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COO - Q4 2012 The Cooper Companies, Inc. Earnings Conference Call

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OVERVIEW:

COO reported full-year 2012 GAAP EPS of $5.05. 4Q12 GAAP EPS was $1.46. Expects 2013 total Co. revenue to be $1.565-1.625b and GAAP EPS to be $5.70-6.00.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth-quarter and full-year 2012 The Cooper Companies, Inc. (technical difficulty) conference call. My name is Karis and I will be your conference operator for today. At this time, all participants are in a listen-only mode. Later, we will be conducting a question-and-answer session. (Operator Instructions). Today's event is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Ms. Kim Duncan, Senior Director of Investor Relations. Please go ahead.

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

Good afternoon, and welcome to The Cooper Companies' fourth-quarter and full-year 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, VP, 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 the forward-looking statements are set forth under the caption, forward-looking statements, in today's earnings release and are described in our SEC filings, including the business section of Cooper's annual report on Form 10-K. These are publicly available, and on request from the Company's Investor Relations department.

Now before I turn the call over to Bob, let me comment on the agenda for the call. Bob will begin by providing some highlights for the quarter; followed by Greg, who will then discuss the quarter and full-year financial results. We will keep the formal presentation to roughly 30 minutes, and 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@cooperco.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.

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

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

Thank you, Kim, and good afternoon and evening to everyone. I am very pleased to report record results for fiscal 2012, including record revenues at CooperVision and CooperSurgical and record earnings per share for the Company. There were a number of positives this year, including operational successes such as Biofinity, the relaunch of Avaira Toric, the launch of single-use silicone, and the success within CooperSurgical of its surgical business.

In addition, there was the acquisition of Origio; our $1 billion credit facility; and our purchase of 984,000 shares of our stock. Each were great accomplishments, and I couldn't be more proud of the efforts of our people. Now, onto fourth quarter, and three items I'd like to discuss before getting into the details.

We experienced channel inventory contraction in the United States with our distributors. This is something we have carefully been managing in order to improve manufacturing and distribution efficiencies. And we're happy with the progress we're making. Having said that, on a year-over-year basis, we would have generated roughly $7 million in additional sales, or about $0.07, without this contraction.

Our effective tax rate came in several points higher than we had anticipated, hurting us by roughly $0.05. This was nothing out of the ordinary, just increased income in higher tax jurisdictions, primarily the United States and Denmark, tied into Origio, and a less-than-expected release of reserves.

I should point out our guidance for 2013 continues to be in the 10% to 12% range and we remain confident, with the regulations in place, that our structure is sustainable. Hurricane Sandy, unfortunately, has impacted us, and you can see a dip in the Americas for CooperVision and CooperSurgical revenue numbers. Although we were able to operate through the storm, our revenues were negatively impacted by roughly $2 million, or about $0.02. There was a slightly larger impact to CooperSurgical, given it is headquartered in Connecticut. But CooperVision also was impacted, as its distribution center is located in Rochester, New York. Although a negative in the fourth quarter, this has generally resulted in a good start to our fiscal 2013.

A few last items to mention before digging into the details. You'll note we had $5 million in insurance proceeds in the fourth quarter. This was from business interruption insurance for operational losses tied to a ruptured pipe in our fire suppression/sprinklers system in the UK plant last October of 2011.

As you may have noticed from our prior earnings and transcripts, the insurance company reimbursed us throughout this year for damage capital and manufacturing is back to normal, so this was related to lost profits. There was also unique expenses in the quarter, as we spent approximately $6 million in additional OpEx items related to legal costs for certain contractual disputes and costs associated with the decision to expedite our Avaira Toric relaunch. Note we won't comment on any -- at this time, on the status of any legal matters.

Now onto some details. Our sales results -- our silicone hydrogel family is driving our growth. During the fourth quarter, our silicone hydrogel family continued on its path of sponsoring our revenue growth. Silicone hydrogel revenues were $124 million. Our silicone hydrogel family grew 24% in constant currency. The family now reflects 39% of CDI's revenues. The launch of Biofinity Toric into Japan and the relaunch of Avaira Toric, while still modest in terms of contributions in the fourth quarter, should have a much bigger impact going forward, and in particular their halo effect on each respective product family.

Geographically, foreign exchange headwinds slowed a bit and were only 2% in the fourth quarter, as well as for the fiscal year, excluding the effects of foreign exchange -- essentially all of the euro -- our growth at CooperVision would have been 7% in constant currency. Regionally, we have solid results in constant currency -- the Americas up 3% for the quarter; EMEA, up 11%; Asia Pac, 12%; and overall, 7% in constant currency.

Our growth drivers were, in the Americas, trading up to Biofinity; including the success of Biofinity Multifocal, as well as a solid performance in the one-day category, contributed by Proclear 1 Day sphere and multifocal. These overcame the effects of the authorized distributor contraction and Sandy.

In EMEA, same as the Americas, Biofinity was a major contributor in the entire line, including spheres, torics and multifocal as well Proclear 1 Day spheres. In Asia Pac, primarily Biofinity spheres, Proclear 1 Day spheres, and other one-day spheres and torics were the contributors to our growth.

The worldwide soft contact lens market in the third calendar quarter of 2012 was up 4% in constant currency, while CooperVision was up 12%. On a trailing 12 month basis, the market was up 5%. On a trailing 12 month basis, we were up 10%, on the strength of Biofinity and Proclear 1 Day. For the calendar quarter, the market growth was sponsored by 1 Day, multifocals and torics. While CLI has stopped reporting the growth of silicone hydrogel material, most likely this trade-up of material remains a solid growth driver.

We were up 33% in constant currency for the calendar quarter in the area of silicone hydrogel lenses. This market continues to be a trade-up market. Trading up includes two premium products -- silicone hydrogel lenses, torics and multifocals. The trade up of silicone hydrogel is in the 20% to 40% range. Importantly, a trade up of a one-day disposable expands per-patient revenue by 400% to 600%. More importantly, the one-day wear generates about 300% to 500% more profit.

Also, it is important to understand that torics and multifocals have a long way to go in capturing the market opportunity, especially outside the United States. Geographically, the strength of the Americas, up 7% during the calendar quarter, led to an overall 4% market growth worldwide.

CooperSurgical, our women's healthcare franchise, had a solid quarter with $78 million in revenue. Revenue growth of 37% reflected the July acquisition of Origio, which contributed $19.4 million in revenue. Excluding acquisitions, CSI grew 2% during the quarter. Hurricane Sandy considerably impacted CooperSurgical's organic growth, given we ship out of Trumbull, Connecticut; or the greater New York City area, if you will, which was considerably impacted at the end of October. Ex-Sandy, we would have been in the 4% to 5% range of organic growth.

In addition to acquisition drivers of growth, growth continues to be weighted towards surgical procedures, hospital and same-day surgery, where revenue was up 15%. The Origio acquisition has considerably shifted our product mix. In the fourth quarter, fertility was up 489% and comprised 29% of CooperSurgical's revenue, or about four times its previous mix.

We now have a good balance of our products targeting the office -- 40% of CooperSurgical's revenue; surgical procedures are 31% of our revenue; and fertility, the remaining 29%. We are making good progress with Origio integrated -- integrating it into CooperSurgical in a few short months that we've had Origio under our fold. With the addition of Origio, we are the global market leader in in-vitro fertilization, or IVF. And, importantly, CooperSurgical has become a much more global business now having close to 30% of its revenues outside the US, more than double its prior mix of revenue.

CooperSurgical now has a direct presence in Japan, China, Russia and a minority position even in India. While considerably impacted by Origio, CooperSurgical still put up very respectable operating ratios, with gross margin at 64%; and operating income, non-GAAP, excluding acquisition related costs, of 19% for the quarter.

On guidance, we now have given some color on our expectations for 2013. We look for the soft contact lens market to stay in the 4% to 6% range. At CooperVision we look to continue gaining share with the strength of Biofinity and Proclear 1 Day; together with the benefit of recent launches, Proclear 1 Day multifocal, single use silicone hydrogel and the relaunch of Avaira Toric.

CooperSurgical growth will be sponsored mainly by the full-year impact of the IVF acquisition, Origio. On a non-GAAP earnings per share basis, we are guiding to a range of $5.70 to $6.00. And influencing the range, among other items, includes some of the fourth quarter events -- Sandy and authorized distributors.

Important considerations in 2013 include some remaining foreign exchange headwinds versus the prior year, primarily in the first quarter; Avaira Toric relaunch costs, which began to ramp up in the fourth quarter of 2012, and are expected to significantly impact the first quarter of 2013, as we relaunch this product; a minimum pickup from the Origio acquisition until later in the fiscal year; and continued ramp-up of our single-use silicone; and geographic expansion that continues targeting, not only China, but also some new developing country market locations.

So, net-net-net, we are still considerably in the investment mode. And in spite of getting great return on invested capital from our Biofinity and Proclear family of products.

On strategy, we are continuing 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 healthcare market, targeting the OB/GYNs. We follow the professional wherever they go -- office, surgery center, hospital or IVF centers. Although the call points are different for each, the leverage is considerable.

CooperSurgical's fourth-quarter 2012 gross margin was 64%, and our operating margins are close to 20%. And due to the minimal CapEx requirements, CooperSurgical is a significant contributor to our free cash flow. We are dedicated to the strategy, and will continue tuck-in acquisitions to leverage the CooperSurgical structure.

At CooperVision, the strategy is more complex, and is much more global in nature. In the $7 billion soft contact lens industry, because of the uniqueness of our manufacturing platform and product portfolio, we are the only participant that aggressively promotes silicone hydrogel and non-silicone hydrogel, that is the Proclear family. We emphasize branded and non-branded products. And, as I've said in the past, private label does not mean lower price.

We actively promote and specialize in custom lenses with a high gross margin. We support all modalities that the eyecare professional prescribes -- one-day, two-week, as well as monthly lenses. And we support all types of lenses -- spheres, torics and multifocals. We're close to 30% share in the high-growth specialty lens categories -- torics and multifocals. It is acknowledged by eyecare professionals that we are pretty good at specialty contact lenses.

Few would challenge the success of Biofinity Toric for astigmatism. Put a great design together with a great material, and great things can happen. We have seen similar successes for the same reason with the Biofinity Multifocal, which hit the market in the middle of calendar year 2011. On the capacity front, with the exception of Avaira Toric, we are ahead of plan to deliver considerably more product where we had previously been supply-constrained. The Biofinity family, Proclear 1 Day, our one-day torics, are all ramping up nicely.

The newest challenge will be the ramp up of the one-day silicone hydrogel lens, which is still a niche market. On pricing, like the rest of the soft contact lens industry, we have a trade-up strategy. Our new wearers and existing wearers are targeted for silicone hydrogel, the Proclear family, and one-day or single-use lenses. Each creates more revenue per wearer. A one-day modality, for example, results in 4 to 6 times more revenue per wearer. While the strategy sacrifices the gross margin percent, it generally generates 3 to 5 times more profit per wearer.

Of course, this strategy competes head-on with the lens care space, 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 eyecare professionals all 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 customized lenses for the 10% to 20% of those lens wearers requiring other than standard lens sizes and/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 relaunch of Avaira Toric. The combination will put it in a much better position to exploit the US two-week space, owned by Johnson & Johnson; and to also exploit our private-label strategy more aggressively with his family.

While we already have pretty respectable gross margins and operating margins, from a cost perspective we have considerable upside yet to be fully developed. Upsides include the elimination of silicone hydrogel royalty, which expires -- the patents expire in September of 2014 in the US, and 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 areas 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 markets for both women's healthcare and soft contact 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 aggressively invest in global expansion opportunities.

With over 95% of the population on the planet outside the US, we believe we will find opportunities to invest 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 the third quarter, when the stock was suppressed, we even demonstrated we are at times willing to buy in some of our own stock.

In summary -- before I turn it over to Greg -- the fourth quarter, although a bit more challenging than many of our quarters, we continue to make good progress in delivering bottom-line results. We continue gaining share in soft contact lenses. Additionally, we put up solid revenue growth, solid gross and operating ratios versus the prior year; delivered another year of solid free cash flow, while investing in our future; and we strengthened our balance sheet, achieving investment grade status.

The year was filled with many exciting events, including the amendment and extension of our credit agreement; the acquisition of Origio; the buyback of almost 1 million shares of our stock; as well as the exciting launch of two new products, Proclear 1 Day Multifocal and single-use silicones in select markets in Europe; as well as a relaunch of the Avaira Toric. During the quarter, we continued our exciting expansion into developing geographic markets, with good progress in China and others.

While the economy has shown an ability to remain sluggish for several years now, we continued to demonstrate that our $7 billion soft contact lens industry remains recession-resistant. I see no end to this dynamic going forward. While we continue to reinvest in many areas, we also continue to provide a good return on invested capital, targeting yet another year of double-digit earnings per share growth again this coming year.

And, lastly, as always, I want to thank our employees -- our number-one asset in the Company -- for the great job they continue to do all around the world. They are what makes Cooper such a great company.

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

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

Thanks, Bob, and good afternoon, everyone. Bob has given you of pretty thorough review of the market and our revenue picture. Let me start with gross margin. Looking at gross margins, in Q4, the consolidated GAAP and non-GAAP gross margins were 63.8%, compared with 62% for GAAP and 63.4% non-GAAP in Q4 last year.

Remember, last year's fourth-quarter non-GAAP gross margins were impacted by the Avaira recall for $6 million, which included $4.9 million in cost of goods sold or inventory reserves, and $1.1 million for return provisions. As you can see, we had a solid gross margin quarter, in line with our expectations, due to the increased manufacturing efficiencies and favorable product mix.

For the year, we had a GAAP and non-GAAP gross margin at 63.9%, versus 60.5% for GAAP and 62.1% for non-GAAP in 2011. Origio had a 30 basis point negative impact on gross margins for the quarter, and about a 10 basis point negative impact for the year.

CooperVision, on a GAAP and a non-GAAP basis, reported a gross margin of 63.7% versus 61.3% for GAAP and 63.1% for non-GAAP in Q4 last year. As I just mentioned, the difference in 2011 between GAAP and non-GAAP was the impact of the Avaira recall. For the full year, CooperVision's GAAP and non-GAAP gross margin was 63.4% versus 59.7% for GAAP and 61.5% for non-GAAP in 2011.

As you can see, we continued the multiyear trend of improving margins. A special thanks to our manufacturing team for the great work that they've done.

CooperSurgical had gross margins of 64.1%, which compares to Q4 2011 of 65.3%. Excluding Origio, gross margin would have been 66.3%. The ongoing year-over-year improvements to the base business were mainly due to manufacturing efficiencies and favorable product mix, especially in the surgical space. For the year, CooperSurgical had gross margins of 66.4% versus 64.8% in 2011.

Now looking at operating expenses, SG&A. In Q4 on a GAAP basis, SG&A expenses increased by 9% from Q4 last year to $152.4 million, and were 38% of revenue versus 39% the prior year. Remember, in Q4 2011 we did have the $10 million charge for the Rembrandt settlement. Excluding this item, SG&A would have grown 17.5%. If you adjust the 17.5% to exclude Origio, then the increase was 11%. That 11% reflects increased spending on marketing and sales headcount adds from earlier in the year; numerous Q4 marketing projects and product launches around the world; a relaunch of some of the additional Avaira Toric fitting sets; as well as some one-time legal expenditures. The majority of this spend was variable in nature versus infrastructure spend.

As a follow-on, SG&A on a non-GAAP basis increased only 8% sequentially; 5% sequentially excluding Origio. For the year, GAAP SG&A grew 10%.

Now looking at R&D -- in Q4, R&D increased by 20% year over year to $14.1 million, or up about $2.4 million, and was 3.6% of revenue, up from 3.3% of revenue in Q4 2011 and up from 3.5% sequentially. Excluding Origio, R&D increased approximately 12% or $1.4 million and would have been about 3.5% of revenue. This increase, excluding Origio, is mainly attributable to a variety of spending on new product development and clinicals. We would expect that R&D will continue to grow slightly faster than sales for the coming year. For the year, R&D grew 19% or $8.1 million. Excluding Origio, R&D grew 16% or $6.8 million.

Depreciation and amortization -- in Q4, depreciation was $23.5 million, up $2.8 million or 13% year over year. And amortization was $7.3 million, up $1.7 million or 31% year over year, for a total of $30.8 million. Origio amortization for the quarter was $1.9 million. For the year, depreciation and amortization were $87.2 million and $24 million, respectively, for a total of $111.2 million.

Moving to operating margins -- for Q4, consolidated GAAP operating income and margin were $79 million or 19.9% of revenue, versus $66.6 million or 18.5% of revenue in Q4 2011. This represents a 19% increase in operating income over Q4 2011. On a non-GAAP basis, which excludes the Origio acquisition cost of approximately $800,000 in the current quarter, and the $6.2 million impact of the Avaira recall, as well as the $10 million Rembrandt settlement in Q4 2011, operating income and margin were $79.8 million or 20.1% of revenue versus 22.9% in the prior year.

This reduction is largely attributable to the increased investment in selling and R&D we have done over the last year. On a GAAP basis for the full year, our operating income and margin were $283.4 million or 19.6% of revenue, up about 24.5% in dollars. On a non-GAAP basis, operating income and margin were $288.3 million or 19.9% of revenue, and up approximately 11% in dollars.

Now moving on to interest expense. Interest expense in the quarter was $2.7 million. Included in the gain on insurance proceeds is -- Bob had mentioned this earlier -- is $5 million of insurance proceeds for business interruption related to the October 28, 2011, incident where a pipe ruptured in our fire suppression/sprinkler system, causing water and fire retardant foam damage to one of our manufacturing buildings in the UK, as we've talked on previous calls.

Moving on to the effective tax rate. In Q4, the GAAP and non-GAAP effective tax rate was 12.7% and 13%, respectively, versus Q4 2011 GAAP and non-GAAP effective tax rate of 9.9% and 9%. As we have 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 lower tax rates.

The quarter's rate was higher than expected, as we had expected some favorable adjustments to our reserves, as well as we saw an increase in profits in higher tax jurisdictions, mainly the United States and Denmark. The combination of factors drove the Q4 rate up, but we did achieve our full-year guidance. On a full-year basis, the GAAP and non-GAAP effective tax rate was 9.7% versus 9% for GAAP and 10.1% for non-GAAP in 2011.

Stock option comp, Q4, was $4.9 million. Total stock option comp for the year was $21.5 million.

Moving on to earnings per share, as Bob mentioned, our Q4 EPS on a GAAP and non-GAAP basis was $1.46 and $1.47, respectively, versus $1.15 and $1.46 on a GAAP and non-GAAP basis in Q4 2011. For the year, EPS was $5.05 for GAAP and $5.16 for non-GAAP, versus prior-year GAAP and non-GAAP of $3.63 and $4.50, respectively.

Hurricane Sandy, as Bob mentioned, negatively impacted revenue by approximately $2 million, which would have had an approximately $0.02 impact on EPS. The quarterly effective tax rate came in higher than we guided in Q3, as I mentioned a few moments ago. Had the effective tax rate been at 10%, the midpoint of our guidance, we would have seen an additional $0.05 earnings per share, non-GAAP.

Moving on to share repurchase program -- from that perspective, no additional shares were repurchased during the fourth quarter. On December 5, the Board of Directors authorized the repurchase of an additional 150 million of common stock. Under the existing share repurchase program. With this approval, the Company is now authorized to purchase up to $300 million of its common stock. During 2012, we purchased approximately 984,000 shares at an average cost of $72.30, for a total cost of $71.1 million. This new authorization leaves us with approximately $228.9 million left in the program.

Moving onto balance sheet and liquidity items -- in Q4, we had cash provided by operations of $114.8 million; capital expenditures of $32.6 million; and, excluding Origio acquisition-related costs of $1.3 million, resulting in an $83.5 million of free cash flow. For the full year, we generated $230.4 million of free cash flow. Our full-year CapEx number was $99.8 million, so just under $100 million.

Total debt decreased within the quarter by $106.4 million to $373.7 million. Debt as a percent of total capitalization is now 14%. This leaves us with approximately $653.7 million total credit available at October 31.

Inventories increased by $18.5 million from the last quarter. Approximately $18 million is related to silicone products and related raw materials and CooperVision. For the quarter, we are seeing months on hand at 6.7 months, up from months on hand of about 5.5 months in Q4 2011. Or if you would just Q4 2011 for the voluntary recall of certain Avaira contact lenses, it would be about 5.9 months on hand.

Accounts receivable continues to be closely monitored, with DSOs at 54 days, down from 55 days last year.

Okay, moving on to guidance. In order to provide a little bit more color for your models, let me share some additional specifics on our guidance. Bob touched a bit on the revenue ranges, but just to reiterate for the Company standpoint, $1.565 billion to $1.625 billion in revenue for the total Company. CooperVision, $1.25 billion to $1.29 billion for CooperVision; and CooperSurgical, $315 million to $335 million -- again, for CooperSurgical revenues.

If I move on to gross margin, it's in the range of 63.5% to 64.5%. It's currently expected the medical device tax would have a 30 basis point negative impact in 2013. Gross margins are positively impacted by increased efficiencies in the manufacturing process as well as impacted by mix between such products as Biofinity, Avaira, single-use silicone and traditional hydrogels as examples for CVI; and mix examples for surgical would be a mix between the surgical products and the IVF products.

From an OpEx perspective, we're guiding to a range of 43% to 44% of revenue. Operating income as a percent of revenue is expected to be in the 20.5% to 21% range. Interest expense expected to be in the $10.5 million to $11.5 million range. Amortization should be approximately $29 million. The effective tax rate is 10% to 12%, as Bob had mentioned earlier. I realize we finished 2012 at 9.7%; but remember, we did have some unique events like settling the federal tax court case, which did hold our rate down below this range in 2012.

GAAP and non-GAAP EPS are expected to be in the range of $5.70 to $6.00 for the year. Free cash flow guidance is at $200 million to $230 million range, with CapEx at the $120 million to $150 million range. Share count guidance is 49.8 million shares. And, as always, guidance assumes constant currency at the date of issuance.

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

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

Operator, we're ready to take the questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Kim Gailun, JPMorgan.

Kim Gailun - *JPMorgan - Analyst*

Hi, guys. Good afternoon. The first question, I guess, is on the inventory. You called out $7 million and $0.07 in the quarter. And just to be clear, are you saying that some of this inventory has bounced back here in the first quarter? And how can you be sure that this is actually inventory and not end-customer demand?

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

I think we're talking about the shrinkage in the authorized distributors, which was $7 million. And that shrinkage is a function of us working with our distributor. Back up to a year ago, you may recall in 2011 we, on the quarterly calls, focused in on reducing the levels of inventory on hand at authorized distributors, which we successfully did the first three quarters, which was caused by a shift in the way we approached them in 2011. But we still had an annual commitment.

So, what happened in the fourth quarter a year ago was that the distributors, recognizing they had annual commitments and annual incentives, still took their inventories up, by and large -- and I'm blending it across all authorized distributors -- higher than we would have preferred a year ago.

This year, we worked, not only the quarters, but we preempted that phenomenon. And that's what caused the year-over-year reduction in inventory on hand at distributors as of the end of our fiscal year. So, that is something that, from an efficiency point of view, going forward we do not anticipate building back up to the levels anything like it existed as of October 31, 2011, following all that management we went through of inventory the first three quarters.

So, it's an efficiency factor that comes into play. Year over year, had we had the same level of inventory at the distributors, it would have been another $7 million higher, if you will, that we would have had on our balance sheet.

Operator

Larry Biegelsen, Wells Fargo.

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

Good afternoon. Thanks for taking the question. Just a follow-up on some clarification questions on the quarter. The $5 million insurance gain, why did you book that as non-GAAP EPS this quarter? And the $6 million in additional OpEx for legal, and the Avaira Toric relaunch, how much is for legal? And should we expect any additional legal expenses related to this matter in 2013?

And, lastly, Bob, you talked about a good start to fiscal 2013. Can you elaborate on that a little more, please? Thanks.

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

Okay. As far as the $5 million, which was business interruption, it reflects some of the activity that happened or didn't happen throughout the P&L in 2012 and then into 2013, so it's operational in that sense. And, quite frankly, the story would have gotten complicated if we were to exclude it from the non-GAAP, together with some of those other factors that had to do with higher than -- let's say a number of legal things coming together all at once.

The answer to your question is the $6 million, about half of that is legal matters, and that's plural; there are several events, all of which were concentrated in the quarter. And I'm really not going to get into any one of those events, for obvious reasons. And, then, the other half of that was the, if you will, the acceleration and the push of the relaunch of Avaira Toric. And there is kind of an anomalous result of those -- the relaunch, because it is a relaunch, being a much more expensive event from an accounting point of view, than were it just new sets going out the door that get spread over three years.

In the case of a relaunch, a good chunk of those fitting sets get charged to the P&L. So, in the fourth quarter, and again in the first quarter of 2013, there will be an unusually high charge to operating costs for the relaunch of, let's say, old fitting sets from the initial Avaira Toric launch. And that is somewhat anomalous.

But I respect the fact that you can debate all over what those three events -- the legal matters, the relaunch and the $5 million below the line, and its impact on above the line or if not above the line, from an operating income point of view.

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

Larry, just to throw in, too, the legal expenses going forward, we don't expect to see them forward. It was a one-time thing here for this quarter.

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

As far as the start of 2013, I think the plus is there some ripple effect of the -- what didn't all go out the door because of Hurricane Sandy. I would balance that, or temper it, if you will, by the fact that, quite frankly, some -- if you think about the phenomenon of not getting primarily Rx torics out the door in October because the doctors aren't open. They're canceling their patients, and the patients are being put back in the queue.

Whether or not all those patients get back in the queue on the East Coast in the first quarter or later, because there is a bottleneck, remains to be seen. But the risk -- some of that will all come back in the subsequent periods. As far as the tempering, I emphasize that we will continue the rollout of Avaira Toric fitting sets. And I would say about half of them, meaning the initial fitting sets that went out the door and are being relaunched, went out prior to the end of the fiscal year and the other half will go out the door essentially all in the first quarter.

So, there is that week in the first quarter that will not repeat itself, post the first quarter. I want to emphasize that point.

Operator

Larry Keusch, Raymond James.

Larry Keusch - *Raymond James & Associates - Analyst*

Yes, hi, good afternoon. Just wanted to understand the outlook for free cash flow, which was -- looks like it's sort of flattish in guidance for 2013 versus 2012. It sounds like you are increasing CapEx. So I wanted to understand what that's all about. And on the share repurchase, you obviously have not completed your authorization, so I wanted to understand applied why the increase in the authorization at this time. Thanks.

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

I'll take a first pass at it, and let Greg had anything I missed. But from the free cash flow perspective, you're right, the culprit, so to speak, is an increase in CapEx. And, as you know, we are moving more aggressively down the path of investing in silicone hydrogel one day. That market, even though it's a niche today, I'd say 3 to 5 years down the road or at some point in time, it will become more than that. And we want to be there and participate in that arena. And we think we have a pretty good product in our test market, or rollout market, if you will, in Europe right now.

So, that is the catalyst for increasing capital requirements. As far as the authorization of the buyback of our stock, we had a termination date the end of the calendar year and we had to renew it. And in so renewing, since we already had put a dent into half of it, we expanded it and took away the time deadline, if you will, for that.

Next question?

Operator

Jeff Johnson, Robert Baird.

Unidentified Participant

Good afternoon, guys. It's actually Jason in for Jeff. I just wanted to ask on the single-use silicone. You'd mentioned before that some of the cost reductions in manufacturing this product will be volume related, while many others will just take time. Wondered if you could focus on the latter here, as it sounds like volumes of this product are still pretty low. Have you overcome any hurdles in the last few months with this product? Can you remind us how you see gross margin on it playing out over the next 6 to 12 months and the next one to two years?

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

I would say we are more than happy where we are already. I would view it as a several-year program. In fact, we're still getting cost out of our first one-days and our Proclear 1 Days, so -- in some cases, we've been adding for five, six, seven years and are still improving the process.

As for silicone hydrogel one-day, a lot of costs have come out. I would say, quite frankly -- and I won't get into much more color than this -- the cost is well less than half of what it used to cost us to make a little over four or five months ago, which might be a relative term. But we are clearly in the mode where it is -- unlike when we first launched it, a positive gross margin, and it's pointing in the right direction.

That will continue for the indefinite future. And we already know things we want to do to improve the whole manufacturing process going forward, as we talk about spending more capital in that area.

Next question?

Operator

Matthew O'Brien, William Blair.

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

Good afternoon. Thanks for taking the question, and I apologize for any background noise that you're picking up there. Just to follow-up a little bit on Kim's question, Bob, I just want to make sure we are clear on this, that latest distributor adjustment, there is nothing that you're seeing as far as any customer demand changes that's precipitating this adjustment for distributor network? And then on top of that, just with the CVI guidance for 2013, it seems we are calling for at the high end of the range, a couple of hundred basis points of share taking, with 8% growth, if the market is even up 6%. What products, specifically, or regions tend to get us there?

And, lastly, Greg, just to finish up my three-part question here, just to be sure -- there is nothing assumed in guidance for any kind of share repurchases for 2013, is that correct?

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

Yes, Matt, to your last question, right. There's nothing planned for share repurchases.

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

As far as is there any implication of the reductions of inventory on hand at the distributor tied in with pull-through, the answer is no, there is not. You can see that both in our quarterly CLI data, that wouldn't have the skewing of the distributors, particularly in the last quarter. And, importantly, relative to what's going to continue to see that, we will gain share -- or why we expect to gain share, clearly the driving factors will continue to be the Biofinity family, which is doing very well.

And you can see how well silicone hydrogels have done, driven by Biofinity. The fact that Proclear 1 Day continues to be double-digit, solid double-digit growth around the world, with a lot of opportunities still to go. The fact that we have the three new launches of products that occurred late in 2012, which would be the single-use product in Europe, the Proclear 1 Day multifocal, which is getting good market reception; as well as our rollout of Biofinity Toric into Japan, which also has a halo effect on sphere, so that you have a family of products developing in Japan.

So, we're pretty optimistic we will grow faster than the market, and that the market will remain in that 4% to 6% range going forward, and we will gain share.

Next question?

Operator

Joanne Wuensch, BMO Capital Markets.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Can you hear me?

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

We can.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Wonderful, thank you. Let's just talk about your toric sales in the quarter. Forgive me if I missed this, but that growth rate seemed a little bit lower than what I was expecting. Is there a particular reason behind that?

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

Yes, there really are two reasons. One is, if you think about the fact that a lot of torics are Rx, and they go straight to the doctor's office for the patient. So, when we talk about Hurricane Sandy and what didn't get out the door, what did get out the door is what went to the distributors. We did not have a problem getting product to them, which we worked around the storm.

What did not get out the door is really, primarily, that toric business that is Rx. So, the bulk of Sandy, I would say, would be toric-related. The second thing is the year-over-year contraction at the distributors. Since Biofinity is such a huge product worldwide, it is -- suffice it to say, our distributors carry a fair amount of Biofinity for the easier-to-fit SKUs, or the more popular, if you will.

And, as a result of that, that contraction of the $7 million, some of that rippled into that arena, also. If you were to look at, for example, the calendar quarter ended September, on a year-over-year basis, our torics grew 11% against the market of 7%. And if you look at a trailing 12 months ended September 30, it's likewise 11% versus the market 8%. So, overall, our torics are doing well. And what you're seeing is somewhat the implications of those two events.

Next question?

Operator

Amit Bhalla, Citi.

Amit Bhalla - *Citigroup - Analyst*

Hi. Bob, question for you. This is not the first time that you've gone into a year ahead where there's uncertainty and issues around investment and new product launches. And at this time last year, the earnings range you gave was $0.20. This year, going into 2013, the EPS range is $0.30. Is there that much variability and visibility, or are there competition issues? Why such a broad range going into 2013, when you've had similar types of issues to deal with in the past?

And second, for Greg, can you just confirm on the P&L where the device tax is going to be booked? Thanks.

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

The answer to the first question on the range, quite frankly, we've been pleased to beat our range frequently in the past. And now we have kind of, in this fourth quarter, certainly not beat the range we put out there of the $1.50 to $1.55. There is variability caused by a lot of things, including the whole debate on what's going on in Europe, the whole debate on the fiscal cliff in the United States.

While we are recession-resistant, that's not to say on a given quarter, there aren't events that really cause a contraction or some anomalous event. So, is a $0.30 spread against something in the neighborhood of $5.70 large? I know we can debate that probably forever. I'm think it's prudent to give a broader range than to try to micro a narrow thing, which is unrealistic, in my opinion. At least as we're sitting here, nine months ahead of -- 10 months ahead of time.

Medical device, I'm going to take a shot at it, and then I'll let Greg refine anything I say wrong. That is still to be determined. There are different ways to operate, as I understand, in the domain. Some companies are going cost of goods, and some companies are going operating cost. And it -- quite frankly, those that are going cost of goods are actually managing the process better than those that are going operating cost. But is to be determined whether or not we'll end up with a model that is one or the other.

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

Yes, Bob, I think you hit it. There's been a lot of focus groups and industry groups of the last couple of months trying to understand the guidance, and more and more white papers from various companies coming out about how to treat this. And, again, still undetermined; we're still looking at that. In guidance, we had stuck it in cost of goods sold.

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

Next question?

Operator

Anthony Petrone, Jefferies Group.

Anthony Petrone - *Jefferies & Company - Analyst*

Thanks. Just one industry question. And I may be wrong here, so just to confirm. But we did see a report in late October, early November, that 1-800 CONTACTS and Wal-Mart would be dissolving in their relationship come December 31 this year. So, a couple of questions there -- one, is that true? A follow-up would be, is that due to the WellPoint acquisition of 1-800 Contacts? And if indeed it is true, how does that affect your business? Thanks.

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

It's my understanding that it is true, that they are parting their ways, or their current structure. I don't know if it's WellPoint-related or not. And it didn't matter to us when they put it together, and it doesn't matter when they take it apart. So, we really don't care.

Next question?

Operator

And at this time, there are no further questions in queue. And I would now like to hand the call back over to Mr. Bob Weiss for closing remarks.

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

Well, I want to thank everyone for joining us today on this call. Look forward to launching into 2013; we think we have a lot of exciting things in the pipeline that are going very well. And we look forward to talking to everyone and updating you on our progress in March. Thank you very much.

Operator

And, ladies and gentlemen, that does conclude today's conference. Thank you for your participation. You may now disconnect. Have a wonderful day.