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COO - Q1 2018 Cooper Companies Inc Earnings Call

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OVERVIEW:

COO reported 1Q18 consolidated revenues of $590m. Expects FY18 consolidated revenues to be $2.51-2.56b and non-GAAP EPS to be $11.70-11.90.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the First Quarter 2018 The Cooper Companies Earnings Conference Call. (Operator Instructions) And as a reminder, this conference is being recorded. I would now like to turn the call over to Ms. Kim Duncan, Vice President, Investor Relations. Please proceed.

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

Good afternoon, and welcome to the Cooper Companies First Quarter 2018 Earnings Conference Call. During today's call, we will discuss the results included in the earnings release, along with the updated guidance and then use the remaining time for Q&A. Our presenters on today's call are Bob Weiss, Chief Executive Officer; and Al White, Chief Financial Officer and Chief Strategy Officer.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions and integration of any acquisitions or their failure to achieve anticipated benefits.

Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption Forward-Looking Statements in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K, all of which are available on our website at cooperco.com. Should you have any additional questions following the call, please call our investor line at (925) 460-3663 or e-mail ir@cooperco.com.

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

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

Thank you, Kim, and good afternoon, everyone. Welcome to the 2018 first quarter conference call. Before getting into the quarter, as we announced earlier today, I will retire as President and CEO on April 30 of this year while remaining on the Board of Directors. Al White, who most of you know as our CFO, Chief Strategy Officer and CEO of Cooper Medical, a holding company of CooperSurgical, will become the new President and CEO effective May 1. And I will work with him transitioning the role through the end of the calendar year.

After a fantastic 40 years plus, the Cooper Company -- at Cooper Companies, the last 10 years plus as CEO, it's time for me to spend more time with my family, along with traveling and trying to get a little better at golf. As many of you know, I spent a lot of time working on succession planning over the last 10 years. My goal has been to train and prepare a deep leadership bench such that when the time came to step down, we would be able to promote highly trained executive from within. I'm happy to say that Al fits this description and I have complete confidence that he is the right leader for the future of the Cooper Companies.

Over the past 10 years, I've had the privilege of leading the best team in the medical device industry in building a great company. At CooperVision, we saw a trade-up to a new material called silicone hydrogel in all of our -- all 3 of our modalities and acquired a little company called Sauflon that help put us on the map as the only company with a low cost 1-day silicone hydrogel family of products.

At CooperSurgical, we expanded outside the United States and became the largest IVF player globally through the acquisition of Origio and continue to grow our offerings from there with several acquisitions around the world. And we recently completed the Paragon acquisition -- PARAGARD acquisition. I am proud of our accomplishments and the passion of our employees. So I want to thank them for their dedication and hard work and for a fantastic 40-plus years. With that, let me turn to performance.

For the quarter, we reported $590 million in consolidated revenues, up 18% year-over-year, and non-GAAP earnings per share of $2.79, up 45% year-over-year. CooperVision posted Q1 revenues of $445 million, up 14% as reported, up 8% pro forma. Daily silicone hydrogel lenses drove growth up 38% pro forma, as did Biofinity and Avaira combined, up 9% pro forma.

CooperSurgical posted revenues of $145 million, up 32% as reported, down 6% pro forma. Moving to the details. This was a solid quarter for CooperVision with growth in all regions, including the Americas, up 3%; EMEA, up 9%; and Asia Pacific, up 15%, all pro forma.

As expected, growth in the Americas was in the low single digits. However, we expect that to be stronger in Q2 and the remainder of the year. Regarding EMEA and Asia Pac, both had very good quarters. So we continue gaining share in all -- in both regions.

Overall, revenues continue to be driven by our silicone hydrogel lenses, led by our clariti and MyDay in the daily space and Biofinity in the monthly space. We are continuing to expand our offerings geographically, including the launch of MyDay toric in the United States.

The feedback has been very positive, and we believe the launch will help accelerate 1-day toric growth while also helping drive further adoption of MyDay sphere. Our clariti 1-day products also continue to perform extremely well.

Moving to other products. Our Biofinity and Avaira family of lenses combined to grow 9% pro forma. Biofinity continue to perform very well with diversified growth around the world. Avaira declined slightly as our focus remained on transitioning where to our upgraded Avaira Vitality lenses, which we anticipate completing by the end of this year.

Turning to product categories. We remain global leader in torics, which grew 9% pro forma, driven by Biofinity, MyDay and clariti. We continue to believe that the toric market will grow faster than the overall market, and we will share in that growth given our strong portfolio and recent addition of MyDay toric in the U.S. Multifocals grew 5% pro forma with strength coming from Biofinity and clariti.

Turning to the global market -- soft contact lens market. For calendar Q4, we grew 5% with the market up 5%. This included growing faster than the market in Asia Pac, up 17% versus the market of 7% -- up 7%; and EMEA, up 10% versus the market, up 6%. The Americas declined 3% with the market up 4% on a very difficult 12% comp for CooperVision versus 5% for the Americas market.

By modality, CooperVision grew single-use lenses 11% versus the market, up 10%. And finally, CooperVision's non-single-use lenses grew 3% while the market grew 1%.

On a calendar year basis, we continue taking share, up 7%, versus the market come, up 5%. Going forward, we are still targeting 4% to 6% market growth and we expect to continue growing faster than the market.

Moving to CooperSurgical. We reported revenue, up -- growth of 32% with revenues hitting an all-time high of $145 million, driven by our acquisition of PARAGARD. On a pro forma basis, we declined 6%, mostly due to the expected year-over-year declines with PARAGARD, which we discussed last quarter.

As a reminder, we purchased PARAGARD on November 1, 2017, and inherited significant channel inventory, which was built prior to our acquisition. Inventory levels returned to normal during Q1, so future growth should now more closely follow the market demand.

Further on PARAGARD, as you may recall from our prior conversations or discussions, there was no direct sales force supporting the product for approximately 1 year before we acquired it. We began hiring sales reps soon after the acquisition, and we will have roughly 40 new direct sales reps by the end of this month. Given this, we expect to see a full quarter of positive impact beginning in our fiscal third quarter.

So overall, we remain very positive on PARAGARD. It's the only non-hormonal IUD or long acting reversible form of birth control on the U.S. market, and we continue to believe it will be well -- we will do well as we communicate the product's benefits. Excluding PARAGARD, our office and surgical business grew 3% in line with expectations.

Regarding fertility, the fertility solutions part of our business, which includes products like media and medical devices, continued performing well up 8%, but our genetic testing business declined 35%. We entered the genetics testing market several years ago and business was performing really well until we began experiencing a significant competitive pricing pressure last year, as discussed on our last earnings call regarding margins.

As you know, we focus on sustainable business models, which has meant allowing some businesses to exit rather than matching highly unprofitable pricing. Having said that, genetic testing remains an important part of the genetic process -- fertility process, and we plan to remain a participant as it ties to our fertility solutions. Given our focus will remain on running a well-managed operation, our results in genetic testing will likely continue to drag on our fertility category through the end of this year. On the positive side, our fertility solutions continue to perform well, and we believe our product portfolio, combined with the market trends, will continue to drive positive results.

In conclusion, I want to express my appreciation to our employees for their hard work and dedication. And with that, I'll turn it over to Al.

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

Thank you, Bob, and thanks for the comments earlier. Before getting into the numbers, I'd like to share a couple of thoughts on the CEO announcement. Needless to say, I'm extremely excited to take on this role. it's an extraordinary honor to succeed Bob, and I'm grateful for the trust and confidence the Board of Directors has placed in me.

Regarding Bob, he's been an incredibly important part of the success of Cooper for an amazing 40-plus years and an amazing mentor to me. He became CEO a little over 10 years ago and since that time, our revenue has increased from slightly under $1 billion to our current guidance for this year exceeding $2.5 billion. Our stock has responded accordingly with an annual return of roughly 18%. Those are obviously very impressive numbers, and I'm also happy to add that Bob has built a very nice management team that I'm fortunate to inherit, so I look forward to continued success.

With that, let me turn to some numbers. Most of my commentary will be on a non-GAAP basis, so please refer to today's earnings release for a full reconciliation of GAAP to non-GAAP results. Bob covered revenues, so let me focus on the rest of the financials and guidance.

This was a very strong quarter for gross margins with our consolidated gross margins improving to 67.5%, up nicely from 62.9% last year. CooperVision's gross margin was a robust 67.1%, up from 63.1% last year, with roughly half driven by currency and the other half favorable product mix and general manufacturing efficiency improvements.

CooperSurgical's gross margin also improved significantly to 68.8%, up from 62.2% last year, driven primarily by the addition of PARAGARD. Regarding expenses. Consolidated operating expenses grew 18% in the quarter, slightly less than revenue. Expense growth was driven largely by the addition of PARAGARD along with sales and marketing investments throughout the company. We continue to enhance our sales force by selectively hiring around the world within both CooperVision and CooperSurgical.

We also saw increased investments in distribution, where we continue to upgrade our infrastructure, along with higher investments in R&D within CooperSurgical as we look to upgrade and enhance certain legacy products.

Moving to operating income. We grew an impressive 42.9% with operating margins improving to 27.6% from 22.8% last year. Both businesses reported strong operating margin improvement driven by gross margin improvements.

Below operating income, we reported $16.7 million of interest expense, a $3.1 million FX gain and an effective tax rate of 7.3%. Regarding taxes, note that our GAAP results include a $202 million net charge primarily related to the U.S. transition tax as part of the recent enactment of the new U.S. tax legislation. Although fully accrued in this quarter, any actual cash payment will be made over the next 8 years with the back-end loaded payment schedule. I should also add that we're very similar to most other multinational companies and that we continue to analyze the new tax reform act and work through information such as the details around historical earnings, tax credits and so forth to finalize our estimates. Please see our 10-K and upcoming 10-Q for more information.

Non-GAAP EPS was $2.79 with roughly 49.6 million average shares outstanding. We posted $25.2 million of negative free cash flow for the quarter with roughly $26.2 million of operating cash flow, offset by $51.4 million of CapEx. Our cash flow was negatively impacted by $52.7 million for the PARAGARD acquisition primarily associated with the initial build of receivables, which normalizes in Q2, and a payment to the U.K. taxing authority of $42 million associated with the ongoing dispute over the transfer of valuation of certain intellectual property associated with the Sauflon acquisition.

Total debt increased roughly $1.23 billion to $2.403 billion, primarily due to acquisitions led by PARAGARD.

Moving to guidance. We're raising fiscal 2018 consolidated revenues to $2.51 billion to $2.56 billion. This includes increasing CooperVision's revenue guidance to $1.865 billion to $1.9 billion or roughly 6% to 8% pro forma growth to reflect our Q1 performance and currency.

CooperSurgical's revenue guidance is moving to $645 million to $660 million, which equates to roughly flat to 2% pro forma growth to reflect updated thinking on genetic testing, which Bob highlighted earlier.

Within office and surgical products, PARAGARD revenues were $33 million this past quarter, meeting expectations. Revenues would have been $34 million if not for a reclassification of certain distribution expenses against revenues. This was just a reclassification and thus, did not impact operating profits, but it did reduce revenues and will do so going forward.

Updating our expectations with this in mind, we expect roughly $165 million in PARAGARD revenues for the year, which remains mid- to upper single digit revenue growth for Q2 to Q4, as driven by last year's price increase and our recent investments, including the new sales force.

Consolidated operating margins are now expected to be around 28.5% for the year, supported by strength in both businesses along with a more positive impact from PARAGARD than initially forecasted. Interest expense is expected to be much higher at around $80 million, which assumes 3 additional 25 basis point rate hikes by fiscal year-end. Regarding taxes, we're forecasting a range of 9% to 10% for the year, reflecting our current analysis incorporating the recently enacted tax reform.

On FX, we have seen an overall favorable move in currencies since we last reported earnings. We're now forecasting a positive impact to revenues of roughly $72 million and a positive impact to non-GAAP EPS of $0.78, both on a year-over-year basis.

Incorporating all these items, we're raising our non-GAAP EPS for fiscal 2018 to $11.70 to $11.90 based on 49.8 million shares outstanding. Within this guidance, regarding Q2, we expect strength in revenues to be offset by higher investment activity especially with respect to PARAGARD at an effective tax rate in the 10% to 12% range resulting in Q2 non-GAAP EPS being just slightly higher than Q1.

Lastly, on guidance. We continue to expect strong free cash flow this year. As discussed, Q1 was low due to the U.K. tax payment and the onetime receivable build from PARAGARD, but we expect to hurdle the PARAGARD item and still expect free cash flow to be similar to last year excluding the tax item.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Larry Keusch of Raymond James.

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

Congratulations, Al, and congratulations, Bob, on your retirement.

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

Thank you.

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

Thank you.

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

So I guess, I just want to start, if we could, on Americas, and maybe Bob or Al, talk a little bit again about the dynamics that are impacting your business. And I guess, within that discussion, could you talk a little bit about sort of what you guys are seeing and doing within the independent optometrist channel versus the private label channel? And then I have a follow-up.

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

Sure, Larry. It comes back to our -- we continue to be happy with the on-eye performance in the U.S. business. We're in the middle of -- just starting the launch and rollout of MyDay toric, which will serve to, if you will, build more momentum with MyDay and our 1-day silicone hydrogel presence in the U.S. And importantly, we had much tougher comps than the industry did in the quarter with 12% in the prior year, which -- so when we look at a 2-year stacking basis, we feel good when we look at trailing 12 months, we feel pretty good about that also, 3% versus 4% for the industry. I'd be remiss to say that the gray market hasn't been a factor over the last couple of years, particularly as the dollar was stronger and stronger. And now with the dollars turning to go the other way, at least for the time being, it serves as a minimizer of those companies that do reach internationally or outside the bounds of the United States for a product. And I won't get into any more specifics. But suffice it to say, that's been a key factor in the reconciliation between our revenue out the door into the Americas and our on-eye performance. And therefore, we feel real good about them. As far as the independents versus private label. Private label has done very well for us. Independents are doing well. We have something for both sides of the aisle. Private label, we would expect to do even better as we complete a couple of things. The halo effect of MyDay so that there is a toric to go along with the sphere. And the Avaira transition to Avaira Vitality, which we expect to pretty much wrap up by the end of the calendar year. So those will afford as better catalysts going forward.

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

Okay, perfect. And then second question, and correct me if I'm doing the math wrong here. But I think FX at the last point in time was $0.38, now it's $0.78. So that's a $0.40 delta. And EPS guidance went up about $0.30. So a, is that correct? And is that really just a function of really investing more in the business? Just trying to figure out the sort of disconnect. I would have thought EPS would have been up more.

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

Yes, Larry, I'll take that one. You're correct. So it was $0.38 up to $0.78, so it's a positive $0.40. About $0.11 of that was in Q1. So it was built into those numbers. When you look at the back half of the year, you're kind of reconciling past guidance to current guidance. A couple of things to keep in mind there. As you know, FX is a positive. There's a little bit in the medical device tax as an example. The tax rate, because it was low in Q1, is kind of a neutral, if you will. Interest expense is one of the big negatives there. So if you look at -- we assumed here 3 rate increases, 3 additional rate increases, if you will, occurring here in March, June, September. So that had a pretty big negative impact taking our interest forecast guidance from $68 million up to $80 million. So between that, it's in investments in the business and so forth is where you kind of net out to the new midpoint.

Operator

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

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

And I'll echo congratulations for both Bob and Al. Bob, we'll miss you. So I guess, I'll ask 2 high-level questions. One, Bob, you and the board knew, I think -- or probably knew this was coming where you named Al the CFO a year ago. So the question is kind of why now the change? And just second, Al, any early thoughts on how you might shape the strategic directions, your priorities? And just lastly, Al, your feeling on keeping CSI and CDI together.

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

Well, Larry, to be honest, we -- probably the single biggest factor was I held my executive meeting in Kona, Hawaii in January. I was not looking for a condo. When I came back from there, I owned a condo. And I kind of like Hawaii. I got married there almost 50 years ago. So we've always gone back and started reflecting on the fact that maybe it's time to take a victory lap and then enjoy a few places of the world. I like traveling. My golf game stinks. I probably can't do much about the latter part. But it's time to -- I've had a lot of fun developing a solid bench. And I'm highly confident that the players coming behind me are better than I am. So why not upgrade?

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

Sorry, Larry, a couple of things. You look at priorities. Obviously, I've sat next to Bob -- I've been here 12 years and sat next to Bob almost that entire time. So a lot of the activity we've done over the years, the 2 of us have done together, at least been joined hip to hip. When I look at where we're at today and where we're going forward, we have a great company. We have a great culture here. Definitely want to keep that going. I'd like to get out and see the employees and spend time with the employees and customers. I have more of a sales background than Bob has. So I'd like to get out and spend a little time with some of the customers and talk to people out there. So I'll spend time doing that. I mean -- but at the end of the day, I want to make sure that we meet, beat the guidance that we provided today. We position ourselves for a the strong 2019 and for the future and stay laser-focused on delivering long-term shareholder value because that's what we've done in the past and that's certainly what we're going to do in the future. So that's the way I look at it. With respect to CooperVision and CooperSurgical, 2 great businesses. I'm very fond of both of them, I spent a lot of time in both of the businesses and would certainly expect us to keep both businesses together and continue to drive consolidated success.

Operator

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

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

And I guess, I'll just echo the same exact thoughts. But Bob, it's truly been a pleasure for the last 15 years that I've been in the business and the 10 years as CEO for you. It's been impressive what you've accomplished and I wish you nothing but the best.

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

Thank you, Jeff.

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

And maybe moving into just a couple of questions. Congratulations to you as well, Al. I didn't mean to leave you out on that. But when I look at the CVI growth, 6% to 8% guidance for the year, you do 8% in the first quarter, the comps do get easier throughout the year. Just wondering kind of how you're thinking about CVI over the balance of the year. It seems like there could maybe even some upside to that constant currency guidance. And the 8% you did this quarter, is that organic? I know you had a couple of small deals in there. I've been getting questions from people how much they contributed. But I think they're less than 50 basis points. Any color you could provide there will be great.

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

Yes, that 8% is a pro forma, which is organic constant currency. And we came out of the gate very solid, exceeded our expectations. So yes, there are some upside there. Of course, in our guidance, we've picked it also, which is reflected of foreign exchange. We're happy with the direction we're taking with the rollout of MyDay toric into the U.S. And we're also very happy with the progress we're making in the transition from Avaira to Avaira Vitality, which of course, is more a -- probably more a bottom line play and a gross margin play than it is a top line. But we've been on the top line, in a flat mode with that transition from Avaira to Avaira Vitality. So we're optimistic that we'll get some momentum as we complete the transition post 2018, that will serve better in the post 2018 period.

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

Yes, then I'll just tack on a couple of quick ones, Bob. 8% was a strong quarter. We did very well this quarter. The actual number was 7.6%, so rounded up to 8%. But Jeff, on your point on the acquisitions, too. We acquired Paragon at the beginning of December. So if you look at our specialty lens business, if you will, which is comprised of those acquisitions you're referring to, it was only about $5.8 million in revenues this quarter. It did grow 13%, so low double digits. But it had a very small impact on the overall CooperVision number. Those were very strong just kind of standalone organic growth numbers, if you will.

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

All right. That's helpful. And then maybe one follow-up, a high level. The FTC's workshop yesterday. I would love to get maybe just high level thoughts, good, bad, indifferent, anything you heard in there. I did think one thing I heard on the private label side that was interesting, with some of these retailers now using private label in what have been -- instead of is there a way to lock in maybe prescriptions in their own offices, but now using it as a way to market a good product, a Kirkland brand or something looks good for the Kirkland brand, for the Costco brand, things like that. So how important -- is the importance of your private label business actually going up? And should we look at private label as a little bit of a risk to you guys or still as a nice, big opportunity over time?

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

Yes, I think highly of our private label business and it's not something you could replicate easily. It is incredibly complex by way of SKUs and how you manage that. So it is a barrier-to-entry. As companies to become more global, we get tighter and tighter with partnership arrangements with large global players. So it's extremely strategic. There's nothing that came through the FTC workshop that I see as particularly negative. A lot of it was the same repeat on the Rx that the patient has a right to and that debate continues between the retailer, certain retailers and the independents as much as anything. As far as the large retailers, I think they love private label and they love the ability to put their own name on it. There's a lot of great names out there that are afforded because Cooper has a broad product line and is willing to private label the product -- product line, whether or not it's a top name brand like Biofinity or clariti or MyDay, it doesn't really matter. There's lots of retailer that think highly of their own names in taking a quality product into their own names. So I think its great barrier-to-entry and a great key part of our story.

Operator

Our next question comes from the line of Jon Block of Stiefel.

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

I got 2. Let me just ask the first one. I guess, I just want to sort of focus on that confidence in the U.S. rebounding. I believe some of that's the easing comps, maybe a bit the MyDay toric launch. But anything else that you guys see out there in front of you which would have placed into your confidence that, that CVI Americas growth rate accelerates in the coming quarters? And then I've just got a quick follow-up.

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

Yes, there's no doubt that the comps, particularly after the second quarter, there's still some degree of a comp in the second quarter. But post second quarter, the comps are very neutralized. There's also no doubt that the -- some of the gray market activity will create anomaly. So we -- part of my reason for being pretty bullish is we're going to have some pretty easy comps in the Americas in certain of the quarters post the second quarter. And so they are anomalously easy, if you will, compared to anomalously hard over the last 2 quarters. So that plays into it. But I think the combination of the transition from Avaira to Avaira Vitality, which has been a sticking point particularly in the middle of the retailers, the private label part of the business, the combination of the halo effect of MyDay and MyDay toric rolling into the market and the skewing or evening out of the bumpiness brought about by the gray market. Those 3 leave us a lot more confident about the future.

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

Got it, very helpful. And then the second one just to shift over to PARAGARD. Al, $165 million revs, now at $170 million. I understand that's accounting, but still lower. And you also talked to investments with direct reps yet you do allude to a more favorable, I believe, margin profile relative to initial expectations. So what's allowing you to achieve that? In other words, that more favorable margin profile in light of the slightly lower revs and the investments you guys are making?

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

Yes, on the revenue side, you're right. It's literally just an accounting adjustment. So there were certain distribution expenses that were being accounted for historically within operating expenses. Those moved to account -- revenue account and they reduced the revenues. So that did not affect the operating profits. So from that perspective, if you kind of looked at it on the same basis from when we talked before hand, very, very similar. At the end of the day, the profits on that business are very strong, and we talked about that. We guided to certain numbers. We guided conservatively is what we did in retrospect. So running that business as a business that we're going to invest in, that we're going to look to grow and so forth, was part of our plans all along. So there's nothing additional there. We have done a nice job in terms of hiring people. We're going to have 40 reps by the end of this month on the street selling. Probably 2/3 of those reps are old PARAGARD reps. So they are going to be able to get going fairly quickly. So anticipating an okay second quarter, some acceleration improvement as we get Q3 and Q4 and that helping to drive additional bottom line profitability.

Operator

Our next question is from the line of Brian Weinstein of William Blair.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

First, maybe we can start on APAC. Can you talk about the strong growth there? Maybe break that down by geography and products, obviously, you had some new product launches? But can you give us a little bit of context around that and what we should be expecting from APAC for the rest of the year?

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

Yes, APAC has continued and will continue to perform well. A lot of that is we're hitting on all fours there or all cylinders there. In Japan, we're doing well with the whole MyDay family as well as some of our existing franchise products, Biofinity and specialty torics, if you will. I probably shouldn't use the word specialty when I talk about torics and multifocal anymore. But basically, compared to sphere, they're also viewed as specialty lens, soft lenses. The rest of Asia Pac, particularly China, where we have a lot of momentum now, is a process of getting products through the registration process that are coming on to that market with a lot of force behind them. So we're putting up -- the Chinese market is a stellar market, growing north of 16%. And we're growing much faster than the market by multiples, if you will. So that's a catalyst. And then private label, as we reach around the world, there are certain large global retailers that are also moving into the Asia Pac theater. So a lot of good things going on in. So I would expect solid numbers to continue.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Okay, great. And then a follow-up. You talked about the positive dynamics in the back half of the year in the Americas. But can you talk a little bit about the competitive landscape? Bausch seems like they've launched a new product recently. Alcon stabilizing. Both those companies appear to be poised to launch additional products later on this year. So can you give us just your thoughts on what that competitive situation looks like and how that factored into how you think about Americas growth for the rest of the year.

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

Yes, I think the numbers that I saw from Bausch were underwhelming. Clearly, they showed 3 of their lead products totaling up to $139 million this year and last year. And so that seemed to be a flat number to me. The -- they've been working ULTRA for a long time. I think there is a less, say, of come up with a whole new manufacturing platform, which I'm not aware of. I don't know how effectively you can take an ULTRA, put a new name on it or do what J&J did, which is just be honest and say it's OASYS, now it's OASYS 1-Day. ULTRA now is ULTRA 1-day. I don't know that they have the cost structure to do anything meaningful given the expensive equipment they're manufacturing product on with ULTRA. So I think that's a major barrier they will continue to have to deal with. Alcon is, yes, kind of tweaking a couple of things. But they have a lot of mature products. They're immensely exposed in the 1-day mass market with daily AquaComfort Plus. And if they do in fact bring a silicone hydrogel 1-day into the mass market, we would love it. So I'm hoping they do it because that will put a $1 billion product in play, and they'll have to start talking about the benefits of oxygen, which we're firm believers in. And then we won't be the only one trying to talk up the need for oxygen in the 1-day silicone -- in the 1-day market, if you will.

Operator

Our next question comes from the line of Joanne Wuensch of BMO Capital Markets.

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

And I will also congratulate both Bob and Al on their future endeavors. Al, I'm saying you're stuck with us a while longer.

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

Thank you so much.

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

Anyway, can we spend a minute on gross margins, please? Because there is a -- it was a nice, strong gross margin quarter. What are the puts and takes that brought you to that number? And could you give us a sense of how you see the remainder of the year rolling out particularly with the shift in the British pound?

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

Yes. So I'll comment a few things, Joanne. I mean, obviously, we'd take the easy ones first. CooperSurgical is driven heavily by PARAGARD. If we exclude PARAGARD the gross margins for surgical, we're around 60%. So pretty similar to what they were last year. PARAGARD's pulling that business up as gross margins at the 90s. If we look at CooperVision, the pound definitely helped. I mean, so we had, in that range, we have a 400 basis point improvement, about half of that coming from the pound. And then you look at the remaining portion, about 2/3 of that was coming from product mix. And that's a combination of things. It's obviously Biofinity, which is a great product, continues to grow and has high margins for us. The Avaira to Avaira Vitality transition, we've talked about that in the past and the magnitude that, that delivers to gross margins. We're starting to see that starting to come through the P&L and there's more of that to come. And then general manufacturing efficiency improvements is what

I call them. We spent some quarters over the last few years talking about things like inventory write outs, or asset write outs, idle equipment and so forth. Some of those charges that go into our other cost of goods. And we talked about how we were going to move through those, and it was going to result in improved gross margins in the future. Well, we're seeing that. So it's kind of this stuff that we've laid out in the past. So a very nice quarter. We're anticipating gross margins continuing to be strong. As a matter of fact, we're looking at somewhere around 68% for this full year. So we'll get our usual kind of ups and downs, but the trend is pretty good for gross margins in both vision and surgical.

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

I would just add one thing. As a reminder, as we transition from Avaira to Avaira Vitality, that was a gross margin play and that was a substantial gross margin play. So as each quarter goes by, we get more the benefits of that. And a year ago, you may also recall that Brexit timing played a little into Q1, particularly November and December, which finally anniversaried post 6 month, if you will, in the end of December. So a lot of where we are today is sustainable and that conversion to Avaira Vitality will continue to show positive effects.

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

As my follow-up question, CSI, the problem in the genetics business, how do you anticipate that being resolved? And do you anticipate that the core business turns positive at any stage during the fiscal year?

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

Yes, so within fertility, there's really 2 pieces to that. There is the fertility solutions business, if you will, which is medical device products, media, a variety of other products that would be kind of more your traditional medical device products. That part of the business has been doing well for many years. It did well again in this quarter. The future certainly looks bright when it comes to that part of the business. And all the demographics, the trends and so forth from a geographic perspective, things look good. So feel good about that, feel good about the growth and the margins and so forth, that piece of the business. If we look at the genetic testing piece of the business, we started seeing some very significant competitive pricing pressure last summer and it continued and it even became more aggressive. And I scratch my head over some of it, to be completely honest with you, and I don't really understand the thinking behind working to just increase testing volume. It's kind of like the old days of the Internet of just trying to get more people to come to your website. But that's a direction that's gone. Now when we look at it, that's an important part of fertility. It's used within IVF clinics. We're going to maintain our genetic testing business. It's great with our fertility solutions piece. Having said that, we are not going to sit here and run unprofitable businesses where we're looking at negative gross margins and so forth. So we're going to run a good, intelligent business. I think that's going to result -- assuming everything holds true from a competitive perspective, it's going to result in some challenging numbers, and that will be -- Q2 will probably be the worst of it and then bad in Q3 and then kind of better in Q4 because we started seeing some of that genetic pricing pressure in Q4, then it annualizes and will move back to much better fertility numbers.

Operator

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

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

Best of luck, Bob, in the retirement. Just as far as the commentary, I think maybe, Al, you were talking about it or maybe it's Bob, as far as the rate changes potentially easing some of the ordering OUS and then brought back to the U.S., did I understand that correctly? And then in the future, is there a way to kind of close that loop so that your distributors can't be buying OUS then bringing it back to the U.S. and potentially having a little bit of a margin headwind for you?

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

Yes. The real world is as long as we have foreign currency moving, you can't eliminate all of it. Having said that, we've spent a lot of time and energy building systems that quickly identify those outlets that are buying to basically support a retailer that's buying outside the U.S. So the sooner you close that off, the more you minimize that. So our systems have gotten much better. The dollar's headed the right way. So that will affect minimalization to begin with even if you did nothing. And I'm optimistic it will be a little bit more stable even if foreign exchange rates move erratically in the future. But I'd prefer a nice stable exchange rate than one that goes all over the map, quite frankly.

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

Fair enough. And then as the follow up, just talking about the MyDay toric launch. I'd love to hear a little bit more about how that went, how many of your customers have access to that at this point? And then there should be somewhat of a halo effect as you have the toric, just opportunities to maybe open some new accounts now that you have sphere and toric with MyDay.

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

Yes. Yes, I won't get into all the specifics of how many accounts we've rolled out to. But we're really1 month into it in January. And you're right, we're expecting and we're starting to see the halo effect ripple from the -- into the MyDay sphere and particularly as we get into the premium part of the market since we're 2-tiered, that is showing its effects. So we're very optimistic. I would say we're in the -- we're early in the first inning is where we are.

Operator

Our next question is from the line of Chris Pasquale of Guggenheim.

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

Congrats, Al and Bob. One question on PARAGARD and another bigger picture topic. So first, can you talk a bit about the go-to-market strategy for PARAGARD? I understand it's a large product. But I would have thought that part of the appeal of adding it to your existing portfolio would have been leveraging some of your existing sales resources and call points. So why build out a separate sales force dedicated just to that product? And how big does that team ultimately need to be?

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

That's a great question, Chris. Yes, you're absolutely right. We acquired that product and we took a look at it and said we could sell that through our existing sales force, which sells a lot of EndoSee, our disposable hysteroscope and some other products we have. It looked like a pretty good natural fit. And we went down that path initially. The -- you remember The New England Journal of Medicine came out with a big study on hormonal contraceptive. There's some moves in direction that certainly indicated that if we take the right moves and we invest properly and take the right actions, that we can improve our market share within the IUD space, and that's a very profitable product, obviously. So anything we can do to drive growth there is very advantageous for us. So what we've done is we've taken a look at the market. We've added about the 40 sales people we talked about. That does not cover the entire market. It covers, let's just call it, half of the market roughly. We're going to take a look and see how they do and what kind of performance, what kind of return we get from the sales people. And hopefully, it's very strong. And hopefully, communicating the message is going to result in higher sales. And if it does, we could look to add salespeople to that and I don't know if we'll add another 20 or 30 or something like that, but that's possible. So we'll look at that. And if it doesn't pan out, then maybe we won't. So I think from that perspective, some of it's changing dynamics since we acquired that business. It's looking better than -- the opportunities are looking better than we first acquired it. So we're not going to skimp on dollars here early. We're going to try to take advantage of that.

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

Does that change at all the original accretion estimate and what you thought it could contribute this year?

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

No, I would say from the estimates that we provided to you, the $0.70 to $0.75, we were looking to exceed those even with the investments.

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

Okay, that's helpful. And then you highlighted (inaudible) rates as a bit of an offset to some of the earnings tailwinds you have today versus when you first guided. Given what we're seeing with rates broadly, any thought about capital structure and whether floating rate debt is in the right place for Cooper to be?

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

Yes, we go back and fourth on that. We've had fixed rate debt in the past and we've had floating rate debt. Right now, and actually, for many years now, we've had floating rate debt. So our strategy right now is to continue to keep it floating. We generate a lot of cash as a company. We look to invest that if we can in different opportunities. If not, then we always go to our default position, which is to pay back debt. And so we have a lot of cash to be able to pay that debt. So the plan right now, continue to let it flow and see if we can start knocking it down.

Operator

Our next question is coming from the line of Matt Mishan of KeyBanc.

Brett Adam Fishbin - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Brett standing in for Matt. First, I was hoping if you could give us a little bit more color on the investment you made in the sales force last year? Specifically, how the investment was allocated geographically and if you're getting the kind of payback you expected so far from the U.S. reps? And then if I could ask one more. If you could give us a sense of the size of LensFerry at this point. We found a sales figure and maybe just the number of eye care professionals that you're currently working with here.

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

Sure. The -- we started about 18 months ago, the process of expanding our feet on the street. And it -- prior to that, we had already started with some of our international locations like Asia Pac, where we've been getting a good return. We continue down that path on a global basis. So it's not only the U.S., it's also the European market as well as continuing in the Asian market. And we believe the payback is solid. Overall, we look at -- at it on a global basis when we see the 7% trailing 12 months versus the 5%. The fact that we've been growing much faster than the market. Relative to the U.S., the U.S. is distorted in terms of results, in terms of the revenue reported for the reasons I just articulated on gray market and some of the tougher comps. But when we look through that, we're happy with the return we're getting. I'm not going to get into exact numbers other than say that we've grown our sales force about 24% since we started the activity in July of '16. So a substantial investment has been put in and we're happy with the return we're getting and we expect to continue to get that return going forward. As far as LensFerry, I won't get into the details other than to say we are making good progress with that. There are a lot of independents that see the value of having a better alliance with our customer base. There are obviously are a lot of consumers that like the concept. So it's built a lot of momentum. And with LensFerry, we're offering it to even our competitors. So it isn't all about us locking in only our own business. It's something that we're sponsoring the -- our alliance with the independent eye care professional and all professionals. It's certainly available to retailers also.

Operator

Our next question comes from the line of Robbie Marcus of JPMorgan.

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

Al, Bob, I'll add the congratulations on your next chapters. Maybe -- just maybe picking at the numbers a bit. But if I look at Americas' pro forma growth, up 3% and then down 3% on a calendar basis, is there anything to read into that with maybe stronger trends in the January month?

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

The -- let's put it this way. A combination of the trend line and the sorting through gray market activity in the year-over-year comps. You're right, January was pretty robust. And therefore, deleting up -- deleting October and adding January was a real plus on a year-over-year basis.

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

Okay. And then Al, as I think about the increased FX, can you help us maybe as it flows through the gross margin and then the EPS, the cadence through the year and anything that we should be aware of in terms of anomalies?

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

Yes, probably not too much. When you kind of look at the model, it's kind of interesting how it's spread. From what it was when we initially gave guidance to where it is today, the improvement in currency kind of flows through on a consistent basis, Q2, Q3, Q4. So not a lot of change from the kind of cadence we talked about at December, interestingly enough. So I wouldn't particularly highlight an anomaly associated with that necessarily. I did kind of make the comment on Q2 being a little bit closer to Q1 from an EPS perspective for a couple of different factors, maybe a little bit of strength on the EPS side in Q3 off that, but nothing too major to highlight off that.

Operator

Our next question is from the line of Anthony Petrone of Jefferies.

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

Congratulations, Bob, and good luck with golf going forward and good luck, Al, on your new role. I wish you best success. Two quick questions. Just on monthlies. Just an update there. The Biofinity family specifically, you sort of expanded that with Energys and XR. And then of course, you had competition from VITA. So anything just on monthly as it looks to us that actually, sequentially, it improved from the levels in fiscal 4Q. And then the follow-up question would be on the overall operating margin. And so the presentation that you have out there, the investor presentation, still calls for 28% by fiscal 2021, and we're sort of approaching that in the first fiscal quarter of '18. So maybe just how do we think about margins kind of over the next 3 years just given where we are today.

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

So I'll do the Biofinity a little and let Al defend the operating margin outlook. Biofinity, you're absolutely right. We've gotten momentum going on a global basis. Energys has afforded a door opener, extended range, afforded more of a door opener. So it's clear, a lot of people were kind of being left out of a good product. So as you expand the toric range, it really enhances what you have to offer and you then approach something Cooper used to do a lot of in the past, which is flat out custom making a lens for a consumer, which a lot of eye care professionals love the ability to service a much broader or their entire customer base. So that's why Biofinity is doing great. It's a great lens. The designs, particularly the multifocal and the toric designs are terrific. It's a great material. So it has a lot going for us. Relative to operating margins, Al, you want to talk about them?

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

Yes. I mean, operating margins, as you continue to improve. We're obviously guiding this year to that kind of 28.5% range and we anticipate continuing to have operating margin expansion for a number of different reasons. So if I had to look at that and maybe we will fine tune some of this as we move forward here. But if I roll that out 5 years to kind of the 2022 time frame that we talk about, for us to be in that 32% range, somewhere in there, it's probably a pretty good way to look at it. We look at pretty solid, consistent operating margin improvements on an annual basis. So I would anticipate that to continue.

Operator

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

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

Bob, I just want to say it's been a pleasure working with you over the years. And Al, I wish you good luck in your new role.

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

Thank you.

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

Sure. 2 questions for you. First, I look at the numbers you provide as it relate to your growth in the market on a calendar basis. It looks like your overall contact lens business has grown in line with the market for 2 quarters in a row now. Just wondering if you could comment on that? Any thoughts on that? And then secondly, Al, how much did FX benefit EPS here in the first quarter? Just trying to think through your guidance now of, I think, $0.78 for the full year. Just curious on how much that helped during the first quarter and maybe how that compared to what you're expecting coming into the quarter?

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

Yes, I'll answer that one and I'll let Bob take the other question on the market growth. So Steve, on FX, it helped incremental $0.11 roughly from when we gave guidance. So of the Q1, when we look at it, it was about $0.33 in Q1 positive on a year-over-year basis. It's finished about $0.44 positive. So that was the pickup, if you will, within Q1. If you look at it for the full year, we kind of talked about the $0.40 pick up, which would mean $0.29 in Q2 to Q4, kind of spread evenly through those quarters.

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

Yes. And in terms of the 5 versus 5 and the 7 versus 7, if you will, the last 2 quarters. One is, last quarter, 7 was a pretty robust number for good reasons being led by J&J and some of what they're doing. So they've kind of stepped up the industry growth there. We've always emphasized that you should look at it on a trailing 12-month basis. On a 1-quarter basis, we have some pretty tough comps with having put up double digits for 2 quarters in a row last year. In the fourth quarter of '16 and in the first quarter of '17 were double-digit growth for Cooper. So our comp is a little tougher there and why the trailing 12 months is a more meaningful figure than the 1 quarter.

Operator

And at this time, this does conclude the Q&A session. I'd like to turn the conference over to Robert Weiss for closing remarks.

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

Well, I want to thank everyone for their thoughts and, certainly, support all of the expectations we have for the new incoming CEO. No pressure, Al. And we look forward to updating you on our second quarter results in June. I think, Kim -- I think it was, Kim, because I just forgot -- the date is June 8, I'm sorry. June, what did I say? June 7. On June 7, we'll update you -- see quickly we forget? We'll update you on the second quarter results and look forward to it. With that, that concludes the call.

Operator

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