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COO - Q1 2013 The Cooper Companies, Inc. Earnings Conference Call

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OVERVIEW:

COO reported 1Q13 topline growth of 16% and GAAP EPS of $1.50.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Larry Keusch *Raymond James & Associates - Analyst*

Larry Biegelsen *Wells Fargo Securities, LLC - Analyst*

Joanne Wuensch *BMO Capital Markets - Analyst*

Kim Gailun *JPMorgan - Analyst*

Steve Willoughby *Cleveland Research Company - Analyst*

Chris Cooley *Stephens Inc. - Analyst*

Amit Bhalla *Citigroup - Analyst*

Anthony Petrone *Jefferies & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2013 The Cooper Companies, Inc. earnings conference call. My name is Cheverly 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' first-quarter 2013 earnings conference call. I am Kim Duncan, Senior Director of Investor Relations. And joining me on today's call are Bob Weiss, Chief Executive Officer; Greg Matz, Chief Financial Officer; and Al White, Chief Strategy Officer.

Before we get started, I'd like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market 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 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 some highlights on the quarter; followed by Greg, who will then discuss the first-quarter financial results. We will keep the formal presentation to roughly 30 minutes, then open 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 email ir@cooperco.com. And a copy of the earnings release is available through the Investor Relations section of The Cooper Companies' website.

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

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

Thank you, Kim, and good afternoon and evening to everyone. Another solid quarter, with a good start to the new year; topline growth of 16%; 11% in organic constant currency. GAAP earnings per share was $1.50, up 34%, which includes $14 million of business interruption. Non-GAAP EPS was $1.23, up $0.11, or 10%. And our free cash flow was $19.2 million for the quarter, and that brings our trailing 12 month free cash flow to $226 million.

Some highlights and key events -- during the quarter, we successfully amended our CIBA/Alcon royalty agreement giving updated guidance, factoring in investments and some foreign exchange, or the yen, if you will, through December 21, 2012. We also successfully concluded our business interruption insurance process, receiving another $14 million in payments. While the stock market sputtered, to begin the new year we affected the repurchase of 460,000 of our own shares, using $44 million of cash. Our Origio acquisition got off to a good start, with revenues of $20 million, for 24% growth. Our hydrogel family, including the recent relaunch of our two-week Avaira Toric, is coming up 38% in constant currency, and now accounts for 40% of our CVI revenue. Our balance sheet, even after the $44 million buyback, remains strong, with debt to cap of 15%.

On sales, our hydrogel family continues to drive results. During Q1, our hydrogel family contributed -- continued to drive our topline and bottom-line results. Silicone hydrogel revenues were $120 million. The silicone hydrogel family grew 38% in constant currency. The family now encompasses 40% of CVI revenues. The rollout of Biofinity Toric in Japan and the expected halo affect the Biofinity Sphere -- overall, Biofinity in Japan more than tripled.

The relaunch of Avaira Toric is having the expected halo effect on Avaira family of two-week silicone hydrogel lenses. Overall, Avaira is up over 50% in constant currency worldwide. We continued our confirmatory rollout of our single-use silicone still small. We believe several years down the road, as costs come down and prices to the consumer get lowered, that silicone hydrogel in the one-day modality will become more than what it is today, which is a niche. In fact, as you will notice from our revised guidance on free cash flow, we have reduced forecasted free cash flow, reflecting our accelerated plans in this arena. We have now moved from confirmatory phase and are taking steps to accommodate a global rollout already in multiple continents.

I might add that capital expenditures in 2013-2014 is not expected to lower our five-year objective of $1.3 billion in free cash flow.

Geographically, foreign exchange headwinds continue affecting our CooperVision results, impacting the top line by 2% in the quarter. Excluding foreign exchange, CooperVision constant currency growth was 14%. Last year it was the euro; this year it is the yen. With over $200 million in revenues in Japan, this is obviously having an impact, not only on revenues but also on our gross profit percent and operating margin percent. Even with this nuisance, our results are solid. Recently we have put up solid constant currency growth in all locales -- Americas up 18%; EMEA up 7%, constant currency; Asia-Pac, 17%; and overall, as I indicated, 14%.

Our growth drivers are -- in the Americas, trading up to Biofinity, including the halo effect of Biofinity multifocal with the entire family doing well. Also, while off of a small base, Proclear 1 Day and the Avaira Toric family are significant contributors. EMEA right now -- currency is neutral. Driving our 7% growth in the region is the entire Biofinity family and Proclear 1 Days, while single-use silicone is still only a small contributor.

Asia-Pac, while foreign exchange took its toll on a GAAP revenue basis, which was up 10%, our constant currency growth in revenue was up 17%. Drivers here -- the Biofinity family, especially with the halo effect of Biofinity Toric; the Proclear 1 Day; as well as single-use torics.

Looking at the soft contact lens market, in the fourth quarter of 2012 it was up 5% in constant currency, while CooperVision was up 10%. For the calendar year, the soft contact lens market is now $7.3 billion worldwide. It was up 5%, also, in constant currency. CooperVision was up 11%, on the strength of Biofinity and the Proclear 1 Day product. For the calendar quarter, market growth was sponsored by the one-day market, multifocals and torics; while CLI, or the Contact Lens Institute, has now stopped reporting the growth of silicone hydrogel material. Most likely the trade-up material remains solid growth material.

CooperVision was up 38% in constant currency in the first quarter of 2013. And at CooperVision, silicone hydrogel now represents 40% of our revenue. The soft contact lens market continues to be a trade-up market. This includes two premium products -- silicone hydrogel lenses, torics, and multifocals. A trade up of silicone hydrogel is in the 20% to 40% range. And, importantly, a trade-up to the one-day disposable expands patient revenue by 400% to 600%. Even more importantly, the one-day wearer generates 300% to 500% more profit.

Also it's important to understand that torics and multifocals have had a long way to go in capturing the market opportunity, especially outside the United States. Geographically, the strength of the Americas, up 5%; and Asia-Pac, up 6% during the final quarter of 2012, carried a weak EMEA, which was only up 2%. Overall, the market was up 5% for the quarter, at the midpoint of our 4% to 6% expectations.

CooperSurgical, our women's healthcare franchise, turned in $78 million in revenue on the strength of more than $20 million of revenue contributed by Origio. CooperSurgical was up 37%. We were very pleased with the Origio revenue of 20%, up $20 million, which was up 24% over the topical prior period. I might add, if you were to have owned the Origio business at the beginning of the prior year, our constant currency growth at Cooper would have been 12%, while our women's healthcare growth would have grown at 7%.

Besides from IVF, or fertility, if you will, which now accounts for 30% of CooperSurgical revenue, our surgical procedures continued to perform near double-digit growth. Overall, CooperSurgical now accounts for 20% of Cooper, with a solid gross margin and operating margins, and very little CapEx requirements that translates to outstanding cash flow. While we have a fair amount of work to do in further leveraging our most recent acquisition, we will continue to focus on other things to buy that either fit the GYN office setting, IVF, or surgical procedures.

Looking at guidance, we updated our guidance in late December, following the amendment to our Alcon royalty agreement. While the exact change has not been disclosed for contractual and competitive reasons, our revised guidance reflected several factors -- to revise royalty, certain investment decisions, and the impact of foreign exchange, most notably the yen, through December 20. The yen, which was at 84 on December 20, has continued to soften, and is now at JPY93 to the $1. With excess of $200 million of sales in Japan, this 11% further drop is a considerable headwind, impacting revenue, gross profit percentages, as well as operating margins. Our new guidance reflects that strength and progress of our product portfolio, market share gains, favorable impact of our buyback of 460,000 shares of stock, and the favorable Q1 results.

We are pleased to take up the bottom of our revenue and EPS ranges, in spite of foreign exchange challenges we, like many other global companies, are currently experiencing.

On strategy, we are continuing with our successful strategy, which I have frequently articulated in the past. We believe it is solid and it has delivered results. CooperSurgical is putting up outstanding results and is leveraging its infrastructure. This franchise we've built is a solid understanding of the value of critical mass in the women's healthcare market, targeting the OB/GYN. We follow the professional wherever they go -- office, surgery center, hospital, or IVF centers. Although the call points are different for each, the leverage is considerable. CooperSurgical's Q1 2013 gross profit was 64%; operating margins were 19%; and due to minimal CapEx requirements, CooperSurgical is a significant contributor to free cash flow. We are dedicated to this strategy, and will continue tuck-in acquisitions as well as acquisitions outside the US, to leverage CooperSurgical's structure and products.

At CooperVision this strategy is much more complicated, reflecting the fact that it is global in nature, also. In the $7.3 billion soft contact lens industry, because of the uniqueness of our manufacturing platform and product portfolio, we are the only participant that can aggressively promote silicone hydrogel and non-silicone hydrogel that is the Proclear family. We can emphasize branded and non-branded products. Note, private label does not mean lower operating margins.

We actively promote and specialize in custom lenses, with a high gross profit percent, of course; support all modalities that the eye care professional promotes -- one-day, two-week, as well as 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 multifocal, 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 successes for the same reason in Biofinity Multifocal, which hit the market in the middle of calendar year 2011.

On the capacity front, with the exception of Avaira Toric, we are ahead-of-plan to deliver considerable more product where we had been previously supply-constrained. The Biofinity family, Proclear 1 Day, our one-day torics, are all in good capacity shape. Our newest challenge will be to ramp up one-day silicone hydrogel as yet in this market.

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 and single-use lenses -- each creates more revenue per wearer. A one-day modality, for example, results in four to six times more revenue per wearer. While this strategy sacrifices the gross margin percent, it generally creates three to five times more profit per wearer. Of course, this strategy competes head-on with the lens care space. Since we are shifting the wearer resources from lens care 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, with Biofinity, Avaira, and Proclear, we have a lot to talk about with eye care professionals all around the world.

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 average 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, all lens types, and we retain our expertise to emphasize customizable lenses for the 10% to 20% of those lens wearers requiring other than the standard lens sizes and/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 particularly true when it comes to geographic expansion and fully developing the Biofinity family of torics and multifocals around the world.

The same applies to Avaira, where the Avaira Sphere has anxiously awaited the relaunch of Avaira Toric. The combination will put us in a much better position to exploit the US two-week space owned by Johnson & Johnson; 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 includes the complete elimination of the silicone hydrogel royalty with the expiration of patents in September 2014 in the United States and March, 2016 in the rest of world. The reduction of our manufacturing costs by, among other things, improving molding cycle times; increasing capacity utilization; and improving yields in general. Each of these are key goals to us.

Also, given the considerable amount of free cash flow we generate, we will continue to look for tuck-in acquisitions and geographic expansion opportunities, like Origio, in our two businesses. The key requirement, however, is that they must exceed our minimal investment hurdle rates. They must achieve, over time, a hurdle rate that exceeds 10%. Additionally, the market for our women's healthcare and soft contact lenses are much less developed outside the United States. We generate a considerable amount of cash flow offshore due in part to our level of manufacturing outside the United States. As such, we will continue to aggressively invest in global expansion opportunities, with over 95% of the people on the planet outside the United States. We believe we will find opportunities to invest in other countries for decades to come, thereby retaining our low effective tax rate indefinitely.

Finally, we again demonstrated we are opportunistically willing to go into the market and buy our stock at certain times.

In summary, before I turn it over to Greg, let me say how pleased I am with our ongoing progress. We continued to out-perform the market, growing 1.5 to 2 times, or 2 times, a respectable market growth. Our topline growth in the skittish global economy remains solid. And I am very pleased at our double-digit organic constant-currency growth during this last quarter.

Our family of products, Biofinity, Avaira, one-day single-use silicone hydrogel, Proclear 1 Day, as well as now our IVF family, where we are number-one in the world, all offer promising growth going forward. We continue to execute well, and continue to invest in geographic expansion in the new product pipeline. And yes, R&D spending increased 20% over the prior quarter of last year. While we are still early in our expansion programs in each of the BRIC countries, and there are challenges in each of them, I am very pleased with the progress we have made to date.

Our women's healthcare franchise has become more global with the Origio acquisition. We remain keenly focused on delivering continually improving results, mindful of our desire to invest and leverage prudently, thereby delivering respectable total shareholder return.

Lastly, as always, a reminder that at Cooper, our number one asset is our employees. To them, a big thank you for consistently delivering great results.

And with that, I'll turn it over to Greg.

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

Thanks, Bob, and good afternoon, everyone. Bob has given you a pretty thorough review of the market and our revenue picture. Let me start with gross margins. Looking at gross margins, in Q1 the consolidated GAAP and non-GAAP gross margin was 63.3% compared with 64.5% for GAAP and non-GAAP in Q1 last year. As compared to the prior year, which was our highest gross margin quarter in 2012, we did see some headwinds due to the impact of the yen on our revenue, and a related direct impact on gross margins. In addition, Avaira's successfully relaunching; and as we've discussed in prior quarters, Avaira does have a lower than the Company average gross margin. Finally, we also saw a mixed impact due to Origio, which we acquired in July 2012.

Despite these headwinds, we continue to run favorable margins, well above 60% due to strong products like Biofinity, increased manufacturing efficiencies, and as of January 1, a reduced CIBA royalty. We believe our full-your gross margin will be in the range of 64% to 65%.

CooperVision, on a GAAP and a non-GAAP basis, reported a gross margin of 63.1% versus 64%, for GAAP and non-GAAP in Q1 last year. As I just mentioned, CooperVision's gross margin was negatively impacted by the weakening of the yen, as well as the success of Avaira as it relaunches into the market. We remain excited about Avaira as it opens up the two-week silicone market, especially in the US, which we were not addressing effectively last year at this time.

Similar to Q4, CooperSurgical had a gross margin of 64.1%, which compares to Q1 2012 of 67.2%. Excluding Origio, gross margin would have been 66.5%.

Now looking at operating expenses -- SG&A in Q1 on a GAAP basis -- SG&A expenses increased by 14% from Q1 last year to $150.7 million, and were 40% of revenues, similar to the prior year. Excluding Origio SG&A, it would have grown 7%, and would have been 39% of revenue. In the base business we continue to see some spending on marketing sales headcount, numerous marketing projects and product launches around the world, including ongoing geographic expansion efforts, as well as expenses to relaunch additional Avaira Toric fitting sets.

Now, touching on the medical device excise tax, the rules have recently been finalized. Whereas in Q4, we assumed this cost would be in cost of goods sold, we have now determined that the majority of the tax will be in SG&A, with a very de minimis amount in cost of goods sold for imported intercompany sales of finished goods. As you know, this tax only impacts CSI. In the quarter, we had $230,000 hit SG&A.

Now looking at R&D -- in Q1, R&D increased by approximately 20% year-over-year to $13.7 million, or up about $2.2 million, of which Origio makes up 50% of the increase. R&D was 3.6% of revenue, up from 3.5% in Q1 2012, and the same as the prior quarter.

The non-Origio spending increase is mainly attributable to spending on new product development and clinicals. As we've discussed in the prior quarter, we would expect that R&D, excluding Origio, will continue to grow slightly faster than sales during the fiscal year.

Looking at depreciation and amortization, in Q1 depreciation was $24.1 million, up $3.9 million, or 19% year-over-year. And amortization was $7.4 million, up $1.8% or 33% year-over-year, for a total of $31.5 million. Origio amortization for the quarter was approximately $2 million.

Moving to operating margins, for Q1, consolidated GAAP operating income and margin were $68.8 million, or 18.1% of revenue versus $61.7 million, or 18.9% of revenue in Q1 2012. This represents an 11% increase in operating income over Q1 2012. On a non-GAAP basis, which excludes the Origio acquisition-related costs of approximately $600,000, operating income and margin were $69.4 million, or 18.3% of revenue versus the $18.9 million in the prior year. This reduction in operating margin is attributable to the year-over-year decrease in gross margins I mentioned earlier, partially offset by improvements in SG&A.

Interest expense was $2.6 million for the quarter, down 30% year-over-year. We expect to finish the year with interest expense in the $10 million to $11 million range.

Included in the line item Gain on Insurance Proceeds is $14.1 million of insurance proceeds from business interruption related to the October 28, 2011, incident that we have discussed before, in which a pipe ruptured in our fire suppression sprinkler system, causing water and fire retardant foam damage to one of our manufacturing buildings in the UK. We have completed the business interruption claims process and are now not expecting any additional payments.

In looking at the effective tax rate, in Q1 The GAAP and non-GAAP effective tax rate was 7.5% and 9.2% respectively, versus Q1 2012 GAAP and non-GAAP effective tax rate of 7%. In the prior year, our rate was favorably impacted by a settlement with the IRS which resulted in the release of certain reserves. In the current quarter, we had a favorable impact due to the R&D tax credit being retroactively enacted, as well as favorable impacts in the business interruption gain and the CIBA royalty settlement. As we've discussed before, the ETR continues to be below the US statutory rate as the majority of our income is earned in foreign jurisdictions with lower taxes.

For the full year, the GAAP effective tax rate is expected to be in the range of 7.5% to 9.5%. And the non-GAAP effective tax rate is now expected to be in the range of 10% to 11%. I will mention, on a quarterly basis, this rate does fluctuate. And our Q2 rate tends to be higher than the average rate for the year.

The following stock option comp -- Q1 was $9.4 million.

EPS, Bob mentioned, our earnings per share for Q1 on a GAAP and non-GAAP basis, was $1.50 and $1.23 respectively versus $1.12 on a GAAP and non-GAAP basis in Q1, 2012. Earnings per share is up 34% and 10% on a GAAP and a non-GAAP basis, respectively, versus the prior year.

Briefly touching on the share buyback program, at the end of the first quarter we purchased an additional 460,000 shares of the Company's common stock for $44.4 million at an average price of $96.34 per share. There is still $184.5 million available under this program. We estimate that this will have a $0.04 to $0.05 impact on our full-year non-GAAP EPS.

I wanted to touch on FX -- FX impact -- during Q1, we saw dramatic fluctuations in key currencies. The impact on Q1 was relatively small, and around a negative $0.03 year-over-year. However, given the move in the yen, and the recent moves in the euro and the pound, the impact for Q2 through Q4, assuming today's rates, will be estimated negatively $24 million on revenue. Although we have offsets from our overseas operations, and eventually from lower-cost pound-based inventory, this will amount to approximately a $0.22 impact on EPS. As indicated in our guidance, we plan to hurdle this, but it is definitely a headwind.

Looking at balance sheet and liquidity, in Q1 we had cash provided by operations of $47.6 million; capital expenditures of $29.3 million; insurance recovery of about $600,000; and excluding Origio acquisition-related costs of $300,000, resulted in a $19.2 million of free cash flow.

Total debt increased within the quarter by a $34.3 million to $408 million, due to a $44.4 million of share repurchases. Debt as a percent of total capitalization is now 15%. This leaves us with approximately $624 million of total credit available at January 31.

Inventories increased by $5.2 million to $325.4 million from last quarter. For the quarter we are seeing months on hand at seven months, down from a month on hand of 7.1 months last year and up from 6.7 months last quarter.

Accounts Receivable continues to be closely monitored, with DSOs at 58 days, down from 59 days last year.

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

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

Operator, we are ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Jeff Johnson, Robert Baird.

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

Greg, I wanted to touch first on margins; or I guess my one question, touch on margins here. I was hoping you could quantify, first in the quarter, what may be some of the Avaira relaunch cost -- what that impact was on a dollar basis. I think you broke that out last quarter, so if you could break that out again this quarter.

And then as I look at your gross margin guidance for the year, it goes up 50 basis points but you are taking the med device tax out of there, moving that into SG&A. And obviously with the renegotiation on the royalty, it seems to me like your core gross margin now expectations are maybe 50 to 100 basis points lighter than they had been. Is that accurate? And I didn't hear an operating margin guidance for the year. Thanks.

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

Okay, Jeff, yes, thanks. First off, on the Avaira, we had about $2.4 million worth of relaunch cost. But that was in OpEx, SG&A, and not in the gross margin. The gross margin hit was really around the fact that the average gross margin for Avaira is less than our average for the Company in gross margin. So that's what you get the gross margin impact. Again, the yen was a big impact also.

You were talking about, let's see, the gross margin percent for the year. Just going back to let me just -- drew a blank. Let me come back to that, Jeff. On the operating margin, the guideline is going to be 21% to 22% for an operating margin.

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

Okay, and the question had been in gross margin. I think, prior to today, you were guiding 63.5% to 64.5%. That is now 64% to 65%. So you brought that up 50 basis points. But you've also moved medical device tax out of there, which is probably going to be about 30 basis points. So net, guidance hasn't really changed. Yet with the renegotiated royalty, it felt like there should be maybe 100 basis points upside to your prior guidance. So why is the core gross margin outlook coming down? And I'm assuming it must be the yen explanation.

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

Jeff, let me just jump on one thing. You may detect that we are a little evasive in the area of putting too fine of a pencil on all of the components of gross margin. And we are not going to leave ourselves into a mode where we are going to be specific on the royalty as the default. So there's a package there -- it includes the yen as having a profound impact on the total package, as well as the weighting of Avaira. As well as in the total scheme of things, obviously, Origio has some impact on the overall mix also. But relative to giving a lot of fine details, other than what the range is going to be, we're probably going to steer clear of a good amount of that.

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

All right.

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

And that's really competitive, as well as contract, that we are steering clear of.

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

Next question.

Operator

Larry Keusch, Raymond James.

Larry Keusch - *Raymond James & Associates - Analyst*

Greg or Bob, I wanted to touch on the revised free cash flow guidance. And I know Bob, in your prepared comments, you referenced the fact that you are accelerating the move forward with the single-use silicone hydrogel lens. So if you could just tell us exactly what you are planning there and how you are thinking about CapEx now for the year, because I assume that is really the differential in the free cash flow guidance.

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

I will say we had -- in our prior guidance, I think it was in the neighborhood of $120 million to $150 million estimate of CapEx. We are now moving more into the mode of the $200 million to $250 million range of CapEx. And that includes a lot of things to do with silicone hydrogel in general, as well as to bring forward all of our plans on single-use facilities and silicone hydrogel facilities as well as equipment, obviously.

That is nothing more than saying we are really happy with the progress, and how the product has been in the market particularly in Europe, where we started, that we're bringing forward those plans to aggressively move into that market, recognizing that probably in the two- to three-year time horizon that's going to move from a niche market into something more than that. Quite frankly, we'll be there to not only participate but to support that trend.

So it's a pretty big number. It is what I would view as a lot of two-year up-front spending, meaning there's a fair amount of equipment involved in getting to that point where can have a robust product line. And then it tails off fairly rapidly after that two-year period. And that is why I indicated that we expect by the end of five years to have our cash back. We're not coming off of that $1.3 billion target of free cash flow number.

Larry Keusch - *Raymond James & Associates - Analyst*

And Bob, would you just be willing to talk little bit about where you are targeting this -- so I assume you're targeting about coming into the US. And what does the FDA pathway look like there?

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

Well, we are expecting a fairly routine path within the next two years into the US. We're expecting, from the point of view of facility expansion, that's mainly going to be at our two primary facilities at Puerto Rico and the UK, both. And then we will -- the market has taken hold a lot more outside the US. At the end of the day, it really is today, a Japanese market. It is not a US market, quite frankly. J&J has done minimal in the US market with TruEye. And, really, their focus has been really been much more outside the US and particularly in Japan. And so we see it that way initially. So they're in the sense of urgency to the US market is still, I think, muted as far as how fast you have to get there.

Larry Keusch - *Raymond James & Associates - Analyst*

Okay. Got it. Okay. Thanks very much.

Operator

Larry Biegelsen, Wells Fargo.

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

A couple here -- legal costs and SG&A related to the CIBA agreement, anything one-time? Also, Bob, Americas was an 18% growth in CooperVision in Q1 versus 3% last quarter; 11% in the third quarter. Can you talk about the large acceleration this quarter? Thanks a lot.

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

Okay. Legal costs have tailed off considerably from the fourth quarter where there was of course, large amount of activity. So I would say it really was on those matters fully sub-$100 million being spent. It's not, if you will, the catalyst of any of the OpEx ratios per se.

Relative to the Americas, Americas is considerably more robust if you look at it from the point of view of the calendar -- I'm sorry -- the fiscal quarter, mindful of the fact that we have easier comps this year over last year in the Americas, because of some of what we talked about in the fourth quarter regarding the pipeline fill in the fourth quarter of 2011. So the comps are somewhat easier. And therefore, when you look at the calendar quarter, it doesn't show as being the calendar quarter where CooperVision was 5% in the United States and 7% in the Americas, and then it jumped way up in the fiscal quarter to where you see the 18% of the Americas growth. So that explains really the year-over-year comp on a fiscal quarter basis.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

It is Joanne Wuensch. The decision to accelerate the one-day lens, what was the thought process behind that?

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

I guess it's two-fold. One is reactionary, meaning we know our competitors have announced large capital projects -- two of them have, one in Ireland and one in Georgia. And so maybe a little speculative on what they are working on; but we have a pretty good idea of what we think they are working on.

Two is the product is -- we're pleased with the results of the product, and good to go. And you can assume that that means we are also pleased with our learning curve thus far in making the product. Directionally, we are happy with where we are going from a cost of goods point of view; not that we are where we need to get, but clearly have some pretty good progress, enough progress to take the next step.

Joanne Wuensch - *BMO Capital Markets - Analyst*

And can you comment on Avaira? You've had two or three quarters here of a relaunch. Where you are in that process and where uptake is?

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

And what was your second question?

Joanne Wuensch - *BMO Capital Markets - Analyst*

And where uptake is. In theory, the toric Avaira should be pulling through the sphere Avaira. I am curious about how that's actually playing out.

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

Yes, the Avaira -- in my comments I mentioned that there is the halo effect that Avaira Torics is nicely pulling the sphere, and that is the family of products. I didn't get into breaking out the toric versus the sphere. But suffice it to say, the toric couldn't do it alone. But the family of products was north of 50% growth year-over-year -- for the quarter. So we are happy with that. And, really, there still is a capacity limitation that there will be for -- essentially most of this year, the calendar year -- that deals with Avaira Toric, and therefore there is some limitations that we want to make sure we don't get too far, or get ahead of ourselves, if you will, on that.

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

Next question.

Operator

Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan - Analyst*

So, two questions -- I think the first is on the top line. Just curious on the strong revenue performance. Where there any meaningful inventory shifts in the channel in the quarter, or any stocking for any of the new products that you launched?

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

The answer's no.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Company - Analyst*

My question is on the share repurchase. I know that some quarters you are buying shares; some quarters you aren't. Are you expecting to be buying shares in each of the quarters over the rest of the year?

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

I was careful to use the words that our strategy is opportunistic. And we don't define if and when on purpose, obviously; but as much as anything, it is not pre-programmed when we have to go out and do something one way or the other. It's opportunistic.

Operator

Chris Cooley, Stephens.

Chris Cooley - *Stephens Inc. - Analyst*

Bob or Greg, I was hoping you could help us think about just your overall growth. You are clearly taking share in the marketplace. But you're also benefiting from the trade-up to silicone hydrogel and greater growth in dailies, a cycle that a number of your peers have already gone through, on the trade-up to silicone hydrogel. Help us think about pricing and mix versus volume, when we think about your growth guidance for the full year for CVI. Thank you.

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

You are correct, Chris, that some of what is going on is we are still lagging the market in total in the trade-up of silicone hydrogel, and clearly in the area of the trade-up to one-day; we're basically one-half index of the marketplace there. Or a little north of that, but not much. So we have a long way to go on one-day. And while we are doing stellar on the silicone hydrogel family, and it's something we continue to expect to greatly grow faster than the marketplace, part of that is trade-up. But, quite frankly, part of it is taking new fits from competitors. So it's a healthy combination. I would say it is well-balanced.

Relative to when you look at the components, how much further do you have the one-day; the fact that you already are a sheer leader in the two high-growth ends of the market, really, relative to type of lenses, torics, multipurpose; and we certainly are exhibiting high-growth and multifocal, albeit it's a smaller category. There's a lots of moving parts. But I think when you look at the product data we give you, relative to how we measure up on every front, we're doing pretty darn good on every region, every type of lens, every modality. And I don't think there are too many holes in it, relative -- that means, relatively speaking, we should be able to do pretty well for the indefinite future. Our products are still fresh, in my opinion. Proclear 1 Day is early in its cycle. Biofinity, while it has been at it for four, five years now, is not indicating any slowness and still has a lot of leveraging or halo effect, if you will, around the world.

So I don't frankly -- from a mixed point of view, we're still headed the right way. From a trading up point of view, we are headed the right way. And from a taking new fits perspective, we are in good shape, also.

Operator

Amit Bhalla, Citi.

Amit Bhalla - *Citigroup - Analyst*

Bob, I just wanted to follow up on that stocking question. And I have another question on competition. Specifically, last quarter, you said that there was some distributor destocking related to Sandy. I'm wondering, did distributors restock in the quarter? Or did they keep that current at levels of last quarter?

And then secondly, the question about fiscal versus calendar in the United States, you essentially grew 5%; the market grew 5%. And you said it's due to comps. But can you address that same thing in the US relating to competition? Are you seeing any changes there? Thanks.

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

Well, relative to Sandy, I don't think I overplayed the importance of Sandy in the contact lens arena. It actually was a slightly bigger in our women's healthcare than it was in our contact lens business. It was a minimal event relative to contact lenses. Why? Because we ship out of Rochester, and the products pretty much got out there.

Relative to the stocking, I will answer that multiple ways. Number one, we recall that in the second quarter of last year, there was an anomalous result that took place where the markets went soft on us in April, following whatever happened in March. So there clearly was some things going on with our competitor in that cycle.

Certainly not going on with our competitors in our cycle, which was really in October of 2011, where we thought we had done a good job of managing our distributors in the first, second, and third quarter of 2011. But they still had a full-year incentive. And because of that, they bought a lot in October of 2011, which negatively impacts the comps in the first quarter of 2012.

And as a result of that, our comps in the US from a fiscal year point of view are easier in the US in the first quarter of this year compared to the US a year ago. That has nothing to do with our competitors. But suffice it to say, we are keenly aware that there are things our competitors occasionally do that impact it.

We didn't see anything unusual following calendar year-end, meaning there was nothing about January and February that leads us to believe there was anything strange going on. We are keenly aware that there is some ripple effect at the retail end between the, if you will, the split of 1-800 and Walmart; certain things happening within retail that pretty much are not, as far as I am aware, germane at the manufacturer's level.

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

Hey, Amit, this is Greg. I would just throw into that if you look at Q1 over Q1, year-over-year, the US distributor days on hand inventory was about the same.

Operator

Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan - Analyst*

I'm just back, and I had a follow-up on the gross margin in the line of questioning from Jeff earlier.

So I think some more clarification with the updated guidance would be helpful. You obviously have the med tech tax moving out of the gross margin guide. But is it fair to think about -- so essentially, you are taking down your gross margin guidance. And is it fair to think about essentially the benefit that you got roughly speaking from the lower CIBA royalty being about offset by currency, just in terms of round numbers? Or are there other factors at play we should be thinking about, like mix?

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

So overall, we took our -- from the last time we gave guidance, which was in early December, we gave gross margin guidance of 63.5% to 64.5%. And we have now taken that up to 50 basis points to 64% to 65%. And there's no doubt, on the positive side is royalty; on the negative side is the yen and foreign exchange. Because if you take a model of the yen -- I gave you that basically $200 million franchise there -- you could do certain what-ifs and try to get some idea what that range may look like. So those two kind of blend. Beyond that, there is certain fixed components. I've talked about us pushing harder on one-day silicone hydrogel. That would be a negative. The Avaira relaunch, and Avaira doing well, north of 50, is obviously more a negative. And Origio, quite frankly, which has lower gross margins doing very robust, north of $20 million is arguably a mixed thing.

So there's a fair amount of -- when you get into all the granular pieces, a fair amount of moving parts, I would acknowledge. But I also said we are not going to give you a real lot of clarity because we want to protect the real question everyone has, which is so exactly what was the change in royalty?

Operator

Matt O'Brien, William Blair.

Unidentified Participant

This is Kayla in for Matt. Thanks for taking our question. We were just wondering exactly where you guys are in the lifecycle of the Biofinity. I know you mentioned it really hasn't seen any slowdown. But what sort of comfort do we have that these above-market growth rates are sustainable going forward?

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

Well, we are -- there's obviously no guarantees when does it start leveling off a little. But having said that, we have really not been in the market all that long with Biofinity Multifocal, which is, if you will, the third leg of the halo effect. We have just really got to Japan with a real more robust launch beginning this fiscal year. So suffice it to say, we're still early with the Biofinity Toric launch in Japan, and it certainly hasn't annualized.

There is a lot of growth of torics and multifocals outside the US. And we obviously have a great product in the right modality on that front. So we are pretty optimistic that there are a lot of legs left to it. And I might add that the sphere is very close to 30% growth, in and of itself. So there's nothing wrong with even what one might say is the most mature of the three, between the sphere, the toric, and the multifocal doing pretty well, which can be an indicator that there is a fair amount of legs left to this family.

Operator

Anthony Petrone, Jefferies.

Anthony Petrone - *Jefferies & Company - Analyst*

A two-fold question for Bob and Greg on the yen -- can you review your hedging plans for the yen later this year, if there is any plans to put in different hedges as related to the weakness -- and how long those will be put out?

And then whether or not the current weakness in the yen is affecting the launch plans for Biofinity Toric in Japan? And then one follow-up. Thanks.

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

From a hedging point of view, we did hedging for two or three years. On a scale of one to 10, where one is a disaster, I would call it a one. On a scale of understandability, where one was totally non-comprehensible, I'd call it a one.

It was something we chose to move away from and stay away from. So it is not our intent to crystal ball where currencies are going. We can't hedge after the fact, so that is history already, that the end is where it is. And I know a lot of people have very strong views on where it's going to go next. But if everyone really knew they could make a lot of money, I suppose I'm where it's going to go next. So I don't subscribe to that.

Relative -- so the answer on hedging is, no, we don't hedge. We do have a global balance over time. But there is no doubt when currencies move on their own, that we can win sometimes and we can lose sometimes. And in this case, we are on the wrong end, and it's just the marketplace.

Your second question, you want to repeat that?

Anthony Petrone - *Jefferies & Company - Analyst*

Just if the currency weakness there is impacting at all the Biofinity Toric launch plans in Japan. You mentioned that's earlier this year that that occurred. I'm just wondering how that all plays out there.

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

No, locally is not really impacting anything. We put up 17% growth numbers in constant currency; 10% in actual in that entire region. So I would say no, there's no -- nothing is changing because of that dynamic.

Operator

At this time, there are no additional questions in queue. I'd like to turn the call back to Mr. Robert Weiss, CEO, for closing remarks.

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

Well, want to thank everyone for joining us. Hopefully, you are as excited about our topline growth, our market share growth, as I am; and the fact that we are presently moving forward with the silicone one-day project, which I find real exciting. Keep in mind what I said about the market trading up. As this market continues to grow towards the one-day modality, that's a 4- to 6-time trade up, which is going to be good for sustained growth, in my opinion, for the marketplace. And while gross margins may come under pressure because of that, clearly I like the idea of making 300% to 500% more profit on a contact lens wearer. So I would take that all day, all year, all decade. And we're pretty excited about that.

So with that, I'll look forward to talking to you and updating you on where we are in June. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.