a while. CooperVision revenue growth was 6% in constant currency.

Regionally we have had solid results in constant currency with perhaps the Americas being somewhat the soft spot for out-the-door revenues during the fiscal quarter, reflecting softness in the market in the last two weeks of April, which rebounded quite nicely in May.

Regionally the Americas was up in constant currency 4% during the quarter; Europe up 6%; Asia-Pacific up 10%; overall worldwide 6% in constant currency.

Our growth drivers were in the Americas trading up to Biofinity, including the success of Biofinity Multifocal, as well as the solid performance in the one-day category by Proclear 1 Day Sphere.

In Europe it was the same as the Americas, Biofinity, including Biofinity Multifocal, sponsoring growth. In Asia-Pacific, primarily the Biofinity Sphere launch in Japan and Proclear 1 Day Sphere throughout the region.

The overall soft contact lens business grew in constant currency 6% during the calendar quarter in the first quarter of 2012. CVI, CooperVision, was up 12% in constant currency. On a trailing 12-month basis, a key way we look at it, the market was up 5% and we were up 9% on the strength of Biofinity and Proclear 1 Day.

For the calendar quarter the market grew. Growth was sponsored by silicone hydrogels, Multifocals, Torics and one-days. I might point out that the silicone hydrogel information typically in our earnings release is not there. It was not available from industry sources on a worldwide basis.

The market continues to be a trade-up market with geographic expansion an accelerating contributor. Trading-up includes the premium products, silicone hydrogel lenses, Torics and Multifocals. The trade-up to a silicone hydrogel is a 20% to 40% increase. More importantly, a trade-up to a one-day disposable gross revenue per patient 400% to 600%.

The one-day wear generates 300% to 500% more profit. Toric and Multifocal have a long way to go capturing the market opportunity, particularly outside the US. Geographically softness in Europe for the quarter plus 2%, was more than made up by a strong Americas, which was up 10%.

CooperSurgical, our women's health care franchise, had another solid quarter. With $57 million in revenues, it was up 13% or 8% excluding acquisitions. Drivers continue to be surgical procedures, hospital and same-day surgery, where revenue was up 22% and now accounts for 39% of CooperSurgical.

Devices used by gynecologists during laparoscopic procedures, such as closures systems, retractors, injectors, uterine manipulators, and related trays are driving the growth in this area. Importantly, these are high-margin items. CooperSurgical's overall gross profit margin during the quarter achieved a very impressive 68%, while operating income hit another all-time high of 29%.

As I have commented frequently in the past, we will look for ways to continue to leverage this franchise. Our recently announced acquisition targeting Origio in IVF does just that. With this acquisition we will be number one in the global position in IVF, a market that is truly global in nature.

I might add, without getting too much into the details of how it will operate within Cooper, turning idle cash yielding 0.4% of interest into a return on invested capital well north of 10% is a great way to maximize our return on invested capital and related shareholder returns.

Like anything else, sometimes acquisitions become a show-me story. At any rate, we are excited by the possibilities of the Origio strategic fit to our global CooperSurgical business to leverage our use of free cash flow and to maximize our global tax structures.

Guidance. Even with the headwinds caused by foreign exchange, including the impact of our second quarter top and bottom line foreign exchange, we are not changing our non-GAAP earnings per share guidance.

Not only do the fundamentals of our business remain strong, but we have essentially completed most of our hiring, and now expect SG&A to remain relatively flat in the third quarter and the fourth quarter. In other words, we will start leveraging our selling and marketing investments of the past two years.

Since I know a lot of you might have questions of how big was foreign exchange headwind -- how big was it, let's say it was big. In addition to a $0.11 year-to-date impact on earnings per share, including $0.04 from the first quarter, there is a $0.19 impact at the current rate in the third quarter and a $0.14 impact in the fourth quarter, and once again at the current rate.

Recall the euro was at its highest point in our fiscal third quarter last year when it averaged 1.43. It is now off of those exchange rates 13%. For the year then we have built in $0.44 of headwind into our 2011 comps into our guidance.

Our GAAP guidance has been adjusted for our refinancing, but not for the potential impact of a successful Origio tender offer. We are, however, more comfortable with increasing the lower end of our guidance for revenue. We have taken up the top end of our -- I'm sorry, we have taken the top end of our CVI guidance down $5 million and the top end of CooperSurgical up the same amount, reflecting the strength of CooperSurgical's year-to-date results. The top end lowering at CVI reflects the weakness due to foreign exchange.

We remain optimistic that some of our new CVI launches, Proclear 1 Day Multifocal, single-use silicone hydrogel lenses and Biofinity Toric into Japan, and the relaunch of Avaira Toric will sustain constant currency revenue growth in the second half of 2012, allowing us to continue to gain share on a trailing 12-month basis.

We are continuing with our successful strategy. We believe it is solid and it has delivered results. CooperSurgical is putting up outstanding results and is leveraging its infrastructure. This franchise was built with a solid understanding of value of critical mass in a woman's health care market, targeting the OB/GYN.

We follow the professional wherever they go -- office, surgery center, hospital or IVF centers. Although the calls are different for each, the leverage is considerable. CooperSurgical's second-quarter 2012 gross profit was 68%, its operating margins 29%. And due to minimal CapEx requirements, CooperSurgical is a significant contributor to our free cash flow. We are dedicated to this strategy and will continue to tuck-in -- to do tuck-in acquistions to leverage the CooperSurgical infrastructural. structure.

At CooperVision the strategy is more complex, and it is much more global in nature. In the $7 billion soft contact lens industry, because of the uniqueness of our manufacturing platform and product portfolio, we are the only participant that promotes silicone hydrogel and non-silicone hydrogel lenses, that is the Proclear family.

We emphasize branded and nonbranded products. Note, private label, you may recall, does not mean lowering the price. We actively promote and specialize in custom lenses, with a high gross profit, of course.

We support all modalities that the eye care professional prescribes -- one-day, two-week and monthly lenses. And we support all types of lenses -- spheres, Torics and Multifocals. With close to 30% share in the high-growth specialty lens categories, Torics and Multifocals, it is acknowledged by eye care professionals that we are pretty good at specialty contact lenses.

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

On the capacity front, with the exception of Avaira Toric, we are ahead of plan to deliver considerably more product where we had previously been supply constrained -- the Biofinity family, Proclear 1 Day, our one-day Torics are all ramping up nicely.

On pricing we, like the rest of the soft contact lens industry, have a trade-up strategy. Our new wearers and existing wearers are targeted for silicone hydrogel lenses, the Proclear family, and the one-day or single-use lenses. Each creates more revenue through per wearer. A one-day modality, for example, results in 4X to 6X more revenue per wearer.

While this strategy sacrifices the gross profit margin, i.e., percent, it generally generates 3 to 5 times more profit per wearer. Of course, the strategy competes head-on with the lens care space since we are shifting the wearer's resources from lens care to contact lenses only.

Competing for lens care dollars is more of a problem for some of our competitors. In my opinion we continue to be the most focused company in the industry, lacking many of the distractions that some of our competitors are now going through. I might add Biofinity, Avaira, and Proclear with them in our portfolio we have a lot to talk about with eye care professionals around the globe.

As we look down the road over the next several years, we expect to continue improving operating margins and delivering above-average shareholder returns. We expect to continue to deliver double-digit earnings-per-share growth while investing in geographic expansion and new product development.

In today's market we have a solid product portfolio to leverage in all modalities, multiple materials and all types, and we retain our expertise to emphasize customizing lenses for the 10% to 20% of those wearers requiring other than standard lens sizes or designs.

We have a lot of work to do before we can come anywhere close to having exploited our number one contact lens family, Biofinity. This is basically true when it comes to geographic expansion and fully developing our Biofinity family of Torics and Multifocals around the world. The same applies to Avaira, where the Avaira Sphere has been anxiously awaiting a relaunch of Avaira Toric. The combination will put us in a much better position to exploit the US two-week space owned by J&J, and to also exploit our private-label strategy more aggressively with this family.

While we already have pretty respectable gross profit and operating margins, from a cost perspective we have considerable upside yet to be fully developed. Upside include the elimination of silicone hydrogel royalty in September of 2014 in the United States and in March 2016 throughout the rest of the world. The reduction of our manufacturing costs, among other things improving mold and cycle times, increasing capacity utilization and improving yields in general, is also one of our key goals.

Also, given the considerable amount of free cash flow we generate, we will continue to look for tuck-in acquisitions and geographic expansion opportunity in our two businesses that exceed our hurdle rates.

Markets for both women's health care and the soft contact lenses are much less developed outside the US. We generate a considerable amount of cash offshore, due in part to our level of manufacturing outside the US. As such, we will continue to aggressively invest in global expansion opportunities. With over 95% of the people on the planet outside the US we believe we will find opportunities to invest in other countries for decades to come, thereby retaining our low effective tax rate indefinitely.

Finally, as was the case in the first quarter when the stock was suppressed, we even demonstrated we are at times even willing to buy in some of our own stock, although we did not have any purchases this past quarter.

In summary, before I turn it over to Greg, second-quarter 2012 moved us down the path to another successful fiscal year in 2012. We have put up solid market share gains, grew revenue, improved our gross profit and operating margins versus the prior year, delivered solid free cash flow, and even restructured and extended our investment grade debt.

Our Biofinity and Proclear 1 Day are sponsoring solid marketshare gains, even before we roll out Biofinity Toric in Japan, single-use silicone later this year, and the Proclear 1 Day multifocal. Additionally, we now are relaunching Avaira Toric to hit the US two-week market head-on.

While I didn't comment on it, we are starting to see results with our investments in sales and marketing, R&D, mainly D, and geographic expansion. In spite of an economy that remains sluggish, we remain as an industry recession resistant, and believe, consistent with the past 30 years, our industry will remain so in the future.

Consistent with our recently announced IVF tender offer for Origio, we expect to continue to complete tuck-in acquisitions to support our women's health care franchise.

Finally, least I forget to remind you, our number one asset is our dedicated employees. They continue to deliver results even in poor economic times. To them, once again, a big thank you. And with that I will turn it over to Greg.

Greg Matz - *The Cooper Companies, Inc. - VP, CFO*

Thanks, Bob, and good afternoon everyone. Let me just quickly highlight that our Q2 GAAP and non-GAAP numbers are the same. Bob has given you a pretty thorough view of our revenue picture, so let me start with gross margins.

In Q2 the consolidated gross margins were 64% compared with 62% for GAAP and non-GAAP in Q2 last year. CooperSurgical had a gross margin of 68%, which compares to Q2 2011 of 65%. This improvement was mainly due to manufacturing efficiencies and favorable product mix, especially in the surgical space. As Bob mentioned, products like closure systems and uterine manipulators, to name a couple, continue to do well as they also have better than average gross margins.

Looking at CooperVision, CooperVision reported a gross margin just over 63% versus 61.5% in Q2 last year. As you can see, we had a strong gross margin quarter for this business. The increase was attributable to many different components like the completion of our Norfolk closure effective last year, which contributed about 130 basis points to CooperVision's gross margin.

In addition, we had favorable product mix with silicone hydrogel sales now representing 36% of revenue, up 29% from last year and 32% on a constant currency basis.

During the last call we had a cautious outlook on CooperVision's gross margin due to numerous items which the team was in the early stages of working through. Our gross margin came in better than planned due to a couple of key items and a host of smaller items, which I won't go into, but which seem to all going the right direction.

We had mentioned the startup of our first Biofinity line in Puerto Rico, and the startup cost came in less than expected. We also had a strong product mix, including continued growth of Biofinity, as well as lower cost for our single-use silicone than was planned for in Q2.

Going forward we still have some challenges. We continue to make progress on the cost side of the Avaira product line, but we do see increased costs overall related to the changes in the process we made as we worked through the recall and the improved -- and improved the product.

As we mentioned last time, the introduction of a single-use silicone lens also will negatively impact gross margins as we will be producing the product for the entire quarter in Q3 versus a partial quarter in Q2.

It is typical to see inefficiency type variances in the early periods for product rollout. We also continue to look at the currency impact, especially on the revenue line, with the specific impact on gross margins.

All this being said, we are optimistic based on the gross margin progress we have made over the last couple of years, as well as the first half of this year. We are expecting to see our gross margin for the year be in the range of 63.5% to 64%, with Q4 being a little better than Q3.

As we have discussed in prior years, we do see negative manufacturing variances come through in Q3 related to Q1 inefficiency, including the impact of the large number of holidays, our annual plant shutdown, and other type activities. Such variances are capitalized and rolled to the P&L five months later as it's reflective of our inventory turns.

Now looking at operating expenses. For SG&A in Q2, SG&A expenses increased by 8% from Q2 last year to $137 million, and were 40% of revenue versus 39% in Q2 last year. This is generally attributable to added investment we have been discussing over the last year, which has resulted in increased sales and marketing expenses for things like free lenses, commissions, new hires associated with generating higher revenue, and expenses for new product launches, like Biofinity Multifocal and Proclear 1 Day Multifocal which was launched in this quarter, Q3.

We have seen increased selling investment in both CooperVision as well as CooperSurgical. Last year we highlighted that we would be investing. The investment really did not start to ramp up until March, April timeframe, which when you look at the first half of 2012 compared to prior year, it leads to some higher expense growth rates due to the run rate effect of the earlier investments. to help highlight this impact, SG&A only increased 4% sequentially.

On the R&D front, we had talked about investing in our business and R&D. It is one of those areas where we continue to make investments. In Q2 R&D increased by 25% year-over-year to $13 million, or up about $2.6 million. And was 3.8% of revenue, up from 3.2% of revenue in Q2 2011 and 3.5% sequentially. This increase is mainly attributable additional staffing in both businesses, as well as a variety of spending on new product development and clinicals. We would expect that R&D will continue to grow faster than sales for the remainder of the year.

Looking at the total operating expenses, which were 45% of revenue for Q2 and grew at about 10%, overall we believe we will start to see some more leveraging in the second half. And we would expect operating expenses to finish there in the range of 43% to 44% of revenue.

Depreciation and amortization. In Q2 depreciation was $21.5 million, up $2.7 million or 14% year-over-year, and amortization was $5.3 million, up $0.5 million or 11% year-over-year for a total of about $26.8 million. As we discussed on the last call, the amortization expense increased year-over-year to reflect the increased amortization of intangibles on the several deals we completed last year.

Moving to operating margins. For Q2 consolidated operating income and margin were $65.4 million or 19% of revenue versus $60.3 million or 18.5% of revenue in Q2 2011. This represents a 9% increase in operating income over Q2 2011.

Interest expense. Interest expense was $3.1 million and was $1.2 million or 28% lower than Q2 last year. This reflects reduced borrowings and lower interest rates resulting from the refinancing in Q1 2011, and the redemption of senior notes completed at the beginning of Q2 2011.

As Bob mentioned earlier, we just amended our senior unsecured credit facility. You could read the details in our 8-K filed on May 31. We took advantage of our S&P credit upgrade to investment-grade to strengthen our capital structure. The amended facility is slightly larger, offers better pricing, and the maturity has been extended to May 31, 2017.

From an accounting perspective, we will be writing-off about $1.4 million in unamortized fees in Q3. Excluding these fees, we now expect interest expense to be $11.5 million to $12 million for the year.

While I'm on our capital structure, in June 4 we announced that we had tendered an offer to acquire all of the issued shares and warrants of Origio, a leading global in-vitro fertilization medical device company, for an enterprise value of approximately $189 million, including $151 million in equity, plus approximately $38 million of net debt.

As Bob mentioned, we are excited to strengthen our position in the IVF business. We anticipate we will close the deal in Q3 this year. This deal provides an excellent opportunity to expand our women's health care franchise, while using our significant offshore cash. If we were to repatriate the cash this would create a heavy tax burden, so this deal is very opportunistic. For more details on this tender offer see our 8-K filed on June 4.

Effective tax rate in Q2. The effective tax rate was 12.4% versus Q2 2011 GAAP of 11% and non-GAAP of 12.8%. As we've discussed 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. The year-over-year GAAP tax rate increase is mainly due to the Q2 2011 charge of $16.5 million for the loss and the repurchase of senior notes, which included a write-off of about $4.4 million of unamortized issuance costs and a redemption premium of $12.1 million.

From a model perspective a number of you were using a tax rate of approximately 11% versus the 12.4% we incurred in Q2. This would impact your EPS by roughly $0.02. We are holding our expected tax rate guidance at the 10% to 12%. Just an FYI, we do experience quarterly fluctuations, and the second quarter tends to be our highest quarterly rate.

Stock option comp for your models, Q2 was $4.7 million.

EPS, as Bob mentioned, in Q2 EPS was $1.12 versus $0.73 and $1.02 on a GAAP and a non-GAAP basis, respectively.

We were impacted by currency, especially with the euro softening by approximately 6%. And our year-over-year impact due to currency was about $0.07.

We also had some restructuring activity in Australia for CooperVision and Summit Doppler for Surgical of about $900,000 or $0.02. In Q2 we had an additional $1.2 million or $0.02 impact on what we consider operational costs directly related to the Avaira recall, which were split $400,000 as a reduction of revenue for customer concessions, and $800,000 to operating expenses, for things like reviewing and reloading fitting sets to ensure there were no lenses impacted by the recall still in the fitting sets.

We did not repurchase any stock during the quarter, as Bob had mentioned earlier. Liquidity, in Q2 we had cash provided by operations of $80.6 million, capital expenditures of $23.1 million, insurance recovery of $3.2 million, which resulted in $60.7 million of free cash flow.

Total debt decreased within the quarter by $91 million to $319.3 million. Debt as a percent of capitalization is now 14%, down from 17.3% in Q1 and down from 23% in Q2 2011. This leaves us with approximately $697 million of total credit available at April 30.

Inventories increased by $13.3 million from last quarter, with 6.9 months on hand, up from 6.1 months on hand in Q2 2011. Avaira Toric makes up a large portion of this increase, as well as our one-day product like Proclear 1 Day and our newly launched Proclear 1 Day Multifocal.

Looking at Accounts Receivable, AR continues to be closely monitored with DSOs at 53 days, down from 54 days last year. Our current DSOs in Europe, I thought was noteworthy, have actually improved over the prior year, but we are continuing to carefully watch our European DSOs in light of all the activity in Europe these days.

With that let me turn it over to Kim for the Q&A session.

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

Operator, we are ready to take some calls -- questions, sorry.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Jeff Johnson - *Robert W. Baird - Analyst*

Jeff Johnson, Robert W. Baird.

Jeff Johnson - *Robert W. Baird - Analyst*

Hey, Bob, just one question, I guess, in multi-parts, what qualifies as one question. But on the revenue side we have been hearing from a lot of our consumer companies, whether that is contact lenses or dental or what have you, that April looked somewhat slow. You're talking about the same thing. Is that all that is in the comments you made about April being slow and May picking back up, or was there anything specific to your business or the way your products are bought? And how sustainable then do you think the May pickup is? That is the first part.

And then Avaira, I think you had a very tough comp this quarter. If I remember last year, Avaira did extremely well in the fiscal Q1. Last quarter it sounds like Avaira was up year-over-year even after the recall. This quarter my guess is it is down year-over-year, but could you give us any color there?

And then why was Proclear down on a constant currency basis in the quarter? I am Just trying to understand that a little bit better. Thanks.

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

You got your money's worth there, Jeff. The softness on the market in April, you're right. We went through February and March feeling pretty good about things. Actually started off pretty good in April and then it just slowed. Typically you would expect a strong finish towards the end of a quarter, but it just didn't happen, it flatlined. The good news is when we did get into May it normalized. We had a very respectable May and felt good on a year-to-date basis.

And I might point out when you look at the fourth quarter -- first-quarter numbers and CLI data, our last page of the release, it was a very robust quarter for both the industry and for Cooper, 6% and 12%. So was that a sustained market growth? Probably not. So was April a little bit of a correction? Maybe. But nothing hard on that. The feedback you got seemed to be universal. There was a lot of softness for whatever reason towards -- throughout the April month as well.

As far as Avaira year-over-year, your memory is excellent. A year ago we were, of course, launching Avaira Toric, and so the Avaira product family was doing fine. This year it doesn't really have any of the benefits of a launch. Getting Avaira Toric back on the market is -- did not influence our topline. It, in fact, took a lot of energy.

Once we got the approval to relaunch Avaira Toric that meant a lot of time and energy went into putting together fitting sets, which you have to do with a Toric lens. It entails a lot of energy up front because it is an Rx product, and thousands and thousands of fitting sets have to be eventually put together, refreshed, and put back out into the marketplace over time. So the comp is that Avaira year-over-year did not grow, unlike the first quarter, it declined.

Proclear family was down. It was down as much as anything because we are pretty aggressively doing the trading-up to silicone hydrogel. Of course, a lot of Proclear is in the monthly category. And Biofinity continues to rule, so that is a factor. I would say that the Proclear 1 Day, which was really the catalyst of our growth within Proclear right now is -- continues to do very well. It was up 13% worldwide. And let me just check on the constant currency. I think it was up 15% in constant currency. So we are happy with that.

When we look at our portfolio you have the one-day, and that has got to be Proclear 1 Day. You have the two-week, and that is now going to be the Avaira family. You have Biofinity in the monthly. So it would not be unusual for even the Proclear family to get caught up in a market that is shifting out of hydrogels and an aggregate into silicone hydrogels. Next question.

Operator

Kim Gailun, JPMorgan.

Kim Gailun Well, hi there, thanks for taking the question. So first question is on currency. You talked through the impact in the quarter and then what your expectations are for the back half of the year. But hoping you could just talk a little bit more on that piece. By my math it looks like you guys are implying about a 70% drop through from that revenue line down to the EPS line from currency. So I am hoping you could talk through that, why that is so high, and maybe bring the yen in there too?

And then why at this point in the year don't we look -- didn't you look to narrow that EPS guidance range?

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

Good questions. Let me first try, and then I will ask Greg if he wants to add anything to it. On currency that model in the past we have always said -- look, when currency drops or increases 1% worldwide against the dollar, that means basically around $0.04 a year on a worldwide basis, assuming everything moves in parity. What didn't happen at all by far was parity.

And the euro, if you think of our model, if you wanted to build a better model you would think of about almost 30% of our revenue comes through in European currencies, ex the pound. And so when that moves against us as much as it now is, 13% year-over-year, then there is a huge hit there, unless it is offset by the pound going the same way.

In this case the pound didn't go the same way. And also keep in mind that what goes on with the pound happens on a six-month lag basis. So quite frankly the pound was very strong in the third quarter a year ago. That came in and it hit the first quarter. So when I talked about $0.04 -- a $0.04 foreign-exchange hit in the first quarter it didn't show up on the revenue line, it was -- that entire $0.04 showed up in cost of goods.

And then you move to the second quarter, and now we have the impact really of no meaningful benefit of the pound, but a meaningful hit of the euro. And since we are so weighted there you'll end up with a funky, if you will, ratio of bottom line to topline. But if we did that calculation in the first quarter it would be even more quirky, because there would have been no foreign exchange on the revenue line, it would have all showed up on cost of goods.

When you think of the model, if you try to develop a global model, the key things you really have to remember is we have about 30% of our revenue generated in euros. We have about 20% of it generated in yen, which is kind of a yawn, but it is going to be slight negative in the back half of this year. And it actually was a minimizer, it went the other way for us, minimizing the euro in the first quarter.

And then think about, about half of our cost is pound related, our cost of goods. And you know our gross margins are basically -- you could pretty much model how the world is moving if you think of pounds, euros and yen against the dollar. And you can get pretty close to the bottom line by doing that. Greg, I don't know if you want to add anything to that.

Greg Matz - *The Cooper Companies, Inc. - VP, CFO*

No, Bob, I think you nailed it. Basically with the way our structure is -- and Kim you picked up on it too -- that about 30% or so is in the OpEx side and the rest of it did flow down to the bottom in our current calculations. And the fact that was the way -- how stable the pound has been has basically left us very little impact in the first three quarters really our expectation of -- on the production side.

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

Next question.

Kim Gailun - *JPMorgan - Analyst*

My follow-up was just -- the follow-up was just on the guidance range, and the decision to hold the width of the guidance range.

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

Yes, the guidance range -- that is a good question. We actually debated do you narrow it or don't you narrow it. And I think given where things are in the marketplace, given the uncertainty of currencies -- granted our guidance is basically assuming constant currency where we are today, so we don't attempt to say it is going to go up or down from this point. It is where it is today. But there is a lot of volatility associated with what is going on the market right now and that is why we left it (inaudible). Next question.

Operator

Matthew O'Brien, William Blair.

Matthew O'Brien - *William Blair - Analyst*

Thanks for taking the question, and I apologize for the background noise. I just wanted to follow up a little bit on Kim's question in terms of the currency impact on guidance. I think you said that it should be another $0.30 impact for the second half of the year that was not contemplated in guidance following Q1.

So put another way, would your guidance have decreased by $0.30, excluding the impact of currency, or would the bottom end of the range likely have increased, excluding the act of currency?

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

Directionally, you're right that we are hurdling $0.33 in the back six months and already have hurtled $0.11. So we would have been upping guidance were it not for foreign exchange considerably, and we would have narrowed the range were it not for currency also.

Matthew O'Brien - *William Blair - Analyst*

Okay, great. Thank you.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Two things. One, can you comment on the WellPoint acquisition of 1-800 Contacts? And, two, how much have you incorporated in your revenue guidance from your recent acquisition?

And I am going to add a third one in there. What does the restructuring of your credit facility do to the EPS calculation? Thank you.

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

Okay. On the second one, let me do that one first. There is nothing in the -- in our guidance for the acquisition. In other words, we don't anticipate that acquisition. It is not a deal until the tender is effective. And now we know we have got 90% of the shares tendered that we will know a lot more by -- June 22 is the current initial date anyway.

On WellPoint, the best answer I can give you is we are scratching our head a little on the process. I think we are trying to better understand their entire motivation and plan going forward. But it came out -- it came from left field relative to most of the people in the industry. I think I'm starting to understand it a little, but not enough to want to comment very much on it. As far as I'm concerned, from our perspective we are not going to react one way or the other. It is just a shift of who owns and ties in with 1-800.

The third one on the impact of the refinancing, of course, I think Greg mentioned the $1.4 million write-off that we will take, which is $0.02 compared to our non-GAAP guidance. We have now given you the guidance for GAAP and non-GAAP, the difference is $0.02, which is what we are writing-off.

The benefits of that basically are -- and I'm going to defer to you maybe, Greg, on what we are saying about $700,000 or $800,000 maybe pick up on interest.

Greg Matz - *The Cooper Companies, Inc. - VP, CFO*

Yes, we would look at maybe it is roughly $0.01 over a 12-month period net in the first 12 months -- or in the first six months of the year is roughly $0.01. And other than that is really minimal -- it is kind of a minimal impact to the bottom line. It was really done for other reasons, again, increasing the limit, having a better pricing grid, and the opportunity to use that in the future, and it extends the range out for another, what, 18 months.

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

16 months. And by the way -- so what you have is the $0.01 going one way and the $0.02 going the other, so net a $0.01 GAAP hit. Next question.

Operator

Larry Keusch, Raymond James.

Larry Keusch - *Raymond James - Analyst*

Just let me touch on expenses, if I could. Obviously, the operating expenses, as Bob, you pointed out, and the investments have been elevated over the last several quarters. And I just wanted to explore two things as we think about it in the second half of the year.

First, I want to make sure that I understand when you're talking about the expenses in SG&A flattening out, are you talking about absolute dollars, are we talking about as a percentage of sales?

And as part of that, are you really just coming to the end of the planned spending period or is there some element in there, just given the uncertainty in the global markets that you're going to hold back on perhaps some discretionary items that you had in front of you, such as China?

And the other part of the expense question is just how should we think about expenses now associated with the Avaira Toric as we move forward through the second half of the year?

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

Yes, it is more that we will leverage, meaning our operating ratios will improve as opposed to flat dollars, because our revenue does typically pick up the last six months of the year by definition.

Did we slow up operating costs going forward or were we done spending? We have invested heavily over last two years in the expansion of feet on the street, in expansion of what we are doing in R&D. So I would say most of the reaction going forward is we arrived operationally, we have put the investment in.

There is a little bit that is a reaction to uncertainty in the economy, so I don't want to say none of it has to do with that, some of it does. So we are tightening our belt somewhat.

China, on that we are, I would say, spending this year less than we had hoped to. And that is a function of just prudent timing that we wanted to make sure we have the right people on board. And I believe we had an announcement yesterday in the press on -- the trade press -- on the fact that we have now filled the key positions in Asia-Pac and in China, which certainly will facilitate our way forward. Meaning the country manager of China just recently came aboard in May, and we made that announcement to the trade press.

As far as the impact of Avaira going forward, yes, we will be investing behind to the Avaira relaunch -- the Avaira Toric relaunch. Certainly with fitting sets which are put out there and then they are amortized over a three-year period going forward. But that is a Herculean effort when it comes to Toric rolled out on a global basis. So there is a lot of work and it will take a long time to get to the endpoint.

We will be doing an Avaira Toric rollout not for weeks, not for months, but literally around the world beyond, well beyond one or two years. It is a big investment with a lot of energy.

Larry Keusch - *Raymond James - Analyst*

Okay, thank you.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research - Analyst*

Thanks for taking my call. My one question was really just on product. I was wondering if you could give an update on those one-day silicone hydrogels you're working on, kind of where that stands and the progress we're making?

And then, Bob, your comments just now on the Avaira Toric rollout, given that it will take a while, does that mean we're not going to see probably a meaningful impact to revenue from the Avaira Toric? I am just wondering how you expect the Avaira Toric revenue to come into the Company?

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

No, I think I am just putting it in the context of a lot rollouts. Very few rollouts go global all at once. As a matter of fact, I am not aware of any really in the context, and particularly on a Toric where you have complex number of SKUs.

So nothing unusual about that. It is just a high-energy effort. We are still a long way from rolling out Biofinity Toric, and we have started last June. But I would say nowhere close. We haven't even gotten to China -- Japan rather with the product yet.

As far as the single-use silicone, it is -- of course, we are still of the mindset, and the more that happens in the marketplace the more compelling is the case -- single-use silicone right now is a niche product. It will stay a niche product as long as everyone has a cost structure that precludes it from being a mainstream product.

It is priced out of most people's capability of buying it, whether it is the two other ones that are in the market in Europe, now that CIBA is launching it in some target markets in Europe. But we are, as much as anything, rolling this product out as a learning curve and getting it right and to make sure we are in with the evolution of this.

How far and how long it will take, I think, we are talking many, mega years -- mega is a poor term -- three, four, five years before single-use silicone hydrogel lenses have a chance of becoming mainstream.

And now you have people like B&L actually taking things in a different direction, which is to say challenging the model of why do you need a silicone hydrogel at all. And we don't care who wins that argument on -- if it is silicone hydrogel or hydrogels, we still like the Proclear material. And we are pretty versatile in terms of the way we respond to the market. Next question.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo - Analyst*

Thanks for taking the question. On FX, I'm trying to understand the topline FX hit to each quarter in Q3 and Q4, because by my math the second-half guidance reported is about 2% to 8%. And by my math FX is about a 4% hit each quarter, which is -- implied constant currency guidance of 6% to 12% for the second-half. So can you give us the FX topline hit to the third quarter and fourth quarter?

And, secondly, the $0.19 to $0.14 you talked about hit from FX, that is not since the Q1 call. I think that is for full year 2012. Can you just confirm that? I was just a little bit confused on that.

And then just lastly, I guess, another hot topic is the CIBA royalty. And can you disclose if you have had any conversations with CIBA about buying out the royalty, and maybe from your perspective the pros and cons of buying it out? Thanks.

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

I will do -- deal with the latter two of those first. The $0.19 and the $0.14 is basically a comparison this year to last year. So exchange rates where they are today against last year, assuming exchange rates stay the same. And so, yes, it is not relative to anything in the first quarter. It is relative to year-over-year comps.

The CIBA royalty, are we in discussions? We certainly wouldn't go down that path in terms of any discussions if there were any. It would be on a confidential basis and we wouldn't really discuss them publicly.

So the only signal we have given time and time again is on the royalty, assume we pay it out through the end of the patent period, and nothing more, nothing else. If they were discussions to had on a buyout, it takes a willing buyer and a willing seller and a number that made sense would be totally hypothetical. And your what-if is no different than my what-if would be on something like that.

I wouldn't encourage a lot of conjecture in that area because it is certainly beyond anyone's control in this area. As far as topline impact of foreign exchange, Greg, you have those numbers?

Greg Matz - *The Cooper Companies, Inc. - VP, CFO*

Yes, from a Q3 perspective we were looking at about a $14 million impact, in Q4 about almost $12 million impact.

Larry Biegelsen - *Wells Fargo - Analyst*

Thanks guys.

Operator

Amit Bhalla, Citi.

Amit Bhalla - *Citi - Analyst*

I just wanted to clarify one of the earlier questions on the single-use lens and timing. I think that previously you have talked about your new single-use lens being in the market by the end of fiscal 2012. It sounds like that is no longer the case.

And, secondly, can you just give us an update on where you stand with the FDA on your US distribution facility and whether or not there is any indication of the FDA going to the UK facility? Thanks.

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

Okay, on the silicone -- single-use silicone hydrogel, I didn't -- if I somehow implied there is a change in signal, there isn't. We are still intent on launching it out -- launching it -- we haven't identified where -- by the end of the fiscal year.

As far as the FDA and with Henrietta, we are -- I would say we are making progress with them. And we would expect by the end of this month to still be on target for attempting to move the ball forward of removal of the warning letter. So we have made good progress with them.

The FDA has not given any indication to us that they are coming into the UK in any planned manner. We still expect they will arrive someday, but nothing new to report on FDA activity in the UK.

Amit Bhalla - *Citi - Analyst*

Okay, thank you.

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

I think this includes our time for questions. I want to thank everyone for joining the call today. And we will look forward to giving you an update on a number of matters in our third-quarter release. Thank you. Operator.

Operator

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