THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COO - Cooper Companies Inc at Wells Fargo Healthcare Conference

EVENT DATE/TIME: SEPTEMBER 10, 2015 / 1:10PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Albert White *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

CONFERENCE CALL PARTICIPANTS

Larry Biegelsen *Wells Fargo Securities, LLC - Analyst*

PRESENTATION

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

This is Wells Fargo and it's my pleasure to introduce, this morning, The Cooper Companies. With us we have Al White, the Vice President, Chief Strategy Officer, and I think, now, Head of CooperSurgical.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Correct.

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

So, Al, thanks for being with us.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes, absolutely.

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

In terms of format, it's going to be a fireside chat and we may try some audience participation questions as well, something new we're trying this year.

QUESTIONS AND ANSWERS

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

So, Al, I just want to take a step back and look at the EPS guidance this year. Sales guidance has come down by about $100 million at the midpoint, or over 5%. Pro forma growth has come down from about 9% to 6%. And, despite that, EPS guidance has remained pretty consistent at the midpoint. On the Q3 call, I think it was last week, you lowered CooperVision guidance by $20 million at the midpoint and still kept the EPS guidance the same at the midpoint. So, the question is; how have you been able to accomplish that?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes. Well, the revenue side is a little frustrating, obviously. I mean half of that, or so, is currency so there's not much we can do about that. And we've kind of talked through a couple of the items on the revenue. I'm happy to go into any of that in more detail. As that rolls through the P&L and gets down to the EPS perspective, we have been able to hold that, obviously do a pretty good job delivering bottom line results.

A lot of that comes from the Sauflon acquisition we did last year. So, I think people, in general, were expecting synergies from that, maybe not as significant as they have been. We've done a nice job integrating that business quickly and getting a lot of those synergies out of that. So, I would certainly attribute that acquisition as the majority of the reason that we've been able to, from an earnings perspective, execute.

I mean a little bit of your natural stuff, right? A little bit of like belt-tightening and some of that kind of stuff, as you see the moves in currency and so forth flowing through, but a significant portion of it being the fact that that turned out to be a really strong acquisition for us from an accretion standpoint, EPS accretion standpoint.

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

Okay. I wanted to move to the philosophy of issuing guidance. And the reason is I went back and looked. You guys have missed consensus sales six quarters in a row in CooperVision. You've taken sales guidance down the last five quarters. And, to be fair, as you said, some of that was FX, but the underlying sales guidance has also come down. So, I guess the question is; what is going on with the guidance? Why have you guys had a hard time kind of forecasting?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes. So, as you said, you know, currency is half or more than half of it. The remaining portion is a couple different push and pulls in the marketplace. Some of that I would attribute to us and what's happening within our business and some of that I would attribute to kind of the marketplace in general.

If you step back and look at it, you have to keep in mind, look at last calendar quarter, for instance, in the Americas. We grew 8% in a market that grew 1%. Globally, we grew 9% in a market that grew 4%. And if you look on a trailing basis we grew 8% in a market that grew 3% trailing 12 months. So, from that perspective, it's been pretty strong growth for us and we've been taking a lot of market share.

With respect to as-reported numbers and how strong that is versus what some of our guidance was, I mean obviously hindsight is 20-20, you would prefer to have guided lower on that perspective. And if we would have done it correctly, if you will, revenue guidance would have been lighter, margin guidance would have been higher, and also then EPS would have been essentially the same as where it's at.

So, at the end of the day, I'm not going to necessarily apologize for the guidance we gave. We were pretty optimistic about that and thought we were going to hit it. We did have a couple things from the acquisition. If you look through the Sauflon acquisition, as much success as we've had with that, we expected clariti. The solutions business has been running softer than we anticipated. This past quarter wasn't as bad, but we did have several quarters where it was down roughly 8%, in that kind of range.

And then, some of those legacy products that they have, in terms of traditional hydrogel products, especially like their traditional daily hydrogel products that overlapped ours and some of those types of products, were softer than we would have anticipated. When you look at the market and kind of split the market up you're seeing that activity on those old traditional hydrogel products, whether they're ours or theirs or I'm sure anybody else in the industry, and acquiring them and rolling them into our portfolio; that happened faster than probably we would have anticipated.

So, a few different things there, but nothing too shocking. And then, I think, from a market perspective, there are some dynamics there with respect to UPP, some channel issues, and so forth that factor into that.

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

So, let's look forward. Last week, you guided to fiscal Q4 CooperVision sales of $385 million to $400 million, which would be flat to up 4% sequentially, from $386 million in Q3. In fiscal 2013 and fiscal 2014, both on a pro forma and standalone basis, CooperVision sales went down sequentially from Q3 to Q4. Looking at it another way, CooperVision grew 6% pro forma in the second quarter and 7% pro forma in the third quarter of this year and the guidance for Q4 is 9% to 13%; so, an acceleration.

So, basically, what I'm saying is you're forecasting kind of flat to up sequentially and an acceleration in the growth whereas last year, actually, it was down sequentially from Q3 to Q4. So, the question is; what gives you confidence that the fiscal Q4 sales will grow quarter over quarter this year and accelerate on a year-over-year basis?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

That's beefy question.

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

Well, I mean given that you guys have missed consensus the last six quarters in a row and taken down guidance the last five quarters in a row and you're forecasting, again, an acceleration, why should we believe the guidance this time?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

That's fair. If you go back over the last couple years, one of the things we had happen, and we talked about it on a few of these fourth quarters, was distribution center consolidation and the resulting inventory reduction. And what that really links to is, in the U.S. market certainly, we have a decent percentage of our sales, our business, go through distributors. Those distributors, we had, I think it was the top three of them ended up consolidating over a couple-year period. As they consolidated, put their warehouse together, took their inventory levels lower, we've talked about this before where they're down towards contractual minimums in terms of their inventory level. That stuff has been done. It's behind us. So that impact is the last couple of Q4s. We don't have that impact this year.

The other side of that is the launch of clariti, the launch of MyDay. So those products, although, yes, they were out there last year in Europe to some degree, those products are obviously out there and better available in Europe and they're also brand-new product launches here in the Americas. So, when you combine that, that gives us comfort that we're going to be able to put up some pretty decent growth here as we exit this year. And there's no reason it shouldn't continue into next year.

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

And on the Q3 call, you mentioned that Q4 was also a good start in August. That's the first month of fiscal Q4. So, given that you've made that commentary, could one assume that at least August was within the range of 9% to 13%? Is that a fair assumption?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Well, I won't give that detail, but obviously we had the numbers. We took that into consideration when we gave the guidance. Yes.

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

Okay. But one would imagine that was an encouraging data point. And then fiscal Q4 guidance is by silicone hydrogel, daily disposable sales, clariti and MyDay, of $52 million to $57 million, which is up from $39 million in fiscal Q3 and $32 million in fiscal Q2. So, what drives the sequential increase in silicone hydrogels, daily disposable sales, in fiscal Q4?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

You have two pieces to that. You have the European market, which is a good market and continues to grow. So, in our presence there, be it MyDay or be it clariti, is doing very well and we're continuing to see growth over there. So, that's clearly going to be a driver of that.

The other piece of that that drives that is the launch of the products in the Americas. At the end of the day, clariti came in. We did stub our toe a little bit there back in kind of March, April timeframe. You'll remember we replaced the Head of the Americas in May, put a new person in charge. That launch is going very well right now so we have a lot of positive momentum there. That's going to continue drive clariti.

MyDay has come in a little bit later in the game, but MyDay is obviously here. It's being received well. I think you, Larry, had done some survey work on that so you can see some of the feedback and so forth on MyDay. It's much earlier in terms of the launch perspective, but it's also going to add, clearly add growth to this quarter.

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

And stocking; when you originally had the $175 million guidance with silicone hydrogels, which you took down to $150 million to $155 million, a component of the $175 million was stocking. And I don't know if you've been explicit about it, but people seem to feel it's somewhere in the $10 million range. How much stocking is now implied in the $150 million to $155 million guidance?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Basically, none.

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

No stocking. Why would there be none?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Well, because there hasn't been any. So you look at it and you would say a couple different things on that. You look at a product like that you would make an assumption that we're launching clearly what I would say is a superior product in that space to the existing products at the same price point. So, naturally, you're going to assume that there's going to be some pipeline fill there.

Historically, if you looked at product launches like that, what you would often have is you'd have retailers; you could have a Walmart or Costco or a number of other retailers come in a buy that product. They might come to us and say, "Hey, I want to buy a bunch of that product, that bulk. I'd like a discount price from you guys. I'm going to turn around and I'm going to get aggressive on the sell-through of that. I'm going to sell that more aggressive from a pricing perspective," and have that product be successful. It's a win-win, obviously, kind of scenario. With UPP you don't get that as much. You don't have retailers having the ability to go out and get more aggressive on price because you have that set floor.

From a pricing perspective, for us internally, well, we used to have more of that. As a matter of fact, we had a number of people who would come to us, especially at quarter end, and push and say, "Hey, we'll buy a bunch of product from you. Give us a discount." We've backed off on a lot of that kind of stuff. We really don't do that much at all anymore, as a matter of fact.

So, you look at that and say; okay, that's what should have happened and that's where you would get a much normal ramp. Now, we knew that because UPP has been in place for a little while. Having said that, when you launch a product like clariti and it's as successful as it is from an on-eye perspective you expect more inventory to be out there, more people to have it, rather than a greater reliance on drop shipments and so forth.

So, that's lighter. I don't think we should anticipate that going forward. We probably shouldn't have, at the end of the day, anticipated any of that in that initial guidance. We put the $175 million out there. From the time we put the $175 million out there to today, currency has negatively impacted that number probably $15 million. It's somewhere in that range. And then, you get some of the channel and so forth in addition to that.

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

Alright. Let's go to the first audience response question. So Cooper silicone hydrogel daily lenses, clariti and MyDay, sales of them were $27 million in Q1, $32 million in Q2, $39 million in Q3, and the guidance of $150 million to $155 million implies Q4 sales, as I said, of $52 million to $57 million. Let's see what the audience thinks of the silicone hydrogel daily disposable guidance.

So, Q4 is people expect sales to be between $52 million and $57 million, which is the guidance, below, I'm sorry, between, or above? So, take a minute and just answer the question if you don't mind. Everyone should have the little audience response cards.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

I've never seen this before. Live feedback. Below, wow.

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

63%, two-thirds of the audience expect you to miss the guidance.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

That's why our stock is at $150.

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

You know, one thing you were saying about the stocking, the change, having stocking versus no stocking, are those factors -- there were none of those factors that changed from Q2 to Q3. So is stocking upside here, that you're just being conservative on stocking?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Stocking is upside. If that happens that would be upside, yes.

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

Okay.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes. I mean this is to say; so when I look at the $52 million to $57 million, to me that's a matter of growth that we're seeing in the marketplace from an on-eye perspective and the success of that product from that perspective. So, it's similar to -- you've seen the kind of growth from Q1, Q2, Q3, products out in the marketplace, fitting sets are in the marketplace here. The sell-through of that product is now very focused on selling versus a salesperson doing administrative work, putting a fitting set and so forth. So, to me, I think $52 million to $57 million is a very legitimate number.

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

Alright. So, let's transition to the contact lens market, because I thought it's really been a hot topic. So, the market has historically grown 4% to 6%, but the market seems to have slowed in the first half of 2015, calendar year basis, mainly due to the U.S. or the Americas. So on a trailing 12-month basis, the market grew 3% in Q1 and Q2 and the Americas slowed to 1% in Q2. So, what's going on in the market and what is the outlook for the second half of 2015 on a calendar year basis?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

From a market perspective, we should certainly see the market improve. I think it's a little misleading right now is part of the problem. And, from talking to people, I think there's a little bit of concern out there that; hey, the market is softer. So, if Cooper -- we did 8% and the market did 1%, that Cooper's growth has to come down because it's coming down to where the market is.

I don't believe that's the case because that 1%, in my mind, is misleading. I mean Alcon made a comment on their last call and I believe them and I think they're spot-on based on what we've seen about some channel inventory now. We're not experiencing that. We experienced that a couple years ago with the distributors. So we're not seeing that in our numbers, but I do believe they're seeing it in their numbers. And I do believe J&J is also seeing that in their numbers.

So when we look at the GFK data, and you're talking about fit data and patient traffic and so forth and the fact that people are getting fitted in dailies and that's an upsell from a manufacturer sales perspective, that look-through growth is much more along that 5% kind of number than it is the 1% number. So, all those factors are there. All those factors are positive. I think you're going to see the market go back.

Now, if the market goes to 5% what would have happened to our 8%, as an example? That doesn't do an equivalent move to 12% or something like that, right? The 1% goes to 5%; maybe 8% would have been 9%, something like that.

So, at the end of the day, I think I'd be really surprised if J&J doesn't put up better numbers. I mean they've had multiple quarters here of pretty weak numbers. To me, a lot of that is tied to inventory contraction on the retail side. That would be my best guess on that. I think they annualize that to the point where this quarter will be a better quarter. They're 40% of the market or somewhere around there so when they're putting up negative numbers that's obviously a pretty significant drag on the entire market.

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

Yes, I would agree. But you cited the sluggish U.S. contact lens market as a reason for the lower silicone hydrogel daily disposable sales ramp on the Q3 call. And, as I said, you reduced the midpoint by $20 million. Is that all due to sluggishness in the U.S. market? I mean it does seem -- you mentioned survey work. I don't think we're the only ones that have done a survey on this. It does seem that there may be lower market acceptance of your new products than you expected. Is that fair?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

I would argue against that. I appreciate the work and the questions and I definitely think they're fair. And they're clariti-based because you haven't seen that on MyDay so no comments on MyDay. But the survey work that I've seen on that has been two-fold.

One is it's been a comparison of clariti to MyDay and DAILIES TOTAL1, the two premium daily silicone hydrogel lenses out there. And to come back and say, "Hey, from a comfort perspective," or however else you want to look at it, "clariti is not as good as lens as those," then I would say; well, that's fair, right? You should expect that. There's a pretty significant price point between those. Those two lenses sell as premium lenses and one of them sells as a mass market lens. So that makes sense that there is going to be a difference and people are going to view those differently.

When you look at it from a perspective of a conversion -- if we go back in time, silicone hydrogels came into the two-week and the monthly market 10 years ago, really in 2005. So you have 10 years of J&J, Alcon, us, Bausch; everybody pushing everybody to silicones and all the positive attributes of silicone with oxygen permeability and so forth. And after all that time, 77% of that market is silicone. That just tells you one in four, one in five people haven't moved.

Well, why haven't they moved? Price could be a little bit of it. The other thing is I don't care if you're going J&J to J&J or Alcon to Alcon; you switch from a traditional hydrogel lens to a silicone hydrogel, some people don't like it. The lens is stiffer. You don't see that on new fits. New fits are all coming in and they're all silicone on new fits. But when you're getting a conversion of somebody from that hydrogel you should expect, based on our own history of 10 years in the marketplace, that one out of four or one out of five people are going to say, "Hey, I don't like it. From a comfort perspective, this is not as comfortable as the traditional hydrogel I used to wear."

So, when you do survey work and you come back and you say, "Oh, I'm getting feedback that some people don't like clariti because of a comfort issue," well, you should expect that. You should frankly expect, since a lot of that conversion is coming from moist, that one out of four people, or something like that, is going to say, "Hey, from a comfort perspective, I don't like it." So that doesn't surprise me. So that survey work and the stuff people have done is not surprising.

Now, maybe it's unexpected and I can appreciate that. And I think that's probably true because I think there's some investors and people out there who say, "Well, wait a minute. You're telling me one in four people don't like this from a comfort perspective." I can appreciate that seems like a big number and so forth. But you look at it over time and the rest of the industry and that would be spot-on to what you would expect.

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

Well, on the other hand, you mentioned earlier our survey work and anecdotal feedback recently on MyDay has been extremely positive. But you've talked about the split between clariti and MyDay being 75-25. So the question is -- well, I assume that's consistent with the feedback that you've gotten, positive on MyDay. But, what's the outlook for MyDay from a production capacity standpoint? If demand is really strong for MyDay when are you going to be able to meet that demand?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes. And keep in mind there's a price difference there, right? So a survey goes out and says, "Do you like your 6 series better than you like your 3 series?" Well, everybody likes the 6 series better. That doesn't mean that's what people buy. They buy the 3 series because there's a big price difference between the two of them. So, keep that in mind. I mean survey work is pretty generic. It excludes prices on that and just, "What do you like better?"

To go to MyDay production, ramp-up of that is going well. As we've mentioned, there's a difference between the ramp-up of a product like that where it's a high-quality product. It's a more challenging manufacturing process, or the development of it was more challenging, so it takes longer to get those lines done. But we do have another line coming on now. We have a couple more lines coming on. From a capacity standpoint, we're going to be in pretty decent shape as we enter 2016.

I hope we're capacity-constrained because I hope that we get into Japan. That's a great market. That's a high-price, single-use market. That is an excellent, excellent market for MyDay. We should be very successful there. So my hope is that we get that regulatory approval, we receive it, hopefully, sometime early calendar 2016, and we can get that product into Japan and sell that through and get a lot of demand out of that. So, we'll see how that plays out. But we should be in decent shape, at least, for MyDay.

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

I agree Japan is important. I think it's the biggest single-use market in the world. You've mentioned possibly early calendar year 2016. You haven't been very specific about the timing in 2016. Do you have any visibility on kind of the regulatory path and where that is and anything that gives you confidence as to be early calendar 2016 as opposed to late calendar 2016?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes. But having said that, it's a regulatory approval. You know on any regulatory approval that you want to be really, really careful assuming when you're going to receive approval. Japan is one of those markets, there's a few other ones out there, that are very difficult from a regulatory perspective. It can take two, three years to regulatory approval.

I mean, based on history and based on regulatory processes and so forth, I pretty strongly believe we're going to get it in 2016. The question would be when. So, as I was saying, I'm hopeful that we get it in the beginning of the year so we can get the product in there quickly.

I mean that's market that, if you look at daily silicone hydrogels, TruEye is still there and TruEye does well there. TruEye has lost its market share in Europe. It's lost its market share in the Americas. clariti has taken that. MyDay, DAILIES1 has taken that. The competitive products are better-priced for better-quality products, arguably. And I believe that will happen in Japan. But you still have, I don't know, TruEye is probably a couple hundred million dollar product in Japan.

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

That could be one of the biggest catalysts for you in 2016 if it came early.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

It would be a nice catalyst. That's for sure, yes.

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

The other catalyst for you is Luxottica and the private label MyDay there with their brand called LoveEyes (ph). Where is that product in terms of the launch, LoveEyes, and what does Luxottica -- where are they in launching that right now?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

It's still early. So that's pretty early in the process, as a matter of fact. I think if you went out and checked right now you'd say it's in the first inning, if you will, on that. So, yes, Luxottica -- we private label. You'll see that with, in the daily silicone hydrogel space certainly, we private label. Our competitors don't private label. That's the kind of deal that we like to do.

A Luxottica, through their channel, liked that idea because they prescribe a lot of lenses and they don't fulfill all those lenses. The data is not perfect and my numbers could be off a little bit, but it's somewhere around the line here in the U.S. market where they're writing scripts on 12%, 13% of the lenses out there, but they're fulfilling 6%. They're fulfilling half of that, which is telling you they're writing the script and half the patients are walking out the door and buying that product somewhere else. If they can be successful with a product like MyDay, a private label product like MyDay, through their channel they're going to keep those sales themselves.

So, we're optimistic that that's going to be successful. We like those kind of deals. From a profitability standpoint, we don't look at private label like you would look at it at a grocery store where it's the cheap product. We look at it and say, "Hey, we'll do a private label product and sell it to you, but we're looking for the same kind of operating margin on those products." So, we'll see. I mean I think that presents upside and there's a lot of optimism, but it's cautious optimism.

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

So I wanted to ask about 2016 and the guidance. You gave, on the Q3 call, for low- to mid-teens EPS growth. And, this year, if we look at it the pro forma constant currency growth was about 6%, I think, at the midpoint. And, on a constant currency basis, EPS growth is 27% to 29%, which you said on the Q3 call, because FX has been $1.76 hit. And you got about $0.20 benefit, I estimate, from a lower tax rate this year. So, assuming -- you know, you grew probably, EPS growth, let's just say, 25% on 6% top-line growth. So the question is; to hit that low- to mid-teens EPS growth next year what kind of top-line growth do you need?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Well, we intentionally did not give any guidance. As you know, historically we'll give some more detailed guidance on our September call for the next fiscal year. Mostly because of currency, arguably all because of currency, we didn't get into those kind of details. I mean the last thing we want to do is give some guidance today and then fast forward to December and the euro is at $1.03 and, quote-unquote, we're taking those numbers down.

The way we ended up doing that was looking at it and saying, "Okay, if we kind of sensitize that and we look at a range of top-line growth, and obviously if you move a little bit towards the bottom end of that range, can we still put up low- to mid-teens EPS growth?" And when we sensitized that and looked at the different variables we felt we could. So that's where we came back and said, "Okay, we're comfortable with that low- to mid-teens."

Can we do better than that? Sure. I mean revenues come in better and things go better, we can do better than that. There is some risk there. There is flipside to that, right? Because there's plusses and minuses. We carry $1.3 billion of debt right now. It's all variable. Interest rates could move up. That's obviously going to hurt us a little bit. You mentioned the tax rate. I think our tax rate is sound and there's no issues with that, but there's always noise around taxes and so forth.

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

Yes. I mean I guess the point was that with mid-single-digit growth this year you've been able to grow EPS about 25% constant currency. Assuming currency is neutral next year, I know it won't be, that low- to mid-teens growth doesn't seem like you need huge top-line growth to achieve that based on what you've done this year. And you have the Ciba royalty expiring in March of 2016 outside the U.S. I know you haven't quantified that, but is that something we would see a bump in the gross margin on?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes. As you said, we can't quantify that, but that's a patent that expires in March. Whether you can see it or not will depend highly upon a number of variables. Currency is one of those and a few other factors, definitely, obviously influence gross margin. But that happens. You're right; that's a positive.

But at the same time, I'd say let's not get ahead of ourselves. I mean for us to put up low- to mid-teens EPS growth in a year post- the integration year, it's pretty decent EPS growth. So, nothing to feel bad about coming out and saying; hey, we're going to do low- to mid-teens.

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

No, I wasn't insinuating it was something to feel bad about. I just think that you probably don't need -- you could probably get there with maybe mid- to high-single-digit top-line growth.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

I would agree with that.

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

I mean when we think about the gross margin over the next one to two years, what are some of the headwinds and tailwinds we should think about. Clariti, you've been making commentary over the last couple calls about how the gross margin was trending, about 50%, accretive to the gross margin exiting next year. You have the Ciba royalty going off. Should we think about the gross margin as being flat or could it actually improve over the next year or two?

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

There are a number of factors clearly pushing the gross margin higher; royalty runoff, margin improvements in clariti, continuing growth in Biofinity, which is a very high gross margin product. So, a number of factors pushing it higher, fundamentals that are higher. If you excluded currency this year our gross margin would have been 66%.

The flipside of that is before we bought Sauflon -- there's a couple factors that can go against that. Before we bought Sauflon, as an example, we were expanding Puerto Rico, expanding UK, putting up a new manufacturing facility in Costa Rica, putting up a manufacturing facility in the UK; all stuff we need to do. We buy Sauflon; we get their Budapest manufacturing facility, better platform from a single-use perspective. We don't need all that space that we have. We're going to make some decisions on that and how we integrate all that manufacturing and all the equipment and so forth we have here.

From a fiscal 2016 perspective, those decisions, from a cost of goods accounting perspective, will work their way through. We'll exclude those, but we're not going to get to the point here; we're not going to be a company who is excluding everything and every year in 2017 and 2018 we're always excluding something. That's not the intent. So, we are going to have to hurdle some of that pressure on gross margins, if you will, from excess capacity or, certainly, excess space.

And the decision, I believe, is certainly going to be to keep that and grow into that. So that helps us, obviously, as we produce more product in that space and so forth over time and you leverage that kind of infrastructure. But that would be a kind of example of something we have to hurdle a little bit.

I don't want to get pinpointed, because of currency and everything else, but if I looked at it on a pro forma basis to say gross margins next year are flat, I don't know why they wouldn't be flat to, hopefully, up a little bit.

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

Perfect. We're out of time. Thanks for coming to the conference.

Albert White - *The Cooper Companies, Inc. - SVP & Chief Strategy Officer*

Yes, absolutely.

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

Thanks very much.