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COO - Q4 2017 Cooper Companies Inc Earnings Call

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OVERVIEW:

Co. reported 4Q17 consolidated revenue of $562m and consolidated non-GAAP EPS of $2.65. Expects FY18 consolidated revenue to be $2.48-2.53b and non-GAAP EPS to be $11.35-11.65.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2017 The Cooper Companies, Inc. Earnings Conference Call. (Operator Instructions) And as a reminder, this conference call is being recorded. And I would now like to introduce your host for today's conference, Ms. Kim Duncan, Vice President, Investor Relations. Ma'am, you may begin.

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

Good afternoon, and welcome to The Cooper Companies Fourth Quarter and Full Year 2017 Earnings Conference Call. During today's call, we will discuss the results included in the earnings release, along with the updated guidance 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 operations, 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 e-mail ir@cooperco.com.

And now I'll turn the call over to Bob for his opening remarks.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Thank you, Kim, and good afternoon, everyone. Welcome to the fourth quarter and full year 2017 conference call. This was an exciting year, and we finished with record revenues, earnings per share and free cash flow. I'm proud of the team and the -- and everything we've accomplished and believe we're set for a strong fiscal 2018.

For the quarter, we reported $562 million in consolidated revenue, up 8% year-over-year. Non-GAAP earnings per share was $2.65, up 16%, and free cash flow was a very strong $167 million. CooperVision posted fourth quarter revenues of $439 million, up 7% as reported, up 5% pro forma. Daily silicone hydrogel lenses drove growth up 37% in constant currency. CooperSurgical posted revenues of $123 million, up 15% as reported, up 7% pro forma. Fertility drove growth up 28%, or up [12%] (corrected by company after the call) pro forma.

Moving to the details for CooperVision. This was a solid quarter given tough comps and some hurricane disruptions. By geography, the Americas grew 2%; EMEA grew 5%; and Asia Pacific grew 10%, all pro forma. The Americas saw solid growth in August followed by weakness in September and October. There was some negative impact from the hurricanes during the time, which we estimate at -- estimate roughly at $2 million or 1%. Regardless, our total [share fit] in the Americas continues to be better than the revenue growth, indicating we're taking on-eye share. Regarding EMEA and Asia Pac, both had solid quarters, especially considering the difficult comps. We continue to gain share in both regions on a diversified geographic basis, which bodes well for continued growth.

Overall, revenues continued to be driven by our silicone hydrogel lenses, led by clariti and MyDay in the dailies space and Biofinity in the monthly space. Our tiered approach within the daily silicone hydrogel space continues to prove successful. We are expanding our offerings geographically and have recently started seeding the U.S. market with MyDay toric fitting sets with the full launch to come soon. MyDay toric has been received incredibly well internationally due to its very comfortable design, and we expect a similar response in the U.S. Our clariti 1-Day products continue to perform extremely well as the only silicone hydrogel family with the sphere, toric and a multifocal offering.

Moving to other products. Our Biofinity and Avaira family of lenses combined to grow 7% pro forma. Biofinity continued to perform very well with diversified growth around the world. Avaira declined slightly as our focus remained on transitioning wearers to our upgraded Avaira Vitality lenses, which we anticipate completing by the end of this fiscal year. We did experience some Avaira disruption associated with the hurricane in Puerto Rico, but our team did a phenomenal job responding to that challenge, and the impact was minimal.

Turning to product categories. We remain the global leader in torics, which grew 7% pro forma, driven by clariti and Biofinity, along with the roll-out of MyDay toric in Europe. We continue to believe the toric market will grow faster than the overall market, and we will share in that growth given our strong portfolio and the addition of MyDay toric in the U.S. Multifocals grew 4% pro forma, with strength coming from clariti and Biofinity.

Turning to global contact lens market. For calendar Q3, we grew 7%, with the market also up 7%. This included growing faster than the market in EMEA, up 6%, versus the market, up 4%; and Asia Pacific, up 15%, versus the market, up 9%. The Americas grew 4%, with the market up 7%. By modality, CooperVision grew single-use lenses 15% versus the market, up 13%. And finally, CVI's non-single-use lenses grew 3%, while the market grew 1%.

Overall, Q3 was a good quarter for both CooperVision and the market although the market was against easy comp. In particular, the comp for the Americas market was especially easy as it was down 3% last year's third quarter while CooperVision had more difficult 3% comp. On a trailing 12-month basis, we took share throughout the world, growing 8% versus the market, up 5%. Going forward, we are still targeting 4% to 6% market growth, driven by continuing shift to improve technologies, such as the wider use of silicone hydrogel lenses, the continuing trade-up to dailies and specialty lenses, geographic expansion and the expansion of the wearer base. And given our strength in these areas along with the broad private label offering, we expect to continue growing faster than the market.

Regarding other CooperVision activity, we've completed the acquisition of Paragon Vision Sciences on December 1 for approximately $80 million. Paragon is a specialty lens business with a particular focus on ortho-k contact lenses. This acquisition allows us -- follows our recent acquisition of

Procornea, another specialty company that we acquired in August. In combination with our MiSight product for the management of myopia, we are developing a nice specialty lens platform to ensure we remain well connected with key opinion leaders and a technological leader in this space.

Moving to CooperSurgical. We reported a strong quarter with Q4 revenues of $123 million, up 15%, driven by organic growth in acquisitions. On a pro forma basis, we grew 7%, with fertility leading the way, up 28% or 12% pro forma. It was nice seeing the strength in fertility as the integration disruptions are starting to get behind us. As I mentioned before, we are a global leader in medical devices and genetic testing within the fertility space, which is a global market with strong long-term growth dynamics. Our office-and-surgical business grew 2% for the quarter, with strength in EndoSee, our disposable hysteroscope, offset by weakness in other product lines.

Regarding our CooperSurgical activity, we recently completed the acquisition of PARAGARD IUD from Teva, which closed on November 1st, for approximately $1.1 billion. PARAGARD is the only IUD on the U.S. market that is hormone-free, long-lasting and reversible. The fact, it's -- hormone-free is especially important. As you may have heard, there was a major story released yesterday in The New England Journal of Medicine, showing women using birth control pills and IUDs that release hormones face a higher risk of breast cancer than women who have never used hormonal contraception. This study was completed over a 10-year period following 1.8 million women. Given PARAGARD is the only non-hormonal IUD option in the U.S. and CooperSurgical has the resources and experience to ensure millions of women across country are aware of this important distinction, I'm very excited about the growth potential .

I'll let Al get into the financial details, but as you can tell, I'm very bullish about PARAGARD as product and as a strategic fit within CooperSurgical. And finally, I want to express my appreciation to our employees for their hard work and dedication. We continue to post record results, and this wouldn't be possible without them. I'd like to especially thank employees in Puerto Rico, whose dedication and perseverance through the Hurricane Maria was something special.

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

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Thank you, Bob, and good afternoon, everyone. Most of my commentary will be on a non-GAAP basis. So please refer to today's earnings release for a full reconciliation of GAAP to non-GAAP results. Bob covered revenue. So let me focus on the rest of the financials and guidance.

For the quarter, consolidated gross margins were 65.9%, up nicely from 64.3% last year. CooperVision's gross margin was 67.7%, up from 64.8% last year, driven primarily by currency and product mix gains. CooperSurgical's gross margin was 59.6%, down from 62.5% last year, driven by lower genomic pricing and certain inventory write-offs and charges on legacy products. Also, within CooperSurgical, we recently purchased an existing manufacturing facility in Costa Rica to consolidate a significant portion of our global manufacturing. We've made a lot of progress upgrading the facility and hiring key employees and plan to begin production of the Wallace transfer catheter in the near future. This should provide a very nice opportunity to reduce cost and improve margins in the coming years.

Moving to expenses. Consolidated operating expenses grew 7% in the quarter, slightly less than revenue. Expense growth was driven by investments throughout the company, including additions to the sales force and distribution. We continue to enhance our sales force by selectively hiring around the world while also continuing to upgrade our infrastructure, including distribution.

Moving to operating income. We grew 17.2%, with operating margins improving to 27.2% from 25.1% last year. Both businesses reported strong operating margin improvement, with CooperVision growing 14.7% to 31.1%, driven by gross margin improvement; while CooperSurgical improved 15.4% to 22.4%, driven by operating expense leverage.

Below operating income, we reported $7.9 million of interest expense, a $1.5 million FX loss and an effective tax rate of 8.1%. Non-GAAP EPS was $2.65, with roughly 49.7 million average shares outstanding. We posted $167 million of free cash flow comprised of roughly $199 million of operating cash flow, offset by $32 million of CapEx. Total debt declined roughly $41 million to $1.173 billion, supported by cash flow generation and an increase in cash balances, offset by our acquisition of Procornea in August and $25 million of stock buybacks in October.

Regarding full year fiscal 2017 results, consolidated revenues were $2.139 billion, up 9% or 7% pro forma. CooperVision revenues were $1.674 billion, up 6% or 7% pro forma; and CooperSurgical's revenues were $464.9 million, up 19% or 4% pro forma. Non-GAAP EPS was $9.70, up 15%; and free cash flow was very strong at $466 million.

Before moving to guidance, let me quickly add a reminder that we announced on November 1, a new $1.425 billion 5-year Senior Unsecured Term Loan, which matures November 1, 2022. The facility was used to fund the PARAGARD acquisition and reduce our revolver borrowings, allowing greater flexibility for general corporate purposes, including the recent funding of the Paragon acquisition.

Moving to fiscal 2018. We're guiding the consolidated revenues of $2.48 billion to $2.53 billion, which is comprised of $1.83 billion to $1.87 billion at CooperVision, or roughly 9% to 11% as reported growth, 6% to 8% pro forma growth; and $650 million to $665 million at CooperSurgical, or roughly 40% to 43% as reported growth, 2% to 4% pro forma growth.

CooperSurgical revenue guidance assumes roughly $170 million for PARAGARD, which is slightly lower than originally expected, with the negative impact coming entirely in fiscal Q1 due to higher-than-expected channel inventory. We're not providing detailed quarterly guidance, but to help model this, we expect Q1 revenues for consolidated CooperSurgical to be around $150 million, with PARAGARD being roughly $34 million of that. This $34 million would be a year-over-year decline of roughly 25%. This unusual activity is related to a price increase, which resulted in a significantly higher channel inventory in September but then also, unexpectedly, in the month of October, the month before we closed the acquisition. Subsequent to Q1, we expect PARAGARD to do roughly $135 million to $138 million during Q2 to Q4, which equates to upper single-digit growth, driven by the price increase and underlying unit growth. Note we have not included any potential upside from the new study Bob mentioned in The New England Journal of Medicine. We still expect to meet or exceed our targeted EPS accretion of $0.70 to $0.75 for PARAGARD for the full year. And including PARAGARD, on a consolidated basis, we expect non-GAAP earnings per share in the range of $11.35 to $11.65, up 17% to 20% based on 49.8 million shares outstanding.

Moving to details within the P&L. We expect fiscal 2018 gross margins to improve to around 68%. Operating margins are expected to improve to around 28%, and this includes a negative $3 million impact from the reintroduction of the 2.3% medical device tax -- excise tax beginning in January. This tax only impacts our domestic CooperSurgical business, excluding PARAGARD, which is treated as a pharmaceutical product. Interest expense is expected to be around $68 million, which includes the additional debt from the PARAGARD and Paragon acquisitions and the assumption of a 25 basis point rate increase this month.

Regarding taxes. There's obviously a lot of activity with several bills pending at the House and Senate. So let me add a caveat that my commentary is based on unfinished tax legislation that could change materially. Given our fiscal year end is in October, many of the proposed tax reform provisions will not be effective for us until fiscal 2019. So we're assuming an effective tax rate of 11% for our fiscal 2018 guidance. Having said that, the proposed tax reform does include a few provisions that would impact us in fiscal '18, with the most material being the mandatory repatriation of previously deferred earnings. That being said, we would exclude these types of one-time P&L charges from our non-GAAP EPS to allow clear comparability of year-over-year results. Repeating my disclaimer that there are still a lot of moving parts, we currently see risk to our effective tax rate in fiscal 2019 and beyond to the mid-teens from items such as the minimum tax on foreign income.

Lastly, on guidance, excluding any impact from unknown tax matters, we expect free cash flow to be similar to this past year but with CapEx around $175 million. The higher CapEx is mostly due to carryover from fiscal 2017 due to lower-than-expected spending in Q4 as our manufacturing team dealt with the hurricane in Puerto Rico.

With that, let me conclude by saying we remain focused on expanding our businesses and gaining global market share while delivering consistent, solid financial results. This quarter and this year were another step in that direction, and we look forward to reporting results as we work through fiscal 2018.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Joanne Wuensch with BMO Capital Markets.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

I have to go back to taxes, sorry. Could you please walk us through how the impact of the potential lower tax rate for the corporate level would impact you? I mean -- I think we've all, over the years, taken a look at your 8%, 9%, 10% type of corporate tax rate and not -- don't fully completely understand how that stays at that level. But walk through taxes just a little bit more, please.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Yes. So a couple of comments on that. If we look at -- first of all, if we look at this coming fiscal year, fiscal '18 that we're in right now, most of the tax reform, again, won't impact us. So if we look at fiscal 2019 and beyond, that's where you start looking at it and say "Okay, what is the impact of the full tax provision changes?" And that's where we're talking somewhere in the mid-teens. So let's say 15%, just so we're working off a number. If we take a look at where we have been in the past and you add PARAGARD, which has fairly significant U.S. income associated with it, obviously higher U.S. taxes associated with that, that moves us up towards the 11% this year. And then the other tax changes move us up to the 15%, keeping in mind that under that scenario, PARAGARD is actually a positive because the positive tax rate is a positive for PARAGARD and our CooperSurgical business. So that's kind of the flow. I mean, as you can imagine, as you know, there's a lot that goes into that, but at this point in time, based on the measures that are out there, that's where we see taxes coming out.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Okay. And as my follow-up question, you've acquired Procornea and Paragon, could you please give us a little bit of an idea of the revenue contribution from those 2 acquisitions for next year and what the strategy is with those products?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Yes. So that's part of our specialty lens business that we're building up, and it's turning out to be very nice. If you combine those 2 businesses, they're around $30 million in revenues. And if you roll those in with MiSight, it's a very nice specialty lens business that is at least upper single-digit if not a double-digit growing business. So we're pretty excited about that. It's a relatively small part of the business right now but growing nicely and could be very important in the coming years with myopia management becoming more important.

Operator

And our next question comes from the line of Larry Biegelsen with Wells Fargo.

Lawrence H. Biegelsen - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

One on revenue in the Americas and then just one on FX and guidance. Just starting with the Americas, I think even if you adjust for weather, the Americas was a little bit soft relative to the market and in calendar Q3. So Bob, any color of what's going on in the Americas and how much you think MyDay, relaunching that, can help in the U.S.? And then just, Al, on the guidance, we estimate there's about $0.60 of FX benefit to EPS in fiscal 2018. Is that directionally accurate? And why isn't that falling to the bottom line?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes, Larry, on the first one on the Americas looking soft, yes, the answer to your question is -- the MyDay toric coming out in the early part of 2018, it's certainly going to be a plus for us. When we talk about comps, of course, the overall market was pretty strong due to easy comps, including the Americas, so 7% compared to the prior year, which was down 3%. For us, our prior year was a plus 3%. So we went from 3% to 4%, up -- slight uptick. The -- so comp is a big part of it. And then of course, we had -- during the period, we both had some implications of the hurricane and weather. And as I mentioned, we think, overall, that's about $2 million, although a good chunk of that $2 million probably rolled more into the October time frame.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Yes. And on currency, when we reported earnings in September, we expected currency in fiscal '18 to be around 60% -- $0.60 positive, Larry. As we got closer to this quarter, it was actually holding in there, as you indicated. When we just run the rates though, the positive impact from currency in fiscal '18, we have a $0.38. So it came back a decent amount. Now that includes EUR 1.17, JPY 1.13, GBP 1.34. So although from September to today, we lost a good $0.20 -- a little bit more than $0.20. We still have given guidance, obviously, for low double digits even excluding PARAGARD.

Operator

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

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

So yes, well, maybe following up on Larry's question on the U.S. market, I think a lot of us heard that maybe October wasn't a real strong close to the quarter for you guys in the U.S. Just wondering -- I know you don't give monthly updates very often, but just what have you seen in the U.S. market, both health of the market and maybe in your own business? Since, Bob, I think you referenced the weaker September and October. We were definitely hearing about that through some of your distributor sources in October itself. Just how is November and early part of December trending?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

So obviously, the -- we've looked at November when we built our overall guidance that Al referenced. So we're feeling good about where we are and where we're going. We also felt good about on-eye even though the market from the point of view of what we sold into the market was a little lighter than was the on-eye activity. We felt that based on what we saw on-eye activity, we were still gaining market share, so whether or not you compare it to the 7% that the overall market did, which, of course, is kind of above the normal or the average growth of the market over a multiyear period. So if we look at the market as growing 4% to 6%, midpoint 5%, the Americas should grow 4% to 6%, probably midpoint 5%, on average. The 7% is a little on the high side. We continue to gain market share. We've been growing north of 1.5x the market. I still think the best way to look at the market is on a trailing 12-month basis, where the market overall for the Americas was 4%. We were 6%. So on average, we're kind of moving down the path we planned on. And of course, we're excited about the MyDay toric coming into the market.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Understood. And then Al, maybe just one tax rate follow-up question, 11% tax rate in the guidance for this fiscal year going to 15% in fiscal '19. Is that just U.S. tax rate reform-driven? Or is there any kind of DPT U.K. tax rate change in there as well?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

U.S. tax reform.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. Anything you can say on the U.K. investigation at this point?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Nothing at this point, no. We'll update you guys as soon as we have something that's firm to update you with.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Probably, Jeff, the only thing I would add to that is to the extent there is a going-forward rate impact, it may end up a one-time event. But going forward, of course, that gets built into the way the mid-15s plays out. So to the extent your rates offshore go up, they don't duplicate the U.S. rate increase.

Operator

And our next question comes from the line of Jon Block with Stifel.

Jonathan D. Block - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst*

I'll ask both upfront. First, just the single use growth of 8% in the fiscal quarter was single digits for the first time since, I believe, fiscal 2Q of '15. I know there's a lot going on with adverse weather and actually a tough comp, but any more color there, Bob, that you can comment on? And then just second, to shift gears, sales reps, maybe if you can tell us where you are with that initiative? How have the returns been to date? And Al, is this initiative continuing into fiscal '18 with the given guidance?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes. So we've done a good job of expanding our sales force, and we'll continue to build on that. And we're seeing good results out of that. I think overall, the 8% growth still being north of 1.5x the market is indicative of that. And we'll -- of course, we continue to do that expansion not only in the U.S. but worldwide. And of course, that will now ripple into more aggressive expansion on the women's health care side. The 8% single use market growth for us in the quarter -- once again, one quarter does not make a trend make -- we had tougher comps up and down the line. So that's a factor. And then of course, we'll be rolling out the MyDay toric into really the biggest toric market in the world and in the sweet spot of that market, which is the 1-day, which is driving the whole market. When you think about the whole market being up for the quarter 15% and other being up 3%, or more importantly for the year the market being up 12% in single use and us -- and everything else flat, we are the driver of the market growth in the all other bucket, and we continue to gain share in the single use bucket. So a good profile. And of course, the catalyst for that is clariti and MyDay, the silicone hydrogel 1-day products we have.

Operator

And our next question comes from the line of Chris Pasquale with Guggenheim.

Christopher Thomas Pasquale - *Guggenheim Securities, LLC, Research Division - Director and Senior Analyst*

One clarification in the quarter for Al then one for Bob. Al, first, can you give us the currency impacts in 4Q both the top and bottom lines? And then Bob, just looking at the underlying growth rates, your 3 major competitors, this was the first quarter in some time that all 3 were performing at a pretty high level. And it certainly seems like the trend is towards a tougher competitive environment than Cooper's had to deal with in several years. Can you just comment on kind of how you're thinking about that and the potential for maybe the margin of outperformance that you've been accustomed to for some time could contract?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Do you want to handle the...

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Sure.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Okay. I'll jump on the first -- the latter question first, then Al will come back on the other. As far as looking at the competitors, looking at the overall market, if the overall market does move up to the 7-plus arena, I'm not going to totally complain about that as long as we're growing. Basically, we've guided our midpoint 7% and we expect to continue to gain market share. There is, as I pointed out, some easy comps. The fact that our competitors grew over the prior year when the prior year, for example, was only 1% and this year was 7%. We frequently follow the -- with many of the analysts, use a 2-year stacking. So if I look at a 2-year stacking, 7% this year, 1% last year, midpoint 8%, overall, the market has been growing 5% on a trailing 12 month, that's more indicative. So there's a little bit of anomalies in the 7%, but if the 7% stays because of momentum going forward, we think we'll do well with that and continuing to gain market share.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Yes. And then currency, quickly, Q4 was -- basically met expectations, if you will, when we gave our guidance. The top line impact was around $6 million, and the positive EPS impact was around $0.18.

Operator

And our next question comes from the line of Anthony Petrone with Jefferies.

Anthony Charles Petrone - *Jefferies LLC, Research Division - Equity Analyst*

Just 2 questions on my end. One would be on pricing and maybe specifically on the extent of discounting in the quarter. Where is that trending as you head into fiscal '18? And then maybe just to give an update on where CooperVision is indexed in silicone hydrogel dailies versus the market. And how long that product cycle has to go before you reach sort of market-level rates in that category?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Sure. On discounting and pricing, of course, the industry's been a master at trading up, trading up and trading up. And to overlay on that, we, as an industry, there was a fair amount of price increases the last 12 months. On the flip side, there has been a lot of -- not so much discounting but rebating. A lot of that is focused in on try and you'll like it, trying to get you to convert to 1-day. The strategy is working well, as we can see from the growth of the 1-day being the driver of the overall market for the last 4 years in a row now, and that will continue into the future. So the fact that there are discounts to incentivize or rebates to incentivize you to transition from a 2-week space into the 1-day space, which it were a OASYS 2-week [noncompliant] going to OASYS 1-day, that's 800% trade-up. There is a lot of room for rebating and incentives to get you to make the switch. Today, trade-up to 1-day is still a 400% to 600% step-up in revenue at the manufacturer level. So we'd trade up all day even if we had to give rebates all day. And that -- we've now hit the flip point where there is more revenue generated by 1-day than there is revenue generated by non-1-day; so this last quarter, $1.5 billion in revenue in single use and only $975 million in non-single-use. We're now past the 50% market. How is Cooper doing? We continue to be the driver of the 1-day particularly within the space of the silicone hydrogel. For example, the last 12 months, we're up 50% year-over-year, whereas the overall market is up 28% year-over-year, up for silicone hydrogel 1-day lenses. And of course, you've seen our overall numbers. Market was up 13%, single-use, and we were up 15%, single-use, for the quarter. So we're -- we think there's a lot of legs left in it. And the roll-out of MyDay toric would only further enhance that -- those market share gains as well.

Operator

And our next question comes from the line of Brian Weinstein with William Blair.

Andrew Frederick Brackmann - *William Blair & Company L.L.C., Research Division - Associate*

This is actually Andrew Brackmann on for Brian today. Al, I've got a question for you. On the Q3 call, I think you said that you guys were going to spend about $0.11 worth of EPS on investments. Can you give us a status update of those? And were those of magnitude that you expected in the quarter?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Yes. That would be in kind of the magnitude that we were expecting. And to be clear, to follow up what some Bob said, we'll continue those investments -- and we talked about that a little bit in the script, through fiscal '18. So when we look at the guidance that we'd given in respect to infrastructure investments, sales force expansion, we are doing what we said that we would do for several quarters, and we'll be doing that incremental investing, if you will, in the business through fiscal '18.

Operator

And our next question comes from the line of John Hsu with Raymond James.

John Hsu - *Raymond James & Associates - CFA, Senior Research Associate*

Just a quick one on multifocals. It looks like growth has been a little bit choppy this year. You chalked that up to competitive factors. Or what's going on, on -- in the multifocals space?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes. That's hard to say. We had the target on our back. We were kind of the lead in multifocals for many years that really dated back to the turn of the century when Alcon owned the market and then we came out with great multifocals then became the largest player in it. Now everyone is playing a little catch-up there. So J&J and Alcon have respectable multifocals. So that's the way it is. We're still growing, of course. It is a high-growth area. We still have market share that is in around 30% market share worldwide in a growth market. But the long and the short of it is others have played a little catch-up in the market. It is still a small part of the market. So when you look at the overall market, multifocals are 8%. We're at 10% of our revenue in multifocals. And the bigger action point is the torics, where the overall market is around 22% and we're about 1/3 of that market. So torics is a much bigger fish, if you will. And there, we have a lot of good things going on. And that's a lot more -- the barriers of entry in a broad toric category are a lot tougher because of -- there are so many more SKUs in the toric area compared to multifocals.

John Hsu - *Raymond James & Associates - CFA, Senior Research Associate*

Okay, great. And then just one follow-up housekeeping. Al, I think you gave the FX on the top line and EPS. What was the impact on gross margins?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

We don't get to that level of detail on adjusting everything with respect to FX.

Operator

And our next question comes from the line of Robbie Marcus with JPMorgan.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

I wanted to ask on CooperSurgical. Pro forma guidance, 2% to 4%, kind of below trend for what you've been doing in 2017. So maybe you could talk through the impact of what's happening versus an acceleration next year.

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Sure. Yes, if you look at the 2% to 4% guidance, what's kind of going on there is a split of the 2. We finished the year at 4% pro forma growth with a strong 7% to finish, and the guidance on that part of the business, if you will, is roughly 3% to 5%, so more of the same. And then with respect to PARAGARD, it's the one that's bringing down the consolidated pro forma growth because that, we're looking at kind of -- somewhere around at 1% pro forma growth because of the impact at Q1 that we've mentioned.

Robert Justin Marcus - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. Maybe a follow-up. You've been getting -- I would say the market has accelerated in 2017 in Asia Pac, and you've had pretty phenomenal growth there the past 2 years in Vision. Can you maybe talk through some of the trends there and how you see that continuing?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Sure. We are under-indexed in Asia Pac. So if I look at market share, we're about 20% in the U.S.; 31%, approaching #1 in Europe; but only 19% in the Asia Pac area. So we have a long way to go. Part of that was we were later to the game in some of the regions, but we've had -- made good headway in Japan, which has been a fairly flat market over the last 10 years, but we've been gaining and gaining and gaining share with our 1-day portfolio of products, which includes MyDay, making good progress there, which will continue, as well as some of the headway we've made in other regions of Asia Pac, be it Korea, be it in China, where our franchise is developing very nice in China. But one of the other things that is starting to come into its own in Asia Pac that started in the U.S. is our specialty lenses. So torics and multifocals are early in the game, and we have a good portfolio. And as I mentioned, we're essentially #1 in the specialty lens space. So we'll continue to ride that wave with a very broad product line. So looking forward, I expect to see pretty good growth in Asia Pac as a market and us to continue to gain market share, moving to a more respectful level of overall market share with our portfolio.

Operator

And our next question comes from the line of Matthew O'Brien with Piper Jaffray.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Two quick ones. First of all, on the Americas side, again, a little bit soft. There's been some questions there. I'm curious if there's anything in the channel specifically. We know there's been some rebating from one of your bigger competitors to the big-box chains. I'm wondering if there's any headwinds you're facing in a certain segment of the channel, whereas elsewhere, you're doing even better than your competitors, and if any of those pressures you may or may not be seeing may ease in the near term. And then I had a follow-up.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes. I don't think we're -- we have any challenges or undue challenges with the different channels particularly when it comes to -- I mentioned the on-eye activity is good. We did have tougher comps than the overall marketplace. We're coming out with the new product, MyDay toric, which will fit the need of that premium silicone hydrogel 1-day market, which is a big, evolving market. Private label is a big part of our strategy that has a key role not only in Europe, not only in Asia Pac, but also in the Americas. So I would say we have a lot going for us there, LensFerry, which is facilitating our independent eye care professionals delivering to the home. So we have a lot of tools and a lot of products, and I don't see us being inhibited in any particular area.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Okay. And then as a follow-up, Bob, you kind of touched on it a little bit there. But just MyDay with the toric lens, can you just provide a little bit more color as far as what kind of benefits you saw in Europe as you launched that? Because I know most eye care professionals like to see both the sphere and the toric together before they'll more broadly recommend products. So just any kind of color you can provide there would be helpful.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes. You are correct about that, that any time you have a sphere-only compared to someone else's sphere and a toric, you get the halo effect of having the combo. And in the case of MyDay, very similar to the excitement over just how well Biofinity has done for the last 10 years now -- and Biofinity, 10 years later, is a whopping product. A lot of that had to do with having a great sphere, a super toric, and then a good multifocal. So we have a lot going for us in terms of the MyDay being more analogous to some of the features of the Biofinity, if you will.

Operator

And our next question comes from the line of Matthew Mishan with KeyBanc.

Matthew Ian Mishan - *KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst*

I guess my first question, given the success you've seen in clariti and your competitors have been rounding out the premium end of the space, are you expecting to see the competition in that mass-market silicone hydrogel over the next couple of years? Or -- and is there still that barrier to entry on manufacturing? And then I have a follow-up after that.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes, I think if they had made substantial progress in the -- in their -- in reducing cost, you would eventually see some entrée into the mass-market. Right now, they're putting a lot behind -- basically not talking up oxygen and all the features with silicone hydrogel that apply to the non-1-day product. And they're really riding the wave of MOIST in the case of J&J and daily AquaComfort Plus in the case of Alcon. So they have 2 big products. So one of their dilemmas is "Gee, if you come into the market, what -- are you competing with yourself? Are you putting someone in play that is in a hydrogel?" They're kind of between a rock and a hard spot. We have nothing to lose because we have 2 great products, premium and low cost. We're the only one with that cost structure that can price a silicone hydrogel comparable to a MOIST and a daily AquaComfort Plus and there --

and a complete product range. If they were going to come into the market, we'd start with sphere as they got the cost down, and then they would have to piggyback on that, eventually multifocal and a toric to get comparable to clariti. So I still see clariti has a long runway in front of it to ride.

Matthew Ian Mishan - *KeyBanc Capital Markets Inc., Research Division - VP and Senior Equity Research Analyst*

Okay. And then on operating margins, I think previously -- previous to PARAGARD, at least you had an operating margin target of 28-plus, I think, by 2021, and you're kind of there already. Do you have any thoughts on long-term targets on the operating margin side?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

I think what we'll do is hold that in advance. You are correct that we -- my 28% operating target for 2021, we arrived 3 years early because it's our target for next year. So stay tuned, as we dust off our thinking, what our new operating target should be. If I were to tell you on the phone, I'd get hit with a club by about 5 people around me.

Operator

And our next question comes from the line of Steve Willoughby with Cleveland Research.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Two questions for me you. First, Bob, I was wondering if you could provide us an update on -- in the fourth quarter -- in the past quarter, you've talked about what your daily disposable silicone hydrogel lenses grew in total versus your frequent replacement silicone hydrogel lenses. I don't believe you provided that in your provided remarks. And then secondly, Bob, could you just give us your opinion on the state of subscription offerings? I guess, globally but also in the U.S., there's been some M&A as it relates to that. And I know you guys have your LensFerry product. So I'm just wondering for an update on that.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Yes, first of all, I think I mentioned on my remarks, 37% for the growth of silicone hydrogel 1-day.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Okay. Sorry, I just missed that.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

That's okay. State of subscription offering -- of course, we have LensFerry. We have companies out there like Hubble and different things. We've been kind of leading the way with home delivery outside the U.S. for many, many, many years, so highly experienced with that model. And of course, it's an enhancer for the eye care professional. So it's not a bad model. From our perspective, important for that model is having a couple of things: One is private label for those that want to embark on their own design and model. Number two is having a broad -- the broadest product portfolio of spheres, torics and multifocals still makes it more attractive that you can do more things with it. I understand that companies -- and I'll pick on Hubble for the moment. Like Hubble will continue to have a very narrow generic offering, importing products from Taiwan. So that only can get so far. At the end of the day, eye care professionals -- try to tell an eye care professional, you'll all have to convert to -- writing script for generic sphere from Taiwan will only get you so far in terms of developing the model. You're going to need the breadth of products. There are reasons doctors prescribe silicone hydrogel, there are reasons doctors prescribe torics, and there are reasons they prescribe multifocals. And they're a lot more complicated to fit than just a generic model that is tempting to have the patient influence the eye care professional on what to prescribe. That's a tough model.

Operator

And our next question comes from the line of Steven Lichtman with Oppenheimer.

Steven M. Lichtman - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Bob, I was wondering if you could give us your latest thoughts on the North America market in the post-UPP world. As you look back now over the past several quarters with UPP gone, any update you can give us on what impact, positive or negative, if at all, its removal has had on the market?

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

I never was much of a UPP guy day 1, and I still -- I never got enamored by it along the way. It was a method of marketing, and life goes on. And there are other methods of marketing that has been used for 30 and 40 years. Clearly, rebates have the role but "try, you'll like it" is a big part of that game. So UPP was kind of a pass-through non-event, "pain in the neck" event, but we're beyond it.

Steven M. Lichtman - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And then, Al, the lower pricing in genetic testing that you mentioned, can you talk a little bit more about what that was and how we should think about that going forward?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Sure. We've experienced that more recently within genetic testing, within the IVF space. And there are some competitors in that space who are getting very aggressive with price, interestingly companies who are losing significant amounts of money. And I guess as long as people are willing to give them money and their strategy is just to do as many tests as can be, we could continue to experience some pressure there. But we'll stick by our strategy of running a good, profitable business and putting money into R&D and developing improved test and so forth. So we'll see how that plays out. I think that we could face that a little bit more as we move through fiscal '18.

Operator

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

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just one follow-up question. Al, you had mentioned that the incremental investments in the distribution center and maybe some above and beyond sales force investments, things like that, were $0.11 to the fiscal fourth quarter. How does that continue into 2018? I know you said those will continue, but if FX is a $0.38 tailwind, what are those investments offsetting? And then if PARAGARD is $0.70, are there any other pluses and minuses we should be thinking about in the quarter -- or for the year, I'm sorry?

Albert G. White - *The Cooper Companies, Inc. - CFO, Chief Strategy Officer and EVP*

Sure. I'll give a little color on that because the guidance that we're giving here for fiscal '18 is clearly quite a bit stronger than what we indicated it would be back on our September call, meaning we're hurdling a good $0.20, $0.25 of FX. We're also hurdling the medical device tax that we talked about, which is about $3 million. So the numbers look pretty good. Now having said that, we are investing within sales and marketing, distribution, some other areas in the business. We're going to continue to do that. Even though currency and so forth has moved against us, we are -- we have not cut back on those investments. So we're able to put up this guidance because of fundamental strength in the business itself, be it operating margins and leveraging OpEx in some parts of the business, leveraging our improvements within cost of goods. Things look pretty good kind of throughout the P&L. So I won't get too specific on how much we're going to spend each quarter. I guess I'd probably just say that we're investing in the business. We're excited about it. We're excited about growth. We're excited about taking market share. We're -- there's a number of areas within CooperVision. They're going really well that we want to continue to invest in. PARAGARD, it looks like there's a lot of upside in that. So we're pretty excited about that. We're going to continue to hire people there and invest in sales and marketing on that part of the business. So suffice it to say, feeling pretty good and not stopping investing in the business to continue to drive top line growth.

Operator

And I'm showing no further questions at this time. So I'd like to return the call to Mr. Bob Weiss for any closing remarks.

Robert S. Weiss - *The Cooper Companies, Inc. - CEO, President and Non-Independent Director*

Well, I want to thank you for joining us today. And hopefully, you're as excited about where we landed and, more importantly, where we're going. There's -- outlook for earnings per share growth next year of upper teens is exciting. It looks very real. We're thrilled about that. We're obviously thrilled about some of the news that has been out there on PARAGARD, the last -- or on hormonal contraceptives, the last couple of days is -- makes it even more exciting. We look forward to updating you on the next conference call, which will be our first quarter earnings for fiscal year 2018, and I think that's on the 8th of March. And we look forward to a status report at that point. Thank you, operator. This concludes the call.

Operator

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