THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

COO - Q2 2015 Cooper Companies Inc Earnings Call

EVENT DATE/TIME: JUNE 04, 2015 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q15 consolidated revenues of $435m and GAAP EPS of $1.23. Expects FY15 total Co. revenues to be $1.82-1.86b and non-GAAP EPS to be $7.40-7.70.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Jonathan Block *Stifel Nicolaus & Company - Analyst*

Chris Pasquale *JPMorgan - Analyst*

Larry Biegelsen *Wells Fargo Securities, LLC - Analyst*

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

Joanne Wuensch *BMO Capital Markets - Analyst*

Larry Keusch *Raymond James & Associates, Inc. - Analyst*

Brian Weinstein *William Blair & Company - Analyst*

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

Steve Willoughby *Cleveland Research Company - Analyst*

Anthony Petrone *Jefferies & Co. - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to The Cooper Companies second-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, today's conference may be recorded. I would like to introduce your host for today's conference, Ms. Kim Duncan. Ma'am, please go ahead.

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

Good afternoon, and welcome to The Cooper Companies econd quarter 2015 earnings conference call. I'm Kim Duncan, Vice President of Investor Relations and joining me on today's call are Bob Weiss, Chief Executive Officer, Greg Matz, Chief Financial Officer and Al White, Chief Strategy Officer.

Before we get started, I would 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 or regulatory conditions, and integration of any acquisitions or the 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 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.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Before I turn the call over to Bob let me comment on the agenda for the call. Bob will begin by providing highlights on the quarter followed by Greg who will then discuss the second-quarter 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 email 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 Company's web site. And with that I'll turn the call over to Bob for his opening remarks.

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

Thank you, Kim. And good afternoon, everyone. Welcome to the second-quarter conference call. Let me start by highlighting three key points.

First, we continue to make significant advancements with CooperVision, including integrating Sauflon. Highlights include resolving the back order issues we had in the US with clariti in March and April, the startup of our two new manufacturing facilities in Costa Rica and the UK, and new clariti and MyDay lines going into production. As a result, we believe we are well-positioned to finish this year strong while carrying the momentum into 2016.

Second, CooperVision posted 6% pro forma revenue growth in the second fiscal quarter, including 16% pro forma growth for silicone hydrogel lenses. For the first calendar quarter, CooperVision grew 6% compared to the market at 1% and we gained share in every region of the world. We expect CooperVision to continue taking share and forecast pro forma revenue growth of around 9% in FY15, which shows the strength we expect in Q3 and Q4 as clariti gains traction in the United States.

Third, we had two items this past quarter that were not included in the guidance we provided on our last earnings call, and we expect these items will impact us for the remainder of the year. The first is currency, which everyone knows about. The second is challenges that CooperSurgical is facing as a result of things outside of their control, specifically lower OB/GYN patient visits due to mesh and other litigation that doesn't involve us but has negatively impacted the market.

From the day of our last earnings call, these two items negatively impacted Q2 by $0.05, with currency accounting for $0.02 and CooperSurgical for $0.03. As a result of these items, we're reducing revenue guidance by $44 million at the mid point, although our continued operational improvements, especially with respect to Sauflon, are allowing us to maintain our non-GAAP earnings per share guidance. I'll expand on these take-aways as I walk through the quarter's performance but I want to reiterate we remain very optimistic about the underlying fundamentals of our business and believe we're well-positioned to deliver solid results for the remainder of this year and through 2016.

On a consolidated basis, second-quarter revenues grew 5% year over year to $435 million and we posted non-GAAP earnings per share of $1.72. Free cash flow was $68 million. CooperVision posted revenues of $360 million, up 9% year over year and up 6% pro forma. Excluding solutions, pro forma revenue growth was slightly over 6% but didn't round to 7% as it did in the first quarter.

To give a little color on this, we had a strong quarter in Europe and a pretty decent quarter in the Americas, but slightly softer than expected sales in Japan as we hurdle last year's VAT increase. Remember, last year's comp for Asia-Pac was 20% pro forma growth, which was driven by significant growth in Japan as the increase in the VAT went into effect on April 1. Regardless, this was a pretty good quarter.

Overall, our silicone hydrogel family drove top-line growth with $197 million in revenues, up 16% pro forma. In addition to strong daily growth, our monthly Biofinity family grew 12% pro forma and our two-week Avaira family of products grew 13% pro forma. We remain under indexed versus the market, both in the two week and the monthly silicone hydrogel space, with silicones representing roughly 77% of that market and us at 69% so we anticipate our two-week and monthly silicones to do nicely over many years.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Regarding one-day silicone sales, for competitive reasons we won't provide specific details on individual product sales. However, as reported for the one-day, silicone hydrogel lenses were $32 million, with clariti posting a very strong quarter, up 41% and MyDay up 46%, both pro forma. This met our expectations. As a reminder, we're the only Company offering a two-tiered approach in the daily silicone hydrogel market, with clariti positioned as the mass market offering and MyDay as our premium offering.

We continue to believe there's a great opportunity to split the daily silicone market with a premium and mass market lens. We also believe we have the premium portfolio to become the market leader in coming years, in addition to being the only Company offering a two-tiered strategy. Our one-day mass market portfolio includes sphere, a toric and a multifocal, which no one else has.

Regarding clariti, we remain capacity constrained but our manufacturing build-out is going well and we believe we'll be able to fully meet demand exiting this fiscal year. This obviously positions us really well for FY16. In the US, our roll-out is back on track.

As we discussed on our earnings call, we had some issues in the second quarter as strong demand created back-order problems and we had to adjust packaging. As you can imagine, this created a number of internal challenges and resulted in delays. Having said that, we resolved these issues in April and we are now in good shape.

Some of you may ask what the P&L impact was on the quarter but I'm not sure we could properly quantify it. So suffice it to say, it's behind us and we're in much better shape currently. And remember, the US clariti launch is the largest and fastest product roll-out in CooperVision's history. So some challenges are expected. Regardless, I'm happy to report that demand remains very robust.

Regarding MyDay, sales are doing very well in Europe, and we're starting to release lens key opinion leaders in the United States with a full launch scheduled to occur in August. We're continuing to sell everything we can make and we're bringing on additional more efficient lines to help meet demand. As anticipated, MyDay is fitting perfectly into our high-end segment of the silicone hydrogel market.

Regarding MyDay in Japan, we still are in the regulatory process and anticipate approval in time to launch in fiscal 2016. Combining clariti and MyDay, we still expect sales of around $175 million this fiscal year, with clariti comprising around 75% of that.

Our specialty business remains strong and toric are up 7% and multifocals up 8%, both pro forma. Multifocals were strong in the silicone space, but a weakened legacy hydrogel portfolio. Having said that, we continue to lead the global market in these specialized categories and we're taking market share.

Regarding Proclear, sales were down 3% pro forma driven by softness in our non-daily products. On a regional basis, the Americas were up 5% pro forma. This was led by a solid quarter for Biofinity and the introduction of clariti. Clariti was still very small in Q2 but we anticipate our US growth will accelerate as the roll-out of clariti progresses.

Europe posted a solid quarter, up 8% pro forma. I continue to be impressed by the team as they're posting strong results while completing significant integration activity. Meanwhile, Asia-Pac was up 2% pro forma, lower than normal due to the Japanese VAT change I mentioned earlier.

To provide more details on Sauflon integration activity, as I mentioned, we've made a lot of progress. You'll notice the non-GAAP adjustments this quarter for manufacturing and operating costs. And I believe you'll see similar charges in Q3 and Q4.

Most of this work is still targeted to be completed this fiscal year, although some of the manufacturing activity may fall onto the first quarter of next year. We also completed our analysis around current and future plant needs and started up two new manufacturing facilities in Costa Rica and the UK, with production forecasted to begin in a few quarters.

Regarding manufacturing space, we embarked on our expansion plans prior to the Sauflon acquisition, and as a result, we now have some excess space which we will utilize over time. Sauflon brought with it a ton of manufacturing positives, such as lines with smaller footprints, and this has allowed us to re-evaluate our plans to include diversifying our manufacturing footprint by putting several clariti lines in Costa Rica. Ultimately, all

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

this will reduce CapEx and significantly improve free cash flow. As a matter of fact, the improvements look pretty significant and I wouldn't be surprised to see free cash flow over $300 million in fiscal 2016.

Finally, on Sauflon and integration activity, it's important to remember this acquisition was a major step forward for CooperVision. Sauflon's manufacturing lines cost roughly one-third the cost of our equivalent lines. They're received in one half the time and they have better flexibility around shifting production from one product to another.

A large reason for this is material formulation which provides the ability to produce silicone hydrogel lenses without alcohol. This is a major step forward in integrating this manufacturing. And formulation expertise will allow us to add manufacturing lines in a much more cost-effective manner. This will reduce future CapEx, thus improving free cash flow, along with yielding a lower cost per unit which we anticipate seeing in the P&L beginning in the middle of 2016.

To conclude on integration activity, nothing has changed with respect to my beliefs around the future. Our team continues to do a great job integrating the business and that includes ramping up production.

Now let me comment on the overall contact lens market. As a reminder, this information is listed on the last page of our earnings release. Overall, the market was up 1% in the calendar Q1 and CooperVision was up 6%.

As I mentioned earlier, this data is skewed because of Japan, which increased the VAT last April 1, resulting in significant purchases before the increase went into effect. This can be seen in the Asia-Pac numbers with the market down 7% and CooperVision down 6%.

In the Americas, the market grew 2%, with CooperVision up 11%. And in EMEA the market grew 7% and we grew slightly stronger than 7%. As you can tell, our growth was clearly led by the Americas and its strong results.

Having said that, we grew faster than the market in every region of the world so I'm very happy with our performance. Also, if we look at the market on a modality basis, the single use market continued to drive growth up 4% while we grew 11%. Non single-use lenses declined 2% while we grew 4%.

In general, when I look at the market, I expect it to rebound and grow in the mid single digits now that Japan's VAT issue is behind us. We also have the UPP, or unilateral pricing policy, issue which is impacting the US market. As many of you are aware, there's a lot of legal activity around that right now and it includes all the contact lens manufacturers. It's impossible to say how long it will last but hopefully we get it resolved soon so we can all get back to business as usual.

Overall, though, the market looks fairly stable. And continuing growth in the single-use market, especially in the silicone hydrogel part of the market should support overall market growth of 4% to 6% in the coming years. The key take-away is that we have a fairly healthy market and I believe we'll continue taking share, especially with the roll-out of clariti now beginning in a robust manner.

Moving to CooperSurgical, this was a challenging quarter. On the plus side, we continued making progress in our fertility business by focusing on disposable sales and we're taking share in that space.

This performance is offset by the continued reduction of lower marginal capital equipment sales. We're also dealing with the negative impact of currency on as-reported results, as roughly two-thirds of our fertility business is outside the US. We saw that this quarter, as fertility was down 15% on an as-reported basis, but only 1% in constant currency.

Meanwhile, our office surgical products business was down 3%. As many of you know, there's been a significant slowdown in women's healthcare market due to the litigation associated with mesh, slings and morcellation. We're not involved in any of that litigation but, regardless, the activity is impacting patient visits and surgical activity, thus impacting several of our OB/GYN products.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

It's tough to quantify this impact but it's definitely hurting our performance, and more than we were expecting. I believe the issue is temporary but we're taking down CooperSurgical's revenue guidance by roughly $18 million at the mid point to reflect this, along with negative currency.

One piece of positive news, though, is you'll remember we acquired EndoSee last year and we've recently launched their hysteroscope at a large gynecology conference. Early indications are extremely positive, as are early indications on several of our other small product launches. So, we're optimistic 2016 will be a much better year for CooperSurgical.

Now let me touch a little bit more on guidance. Regarding revenues, we're taking down CooperSurgical revenues for the reasons I just mentioned, and we're reducing CooperVision mainly to reflect product rationalization, updated currency rates and the second-quarter results. As a reminder, last quarter's guidance was with the euro at 1.11, the yen at 1.20 and the pound at 1.53. And we're now using updated rates of the euro at 1.13, the yen at 124 and the pound at 1.53.

Based on this, new revenue guidance for CooperVision is $1.512 billion to $1.544 billion. CooperSurgical is $308 million to $316 million. And in total we're at $1.820 billion to $1.860 billion. We expect both businesses to be slightly better in the fourth quarter than the third quarter in the area of revenues and operating income.

On a positive note, even with the reduction of revenues, our FY15 non-GAAP earnings per share guidance remains the same, as our business fundamentals remain strong, including greater synergies from the Sauflon acquisition. From a longer term perspective, we are still targeting operating margins above 26% in 2018. Although currency remains a significant headwind, I believe we have a fairly straightforward path to achieving this goal, by staying focused and executing within our existing businesses.

Lastly, on the financials, cash flow remains extremely important to us and we reduced debt this quarter by $48 million which was very solid. We are maintaining our guidance of having our free cash flow and CapEx over $200 million this year. Having said that, I continue to believe we will see lower CapEx in fiscal 2016 while operating cash flow continues to grow. So I anticipate very strong free cash flows in 2016 and continued strength in subsequent years.

Regarding strategy, we continue with our successful strategy, which I've frequently articulated in the past. This includes investing in our business to take market share by expanding geographically, aggressively rolling out products such as clariti, and investing in emerging markets such as China. We do all this remaining keenly focused on delivering solid earnings per share growth. We believe we can accomplish all our objectives while reducing debt and increasing profits, and we remain focused on delivering strong shareholder returns.

In summary, we're making significant progress integrating Sauflon. And although we have a lot of moving parts, the remainder of this year should be solid and 2016 should be a really good year for us. Our profit margins are solid. Our free cash flow generation is strong. And I remain bullish about the future.

With that, let me express my appreciation to our employees, our number one asset. Their hard work and dedication to creating value is the backbone of our success. And now, I'll turn it over to Greg to cover the financial results.

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

Thanks, Bob. And good afternoon, everyone. Bob provided an overall summary of our performance including a review of the market and our revenue picture. So let me start with gross margins.

Looking at gross margins, in Q2 the consolidated GAAP and non-GAAP gross margins were 61.6% and 63.4%, respectively, compared with 65.1% for GAAP and non-GAAP in the prior year. The primary difference between GAAP and non-GAAP is related to products and equipment rationalization, due to the Sauflon acquisition and facility startup cost directly attributable to our two new manufacturing facilities which are currently being completed. Both the Speedwell plant in the UK and the Costa Rican plant will be initially dedicated to our expansion into daily silicone manufacturing.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

When comparing non-GAAP gross margins this quarter to Q2 2014, we experienced a significant negative impact to revenue from FX, slightly offset by some favorable FX impact on our cost of goods sold, and product mix led by Biofinity. CooperVision on a GAAP and non-GAAP basis reported gross margins of 61.2% and 63.3%, respectively, versus 65.2% for GAAP and non-GAAP in Q2 last year. The difference between GAAP and non-GAAP is largely related to product and equipment rationalization from the Sauflon acquisition, and the facility startup cost mentioned earlier. The drop in the non-GAAP gross margin was due primarily to FX partially offset by product mix led by Biofinity.

CooperSurgical had a GAAP and a non-GAAP gross margins of 63.4% and 63.5%, respectively, which compares to Q2 2014 of 64.7%. The difference between GAAP and non-GAAP relates to approximately $140,000 of restructuring costs. The year-over-year non-GAAP margin decline is mainly due to product mix and restructuring costs.

Looking at operating expenses, on a GAAP basis SG&A expenses increased by approximately 8% from the prior year to approximately $167.6 million, and were roughly 39% of revenue, up from 38% in the prior year. On a non-GAAP basis, SG&A increased approximately 5% to $162.1 million or 37% of revenue. The difference between GAAP and non-GAAP was $5.4 million due largely to integration and restructuring costs related to the Sauflon acquisition. SG&A on a non-GAAP basis decreased 3% sequentially led by synergies from Sauflon.

Looking at R&D in Q2, R&D on a GAAP and a non-GAAP basis was $16.8 million and $16.6 million, respectively. On a non-GAAP basis, R&D was 3.8% of revenue, down from 4% in the prior year. In Q2, depreciation was $32.2 million, up $7.9 million and amortization was $12.3 million, up approximately $4.8 million primarily due to the Sauflon acquisition.

Moving to operating margins, for Q2, consolidated GAAP operating income and margin were $71 million and 16.3% of revenue versus $88.9 million and 21.6% of revenue in Q2 last year. This drop was primarily due to integration related costs and increased amortization from the Sauflon acquisition, as well as the manufacturing facility start-up costs.

Non-GAAP operating income and margin were $96.7 million and 22.2% of revenue, versus $97.4 million and 23.6% of revenue from the prior year. The reduction in operating income and margin are driven by the reduction in gross margin from the impact of currency on the top line.

In Q2, CVI had GAAP operating income and margin of $67.7 million and 18.8% of revenue, versus the prior-year Q2 of $82.6 million and 25% of revenue. On a non-GAAP basis, operating income and margin were $88.8 million and 24.7% of revenue, versus $87 million and 26.3% of revenue in the prior year.

CSI had GAAP operating income and margins of $14.2 million and 18.9% of revenue versus the prior year of $18.1 million and 22.3% of revenue. Non-GAAP operating income and margin were $18.8 million and 25% of revenue, versus Q2 2014 of $21.5 million operating income and 26.4% of revenue. The primary reason for the year-over-year decline is due to the reduction of revenue related impact to gross margins.

Interest expense was $4.7 million for the quarter, up $3.1 million year over year, primarily due to the acquisition of Sauflon and higher interest rates on our bank pricing grid, which became effective in Q1. We are still forecasting interest expense for the year around $18 million.

Looking at the effective tax rate, in Q2 the GAAP and non-GAAP effective tax rate was 8.7% and 8.4%, respectively, versus Q2 2014 GAAP effective tax rate of 9.3% and non-GAAP effective tax rate of 10.3%. As we've mentioned 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.

With respect to Sauflon we have made significant progress in incorporating them into our global trade arrangement. We anticipate being substantially complete by the end of the fiscal year.

Earnings per share -- our Q2 earnings per share on a GAAP and non-GAAP basis was $1.23 and $1.72, respectively, versus $1.62 and $1.76 on a GAAP and non-GAAP basis in the prior year.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Regarding foreign exchange, we're using rates as of June 4. For our main currencies we're using 1.13 for the euro, 124 for the yen, and 1.53 for the pound. Net impact year over year for Q2 was an unfavorable impact of $0.50. As has been the case for some time, this is primarily related to the yen, pound, euro and euro-tracking currencies, in addition to a number of other currencies that have also weakened against the dollar.

Based on the differences in rates from our Q1 earnings call, Q2 is negatively impacted by an additional $0.02. And we forecast an additional negative $0.03 impact to EPS in the second half of 2015. Total negative impact to EPS for the year is now forecasted at $1.68 with a negative impact on revenue of $147 million.

Looking at some balance sheet activity, total debt decreased within the quarter by $47.6 million to $1.348 billion. At April 30 we had approximately $894.8 million of total credit available.

Inventories increased approximately $12.4 million to $402.5 million from last quarter, largely due to an increase in daily lenses. For the quarter we're seeing months on hand at 7.2 months, 7.6 months on hand excluding inventory and equipment rationalization charges and facility start-up costs. And this is up from months on hand of 7.2 months last year and up from 7.3 adjusted months on hand last quarter. Days sales outstanding is at 56 days, which is down from 57 days in the prior quarter and up from 51 days last year.

Turning to guidance, in order to provide a little more color for your models I will share some additional specifics on our non-GAAP guidance. The revenue range, as Bob had mentioned, for the Company is $1.82 billion to $1.86 billion, or 7% pro forma growth at the mid point. CVI's revenue range is $1.512 billion to $1.544 billion or about 9% pro forma growth at the midpoint. CSI's revenue range is $308 million to $316 million or flat at the mid point.

We expect non-GAAP gross margin to be just north of 63% for the year. OpEx is expected to be around 40%. Operating margin is expected to be around 23%. Interest expense, as I mentioned earlier, is expected to be around $18 million.

Our effective tax rate is expected to be in the range of 8% to 9%, and this includes transitioning Sauflon into our global trade arrangement. Our share count is expected to be roughly 49.2 million shares for the year. Our non-GAAP EPS remains in the range of $7.40 to $7.70 or 24% to 28% growth on a pro forma basis. Finally, we expect both capital expenditures and free cash flow for the year to be north of $200 million.

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

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

Operator, we're ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Jon Block with Stifel. Please go ahead.

Jonathan Block - *Stifel Nicolaus & Company - Analyst*

Great. Thanks. Good afternoon. Maybe I'll stick largely big picture. Bob, we're now several quarters into UPP. We've seen the industry growth, even trailing 12 months slow, pretty notable. Can you just talk -- again at a high level -- what you're thinking UPP's doing? In other words, is this just inventory noise on the J&J side or is it ushering in a little bit of pricing pressure? Any color you can give us on the channel would be helpful.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

There's no doubt that UPP has scrambled the egg a bit, not only from a manufacturer point of view, from a retailer point of view. And I think the net of it is there is some reduction of what's out there in total, whether it's sitting at the retailers or whether it's sitting in the distribution channels. And there's no doubt that when you look at the J&J numbers, the fact that they went broad-based with UPP, they maybe got more of the noise tied in with them.

So the jury is still out what it means ultimately and where it goes ultimately, as I indicated. We remain neutral on it, thinking there's basically a lot of other ways to service the eye care professional who is the one that puts all the time and energy into fitting patients, and particularly the new patients. So I would say net-net-net it's tightened the pipeline a bit and to some degree a negative on the overall market growth we're seeing right now.

Jonathan Block - *Stifel Nicolaus & Company - Analyst*

Okay. And then just my quick follow-up, I didn't think I'd burn one on CSI, but the mesh that you're alluding to I had at old days in American Medical. I just thought that was well in the rear view mirror. So, just to be clear, is this more on the headline litigation noise that's scaring people away from a volume perspective? And then, lastly, to flip back to CVI, just to be clear, I think you had 6% market growth expectations last quarter. And did you dial it down just slightly to call it 4% or 5% on the mid single digit? Thanks, guys.

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

I'll have to come back on your second question on clarification but the first thing, as far as mesh, the combination of mesh and stress urinary incontinence, everything to do with slings, as well as then the tie-in morcellation, which was albeit separate but the same surgical arena, if you will, has taken a toll on, really, the amount of people going in to the gynecologist for surgical procedures at this juncture. So, there's a lot of confusion. Can they use morcellation, don't use morcellation. We know J&J pulled out of the market an ongoing acceleration of lawsuits in that whole arena.

But the long and the short of it is a lot of doctors don't know what they can use and they're defaulting back to the good old incontinence things like adult diapers, which are doing very well in the market but that's about where it ends. So who knows.

Your question on the 6%, you want to recast that one?

Jonathan Block - *Stifel Nicolaus & Company - Analyst*

I'm sorry. I think last quarter you gave some color on industry growth for lenses of around 6%. I don't want to put words in your mouth but you sounded a little more cautious. I think you mentioned mid single digits. So, I'm just trying to figure out, did you dial down the market growth expectations on the contact lens side ever so slightly for 2015? Thank you.

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

Overall, we've been saying 4% to 6% without necessarily saying any particular number in that range. So, did we dial down this year a little? A little. Yes, there's no doubt that the combination of UPP has taken a little weight off of it, so that this year, 2015, I don't see us being at the top end of the range. Having said that, I think if you adjust for the VAT year over year on a trailing 12-month basis we're still at around 4%, which is the bottom end of that range, and I would expect improvement going forward.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Jonathan Block - *Stifel Nicolaus & Company - Analyst*

Thank you.

Operator

Thank you. And our next question comes from the line of Chris Pasquale with JPMorgan. Your line is open. Please go ahead.

Chris Pasquale - *JPMorgan - Analyst*

Thanks. I want to clarify a couple points on the guidance. I understand the FX and the surgical commentary but it looks like you're also making at least a modest reduction in your expectations for CVI pro forma growth. Can you just talk about that and what's behind it?

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

I made a comment in my comments on the guidance that it really is a combination of, FX is a factor, and the other factor is rationalization of the portfolio, the legacy products that come into play. We did indicate when we put Sauflon together with our product line, we had some decisions to make on which we would promote, which we would redirect, which we would discontinue. So, it's factoring in a bit more cannibalization/rationalization.

Chris Pasquale - *JPMorgan - Analyst*

Do you feel like that process is now concluded or is that still something you're working through?

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

I would say in our revised guidance we think we've factored the current thinking. Having said that, I would not say we've concluded all the challenges of what to do with the plethora of legacy products we have on both sides of the aisle. So, in some degree, in some cases we're taking a product into a private label modality and it will survive. In other cases, it will not survive. That is not a concluded exercise at this juncture.

Chris Pasquale - *JPMorgan - Analyst*

Okay. And then can you talk a little bit about what's driving the tax rate guidance lower and what the earnings impact of that is helping you offset that top-line hit?

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

From a tax perspective, again, we've had some normal discretes that we normally do in the quarter. We have incorporated Sauflon, which has gone well. And, so, it's nothing really out of the ordinary that we've seen in the prior quarters.

The rate is a little bit low. Rates do fluctuate. We felt comfortable looking at the full year that the rate would be a little lower than we had originally guided to. And, again, it just takes an opportunity to see where the tax laws are going and now we feel comfortable with that 8% to 9% range.

Chris Pasquale - *JPMorgan - Analyst*

Okay. Thank you.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Operator

Thank you. And our next question comes from the line of Larry Biegelsen with Wells Fargo. Your line is open. Please go ahead.

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

Hey, guys. Thanks for taking the question. I hope you can hear me okay. If I heard correctly, the CooperVision pro forma growth is 9% for the full year. You did 6% in the first half. So that implies, if I'm doing the math right, 12% in the second half for CooperVision, which is pretty strong. So what drives that? Do you expect the step-up in the growth rate in the third quarter from Q2? And I had one follow-up.

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

Okay, a couple things. We obviously talked a lot about product ramp-up with our new products, clariti and MyDay. So, the fact that we'll, among other things, be rolling out, launching MyDay in the US in August. And when it comes to clariti, the ramp-up of production has gone very well. We're actually ahead of the curve there which gives us a little bit more muscle and power in the marketplace.

Keep in mind, in the second quarter with the clariti roll-out in the US, we were still in a bottleneck getting the supply channel freed up, getting fitting sets out. Now, we're in a pretty robust roll-out of our fitting sets and are optimistic we have the supply channel coming onboard to better service the quarter and the roll forward.

Chris Pasquale - *JPMorgan - Analyst*

Bob, on the step up in Q3, so you expect a sequential increase?

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

Yes. Part of the step-up relative to the year-over-year growth is easier comps. In the second quarter, of course, we had Japan and the VAT which was a substantial hurdle, as we can see from the Asia-Pac numbers, the fact that they're down for the calendar quarter substantially 6%.

Chris Pasquale - *JPMorgan - Analyst*

Bob, then, just lastly from me, could you talk about your commitment to CooperSurgical at this point? It's obviously unrelated to CooperVision. The recent performance hasn't been great. Do you still think it makes sense to keep these two companies together? And, Greg, is that tax rate sustainable beyond 2015? And I'll drop back.

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

I'll take the first one. CooperSurgical, we understand the revisiting of that with the things going on between our rationalization of the product line and IVF, the foreign exchange hit we had in IVF, which is an offshore business predominantly, and then now coupled with the mesh and the mocellator issues in the US. We think that's short-lived.

We're very excited for the new product pipeline that is now coming through surgical, and we see the IVF business as very attractive long term once we're through the rationalization period. We like that side of it. The fact that there is minimal CapEx and it generates a lot of cash flow and it fits perfectly in our tax structure. And with that I'll turn the tax side over to Greg.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes, and Larry, as you know, we don't give guidance on the tax rate going forward, but there's a lot that goes into it. There's geographic split of income. There are discretes that we have year to year. So there's a lot that we look at. And also tax law changes. There's a lot happening on the forefront.

So, at this point in time, with our current structure, we ran over the last three or four years, we've been in that non-GAAP tax range of around 9%. I think there's nothing that we see at this point in time that dramatically changes that.

Chris Pasquale - *JPMorgan - Analyst*

Thanks, guys.

Operator

Thank you. And our next question comes from the line of Jeff Johnson with Robert Baird. Your line is open. Please go ahead.

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

Let me ask one clarifying question and then I have one other follow-up, as well. Bob, on the US market where CLI data is showing the plus 2%, I know you talk about that being somewhat UPP related and things like that. My understanding is the CLI data is sell-in data at the distributor level from manufacturer to distributor and manufacturer to end user or retail accounts, things like that. What does HPR data or anything that would show us end user pull-through demand? Is that data looking better? It's not data we see but hopefully you still see HPR data or something else. Is the US market healthier at the end user level than it is at what we use when looking at the CLI data?

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

Great question. The data we look at is also known as GFK data. It used to be HPR in the past. Now there is new data. But the same concept is basically on eye. It doesn't populate everything but what it does populate looks very good relative to the traffic into the eye care professional.

What we're seeing in the industry going out the door is not a true picture of what is happening in the on-eye part of the industry, which is good news. It means that once the pipeline gets realigned to wherever it needs to settle out post UPP -- let's say it should settle out at some time in the near future where we catch up with the robust growth of the on-eye part of the industry. So, we're optimistic about that.

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

That's helpful. Then one other question just on the CLI data and then on your fiscal results. It looks like your growth in the calendar 1Q by CLI data was much better than your fiscal growth, fiscal Q2 growth, which one read on that could be that April was a bad month for you guys. Now, it doesn't sound like that's the case from some of the things you're saying but it sounds like CLI data, January through March, was better than fiscal, being February through April. So, can you help reconcile that for me and tell me what the read should be from all that?

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

I think your read is right, that the first calendar quarter was robust. April was okay, part of that is comp related. The long and the short of it is we say one quarter does not a trend make, whether or not you're looking at fiscal or calendar. Look at a lot more than that. And there's nothing we see particularly anomalous relative to the month of April that comes into play.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

All right. Thank you.

Operator

Thank you. And our next question comes from the line of Joanne Wuensch with BMO Capital Markets. Your line is open. Please go ahead.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you very much. I have two questions. The first one is on UPP, how does this impact you? How do we think about the impact to your sales? And are there additional expenses, legal or otherwise, that we need to be thinking about until this comes out of the news and/or is resolved?

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

Yes, on UPP, obviously most of the manufacturers are only dealing with some new products they've rolled out. UPP to us, while we can't predict what it means from a legal point of view, there's obviously legal activity that goes on in various proposals. Net-net-net, Cooper doesn't weigh in one way or the other. If it goes away tomorrow, that's okay. If it stays, that's okay.

What it means in the marketplace on average realized prices, are the prices going up from the manufacturer or down. Suffice it to say, there seems to be more arguments that some manufacturers are net up in their pricing. But having said that, that's a little difficult as an assessment because, in most cases, exchange A's, they're all about new products, so that's an arbitrary assessment, is it net up or net down or just a new product launch and a technique. So, remains to be debated there.

I think manufacturers are doing their price strategy as they see fit, with or without UPP, which means, at the end of the day, we're going to position products, if it's going to be in the premium market, the way we want, if it's going to be in the mass market, the way we want. And coupons and other vehicles that have been around forever will traditionally play into that. And it's like UPP is just another marketing strategy, if you will. So, it's no big deal to me but I know it's a bigger deal to a lot of people.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you. And as a follow-up, what was interesting to us is you lowered the revenue guidance but maintained EPS. You noted operational efficiencies. Can you highlight a couple of those? And if one is greater than the other, that would be helpful. Thank you.

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

Sure. The operational efficiencies that are going well, we're ecstatic about two things. One is the production ramp-up with related lower cost of goods. That will ripple its way into more the tail end of our gross margins in the fourth quarter, because we see some of that coming through.

On the SG&A area, the integration around the world has gone very efficiently, particularly in Europe, which is getting the brunt of a lot of the rationalization and realignment. So, all of that has gone extremely well and we're more optimistic about the amount of synergy we're getting out of that integration.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you very much.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Operator

Thank you. Our next question comes from the line of Larry Keusch with Raymond James. Your line is open. Please go ahead.

Larry Keusch - *Raymond James & Associates, Inc. - Analyst*

Okay. Thanks. Good afternoon. Perhaps for Greg -- if you look at the reduction in the guidance, particularly on CVI, at the midpoint of the range, could you help just pars out what's driving that absolute reduction there?

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

I think Bob mentioned in his script you've got a little bit of product rationalization. And part of that you also have to step back and look at what we did in Q2. So, a good chunk of that comes from the fact in Q2 we were light, and probably based on various guidance, the actual's probably somewhere around $9 million. So, taking that off, you had some currency impact there. And as you go into the second half, you've got a little bit of currency impact and then you've got again the product rationalization and maybe cannibalization.

Larry Keusch - *Raymond James & Associates, Inc. - Analyst*

Okay. So, you're saying that at the mid point of the range, if I have the math right, $27 million, that CVI is coming down. $9 million sounds like it's coming out of the Q2 performance and then the remainder is FX and product rationalization. Is that the right way to think about it? $25 million -- but, yes -- $25 million, $26 million.

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

I think we're saying about $3 million of FX in the back half.

Larry Keusch - *Raymond James & Associates, Inc. - Analyst*

Okay, perfect. And then, Bob, on the fitting sets, you provided a little bit of commentary around that but could you step us through where we are today, the time line for continuing to move the bulk of those fitting sets? Originally you had planned to really get it done by June. Obviously it sounds like that that's not necessarily going to happen. And if you were to think about your targeted accounts, what percentage now really has a fitting set there for clariti?

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

I don't want to overplay how advanced we are in terms of having done it all. We were very successful in unbottlenecking what we wanted to get out in March and in April. As of the end of the quarter, or about now, we're north of 20,000 fitting sets. Keep in mind that some accounts have three different fitting sets, and that 20,000 is the combination of multifocal, torics as well as the spheres.

Relative to the total market, the total market is over 37,000 fitters, of which let's say 30,000 is the total. We have a long way to go to address all of that market with all of the types of lenses. But obviously we're doing that in a prioritized manner, but not always doing just the Cooper accounts. We also are, to a degree, going after our competitors' choice accounts which is something they would be frequent to reciprocate on that.

So, the long and the short of it is the roll-out of fitting sets is a multi-year program. It's not going to be done in total just the next 12 months. We're far from saying we're there already on that.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Larry Keusch - *Raymond James & Associates, Inc. - Analyst*

Okay. And then, lastly, just on the free cash flow comment that you made relative to 2016, and you say you won't be surprised if we're at north of $300 million, can you step us through again how you're thinking about CapEx this year, what it might imply for the following year to be up in that $300 million range? And, again, as you move through this manufacturing cycle, where do you think CapEx can bottom out at?

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

I think where we are is, this year we're expecting to be north of the $200 million we've talked about. And it wouldn't surprise us to be in the range of $50 million to $75 million less next year than we are this year. For example, if we finished this year at $225 million, just to pick a round number, someplace north of $200 million, and it came down $75 million to $150 million, it would be in that level, $50 million to $75 million of incremental free cash flow, combined with improved profitability would get us to that $300 million-ish range of free cash flow.

As far as sustained, if we talk about the sustained CapEx rate, where we're going north of $200 million now, it clearly will be well below that $200 million and probably below the $150 million mark post 2016. What we have done the last couple years is built a lot of the bricks and mortar, spent a lot of money on what we call Speedwell in the UK and Costa Rica, our facility there, building the bricks and mortars. As I indicated in our capital requirements, the cost of a line for Sauflon's production for silicone hydrogel is one-third our cost. So you're talking about a huge model change on capital requirements for the same level of throughput capacity. So that's why we're pretty optimistic not only about 2016 but the go-forward period.

Operator

Thank you. And our next question comes from the line of Brian Weinstein with William Blair. Your line is open. Please go ahead.

Brian Weinstein - *William Blair & Company - Analyst*

Hi. Thanks for taking the question. I'm wondering if you could provide any early feedback you've had from the KOLs in the US and MyDay. I believe you started shipping stuff to them right after last quarter's conference call. So, any positive or any negative feedback that you're getting from your KOLs?

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

It's probably a little early to give too much substantive feedback on the US opinion leaders. But suffice it to say MyDay has been in the market for several years now in Europe, so we have a pretty good read on how it compares to others in the premium category where it's headed. So that's clearly Total1 and TruEye. We feel good about MyDay in that space and how the market should handle it.

Brian Weinstein - *William Blair & Company - Analyst*

Given the focus here obviously on the dailies, we've seen over a period of seven, eight, nine years for the silicone hydrogel in the two-week and monthly modalities to go from this high teens to over 70% of the total. How long does that take for the dailies to get to that level? Is it a nine-year process again? Is it a five-year process? What are your thoughts on that? Thanks.

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

I think that's where we come into play, because if things continued the way they were, with only premium silicone hydrogels, then your model would be you'll never get there because not everyone can afford a premium one-day silicone hydrogel. Our whole thesis is we want to make it

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

available for everyone and the sweet spot of the market, which is the Moist spot of the market, where the masses are. Now you're talking about moving that paradigm to never getting there to probably still five- to seven-year period to really significantly influence.

The one thing going for us is we already have a lot of converted masses so that eye care professionals already know they like it in the two-week and the monthly market. What's going against us is you're now dealing where 730 lenses are a lot to buy. So, to the extent someone is really price limited, they're going to look for the bottom of the basement on what's a good product at the lowest price and that may mean they don't go with a silicone hydrogel. So, I think that part of the paradigm is really, when we talk about it will take you a lot longer to reach much further down, which would with more cost of goods reduction play if it's going to really get there. I think it will move quite a bit but it's not going to move quite as high as we are in the two-week and the monthly.

Operator

Thank you. And our next question comes from the line of Matthew O'Brien with Piper Jaffray. Your line is open. Please go ahead.

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

Good afternoon. Thanks for sneaking me in. Just a couple of real quick ones. You've had Sauflon in the Q now for a while. As far as the ability to expand utilization of that manufacturing process into other modalities that you're selling, be it Biofinity, Avaira, et cetera, can you just give us any sense for your ability to take that elsewhere over time, not necessarily this year or even next year but can you get it into the other modalities that you're selling?

And then just real quickly, Greg, you paid down about $50 million of debt this quarter. You talked about $300 million of free cash flow next year. Do you think that we should expect some level, absent M&A, et cetera, of paydown similar to this quarterly rate next year, so maybe $200 million on an annual basis? Thank you.

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

All right. As far as the use of the platform, suffice it to say our pipeline of products and product rationalization, certain products will not be able to make, at least in any short-term sense, a migration from an alcohol product to a non-alcohol product. So, we would not be able to take a Biofinity and an Avaira and move them onto a Sauflon platform as we know it.

Having said that, is there mixing and matching of temps going on. Of course, in R&D. So, we're looking at future generations of products. And looking at future generations of products we obviously will have a bias to take the know-how we now have and leverage that as best we can.

Having said that, we have so much to do in terms of the ramp-up and roll-out of clariti, as we now know it, that it's going to keep us busy for several years. So, even if we did have a magic bullet that could take one of our existing products onto that platform, we're still limited in terms of capacity for the near future on that platform.

But as I indicated in my commentary, that's something that's the ease of expansion is proving reasonably easy by way of the cost of the equipment, the time frame of getting the equipment in. So, two years from now we're looking at a different discussion on that.

As far as free cash flow, go ahead, Greg.

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

I think, Matt, when it comes to debt, we were happy with being able to pay down the roughly $47 million worth of debt. And I think next year as we have more free cash flow, obviously our uses of cash stay the same -- organic investment, M&A, debt paydown is obviously one of those and

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

we would definitely be looking at the opportunity to do that as the quarters progress. So, yes, that's definitely one of the things that we'll be paying attention to. How much, I don't want to get into exactly how much it is because there's a lot that plays out between now and then.

Operator

Our next question comes from the line of Steve Willoughby with Cleveland Research. Your line is open. Please go ahead.

Steve Willoughby - *Cleveland Research Company - Analyst*

Hi. Good evening. Thanks for taking my questions. Just two primary ones. First, Greg, I think I probably asked you this question last quarter, as well. But from two quarters ago the mid point of your revenue guidance is now down I believe $90 million or roughly 5% but your earnings guidance really hasn't changed all that much. It sounds like your operating margin guidance hasn't changed all that much. Could you maybe walk through what's driving your ability to maintain earnings despite your revenue coming down an expected 5%.

And then, secondly, on the clariti lenses and your comments regarding product rationalization, I heard I think both Bob and Greg today talk about cannibalization, as well, for the first time, which I hadn't heard in the past. So, I was wondering, do you have any thoughts as to the clariti one-day sales, what lenses are those replacing? Are they your own? Are they competitors'? Et cetera. Thanks so much, guys.

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

I think, Steve, just going on the earnings, it really comes down to -- the guidance seems similar but if you look at, let's just take gross margin. We said it was around 63%. We're now seeing it being north of 63%, so we're seeing it sliding up a couple of tenths here and there. Operating margins, the same thing.

Taxes is definitely -- we were guiding originally 9% to 11%, and now we're looking at 8% to 9%. We've dropped our shares a few hundred thousand shares. So you put all that together, from the standpoint that we're feeling comfortable with our mid point now and we definitely want to make sure again we feel good about the second half, so I think we're good where we're at this point.

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

As far as product rationalization and cannibalization, there always was the expectation that we would rationalize. There also was always the expectation that some of the clariti roll-out would cannibalize and the whole of Sauflon would cannibalize part of our portfolio and others.

The introduction of clariti into the US, for example, the whole plan is to cannibalize, if you will, the sweet spot of the market, which J&J's Moist. Meaning we're trying to switch out as well as get the new fits in the marketplace. We're directly targeting their wearers. That was always part of the plan, and it was always part of the plan to have some cannibalization as well as some rationalization in the guidance we were coming out with.

The comment on the $90 million drop in revenue at the mid point from December, that was very indicative of the fact that, as we've gotten into Sauflon, we see a lot more synergy coming to play, and are really impressed with their ability to cut costs. Were it not for that, with the foreign exchange hit we had, you would have seen a real degradation of gross margin, which you're not seeing, in the numbers. So we've been able to hold onto the gross margin that otherwise would have been penalized by the amount of foreign exchange hit we've taken along the way.

Steve Willoughby - *Cleveland Research Company - Analyst*

Okay. Bob, just one follow-up on that. I think one of the things at least I'm confused on is it looks like you're bringing down your revenue guidance by around $30 million due to, I would say, like operations, whether that's product rationalization or cannibalization. Can you provide any specifics

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

as to what you're doing in terms of this product rationalization? Because it was my understanding that you had already assumed product rationalization when you bought Sauflon and provided guidance over the past couple of quarters.

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

Yes. I think in my comments I alluded to some of our legacy products, which would be your two-week and your monthly, and in particular your non-silicone hydrogel families are being, if you will, impacted and some of them we're discontinuing. In those areas we're talking about, we've been able to take off the top and hold the bottom line by just having a more efficient higher gross margin product portfolio.

Operator

Thank you. And our last question comes from the line of Anthony Petrone with Jefferies. Your line is open. Please go ahead.

Anthony Petrone - *Jefferies & Co. - Analyst*

Thanks. Maybe just to stay on that topic, Bob, in terms of product rationalization, I'm just wondering, swapping in clariti and taking out some of the older lines, how that plays out from an ASP standpoint. I was under the impression that clariti actually carries somewhat lower ASPs that the Cooper base of lenses, so just wondering how product rationalization affects price near term, medium term. And then I have one follow-up. Thanks.

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

Of course selling the one-day and going from a two-week or a monthly to a one-day is of course a trade-up of revenue. Relative to gross margin, the gross margin is considerably more attractive than what we initially thought about the one-day modality. Said another way is, whereas in the past we said think of the model as 50% for one-day at the gross margin line, but a much smaller operating cost, we actually are seeing margins that are north of that 50% with clariti. So better gross margins.

ASP, yes, you can't compare the ASP on a sell to sell basis. You obviously are comparing a monthly, use 24 lenses or a two-week, which happens to use 24 lenses even though it should use 52, then obviously you're going to get a much lower ARP with a much higher revenue in aggregate with that switch. We look to the OI line when we do those tradeoffs. The profitability of switching out to some of these products on a profit per patient basis is enormous if we can switch them out from a two-week to a daily, for example, in the process.

Anthony Petrone - *Jefferies & Co. - Analyst*

That's helpful. Maybe just a follow-up would be on UPP. I'm just wondering have you seen that result in market share shifts. You mentioned on prior calls that big box retailers are really not in favor of UPP and those that have been more aggressive with it potentially are at risk of losing share. Is that something that you've seen or is that something potentially you can see going forward? Thanks.

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

I think anyone that's cracked the reported numbers of us and our competitors know there is some pretty big market share shifts going on surrounding that. And you're correct, the big box retailers have been more vocal, as we know, in some of that shift, or reactionary, if you will, to what at least one of our competitors did in the marketplace.

Now, that's a two-way street because obviously not everyone is an independent eye care professional and not everyone is a retailer, and there's a whole bunch of gradations in the middle. So, it's not one size fits all. But net-net-net, you can see Cooper's numbers that we're putting up are pretty robust.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Thank you. I would now like to turn the conference back to Mr. Bob Weiss for any closing remarks.

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

I want to thank everyone for their participation and questions. And we look forward to updating you on the progress we're making and the MyDay launch that happens in August when we're on the phone for our next call, which is September 3, I believe. And with that, operator, thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.