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# COO - Q1 2011 The Cooper Companies, Inc. Earnings Conference Call

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the first quarter 2011 The Cooper Companies, Incorporated earnings conference call. My name is Yvette and I will be your operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the conference. (Operator Instructions)I would now like to turn the call over to Kim Duncan, Director of Investor Relations. Please proceed.

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

Good afternoon, and welcome to The Cooper Companies' first quarter 2011 earnings conference call. I'm Kim Duncan, Director of Investor Relations. And joining me on today's call are Bob Weiss, President and Chief Executive Officer; Gene Midlock, Senior Vice President and Chief Financial Officer; and Al White, Vice President, Investor Relations and Treasurer.

Before we get started, I'd like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market conditions, and integration of any acquisitions. Forward-looking statements necessarily depend on assumptions, data, or methods that may be incorrect or imprecise, and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the Company to differ materially from those described in forward-looking statements are set forth under the caption Forward-looking Statements in today's earnings release and are described in our SEC filings, including the business section of Cooper's annual report on form 10-K. These are publicly available and on request from the Company's Investor Relations department.

Now, before I turn the call over to Bob, let me comment on the agenda for the call. Bob will begin by providing highlights on the quarter, followed by Gene, who will then discuss the first quarter financial results. We will keep the formal presentation to roughly 30 minutes, then open up the call for questions. We expect the call to last approximately one hour. We request that anyone asking questions please limit yourself to one question. Should you have any additional questions, please call our Investor Line at 925-460-3663, or e-mail IR@coopercompanies.com. As a reminder, this call is being webcast and a copy of the earnings release is available through the Investor Relations section of The Cooper Companies' website. With that, I'll turn the call over to Bob for his opening remarks.

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

Thank you, Kim, and good afternoon, good evening, everyone. Well, another great quarter, a great start to the new fiscal year.

The momentum from 2010 continues. The first fiscal quarter, we had an outstanding top line growth of 13%, 12% in constant currency, delivering $293 million in revenue. Our non-GAAP earnings per share with solid gross profit percentages, compared to the prior year achieved $0.85, up 73% from the prior year. GAAP earnings per share of $0.96 was up even higher at 118% above the prior year. We delivered yet another strong free cash flow quarter of $44 million, hurdling $29 million in CapEx. Importantly, we refinanced $1 billion of credit, with a $750 million revolver, and a $250 million term loan facility. We also closed on our acquisition of Aime in Japan, gaining access to the Japanese silicon hydrogel market.

Key takeaways from today's call, we finished another terrific quarter. We continue to gain share in soft contact lenses. In the calendar quarter ended December 31, the market grew 5% in constant currency. We grew 12% in constant currency during that same period. Importantly for calendar year 2010, the market grew 5% and we grew 10%. Our silicon hydrogel continued to drive growth, up 56% constant currency in the fiscal quarter.

For the fiscal quarter, we delivered $0.85 non-GAAP earnings per share, ex the final Norfolk quarterly charge and the acquisition accounting entries. Our Biofinity Multifocal rollout remains on target for the second half of fiscal year 2011. Our free cash flow came in at $44 million, once again hurdling $29 million in capital expenditures. Our refinancing will show dramatic benefits post the February takeout of the senior notes, which is going to be accretive $0.08 for the fiscal year going forward.

We further delivered star balance sheet to only 26% debt to total cap, versus 40% only two years ago. With capacity at Biofinity ramping up, we are in a position to launch Biofinity into the second largest silicon hydrogel market in the world, which is Japan. This will also happen in the second half of the fiscal year. Our silicon hydrogel family, Biofinity and Avaira, is driving growth. During the first quarter, they achieved $62.6 million in revenue. That's a 56% increase versus the prior year first quarter. Biofinity Toric continues to drive growth.

We continue to make good progress at rolling out production lines, targeting four adds during the calendar year 2011. By the end of the calendar year, we should be able to support a $400 million product family on an annualized basis. While Biofinity Multifocal rollout remains on hold, we are gearing up for second half fiscal year rollout. We're also making some solid progress ramping up Avaira Toric production, which is allowing us to make an available -- make available nationally a rollout in the third quarter of the fiscal year.

All in all, we are on plan for some great second- half rollouts, as we keep the momentum of our silicon hydrogel progressing. This was also included in the -- this will also include the launch of Biofinity in the second half of the fiscal year into the $335 million silicon hydrogel market in Japan. Geographically, the foreign exchange dynamics are the same as the last two quarters. We had very respectable growth in all theaters in Q1. Americas was up 12%, Europe 7%, Asia-Pacific up 25%, overall, 13%. In constant currency, the Americas was up 11%, [Europe 11%] (corrected by company after the call), Asia-Pac was up 15%, and overall our constant currency growth was 12%. In constant currency, regional drivers are, in the Americas, the Americas is trading up in silicon hydrogel and bouncing back. And we're bouncing back in the Toric space with Biofinity Toric. In Europe, we're developing our silicon hydrogel franchise nicely, as well as our Toric presence. In Asia-Pac, growth is about one-half acquisition, which is Aime, and one-half internal growth, a solid one-day performance. The market finished the calendar year and the fourth quarter hitting the top end of our previous 3% to 5% estimates.

Highlights of the quarter ended December 31, include the market was up 5% and CooperVision was up 12%. We grew 2.4 times the market. The market was followed across the board with one-day up 5%, Torics up 8%, [Multifocals up 14%] (corrected by company after the call) and silicon hydrogel up 19%, all in constant currency. Silicon hydrogel now accounts for 41% of the worldwide soft contact lens market. Regionally, the Americas turned in a stellar 9% growth with strength across the board. Europe also did well, up 7% in constant currency on the strength of Multifocal, Toric, Spheres and silicon hydrogels. In Asia-Pacific, languished at 1% negative constant currency, but showed some life in silicon hydrogel and Toric, while the one-day market was flat.

CooperSurgical, our women's healthcare franchise, had another outstanding quarter, up 12%, 7% ex acquisitions. Drivers of its growth continue to be surgical procedures, hospital and same-day up 23%, accounting for 37% of CooperSurgical in the quarter. [Fertility was up 10%] (corrected by company after the call), all internal growth, and was 7% of CooperSurgical's quarterly revenues. Office visits remain soft, reflecting the weak economy in women putting off their checkups with their gynecologists. Office growth reflects the Her Option acquisition. Overall, surgical continues to put up stellar operating ratios, with 25% operating margins, with a 3% improvement in our gross margin to 64%, partially offset by investments in sales and marketing, as well as research and development. In spite of these investments, our operating income improved 1% of revenues for the fiscal quarter.

Guidance, we saw updated guidance. Given the strength of our first quarter and outlook for 2011, we have increased our 2011 guidance. For the fiscal year revenue has been increased at CooperVision to $1.070 billion to $1.085 billion, with greater confidence in launch timing. Our earnings per share has been increased to $3.60 to $3.80. The non-GAAP earnings per share range has been increased to $3.70 to $3.90. In addition to the benefits of higher projected revenue leading to greater operating profits, this improvement also reflects the benefits of favorable free cash flow and refinancing yielding interest cost savings. And finally, a reduction in taxes brought about by the success of our Norfolk shutdown, and its manufacturing transfer outside the United States, as well as profit mix with the Biofinity successes.

Net net-net we increased our non-GAAP earnings per share guidance by $0.40 and our free cash flow by $20 million for fiscal year 2011. I might add, our guidance continues to anticipate the national rollout of Avaira Toric, the launch of Biofinity Sphere in Japan's $334 million silicon hydrogel market, as well as the launch of our Biofinity Multifocal, all in the second half of the fiscal year. From a strategic point of view, there is no shift in our successful strategy. We believe it is solid and has delivered solid results.

CooperSurgical is putting up outstanding results and is leveraging operating ratios. The franchise was built with a solid understanding of the value of critical mass in a women's healthcare market, targeting the OB/GYN. We follow the professions wherever they go, office, surgery center, hospital or IBF centers. Although the call points are -- differ for each, the leverage is considerable. CooperSurgical's Q1 '11 gross margin was 64%, operating margins were 25%, and due to minimal capital expenditures required, CooperSurgical significant contributor to free cash flow. We are dedicated to the strategy and will continue to acquire tuck-ins that CooperSurgical can leverage.

At CooperVision, the strategy is more complex and is much more global in nature. In the $6.4 billion silicon hydrogel -- I'm sorry, soft contact lens market -- industry, because of the uniqueness of our manufacturing platform, the product portfolio, we are the only participants that follow the complex strategy, which makes us the only company that can promote silicon hydrogel and non-silicon hydrogel. That is our Proclear family of products, who emphasizes branded and non branded products, but I might point out that private label does not mean lower price product. That actively promotes and specializes in custom lenses with a higher gross profit percentage there, of course. That supports all modality that the eye care professional prescribes -- one-day, two-week, and monthly. And that supports all types of lenses -- Spheres, Torics, and Multifocals. With close to 30% share in the specialty category, Torics Multifocal, it is accepted that we are pretty good at the specialty lenses. Few would challenge why the success of Biofinity Toric, or astigmatism, is there. Put a great design together with a great material, and great things can and do happen.

We have high expectations for the same reason with the Biofinity Multifocal, which hits the market in fiscal year second half 2011, that it will also be a tremendous success. On the capacity front, things are generally on plan to deliver considerably more product where we are currently supply constrained -- which is Biofinity, Avaira Toric, Proclear 1 Day, as well as One-day Torics. On pricing, we, like 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 is more revenue per patient or wearer. The one-day modality, for example, results in three to five times more revenue per wearer. While this strategy sacrifices the gross margin percent, it generally generates two to four times more profit per patient. Of course, the strategy also competes directly with lens care space and so we are shifting wearers cost from lens care to contact lens products. In my opinion, we also continue to be the most focused company in the industry, lacking many of the distractions that some of our competitors are now going through.

Also with Biofinity, Avaira and Proclear, we have a lot to talk about with the eye-care professionals around the world.In summary, then, before I turn it over to Gene, I'll wrap up by emphasizing that the first quarter 2011 continued our string of great quarters. We delivered on the top line gross margin percent, operating percent, earnings per share, free cash flow, deleveraging and value enhancing projects. Our silicon hydrogel families are doing great, up 56% in constant currency. Our non-silicon hydrogel family, Proclear, grew 9% in constant currency. Our CooperSurgical top-end strategy continues to show outstanding results, quarter after quarter, year after year, with an impressive 64% gross margin in the quarter. Our GAAP earnings per share at $0.96 was up 118% from the prior year. Our non-GAAP earnings per share of $0.85 in the first quarter was up 73% versus Q1, 2010.

We started off the fiscal year with another solid free cash flow quarter at $44 million, hurdling $29 million of CapEx. Importantly, we have refinanced our debt in February with a new $1 billion credit facility taking out our expenses on the $339 million, 7.125% senior note, saving interest going forward. Our success allowed us, yet again, to increase guidance noticeably on all levels -- revenue, earnings per share and free cash flow. We remind you that our number one asset is our great family, our team of executives, and other employees, who together make these results happen. To them, another huge thank you. And on that note, I'll turn it over to Gene.

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

Thank you, Bob. Good afternoon, everyone. Bob summarized the details of our Q1 revenue growth in sufficient detail, so I will briefly address the highlights of the remainder of the P&L and the balance sheet. Starting with the gross margin , our GAAP gross margin was 60%, compared to 58% in Q1 last year. Non-GAAP gross margin was 61%, versus 58% in Q1 last year. CooperVision reported a GAAP gross margin of 59%, versus 57% last year and a non-GAAP gross margin of 60%, versus 58% last year. The increase was attributable mainly to product mix, increased manufacturing efficiencies, which was partially offset by the expenses of the shutdown in Norfolk. CooperSurgical had GAAP and non-GAAP gross profit margins of 64%, which is higher than the 61% it had last year in Q1. Again, this was attributable to manufacturing efficiencies and favorable product mix. In Q1, SG&A on a GAAP and non-GAAP basis, increased by 13% from Q1 of last year to $113.5 million, and with 39% of revenue, approximately the same as last year. This is generally attributable to increased sales and marketing expenses, commissions, new hires, and other types of costs associated with higher revenue and new product launches. In Q1, R&D increased by 28% from Q1 last year to $9.7 million and were 3% of revenues, the same as last year. This increase is attributable to additional staffing and costs associated with increased clinical trials for a variety of products.

Restructuring charges. As we started in third quarter of '09, we announced that we were going to move and close our Norfolk, Virginia manufacturing facility and move production to the UK and Puerto Rico. And this plan was successfully completed in this first quarter. The total cost of the plan was $23.1 million, which was less than the $25 million we originally estimated. In Q1, we recorded a charge of approximately $1.9 million.

Looking at other operating expenses, you'll note an item in the P&L for nonrecurring operating expense, which happens to be a credit, and apparently it would look a little strange to most people. As Bob mentioned, on December 1, we purchased certain assets of Aime from Osaka Corporation. Among the assets acquired were several preexisting contractual relationships that we had with Aime prior to the acquisition. One of these, which we inherited from Ocular Sciences, was considered to be unfavorable to us. In accordance with the accounting guidance, we recorded a settlement gain of $6.1 million as a result of the termination of this agreement. This gain increased the purchase consideration and related goodwill, but it is excluded from our non-GAAP results, consistent with other acquisition items. That's why our non-GAAP EPS exceeds our -- I'm sorry, our GAAP EPS exceeds our non-GAAP EPS, which is generally the opposite. As a result of the foregoing, operating margin on a GAAP basis was 19% of revenue, which increased from 14% last year. On a non-GAAP basis, was 17% of revenue, up from 15% last year.

During the quarter, interest expense decreased 32% to $7 million from Q1 last year, and that's a result of our reduced borrowing. For the year, we expect it to be approximately $25 million, down from the $31 million previously forecast, as a result of the refinancing that Bob previously mentioned. Our GAAP effective tax rate in Q1 was 3.9%, versus 16.4% last year. On a non-GAAP basis, effective tax rate was 6.7%, versus 18.2% last year, a significant decrease, and it was mainly attributable to three types of items. The first was a shift of income to lower tax jurisdictions. As Bob mentioned, we closed Norfolk, so a lot of the revenue that was earned in the US from the manufacturing of those products is now earned in lower tax jurisdictions.

The second significant element was, there was a reduction in the statutory tax rates in many of the countries around the world where we do business, such as Canada was decreased by 2.6%, Korea by 13.2%, UK by 1%, Taiwan 8% and so forth. And lastly, the decrease was attributable to the retroactive effect of the Tax Relief Act of 2010, which was signed on December 17 by President Obama. This had the effect of making all of the tax saving provisions retroactively in place back to January of 2010. The key ones for us are the research credit and certain of the subpart F rules. So, in substance, in Q1, we booked 22 months of research credit in calculating our effective tax rate because of these provisions. For the full year, we now expect the effective tax rate to be in the 8% to 10% range, down from the 14% to 16% range we previously provided. And the question is, is that sustainable? Well, we think it is, but, of course, that depends on whatever legislation may be passed in the US.

President Obama submitted his budget in February and it contains a lot of the tax increasing provisions that he had tried to pass in the prior two years and we'll have to see how that ultimately winds up. Interesting note, Ben Bernanke, yesterday -- Chairman of the Federal Reserve, indicated that the US ought to go to a territorial tax system, which would exempt all foreign earnings from US tax when repatriated. Very interesting comment and I'm certain all the multinationals in the US would welcome that to make us competitive with the rest of the world which has such systems.

We continue to receive questions regarding the Puerto Rican excise tax which was recently enacted. And I think, sorting through the questions, most of the confusion stems from one of the regulations that defines the value upon which the tax is levied. After consultation with our advisors, as well as talking with the government, including the undersecretary, in our case, it's clearly the transfer price, it's the amount on the bill that we charge -- Puerto Rico charges for those goods that it produces to our affiliates. Like I say, the Puerto Rican government at this point agrees with us that that is correct. And further, as we mentioned earlier, the tax is clearly immaterial for us in 2011 and going forward. Earnings per share for 2011 will be impacted by approximately $0.02, a little less than $0.02 by this tax, and for 2012 it will be a little bit over $0.02. So again, not a material event for us.

Lastly, on the tax side, you may have read the article in the January 27 Wall Street Journal column Heard On The Street. And I'm not sure why we were mentioned having a low tax rate of less than 15%. Certainly much larger companies, such as General Electric, many times our size, has a 3.67% effective tax rate. And Whirlpool, mentioned in today's Wall Street Journal, has a zero percent tax rate. We're not mentioned. The gist of the article was if the tax rate is lowered, all corporations who have deferred tax assets on their balance sheet would have a P&L charge to reduce the carrying value of those assets. And they mention

Citicorp, that if the rate decreased to 26% from 35%, would have a $6.8 billion charged to the P&L. Trust me, if the rate drops to that extent, Cooper will have an immaterial charge to its P&L.

I think Bob talked about earnings per share GAAP, $0.96, non-GAAP $0.85. Mainly two big items in there -- the Aime contract gain that I mentioned was around $0.13 and Norfolk restructuring was a negative $0.02. That's where the reconciliation of $0.11 is. And that pretty much sums it up. Bob covered the guidance. We're sticking to the same general percentages we have given you earlier and we'll be happy to discuss those with you subsequently if you would so desire. At that point, I'll turn it over

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## QUESTIONS AND ANSWERS

**Operator**

Sure.(Operator Instructions)Your first question comes from the line of Joanne Wuensch with BMO.

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**Joanne Wuensch** - *BMO Capital Markets - Analyst*

Can you hear me okay?

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

Joanne, we can, yes.

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**Joanne Wuensch** - *BMO Capital Markets - Analyst*

Wonderful. Could you explain us the Aime impact in the quarter as it relates to revenue and then can you quantify the EPS impact of that $6.1 million reversal?

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

I'm sorry, the which impact?

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

Aime. The $6.1 million, yes, first of all, the revenue impact is $5.4 million and that's about 2.5% of revenue.

The impact on earnings per share of that accounting gain is -- which is pretty I would say acquisition accounting specific, as I recall was $0.13 --

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

Positive.

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

Positive.So therefore the earnings per share for GAAP was $0.96, which was $0.11 higher than the non-GAAP number.

And there's $0.02 negative for the last piece of the Norfolk shutdown, which was a $1.9 million charge.

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**Operator**

Your next question comes from the line of Kim Gailun with JPMorgan. Please proceed.

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**Kim Gailun** - *JPMorgan - Analyst*

Okay, great. Thanks for taking the question. Just a quick question on the Torics, which did great again in the quarter.

I think Bob commented that the share, the Company's share was close to 30% right now in the Toric market, I believe on a worldwide basis.

Can you confirm, and also remind us where your Toric share had peaked prior to the market's transition to silicone hydrogel? And then maybe any thoughts on where you think that market share can go. Thank you.

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

Okay. Well, that's correct. The percentage worldwide is around 28%, 29%, approaching the 30% market for Toric globally. Our peaked point was about 35%.

We are building, as you see, some pretty good momentum. We grew 20% -- 21% in the quarter. We grew in the fourth calendar quarter 16%, twice the rate of the market, which was 8% in constant currency.

We are early in our rollout of the Avaira Toric, which, of course, sits in that two-week space, which is the sweet spot of the US market. So we would expect to continue to gain share.

Will we get back to 35%? Don't think so, but I do think we will continue to gain several share points over the next several years.

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**Operator**

Your next question comes from the line of Amit Bhalla with Citi. Please proceed.

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**Valerie Dixon** - *Citigroup - Analyst*

Hi, good afternoon. It's actually Valerie in for Amit. I just wanted to go through the pieces of your guidance again.

It looks like the bulk of the change was mainly due to the change in the tax rate, but you also mentioned greater confidence in your launch timing.

So I was wondering if you could piece that out a little bit and also talk about product mix and what the expectation is for a change in there.Thank you.

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

There are really three drivers of the $0.40-improvement in the bottom line. You're correct tax I think is close, maybe close to half. We mentioned the $0.08 on the interest savings brought about by buying in the 7.125% debentures.

And the third piece is higher revenue, higher operating income. We've increased top line $20 million. So the reason for the top line increase, as much as anything, is we're further down the pike in terms of our ramp up of our supply-constrained products.

Once again, that's the entire Biofinity family of products, all interact on the same lines, if you will, from a production point of view. We also are further down the path ramping up our Avaira Toric production. And we've announced that we will be rolling out Avaira Toric imminently throughout the United States. So that will be early -- that will hit the shelves, if you will, early in the third fiscal quarter. And then as part of the Aime transaction, we will be entering a $334 million silicone hydrogel market in Japan, where we currently have no presence whatsoever.

And that likewise is a function of having ramped up production as capacity. So it makes -- it's no value to us, if we could sell there but we can't make the product. We obviously have a higher confidence level today than we did back in December.

We are moving down our path, and I would say we're moving on the high end of our range of expectations, so we're feeling more bullish about that.

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**Operator**

Your next question comes from the line of Josh Jennings with Jefferies. Please proceed.

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**Matthew Weiss** - *Jefferies & Co. - Associate*

Hi. This is actually Matt in for Josh. My question is on the Avaira Toric rollout.

I wondered if you could walk us through a time line and assumptions regarding the potential migration from non-silicone and sort of your sales and marketing approach to penetrating that two-week market in the face of some noteworthy competitors that have already pretty much established themselves in that space. Thank you.

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

Well, we have some of our competitors being real friendly to us. One being CIBA which has announced recently that they are terminating about 20 different product lines in the US, one of which is O2 Optix, which is in the two-week space, and has about a 2% market share overall.

So they are in the process of putting in play a whole bunch of silicone hydrogel wares, and we thank them for that.

The timing of Avaira Toric is basically early in the third fiscal quarter, so in May, we will start rolling that out on a much more robust basis. We've been very limited in our capacity, but have ramped up nicely.

We are doing what's known as a Fast Track 2, in Puerto Rico, which is allowing basically us to make a lot more Avaira Toric.

The strategy is kind of twofold. Number one, keep in mind that the two-week market in the US is the biggest part of the US market. That's also the part of the market that there's only two competitors left promoting in it, us and J & J.

CIBA, for all practical purposes is vacating and trying to move all of their remaining wearers into the monthly modality and B&L is not a participant, meaningfully, in that sector also.

So with only one other competitor, we know with a good product, and we know how we've done in the monthly modality. People kind of said, well, gee, why should you have any shot at getting Biofinity into the market? You're too little, too late.

Well, my point is, if you have a good design and a good material, it's going to do well. And I do believe, while we can all feel intimidated by this count -- or some of us could, I personally am not, nor do I think our Company is.

We are willing, unlike our competitors, to private label. You can't go to this kind and say would you mind taking Oasys and putting a private label on it?

There are a lot of large chains in this country as well as around the world that are very interested in private label. And that -- like I said, that does not mean cheaper product. It means they have a name they like. We'll give them that luxury. Others may not.

So I think we have a lot going for us and that's one of the reasons why we're pretty bullish about where we're headed.

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**Operator**

Your next question comes from the line of Jeff Johnson with Robert Baird.

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

Thank you. Good afternoon.

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

Hi, Jeff.

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

Bob, let me ask a two-part question here. One, if I do the math, on your CIBA organic growth, it probably came in about 4.5%, plus or minus there. How do I reconcile that to the CLI data of 12%?

I know there was one month off on that, but would that suggest that your January trends fell off pretty significantly, or October was ridiculously high? How do I reconcile that, number one?

And number two, Gene, on the gross margin guidance, are you still looking for 60% to 62% gross margin for the year? Is that still a good number?

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

I'll take the easy one, yes. We're still guiding 60%, 62%.

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

I guess that means I get the harder one.

Jeff, your point is correct, that our -- if you will, constant currency, non-acquisition growth, adjusted for -- what you're doing is adjusting for rebates from the prior year gets in around 5%-ish.

I guess a couple points. One is there is nothing wrong with your attempt to compare how we did quarter ended December 31, 12%, to how we did quarter ended January 31 and assume that January was a soft month.

As we know, not only Cooper, but a lot of companies experienced the weather phenomena in the US.

There were several lost shipping days in January making for a pretty anemic January year-over-year, number one.

Two is, yes, October was a strong month and that drops off in that calculation when compared to January being an anemic month.

But there's good news-bad news when you have an anemic January where weather comes into play, sometimes you catch up along the way. Doctors have to reschedule their fits and appointments, in many cases.

One other point, which I did not mention in my remarks, was you may recall in the past, I said all products for Biofinity are made on the same line -- Multifocal, as well as Toric, as well as Sphere.

We have taken off the shelf Multifocal production and put it into production. So we have taken lines that previously were making sellable product and move them into modality where we got to get going sometime.

You can see from the numbers we are having our clock cleaned in the area of the Multifocals. We also know that Biofinity Multifocal number one is a product with a stellar design and a stellar material. We already know how Biofinity does in the marketplace.

So we're anxious to get on with it and we've announced that we're launching in the second half of the year, and you got to start and build up your inventory beforehand. Partly willfully we took revenue product and rediverted it to non-revenue production. And that's really the third piece of the equation.

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**Operator**

Your next question comes from the line of Larry Biegelsen with Wells Fargo. Please proceed.

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

Thanks for taking the question. So just to understand, Bob, the sequential decline in silicone hydrogels from $73 million to $63 million. Could you talk a little bit more about that? I think you touched upon it in your past, in your comments a second ago.

And can you just give us an update on where you are with the different lines and why you are confident that you're going to be able to launch all these new products in the second half of the year. And just the second quarter of 2011, is that going to be another kind of soft quarter for silicone hydrogels? Thanks.

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

You're correct. I did touch upon some of the reasons in my last comment, but I'll come back around on that.

Keep in mind, our first quarter is always softer than our fourth quarter, and a lot of that has to do with the vast number of holidays in that first quarter and how we compound the vast number of holidays in our -- which include all Thanksgiving and all the December and New Years holidays. You compound that with weather, a lot of weather days and I think we all in this country, particularly those that live in the Midwest and East Coast know there was a lot of weather this year, so to speak.And we've never watched as much weather on the TV for I don't know how many years. But that was, if you take 10% of your shipping days out of a month, it's a pretty big number.

Counter that with the fact we rediverted manufacturing to make a Biofinity Multifocal role, hopefully we took more revenue out when we did that. Your question, how do we feel about ramping up? We said we were going to put into production this year 4 new lines by the end of the calendar year. The first one is up and running and producing inventoriable products, so we have 3 to go. They are spread out one each quarter pretty much through the end of the calendar year. We still firmly believe we will get those production lines up and running and they are doing a pretty robust job as they ramp up, meaning that first line is very good to go. We are at the top end of our range of expectations, so nothing wrong from the supply side of the equation.

I guess relative to what that translates in the second quarter, I would assume for a moment, number one, that the second quarter has a more normalized number of shipping days from a calendar perspective. Hopefully the weather is more cooperative than it was in January and there will be some flip-flop from January into February caused by shipments that did not make it out the door at the end of January.

So there will be, yes, a windfall, if you will, in February, as well as a more normalized product -- plus ongoing, if you will, ramp up of production. Next question?

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**Operator**

Your next question comes from the line of Steve Willoughby with Cleveland Research. Please proceed.

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**Steve Willoughby** - *Cleveland Research Company - Analyst*

Hi, thanks for taking my call. I was just wondering, I guess two things.

First, if you could talk about Avaira revenue versus Biofinity revenue. And then secondly, what type of lenses is the Aime acquisition? What kind of lenses were those that the $5.4 million that you generated revenue there in the quarter?

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

First of all, I'll deal with the Aime. The Aime line, which had about $30 million in revenue as I recall, it's about half lens care and non-lens-related, and the remaining half is conventional. Let's call it the first-generation lenses. First-generation soft lenses. I think there might even be some hard lenses in the equation also. Not something we're going to take anywhere else, and it's not what we call core products. That was not the reason we bought Aime at all.

We did, however, get a different channel, importantly a different channel. The strength of Aime from a distribution point of view is vastly different than the strength of CooperVision Japan. One, actually, it's kind of the mirror image of the US. In the US, everyone knows we are very good with the independent professional, and we are much less presented with the -- on the retail side.

In Japan, it's just the opposite. We are better with the retail side, weaker with the independent. And the Aime acquisition gives us a balance of now being good and having good access on both sides of the equation. But more importantly is gaining access to that $334 million market. That's really what it's about. Both sides of the equation, the Aime sales force into the independents, if you will, and the CooperVision side will be marketing Biofinity as we roll it out.

So back to Avaira, Avaira is still a small part of the equation compared to Biofinity, and probably, I don't know, maybe 20% of the pop, rough numbers. The -- it still reflects the fact that we don't have a balance to the family of products. Meaning you can't do an effective job of delivering a private label without adequate supply source of the Toric, as well as the Sphere.

So we'll find out what it can do really starting in the third quarter and into the fourth quarter, will be the first shot at knowing does the product have legs in the marketplace? How many people jump on the private label band wagon, and just how good that is relative to other markets around the world. Next question?

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**Operator**

Your final question comes from the line of Larry Keusch with Morgan Keegan. Please proceed.

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**Larry Keusch** - *Morgan, Keegan & Company - Analyst*

Hi, good afternoon. I guess the question from our end is, just given the strength of this quarter, even taking out some of the Aime acquisition, and 17%-ish operating margins. And I think your implied margins for the year are 17%, kind of 18%.

I guess the question really is, given what you know, given the products coming up, given the mix shift, where do you think is a reasonable place to take operating margin over the next several years? Can this be north of 20%?

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

The answer is I don't think it is unreasonable to assume that we will tip the scale of 20% over the next several years.

I've said we're good for about 1% improvement a year. I think we've moved a little faster than that, but I also think that the barrier is not 20%.

It will be -- it's clearly higher than that. So I think we're feeling pretty good. We are -- we continue to invest so 2011 is clearly an investment year. We've said we got good products, we've got a good story, and shame on us if we don't put the feet on the street to find out how far these products can go.

I might point out -- and something I probably under articulated in the past, shame on me, is I believe we have by far the most productive R&D group in the industry.And I say that not because we spent a lot of dollars, because in fact we don't. I say that because we think of the fact that we really only ramped it up. We had one chemist when we bought Ocular in 2005. Today we have literally 30 or 40 chemists. We respect chemistry, particularly in silicone hydrogel.

Those group -- that group of R&D has delivered not 1, not 2, but 8 product rollouts in a period of five years. Show me anyone out there that's had 8 products. There are two -- Proclear One, Proclear One-day wasn't there. It is there now.

We have what was known as XC -- Biomedics XC, which is a Proclear Two-week family product that moved into that two-week modality.

On the Biofinity product, in 2005, we couldn't make any Biofinity. We now have a Sphere, a Toric, and we have a very good design on Multifocal that will be rolled out. It's not because R&D didn't deliver it. On the Avaira side, we didn't have any Avaira in the market several years ago. We now have a Sphere and a product we're ramping up on the Toric side. Then we had a product in Japan which deals with kind of a moist thing called Wanda, as the local name, but that goes into the sweet spot of the two-week -- I'm sorry, the one-day market in Japan.

So in aggregate, 8 products over five years. I think that's phenomenal. Those product lines represent 35% to 40% of our current revenue, so they are not just kind of little me toos. They are real products. So on that front, I'm a lot less intimidated about the competitors and just how profound they are in terms of R&D and how great the products are that they deliver.

So once again, when I say our people are our greatest asset, I also mean our people, all our people, including our R&D productivity. Any other questions? I guess we're--

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**Operator**

No, sir. With no further questions in the queue, I would now like to turn the call back over to CEO Bob Weiss for closing remarks. You may proceed, sir.

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

Well, hopefully you all enjoyed this quarter and the continuation of the momentum that we've exhibited over the last several quarters.

We're pretty excited about where we've been. We're at least as excited about where we're going with all these new launches. And we'll look forward to updating you then in early June. I think it's June 2, is it? At any rate, early June on the calendar, we'll be updating you on our second quarter results. And with that, I want to thank you.

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**Operator**

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

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