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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q1 2020 Cooper Companies, Inc. Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Kim Duncan, Vice President, Investor Relations and [Risk Management] (corrected by company after the call). Please go ahead, ma'am.

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

Good afternoon, and welcome to the Cooper Companies First Quarter 2020 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 Al White, President and Chief Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

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 coopercos.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 Al for his opening remarks.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Great. Thank you, Kim, and good afternoon, everyone. Welcome to our first quarter 2020 conference call. This quarter met expectations, and we're now well positioned to deliver stronger results moving forward. This is especially true given recent operational improvements, including increased MyDay production. Having said that, there's the Coronavirus impact and the obvious challenges it presents. Before getting into those details, let me walk through the quarter's performance.

For Q1, consolidated revenues were $646 million, with CooperVision posting revenues of $485 million, up 3% as reported or up 4% in constant currency, and CooperSurgical posting revenues of $161 million, up 2% as reported and 2% in constant currency. Non-GAAP earnings per share were $2.69.

For CooperVision, all on a constant currency basis, the Americas grew a healthy 8%, led by our daily silicone hydrogel franchises, where we continue to offer the broadest portfolio in the market, with MyDay available in a sphere and toric, clariti in a sphere, toric and multifocal. Both lens families performed exceptionally well with torics posting particular strength. EMEA grew 3%, supported by our entire silicone hydrogel portfolio, and Asia Pac was down 1% due to MyDay capacity constraints as well as Biofinity and Avaira Vitality not rebounding as fast as expected from the destocking associated with the September VAT increase in Japan. Having said that, Asia Pac is already rebounding, and we expect growth in Q2, even in the face of the coronavirus. All 3 regions were led by our daily silicone hydrogel portfolio, which grew 19%, continuing to take share in the fastest-growing segment of the contact lens industry. This growth really demonstrates our strength with daily silicones, and it bodes well for the future as MyDay capacity is quickly improving. Meanwhile, our Biofinity and Avaira franchises grew 3%, a little softer than usual due to the destocking issue in Asia Pac. Having said that, we expect better performance moving forward in Asia Pac, along with an uptick from our launch of the recently approved Biofinity Toric Multifocal in the U.S. with the rest of the world following shortly. Torics grew 7%, led by MyDay and clariti, and multifocals grew 6%, led by clariti and Biofinity.

So, in summary, a solid quarter. Given we expect Asia Pac to return to stronger growth in Q2, the Americas to remain strong, and EMEA start showing a rebound in Q3 as the comps get easier, we're optimistic about the remainder of the year.

Before moving to MiSight, I want to cover some positive news on MyDay. As we discussed on last quarter's earnings call, the demand for MyDay is extremely strong, and we produced great results, but we've been capacity constrained. As such, we realigned significant resources to accelerate start-up efforts on new lines, and I'm happy to report that activity is going exceptionally well. I want to commend our manufacturing team for their efforts and a truly fantastic job.

Moving to MiSight, our innovative myopia management contact lens, sales this quarter were $1.5 million, up 87%, and which was slightly above expectations and positions us well to achieve our objectives for the year. As a reminder, MiSight is our FDA-approved daily lens that has been clinically proven to slow the progression of myopia in children 8 to 12 years old. It has extensive 5-year clinical data, and experience has shown it's safe and easy for children to handle and wear. We're continuing to have success around the world, finishing February with over 17,000 kids wearing the product, up from 13,000 last quarter, and I'm happy to report this includes our first children in the U.S. Regarding U.S. activity, we completed our KOL launch in January, completed training of our U.S. sales reps in February, and have now invited roughly 1,800 docs into the first round of the MiSight program for education and certification happening in 7 of the top optometry universities in the U.S. We're also continuing our sales, marketing and educational activity around rest of the world, along with continuing investments in clinical and regulatory work.

With the U.S. launch underway, the product is now being sold as part of a holistic myopia management program called Brilliant Futures where we provide the eye care practitioner the lenses, a suite of resources to help educate and connect with parents, and targeted marketing tools to assist the eye care practitioner in building their myopia management practice. The doctor can then incorporate all this into their own customized program which could include eye exams and potentially other offerings such as ortho-k lenses, and then charge an appropriate price for their complete offering. The early feedback has been phenomenal and it's really exciting to see the progress we're making with ECPs on the clinical benefits of MiSight and why this treatment should be standard of care for young patients with myopia. It's important to remember that myopia, especially high levels of myopia, has been linked to severe eye conditions later in life, such as glaucoma, cataracts and retinal detachment, so a product such as MiSight that actually treats this condition is incredibly exciting. We believe MiSight has the potential to be a true game changer in the optical industry so we're happy and proud to be leading the way with this truly innovative product.

Regarding financial expectations for MiSight, we're still forecasting roughly $10 million in sales this year, including $2 million in the U.S. Then $25 million in fiscal 2021 and around $50 million in fiscal 2022. MiSight is a great growth driver for us as it's an entrance into a brand-new market, that being children, while also offering high margins as it's a Proclear-based lens produced on an existing platform. Additionally, it offers a strong halo effect on the rest of our portfolio and is already driving eye care practitioner interest in CooperVision's other products.

Before concluding on Vision, let me remind everyone of the multiple growth drivers that underlie the $8.9 billion contact lens industry. It starts with myopia, where it's currently estimated that roughly 1/3 of the world's population is myopic, and this will increase to 50% in 2050. This obviously means a lot of visual correction, which is great for the entire optical industry. Additionally, and more specifically to contact lenses, there's the continuing trade up from FRPs to dailies, the trade up from legacy hydrogel dailies to silicone hydrogel dailies, geographic expansion and growth in torics and multifocals. Within dailies, only 25% to 30% of wearers are in dailies today and only 43% of current daily sales are in silicone hydrogel lenses. Our expectations therefore remain that this is a multi-billion dollar trade up opportunity, which will occur over the next 5 to 10 years. And all this continues to support market growth in the upper part of the 4% to 6% range for many years to come, with us taking share for the foreseeable future led by our market-leading daily silicone hydrogel portfolio. And finally, I'm happy to report our new fit data was once again very strong this quarter, especially with respect to silicone hydrogel daily fits, which bodes well for our future [performance] (added by company after the call).

Moving to CooperSurgical. We reported revenues of $161 million, up 2% in constant currency, with Office & Surgical up 3% and Fertility up 1%. Within Office & Surgical, growth was driven by EndoSee, our second-generation handheld office hysteroscope, and our surgical retractors.

PARAGARD was flat [year-over-year] (corrected by company after the call), following Q4, where we had significant buy in activity associated with a 9% price increase implemented during the quarter. On pricing, remember that increases roll in over 3 years due to buy-in activity, contractual arrangements and public market purchases such as Medicaid. For the year, we're still forecasting mid-single-digit growth for PARAGARD.

Fertility [growth] (added by company after the call) was led by our device portfolio which includes consumable products like IVF media and our market-leading Wallace embryo needles and transfer catheters. This was offset in part by our genomics business but more so by shipment delays at quarter-end which moved to Q2. Given this, we expect a stronger Q2 from Fertility, even with the impact of the coronavirus in Asia Pac. Overall, for CooperSurgical, we expected this quarter to be our most challenging due to the tough 8% comp from a year ago and the Q4 PARAGARD buy-in, but we hit our expectations and remain confident in posting a strong year.

Now, before concluding, let me cover the coronavirus and its impact. First and foremost, our thoughts are with our employees, their families and the communities impacted by the virus. We've been fortunate in that we haven't had any employees infected by the virus that we're aware of. Our business in China is relatively small, only roughly 2.5% of our revenues, and we have no manufacturing or packaging located in the country. So that's obviously helped. We have been able to maintain or supply of product in China which is sold through third-party distributors. So the impact has largely been around the parts of our businesses that sell into hospitals, that being fertility and our specialty lens business. We're also seeing a modest impact in other countries where there's heightened virus activity, but our businesses are proving to be relatively resistant. At this point we're estimating the total revenue impact in Q2 will be roughly $15 million, comprised of $11 million in CooperVision and $4 million in CooperSurgical. I believe we'll likely claw some of this back as we move through the year but we're not including that in guidance. Having said that, we're holding our full year revenue guidance unchanged driven by the improved MyDay production and new contracts we've won in our fertility business which we expect to generate higher sales in Q3 and Q4. Underlying all this is the assumption our global operations largely return to normal in May, the beginning of our fiscal third quarter. Brian will provide additional numbers, but our expectations for a strong year remain intact.

With that, let me conclude by saying we're taking share in the global contact lens market, MyDay capacity is ramping up nicely, the MiSight launch is progressing well, and CooperSurgical is well positioned to accelerate growth. We're also continuing to make positive strides with our ESG efforts including expanding support of several community involvement efforts and my recent signing of the CEO Action for Diversity & Inclusion pledge, which is the world's largest CEO driven initiative to advance diversity and inclusion within the workplace.

And with that, I'll turn the call over to Brian.

Brian G. Andrews ***The Cooper Companies, Inc. - Senior VP, CFO & Treasurer***

Thank you, Al 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. Al covered revenues, so let me move to the rest of the P&L.

Consolidated gross margins for the quarter were roughly flat year-over-year at 67.3% from 67.5%. CooperVision's gross margin improved 50 basis points to 66.5% from 66%, largely due to a reduction in year-over-year expenses associated with the infrastructure improvement projects we discussed last year, which we've now completed. CooperSurgical's gross margin decreased to 69.7% from 72%, largely due to disruptions we've previously discussed associated with consolidating our global manufacturing operations into Costa Rica. As expected though, the upfront work associated with this consolidation activity is completed and we continue to forecast gross margins improving year-over-year, including Q2 moving back into the low-70s.

OpEx was up 5.4% year-over-year resulting in consolidated operating margins of 25%, down from 26.2% last year. Within this, CooperVision's operating margin improved nicely, driven by gross margin improvements and operating leverage, but CooperSurgical's profitability was down due to the reduction in gross margin combined with the pull forward of certain expenses, including selling and marketing costs associated with the relaunch of our PARAGARD DTC activity. It should be noted this is mostly timing related and does not alter our full year expectations.

Interest expense was $11.6 million, driven by lower average debt balances and lower interest rates. The effective tax rate was 10% largely due to the timing of normal equity grants and larger-than-expected Q1 true-ups related to restructuring activity. Non-GAAP EPS for the quarter was $2.69 with roughly 49.7 million average shares outstanding. Free cash flow was $60.7 million, comprised of $129.7 million of operating cash flow, offset by $69 million of CapEx.

Net debt decreased by $37.6 million to $1.7 billion and our adjusted leverage ratio moved slightly lower to 1.82x.

Lastly, on Q1, the year-over-year FX impact to revenue was negative $2.8 million and there was no impact to EPS.

Moving to fiscal 2020 guidance, given the variability with currencies, we've decided to use the same rates we used in December, including the euro at $1.10, the yen at $109 and the pound at $1.29. For revenues, as Al mentioned, we anticipate a roughly negative $15 million impact from the coronavirus in Q2, but both businesses expect to make that up in Q3 and Q4. Therefore, we're holding our revenue guidance unchanged with consolidated revenue guidance for fiscal 2020 remaining $2.767 billion to $2.817 billion. This includes CooperVision revenue in the range of $2.070 billion to $2.1 billion, up roughly 5.5% to 7% in constant currency, and CooperSurgical in the range of $697 million to $717 million, up roughly 3% to 6% in constant currency.

Note that when incorporating our Q1 performance, our full year guidance implies an accelerating growth rate for CooperVision of roughly 6% to 8% for Q2 to Q4 and roughly 3% to 7% for CooperSurgical. We remain comfortable with these ranges for the reasons Al mentioned, including improved MyDay production and improving fertility performance.

We continue to expect consolidated gross and operating margins to be up slightly, while now forecast interest expense to be in the $37 million to $39 million range, which includes the recent 50 basis point Fed rate reduction but no additional rate moves. Given we have roughly $1.7 billion of debt and it's all floating, any additional interest rate reductions would be a nice positive benefit.

For our effective tax rate, we're now forecasting the full year to be roughly 12%, which incorporates Q1 along with the updated regional profit estimates and benefits from existing [excess] (added by company after the call) share-based comp. Our non-GAAP earnings per share range is being increased $0.20 on the top and bottom ends to $12.80 to $13.20 to reflect the lower interest expense and tax rate. Free cash flow is still expected to be around $425 million, with CapEx remaining elevated at around $325 million due to the build-out of daily silicone hydrogel production capacity.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Larry Keusch with Raymond James.

Lawrence Soren Keusch ***Raymond James & Associates, Inc., Research Division - MD***

I guess, just first question. Relative to our model, the SG&A spend was a bit higher than anticipated. I was just wondering if the spend was actually in line with what you guys were planning? Or were there any discrete items behind it, that might have pushed it a little bit higher?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, Larry, it was roughly in line, but it was a little bit higher than we were expecting. It came from CooperSurgical, really the PARAGARD DTC activity was pulled forward a little bit, and that's fairly expensive the TV ads. We're doing them a little differently this year. We're going to cable rather than hitting the primary stations in the big markets. But it's still fairly expensive, and that was pulled forward into Q1. So that's not going to change our full year expectations for surgical and our SG&A expenses, but it did move some into the first quarter.

Lawrence Soren Keusch ***Raymond James & Associates, Inc., Research Division - MD***

Okay, perfect. And then just another one. On the improving capacity that you have for MyDay Toric. Can you just talk a little bit about what's progressed since you updated people in January at the JPMorgan conference?

And I guess just along with that, I know you said you don't have any manufacturing in China. But do you source any raw material for contact lenses coming out of China? Or is that Japan or somewhere else?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, we do not source any raw material out of China. We certainly don't have anything material out of China. I think there's a part for CooperSurgical, maybe something really small. But certainly, nothing large by any means. Most of that's from the rest of the world, including Japan that you mentioned.

On MyDay, MyDay is solely a matter of getting production up and running faster. That's it. So we have a number of lines coming in. And bringing those lines forward by a month or 2 months or 2.5 months, in some cases, has pulled production from the latter part of this year and the beginning of '21 into '20 and even months earlier here in '20. So all that's doing is allowing us to produce more product. As we've talked about, the demand on that is really strong. We pulled back on some markets, took the lens out of the market, cutback putting fitting sets in, a lot of that kind of stuff. So the demand remains really strong. This is solely a matter of comfort in the fact that production is ramping up. And that's going to give us lenses, and we'll have more sales because of it.

Operator

Our next question comes from Jeff Johnson with Baird.

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

Let me follow-up maybe on Larry's question there on MyDay. Just and I guess, it's a little bit of a guidance question as well. But on the 6% to 8% CVI guide for the balance of the year, if I take $11 million out of the second quarter, like you're saying, Brian, and also assume, I don't think MyDay, correct me if I'm wrong, is back in Japan yet, at least not the 1 check we have over in Japan on that. So should we assume that 6% to 8% kind of builds throughout the year, maybe at the lower end of that in the second quarter and then higher than that over the balance of the year? How to think about that, Al?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, you're spot on. It will be just because of nothing else because of the $11 million pulling out of Q2. And the fact that a lot of that MyDay production is currently ramping. And so you're right, we've pulled the product out in a few different markets and pulled back on supply to some retailers and so forth. You'll see that start to improve a little bit in Q2. But definitely improve quite a bit more for Q3 and Q4. So you're right. You end up kind of back ending it, right? So if you're talking about taking $11 million out, I don't know exactly what the number will be, but maybe you get $4 million more in Q3 and $7 million in Q4, that type of thing.

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

All right. And then, Al, maybe just talk to us about kind of what you're hearing or seeing in China? I know it's a small market or maybe even in Japan or Italy or any of your other markets. Our sense is a lot of people have plenty of lenses at home. They're going through those lenses, utilizing those lenses, but maybe not going into the eye doctor themselves. So if there is an impact to you this year, bigger than the $11 million, do you think it would be a timing impact? Is there risk we just lose contact lens sales for a while? Just how to think about maybe what you're seeing so far and maybe conceptually help us think about how the next few quarters could play out if this continues to spread and impact greater regions?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. I'll split it into 2 because CooperVision has a pretty decent specialty lens business, and a lot of that is in China. And the specialty lens business is sold through hospitals there. So we end up taking a bigger hit there, right, because people aren't going to hospital. No one wants to go to a hospital. That's our bigger portion of the hit. Now I do think that our expectation is that things get back to normal in May moving forward, covers that. And I think we'll be okay with the specialty lenses starting to sell more there. I'm not sure we picked that business up, to be honest with you. I kind of think we will, but I'm not positive of that. If you look at the rest of the world that's out there, we rolled in about $5 million. We just said, generally speaking.

I do think that if there is deferrals because of the coronavirus that we do pick that up, we didn't roll that into guidance, but I'm not sure why we wouldn't, right? If somebody has lenses at home and for some reason, they're not going to get more, then they're going to ultimately need them. Now honestly, we're not seeing much of an impact because people are buying things online. There's other ways that people can get product. So as of right now, end-user demand remains strong. Our sell-through remains strong. So we're not seeing a lot of impact from that right now. I mean, I think we're covering ourselves sufficiently by just saying, "Hey, we're going to have that impact this quarter. Everything will be fine and kind of go fully back to normal." So I don't know. At the end of the day, I think we're pretty decently covered with the expectations we have out there.

Operator

Our next question comes from Anthony Petrone with Jefferies.

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

Maybe just stick on the guide for coronavirus. Just the total $15 million, I'm wondering how many countries actually is that -- so is that just China. I think it's actually more than China. So maybe even just the $10 million in CVI, how much of that is China? And how much of that is outside of China? And then I'll have a couple of follow-ups.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. So break it down a couple of ways, of the $15 million, $4 million is CooperSurgical. That's all from China. But that's where fertility clinics operate out of hospitals in China. So that's all for China for them. We're not really seeing an impact outside of China. If you look at CooperVision's $11 million, somewhere around $6 million of that is China related. And that's largely related to the specialty lens business, a little bit associated to some of the other lens products out there.

And then that remaining $5 million is kind of spread a little bit to a couple of different countries. We're not seeing like a dramatic impact in any particular country other than probably South Korea where there's a little bit bigger an impact there, but the numbers aren't that big, right? So you get a little bit in South Korea, you get a little bit in Italy, a little bit in a couple of spots. But nothing dramatic, as you can tell from my commentary.

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

And then just on the fiscal 1Q print in APAC, the $109 million it was down 1% constant currency last quarter. It was up 11, but it ends in January. So was there any impact in the quarter in APAC? And has the new growth rate on APAC sort of down or is it mid single digits as we move through the year? And then just to put in the last question there, just on PARAGARD, just want to confirm, did national ads in the U.S. were those up and running in the fiscal 1Q? Or have they started again as we move through 2020?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. So the national ads on PARAGARD are up and running. So those started out in Q1. I know the costs were certainly starting in Q1, you're shaking your head. They just started in [January] (corrected by company after the call), the actual TV ads. So yes, so the ads were up and running in Q1. If you look at Asia Pac, yes, we had a minus 1%. Kind of surprisingly, Biofinity and Avaira were a little bit softer as we finished the quarter than what we thought they were going to be. So we've seen those come back already in February. So that makes me feel good. I think that ended up being tied to the VAT purchases that happened with the September change.

Asia Pac,is going to grow right now, I believe, for the second quarter. I'm not sure how much it will grow. I wouldn't be surprised, but low mid-single digits, something like that is kind of what I expect even with the coronavirus. And then we should be back to double-digit growth certainly in Q3 and Q4.

Operator

Our next question comes from Larry Biegelsen with Wells Fargo.

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

Just 2 for me, Al. You threw out there, you've got approval of a MyDay toric multifocal. What kind of ramp should we expect in the U.S.? How big can that product be? Just a second, I'll throw out my second question now. What are you seeing from new competition in silicone hydrogel daily disposable space, particularly from PRECISION1 and the new VSP lens?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. The approval was Biofinity Toric Multifocal. Yes, we got that approved and we launched that product here. That's never a massive product. It's a highly profitable product. But from a revenue perspective, it's never that huge because it's a pretty targeted market. Having said that, we'll get a few million dollars out of that. And the other thing is, it's great for the Biofinity franchise, like for the whole family to go out there and to be able to have a product to talk about. I mean, that'll in my mind, clearly will be the best multifocal toric FRP in the marketplace, no question about it. So having that product out and being able to talk about it and just continue to talk about Biofinity is great. It helps the entire family.

If you look at the competition side of things, yes, PRECISION1 is being launched, and that product is starting to make its way out into the marketplace a little bit here. So we haven't seen too much impact from that yet. And if you look at VSP, and all of that's making its way, that lens is making its way out also haven't seen, frankly, too much impact on that either. So not too much impact from a competitive standpoint at this point.

And as I've said before, I mean, there is room for other people within this space. But we're in a pretty good spot. I'm really happy with where we stand with clariti and the success with clariti that we've seen, especially clariti toric. And with MyDay, continuing to hold up as well as it has and us being able to come out here with more of the toric and everything, puts us in a pretty good spot.

Operator

Our next question comes from Matthew Mishan with KeyBanc.

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

Now that Alcon appears to be moving forward with the DT1 toric for later in the year, does that get you to the point we're rounding out the full family of MyDay becomes greater priority?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, you're really going to MyDay multifocal. So we have the toric out there. The key for us right now is to be able to meet the demand for the toric. We need to get more fitting sets out in the marketplace, and then we will fulfill that demand. So for right now, it's a matter of just saying there's a lot of demand out there for premium daily silicone hydrogel toric, a lot of demand out there. We're doing well. We'll launch -- I shouldn't say launch, but we'll get the product out there more robustly here as we proceed through the year and do really well. And I imagine DT1 toric will actually do fairly well when they come out with that product.

So I think we're both in a good spot. When you look at the multifocal for MyDay, like to get that out there. Our problem ends up being, we're going to be capacity constrained here for at least a year, it could be a couple of years before we move through the capacity for the sphere and the toric itself. So I do think we'll get a multifocal out there at some point, but it's going to be a little while before we get it out in the market.

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

Okay. And then my Asia question. If this thing does get a little bit worse in that region, how flexible are you with an ability to move lenses between regions? So if Asia demand were to weaken as a result of this, could you move that capacity to other areas of the world where you're constrained?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Short answer is yes. We ship the product over there, obviously. But if demand pulled back there, we would take that product and reallocate it into the European market and the U.S. I mean, even Europe was hit a little bit this quarter. They were okay, but they were hit a little bit this quarter because of MyDay capacity constraints, that's for sure. And if that did happen, we would allocate those lenses and certainly sell them elsewhere. There's plenty of demand.

Operator

Our next question comes from Chris Cooley with Stephens.

Christopher Cook Cooley ***Stephens Inc., Research Division - MD***

Just 2 quickly from me. One, Al, just to clarify, and I hate to belabor the point, but in your coronavirus guidance, you're not assuming further acceleration of the virus in United States and not putting the pall over domestic demand. It sounds like it's relegated more so to the Asia Pac region, and to a lesser extent, Italy. And then just to going to my second question in as well, could you just remind us what the production delays were in fertility during the quarter?

And help us kind of better understand the contract that was won, and why that gives you confidence despite the coronavirus, you still could see acceleration in that franchise as you go forward in the back half of the fiscal year?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, sure. Thanks, Chris. Yes, with the coronavirus, we're assuming everything gets back to normal kind of in May, but you're right. We're not assuming anything gets worse from a sales perspective. That doesn't mean, obviously, there's going to be headline news. And fortunately, there will be additional people impacted as they move through the U.S. and so forth. But we're assuming that we continue to sell product pretty similar to how we're selling it today and then moving back to normal as we go into Q3. If you look at fertility, it wasn't production delays in fertility, it was shipment delays. So we have product that should have gone out at the end of Q1. That is going out in Q2. A large portion of it has already gone out, but it's going out this quarter. So that's just a movement of shipping of goods, obviously, so we recognize that in the second quarter.

On the contracts, we did have a couple of contracts here, some nice contracts we've won outside of the U.S., a few opportunities that we'll start capitalizing on, and you'll see revenue impact from that in Q3 and Q4. I won't go into specific details other than to say, it gives us comfort in our guidance and keeping revenues the same because we already have visibility to kind of increase revenues so to speak from those contracts.

Operator

Our next question comes from Jon Block with Stifel.

Jonathan David Block ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst***

I'll start with MiSight. You mentioned a certification program. Maybe at a high level, what does that certification program entail? And then you mentioned, I think it was 1,800 docs taking part in that program. How does the interest level look or the backlog, if you would, beyond the first 1,800? And then I just got a follow-up.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Sure. So yes, the certification, there's the education and certification, so to speak, associated with that. So we did that with the key opinion leaders in January, and we had a group of them down in Miami to kick that off. And then they did the training. They went through the online certification, which is pretty straightforward, honestly, for an optometrist. We have 20 certified docs in the U.S. right now, already prescribing, selling the lens. I think that was all the docs, frankly, that went to that are now certified in selling it. The invitation to the 1,800 docs that go to the training at the 7 universities just went out. I think it went out a couple of days ago. So the feedback, if you will, the verbal feedback has been very positive on that. There's a lot of those docs that we targeted who have pretty decent pediatric practices. So there was definitely some excitement there and a number of people who are looking to jump in and move forward relatively quickly. So I feel pretty good about that.

Jonathan David Block ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst***

Okay. So maybe I'll ask a follow-up to that and just also layer in the next one. I guess, are you going to pursue that in tranches? In other words, gather some learnings from the first subset of 1,800 and then maybe bring on the next tranche. And arguably, question two. Just key accounts are you back to where you want to be in terms of pursuing some of these larger strategic accounts? I think in fiscal 4Q '19, you mentioned you had to hold back because of where you were from a capacity standpoint. Is it all systems go right now?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, yes. So we'll keep going on the 1,800 docs. What we tried to do was target docs who had a bigger pediatric presence, and of course, anyone who was already doing some form of myopia management. So that 1,800 should be a pretty good group of docs. We ended up expanding it. It's going to be a little bit smaller than that. The interest was strong. So we expanded that, and we actually ended up including a number of docs in that who are not CooperVision docs, if you will. There were a number that came that really wanted to be involved and wanted to get signed up early. So we expanded that as much as we could. Our limitation is that we have 7 of the top colleges doing the training, so it's just a matter how many people we can get in classes and push through there. As we work through that process, we'll expand that and invite more practitioners in, no question.

If you look at key accounts, yes, that team, boy, they did just crazy good job for a long time. And we've got kind of on our heels a little bit because of the MyDay production side of things. We are back at it there. So things are moving back along. We're having those conversations. I'm kind of optimistic that we'll get some good news out there before too much longer here in terms of maybe a new key account that will your raise your eyebrows.

Operator

Our next question comes from Matthew O'Brien with Piper Jaffray.

Matthew Oliver O'Brien ***Piper Sandler & Co., Research Division - MD and Senior Research Analyst***

Al, we're hearing about some new market dynamics from one of your bigger competitors that's coming up starting April 1 as far as cutting back on rebating legacy products and then trying to cut down on the gray market. So can you -- if I heard about it, I'm sure you have. Can you talk about how that could potentially disrupt the marketplace, improve the marketplace? And then what kind of opportunities would that present for Cooper, maybe over the next 6 to 12 months?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. Well, I'll tell you, we talked about the gray market probably a year or 2 years ago, something like that. That's yes, we got through that, but I'll tell you what, that takes some work. And what we're talking about, right, is that you're shipping lenses into one market and someone's taking advantage of pricing discounts and so forth, and their intent is not to sell it in that market. But they're getting volume discounts for some reason, a lot of times tied to legacy contracts. So they're buying product and then rerouting that product into another market and hurting the pricing that you have there. So that's a tough one. That's an actual project to get your arms around that, evaluate contracts and so forth and clean that up. We went through that and it improved our profitability, and anyone else who is going through a gray market analysis to clean that up. That will be a positive benefit for them.

If you look at the pricing dynamics in the market, you're exactly right. We haven't seen anything really recent, but we did see rebate activity getting taken down. You had a lot of $200 per annual rebates. And you've seen a lot of that moved down for $100 rebate for existing wearers still $200 or something for new wearers. But that's a positive dynamic. I know you also saw list pricing be increased by everybody this year. So we're looking at our own pricing right now. We're looking at our own rebate activity. We did take a little bit of pricing this year already. We'll look at incremental pricing and any adjustments to rebate as we kind of move through the year here.

Matthew Oliver O'Brien ***Piper Sandler & Co., Research Division - MD and Senior Research Analyst***

Okay. And then as a follow-up, the toric performance again this quarter was quite good on a constant currency basis, toughest comp of the year. Can you just talk about that marketplace, generally speaking and how things are evolving as your lenses are getting more and more comfortable? Are you seeing more clinicians comfortable prescribing toric, i.e., the market is starting to expand? Because I think a lot of people are worried about DT1 toric coming out and really impacting you in the future. But -- and what I'm trying to get to is, is there a lot of room for this market generally to expand, even if you do have some competition in the space, you guys still being, I think, the best toric lens out there?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. The toric market is a great market. It is expanding. One of the things is if you look at practitioners, everybody wants to fit their patient and have their patient buy lenses from them. You don't want to fit them and have to turn around and walk out the door and just buy it online. It's pretty easy to walk out the door and buy product online if you're fitting someone in the sphere. If you're fitting someone in a toric, it's much more challenging for that patient to turn around and walk out, buy that online, and be comfortable buying it online. A significant number of people have an astigmatism, so they need a toric.

No, they don't have to have a toric, but as docs have become better and better at understanding that and looking for astigmatisms and fitting patients with really truly the correct lens, a lot of times, more often than be it fit right now. That correct lens is a toric lens. So you're going to continue to see growth in torics. And as you're getting better daily torics out there, you're going to see that growth. That's obviously premium price points and so forth. So in my mind, you're going to see many, many, many years in front of us here of toric growth.

Now, I do think we have the best toric lenses out there, and we certainly do well in that space, and I think our market share is still number one, but there is definitely space for other people as we move forward here and no question about that. That's a really, really strong part of the market. Maybe the strongest part of the market out there is daily silicone hydrogel torics.

Operator

Our next question comes from Chris Pasquale with Guggenheim.

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

Al, can you quantify at all how much you think MyDay capacity constraints have really held back the business? I'm thinking in particular about how -- what's happening with those customers? So you've been pushing them into clariti? And so the opportunity, as you have more capacity is really the price difference between those 2 lines? What's been happening with those patients?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, a lot of those patients, frankly, are wearing older hydrogel lenses. So they're doing 1 or 2 things. They're either wearing a product like a Biofinity toric or someone else's monthly or 2-week toric, or they're wearing a daily toric like Proclear or one of our competitors daily torics. So unfortunately, there hasn't been a lot of options for them there. We're selling a lot of clariti toric right now. We just had another fantastic quarter with clariti toric. It's I don't know, flying off-the-shelf is the right word, but it's doing really well and same with MyDay toric. So I think at the end of the day, you're not going to see MyDay toric cannibalizing clariti. That's for sure. I think it's more legacy hydrogel daily torics and FRP torics.

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

Okay, that's helpful. And then on MiSight, what is the $2 million in U.S. sales assume in terms of the number of patients who're actually going to be using the product by the time we get to the end of the year? You guys have a target where you want to be in terms of users in October?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. Well, in order to hit the number of a couple of million, you're many, many thousands of wearers, that's for sure. Because at the end of the day, we'll be selling a year of supply of the product, but we recognize the revenue on what gets shipped. A lot of those patients because their eyesight is changing, we might be shipping them, depending upon what the doc wants to do, say, 6 months of the year supply. So we'll be recognizing 6 months' worth of revenue on that. If you look at the price point, which is that kind of package sells north of kind of a premium daily silicone hydrogel lens, you kind of back into the math, that it's going to require us to get many thousands of patients. And I'm not quite sure what the guys are assuming, but it's got to be 5,000 or so as we're exiting the U.S. It's 5,000 as we exit the fiscal year in the U.S.

Operator

Our next question comes from Joanne Wuensch with Citi.

Joanne Wuensch ***Citi***

Just 2 questions. When you go to start signing physicians up for the MiSight training, how do you explain the products to them? And what kind of pushback, if any, are you receiving?

And then my second question has to do with corona, which is, if my understanding is correct, your estimate does not include that it spreads anywhere outside of the Asia Pac, specifically the China region. How do we think about other scenarios if there is something comparable, where you've had to adapt to a more regional or global potential slowdown?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, sure. Yes. So we are assuming to be clear that the coronavirus continues to spread. I think that's definitely going to happen, unfortunately. The question is the impact on our business. We're not assuming a big impact on the business as it spreads. Because if you look at like Japan, for an example, we're not seeing a big impact on our business in Japan from the coronavirus. So it's obviously there. It's spreading through there, but it's not impacting our sales that much. So that's kind of what we're saying is, hey, as this spreads through the U.S. and other marketplace, it won't have that big of an impact on our actual sales.

If you look at MiSight, the training is about 3.5 hours of training right now. It'll be done by a professional that we have and then professionals at the universities who are there, making sure that the ECPs understand the clinical benefits and so forth in the clinical trials and all the information behind it and why the lens works, how it works, how to help them with any fitting questions or anything they may have.

Generally speaking, the pushback that we've received on this has been around kids. It's been around, hey, we're talking about 8 to 12 year olds. How do I get parents comfortable. How do I get the parent comfortable that their 8-year-old can do this, or their 9-year old, or their 10-year old can wear these lenses? And that's a matter of what we talked about, like working with them to help educate the parents, and you bring the parent in, you work with them, you talk to them, you have someone in your staff, depending upon the size of your practice, someone in your staff who specializes in talking to families and educating them and helping the children fit the lenses.

What we've seen is that when kids actually put the lens in and do it a couple of times, they're good to go. Unlike older people who continue to seem to struggle and then drop out, the younger kids figure it out and then they're done and they move on. So it's more of that kind of stuff. We haven't had a lot of pushback, so to speak, but certainly, a number of questions. And by the way, welcome back Joanne!

Operator

Our next question comes from Robbie Marcus with JPMorgan.

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

Maybe to start off, just 2 clarifying questions. One, on coronavirus. I caught maybe conflicting comments. I just want to make sure you are assuming that the revenues come back in the second half. Is that correct?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

No. So right now, we're saying we'll lose $15 million and those revenues will not come back is what is assumed in our guidance. I happen to personally believe that some of them will, but we'll see how that plays out. In terms of trying to be a little conservative on that, we have assumed those do not come back.

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

Got it. And then, again, another great quarter with a tax rate well below expectations. You lowered 1% for the year. What is it that 2Q through 4Q wouldn't see a tax rate maybe similar to first quarter or lower like last year? And then I'll just slip 1 more in. I might have missed it, but what was the FX impact in the quarter on sales and EPS and gross margin if you have it?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

I'll let Brian take that. He hasn't had a chance to talk.

Brian G. Andrews ***The Cooper Companies, Inc. - Senior VP, CFO & Treasurer***

Yes. So the tax rate came in a little bit lower than we expected. Our Q1 tax rate, as always tends to be -- when we start out the year, the lowest ETR because we issue equity grants in the first quarter. So that's always going to kind of take us down somewhere around 2%, if you were to kind of straight-line the year what also happened this quarter. We had a true-up in the quarter that was generated from the provisions enacted by tax reform from fiscal '19 that flowed into this quarter. So obviously, with tax planning, you've got estimates, you're truing those up, and we just happened to have a true-up that brought us down a little bit more than we expected in Q1. So when we look through the balance of the year, with our tax rate going down by roughly 1% from our last guidance, I would expect the ETR to be somewhere in the neighborhood of 12.5% for Q2, Q3 and Q4, relatively flattish.

Your next question is on FX. So keeping guidance FX rates the same, we have about a $10 million detriment to sales and roughly $0.04 positive to EPS.

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

And that's for the quarter or for the year now?

Brian G. Andrews ***The Cooper Companies, Inc. - Senior VP, CFO & Treasurer***

For the year. For the quarter, Q1 was about $2.8 million detriment to revenues and no impact to EPS.

Operator

Our next question comes from Stephen Willoughby with Cleveland Research.

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

I have a couple still, actually. Just, I guess, Brian, just a real quick follow-up there on that last comment. The negative $10 million to revenue and positive $0.04 to EPS from FX. That's relative to your previous guidance? Or what you're expecting for the full year overall?

Brian G. Andrews ***The Cooper Companies, Inc. - Senior VP, CFO & Treasurer***

That's relative to the rates we used on the last quarter's guidance. So when we gave you a rate for the euro of $1.10 on the euro, $1.29 for the pound and $1.09 for the yen, you basically had the impact more or less unchanged. Does that answer your question?

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

It does. Yes. I guess, just another kind of follow-up question. In the $15 million impact from coronavirus being a headwind, what's the offset then to be able to keep your growth rates for the full year unchanged?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, $15 million headwind in Q2 here and then I think what you get is ultimately kind of $5 million more made up in Q3 and $10 million in Q4. And that comes from higher MyDay sales because of the production improvement and from those fertility contracts that we won during the first quarter.

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

Okay. Al, on the MyDay, is there any way to sort of quantify at all some of these realignments and improvements you're seeing in MyDay production? Last quarter, you mentioned you thought you would still be capacity constrained with MyDay as you ended this fiscal year. I was wondering if that was still the case?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. I won't quantify them other than to say I'm kind of comfortable with the revenue growth we're talking about in the back half of the year. And as a matter of fact, if we can keep moving along at the pace we've been moving, we could have some upside to that. We'll be capacity constrained, I think, well into next year. Because until we get MyDay multifocal out in the marketplace, I would say we're capacity constrained at the end of the day. That's the thing that will allow us to so. I think that will probably be, Steve, sometime next year, but I think we'll have some headwinds. Having said that, we have enough product coming off right now that we're going to be able to put up some pretty good growth rates.

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

Okay. If I could slip one last one and then. Just on dailies, dailies overall, I believe you said dailies overall grew 5%. And I think you said daily silicone hydrogels grew 19%. The 5% overall daily growth, it was slower than it's been in quite a while. So just wondering if you could give us any color on what's happening with the non silicone hydrogel daily performance?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes. And a little apples and oranges there because the 5 is single-use sphere. So we're seeing a lot of our growth coming from those daily torics. So that number ends up getting put into that toric number. That's one of the things that throws it off just a little bit. But to your question and to your point, the legacy hydrogel business is continuing to decline. No question about that. I mean, we're continuing to feel pressure there on that as people convert over. That's one of the reasons I want to keep driving MiSight because as Proclear declines, which it is, those lines are the exact same lines we used to make MiSight product on. So I'm hopeful that as that declines, we see the growth in MyDay and clariti, and then we throw MiSight over on those lines, and we don't need to put any new capital or anything out there.

By the way, Steve, one quick point on your question on currency, just to be clear to everybody, and Brian might have these numbers, I don't, on the top of my head. But we did use the same currency rates. So everything kind of stayed the same. But I'll tell you, over the last few days here, currency has moved like in our favor. I almost never say that you guys know that and at Cooper, it seems like I'm always talking about a headwind from currency, but currency has moved in our favor from those rates. We were using the same rates to make life easy and because at the time we were doing the work, they were more similar. But if the rates held where they are today, that would be an incremental positive for us. Do you have any idea on what you...

Brian G. Andrews ***The Cooper Companies, Inc. - Senior VP, CFO & Treasurer***

Yes, yes. So if we use current rates, today's rates, the revenues would be about $5 million better and the EPS would be about $0.07 better. So your $0.04 would go to $0.11 on EPS and your detriment of $10 million goes to roughly a detriment of $5 million in revenues.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

We shouldn't go crazy on that because rates are moving around like crazy, everything is moving around like crazy, but just to be clear on that.

Operator

(Operator Instructions) Our next question comes from Steven Lichtman with Oppenheimer & Co.

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

Just 1 left for me. On the PARAGARD DTC, can you update us on how much you anticipate that spend will be this year? And when do you expect to be able to evaluate whether the return is coming through for that investment?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Yes, Steve, I think that we're still in a position right now to say that year-over-year, it will be about $5 million higher in the sales and marketing spend for PARAGARD on a year-over-year basis. I think that as we end this year, we'll really be in that spot. The first year, we hired a bunch of salespeople. We did ads on all the TV stations, if you will, in the New York Metro area in Northern Cal.

Now this year, we have a lot of the salespeople in place. We're doing the TV ads more on a cable basis. I think it's like 10 or 12 cities around. So we'll be able to look and see with some detail around, hey, where are we most successful in the markets where we have salespeople, where we don't, how successful where we were the targeted marketing being on just cable versus being on national channels and so forth. So I think this is a really good and important year for us in terms of PARAGARD.

Next year, there's no reason next year shouldn't be a good PARAGARD year for us and maybe extra good depending upon what we end up doing from an expense perspective. But I think it's this year will give us those answers.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back over to Al White, President and CEO, for any further remarks.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Director***

Great. Thank you. Good questions and good discussion today. So thank you very much. Thank you for calling in and so forth, and we look forward to talking to you again on our next quarterly call here in a few months. That's it. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.