FINAL TRANSCRIPT

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COO - Q2 2011 The Cooper Companies Inc Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second-quarter 2011 The Cooper Companies earnings conference call. My name is Keisha, and I will be your operator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to hand the conference over to Ms. Kim Duncan, Director of Investor Relations. Please proceed.

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

Good afternoon, and welcome to The Cooper Companies second-quarter 2011 earnings conference call.

I'm 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, Vice President, Investor Relations and Treasurer.

Before we get started, I'd like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including all revenue and earnings per share guidance and of 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 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 for the call. Bob will begin by providing highlights on the quarter, followed by Gene 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 at CooperCos.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'll turn the call over to Bob for his opening remarks.

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

Thank you, Kim. Good afternoon and evening to everyone.

Once again, another great quarter. We continued the momentum we established in 2010. For the second fiscal quarter, we had outstanding double-digit topline growth of 12%, 8% in constant currency, delivering $325 million in revenue with a 62% gross profit percent.

We achieved non-GAAP earnings per share of $1.02, up 67% versus the second quarter non-GAAP of the prior year. GAAP EPS was $0.73 and was up $0.63 from last year's $0.10. In spite of building silicone hydrogel inventory ahead of two very important third-quarter launches, our free cash flow was $42 million, hurdling $10 million of inventory build and $12 million of pre-payment penalty for taking out the senior notes, as well as $23 million that was put into CapEx.

As we previously mentioned, early in the second quarter we refinanced $1 billion of credit, a $750 million revolver and a $250 million term loan facility. We also recently closed several smaller acquisitions in CooperSurgical, as well as ongoing geographic expansion in CooperVision in the Czech Republic and Slovakia.

Key takeaways for today's call - We finished another terrific quarter. We have now built inventory for two important launches, the launch of Biofinity Multifocal into the U.S. market which will happen at the American Optometric Association trade show in Utah in June. The launch of Biofinity into Japan, a $400 million silicone hydrogel market, is also targeted for June release.

Our $42 million of free cash flow remains solid, hurdling the pre-launch inventory build of Biofinity Multifocal and for Japan, the $23 million of CapEx, as well as the $12 million we've spent on the prepayment penalty for taking out the senior notes.

We have aggressively expanded capacity of silicone hydrogel for Biofinity, Sphere, Multifocal, Toric, and for the Proclear 1 Day family. Our refinancing and free cash flow has put us in great shape. Interest expense is less than one-half of the prior-year amount.

Our balance sheet is strong. Debt to total cap is down to 23% versus 26% at the end of last quarter and versus 40% a little over two years ago. Our results have been solid, and we're ready for some important launches.

Importantly, we've also beefed up our direct presence out there, including geographic expansion and feet on the street.

Our silicone hydrogel family, Biofinity and Avaira, is driving growth. During the second quarter, the family achieved $80.5 million in revenue. That's a 45% constant currency increase versus the prior year's second quarter, and now accounts for 29% of CooperVision's revenue.

Biofinity Toric continues to sponsor Biofinity's growth. Importantly, Avaira, our two-week entree, did well also. Its growth rate was 54% above the prior-year second quarter. It's now started to exhibit the effects of Toric sponsorship. While still a small base, it's gaining momentum.

The two-week space remains the biggest U.S. space that we compete in. The promoters in the two-week space are primarily J&J and ourselves, or VISTAKON and ourselves.

The real excitement is later this month. After building inventories for six months, we will launch Biofinity Multifocal on June 20 at the AOA in Utah. Concurrently in June, we will launch Biofinity in Japan. Silicone hydrogel in Japan is the fastest growth area of that market. Silicone hydrogel in Japan accounts for $400 million annualized. They are growing at a rate of around 20%.

Meanwhile, the global multi market is $300 million. The market has grown 14% in the past 12 months. Silicone hydrogel and multifocals are about one-half of that market, or $150 million, and growing at around 36% the last quarter. We are very excited about our silicone hydrogel prospects, and capacity continues to ramp up very nicely.

Geographically, foreign exchange played a positive role on a global scale. We had respective growth in each region. Americas was up 6% and 6% in constant currency. Europe, up 12%, 5% in constant currency. Asia-Pac, up 34%, 19% in constant currency, and overall, a 14% increase in our revenue, up 8% in constant currency.

The constant currency regional drivers were, in the Americas, trading up to silicone hydrogel, bouncing back in Toric with Biofinity Toric and Avaira Toric, plus one-day trade up with Proclear 1 Day. And Europe continues to develop silicone hydrogel family, including the sponsorship in the Toric space. In Asia-Pac, growth was mainly acquisition-related and, to a lesser extent, the one-day, which is the Proclear 1 Day, which was up 53%.

The soft contact lens market is trending at about 5% constant currency growth, whether you look at it on a one-quarter basis, a calendar-year basis, or in fact, which is the best way to look at it, the trailing 12-month basis.

The market was up 5%, and CooperVision was up 4% in the first calendar quarter. Our momentary flatness in this market reflects our redirecting Biofinity production to inventory build for the third-quarter launches of Biofinity Multifocal in the U.S. and Biofinity Spheres and Torics for the Japanese launch. Both are targeted for June, as I mentioned.

We tend to look at the market more so on a trailing 12-month basis. Here, we were up 8% and the market up 5%. Back to the market for the first quarter of the year. The market was up 5% for the quarter with 1 Days up 10%, Torics up 7%, and silicone hydrogels up 14%.

Regionally in constant currency, the Americas turned in 3%, but on a trailing 12-month basis was up 10%, with 1 Day and silicon hydrogel sponsoring most of the growth. Europe was up 7%, sponsored by the strength of Toric's Multifocals and silicone hydrogel material.

In Asia, it's starting to show some life. It was up 6% in constant currency for the quarter. Consistent with the recent trends of the silicone hydrogel space, it was up 20% or more in Japan and now is a $400 million market there. We continue to focus on growing faster than the market and we believe we will continue to gain share, driven by our new product launches.

CooperSurgical, our women's healthcare franchise, continues to do well. It was up 6% overall, 5% excluding the effects of acquisitions. Drivers continue to be the surgical procedures, hospital and same-day surgery, where revenue increased 16% and now accounts for 36% of our overall surgical business. Fertility also put up solid numbers, up 11%.

Importantly, CooperSurgical continues to impress with 65% gross margin percentages and operating margins of 24%, multiple call points for the salesforce, a strong centralized campus in Trumbull, Connecticut, and a $200 million annualized franchise surrounding the OB/GYN profession. This business is very leverageable.

In April, we added another small product line with the acquisition of Apple Medical. Apple Medical's main product line is primarily called the OB/Mobius product line, which is an elastic abdominal retractor for improved cesarean sections, as well as another product line called the Hunt trocar line. The retractor is a great device to improve the safety, speed, and efficiency of C-sections. At 1X 2010 revenues, or $5 million, we expect this acquisition to be neutral to our overall earnings per share this year and accretive thereafter.

Guidance. Given the strong second quarter, we have again increased our 2011 guidance. For the fiscal year, revenue has been increased at CooperVision to $1.080 billion to $1.095 billion with confidence that launch timing is now defined.

Our non-GAAP EPS range has been increased to $4.00 to $4.15. This improvement reflects not only the completion of two strong quarters, but the outlook for strong revenues, gross margin ratios, and lowering of our interest expense.

We're already seeing some of the benefits of our shutdown of the Norfolk operations that are starting to show up in gross margins. We are seeing the benefits of our free cash flow show up in lowering our interest rates and amounts. We are increasingly optimistic about our ability to deliver our ramp-up of capacity of our core products, especially the Biofinity family which has been so successful in the marketplace.

This capacity will go a long way to supporting the June launch of Biofinity Multifocal into the $150 million global multifocal market that's growing 36%. The capacity will also go a long way to supporting the June launch of Biofinity family into the Japanese market, which is a $400 million market growing more than 20%.

From a strategic point of view, there has been no shift in our successful strategy. We believe it is solid and it has delivered results. CooperSurgical is putting up outstanding results, and it is leveraging operating margins. This franchise was built with a solid understanding of the value of critical mass in the women's healthcare market, targeting OB/GYN. We follow the professional wherever they are, in the office, surgicenter, hospital, or the IVF centers. Although the call points are different for each, the leverage is considerable.

CooperSurgical's second-quarter gross margin, as I mentioned, was 65%. Our operating margin, 25%, and due to minimal capital requirements, CooperSurgical is a significant contributor to free cash flow. We are dedicated to this strategy and will continue to acquire tuck-ins that CooperSurgical can leverage.

At CooperVision, the strategy is more complex. It is more global in nature. In the $6.7 billion soft contact lens industry, because of our uniqueness in manufacturing platform and product portfolio, we are the only participant that follows a complex strategy, which makes us the only company that promotes both silicone hydrogel and non-silicone hydrogel, which is the Proclear family of products.

We emphasize branded and non-branded products. But remember, private label does not mean lower price. Actively, we promote and specialize in custom lenses with a high gross margin, of course. We support all modalities to the eye care professional -- one day, two week, and monthly lenses. And we sell all types of lenses, Spheres, Torics, multifocals.

With close to 30% share in specialty categories, Toric and Multifocal, it is acknowledged that we are pretty good with specialty lenses. Few would challenge why the success of Biofinity Toric for astigmatism. Put up a great design together with a great material, and great things can and will happen.

We have very high expectations for the same reason with Biofinity Multifocal, which hits the market this month and will also, we believe, be a success.

On the capacity front, things are generally on plan to deliver considerably more product where we have been supply constrained. The Biofinity family, Avaira Toric, Proclear 1 Day, one-day Torics, all are ramping up nicely.

On pricing, we, like 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 per patient or wearer. A one-day modality, for example, results in three to five times more revenue per wearer. While this strategy sacrifices gross margin, it generally creates two to four times more profit per patient.

Of course, this strategy also competes head-on with lens care -- the lens care space, since we are shifting the wearer's cost from lens care to contact lens products.

In my opinion, we also continue to be the most focused company in the industry, lacking many of the distractions some of our competitors are now going through. And I might add with Biofinity, Avaira, Proclear, we have a lot to talk about with the eye care professionals around the globe.

And so, in summary, before I turn it over to Gene, our second-quarter 2011 continued our strong string of pleasant surprises. We again delivered on the top line, gross profit percent, operating income percent, EPS, free cash flow, deleveraging, and other value-enhancing projects.

Our silicone hydrogel family of products is doing great, up 45% in constant currency. We are primed for two more rollouts of our silicone hydrogel family into the $150 million silicone hydrogel multifocal market, growing 36%, and into the $400 million Japanese silicone hydrogel market, growing 20%.

Our CooperSurgical tuck-in strategy has consistently delivered over a period of five-plus years and achieved solid growth for 10-plus years with over 30 acquisitions and integrations under its belt. Few would question that we can achieve synergies.

Our non-GAAP earnings-per-share result of $1.02 was up an impressive 67% above the prior year. Our refinancing and the impact of free cash flow lowering our interest costs more than in half versus the prior year, while deleveraging to only 23% debt to cap has further strengthened our balance sheet.

As always, we remind you our people are our number-one asset. They delivered; we are now on a mission to keep them healthy and productive. We owe them a tremendous thank you for the outstanding jobs they continue to do.

And with that, I'll turn it over to Gene who will dazzle you with some numbers.

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

Thank you, Bob. Thanks to everyone for joining us again today.

As Bob indicated, we had another excellent quarter. I would like now to summarize some of the key highlights of the profit and loss statement. Bob covered the revenue aspects pretty well, so I'll skip that and move to the gross margin.

As you will note, our consolidated GAAP gross margin and non-GAAP gross margin were both 62%, versus GAAP of 57% last year and non-GAAP of 58%. Both of our operating divisions increased their gross margin percentages by almost four percentage points. It's largely attributable to manufacturing efficiency gains, the product mix, and increased utilization of manufacturing equipment.

In Q2 on a GAAP to non-GAAP basis, SG&A expenses increased by 14% from Q2 of last year and were 39% of revenue, approximately the same as last year. As we indicated, we are going to continue to invest in sales and marketing, so these increases are mainly attributable to increased sales and marketing expenses, commissions, new hires, and so forth associated with higher revenue and new product launches.

In Q2, R&D increased by 21% from Q2 last year and were 3% of revenue, approximately the same as last year. This increase was attributable to additional staffing and costs associated with increased clinical trials for a variety of projects and new products.

We completed our restructuring of the Norfolk operations in Q1, so there was not any impact in Q2. I just mention it for reference.

Operating margin on a GAAP basis was 19% of revenue, the same as non-GAAP basis. It was up from 13% on a GAAP basis last year, as well as 15% in non-GAAP basis. Again, that was attributable mainly to the increases in gross margin offset a bit by the increase in SG&A.

Bob mentioned interest expense decreased 56% to $4.3 million, down from almost $9.8 million in Q2 of last year, and it's a result of reduced borrowing and lower interest rates.

Turning to the tax rate, on a GAAP basis in Q2, the effective tax rate was 11% versus a credit in Q2 of the prior year. On a non-GAAP basis, the effective tax rate was 12.8% or 13% versus around 16% last year. This is up a bit from Q1, and it's mainly because there was a shift in income to higher tax jurisdictions, mainly the U.S. which has a 39% tax rate, and Japan, which has a 41% tax rate. So Japan's reported income actually went up 13% year over year, and at 41%, that adds a fair amount to the effective tax rate.

For the full year, we're now expecting the effective tax rate to be in the 10% to 12% range, up slightly from the 8% to 10% range previously provided, but we would estimate it would be closer to the lower end of that range, which we feel is sustainable for this year and into the near future.

We mentioned non-cash charges. Depreciation was $18.8 million in Q2, amortization, [$4.7 million] (corrected by company after the call) for a total of $23.5 million.

EPS on a GAAP basis was $0.73 and $1.02 on a non-GAAP basis, and the big difference is the $16.5 million expense associated with the retirement of our senior debt, $12 million call premium, and a roughly $4.5 million write-off of unamortized buying issuance costs.

One thing to note on the EPS that we hurdled was a share increase to 48.2 million from 47.4 million in Q1. So that's an increase of approximately 850,000 shares, and as you will note, that was attributable to some extent through option exercises. Note we expect that shares outstanding to increase in Q3 and Q4 for the same reason. So, we would estimate on a rough basis, shares for EPS calculation of approximately 49 million in Q3 and in Q4.

Turning to the balance sheet, Bob mentioned $41.7 million of free cash flow. We reduced debt by $49 million, and the percentage of cap, it's now 23%, down from 32%.

At quarter end, the ratio of funded debt to EBITDA was 1.61, a decrease from 1.85 in Q1, which again lowers our borrowing rate to LIBOR plus one -- 150 basis points.

Inventories increased slightly, as Bob mentioned, as we're preparing for product launches, with 6.1 months on hand, up a little bit from 5.7 months on hand in Q2 of last year. And we also kept close track of receivables. DSOs were at 54 days, the same as Q2 last year and down from 61 days in Q1 of 2011.

So with that, I'll turn it back over to Bob for the Q&A period.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jeff Johnson, R.W. Baird.

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

Let me just start off by saying congratulations on having a GAAP and non-GAAP gross and operating margin that is spot on the same here. It's nice to see that after a few years here. So congrats on that.

Let me ask a two-part question. One just, Bob, could you give us organic CVI growth if you X out Aime and any other acquisitions in the quarter? And then, I'm just trying to reconcile your comments on lagging market growth in calendar Q1 as you were building inventory here on the Biofinity side. I think it's very plausible but you also put up 29% sequential growth in silicone hydrogel sales. So, I guess my only conclusion there, is it fair to think that silicone sales would've been up even better than the 29% sequentially if you hadn't been building that inventory?

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

Yes. To answer your first question, the organic constant-currency growth of vision was 5% for the quarter, -- the impact of building more inventory for the launch and, of course, two launches concurrently means you've got to redirect a fair amount of product towards those launches for fitting sets, et cetera.

So that, coupled with the fact that we had a very strong 12 months ended December 31, when you put two together, we don't get too worried about a temporary pause in our quarterly growth rate. In fact, we put a little weight on that compared to the trailing 12 months.

But importantly, we could've sold more if we had an all-out push on continuing to open up new accounts, but in so doing you would preclude and delay particularly the Multifocal, which is a high gross margin product line that we just needed to get back in the game. We have close to 30% share in that space. It's rapidly declining and it's declining because 50% of that market has shifted into the silicone hydrogel material, and so, in essence, all of our share is in the remaining $150 million market, which is conventional materials. Next question?

Operator

Larry Keusch, Morgan Keegan.

Larry Keusch - *Morgan Keegan & Co., Inc. - Analyst*

Just two questions for you, Bob. First off, could you just talk about any impact that you ultimately felt in Japan and kind of where do we stand relative to disruptions there?

And then, the second question would be, if I'm doing the math right, CapEx is sort of annualizing at just over $100 million now for the first six months, and so how should we be thinking about that for the remainder of the year in terms of gating? I felt like that you were kind of targeting to hopefully keep it below $100 million, so just wanted to see where we are.

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

First on Japan, no real noticeable impact, both as to our business as well as the market actually is upticked and doing nicely in Japan overall.

We don't -- never say never that there won't be some impact. Quite frankly, I think whatever impact there was was probably buffered by, to some degree, replenishment where people lost some of their inventory in the pipeline, so by and large, that masks any negative that there would be there. People still need their contact lenses, so I don't anticipate any real technical correction. Any material amount, anyway.

CapEx, you're right. We're running very close to the $100 million run rate. I must admit given that our balance sheet is strengthened, we're now down 23% debt to cap, there is less emphasis on you must keep below that 100 and more if you have a good idea with a good payback, let me hear your idea.

So, we're opening it up a notch and more focused in on cash flow generation to and through including cost-reduction projects. So this year, we'll be close to the $100 million; in the future, I'm less wedded to that limitation.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Two questions specifically, the non-single-use growth rate was particularly impressive in the quarter. What is going on there?

And then, the CSI gross margins, if I read them correctly or heard correctly, it was 65%. That's quite high compared to the run rate for that division. Is there anything in particular going on there because my knowledge is that Norfolk would not be affecting that? Thank you.

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

The non-single-use growth rate, yes, there is the impact of the 45% increase in our silicone hydrogel business.

And Proclear is our real entree into one-day modality. It's holding its own and growing nicely. Obviously 7%. I would say there is some bumpiness to growth rates as some of the new products being introduced in the silicone hydrogel space within the one-day modality within a quarter can create blips. But overall, 7% for Proclear is not bad, and in the non-single-use space, we're clearly happy with the progress our family of silicone hydrogels is doing even before the two new launches.

Keep in mind, there really is a third launch, which is Avaira Toric. We really had been capacity constrained. We've opened up a lot more availability of Avaira Toric starting in May as capacity there has ramped up.

Relative to CooperSurgical, CooperSurgical has been quarter after quarter putting up improving gross margins. It now has gotten to the 65% mark. That reflects a shift towards our surgical business. Our in-office business is a lower gross margin business on average than our in-hospital business. So, as that part of the business grows favorably, that's a positive mix impact, and no, it has nothing to do with the Norfolk shutdown. That would be purely contact lenses. Next question?

Operator

Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan - Analyst*

So the first question is on the Avaira Toric launch. I'm curious if you could give us just any anecdotal commentary around what you're seeing, now that you're able to get Avaira Toric out there in more sizable quantities, what you're seeing in terms of the growth for the family as a whole for Avaira.

And just my follow-up question would be whether you can part with an expected silicone hydrogel capacity exiting this fiscal year on a run rate basis.

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

First of all, on Avaira Toric, it's having a halo effect on the Avaira Sphere.

It was up -- overall, that family was up 53% for the quarter. In fact, higher than Biofinity was for the quarter, marginally higher. So, it's starting to get some legs. The real test will be, I think, as we really roll out more robustly into that two-week space over the coming quarters.

But so far, so good on that, and yes, the halo effect of having a Toric together with a Sphere seems to be playing out.

As far as the second question, the -- it just escaped me, actually.

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

Yes, capacity, thank you. We expect to exit this year still on target to be able to support a $400 million product line for Biofinity, plus the added value of the two-week space on Avaira, which is ramping up also.

So, there is no change to that. If anything, we're at the top end of our range expectations in getting there. Keep in mind, we're ramping up from the beginning of the year of around $200 million to exiting the year at or above $400 million, so we're feeling pretty good about that. If the demand is bigger than that, that's a nice problem to have and we won't complain. Next question.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Company - Analyst*

Thanks, guys. Gene, a question for you on gross margins. 62% this quarter, up both sequentially and year over year. Should we start to see the positive benefits from the Norfolk closure in the third quarter or did you guys start to see some of those benefits here in the second quarter?

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

It was just a very small amount in the second quarter. You should start seeing it in the third and the fourth quarter. We forecasted and we're still pretty confident that the run rate for 12 months would be around $15 million, so we should see about half of that hit this fiscal year in the last two quarters. Next question?

Operator

Chris Cooley, Stephens Inc.

Chris Cooley - *Stephens Inc. - Analyst*

Congratulations and thanks for taking the question. The first question would be, could you just remind us just about the scale of the launch plans for Biofinity on the Multifocal here in the States, just thinking about kind of like number of fit sets or kind of how you target the rollout?

And then, secondly, could you just review what you're seeing from an operating standpoint at CooperSurgical, just maybe compare and contrast the trends you're seeing on the office space procedures versus the acute care setting? Thanks so much.

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

Chris, on the first question, the rollout of Biofinity Multifocal, it's going to be primarily the U.S. and into Europe.

We have built a fair amount of inventory leading into it. But quite frankly, fitting sets are an expensive proposition rolling them out, so we will be somewhat focused on priority accounts initially.

In terms of numbers, I'm not sure I'm going to get into quoting the exact number of fitting sets and how that aligns with -- you'll recall when we talked about Sears, it was a U.S. target in around 20,000. We're clearly not going to go to that level.

We will be doing an ABC prioritization of where you draw the line. Multifocal is a high gross margin, so obviously it's a little bit more forgiving how far you go within some constraints. But I think that's about the color I'll put on it, other than to say it's going to be fairly robust as our rollouts go, given that we have been building inventory since the beginning of the year.

Relative to CooperSurgical, offices versus in the hospital setting, there is no doubt the reduction of office visits has continued to be soft. In other words, the economy has not come back there, and obviously the economy is still a little less than robust. And so, we're still down close to double digits on office visits.

We're masking that by gaining share and price increases in certain products. And obviously, our real growth is being sponsored in the hospital setting, in the outpatient area as well as fertility. Hopefully, that gave you some flavor for that. Next question?

Operator

Amit Bhalla, Citi.

Amit Bhalla - *Citigroup - Analyst*

Gene, the gross and operating margin performance in this quarter was very strong. It's pushing up against the high end of the range as you previously had outlined. Any updates on those ranges, and were you thinking of exiting the year on those -- on the gross and operating margin?

And secondly, Bob, can you just go through how the competitive landscape has been shaking it out and how -- if there was any benefit in the quarter? Thanks.

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

The gross margin, we're still sticking with our guidance that we previously provided, 62% to 63% this year. So hopefully, we're going to exit the year closer to the 62%, and we're going to strive over the next few years to get to the mid-sixties, and that's still consistent with what we had said earlier.

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

As far as the competitive landscape, no major changes there. The integration of Novartis and Alcon is continuing. It is, in fact, disruptive. I think they're still trying to get their bearings in their trips to Dallas-Fort Worth from Georgia.

So, there are still some opportunities out there. Still predict that they will become a less vision? oriented company and more like an ethical drug detailing type company.

As far as J&J, they are still, if you will, picking themselves up and getting their act together with the impact of the last couple of years of recalls. They are still not back on the market in Japan with TruEye. There's different dates we're hearing about when they'll be back in the market there. So they are giving us some limited opportunities in that space.

They are obviously getting pretty aggressive in the U.S. with the one-day modality, meaning trying to shift the U.S. market, if you will, into that modality. It is a creative strategy. They are capable of moving the needle, and I think the entire industry would do well with that needle moving and trading up, as I mentioned, if you will, four to six times on the revenue side. So, no major change there.

B&L is still pretty quiet in the marketplace, still going through some elements of right-sizing within that entire family and still not exactly gaining share in too many fronts as they proceed.

So, Cooper still is the most focused company, and as we get more launches geared up, we'll be in better and better shape on that front. Next question.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities - Analyst*

Two questions. First on gross margins, to clarify, Gene, you said mid-60s as a goal in the next few years or next two years? That's new information to me. And I think it's been since 2005 since you were in the mid-60s, and on the gross margin, you said exiting around 62, I think, but you did 62 in the second quarter and Norfolk adds, I think, about 120 basis points in the second half. Why wouldn't the gross margin continue to -- is there any reason why it wouldn't continue to go up in the second half of the year? Thanks.

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

First part of the question, over the next five years, not the next two years. That's our target, to keep moving it up to the mid-60s. So, our strategy is aimed in that regard.

We were at 62% in the second quarter, and again, things are going extremely well, but we're still concerned about maintaining the efficiencies. We're putting out new products. Sometimes they're not as cost-efficient as they will be later on in their lifecycle and so forth. So we're still looking closer to 62%.

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

And Larry, let me just jump on that. A couple of points. One is today in vision, we're at 61.5%, overall 62% because surgical is doing so well. So that 61.5% does have some of the Norfolk to come in and help it out towards that 62%.

Longer term, keep in mind the royalty. As the royalty comes off in 2014 and 2016, we expect to have favorable benefits on the gross margin that will move it more into the mid-category, mid-60s, as that starts happening. Next question?

Operator

Anthony Petrone, Jefferies & Company.

Anthony Petrone - *Jefferies & Company - Analyst*

Just one for Bob or Gene. Can you just estimate what the overall ASP run rate is across CVI, if possible, now that Avaira Toric is out there or the specialty lenses are out there? With the new manufacturing lines, it seems that the Company is in a position now to meet demand that was previously foregone.

And then, for Gene, just the shift in income for -- into the U.S. and Japan in the quarter, higher effective tax rate. You'll have Avaira Toric in the U.S. and Biofinity in Japan, so will cash flows into those two regions -- presumably will increase. How should we look at the effective tax rate going forward?

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

I'll let Gene handle the tax rate first, and then we'll come back on follow-up question on the ASPs.

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

We're pretty comfortable right now with the 10% to 12% range, and again probably closer to the bottom end there.

The way you do your effective rate is you've got to forecast results by jurisdiction for the year, and you apply it back to the quarter how much (technical difficulty) provided. The difference is the [fill up]. That's where we had the spike in Q2 because our Q1 rate was so low.

So that's what we're forecasting now. It should be pretty consistent for certainly this year and the next few years. And again, hopefully Biofinity takes off in Japan and we make more money there, but our best estimate right now is that 10% to 12% range.

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

A question on overall blended, if you will, average selling prices. There is a lot of moving parts, as I like to frequently say, in that pot. And it's a little tough to talk about one flat ASP, or average realized price, if you will, primarily because as we shift emphasis into one day, one day pulls it down immensely so, partially offset by silicone hydrogel lenses which have a higher ARP. It's a trade-up strategy, and the growth rates of Toric and Multifocal typically being higher, and that likewise pushing up.

So when you blend it all together, the weighting of the higher growth one-day market will tend to put a damper on any growth in average selling prices to the entire pot, both in the marketplace as well as Cooper, which is promoting heavily the Proclear 1 Day variety.

So, net net net, there is a marginal decline caused by mix. But by and large, when you look at the subcomponents, they're all doing pretty well within the one-day, the two-week, and the monthly modality as the industry is focused in on trading up -- for example, trading up to a silicone hydrogel in the two-week space is clearly upping the ARPs. The rapid growth of Torics and Multifocals faster than Spheres is enhancing that part. So hopefully, that clarifies it in your mind. Next question?

Operator

Thank you. There are no further questions in queue at this time. I would now like to hand the conference back over to Mr. Bob Weiss for any closing comments.

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

I want to thank everyone for joining us today. Obviously, we're pretty excited about the progress that we've made this year, and as reflected in the updated guidance, the outlook for the balance of this year and for the future.

So, as we ramp up in this marketplace, the market is good in both spaces, in women's healthcare and in contact lenses. We think we're the Company that has our act together, in terms of we are done with the integration, if you will. And we think women's healthcare is very leverageable. They've done 30 deals very right. So we're excited about what they are in their maturity cycle.

And we're also excited about opportunities outside the U.S. and we'll continue to spend a fair amount of our attention looking at the BRIC countries, for example, and where to go there. So with that, I'll wrap it up, and we look forward to talking to you on our third-quarter earnings call. Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect your lines. Good day.
