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# EDITED TRANSCRIPT

## COO - Q4 2015 Cooper Companies Inc Earnings Call

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**OVERVIEW:**

Co. reported FY15 GAAP EPS of $4.14. 4Q15 consolidated revenue was $456m and GAPP EPS was $0.75. Expects FY16 revenues to be $1.834-1.874b and non-GAAP EPS to be $7.60-7.90. Also expects 1Q16 revenues to be $435-447m and non-GAAP EPS to be $1.52-1.62.





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## PRESENTATION

**Operator**

Good day, ladies and gentlemen. Welcome to the Cooper Companies' Inc. fourth quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Kim Duncan, VP of Investor Relations. You may begin.

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

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

Before we get started, I'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 the forward-looking statements are set forth under the caption, Forward-Looking Statements, in today's earnings release, and are described in our SEC filings, including the business section of Cooper's annual report on Form 10-K. These are publicly available and on request from the Company's Investor Relations department.

Now 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 fourth-quarter and full-year financial results. We will keep the formal presentation to roughly 30 minutes, then open the call for questions. We expect the call to last approximately one hour.

We request that anyone asking questions please limit yourself to one question. Should you have any additional questions, please call our investor line at 925-460-3663 or e-mail ir@cooperco.com. As a reminder, this call is being webcast and a copy of the earnings release is available through the Investor Relations section of the Cooper Companies' website.

With that, I'll turn the call over to Bob for his opening remarks.

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

Thank you, Kim, and good afternoon, everyone. Welcome to the 2015 fiscal fourth quarter and full year conference call.

For the full year, we reported record revenue and non-GAAP earnings per share. We delivered on our objective to gain share in the $7.3 billion contact lens industry, and we delivered on our objective to generate over $200 million in cash flow. We also delivered on our goal of completing the vast majority of our Sauflon integration activity, while continuing to push into the one day silicone gel space with clarity in my day. I believe we have set the stage nicely for continuing market share gains, combined with earnings and cash flow for many years to come.

Now let me touch on three items I want to highlight. First, fiscal fourth quarter was not as strong as we would have liked. We encountered unexpected integration disruptions in Europe, along with a weak quarter in the United States. This resulted in slower than expected CooperVision growth, including $39 million in daily silicone hydrogel sales which came in below our expectations. We also experienced significant weakness in our contact lens solutions business.

Second, our goal has been to de-risk the vision business by completing the vast majority of the Sauflon integration activity by the time of this call. And we've done that, both with manufacturing platforms and our operating infrastructure.

Third, currency continues to be a significant headwind, and this is reflected in our guidance. For [FY16] (corrected by company after the call), we're forecasting a $0.58 negative impact to earnings per share from currency. This may be larger than many of you expected, but remember that our currencies outside of the euro, the yen, and the pound generate a significant portion of our revenues, and several of them have weakened significantly against the dollar over the past year.

On a pro forma basis, we're guiding to roughly 10% to 14% non-GAAP earnings-per-share growth. From a revenue perspective, we're guiding CooperVision to a mid point of 6% constant currency growth, and CooperSurgical to a mid point of 2.5% pro forma growth. I'll expand on these as I walk through the quarter performance. But I want to confirm we remain optimistic about the underlying fundamentals of our business, and we believe we are well positioned to deliver solid results in FY16 and beyond.

On a consolidated basis, Q4 revenues declined 3% year over year to $456 million, and non-GAAP earnings per share were $2 per share up 18% pro forma. For our full year, perspective non-GAAP earnings per share were up 26% pro forma.

Regarding revenue, CooperVision reported revenues of $373 million. Down 3% year over year but up 5% in constant currency, and up 7% in constant currency excluding solutions. Although solid, the results were negatively impacted by three items I mentioned earlier, so let me provide more color.

First, the consolidation of several Sauflon warehouses into the main European distribution facility resulted in unexpected issues, which reduced service levels from the second half of September through October and into November. We managed to ship a lot of product prior to the fiscal year end, but there were significant disruptions during the fourth quarter. We are shipping product at acceptable fulfillment levels, but it should be noted that some of the financial repercussions from this event will negatively impact Q1. These financial repercussions include customer concessions, which are make whole payments treated as a direct reduction in revenue. These costs have not and will not be excluded from our operating results, as we're not going to adjust revenue on a non-GAAP basis. Regarding the impact of revenues or earnings, I'm not going to estimate these numbers.

The second item relates to the US, where we had a unexpectedly weak October. Our momentum was good going into the month, so this was very frustrating. J&J released a new one-day silicone hydrogel lens, including a massive number of fitting sets with aggressive launch discounts which negatively impacted us. To be fair, as optimistic as we were about our daily portfolio, the competition is definitely getting tougher and this is a good example.

Lastly, our contact lens solution business was very weak this quarter, down 36% in constant currency or roughly $8 million. As we've discussed in the past, the contact lens solution industry is experiencing significant pressure from the market move to one day. We've been streamlining our focus to strategic accounts, as we expect the business to decline, just not to this level. We expect the business will stabilize, but likely continue to decline with the market.

Regarding our other areas of interest, we had a strong quarter in Asia Pacific, growing 13% in constant currency. I'm also happy to report we didn't see any real channel movement this quarter. And noise around UPP, or unilateral pricing policy, seems to be quieting down as we wait for the court ruling on the Utah law impacting UPP practices.

Looking at silicones. Our silicone hydrogel family of products delivered strong growth this quarter, up 16% in constant currency to $212 million. Biofinity and Avaira combined to grow 11% in constant currency which was solid.

We remain under indexed against the market in both the two week and monthly silicone space. With silicones representing roughly 78% of that market and us at 72%, so we anticipate continuing to grow our two week and monthly silicones nicely for many years.

Regarding one-day silicones, sales of clariti and MyDay combined for $39 million in constant currency growth of 48%. For the full year, one-day silicones totaled $137 million or 45% pro forma growth. We remain very optimistic about our daily silicone hydrogel family of products. And are 100% committed to our growth strategy, which includes a two-tiered approach with clariti positioned as our mass-market offering and MyDay as our premium offering. Remember, the contact lens market is being driven by one-day growth. And we strongly believe we have the best product offering in the space, as the only Company with a premium and mass-market lens including a full portfolio of one-day Sphere, Toric and Multifocal silicone hydrogel lenses.

Regarding clariti, manufacturing remains in excellent shape to meet the demand of 2016. From a launch perspective, we're in good shape in Europe and the product continues growing nicely. In the US, sales are ramping and we continue to aggressively launch the product.

Regarding MyDay, sales continue to ramp in Europe, and we're successfully launching the product in the US with very positive feedback. Regarding capacity, we're continuing to sell everything we can make, and we're bringing on additional lines to help meet demand. As anticipated, MyDay is fitting perfectly into the high-end segment of the silicone hydrogel market. I'm also extremely pleased to announce that we have received regulatory approval for MyDay in Japan. For competitive reasons, I won't provide details on the timing of our launch. But I do believe this is a very nice positive for us in Japan is an extremely large daily market with roughly $750 million in annual sales.

Our specialty business remained strong this quarter, with Torics up 8% and Multifocals up 7%, both in constant currency. We are the global leader in specialty lenses, and we're taking market share.

Regarding Proclear, sales of the hydrogel productline were down 4% in constant currency, driven by softness in our non-daily Proclear productlines, as those modalities continue shifting to silicones. On a regional basis, the Americas were up 4% in constant currency led by Biofinity, clariti and MyDay.

Even with the integration disruption, Europe grew 3% in constant currency or 8% excluding solutions. Meanwhile, as Asia Pacific was up 13% in constant currency, with strong growth in a number of markets.

Lastly on manufacturing activity, we made a number of decisions around right sizing our platform of older hydrogel lines. And took corresponding actions, which included writing off certain lines and accelerating depreciation on others. From an accounting perspective, we expect to incur charges associated with these activities through [FY16] (corrected by company after the call), and will highlight these items as they occur. This activity, along with ramping up our new UK and Costa Rica manufacturing facilities, is all on schedule.

Now let me comment on the overall contact lens market for calendar Q3 and remember, most of this information is on the last page of our earnings release. We continued taking share with the market up 8% and CooperVision up 9%. The underlying story here was the market strength supported by J&J, which put up strong numbers rebounding from four extremely weak quarters. Given their historical comps, I expect them to post three more quarters of strong growth so we'll see the overall market continue to appear robust. Having said that, these higher market growth rates are not a true reflection of the market growth. The market grew 4% on a trailing 12-month basis, and I believe the true market growth is currently in the 4% to 6% range. Regionally, the Asia Pacific market was up 6%, with CooperVision up 12%, EMEA was up 4% with CooperVision up 10%, and the Americas was up 11% with CooperVision up 6%.

If we look at the market on a modality basis, the single-use market continued to drive growth of 14% while we grew 21%. Non-single-use lenses grew 3%, while we grew 4%. And as you can see, our growth remains diverse and strong. Going forward, I expect the market to grow 4% to 6% over the next five years, and most likely closer to 6%. The drivers continue to be the shift to daily's geographic expansion, and an expansion of the wearer base. Pricing has been relatively flat, but if we see increases we would be able to hit 6% or even higher. And I believe we'll continue taking market share, led by Biofinity and our strong daily portfolio.

Moving to CooperSurgical, we made a lot of progress this quarter and I'm becoming more bullish on the future of this business. Our fertility business is returning to strength, and we have several exciting product launches. On a pro forma basis, CooperSurgical declined 2% but fertility was up 3%, and I believe we've turned the corner in that business. We now have a full executive team in place, and we're finishing our work around rationalizing Non-CooperSurgical manufacturing capital equipment.

We also acquired Reprogenetics in August, and entered the lab services business with IVF genetic testing. Our first quarter with the business was very successful. Overall, I am confident that the fertility business is going to drive a lot of growth in the coming years.

Our medical device products, which are focused on office and surgical procedures, declined again this quarter, down 5%. We made significant progress in this part of the business though with several products in the early launch stages. I'm confident that our aggressive focus of these product launches will return this part of the business to positive growth in the very near future. Overall, I expect a much better year of CooperSurgical, and I look forward to reporting on this business as it progresses.

Now let me look a little more at guidance. Our FY16 guidance for CooperVision is 5% to 7% constant currency growth, while CooperSurgical is 1% to 4% pro forma growth. Regarding non-GAAP EPS, we're guiding to pro forma growth of roughly 10% to 14% which equates to a non-GAAP range of $7.60 to $7.90. We normally don't give quarterly guidance, but given the impact of currency on the first quarter, we're going to make an exception. We expect fiscal Q1 consolidated sales of $435 million to $447 million, with CooperVision posting revenues in the $356 million to $366 million range and CooperSurgical in the $79 million to $81 million range.

Non-GAAP earnings-per-share guidance is $1.52 to $1.62, which is approximately flat to up 5% pro forma. Regarding cash flow, we expect around $300 million of adjusted free cash flow for FY16, which excludes acquisitions and integration expenses. CapEx will be high the first half of the year, but much lower in the back half. Now that the majority of the integration work is completed and the business is getting back to normal, generating significant cash flow is incredibly important this year.

From a longer-term perspective, we're updating our operating margin target to incorporate the many successes we believe we see over the coming years, offset by the negative impact of foreign exchange. We are now forecasting operating margins to be 27% or higher in 2020.

Regarding strategy, we continue our successful strategy which I've frequently articulated in the past. This strategy includes: investing in our businesses to take market share by expanding geographically, aggressively rolling out new products and investing in emerging markets. We do all this while keenly focused on delivering solid earnings per share and cash flow, with a focus on delivering strong shareholder returns.

Now before I turn it over to Greg, let me make a few summary comments. FY15 presented challenges, but I'm proud of where we stand today. We could argue that we moved too fast integrating Sauflon, but the vast majority of the work is behind us and our team is incredibly focused on delivering a strong year. We continue taking share, even as competition in the contact lens industry has increased. Our portfolio of products is very strong, and we have an incredibly solid manufacturing base. I also strongly believe we will see CooperSurgical return to growth this year. All this should result in a solid 2016.

With that, let me express my appreciation to our employees, our number one assets. Your hard work and dedication to creating value is the backbone of our success.

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

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

Thanks, Bob, and good afternoon, everyone. I'm going to focus primarily on our non-GAAP results for the quarter. For a reconciliation to GAAP numbers, please refer to our earnings release.

Bob provided an overall summary of our performance, including a review of the market and our revenue picture, so let me start with gross margins. Looking at gross margins in Q4, the non-GAAP gross margin was 63.9% compared with 63.2% in the prior year. Factors which impacted our non-GAAP gross margins were favorable FX impact to cost of goods sold, favorable manufacturing variances, and product mix led by Biofinity, and these were offset by a negative FX of foreign currency impact to our revenues.

Full-year non-GAAP gross margin finished at 63.5%. CooperVision on a non-GAAP basis reported gross margin of 64.3%, versus 62.8% in Q4 of last year. The year-over-year increase in non-GAAP gross margin was due to favorable FX on cost of goods sold, manufacturing variances and mix, partially offset by unfavorable FX on revenues. CooperSurgical had non-GAAP gross margin of 62.2%, which compares to Q4 2014 of 64.9%. The year-over-year decline in non-GAAP margin is due to the inclusion of Reprogenetics, which has a gross margin in the low 40%s and other manufacturing costs.

Now looking at operating expenses SG&A. On a non-GAAP basis, SG&A decreased approximately 2% to $166 million, or 36% of revenue, in line with the prior year. Looking at R&D in Q4, R&D on a non-GAAP basis was $16 million or 3.5% of revenue, down from 3.7% in the prior year.

Looking at depreciation and amortization in Q4. Depreciation was $37 million, up $8.5 million year over year, which includes $6.5 million of accelerated depreciation related to the Sauflon acquisition not included in our non-GAAP numbers, and amortization was $13.1 million, down $900,000. For the year, amortization was $51.5 million and depreciation was $139.9 million, including $22.7 million of accelerated depreciation excluded from non-GAAP numbers.

Moving to operating margins. For Q4, consolidated GAAP operating income and margin were $42.3 million and 9.3% of revenue, versus $39.4 million and 8.4% of revenue in Q4 last year. Non-GAAP operating income and margin were $109.2 million and 24% of revenue, versus $108.9 million and 23.3% of revenue for the prior year. For the fiscal year, non-GAAP operating income and margin were $414.5 million and 23.1% of revenue.

In Q4, CooperVision's non-GAAP operating income and margin were $100.2 million and 26.8% of revenue, versus $98 million and 25.4% of revenue in the prior year. CSI's non-GAAP operating income and margin were $20.8 million and 25.3% of revenue, versus Q4 2014 of $22.9 million operating income and 27.8% of revenue. The primary reason for the year-over-year decline in operating income is due to the reduction in gross margin.

Interest expense was $4.8 million for the quarter, up $1.5 million year over year. Primarily due to the acquisition of Sauflon and higher interest rates on our banking pricing grid. The total interest expense in FY15 was $18.1 million.

Looking at the effective tax rate, in Q4, the non-GAAP effective tax rate was 4.3%, versus a non-GAAP effective tax rate of 8.7% in Q4 2014. As we've mentioned before, the effective tax rate continues to be below the US statutory rate, as the majority of our income is earned in foreign jurisdictions with lower tax rates.

The effective tax rate was favorably impacted by lower income due to integration activities. The non-GAAP full year 2015 effective tax rate was 6.6%.

Earnings per share, our Q4 earnings per share on a GAAP and non-GAAP basis was $0.75 and $2.00 respectively, versus $0.63 and $1.95 for GAAP and non-GAAP in the prior year. For the full year on our EPS, on a GAAP and non-GAAP basis was $4.14 and $7.44 respectively. Non-GAAP EPS on a pro forma basis, which adjusts for constant currency, grew approximately 18% in the quarter and 26% for the year.

During Q4, we repurchased approximately 368,000, shares with an average share value of $139.60 per share for a total cost of $51.3 million. This leaves approximately $118 million available for future share repurchases under the current approved plan.

Looking at FX, the net currency impact on earnings per share year over year for Q4 was unfavorable by $0.31. The total impact for the year was $1.76. From a revenue perspective, the impact was a reduction of $35 million for Q4 and $153 million for the fiscal year.

Looking at the balance sheet, in Q4, we had cash provided by operations of $104.5 million, less capital expenditures of $58.3 million, resulting in $46.2 million of free cash flow. Excluding integration costs of $14.7 million, adjusted free cash flow was $60.9 million.

Total debt increased within the quarter by $42.1 million to $1.350 billion. Primarily due to the acquisition of Reprogenetics and share repurchases, which were offset by operational cash flow generation or partially offset.

Looking at inventories, they increased approximately $13.7 million to $419.7 million from last quarter, due to an increase in daily lenses. For the quarter, we are seeing 7.5 months on hand adjusted to exclude inventory and equipment rationalization charges and facility start-up costs. Up from 6.6 months last year and 7 adjusted months on hand last quarter. We are expecting this to trend down over 2016. Day sales outstanding is at 57 days, which is up from 55 days in the prior quarter, up from 53 days last year. We're also expecting DSO to trend down to more customary levels over 2016.

Now turning to guidance. In order to provide a little more color for your models, I will share some specifics on FY16 and Q1 2016 non-GAAP guidance. We will continue to incur some Sauflon integration costs as we wrap up the integration work, but it will be much smaller than 2015 and mostly in cost of goods sold after Q1.

Regarding foreign exchange, the rates for our main currencies are EUR1.05, JPY1.23, GBP1.5. With these current rates, we are expecting a negative year-over-year impact to revenue of approximately $58 million, and an unfavorable $0.58 impact on 2016 earnings per share. When looking at the euro, yen and pound, these currencies make up approximately 75% of our total foreign denominated revenue, which equates to about 40% of our total worldwide revenue. These currencies have an estimated $0.35 impact on 2016 EPS. The remaining currencies have weakened considerably year over year, and now comprise approximately $0.23 of the negative impact to 2016.

For 2016 guidance, the revenue range for the Company is $1.834 billion to $1.874 billion, or approximately 4% to 7% pro forma growth. CooperVision's revenue range is $1.509 billion to $1.539 billion or 5% to 7% constant currency growth. CooperSurgical's revenue range is $325 million to $335 million, or 1% to 4% pro forma growth.

We expect non-GAAP gross margins to be around 64%, with Q1 being a little lighter and progressively improving over the year. OpEx is expected to be around 40%. Operating margin is expected to be around 24%. Interest expense is expected to be around $21 million. Our effective tax rate is expected to be around 9%. This is higher than 2015, which benefited from some higher discrete releases in integration charges more than we will be experiencing in 2016.

Our expected share count will be around 49.2 million shares. Our non-GAAP earnings per share is expected to be in the range of $7.60 to $7.90, which equates to pro forma earnings per share of 10% to 14% growth. CapEx is expected to be around $200 million, adjusted free cash flow is expected to be around $300 million.

For Q1 2016 guidance, a couple of points. The revenue range for the Company is $435 million to $447 million or 2% to 5% pro forma growth.

CooperVision's revenue range is $356 million to $366 million, or 3% to 5% constant currency growth. CooperSurgical's revenue range is $79 million to $81 million, or 1% to 3% pro forma growth. Non-GAAP earnings per share range is $1.52 to $1.62, or 0% to 5% pro forma growth.

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

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

Operator, we're ready to open up the call for questions.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you, ladies and gentlemen.

(Operator Instructions)

Our first question comes from the line of Larry Keusch with Raymond James.

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

Thanks. So, Bob, the 5% to 7% growth for CVI for FY16, maybe you could talk a little bit about how you think that will compare relative to the market growth. And it would seem to me that that would actually be less than you guys have done in the past, again, relative to the market. So maybe talk about in that answer, just the dynamics of that you see within your business.

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

So, Larry, you're correct. It's less than we have guided, particularly in 2015 and earlier, in terms of a multiple. We're estimating in the market we'll be 4% to 6%. So if one were to take the mid point at 5% and then compare that to the mid point of CooperVision at 6%, that would frame it.

In 2015, a little bit with hindsight, we were guiding closer to 3X the market. And the rationale for that was that the prior year, we had grown at 2X the market. We were bringing on clariti and the Sauflon acquisition, and on a pro forma basis expected to accelerate growth.

We did put up good numbers on a quarterly calendar year basis 8%, two times the market. But to answer your question, you can compare the 6% mid point to the 5% mid point as we look ahead to 2016.

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

Just any thoughts around single-use silicon hydrogels, how do you think about that for 2016?

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

Well clearly, the silicon hydrogel single-use market is exploding within the one-day market, and the one-day market continues to drive the entire market growth. Once again, this year, this would be I think at least the last four years in a row that the one-day market was the driver of the market.

Having said that, there is, as we know, increasing activity in the space with J&J now introducing an Oasis one-day silicon hydrogel lens more targeted to the premium space. So we continue to expect an expansion of the premium space, and we also continue to expect that there will be a swapping out of a hydrogel for silicon hydrogels, most notably clariti going against moist and daily comfort plus. So that mass market hydrogel space, we view clariti is still primed to make good headway there.

**Operator**

Thank you. Our next question comes from the line of Chris Pasquale with JPMorgan.

**Chris Paquale** - *JPMorgan - Analyst*

Yes, thanks. Just want to follow up on the FY16 guidance, and the 6% mid point there for CVI. It seems like you've got a few things working in your favor as we go into FY16.

I understand you're coming off of a tough couple of quarters here, but you're going to have a full year of clariti fully rolled out in the US. You're going to have a growing contribution from MyDay in the US, and now at least a partial year of MyDay in Japan.

So it seems like this actually sets up as an above trend year, you guys are not looking at it that way. Can you help reconcile that beyond the European distributor issues in 1Q? Are there other things that you view as headwinds?

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

Well we've come off of a quarter with 7% in our fiscal quarter, and obviously, there was a fair amount of things going our way then. We also were really taken back by October, which relative to how we were trending in August and then into September, was noteworthy to us.

So are we approaching it a little differently? Perhaps. We're making the statement that we will continue to gain market share.

Will we gain more than we're laying out in this map? Who knows. But if you look at our track record on revenue in 2015, we have four misses in four quarters, so we just don't think it's prudent to be as bullish or whatever term you want to use in our forecasting in 2016.

**Operator**

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

**Joanne Wuensch** - *BMO Capital Markets - Analyst*

Thank you, and good evening. You listed that there was three forces that negatively impacted the quarter and is rolling into your guidance next year. Is there any way to quantify how much each one of those hit you?

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

We're not going to get into quantifying those forces. But in some cases, it would be too speculative. But in terms of looking at 2016 Q1, we mentioned that part in parcel because of the disruption or because of the disruption that occurred in Europe, we are making some concessions.

And we're clearly not going to get into putting much color on that. Other than to say it's a direct hit on revenue, so that will have the impact of suppressing our underlying growth somewhat. And we will not be calling that out in the sense of traditional call outs, since it is impacting the revenue line.

So that is one factor that will impact top line growth, albeit, one-time from our perspective meaning going forward. We expect to have more robust delivery. We're at the point now where we are delivering in Europe. So on a go forward basis, we feel pretty good about that but it's still a roll into the first quarter.

The other things, we talked about lens care which had a pretty big impact in Europe on the quarter and we expect that to moderate. The overall industry, we do think will be artificially inflated in 2016 with J&J having easy comps and the one UPP story if you will.

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**Operator**

Thank you. Our next question comes from the line of Matt Mishan with KeyBanc.

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**Matt Mishan** - *KeyBanc Capital Markets - Analyst*

Great, thank you for taking my questions. I've got two, I wanted to squeeze two in here if I could.

First, I just wanted to try and understand a little bit. You cited that the competition as one of the reasons why the daily silicon hydro sales fell off in -- at the end of the quarter. But you also said that MyDay was selling everything, which means it was particularly weak I guess in clariti. And given that J&J Oasis is in the premium space versus clariti and in the mass market space, if you were surprised that you saw that weakness as a result of that.

And then the second question is, I'm just trying to get a sense with Sauflon. There were three pieces to it when you bought it, I think it was $190 million of sales and about $80 million of that was the clariti piece. What's left of the other $110 million, what have you rationalized and over the course of last year?

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

Well obviously, to take your last question or comment. Of that $195 million to $200 million business that we bought, clearly, the one that is captivating the growth is clariti. And clariti relative to this last quarter, while it missed our target, still the combination of clariti and MyDay grew 48%, so that silicon hydrogel space 48% constant currency is good.

It obviously isn't as good as we cited. And quite frankly, we didn't anticipate October going soft in the US. And a lot of that softness is a reflection of all of the energy that J&J put into the marketplace, literally flooding the marketplace that stymied I think room for any other competitors to do as much as they normally would.

As far as the non-one-day clariti piece of that acquisition of Sauflon, yes, clearly, lens care is dropping off and dropped off much more than we thought. Part of that was probably self-inflicted with the disruption in Europe, and we think we have our distribution and pipeline, if you will, put back together.

A lot of lens care happens in Europe, and that's where it's more strategically tied in with key accounts. And so we will continue to have that available to those strategic accounts, recognizing it's not a growth area and it's pretty clear that one-day is a direct competitor of the lens care industry.

But I'm not going to get into much more color on that, and we look at it as the package clariti and MyDay. MyDay is ramping up nice. Yes, it's true, down the road in 2016 we'll have availability of MyDay in Japan also which is a big one-day market.

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**Operator**

Thank you. Our next question comes from the line of Steve Willoughby with Cleveland Research.

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**Steve Willoughby** - *Cleveland Research Company - Analyst*

Hello, good evening and thanks for taking my questions. Bob, I have two for you. First, just a follow-up question to Larry Keusch's question.

I apologize if you did say this. Within the 5% to 7% CVI growth, how much are you assuming for one-day silicon hydro-gel revenue in total versus the I believe it was $137 million or $139 million that you did this year?

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

I didn't quote it, and we aren't going to get ourselves into what we did last year. We started off with a number and then we changed it one time, and then finally came in at $136 million. Our focus is, yes, that's going to be a growth area, but we aren't going to put up the target we're shooting for.

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**Steve Willoughby** - *Cleveland Research Company - Analyst*

Okay. And then secondly, I know a lot of times in the fourth quarter for companies they will look at potential impairment charges. And I was wondering if that consideration has happened at all yet, given the Sauflon business seeming to under perform both initial and most recently revised expectations.

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

So relative to Sauflon overall, has done exceedingly well from what it's done for the Company and what it's done for the bottom line. Were it not for foreign exchange, as I pointed out, we had 26% pro forma earnings-per-share growth. So great on the bottom line, we grew 2X the market, great on the top line.

It really is more about our the targets we set than it was about the performance we delivered. In other words, no one would be complaining today if we were to report basically $9.20 in earnings per share this past year, which is what we would have reported had we had the same rates as we did in 2014. No one would be complaining on that front, they would see the 26%.

So we're actually jazzed about everything about the acquisition. It's gone exceedingly well on many fronts, and we've frequently talked about just how good the costs are coming down and the production cycle and how good the ramp up is. So from an impairment perspective, nothing to talk about.

But having said that, we did take rationalization charge if we did make some decisions on which products stay and which products go. Or which platforms were accelerating, and which ones were decelerating. And clearly, I think in Greg's commentary, was referenced to some of the non-recurring call outs that are a part of that integration process we always anticipated.

**Operator**

Thank you. Our next question comes from the line of Matthew O'Brien with Piper Jaffrey.

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

Good afternoon, thank you so much for taking the question. Just to follow-up a little bit more, Bob, on the daily [si-hy]s in the quarter. You had as guided to $52 million to $57 million for Q4, the mid point is $55 million or $60 million short there.

I'm just trying to tease out how much of that, and what the majority shortfall was in the quarter. Was it the integration issue which seems transitory, or was it the Americas shortfall with J&J hitting the market? And the reason I ask that is that that's supposed to be a big growth driver for you going forward, can daily si-hys grow double digits, teens, even 20% in 2016?

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

Well I think -- we've put enough color on our outlook for 2016 to say we're bullish that daily silicon hydrogels are doing well, and probably will accelerate more so than decelerate as a growth driver. And said another way, it grew I think 46% this past year, the single-use silicon hydrogels over the prior year and 48% this past quarter. So there's modest acceleration, but clearly not as much as we expected.

When it comes to the top line shortfall, I would say it's a combination of three factors, all of which are about one-third, one-third, one-third, roughly. The US and the discussion about the J&J rollout impacting the marketplace is about one-third, one-third had to do with silicon hydrogel, I'm sorry with lens care drop off. We talked about a substantial drop off 36% in our lens care business in the fourth quarter.

And then the third piece was some of the damage, or residual if you will in Europe and the integration disruption. Those three are the composite of the $20 million-ish drop off versus guidance. So about one-third, one-third, one-third.

As far as outlook for silicon hydrogel one day, we're bullish. But we're not going to say that the -- we're still bullish it's going to drive our expectation and we're going to go 3X the market, as was the guidance with hindsight that we put up in 2015.

**Operator**

Thank you. Our next question comes from the line of Larry Biegelsen with Wells Fargo.

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

Hey, guys, thanks for taking the question. Bob, on the last call, you talked about August getting off to a strong start. So can you help us out, did the weakness in October continue into November? And is there any plan to sell the solutions business? And I did have a follow-up on MyDay if that's okay, thanks.

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

Okay. Well, you're right. August was a good month, and things dropped off in October a lot, particularly in the US, and some of the problems we ran into in Europe exacerbated the [sales]. We thought we were in pretty good shape in early September, found out we weren't in as good of shape as we thought by mid September, and had a bumpy ride with our integration, if you will, in Europe from mid September until pretty much the end of November.

Having said that, we had what we'll call a very respectable November that is built into our first quarter guidance, as well as our fiscal year guidance. And the fact that we now have our system back to where it belongs in terms of service to our customers, not that we'll ever be happy where we are, but it's clearly back to where it was when we started the integration in Europe. So we're happy about that.

As far as solutions, we spent a good chunk of time last year evaluating our options on the lens care business. Would we be a buyer, would we be a seller, or what would we do. And looked at our lens care relative to how it ties win the lens portfolio, and particularly key accounts has concluded that we are a holder on it. We aren't going to try to -- we're certainly not going to invest in a big way.

We are going to service our key accounts. And I might add, that's a pretty efficient process, particularly where you get into those areas of the world where there's a tie in of lens and lens care on a direct-to-consumer and there are a number of countries where that is the case. So it's strategic, albeit, we're still trying to hamper its growth by succeeding in one-day silicon hydrogels.

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

Thanks for that. On MyDay, the approval in Japan is obviously a positive development for you guys being the largest daily market in the world I believe. And so I'm trying to understand, maybe the MyDay production capacity as you go through 2016, the gross margin on that.

I think you're supposed to end this year I think in the mid to high teens, if I'm not mistaken. So where do you expect to be on the margins for MyDay? Can you give us an update on the production capacity, and I assume that's the reason you just aren't launching right away in such a big market? Thanks for taking the questions.

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

Yes, MyDay is ramping up very nicely. I think I might have mentioned on the last call that we doubled our capacity between from six months earlier, so there is a nice ramp up. And that ramp up translates to cost of goods coming down, so there is good improvement on gross margins.

Albeit, we still have a long way to go and we have a lot of start up lines. And any time you get into a start up line, you take a step back with the start up costs. And by the way, that is a continuous drag on some of our gross margins is as we add new lines, as opposed to cutting it off where we are, we do step back and put a little drag on our MyDay gross margin and our overall gross margin.

That's just the way it is for now. But net-net now we're happy with the progress we've made on improving yields. Yields obviously mean, as you improve yields, it's 100% gross margin on that improvement. Because if you're getting 20% or 30% more units off the same line, it costs you just as much instead of throwing them in the garbage can you're getting to keep them.

So that's a very positive direction, and it adds to the throughput as well as bringing in the costs down. But having said that, we are still capacity constrained, and therefore, how and when we will approach Japan is still to be determined in our mind in terms of sharpening the pencil and where we are going to go and how we're going to go. And we aren't going to get a lot more granular on our overall strategy with it.

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**Operator**

Thank you. Our next question comes from the line of Brian Weinstein with William Blair.

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**Brian Weinstein** - *William Blair & Company - Analyst*

Hello, thanks for taking the question. I've heard you talk a lot about what growth rates and what not are going to look like next year. But I'm still not totally sure about how you guys strategically are prepared to respond to the tougher competitive market with J&J flooding the marketplace. What are the steps that you guys can proactively take, or how does your strategy change to respond to what J&J is doing in the marketplace?

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

Well in some respects, they're helping us. So I don't want to say it's all bad news. Where J&J is coming into with Oasis one-day, which again is a silicon hydrogel lens, going after primarily Total1, they are trying to keep a wall between Oasis one-day and moist.

Because they have too much to lose, so they are two separate markets. It's true that Oasis one-day is in the same pot as is MyDay, but in the area MyDay we like our product. We think it can go head-to-head with Total1 which is an excellent product, and so now there are three lenses fighting that battle there.

We are still capacity constrained, so it will be a while before we're butting heads against what do we sell the next product we make. We're not near that point at this juncture, and obviously, have the alternative of we'll go to Japan with MyDay bigger than we will go to the US. All those tradeoffs.

Relative to the other half of the pot and the one-day space, or the big part of the market called the mass market, that is still moist. And moist is what clariti is about. The one thing that clariti has in the one-day space and it's the only one that has it, is a one-day silicon hydrogel Toric, Sphere and Multifocal.

And while it has that, it's the only show in town and we have an immensely favorable cost structure. So we're feeling real good about our ability to address the mass market and the one-day space with a silicon hydrogel product. We already know in the FRP market, the frequent replacement market, the two-week market and the monthly market is 78% silicon hydrogels.

Doctors have heard for 10 years from Johnson & Johnson, from Alcon and from Bausch & Lomb how important oxygen is, how important silicon hydrogel is. That story hasn't gone away. Nothing has changed.

Doctors just don't forget that oxygen is important because they are selling a one-day lens. The fact of the matter is a one-day lens is worn for X amount of hours, let's say 14 hours. A 30-day lens or a two-week lens is worn for the same length of time.

So there's no distinction whatsoever between the importance of oxygen in the one-day market or the two-week market or the monthly market. That may not be understood by many. But the doctors and the eye care professionals get it and understand it.

**Operator**

Thank you. Our next question comes from the line of Anthony Petrone with Jefferies.

**Anthony Petrone** - *Jefferies & Co. - Analyst*

Great, thanks for taking the questions. A couple just on the overall US slippage in the quarter, and I guess specifically around Multifocals. And that was also lighter than expected. So with J&J's push, is there a halo effect beyond dailies into other modalities? That would be the first question.

And the second question is just on the slower rollout of clariti and MyDay in totality. Does that have an operating impact on the 2016 operating margin outlook of 26%, given that those two are operating margin accretive? Thanks.

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

First of all, I think you said operating margin of 26%, I'm looking at Greg right now.

**Anthony Petrone** - *Jefferies & Co. - Analyst*

By FY18?

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

I'm sorry.

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**Anthony Petrone** - *Jefferies & Co. - Analyst*

Right, the longer term outlook.

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

Got it. Because in my commentary, I mentioned that we've upped the 26% to 27% but that's five years out, 2020. So we're still directionally headed where we are headed on that front.

Was there a halo effect with the J&J strategy? Absolutely. There was considerable tie in in their marketing approach and let's call it arm twisting on the marketing approach that clearly had some halo effect on some of their other products. So it was not only the pipeline fill in the one-day silicon hydrogel space that was the event, but there was some pull even in the two-week space which is a space that is declining in total.

As far as MyDay and clariti and that rollout, no. I don't think there's anything one way or the other that means in terms of directionally our operating performance and our operating performance targets.

Multifocal, just to comment on that. We had a reasonably good quarter on Multifocal at 7% or 8% I think it was. And while it's true that that growth would have been better had we had a more robust US and a more or less of the disruption than we had in Europe, it would have resulted in better numbers in that area also. Go ahead, operator.

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**Operator**

Thank you.

(Operator Instructions)

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

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

Thanks, guys. Good evening. Just a couple questions here for me.

One, just, Bob, on the European integration issues. Can you give us a little color there of just -- I guess my sense would be Sauflon relatively small compared to your bigger operations. What is it that can trip you up so much that lasts a month and a half and shaves maybe $7 million to $8 million in revenue off?

And any color on the concessions that you -- and I know you don't want to quantify them. I'm not asking you to quantify them, but why are you having to give some revenue back to the customers themselves? What's that -- what form is that taking?

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

Yes, plain and simple, if you integrate your products with key accounts and they're used to getting the product on time, and particularly if it's direct-to-consumer, and I'm talking about big chains. The chains in Europe are big part of what Europe is about. And all of a sudden, you throw them in back order, in backlog, it's not a pretty situation.

So in some cases, it directly interfaces with their customers. So rest assured, we were fully appreciative to what the disruption meant to their franchise and their business, and took every step humanly possible, to and including throwing as many bodies as we could at it, to fix it as soon as we could.

Part of the complexity is when you shutdown a bunch of locations that are throughout Europe in different countries, put them in one country, you obviously put a burden on yourself to be able to -- . Let's say it were Germany, for example, and I shut down Germany and integrated it to Belgium. And then I can't go to the customer and say I can get it to you two days later now, because I did something for my benefit.

So all that activity doesn't matter if it's a CooperVision product or the Sauflon product, quite frankly, they don't care. A back order is back order. The concessions are basically a reflection on the dialogue with some of those customers as you go through how to reasonably address the wounds.

**Operator**

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

**Jon Block** - *Stifel Nicolaus & Company - Analyst*

Great, thanks, guys. And I'm going to try to slip in one and a half. I guess just to start with the EPS guidance.

You put up some parameters on EPS of low to mid teen 2016 EPS growth last quarter. Now you look at it, it's low to maybe mid single-digit growth. I get it.

FX had an incremental headwind. I have got maybe $0.35 to $0.40, but not the $0.80 that it implies. So, Greg or Bob, can you talk about what got so much worse on the operations relative to three months ago?

And then the second question and there's been a bunch of questions on market share. But guiding CVI of 6%, market of 5%, so it implies call it 1.2X. In the past, you've been around maybe 1.8X.

Just importantly, Bob, when you look at your portfolio of lenses, is this the new normal 1.2? Or when you look out, should the share gains accelerate as you get through some of these issues in 2017 and beyond? Thank you.

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

First on the EPS guidance, yes, the low to mid teens going to the 10% to 14%. So we're still saying low single digit -- low double digit to teens in the 10% to 14%. There is -- out of respect, I think you're saying your model does not get to the $0.58 in foreign exchange, or rest assured and Greg could add to it here.

That the $0.58 is what the implications are of the currencies moving forward from 2015 to where we are today on those exchange rates. Not only the pound, the yen, and the euro, but also the other currencies that Greg alluded to.

From a market share perspective, yes, you're right. Historically, we've grown more like 2X the market the last five, six years, seven years, and we're moving the guidance, if you will, from 2X the market in 2015, FY15, to 1.25.

A little of that is the concessions, not much, a little of that is some of the disruption that is now occurring surrounding the J&J rollout in the US, and a little of that is the disruption in the European theatre with the integration. And the fact of the matter is, if we removed all of those, would the 1.25 guidance go way up from there, no we would probably still be guiding to 5% to 7% for us and 4% to 6% for the marketplace.

Not because anything has changed, and I think you heard me mention that it could be that the market is at the higher end of that given the easy comps with competitors like J&J. But the fact that they have easy comps only means the market is a little bit more robust perhaps than it is underlying that, and it doesn't change what we should get independent of that.

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**Operator**

Thank you. That concludes the Q&A session. I'd like to turn the call back to Bob Weiss for closing remarks.

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

Well I want to thank everyone for joining us today. Obviously, I wish I had a lot more stellar things to say about this last quarter. But I'll just reiterate, we think we did a lot of things in the integration right, and very optimistic about our way forward for not only 2016 but many years to come.

We think we have the right products and the right strategy, and we respect our competition, not to diminish the work they are doing. So we look forward to updating you, I believe March 3 is our next update and we're looking forward to it. Thank you.

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**Operator**

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

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