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COO - Q3 2016 Cooper Companies Inc Earnings Call

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OVERVIEW:

Co. reported 3Q16 revenues of over $500m and GAAP EPS of $1.79. Expects full-year 2016 revenue to be $1.944-1.957b and non-GAAP EPS to be $8.32-8.47. Expects 4Q16 non-GAAP EPS to be $2.15-2.30.

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PRESENTATION

Operator

Good day ladies and gentlemen, and thank you for standing by. Welcome to the Cooper Companies' third-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to hand the meeting over to Kim Duncan, Vice President of Investor Relations. Please go ahead.

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

Good afternoon, and welcome to the Cooper Companies' third-quarter 2016 earnings conference call. I'm Kim Duncan, Vice President of Investor Relations. And giving prepared remarks on today's call are Bob Weiss, Chief Executive Officer; and Greg Matz, Chief Financial Officer. Before we get started, I'd like to remind you that this conference call contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market 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 the business section of Cooper's annual report on Form 10-K. These are publicly available and on request from the Company's Investor Relations department.

Before I turn the call over to Bob, let me comment on the agenda for the call. Bob will begin by providing highlights on the quarter, followed by Greg who will then discuss the third-quarter financial results. We will keep the formal presentation to roughly 30 minutes and then open up the call for questions. We expect the call to last approximately one hour.

(Caller Instructions)

Should you have any additional questions, please call our investor line at 925-460-3663 or e-mail IR at cooperco.com. As a reminder this call is being webcast and a copy of the earnings release is available through the Investor Relations section of the Cooper Companies' website. With that, I'll turn the call over to Bob for his opening remarks.

Bob Weiss - *Cooper Companies, Inc. - CEO*

Thank you Kim, and good afternoon everyone. Welcome to our third-quarter 2016 conference call. Let me start by highlighting three key points.

First, I'm pleased to report another strong quarter, including the first ever quarter with revenues over $500 million. This includes CooperVision reporting revenues over $400 million for the first time and CooperSurgical reporting revenues over $100 million for the first time. This resulted in non-GAAP earnings per share of $2.30 and free cash flow of $98 million.

Second, CooperVision posted strong results in all key areas of its business, resulting in 6% as reported and constant currency growth, single-use silicon hydrogel lenses grew 40%, while two-week and monthly silicon hydrogel lenses grew a combined 11%, both in constant currency.

Third, CooperSurgical had another strong quarter, posting revenue growth of 38%, or 6% pro forma. Fertility was the highlight, posting the strongest quarter in many years with growth of 108%, or 10% pro forma.

Moving into details. CooperVision reported second-quarter revenues of $410 million, up 6%. This was another strong quarter and continued to show the strength of our product portfolio. The Americas grew 6% in constant currency with strength in multiple categories led by Biofinity and our 1-Day silicon hydrogel franchise. Our enhanced Clariti lens continues to perform well. And MyDay had another strong quarter.

During the quarter, we received FDA approval for Avaira Vitality and began to launch in the US in late July. You'll recall, Vitality is a replacement product for Avaira in the two-week silicon hydrogel market. The market reaction has been positive. We remain optimistic about this upgraded product. We also introduced Biofinity Energys at the American Optometric Association Conference in July and began the launch in August. This premium Biofinity product has received excellent reviews, and we're confident we will have great success in this offering.

EMEA posted a solid quarter, growing 3% year over year in constant currency against a tough comp. Growth was driven by Biofinity and the 1-Day silicon hydrogel franchise. Asia Pacific had a very strong quarter, with 16% constant currency growth. Growth was strong throughout the region, driven by Biofinity and the 1-Day silicon hydrogel franchise. Within Japan, our MyDay sphere launch is progressing well. And we introduced MyDay toric during the quarter. We believe both MyDay sphere and toric have the potential to be a very successful premium offering in this market.

Turning to our product category. Torics grew a healthy 10% year over year and multifocals grew 5%, both in constant currency. We remain the global leader in specialty lenses, and our success with Biofinity and Clariti in both of these categories should continue to drive growth for many years. Looking at silicon hydrogel lenses, these products grew 16% in constant currency and now represent 61% of our total sales. Within the two-week and monthly space Biofinity and Avaira combined to grow 11%% in constant currency. We remain under-indexed in the two-week and monthly silicon hydrogel space at 75% of revenue versus the market at 79%. So we expect to continue growing faster than the market, given our strong product portfolio. Regarding our silicon hydrogel 1-Day lenses, Clariti and MyDay, they combined to grow 40% in constant currency. The biggest driver in the contact lens market is one-day growth, and we strongly believe we have the best product portfolio offering in this space as the only Company with premium and mass market lenses, including a full portfolio of 1-Day silicon hydrogel, sphere, toric and multifocal lenses.

Now let me comment on the overall contact lens market. And remember, this information is on the last page of the earnings release. For the calendar quarter Q2, we continued taking share, growing 10% with the market up 5%. Geographically CooperVision grew 8% in the Americas, while the market was up 4%. In Asia Pacific we grew 20% with the market up 4%. And in EMEA, we grew 9% with the market up 7%. On a modality basis, single-use lenses continue driving growth, with CooperVision up 18% and the market up 10%. For non-silicon hydrogel -- for non-single use lenses, we grew 7% while the market grew 1%.

As you can see, our growth remains diverse and strong. On a trailing 12-month basis, CooperVision grew 8% and the market grew 5%. Going forward I expect the market to continue growing 4% to 6% over the next five years, and most likely closer to 6%. The drivers will continue to be a shift to daily geographic expansion and the expansion of the wearer base. We expect to continue taking market share led by our strong silicon hydrogel portfolio.

Moving to CooperSurgical. We reported Q2 revenues of $105 million, up 38% year over year driven by strong organic growth and acquisitions. On a pro forma basis growth was up 6%. Our fertility products led the way, up 108%, or 10% pro forma. Within fertility, we had growth throughout the business and continue to believe our market-leading product portfolio which includes medical devices, genetic testing and capital equipment, is the broadest portfolio in the space and should continue to drive growth for many years to come.

Within our office and surgical category our growth moderated slightly from the last few quarters, up 3%. We're continuing to execute on several product launches, including our disposable hysteroscope, Endosee. And we believe we're well positioned in this segment going forward. Regarding acquisitions, we've been actively working on integrating the deals we've done over the past year. And the strategic rational behind these deals remains intact. We are very focused on becoming a full-service provider within the global IVF space.

Finally on CooperSurgical, we're continuing to execute on several initiatives which should significantly strengthen the business and pay dividends for many years to come. These include transitioning to a geographic sales model, adding sales reps in underpenetrated areas, launching products in new markets and increasing our focus on high growth areas such as IVF genetic testing. To some degree these investments are masking our strong underlying operating performance, but it's critical that we lay the groundwork to support the business on a long-term growth -- from a long-term growth perspective.

Now turning to guidance. I'll let Greg go through the details, but let me touch on a few items. For Q4 we're guiding CooperVision to roughly 5% to 7.5% constant currency growth and CooperSurgical roughly to 5% to 8% pro forma growth, so similar growth to Q3. Regarding non-GAAP earnings per share for Q4, we're guiding to $2.15 to $2.30. Regarding FY17, it's too early to provide financial guidance, but I will say it should be a strong year given the momentum at our two businesses as well as recent currency moves. From a longer-term perspective, we are still targeting operating margins of 27% or higher in 2020.

In conclusion, I want to express my appreciation to our employees for all their hard work and dedication. I also want to say a special thank you to Greg Matz, who has announced his plans of retirement after more than six years of service of our Company, including roughly the last five years as our CFO. Greg will be greatly missed. And we wish him the best in his future endeavors.

With Greg's departure we have announced that Al White, who many of you know really well, will succeed Greg as CFO. Al will assume this role, in addition to his current leadership responsibilities with CooperSurgical. I'm very confident that his leadership and abilities will allow us to continue driving long-term shareholder value. From a timing perspective, Greg will remain CFO until the end of the fiscal year and then Al will take over the position. Greg will remain with us through March of next year to ensure a smooth transition.

And now I'll turn it over to Greg to cover our financial results.

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

Thanks Bob, and good afternoon everyone. Bob provided an overall summary of our performance, including a review of the market and our revenue picture. I'm going to focus primarily on our non-GAAP results for the quarter. For the reconciliation to GAAP numbers, please refer to our earnings release.

Looking at gross margins. In Q3 the non-GAAP gross margin was 63.6% compared with 62.4% in the prior year. This increase is largely due to a favorable mix led by Biofinity and favorable FX offset by recent CSI acquisitions, which have lower gross margins. CooperVision on a non-GAAP basis reported gross margin of 64.2% versus 61.8% in Q3 of last year. The factors which impacted margin were the items I just mentioned. CooperSurgical had a non-GAAP gross margin of 61.2% which compares to Q3 2015 of 65.4%. Acquisitions in the genetic testing space were the primary drivers for this reduction.

Now looking at operating expenses. On a non-GAAP basis, SG&A increased approximately 8% to $179.7 million, or 35% of revenue, down from approximately 36% of revenue in the prior year. The primary driver behind this drop was strong spending controls, as we had leverage in both CooperVision and CooperSurgical. Now looking at R&D. Q3 R&D on a non-GAAP basis decreased 2% to $16 million, or 3.1% of revenue, down from 3.5% of revenue in the prior year. The primary driver is the leverage we're seeing from the Sauflon acquisition.

Moving to operating margins. For Q3, consolidated GAAP operating income and margin were $102.7 million and 19.9% of revenue versus $50.3 million and 10.9% of revenue in Q3 last year. Non-GAAP operating income and margins were $131.6 million and 25.6% of revenue versus $106.1 million and 23% of revenue for the prior year. The primary difference in the operating margin year over year is improved gross margins and operating expense leverage. In Q3 CooperVision's non-GAAP operating income and margin were $119.4 million and 29.1% of revenue versus $97.7 million and 25.3% of revenue in the prior year. CooperSurgical's non-GAAP operating income and margin were $23.5 million and 22.4% of revenue versus Q3 2015 of $19.5 million of operating income and 25.6% of revenue.

Looking at depreciation and amortization in Q3, depreciation was $33.9 million, down $7.5 million year over year. Amortization was $15.6 million, up $3.1 million, reflecting our recent acquisition activity. Interest expense was $8 million for the quarter, up $3.3 million year over year, primarily due to higher debt interest rates associated with acquisitions.

Looking at the effective tax rates in Q3. The non-GAAP effective tax rate was 7.7% versus a non-GAAP effective tax rate of 3.1% in Q3 2015. As a reminder, in the prior year we had a higher dollar amount of Q3 discrete items related to prior years which reversed in that quarter. On earnings per share, our Q3 earnings per share on a GAAP and a non-GAAP basis was $1.79 and $2.30 respectively versus $0.91 and $1.97 for GAAP and non-GAAP in the prior year.

Looking at some balance sheet and liquidity items. In Q3 we had cash provided by operations of $128.9 million, less capital expenditures of $31.1 million, resulting in $97.8 million of free cash flow. Excluding integration costs of $6.5 million, adjusted free cash flow was $104.3 million. Total debt increased slightly within the quarter by $2.7 million to $1,444.1 million, primarily due to higher average cash balances and acquisitions, largely offset by operational cash flow generation.

Inventories decreased by approximately $3.3 million to $430.3 million, up from last quarter. At CooperVision we saw overall inventory decline as growth in silicon daily inventory to support our product launches was offset by reduction in our hydrogel inventory. In CooperSurgical we saw a small increase, largely due to the new acquisitions. For the quarter, we're seeing months on hand at 6.5 months, down from 7 months last quarter. Days sales outstanding is at 54 days, same as last quarter and down 1 day from the prior year.

Now turning to guidance. For our main currencies we're using EUR1.10 for the euro, JPY104 for the yen, and GBP1.30 for the pound. Looking at the full year, the consolidated revenue range is being raised on the low end to reflect our Q3 performance and is now $1.944 billion to $1.957 billion, or approximately 6% to 7% pro forma growth, up from the previous 5.5% to 7% range. For the fourth quarter, CooperVision's revenue range is $390 million to $400 million, or roughly 5% to 7.5% constant currency growth. And CooperSurgical's revenue range is $106 million to $109 million, or roughly 5% to 8% pro forma growth.

We expect non-GAAP gross margin for the fourth quarter to be slightly over 64% driven by a strong quarter for CooperVision. This would result in a full-year gross margin around 63%. OpEx is expected to be slightly under 39% for the fourth quarter as well as for the full year. Operating margin is expected to be around 26% in Q4, which would result in the full-year margin being in the mid-24% range. Interest expense is expected to be a little over $7 million in Q4, or slightly over $28 million for the year. Our effective tax rate guidance is the same as last quarter. Thus, a full-year rate of around 8% translates to 10.5% to 11% in Q4.

Our expected share count is around 49.1 million shares. Our non-GAAP earnings per share is expected to be $2.15 to $2.30 in the fourth quarter which equates to $8.32 to $8.47 for the full year. Per our last earnings call, currency was a positive in Q3, helping roughly $0.04. But we are expecting a negative impact in Q4 of roughly $0.02 from our previous guidance.

Unfortunately, some of the positives we experienced in Q3 from currencies such as the yen and the euro are now being more than offset by the move in the pound since Brexit occurred in late June. As Bob mentioned, if currency holds we should see a lot of benefit next year led by cost of goods, as roughly 40% of CooperVision's product is manufactured in pounds with roughly a six-month lag to the P&L. To be clear, this is roughly 40% of CooperVision's manufacturing. So on a consolidated basis, this is roughly 30% of our total cost of goods. Also note the pound move associated with Brexit occurred in late June. So this positive impact starts in January. So a more muted positive impact in fiscal Q1 versus the remainder of the year. The other point to note, as I mentioned earlier, is our effective tax rate guidance remains unchanged which means a Q4 tax rate range of about 10.5% to 11%.

Regarding cash flow, our CapEx was low this quarter but we do expect around $50 million in Q4. So around $170 million of CapEx for the year now. This should result in free cash flow over $300 million, and adjusted free cash flow when excluding integration-related activity of well north of $300 million.

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

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

Thank you, Greg. Operator, we're ready to take some questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Jeff Johnson from Robert W. Baird.

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

Thank you. Good evening. Can you hear me okay?

Bob Weiss - *Cooper Companies, Inc. - CEO*

Can hear you fine.

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

Okay. Great. Greg, just wanted to say it's been great working for you -- or working with you, not for you, but working with you for the last few years and best of luck in the future. And Al, plus or minus, we'll see how it goes here over the next few years. (Laughter) That was a joke.

And so Bob, I just want to start with you, on the monthly trend here. It's always tough to read CLI data and try to translate that, given the off one month, how your fiscal quarter closes. But if I look, it looks as if maybe the forward month slowed a little bit, looking at CLI data, versus your reported number for the quarter. There has been some question of utilization issues out there. Just any color you can give us on kind of the monthly gating of what you've been seeing in the industry here over the last few months?

Bob Weiss - *Cooper Companies, Inc. - CEO*

Good question, Jeff. That's jump off the page a little, that July must have been soft relatively speaking. There's really primarily but one answer to that, and it's an industry-wide answer, but not for the reasons most people would think.

Rarely in the past have we talked about workdays in a month. But in this case I'll highlight the fact that in July this year there were 19 workdays compared to 22 last year because of the way weekends fell. That translates to about a 17% -- 16%, 17% reduction in revenue, if you have the same revenue per day, or the orders per day. So pretty profound impact that weighted heavily because of the anomaly of the way weekends fell.

Conversely you get some of that back in August. Relative to a full quarter, however, probably the best way to look at it is, workdays were down 3% this year in the third quarter and they'll be up 1.5% in the fourth quarter. So there's one more workday in the fourth quarter. So it smoothes out within the quarter. But there is an anomaly between July and August caused by workdays.

Operator

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

Brian Weinstein - *William Blair & Company - Analyst*

Hello. Thanks for taking the question.

Can you just talk a little bit about what you're seeing, obviously, from the competitive launch from J&J? And then also you have a couple launches in the RFP space. How are you seeing that two-week and monthly space playing out at this point? And any color you can talk about with respect to just the competitive launch in general. Thanks.

Bob Weiss - *Cooper Companies, Inc. - CEO*

Yes, the competitive launch, J&J has been active in taking Oasis two-week, which was their sweet spot, and expanding it into a one-week and then a one-day. And now they're moving with a different package into the monthly modality with Vita. The amount of push they put behind Vita out of the gate was nothing compared to a year ago when they launched the Oasis one-day modality. So a lot more muted.

Having said that, they're one of the more active ones in the space, albeit leveraging their Oasis franchise, if you will. Interestingly, they still do not call Oasis one-day a silicon hydrogel lens, but as we all know, it is a silicon hydrogel lens.

As I think I indicated in the past, it was my belief that there would be some swapping of the two-week non-compliant into the monthly compliant, which in essence is a clever way of saying it's a trade-up strategy. And I think we're seeing more and more of that, that they're trying to continue the deceleration, or the negative growth of the two-week space, which they own 90% of, and migrate it into more profitable (technical difficulties) [buckets]. There is no doubt, profitable bucket means the one-day modality, but quite frankly their strategy is not short-sighted, so to speak, when it comes to monthly price point yields more revenue than a two-week non-compliant. Most -- the vast majority of the two-week wearers are non-compliant.

As far as our product in the non-one-day space, we rolled out initially Biofinity and are just -- it's getting -- it's very early in the game but so far, so good. There's a lot of excitement about a novel lens that really addresses people with iPhones and being in front of TV screens and computer screens perpetually. So there's a lot of interest by the eye care professionals that we have engaged in discussion thus far.

We also are -- got approval to launch Vitality in the two-week space. And Vitality is targeted to replace our low gross margin Avaira product in the two-week space. That low gross margin came about as a number of years ago when we had a recall and had to change the manufacturing technique, which became very cumbersome. So it is a significant step-up in gross margin. And it's very early in that launch, I think was late July. And the intent there is it will probably take us 2 to 3 years to roll out the entire family of the toric and the sphere worldwide in this migration.

The sphere will go faster, and the majority of the Avaira product line is -- 70% of it or more is the sphere side. So that one will show up quicker. But it's an inventory turn. And when you have torics, it takes longer to transition, if you will, that. We're excited about that. And then of course we have all the action that's going on in the 1-Day space.

Operator

Thank you. Our next question comes from the line of Jon Block from Stifel.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Great. Thanks and good afternoon. Maybe two. I'll ask them both upfront.

The CSI margins, Greg, were down a decent sequential pullback from fiscal 2Q results. Not asking for guidance for next year, but is sort of the 61% gross margin the right place to be looking forward when we think about the recent acquisitions weighing on the margin a bit?

And then separately for CVI, Bob, can you just talk to the EMEA market? You're gaining a lot of share in APAC and you seem to be well positioned in the US. The gains seem to be accelerating. Can you talk about what you're seeing in the EMEA market regarding share?

Thanks.

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

Jon, on the gross margin, I think what you should expect to see is 61%'s a low point. You should see it be a little bit higher than that. Again, the base business will kick in a little bit. The new acquisitions come with a lower gross margin. You did see that pressure, especially in Q3.

Bob Weiss - *Cooper Companies, Inc. - CEO*

As far as the EMEA market, we continue to gain share there. And happy to say we're right on the heels of the number one player there, which is Alcon in the market. That happens to be the part of the world where we have the highest market share, in EMEA. Our overall market share is 23%. But in Europe it's 33%, contrasted to where we're the weakest yet, but growing fast in Asia Pac. So the market there remains focused in on the 1-Day modality. Eastern Europe continues to be a robust area.

And then the Biofinity continues to charge very nicely there. And then of course the other thing is, US market was the first one to arrive with specialty lenses, torics and multifocals. And now the rest of the world, including EMEA, is catching up. So you have a more robust market there, which plays to Cooper's strength, recognizing we're number one in the world in the specialty lens area overall.

Operator

Thank you. And our next question comes from the line of Matt Mishan from KeyBanc.

Matt Mishan - *KeyBanc Capital Markets - Analyst*

Good afternoon, and thank you for taking my questions.

Bob, could you give us a sense of what is driving the double-digit growth in Asia Pac? And with MyDay being a bigger piece over there going into next year, is double-digit growth sustainable for a little bit? And then can you talk a little about what you see as the opportunity for the MyDay toric in Japan and why you launched there first?

Bob Weiss - *Cooper Companies, Inc. - CEO*

Sure. First of all, double-digit in Asia Pac is somewhat a reflection of our immaturity in that market with a fabulous product portfolio. So we have a great product portfolio, a lot of it emanated out of EMEA. So it started in Europe, it came to the US, and really Asia Pac is the last to get it all. In addition, we were clearly under-indexed overall in that market, have invested over the last 3 or 4 years heavily in some areas like China and the surrounding geographic area. So we're starting to get momentum there.

As far as MyDay in Japan, MyDay is a one-day product. There are silicon hydrogel players in the Japanese market. True Eye started there. So in essence the silicon hydrogel market really started, for all practical purposes, in Japan. The beauty of having a MyDay toric in Japan, first of all, we have Clariti available in the rest of the world. Clariti has a sphere, a toric and a multifocal.

In Japan we only have MyDay at this juncture, and having a toric to go along with it has a halo effect. We will be the only one in the Japanese market with a silicon hydrogel sphere and a toric. While the toric market is not as mature as even the European market, it's early in the cycle there. It is a nice halo effect.

A lot of practitioners want it, particularly more so some of your independents in Japan. So it's a good story with not only the large retailers that exist there, but also the independents. So yes, I do expect that we will put up robust numbers going forward, double-digit numbers certainly in many quarters going forward in the Asia Pac marketplace.

Operator

Thank you. And our next question comes from the line of Matt O'Brien from Piper Jaffray.

Unidentified Participant - - *Analyst*

Hi. Good afternoon. This is actually JP in for Matt. Thanks for taking the questions.

I just wanted to dig deeper on gross margins. And I know you're not giving guidance for 2017, but you got a lot going on with -- you got a weaker British pound, which as you said after six months once you work through inventory, you'll see a benefit there. And then Clariti, as it continues to ramp, should be accretive to the firm-wide gross margin. You just launched a two-week product that has a better gross margin, as well. So I'm just trying to think of, is there a reason why we can't get above 65% next year?

And then a longer-term question on gross margin. I think when you did the Sauflon acquisition, you got into this ability of doing silicon hydrogel without having the need for alcohol in the manufacturing process. Just you trying to think of when you can take that manufacturing ability and start launching your own organic products with that unique process and when we should expect some products like that?

That's all.

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

On the gross margin, you covered a lot of the points that there are obviously some tailwinds in that where Clariti is coming in at, far better than we first thought when we bought the company. The pound, as we mentioned will -- especially with the pound at these rates, as I mentioned in the earlier comments, will have a nice impact going forward. At the same time, again, we are -- you saw the acquisitions that CooperSurgical's doing.

And that will have some impact on the overall gross margins because as you get into more lab-based businesses, they're going to come with lower gross margins. So there's, as you said, we're not giving guidance for next year. You've seen the gross margins start to edge up throughout the entire year. So you can see that where we're looking at being in the fourth quarter is, again, higher than we were in the third quarter.

Bob Weiss - *Cooper Companies, Inc. - CEO*

And I think just on the comment on the Sauflon platform, yes, we're ecstatic about alcohol-free nature of it and the fact that it's so flexible that we have the sphere, the toric, and the multifocal to leverage. We're ecstatic by the fact that we were able to ramp up very quickly and therefore we're not capacity constrained.

So that is clearly a tailwind in a high gross margin area. However, I would agree with Greg's point that with the surgical acquisitions that we have made and with surgical now in around 61%, going up a little from there, there is a mix headwind that comes into play. So directionally you're right, there's tremendous amount of tailwinds to help us out. And we'll see where that all lands down the road.

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

Next question.

Operator

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

Joanne Wuensch - *BMO Capital Markets - Analyst*

Hi. Good afternoon. Hope everybody is well, and congratulations to Greg and Al.

Multi-part questions. First of two multi-part questions. FX. We all saw the surge in the stock price after the Brexit moment. And so I'm curious what you're thinking of the FX impact maybe for 2017. Without giving guidance, but maybe as a contributor so we all get our heads around it with no surprises when you do give guidance. The second part of that question has to do with what was the FX impact on EPS in the third quarter and the current thinking for the full year?

And then my second question has to do more big picture. We've all been very worried and very focused about J&J's product launches, and while CIBA and Bausch have struggled, is there anything that you see coming down the pike that we need to be aware of as we look forward?

Thank you.

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

Joanne, I'll jump in on the FX questions real quick. From a third quarter perspective, if you look at the actuals, we had a $0.06 benefit year over year. And that was about $0.04 above what we had guided to, or what was in our guidance in Q3 -- I'm sorry, Q2. If you look for the full year, we're looking -- FX is about flat. It's about up $0.02 for the full year, year over year.

When you talk about Brexit, one of the things to keep in mind, and I hand mentioned that in the script, is when it hit. It hit in late June. So we would start to see the benefit of that really coming in in January.

So Q1 will get a little bit of the benefit, and then provided the rates stay where they're at, you'll get that benefit throughout the rest of the year. So it's a nice benefit from a CooperVision perspective, about 40% of our COGS are in pound-based manufacturing. And that's 30% roughly for the total Company.

So you will see that flow through, again, a good part of next year, provided the pound stays at about these rates. It's definitely down quite a bit from prior years. And that's a -- we win more on -- when that happens from a pound perspective, we win more on the manufacturing than we lose in the revenue. But in the short term like Q4, we actually get impacted by the revenue first and the benefit will come outside of this fiscal year.

Bob Weiss - *Cooper Companies, Inc. - CEO*

As far as some of the product launches of J&J, when we look at J&J, B&L and Alcon, J&J is the one that probably has their act together the best of the three. And Alcon obviously is still in a remaking mode. B&L is in a remaking mode, changing their structure yet again, I think. And J&J, with a fairly weak product portfolio, is a good marketing company. And so (technical difficulties) [I would compliment them on] making the best of the product portfolio they have.

Some of their programs, the whole disruption they've caused in the marketplace over the last two years with directionally going all the way with UPP and then directionally going the other way, they've taken some bumps in terms of their messaging. So one day they're saying to you, we're a friend of the independents with these products. And then the next day they're saying, well, we have a different story to tell you but it's not going to be UPP. So there is no doubt there's some reaction to that.

As far as Vita, for example, their new product launched in the monthly space, very much it's moving into a space where it's going against some franchise products, and Biofinity is a franchise product. And Biofinity's the product that has a toric, a sphere and a multifocal, plus now it has things like Energys, which is an enhanced product for people that, like 99% of the people on the planet, are using more and more technology. So I don't expect them to get too robust about that.

I do think that's a lot different than what they did a year ago with Oasis one-day where they basically said, we want to participate in the shift of silicon hydrogel wearers leaving the two-week space and catch them in the one-day market with a huge trade-up. So they're playing out that strategy.

To a large degree they cannibalized True Eye in the US, not worldwide, but in the US. And Oasis one-day and True Eye and MyDay are giving a competition in this case, Alcon's Total One a run for their money. Alcon got out there first when there was only one competitor in that space, which was True Eye. J&J knew that was a deficient product in the US. And I'm not sure why in the US when it actually has done pretty well historically in Japan. But for whatever reason the US it's a weaker product.

So product roll-outs, we hear a lot of noise about B&L on Ultra, which is their answer to trying to refresh the product line for monthly products, monthly silicon hydrogel products. They've gone and expanded now, I think from, beyond a sphere. But a lot of what B&L is doing is capturing some of their legacy products, so Pure Vision and Soft Lens 66.

So when you put it all together, B&L has some new product, Ultra, but it's about holding breakeven with the entire product portfolio, including the falloff of their legacy product. So worldwide I think the last quarter they were probably 1% to 2% growth. So they would have lost some marginal share last quarter. Alcon likewise came up with 2% numbers in a market growing 5%. So they lost share. So the gainers were Cooper, and with a robust 10%, and J&J.

Operator

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

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

Hey, good afternoon. Thanks for taking the questions, and congratulations Greg and Al. Hey, just my multi-part question here. Bob, is it safe to assume that August bounced backed from what sounds like a weak July because of the day count?

Second, on 2017 you guys have historically given some color, even last year you did on EPS. Is it safe to assume that you're pretty comfortable with consensus, top and bottom line at this point, roughly speaking? Otherwise you would -- if there was something out of whack, you would call it out? And lastly, on the inventory write-offs and the idle equipment charges we saw in fiscal Q2, which resulted in a $0.30 hit, should we -- are those over, or do you expect more of those either in the fourth quarter or 2017?

Thanks for taking the questions.

Bob Weiss - *Cooper Companies, Inc. - CEO*

All right. First question on August and July.

Yes, it's safe to assume that the anomaly between the weak July and August have to do with workdays, not anything engrained in the marketplace. Relative to 2017 where we indicated we're not prepared at this juncture to put specifics on the line. No, we wouldn't comment one way or the other on what consensus is out there.

I would highlight, however, that some of the analysts have more aggressive foreign exchange rates and some analysts may be -- I think Greg kind of hit the nail on the head. Some of the models on the impact of the pound, et cetera, emphasizing that it's on 30% of our worldwide instead of 40% of our worldwide cost of goods is an important attribute. So hopefully we gave some color for people to sharpen the pencil with their models in some cases. But beyond saying there's a lot of tailwinds that we're standing by and happy with, and the foreign exchange rates will be whatever they are and they change literally by the hour. We're not going to add any more color at this juncture.

As far as the $0.10/$0.10/$0.10 hit, $0.10 in the second quarter, $0.10 in the third quarter, $0.10 in the fourth quarter due to idle equipment and inventory write-offs that were over and above normal, they are in the numbers. There are other write-offs that are routine, and they continued throughout 2016 and will continue throughout 2017.

Directionally we indicated that a lot of those call-out charges are associated with some of our improving efficiency, a lot more than that we thought. So that led us to idling some equipment. So directionally you can see the growth numbers in our 1-Day silicon hydrogel franchise of 40%. That certainly will go towards improving absorption.

And importantly when something goes from idle to used in production it goes from a direct period charge which is what the $0.10, $0.10 and $0.10 is about, to suddenly it moves onto the balance sheet when it's making inventory. That will continue throughout 2017, if you will.

Operator

Thank you. And our next question comes from the line of Larry Keusch from Raymond James.

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

Good afternoon. Also congratulations to Greg and to Al. Again, a two-part financial question here.

On the CapEx, I mean, if you go back and look, it tends to be cyclical and you do get into periods where there is investment as you bring out new lines and expand capacity. There are also periods of time where you grow into that capacity. And in this case you've got some of these idle equipment sitting around now that will add to that.

So I just wanted to get your take on where you think CapEx can go here over the next several years. I think you said $170-ish million for this year, but where does it go and how does that translate to free cash flow generation? And I guess along with that, should we expect no additional Sauflon integration charges next year? And then the other part of the question is, I think certainly the odds of an interest rate increase have gone up and we could see something coming in this month. And how are you thinking about that and what's built into guidance?

Thanks.

Bob Weiss - *Cooper Companies, Inc. - CEO*

Well, a few things on that. The cyclicality of the CapEx spend, you're absolutely right. We ramped up for Biofinity and Avaira in the last decade, were very capital intense, got real efficient.

We ramped down. And then all of a sudden, particularly with the Sauflon acquisition and with MyDay roll-out of silicon hydrogel 1-Days, we became very capital intense again over the last several years. And lo and behold, we got real efficient. And here we are again a little ahead of ourselves in the perfect world.

The translation there is we think we have a pretty long runway on improving efficiencies that will continue over the next several -- multiple years. And that will be somewhat of a cap on CapEx requirements.

We've taken the CapEx needs this year from $200 million down $30 million to $170 million. The outlook for post-2016 will be for less than that. We're thinking in that $150 million range. So year over year, a reduction of in that $50 million range.

When you look at cash flow, we've now taken our -- should get the $300 million to a lot stronger statement above $300 million. So we're at $300 million, headed towards $400 million. No real change in that signal on that going forward.

There is, in my opinion, multiple years of runway on some of those deficiencies that we're talking about. As far as Sauflon -- or interest charges, what's built into our thinking is given that we have solid cash flow generation, we see that as part of a minimizer. So when you have $1.4 billion in debt worldwide, you're generating $300 million to $400 million in cash flow. That will serve to offset.

We do expect that probably between now and year end there will be some movement in rates. And of course we've only guided through year end. So at this juncture, we haven't really guided. If the Treasury goes crazy, then that will obviously influence the guidance we come out with in December.

I think between foreign exchange volatility and interest rates, depending on who's got their mouth open on a given moment out there, it seems like the government's very more proactive in trying to direct economic thinking, which is a detriment, I think, overall because it does create uncertainty and volatility. We're still in a low inflationary modality. We can all speculate and pretend we're economists. So stay tuned. And we'll refresh what our thinking is in December.

Operator

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

Steve Willoughby - *Cleveland Research Company - Analyst*

Hi. Good evening. And congrats Greg, and congratulations, Al. Just first on this year's guidance. Greg, if I heard you correctly it sounds like FX was an incremental $0.04 positive for you here in the third quarter, but an incremental $0.02 headwind versus what you're expecting for the fourth quarter. I'm just trying to correlate that to the guidance, the updated full-year guidance you've given where you brought down the high end just a little bit. If it looks like net/net FX is about an incremental $0.02 positive to your previous guidance.

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

Yes. Last time that we gave guidance we talked it being about a wash, and it's net/net, you're right, it's a $0.02 positive for 2016 at this point year over year.

Steve Willoughby - *Cleveland Research Company - Analyst*

So what's the driver to the reduction, I guess, in the full-year guidance then?

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

The reduction to the full-year guidance?

Steve Willoughby - *Cleveland Research Company - Analyst*

Correct. Yes, I mean (multiple speakers). Sorry, go ahead, Bob.

Bob Weiss - *Cooper Companies, Inc. - CEO*

I was going to say, I'm not sure overall against our guidance. We raised the midpoint.

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

We actually raised --

Bob Weiss - *Cooper Companies, Inc. - CEO*

in our guidance.

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

The mid point by $0.04. $0.02 is the FX that we experienced and then $0.02 was related to probably an operational increase.

Steve Willoughby - *Cleveland Research Company - Analyst*

Okay. Thanks very much.

Bob Weiss - *Cooper Companies, Inc. - CEO*

We took it up, not down.

Operator

Thank you. And our next question comes from the line of Andrew Hanover from JPMorgan.

Andrew Hanover - *JPMorgan - Analyst*

Thanks for taking our question, and congratulations Greg and Al. I wanted to go back to the fewer and extra selling days in the third quarter and effect in the fourth quarter. And what was the impact on growth in the third quarter and what is it for the fourth quarter?

Bob Weiss - *Cooper Companies, Inc. - CEO*

If you took workdays in the quarter, it would be a 3% headwind in Q3 and a 1.5% tailwind in Q4, all other things being equal.

Operator

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

Steven Lichtman - *Oppenheimer & Co. - Analyst*

Thank you. Hello. Two questions.

Bob, within your 1-Day silicon hydrogel franchise, in the recent period here, last few months, is the incremental contribution from MyDay and Clariti pretty balanced or has one been contributing more incrementally over the past few months? And where do you see now the mix going between those two products over time? And then Greg, the tax rate popping up here in the fourth quarter, why are we going to see that move higher? And any change in your thoughts on tax rate beyond 2016?

Thanks.

Bob Weiss - *Cooper Companies, Inc. - CEO*

On the mix of MyDay and Clariti there, obviously MyDay is off of a smaller base. So its percentages are higher. And Clariti, which has a big European franchise, has a bigger hurdle. Clariti is still the one that is targeting the mass market, and therefore will always be most likely the bigger product. It's the one with toric and the multifocal, which also will make it the bigger product. So it's still about, I don't know, 70/30-ish.

However, with MyDay off of a lower base going into Japan, you may see it as that rollout occurs take over somewhat bigger portion of the pie, given Japan is such a huge 1-Day market. Greg, on the tax rate?

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

Yes, on the tax rate, since the March guidance we've been guiding to the 8% for the year, around 8%. So we're still holding to that. And when you look at it, things have been choppy. And it also depends a lot of time when discretes are released. This year we had discretes released in Q1 where it's normally Q3. Typically Q4 is a higher quarter. Last year was an exception to that. And that was based on a lot of work around the integration and restructuring costs, which allowed deductions. So the Q4 rate being in that 10.5% to 11% is probably more typical, outside just the last year or so.

Operator

Thank you. That concludes our question-and-answer session for today. I would like to turn the conference back over to Bob Weiss for any closing comments.

Bob Weiss - *Cooper Companies, Inc. - CEO*

Well, I want to once again thank Greg for six great years and wish him the best going forward. He will be around, as we indicated, throughout the transition period, throughout the rest of this calendar year. And importantly, we look forward to updating you on our year-end results in December. And I think the date there is December 8, if I'm not mistaken.

And a lot of good stuff going on. So we look forward to giving you an update on that. Everyone have a great Labor Day Weekend. And summer has come, and summer has gone already, and life goes on. With that, we'll conclude.

Operator

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