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COO - Q1 2017 Cooper Companies Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 consolidated revenue of $499m and consolidated non-GAAP EPS of $1.93. Expects 2017 consolidated revenue to be $2.09-2.13b and non-GAAP EPS to be $9.10-9.30.

CORPORATE PARTICIPANTS

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Jon Block *Stifel Nicolaus & Company - Analyst*

Andrew Hanover *JPMorgan - Analyst*

Anthony Petrone *Jefferies LLC - Analyst*

Steve Willoughby *Cleveland Research Company - Analyst*

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Cooper Companies Incorporated Q1 2017 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Miss Kim Duncan, Vice President Investor Relations. You may begin.

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

Good afternoon, and welcome to The Cooper Companies' first-quarter 2017 earnings conference call.

During today's call, we will discuss the results included in the earnings release and then use the remaining time for Q&A. Our presenters on today's call are Bob Weiss, Chief Executive Officer, and Al White, Chief Financial Officer and Chief Strategy Officer.

Before we begin, I'd like to remind you that this conference call contains forward looking statements, including all revenue and earnings-per-share guidance and other statements regarding anticipated results of operation, market or regulatory conditions, and integration of any acquisitions or their failure to achieve anticipated benefits. 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 Cooper's Form 10-K, all of which are available on our website at Cooperco.com.

Should you have any additional questions following the call, please call our investor line at 925-460-3663, or email IR@Cooperco.com.

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

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

Thank you Kim, and good afternoon everyone. Welcome to the first-quarter 2017 conference call.

We're off to a good start this year with both CooperVision and CooperSurgical posting solid results. On a consolidated basis, we reported $499 million in revenue and non-GAAP earnings per share of $1.93. CooperVision posted strong results in all key areas, resulting in 7% as reported and 9% constant currency revenue growth. Our daily silicone hydrogel lenses grew 49% with Biofinity and Avaira products combined growing 15%, both in constant currency.

CooperSurgical posted revenue growth of 29%, or 3% pro forma. Fertility was the highlight posting growth of 83%, or 9% pro forma.

Moving into the details, CooperVision posted Q1 revenues of 390 -- $389 million, up 9% in constant currency. The Americas grew 7%, EMEA grew 7%, and Asia-Pacific posted a very strong growth of 16%, all in constant currency.

Throughout the world, our growth continues to be driven by our market-leading portfolio of products, including Biofinity in the monthly space, Avaira in the two-week space, and diversified product set in the daily space.

Regarding Biofinity, we continue posting strong growth supported by our ongoing expansion of the product family, including Biofinity Energys and Biofinity Toric XR. Both of these new products are early in their life cycles, but are being received incredibly well and are now available in the Americas and more recently in Europe. In addition to growing Biofinity through product expansion, we are also seeing diversified geographic growth, including double-digit growth in all three regions this quarter.

Within the two-week space, our transition of Avaira to Avaira Vitality from Avaira continues to move forward successfully. Our customers are receiving this upgraded two-week offering positively and we will continue making this transition as we move through the year.

Regarding daily lenses, our broad offering of silicone eye sell-ins continues driving growth with our clariti portfolio of seers torics and multifocals leading the way. MyDay is also doing very well, posting strong growth throughout the world, and MyDay Toric is now being rolled out in Europe following the successful launch in Japan.

Turning to product categories, torics grew a solid 14% and multifocals grew 7%, both in constant currency. We have a highly diversified product offering within these categories, including both silicone hydrogel and traditional hydrogel lenses within the daily two-week and monthly modalities. We are the global leader in these specialty lenses and expect to continue delivering growth for many years.

Looking at just silicon hydrogel lenses, these products grew 20% in constant currency and now represent 63% of total CooperVision revenues.

It's no surprise that our strong performance is being driven by our silicone hydrogel portfolio. We offer the broadest portfolio and I believe the best options available in the market. This includes being the only company offering premium in mass-market silicon hydrogel lenses, including seers, torics, and multifocal lenses.

Now, turning to the overall contact lens market, we took share in calendar Q4, growing 10% with the market up 6%. Geographically, we grew 12% in the Americas while the market grew 5%. We grew in line with the market in EMEA, or Europe, up 5%, and in Asia-Pacific, which grew 12% with the market up 8%.

On a modality basis, single use lenses continue driving growth with CooperVision up 15% and the market up 13%. For non-single use lenses, we grew 7% with the market flat.

For the calendar -- full calendar 2016, CooperVision grew 9% while the market grew 4%, so another strong year where we more than doubled the market. Going forward, we are still targeting 4% to 6% growth driven by the continuing shifts to improve technologies such as a wider suite of silicon hydrogel lenses, the continuing shift to dailies, geographic expansion, and the expansion of the wearer base. We continue growing faster than the market. We expect to continue to grow faster than the market.

Moving to CooperSurgical, we reported Q1 revenues of $110 million, up 29%, driven by organic growth and acquisitions. On a pro forma basis, we grew 3% with fertility leading the way up 83%, or 9% pro forma. I'm also happy to say this is the first quarter fertility has posted revenue greater than the office and surgical products business. Our initiative is to become the global leader in fertility, again, back in 2012, with our acquisition of Origio, and has continued through organic growth and strategic acquisitions.

Our fertility growth is now driven by a diversified portfolio of medical device products, capital equipment and lab services, and we believe our market-leading portfolio is the broadest in the space.

Our office and surgical products business was softer than we would have liked, declining 2% due to tough comps tied to the expiration of our OEM contract in last year's first quarter. If we exclude the OEM contract, growth within the office and surgical would have been 1% and total CooperSurgical growth would have been 5%. We expect the office and surgical part of the business to bounce back in Q2 to a more normal low to mid-single-digit growth rate.

Finally on CooperSurgical, the teams continue making a lot of progress integrating acquisitions. This includes integrating Wallace, which was acquired in early Q1. Integrating multiple acquisitions is always challenging, especially while running your existing operations. So, I'd like to thank the CooperSurgical team for their extra hours and hard work. I remain very excited about the future of this business.

Lastly, let me update you on our initiatives around expanding our sales and marketing activities in both CooperVision and CooperSurgical. We made a lot of progress this quarter and I'm happy with where we stand. We are continuing to hire sales reps around the world while also investing in marketing programs to help drive performance this year and into next. I believe we are in a great position with both businesses and it's prudent to continue investing to drive long-term growth.

With that, I want to express my appreciation to our employees for all their hard work and dedication, which truly drives the success of our business.

And now I'll turn it over to Al.

Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

Thank you, Bob, and good afternoon, everyone. As a reminder, most of my commentary will be on a non-GAAP basis and a full reconciliation of our GAAP to non-GAAP results is included in today's earnings release. It's worth noting that our non-GAAP adjustments are quite a bit smaller this quarter as our soft line integration is behind us.

Bob covered revenues, so let me walk through the rest of the financials and provide some color on our results.

For the quarter, gross margins were 62.9% on a consolidated basis, up from 61.4% last year. CooperVision's gross margins were 63.1%, up from 60.9% last year, driven by product mix led by Biofinity.

CooperSurgical's gross margins were 62.2%, down from 63.6% last year, due to a couple of acquisitions which had lower gross margins. We expect this year-over-year gross margin pressure at CooperSurgical to continue in Q2, at which point we will annualize the acquisitions.

One other point on gross margins which we mentioned on our December call is that we are still forecasting elevated idle equipment and inventory charges this year. There's no change to our estimate of around $0.30 for the full year with these costs declining as we move through the year. I do believe we will see some of these costs roll into next year, but we are clearly making progress utilizing more equipment and transitioning products.

Operating expenses grew 13.1% in the quarter driven by additional costs from acquisitions. We also continued investing in infrastructure throughout both businesses to support continued growth. Included in these investments is our focus on sales and marketing, and as we discussed in our December call, we are expecting heightened expenses this year in both CooperVision and CooperSurgical as we move through the year. Regardless, operating income grew 14.6%, resulting in operating margins of 22.8%, up from 22.1% last year.

Moving to items below operating income, we reported $7.3 million of interest expense. We also posted and FX loss of $3 million due to some large currency moves, which resulted in losses tied to revaluing our offshore inter-company loans. Our effective tax rate was 7.9%, which was lower than our initial guidance of 10%, largely due to two discrete items, one positive and one negative. These were the adoption of a new accounting standard related to stock-based compensation, which was a positive, offset by a new valuation allowance, which was a negative. Non-GAAP EPS was $1.93 with roughly 49.4 million average shares outstanding.

Moving to the balance sheet, total debt increased $91 million in the quarter to approximately $1.43 billion. This was driven by our $168 million acquisition of Wallace that closed in the first week of November. We also recorded a $4.1 million balance sheet adjustment to our fiscal 2016 year-end retained earnings to reflect an increase in the rebate accrual accumulated primarily on activity prior to fiscal 2014. This adjustment does not have any impact on this year's numbers.

Moving to free cash flow, we had a strong start to the year with $80 million of free cash in Q1 comprised of roughly $109 million of operating cash flow offset by $29 million of CapEx.

Regarding guidance for fiscal 2017, revenue guidance remains the same with consolidated revenues at $2.09 billion to $2.13 billion. This is comprised of $1.62 billion to $1.65 billion at CooperVision, which equates to roughly 6% to 8% constant currency growth, and $470 million to $480 million at CooperSurgical, which equates to roughly 6% to 8% pro forma growth. The remainder of the P&L is expected to be similar to our prior discussions, although there are two negatives that we need to hurdle. The first is we are now forecasting interest expense to be $2 million higher at around $30 million due to assuming a 25 basis point rate hike at this month's Fed meeting. The second is we've updated FX rates and the impact is now a negative $0.16 for the year, or $0.06 worse than when we provided initial guidance in December. This detriment will move has basically happened over the last few days as the odds of a March rate hike have increased. For the primary currencies, we are using euro at $1.05, yen at $1.15, and pound at $1.22. These two items combine for a $0.10 negative impact to EPS. Having said that, we are raising our non-GAAP EPS for fiscal 2017 on the low end by $0.10 to incorporate our Q1 performance and improve confidence around the remainder of the year. The new range is now $9.10 to $9.30 based on 49.4 million shares outstanding.

Note that the FX move also negatively impacted our revenue forecast by an additional $4 million, increasing the full-year negative impact to $61 million, but we are guiding to hurdle that.

Lastly, we continue focusing on delivering consistent annual performance. This includes expecting over $400 million in free cash flow this year, which supports our objective of delivering over $2 billion of cumulative free cash flow over the next five years while also targeting operating margins of 28% in 2021.

And with that, I'll hand it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Lawrence Keusch, Raymond James.

John Shu - *Raymond James & Associates, Inc. - Analyst*

Good afternoon. This is [John Shu] in for Larry. Just one quick question, one quick financial and then one strategic question for you guys. On the financial side, the OM was -- the operating margin came in very strong, higher than what we were looking for. SG&A came in a bit lighter. So can you just talk about the investment spend? Is it on plan? Can you talk about that $10 million? Is it kind of ratable through the year?

And then the strategic question is you guys continue to do really well on the specialty side, of course, but there are some recent competitive launches in that space. So I guess, at a high level, could you talk about how you think about the competitive landscape in torics and multifocals? Thank you.

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

Sure. On the first item on the sales and marketing, probably the best way to visualize that as well as the timing is we essentially have expanded already as of the end of January our sales force, both in Surgical and Vision combined, 10% compared to where it was six months ago. So a lot of that investment and a lot of the hiring is already taking place. And obviously, what's gone on in the last six months continue to run through the P&L on a go-forward basis and we'll continue to expand upon that going forward. But pretty much most of what it would take to get to the $10 million run rate is in place.

On the second point, as far as, yes, we are number one in the area of specialty lenses, torics and multifocal lenses. You've seen that we put up some pretty good numbers in our -- clearly in that venue with our toric business being up 14%. And keep in mind torics is the lion's share. When you think about the market, it's about 27%, 28% specialty lenses, and for us, it's much higher than that, 42%. And we are sustaining good growth with toric. Our product Biofinity XR Toric is pretty novel. A lot of competitors will not go there and address the, if you will, the fringes of the Bell-shaped curve. They do the easier to set torics but not the customer. So we do have proprietary, if you will, advantage.

In addition, obviously our strategy in the one-day market with clariti being the only one with a toric, a seer and a multifocal puts us at an advantage in the one-day space, and particularly puts us at an advantage being the only silicon hydrogel in the mass-market of the one-day space.

So we think we have enough going for us. The market will continue to perform well worldwide. With a lot more maturity in the US and a lot less outside the US, we'll continue to have solid growth in specialty lenses in many of the locations regionally throughout the rest of the world beyond the US. So, we are looking for a good market going forward, and we think we have a broad enough portfolio to hold our own and continue to actually gain.

Operator

Jeff Johnson, Robert Baird.

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

Thank you. Good evening guys. Bob, I don't know if I heard single-use or daily silicone growth rates or two-week, monthly silicone growth rates. Maybe I just missed them, but if you could buy those.

And then just on Biofinity Energys, I'm assuming the two,-week monthly silicone numbers looked good this quarter. Maybe you can talk about some of the tailwinds that product is providing. I know you mentioned it in your prepared remarks, but I'd be interested in knowing how that's helping or if it's helping gross margins yet. I know you're leaving a little bit more of that profit at the doctor level, but I would assume it's helping your gross margins as well. So if you could give us any color there, that would be great.

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

Yes. We put up 15% growth in silicon hydrogel lenses for Biofinity and Avaira, the two-week and the monthly product. Assume they are both doing ballpark that area, so solid performance for both Avaira in the two-week space, keeping in mind there most of our energy is in a trade-out, if you will, to Vitality, as opposed to going after new areas. So that's pretty impressive there.

And then with Biofinity off of a very large base, it's our franchise product, if you will, within CooperVision -- within the Company. We are very early in the game with Energys, just starting to pick up momentum in different places. We are very early in the game with Biofinity XR Toric, so look for those to help continue that momentum. And it will take us a very long time to roll them out around the world, meaning it's well beyond 2017, even 2018, when it comes to some of those venues. We are in fact still rolling out Biofinity in its first stage in some parts of the world as we look to some of the South America and Asian theaters, if you will, so a long way to go on that.

Gross margins, we are not really leaving a lot of gross margin on the table in terms of the market is strong from a pricing point of view, and a lot of the margins will continue to improve as we convert Avaira into Vitality and as we convert -- as we continue to expand in Energys likewise to say trade-up strategy. So there are some considerable tailwinds in our cost of goods gross margin area.

Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

One quick add. I think you asked what the daily silicon hydrogel lens growth was. That was 49% in the quarter.

Operator

Matthew O'Brien, Piper Jaffray.

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

Good afternoon. Thanks for so much for taking the question. Just to talk a little bit more about the investment, Bob, you said you're 10% bigger over the last six months than you had been. There's a lot of dislocation or disruption I guess around the contact lens industry right now from UPP to some of your competitors internally. So I'm wondering if the time frame for you to take share to see a return on those investments potentially could be shorter than what you're accustomed to or what you're even modeling at this point.

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

Yes, our expectation is that it takes about 12 months to get the average lift into the area where they are productive. And we expect a very high return on our investments there, well north of on average one-year payback, much higher than that, quite frankly. So it's a profitable investment. As long as you have the supply sources in the products, we strongly believe we do. So, we look for that as we will continue to grow our sales and marketing equal or -- at least as fast as the top line over the next one to two years. But normally you would expect leverage out of that line, so the increment is above the normal leverage that we would expect, is that $10 million when we think about it.

Operator

Larry Biegelsen, Wells Fargo.

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

Hey guys. Thanks for taking the question. I have two questions. I'm going to ask the first one and, if possible, let me get the second one in. Can you talk about, Bob, the growth of your private label business and how it compares to the growth in your branded business? And I had one follow-up, but it's a long one, so I don't want to ask both at the same time.

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

Private label is ballpark of 30% of our business. And I would say, historically, Cooper has gone through phases where it's gone down a little and up a little above that 30%-ish. It is obviously keeping up with the growth of our branded products, which are also performing well.

So when we look at our composite growth, think of it as leveraging both sides of the business, the private label as well as the branded. Private label has -- there clearly are a lot of opportunities that exist and will continue to exist that we will explore. And I would say private label is a much bigger factor outside the US than it is inside the US, so there is room. Flipping that around, there is clearly room to make more headway in the US in terms of inroads into deeper areas of private label with some large chains. So we are pretty excited about private label on strategy.

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

That's helpful. So CooperVision did 9% in the first quarter, and the fiscal 2017 guidance of 6% to 8% implies a significant deceleration in Q2 to Q4 to about 6.5%. And I assume it's because the comps in Q2 and Q4 especially are tough. But my question is, on the Q4 call, you explicitly said you wouldn't be happy growing 6% to 7% in Q2 to Q4. So, my question is has anything changed that would make growing above 6% to 7% difficult? And if not, why did you guys raise the CVI guidance? Thanks for taking the long question.

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

So, yes, we grew 6% in constant currency. And of course, in our overall guidance, Al mentioned the $4 million of headwind which is foreign-exchange related. In terms of our range, 6% to 8% for the full year, it's correct. We said we had slightly -- we had some easier comps in Q1 than the next three quarters, so that still leaves us in the venue where we think that the 6% to 8% overall is the right range for us.

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Good evening. Can you hear me okay? Wonderful. Two questions. The first one, you've been fairly acquisitive in the CSI area as it relates to M&A. How do we think about that on sort of a go-forward basis? Is there a shift in your thinking, for any particular reason, or the same as you have done historically?

And then my second question has to do with some of your competitors. Novartis-Alcon seems to be struggling a little bit. I'm not really sure what's going on at Bausch, would love your view. And then Johnson & Johnson talked about stocking in the last quarter. Wondering if you are seeing any of that also?

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

I'll let Al take the first one on the acquisitions of surgical.

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Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

Sure. Yes, so, obviously, won't comment on any M&A activity that we are looking at, but having said that, we have been very active. We are incredibly active right now integrating the acquisitions that we've done and heavily focused on that. So we will continue to look at acquisitions if they make sense. They need to be the same as what they have been in the past, which is strategic acquisitions that offer us a good return. If we can find those kind of opportunities, we'll capitalize on them. If we can't, that's also okay. We'll execute on the acquisitions we have done and integrate them and drive synergies.

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

As far as competition within CooperVision, you're correct. Alcon is struggling a little, although they did put up a 7% growth number for the quarter. There is obviously the disruption of are they going to be spun off, sold or kept. And Novartis reiterated their assessment that they are still open. They still have not made up their mind on what to do about Alcon and how that compares to them being a pharma business, if you will. So, we obviously like the uncertainty that presents. We also like the fact that, with a few exceptions, Alcon is at the more mature end of a growth curve with some of their major products, both in the monthly as well as in the one-day space. Total 1 has the target on its back within -- clearly within the premium silicone hydrogel space, everyone is shooting at them. And Cooper is shooting at them and Moist in the mass-market one-day space.

B&L put up some numbers. They highlight the growth products. They do not put it all together other than to say that their overall business grew 2% of lens care and lenses, so nothing to write home about there. They obviously are caught up in the clout of what is that volume going to do to basically pay down some of its $30 billion of debt. And obviously, in the marketplace, we think that their products are basically behind the curve, both as to the fact that they do not have a one-day silicon hydrogel in that market, and they still do not have, and they have been at it for I don't know how many years now, a complete portfolio with ULTRA, meaning a toric and a multifocal. So very slow to roll out in that venue. Quite frankly, most of what they've done there has been trading from pure vision into ULTRA anyway.

J&J just completed the acquisition of AMO, and obviously they will be going through an integration within the VISTAKON or eye care piece. They did mention, on their call, they put up very robust numbers, but they did indicate that I think 3% of their growth was pipeline sell on shelf that had to do with the price increase they had effective early January, and so they were selling into a pretty -- a broad-based price increase that pulled forward some of their purchases. And that's what they were referring to. I would not take that across the rest of the industry. I think that was mainly unique to their strategy and there view that you can -- there was room to increase pricing in the marketplace.

Operator

Jon Block, Stifel.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Great. Thanks guys. Good afternoon. I'll try to ask both upfront. Unfortunately, they're both sort of long. But first, from a geographic standpoint, a small delta of share gains for CVI is in EMEA where it looks like it's almost in line with the market for the trailing 12 months versus that sort of multiple of market for CVI in Americas and APAC. So Bob, can you just talk to the competitive dynamics in Europe versus Americas and APAC and why they are more muted? Why you see more muted European share gains? Is that just a function of clariti being in Europe first?

And then the second one, Al, maybe this is more for you. I know you guys are getting the gross margin benefit from Avaira to Vitality in terms of when someone makes that switch, but are you guys seeing that in fiscal 2017, or is it sort of a wash in 2017 and it takes hold more in 2018 and beyond?

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

On, EMEA, yes, sure, your point is valid that our one-day silicone hydrogel clariti and MyDay got there first, and we've put up some good, solid numbers over the year. EMEA has been growing over the last three years at almost two times the market.

And importantly, when it comes to performance in Europe, we are just on the heels of Alcon relative to one and two. So, we have the highest market share of our three geographic locations in Europe. Contrast that to Asia-Pac where we have the lowest market share of our three regions, yet we have a very full product portfolio. So, we would expect, prospectively, to continue to grow faster in Asia-Pac than we would in EMEA. Having said that, we still think we have a lot of legs in terms of growth within EMEA in terms of gaining market share in that market. So, we would look for, if you will, better than just holding our own this last quarter.

Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

Thanks. So, with respect to that Avaira Vitality shift, your kind of basis is right there that that's a very positive move for us. But I could tell you that, in fiscal 2017, we are not expecting to see any real gross margin expansion on that. If anything, it's possible it was a little negative here early. But the transition from one product to the other product, especially a transition that's pretty unique, this one's pretty unique in terms of its size versus anything else we've done, creates a lot of inefficiencies. So, we will likely not see any real gross margin improvement from that product this year.

Operator

Andrew Hanover, JPMorgan.

Andrew Hanover - *JPMorgan - Analyst*

Thanks for taking my question. I just had a couple and I'll rattle them off. But you already talked about J&J, but I just wanted to delve into this a little bit more. It sounds like, when doing channel checks, the foot traffic in ECP offices were up pretty high in December and January. You obviously had the pull-forward of J&J orders before they had some price increases. You delivered 9% in constant currency growth but you also had an easier comp. So how I think about the foot traffic in ECP offices, potential forward orders of J&J versus easier comps than what you all delivered? And should we expect the second quarter for some of that to be a little bit easier for you?

On the margin side for gross margins, I just was thinking about you delivered 63.1% in CVI, which is up 220 bps year-over-year. And I just want to understand how to think about the $0.30 of idle equipment still weighing on that segment, because you exited 2016 at 64.8%, which is a pretty nice uptick. So, if you don't mind, just those two questions. Thanks.

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

Yes, as far as the J&J performance and Cooper's performance and our easier comps, if you will, in Q1, I would assume that it's good for 1 point. We are obviously guiding 6% to 8%, and the easier comps as much as anything had to do with some of the disruption we had a year ago, and that rolled into prior-year comps from Asia-Pac where we -- I'm sorry, from Europe, where we had done the integration of distribution centers in the fourth quarter of 2015. And that rolled into 2016, creating some adjustments, if you will, and some performance issues with European customers. So, some of it there.

I think we've -- we put up good numbers in the first quarter, so most of that is a reflection of our performance in the market in total with the market growing 6%, us growing 9%. So the market was a little bit more robust. We are assuming that that momentum continues as far as the product roll outs, be it Energys, be it Vitality conversion.

I think the Vitality conversion is more, as Al pointed out, somewhat disruptive as you go through the conversion process from a gross margin point of view. And from an energy perspective, we are spending more time converting than we are looking for new business right now with the Vitality product. So we've got some work to do there. That will give us some momentum.

We also -- I commented on the investment we are making in the sales force, so my belief is feet on the street are going to translate to a better shot at good topline growth. And I think we have that going for us also. That momentum builds. We now have some of the people that we hired in the fourth quarter last year that will start becoming productive as we move throughout the third quarter and into the fourth quarter and things of that nature.

Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

With respect to the idle equipment, you're right. CooperVision has pretty strong gross margins right now, and that does offer us upside. That $0.30 of idle equipment charge is an impact on gross margins. So, when we look at that, it's not necessarily going to be linear, but that $0.30 should be declining as we move through this year and move into next year. We'll probably still have some. You have idle equipment associated mostly with daily as well. The strength we are seeing in daily is obviously good news as we are turning lines on. And then some of the heightened inventory activity is associated with things like Avaira and so forth, so that should also decline as that transition happens. So, net-net, all of that kind of being good news should indicate that CooperVision's gross margins are going to strengthen as we move through the year.

Operator

Anthony Petrone, Jefferies.

Anthony Petrone - *Jefferies LLC - Analyst*

Thanks and good evening. So, just a quick housekeeping question. What was baked in for FX last quarter and how does that compare to this quarter?

And then two quick product questions would be just an update on MyDay in Japan, and then maybe just a higher level in monthly. It seems like the enhanced Biofinity portfolio is doing quite well and actually gaining share by our numbers. So, maybe just an update broadly on how Biofinity sits within monthlies and specifically anything on Acuvue Vita over the past quarter. Any update there would be helpful. Thanks.

Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

Sure. I'll cover the FX one here quickly. So in our initial guidance in December, it was a $57 million negative impact to revenues on a year-over-year basis, and a $0.10 unfavorable impact to EPS. Now, in the updated rates that we just used today, it's a $61 million negative impact to revenues, so $4 million worse, and it's a $0.16 negative impact to EPS, or $0.06 worse.

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

As far as Japan and MyDay, we are very pleased with the progress we are making with MyDay in Japan and are ramping up and getting the MyDay Toric into that market now, and we will be broadening that toric, MyDay Toric, rollout in other regions around the world, Europe being next up.

As far as Vita and ULTRA and Air Optix, which are in the monthly space, obviously, we are putting up great numbers. You could look at the fact that the market for two-week and monthly is flat, and we put up 7% growth for the quarter, and the market, ex-dailies, for the trailing 12 months is down 1% and we put up 6% growth, which obviously the lion's share of that is driven by our monthly performance with Biofinity. So, Biofinity (inaudible) as I mentioned in an earlier question, both Avaira and Biofinity are growing, ballpark, about the same in constant currency so both in around that 15% mark. So, there's nothing -- and that's quite an accomplishment for Vitality when the energy is really going into that swap-out more than it is trade-up at this juncture. So, I think both are doing strong in a market that -- we are the driver of the market, if you will. If you strip us out, the rest of the market is losing -- is declining, ex-Cooper, if you will.

Operator

Steve Willoughby, Cleveland Research.

Steve Willoughby - *Cleveland Research Company - Analyst*

Good evening guys. Two questions for you. First, Al, on your tax rate, it was 7.9% this quarter, and you said that you benefited from the new stock comp accounting change. I was just wondering what you are assuming for the full-year tax rate now, where I believe you were previously expecting 10%.

And then secondly, Bob, just one final question on the industry growth. In calendar 4Q, correct me if I'm wrong, but J&J I think grew 10% and Alcon grew 7% and you guys were 9%. So how did the industry only show 6% growth in calendar 4Q do you think? Thanks so much.

Al White - *The Cooper Companies, Inc. - EVP, CFO, Chief Strategy Officer*

For the tax one, you're right. So, we were guiding to 10%. We came in at 7.9% in Q1. So when you factor that in, it's most likely to be a little bit under 10% for the full year. The rest of the year at this point in time, we kind of contemplate being similar to what we had expected, so a little bit less than 10% now for the full year.

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

As far as the industry growth, Steve, good question. Yes, J&J put up 10%, and Alcon, 7%, and us 9%. And obviously B&L was a lot less than that, but it's not big enough to move the needle that much.

I think we had this discussion last quarter when we talked about there was a little skewing between market data and publicly reported data. I think this is part of the flipside of that where all of a sudden you have strong public reported numbers. And I believe the same thing is true that, skewing that, we talked about that occurred before was the fact that there was a huge pipeline fill of when Oasys 1-Day hit the market in the third quarter and the fourth calendar quarter in 2015, and now you are seeing the flipside of that. That pipeline fill would then minimize in the public reported number by the difference between gross to net, particularly at J&J, and that is speculative, but I do think reasonable. So now you have the flipside where there's less rebating and gross to net differential that is involved. And all of a sudden, the public reported numbers are coming out stronger than was the case a year ago. So, that gross to net more -- impacted more the fourth quarter of public reported data a year ago, and this year a lot less. Therefore, the public reported numbers look a lot better this year, particularly at J&J.

Operator

Steven Lichtman, Oppenheimer.

Steven Lichtman - *Oppenheimer & Co. - Analyst*

Thank you. Hi guys. Two questions. First, on the sales and marketing investments, Bob, you mentioned investments in both Vision and Surgical. Should we assume the majority is in Vision or is it more balanced in the two? And generally, are the marketing investments -- how do they differ from the type of programs you may have had in the past?

And then secondly, I'm wondering if you could talk about a little bit about the MyDay performance, in particular within the broader MyDay clariti growth. How are you seeing the uptake with MyDay and how is it competing against the other more premium silicone hydrogels? Thanks.

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

So the sales and marketing investment is pretty intense in both Vision and Surgical. Surgical obviously is putting together kind of a whole new business model with a lot of energy on the sales and marketing effort of this new combining, so you have an integration going on but you also have some products being sold with the sales force for the first time. It used to be some of those companies we bought were word-of-mouth in a cottage industry of IVF. So we are investing on both sides of the equation, if you will, both segments.

Relative to the type of marketing dollars, Cooper is spending its marketing dollars broad-based. We have some new, novel products to talk about, like Energys, so there are some more unique marketing tools that are going on there. We continue to be very active in terms of our alignment with the eyecare professional, in terms of making them more efficient, so whether it's a Lens Fairy or whatever it is called, a number of programs that help the eyecare professional become more and more proactive in terms of dealing with their customer, their individual customer. So we are out to make them better business people, and we invest money in that domain.

In Surgical, on the other hand, as I mentioned, there, it's transitioning from what may have been a word-of-mouth industry in PTS and PGD, which is pre-implementation diagnostics and screening, to really talking about it and doing the push-pull not only with the IVF centers but also with the OB/GYN. So there are stories to be told, once again, trying to enhance the industry called IVF, if you will.

MyDay, the MyDay growth versus the clariti growth, basically MyDay off of a smaller -- much smaller basis growing faster as a percent, but off of a smaller base. It is in the process of rolling out the toric, and there we are in the first inning of that rollout with a lot of innings to go yet. Even with MyDay, we are probably only in the second or third inning, so a lot further to go. Clariti is probably more in the fourth inning than the first or second inning, but, it, likewise has a lot of countries to access. And quite frankly, now that we've gone through the transition of the enhanced Edge, we will be more and more aggressive in terms of going after not converting one clariti to another but going after new fits in our competitive products, so the mass-market. So look for the combination of our sales force, feet on the street, the marketing programs, and having plenty of capacity to put behind the product to make us more aggressive in the mass-market space.

Operator

I'm showing no further questions from our phone lines. I would now like to turn the conference back over to Bob Weiss for any closing remarks.

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

I want to thank everyone for joining us. We think we had a lot of good things to talk about this quarter, and we are pleased with the progress we are making for the fiscal year 2017, off to a good start and bullish about the outcome for the year. And we look forward to updating you on our next conference call, which I believe is June 1, and we will be updating you at that point in time. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a wonderful day.
