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COO - Q3 2012 The Cooper Companies, Inc. Earnings Conference Call

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OVERVIEW:

COO reported 3Q12 GAAP EPS of $1.36. Expects FY12 revenue to be $1.439-1.449b and non-GAAP EPS to be $5.19-5.24.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2012 The Cooper Companies, Inc., Earnings Conference Call. My name is Keith, and I'll be your operator for today. At this time, all participants are in a listen-only mode. Later on, we will be conducting a question-and-answer session.

(Operator Instructions)

As a reminder, 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 - *Cooper Companies Inc - Director, Investor Relations*

Good afternoon, and welcome to The Cooper Companies Third Quarter 2012 Earnings Conference Call. I'm Kim Duncan, Senior Director of Investor Relations, and joining me on today's call are Bob Weiss, President and Chief Executive Officer; Greg Matz, Vice President and Chief Financial Officer; and Al White, Vice President Investor Relations, Treasurer, and Chief Strategic 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, please let me comment on the agenda for the call. Bob will begin by providing highlights on the quarter; followed by Greg, who will then discuss the third-quarter financial results. We'll 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 we have any additional questions, please call our investor line at 925-460-3663 or email ir@cooperco.com. As 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 - *Cooper Companies Inc - President & CEO*

Thank you, Kim, and good afternoon and evening to everyone. Well, we're back on track with another great quarter. We're executing our strategy that has been in place for the past five years. We're accomplishing our long-term objectives, taking market share, posting gross margin expansion, delivering double-digit earnings per share growth, and delivering free cash flow. For the quarter, we delivered revenue growth of 8%, 9% organic, constant currency. For the quarter, we delivered GAAP earnings per share of $1.36, up 51% versus the prior year.

For the quarter, we delivered non-GAAP earnings per share of $1.45, up 26% versus the prior year. Our non-GAAP trailing 12 months earnings per share is now $5.15. For the quarter, we delivered free cash flow of $63 million, and trailing 12-month free cash flow of $225 million. For the quarter, we accomplished our long-term objective by acquiring Origio, an IVF Company, reaching out beyond the US for CooperSurgical and achieving the number one position in worldwide IVF marketplace.

Some highlights and key events. During Q3 2012 we amended our credit agreement, increasing it to $1 billion line of credit, lowering our borrowing grid, eliminating our term loans, and extending our line of credit to May of 2017 for an additional 16 months. We closed on the acquisition of Origio and IVF or In Vitro Fertilization Company, which adds $60 million plus in annualized revenue to CooperSurgical. We re-launched Avaira Toric, initiated the limited launch of a one-day silicon hydrogel into Europe, and rolled out a novel one-day multi-focal, Proclear 1 Day multi-focal.

Our silicon hydrogel continues to take significant share, and now accounts for 38% of CooperVision's revenue, achieving $118 million in revenue, and up 35% in constant currency versus the prior year. Leveraging our free cash flow and a weak stock, we took the opportunity and bought 321,000 shares of stock, using $25 million. This brought our fiscal year 2012 purchases to 984,000 shares using $71 million of free cash flow.

On sales results, our silicon hydrogel family is driving growth. During the third quarter, our silicon hydrogel family continued on its path of sponsoring our revenue growth. Silicon revenues were $118 million. Our silicon family grew 35% in constant currency. The family now reflects 38% of CooperVision sales. In July, we launched Biofinity Toric in Japan, recording our first sale.

Our Avaira Toric roll-out, constrained by capacity limitations, is taking place over several months. It is progressing nicely. Avaira targets the US so-called two-week market owned by Johnson & Johnson's Oasys and Acuvue Advance. As a result, we expect the product family to be focused on gaining share as opposed to trading up. While we are excited about the re-launch, we are going to be cautious in not over-extending our capacity limitations.

Geographically, foreign exchange has become a large head wind. Foreign exchange negatively impacted CooperVision sales by 5%, or approximately $14 million. Excluding the effects of foreign exchange, essentially all the Euro, our growth at CooperVision would have been 10% in constant currency. Regionally, we delivered solid results in constant currency. Americas was up 11% in constant currency; EMEA, 6%; Asia-Pac, 16%; overall, 10%.

Our growth drivers were in the Americas trading up to Biofinity, including the success of Biofinity Multifocal, as well as solid performance in the one-day category, contributed by Proclear 1 Day spheres. EMEA, same as the Americas; Biofinity, its entire line of spheres, Toric and Multifocal, as well as Proclear 1 Day sphere. In Asia-Pac, primarily Biofinity spheres, Proclear 1 Day, and other one-day spheres and one-day toric.

The worldwide soft contact lens market in the calendar second quarter 2012 was up 5%, while CooperVision was up 9%. On a trailing 12-month basis, the market was up 5%. On a trailing 12-month basis, we were up 9%, on the strength of Biofinity and Proclear 1 Day. For the calendar quarter, the market growth was sponsored by toric, one-day and multifocal.

While the CLI data, or Contact Lens Institute, stopped reporting the growth of silicon hydrogel, most likely the trade-up of material remains high-growth material area. We were up 34% in constant currency for the calendar quarter. The market continues of to be a trade-up market, where geographic expansion is an accelerating contributor. Trading up includes the premium products silicon hydrogel, toric, and multifocal. The trade-up of silicon -- the two silicon hydrogel -- is in the 20% to 40% range. More importantly, a trade-up to the one-day disposable expands per-patient revenue by 400% to 600%. Importantly, the one-day wearers generate 300% to 500% more profit.

Also, it's important to understand that torics and multifocals have a long way to go in capturing the market outside the United States. Geographically, the strength of the Americas was up 8% during the calendar quarter, led to an overall 5% market growth worldwide.

CooperSurgical, our women's healthcare franchise, had a solid quarter with $64 million in revenue. Revenue growth of 20% reflected the July acquisition of Origio, which contributed $5.6 million in revenue. Excluding acquisitions, CooperSurgical grew 6% during the quarter. In addition to acquisitions, drivers of growth continue to be weighted towards surgical procedures, hospital, and same-day surgery, where revenue was up 16%. As a result of the Origio acquisition, we will see a shift in our product mix and a shift in our geographic mix. Product mix will move to about 31% surgical procedures, 27% IVF, and 42% office. Concurrently, CooperSurgical's geographic mix outside the US will about double to 29%.

Suffice it to say, we are excited to have closed on Origio. This makes us a clear number one in the in vitro fertilization, or IVF, market. Origio is a very global business, with 73% of its revenue outside the Americas. They have expanded their direct presence into Japan, China, India, and Russia, among others. The global phenomenon of delaying child birthing until the age when pregnancy becomes a challenge makes this a very exciting quality of life add to our women's health care franchise.

Back to the quarterly results. CooperSurgical put up solid ratios, excluding one-time acquisition costs. On a non-GAAP basis, CooperSurgical's gross profit percent was 67%, while the operating income margin was a solid 25%.

On guidance, while we have had to hurdle significant head winds from foreign exchange or the Euro, if you will, we have delivered solid growth numbers. Our original constant-currency revenue has remained solid, with CooperVision achieving 10% constant currency in the third quarter of 2012. Our guidance range for CooperVision revenue for fiscal year 2012 has been narrowed, and the guidance for CooperSurgical has been increased to reflect the Origio acquisition. As a result, overall revenue guidance for the fiscal year 2012 is now $1.439 billion to $1.449 billion

Given our strong operating results for the third quarter 2012, we have increased our non-GAAP earnings per share to $5.19 to $5.24. This guidance reflects tempered earnings per share growth in the fourth quarter, given tough comps with the prior year for the hurdle of the ongoing Euro head winds for the next six months, increasing costs for the Avaira re-launch, as well as the roll-out cost of our single-use silicon hydrogel.

While it's a bit early given these factors, as well as Origio as an early post-acquisition phase, to put too much color into 2013, we do expect continued momentum going forward, with earnings per share growth in the low-double-digit range. Keep in mind, in 2013, we also have the hurdle of the 2.3% tax on women's health care products in the United States.

Our strategy, we continue with our successful strategy. We believe it is solid and it has delivered results. CooperSurgical is putting up outstanding results and is leveraging its infrastructure. This franchise was built with a solid understanding of the value of critical mass in a women's health care market, targeting the OB/GYNs. We follow the professional wherever they go -- the office, surgi-center, hospital, or IVF centers.

Although the call points are different for each, the leverage is considerable. CooperSurgical third quarter 2012 gross margin was 67%; operating margins, 25%; and due to minimal CapEx, CooperSurgical is a significant contributor to our free cash flow. We are dedicated to this strategy, and we'll continue to tuck in acquisitions to leverage the CooperSurgical structure.

At CooperVision, the strategy is more complex and is much more global in nature, the $7-billion soft contact lens industry -- because of the uniqueness of our manufacturing platforms, product portfolio -- we are the only participant that aggressively promotes silicon hydrogel, non-silicon hydrogel products -- that is the Proclear family; emphasizes branded and non-branded products -- note, private label does not mean lowered price; actively promotes and specializes in custom lenses, with a high gross profit, of course; supports all modalities that eye care professionals prescribe -- one-day, two-week, and monthly lenses; and supports all types of lenses -- spheres, torics, and multifocals.

With close to 30% share on the high-growth specialty lens categories -- torics and multifocal -- it is acknowledged by eye-care professionals that we're 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 happen. We have seen similar successes for this same reason with the Biofinity multifocal, which hit the market in the middle of last year.

On the capacity front, with the exception of Avaira Toric, we are ahead of plan to deliver considerably more product where we had been previously supply-constrained. The Biofinity family, Proclear 1 Day, our one-day torics, are all ramping up nicely. Our newest challenge would be to ramp up one-day silicon hydrogel lenses.

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 silicon hydrogel lenses, the Proclear family, and the one-day, or single-use lenses. Each creates more revenue per wearer. A one-day modality, for example, results in four times to six times more revenue per wearer. While this strategy sacrifices the gross margin percent, it generates three times to five times more profit.

Since we are shifting the wearer's resources from lens care to contact lenses only, competing for lens care dollars is more of a problem for some of our competitors. In my opinion, we continue to be the most focused Company in the industry, lacking many of the distractions that some of our competitors are now going through. I might add, with Biofinity, Avaira and Proclear, we have a lot to talk about with eye care professionals around the globe.

As we look down the road over the next several years, we expect to continue improving operating margins and delivering above-average shareholder returns. We expect to continue to 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 customizing lenses for the 10% to 20% of those lens wearers requiring other-than-standard lens sizes or designs.

We have a lot of work to do before we 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 globe. The same applies to Avaira, where the Avaira sphere has been anxiously awaiting the re-launch of Avaira Toric. The combination will put us in much better position to exploit the US two-week space owned by Johnson & Johnson, and to also exploit our private-label strategy for 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. Upsides include the elimination of the silicon hydrogel royalty, with the expiration of patents in September 2014 in the United States, and in March 2016 in the rest of the 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 requirements, however, is that they must exceed our minimum investment hurdle rates.

Additionally, the market for both women's health care and silicon hydrogel lenses are much less developed outside the US. We generate a considerable amount of cash offshore, due in part to our level of manufacturing outside the US. As such, we will continue to be aggressive -- to aggressively invest in global expansion opportunities. With over 95% of the people on the planet outside the US, we believe we will find opportunities to invest in our -- in other countries for decades to come, thereby retaining our low effective tax rate indefinitely. Finally, as was the case in the first quarter, and again in this quarter, when the stock was suppressed, we even demonstrated we are at times even willing to buy in some of our own stock.

In summary, before I turn it over to Greg, the third quarter of 2012 was another solid quarter. We continue to exceed market growth. Additionally, we put up solid revenue growth, improved our gross profit and operating margins versus the prior year, delivered solid free cash flow, and even restructured and extended our now investment-grade debt. We hit some exciting milestones by launching Avaira Toric, or re-launching Avaira Toric, and rolling out two new products, Proclear 1 Day Multifocal, and a one-day silicon hydrogel in Europe.

CooperSurgical stepped up to about a $300 million annualized run rate in revenue with its Origio acquisition, and we now have a solid number one position in the $223-million worldwide IVF market, which grew 12% globally last calendar year. We continue to make in-roads in expanding into other geographic markets, with good progress in China and its surrounding regions. In spite of an economy that remains sluggish, we remain as an industry recession-resistant, and believe consistent with the past 30-plus years, our industry will remain so into the future. Last, least I forget to remind you, our number one asset is our dedicated employees. They continue to deliver results even in poor economic times. To them, once again, a big thank you. With that, I'll turn it over to Greg.

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

Thanks Bob, and good afternoon everyone. Bob has given you a pretty thorough overview of our revenue picture, and as he mentioned, Origio is included in our Q3 results. Looking at gross margins, in Q3 the consolidated GAAP and non-GAAP gross margins were 63.5%, compared with 58% for GAAP, and 62% non-GAAP in Q3 last year. Remember now, last year's third-quarter gross margins were impacted by the Avaira Toric recall for $14.2 million, which included $13.7 million in cost of goods sold for inventory reserves, and 500K for return provisions, which were excluded from the non-GAAP gross profit last year. As you can see, we had a solid gross margin quarter, in line with our expectations.

CooperVision on a GAAP and a non-GAAP basis reported a gross margin just under 63%, versus 56% for GAAP, and 61% for non-GAAP in Q3 last year. As I just mentioned, the difference between GAAP and non-GAAP was the impact of the Avaira Toric recall. CooperSurgical had a gross margin of 67%, which compares to Q3 2011 of 65%. The continued year-over-year improvements were mainly due to manufacturing efficiencies and favorable product mix, especially in the surgical space. Origio had about a negative 60-basis-point impact on Q3 gross margins for CooperSurgical. From a guidance perspective, we're not changing our consolidated annual gross margin guidance of 63.5% to 64%, but we would expect to be at the high end of the range.

Now looking at operating expenses. SG&A in Q3 on a GAAP basis, SG&A expenses increased by 8% from Q3 last year, to $143.8 million, and were 38% of revenue, same as prior year. On a non-GAAP basis, after excluding acquisition costs, primarily investment banking and legal fees for the Origio deal, SG&A expenses increased 5% from Q3 last year to $139.8 million or 37% of revenue, down 100 basis points from last year.

Beginning in 2011, we have seen increased selling investment in both CooperVision as well as CooperSurgical. Last year we shared with you that we would be investing in this area. That investment resulted in some large year-over-year growth increases in the first half of 2012, due to our ramp-up of spending which began in Q2 2011, which resulted in a run-rate impact on Q1 and Q2 2012. Now, in 2003, we start to see those 2011 investments in both years, which as you can see, has reduced the year-over-year growth rates. That's kind of a follow-on. SG&A on a non-GAAP basis increased only 2% sequentially.

On the R&D front, in Q3 R&D increased by 12% year-over-year to $13.2 million, or up about $1.4 million, and was 3.5% of revenue, up from 3.3% in Q3 2011. This increase is mainly attributable to additional staffing in both businesses, as well as a variety of spending on new product development and clinicals. We would expect that R&D will grow faster than sales for the remainder of the year.

Total operating expenses were 43% of revenue, similar to Q3 2011, and grew at about 8%. We are starting to see leverage in the second half, and we continue to expect operating expenses to finish the year in the range of 43% to 44% of revenue. Depreciation and amortization in Q3, depreciation was $21.9 million, up $2.1 million, or 10% year-over-year. Amortization was $5.9 million, up $400,000, or 7% year-over-year, for a total of $27.8 million. The current estimate for the annual impact of Origio on our amortization is approximately $8 million, and we took about $643,000 into our Q3 amortization number.

Moving to operating margins. For Q3, consolidated GAAP operating income and margin were $77.3 million, or 20% of revenue, versus $52 million, or 15% of revenue, in Q3 2011. This represents a 49% increase in operating income over Q3 2011. On a non-GAAP basis, which excludes the Origio acquisition cost in the current year, and the $14.2 million impact of the Avaira Toric recall in Q3 2011, operating income and margin were $81.3 million, or 21.5% of revenue, versus 19% in the prior year.

Interest expense was $2.3 million, and we were expecting, or are expecting, Q4 2012 to be approximately $2.5 million. This should bring in the year on a non-GAAP basis to be about $11.5 million to $12 million for the year.

As we mentioned last quarter, we amended our senior unsecured credit facility. You can read the details in our 8-K filed on May 31. We took advantage of our S&P credit upgrade to investment grade to strengthen our capital structure. The amended facility is slightly larger, offers better pricing, and maturity has been extended to May 31, 2017. In Q3 on a GAAP basis, we wrote off $1.4 million in unamortized debt issuance costs from the prior refinancing, which can be seen in the Loss on Extinguishment of Debt line.

Included in the Other Expense Income line is approximately $2.3 million of FX losses. As you'll remember from a few months ago, we experienced relatively sizable currency moves, especially with Euro. This results in some FX losses associated with our inter-company loans. We do our best to minimize these types of losses or gains through our balance sheet hedging program, but we do experience fluctuations every quarter, so we will always have some gains or losses. Last year's third- quarter showed a gain of approximately 500K.

On July 11, we announced that in conjunction with the voluntary public tender offer announced on June 4 of this year, that we completed the purchase of approximately 97% of the issued shares outstanding of Origio, a leading global in vitro fertilization medical device company, for an enterprise value of approximately $197 million, including $147.4 million in cash, assumed $45.4 million of net debt, which was repaid shortly after the completion of the deal, and approximately $4.5 million yet to be paid as of July 31 for the remaining shares.

We are in the process of formally transferring all remaining shares to the Company, which should happen by the end of the calendar year. As Bob mentioned, we are excited to strengthen our position in the IVF business. This deal provided an excellent opportunity to expand our women's health care franchise, while using our significant offshore cash. For more details on this transaction, see our 8-K filed on July 11.

Looking at our effective tax rate, in Q3 the GAAP and non-GAAP effective tax rate was 6.2% and 6.1%, respectively, versus Q3 2011 GAAP and non-GAAP effective tax rate of 10% and 11.2%. As we've discussed before, the effective tax rate continues to be below the US statutory rate, as the majority of our income is earned in foreign jurisdictions with the lower tax rates. We did see significant one-time benefits due to changes in the UK tax rate from 25% to 23%, which was enacted on July 17 this year, as well as other positive impacts to our deferred tax liabilities. Without these one-time items, the effective tax rate would have been approximately 10% for the quarter.

We are expecting our GAAP and non-GAAP effective tax rate for Q4 in the range of 9.5% to 10.5%, and the year to be in the range of 9% to 10%. For those of you following the stock option compensation, Q3 was $4.6 million. On to EPS. As Bob mentioned, our Q3 EPS on a GAAP and a non-GAAP basis was $1.36 and $1.45, respectively, versus $0.90 and $1.15 on a GAAP and non-GAAP basis in Q3 2011.

On December 15, 2011, we announced that the Company's Board of Directors had authorized a share re-purchase program of up to $150 million. As of the end of the first quarter, the Company purchased approximately 663,000 shares of the Company's common stock for $46.1 million, at an average purchase price of $69.58 per share. In July, the Company purchased an additional 321,000 shares of the Company's stock for $25 million, at an average purchase price of $77.89 per share. This quarter's share re-purchase, due to the timing, had no notable impact on EPS this quarter. The entire program is expected to have about a $0.06 impact for the year.

Looking at the balance sheet, in Q3 we had cash provided by operations of $78.1 million; capital expenditures, $24.1 million; insurance recovery of $1.9 million; and excluding professional fees on the Origio acquisition of $7 million, results in about $62.9 million of free cash flow. Total debt increased within the quarter by $161 million to $480.1 million as a result of our purchase of Origio in July. Debt as a percent of the total capitalization is now 19%. This leaves us with approximately $546 million of total credit available at July 31.

Inventories increased by $15.6 million from last quarter, of which $9.3 is directly related to Origio. For the quarter, we're seeing months on hand at 6.6 months, up from months on hand of 4.9 months in Q3 2011; or if you adjusted for the Avaira recall, would have been 5.9 months on hand.

Excluding Origio, the majority of the inventory increase is primarily due to our single-use silicone lens ramp-up and our Biofinity Toric product. Accounts receivable continues to be closely monitored with DSOs at 52 days, down from 55 days last year. With that, let me turn it back to Kim.

Kim Duncan - *Cooper Companies Inc - Director, Investor Relations*

Operator, I think we're ready for some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan - Analyst*

Hi, can you hear me okay?

Bob Weiss - *Cooper Companies Inc - President & CEO*

We can hear you fine.

Kim Gailun - *JPMorgan - Analyst*

Good. I guess if I'm limited to one question, I'd like to pick up on the 2013 commentary that you made in your prepared comments, Bob. You made a comment that you're expecting another year of -- well, a year of low-double-digit EPS growth; then you noted the Medtec tax there for women's health. I just wanted to clarify that you're talking about double-digit EPS growth despite the tax and currency head winds?

Bob Weiss - *Cooper Companies Inc - President & CEO*

That's correct.

Kim Gailun - *JPMorgan - Analyst*

Okay, great. If I could squeeze in a follow-up, just curious with the new product launches in the quarter, so silicone hydrogel daily and then re-launch of Avaira Toric, could you guys clarify the impact of those two in the quarter?

Bob Weiss - *Cooper Companies Inc - President & CEO*

Yes, new products was fairly de minimis in terms of impacting top-line growth. By de minimis, I mean we got products out the door. The impact on our third quarter was less than 1% in aggregate.

Kim Gailun - *JPMorgan - Analyst*

Thank you.

Kim Gailun - *JPMorgan - Analyst*

Nice quarter.

Bob Weiss - *Cooper Companies Inc - President & CEO*

Thank you.

Operator

Lawrence Keusch, Raymond James.

Lawrence Keusch - *Raymond James & Associates - Analyst*

Quickly here, with the Origio deal now being closed, obviously good strategic acquisition for you guys, used OUS cash. I'd love to get any thoughts on how you're thinking about the EPS, excuse me, accretion for next year? Then the other quick one is, just given all the startup expenses for Avaira, getting that out and the one-day silicone, I'm just curious how that impacted your gross margin? I'm just trying to understand what sort of underlying gross margin level you're going at right now?

Bob Weiss - *Cooper Companies Inc - President & CEO*

Yes, as far as the impact of the Origio acquisition on 2013, we're still expecting it to be marginally accretive next year, and near a break-even this year, as far as its impact on this year. Relative to Avaira Toric re-launch and the single-use silicone, given the revenue was so small on the quarter, it had marginal impact on our margins for this period of time. In the fourth quarter guidance, as well as in our outlook for next year, assume that the re-launch of Avaira Toric and the roll-out of single-use silicone is going to be more -- certainly a negative in terms of margins, since we're investing behind both products.

Since you may recall that Avaira Toric, when we fixed the problem that led to the recall, it did result in a step-back of efficiency of making that product -- ballpark 30% -- so we do have to hurdle some of that going forward. Longer term, we expect like anything else, we'll get more and more efficient, gain some of those costs back, but short-term, meaning over the next year, year and a half, we're going to have some weighting from that, which is built into our 2012 guidance, and built into the comments I made about expecting low double-digit growth in earnings per share next year.

Lawrence Keusch - *Raymond James & Associates - Analyst*

Okay, great. Thank you.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Could you please comment on the competitive landscape? There was a lot of noise inter-quarter regarding some of your competitor product launches.

Bob Weiss - *Cooper Companies Inc - President & CEO*

Yes, the competitor product launches, I would say there's -- one of our competitors came out with a non-silicone hydrogel lens that thus far we haven't heard any -- let's see, catching momentum in the marketplace. Silicone hydrogel lenses in the one-day modality still are what I would call nichey. While they're getting a lot of noise, it's more noise than results in terms of how it's impacting the entire market.

I think we have collectively more going on with the Proclear 1 Day Multifocal, which is getting a fair amount of positive reviews, and certainly can see some of its impact on our multifocal numbers. While it's early with our roll-out of Biofinity, I mentioned Biofinity Multifocal, I should have said Biofinity Toric coming back -- going into the Japanese market. We have plenty of new product activity out there, more so than any of our competitors.

Joanne Wuensch - *BMO Capital Markets - Analyst*

If I could squeeze one in, please. Origio, how much did that contribute in the quarter?

Bob Weiss - *Cooper Companies Inc - President & CEO*

$5.6 million on the top line and negligible impact on the bottom line.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you very much.

Operator

Jeff Johnson, Robert Baird.

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

Thank you. Can you guys hear me okay?

Bob Weiss - *Cooper Companies Inc - President & CEO*

Can hear you fine.

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

All right. Thanks, Bob. Two quick questions here. One on the Biofinity product line, 35% constant currency growth this quarter. If I back out the Avaira side of that business, what did Biofinity itself grow, or can you at least ball-park it? It's still up in the good 20%-plus range? Two, is the blended margin on that product on the Biofinity family, if I tried to roll all that together, is that north of 65% at this point?

Bob Weiss - *Cooper Companies Inc - President & CEO*

Relative to gross margins for Biofinity, which is a monthly and is in the premium category, suffice it to say north of 65. Relative to the growth of Biofinity, when compared to the overall growth of the silicone hydrogel family, which is 35% worldwide, suffice it to say Biofinity's growing a lot faster than 35%.

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

Okay, great. Then last question, just on your daily disposables business. It was up 13% constant currency this quarter. Obviously, the competitive daily silicone lenses have been out in Europe for at least nine months at this point from CIBA. Obviously, a couple years for J&J. That's at least some proxy, I would think, the European daily market, some proxy for what we could expect a year or two from now in the US. What was your daily disposable business in Europe? How did it do this quarter against some of those competitive products?

Bob Weiss - *Cooper Companies Inc - President & CEO*

Daily disposables in Europe certainly performed and held their -- let me see before I jump the gun on that one. We held our own, grew. Oh, I know what I need to do. I was almost going to give you the fact that it was fairly flat year-over-year, but that was only a result of foreign exchange, the Euro. In constant currency we certainly had the same growth rate in -- let me look at that. Let's say double-digit growth in Europe in constant currency. It held its own, meaning Proclear 1 Day is doing well in the one-day market, not only rest of the world, but also in Europe.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Company - Analyst*

Hi guys, thanks for taking my question. Given the softer results you saw last quarter, I know you guys made the comment that you're going to tighten up expenses a little bit, which it looks like you guys did a good job of this quarter. Just wondering what your thoughts were now that the revenue and organic growth came back this quarter. How are you guys managing and how tight are you managing SG&A expenses?

Bob Weiss - *Cooper Companies Inc - President & CEO*

We are -- we certainly, as the Euro did its thing to our second-quarter results, tightened our belt. To some degree, we tightened our belt because we had been rapidly expanding our operating expenses, investing in feet on the street, if you will, investing in R&D, and investing in geographic expansion. Some of that we will continue to do. The things that we went slower on were those that were easier things to do that didn't impact the business, such as instead of always getting on a plane and flying, having a face-to-face meeting, more conference calls.

When have you a lot of people criss-crossing the globe, if you put a cap on what's crucial to be face-to-face, what's not, you can save a fair amount of money. Ultimately you want people in front of people, because they form better bonding and all that, so it's something you don't do forever, but you can do that in short-term matters, if you will. I would say the things we did in the quarter by way of holding back expenses were easy to do, as opposed to tough decisions and any reduction in force, if you will.

Going forward, there are areas that we clearly are intent on putting resources behind. I would say we are building some momentum in, for example China, where we've hired a few key critical people to manage that process. That will lead in more investment opportunity in China as we've started to build the infrastructure. That's been going on all along. We did not slow that up. We in fact hired the key people we needed over the last six months.

That will continue to allow us to grow more in that area and invest more in that area. We didn't want to get the cart in front of the horse and start hiring a bunch of people on feet on the street without having the management oversight. Relative to investment in new products and the relaunch of Avaira Toric, suffice it to say we will be over the next 12 to 15 months investing fairly substantially in some of those areas behind the new products.

Operator

Matthew O'Brien, William Blair.

Matthew O'Brien - *William Blair & Company - Analyst*

Good afternoon. Thank you for taking the question. Just was curious on the CVI guidance for Q4. When I look at the high end of the range, it implies a growth rate of around 5.5%, which is basically what you just put up in fiscal Q3, even though the comparison gets a little bit easier here in Q4. I'm just curious why the caution into Q4, given the strong momentum you're seeing in the business?

Bob Weiss - *Cooper Companies Inc - President & CEO*

In our guidance, obviously we had a fair amount of impact of foreign exchange in the third quarter, $14 million, and we [expect around a $12 million impact in the fourth quarter] (corrected by company after the call), given year-over-year comps. In organic constant currency, I think our guidance fits that range of what we just delivered at the top end.

Operator

Larry Biegelsen, Wells Fargo.

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

On daily products, can you tell us a little about where the margins are, how the manufacturing's going? Is it still a drag on the margin, when you'll get the stable margin there, and are you still capacity constrained for one-day? Lastly, for the analyst meeting next week, Bob, can you talk a little bit about whether you'll give long-term financial goals, and any other flavor, what we can expect from the meeting? Thanks.

Bob Weiss - *Cooper Companies Inc - President & CEO*

As far as the gross margin of one-days, in general we've been doing a pretty good job of getting cost out. Keep in mind that the bulk of our one-day product is essentially all non-silicone hydrogel and that's a lot of Proclear 1 Day, as well as some in Japan, for example, some products other than the Proclear material. But in both cases, both materials, Proclear and non-Proclear, we've done a good job of cost-cutting, which has led to what I would call improvingly respectable one-day margins, but keep in mind, those margins will still have a hard time of ever achieving that of a two-week or monthly. There's no expectation they'll get that high.

There will always be -- I think I used the 50, 60, 70s example. Typically the one-day will be in the 50s some place, and you're doing good if you're in the top half of the 50s. Some of our products are there. In the two weeks, you should be in the 60s some place, and then the monthlies you should be in the upper 60s into the 70s, usually. In our case, Biofinity is the lead product, and there we expect it to stay well north of the 70s. As far as for the answer to that, one-day, while it's becoming a bigger part of the overall mix, that's a negative on the positives, it's getting a better gross margin. We will step back relative to the roll-out of the one day silicone hydrogel. That is not just not going to be a high-gross-margin product for the near future, if you will.

Analyst meeting, we will give some flavor where we are going directionally, but we are not -- we will not get into giving more color on let's say guidance on 2013. Directionally, we will talk about why we expect operating ratios to continue to improve into the future, and put some color behind that. But a lot of it will focus in on putting a lot more meat and color behind what we talk about our businesses, what they look like in more -- in greater detail.

Operator

Chris Cooley, Stephens.

Chris Cooley - *Stephens Inc. - Analyst*

Thank you and good evening. I appreciate you taking the questions. If you could, Bob, could you tell us a little about the new product pipeline for Origio -- products like EmbryoGen, EmbryoSure, and Iloprost. Is that included in your guidance when you're thinking about the modest accretion for next year? Just for clarification, if I could squeeze two in like everybody else, you said in your prepared comments that you were ahead of plan in terms of your manufacturing capacity on all but one product now. Could you maybe just remind us again where you are in terms of production capabilities? Thanks so much.

Bob Weiss - *Cooper Companies Inc - President & CEO*

On the Origio side, of course, we haven't given revenue guidance for next year. We did indicate that from an accretion point of view it's accretive. There is no change to that and there is in our underlying assumptions no major product launches in 2013, but of course Origio is actively working on -- they have a R&D pipeline, if you will, that anticipates some new products coming through it. We will add a little bit of color to not only Origio, but the rest of surgical at the analyst meeting, so that may lend some more thoughts in that line of questioning.

As far as the capacity, we are in good shape with capacity relative to most of our one-day line, ex the silicone hydrogel, meaning the Proclear family as well as the non -- the other hydrogel families are not capacity-constrained. Biofinity continues to ramp up nicely. We are not capacity-constrained with Biofinity, and we continue to endeavor to keep up with the growth curve.

When you have a business growing north of 35% constant currency, and you have lead capital requirements of 12 months plus, then you better always stay on top of it from a CapEx point of view, which we are doing. I don't anticipate that would, at this juncture, will catch us by surprise off of a product line, with our silicone hydrogels doing north of $118 million, so now at a run rate of close to $500 million annualized. Assume that is predominantly Biofinity, gives you some gauge at the capacity we have in that arena already.

The products where we are constrained is the Avaira line; not only constrained on the Toric, but somewhat on the sphere side, partly because we stepped back and gave up some productivity when we had the recall episode. Aside from that, we are ramping up in those areas and we are ramping up in the one-day silicone hydrogel modality. I would assume both Avaira Toric and the one-day silicone hydrogels will be somewhat constrained for at least the next 12 months in terms of our ability to sell all we can make. It would be the case of the one-day silicone hydrogel more than 12 months.

Operator

Anthony Petrone, Jefferies.

Anthony Petrone - *Jefferies & Company - Analyst*

Thanks for taking my question. Just going to sneak a couple in there. One quick for Greg. The 9% to 10% tax rate guided for the fourth quarter, is that reflective of noticeable benefits from Origio, given their overseas revenues? Is that sort of the rate we should be thinking about for 2013? I think it's down from 10% to 11%. For Bob, just multifocals is a smaller portion of the overall business, but it's growing double the market based on the latest statistics, your business is. Is that mostly Biofinity-related or Proclear-related within the multifocal category? Thanks.

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

Yes, so I'd go on for the tax rate, one we're not giving guidance for next year at this point for the effective tax rate. We obviously just purchased Origio. We are evaluating their structure. They do have a lot offshore. At this point we don't see a strong difference or strong impact to our tax rate. Again, we still are looking and evaluating that with our tax professionals. Their rate, to what extent is included in the 9.5% to 10.5% for the fourth quarter guidance that Bob mentioned, or I mentioned earlier.

Bob Weiss - *Cooper Companies Inc - President & CEO*

As far as the multifocal growth, of course the market for the quarter was 11%, the calendar quarter, and we were 31%. On a trailing 12-month basis, the market growth for multifocal was 10%. We grew 21%, 2X. The driver clearly is Biofinity Multifocal, and we are starting -- just starting to build momentum in our roll-out of Proclear 1 Day Multifocal. That would have had insignificant impact given the fairly small size in the last quarter on any of those numbers. Assume that essentially the trailing 12-month number is essentially all the Biofinity impact driving.

Operator

Amit Bhalla, Citi.

Amit Bhalla - *Citigroup - Analyst*

Hi. Bob, I just had two quick ones. First on Origio, with the deal closing on July 11, you booked $5.6 million in the last two weeks, so can you just explain how you booked that much in just two weeks? Second, on fiscal 2013, since you indicated that you probably won't be talking much about guidance at the analyst meeting, can you at least put some context around how you're thinking about the top- line growth for 2013, either relative to the market, or in absolute terms? Thanks.

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

Amit, I'll jump in and take the Origio question, this is Greg. The $5.6 million is -- was booked for the entire month of July. We looked at, because of the fact that we were closing so quickly, their ability to be able to break out the revenue from the 11 forward. We ended up taking the whole month. In evaluating, we did an analysis evaluating the amount of difference in that seven business days because they're more back-end loaded. The $5.6 million, even though it's the full month, we believe there wasn't a whole lot, in fact we were thinking of something around $1 million, $1.5 million difference between a whole month and a full year. I'm sorry, the whole month and the cut-off period.

Bob Weiss - *Cooper Companies Inc - President & CEO*

As far as 2013 and going forward how we're thinking about the market from a conceptual point of view, we expect the market to continue to grow modestly in that range of 4% to 6%, still in a quasi-sluggish economy. Some day I clearly expect that to accelerate beyond the recession. While we say we are recession-resistant, we are still somewhat impacted. When the global economy improves, I would expect the 4% to 6% to up-tick higher than a midpoint of 5%.

In terms of how to think about our performance within the market, we'll continue to expect to gain share with the new products we offer with the geographic expansion and our general existing portfolio of products, such as Biofinity, we will gain share. In the past, we've been gaining at 1.8%

to 1.9%, the market growth, essentially all we're saying in the future is we will gain share. Whether or not we achieve the same level we're not going to, if you will, refine that thinking other than to say we will continue to up-tick and gain share in our view.

I would emphasize that as a trailing 12-month basis, as opposed to what we gain share in each and every quarter. One quarter a trend does not make. I wouldn't get too hung up on any one quarter. I would get hung up if we were losing share on a trailing 12-month basis. As far as surgical, of course surgical will be impacted by the annualization of Origio, which brings with it north of $60 million in revenue, and we expect that to grow organically as well as contribute from the acquisition. Surgical has been growing ex-Origio, generally in that 6% to 8% range, and we would expect it to continue to be upper, mid- to upper-single digit growth going forward.

Operator

That will conclude today's Q&A session. I would now like to turn the call over to Mr. Bob Weiss for some closing remarks.

Bob Weiss - *Cooper Companies Inc - President & CEO*

I want to thank everyone for joining us on this call, and we look forward to seeing many of you in New York next week, and also reporting in December on our year-end financial results. The year is certainly flying by. We're excited about the conclusion of the year, and the execution this year and looking forward optimistically to 2013. On that, have a good evening.

Operator

Ladies and gentlemen, that will conclude today's conference. Thank you very much for joining us, and you may now disconnect. Everyone have a great day.
