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COO - Q1 2016 Cooper Companies Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 consolidated revenues of $450m and GAAP EPS of $1.05. Expects FY16 revenues to be $1.865-1.905b and non-GAAP EPS to be $8.00-8.30.

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Joanne Wuensch *BMO Capital Markets - Analyst*

Chris Pasquale *JPMorgan - Analyst*

Brian Weinstein *William Blair & Company - Analyst*

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

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

David Roman *Goldman Sachs - Analyst*

Matthew Mishan *KeyBanc Capital Markets - Analyst*

Anthony Petrone *Jefferies & Co. - Analyst*

Jon Block *Stifel Nicolaus & Company - Analyst*

Steve Willoughby *Cleveland Research Company - Analyst*

Larry Biegelsen *Wells Fargo Securities, LLC - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to The Cooper Companies Inc. Q1 2016 earnings conference call.

(Operator Instructions)

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

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

Good afternoon, and welcome to The Cooper Companies first-quarter 2016 earnings conference call. I'm Kim Duncan, Vice President of Investor Relations, and giving prepared remarks on this 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 future 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.

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 first-quarter 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 at CooperCO.com.

As a reminder, this call is being webcast and the copy of the earnings release is available through the Investor Relations section of The Cooper Companies website. And with that, I'll turn the call over to Bob for his opening remarks.

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

Thank you, Kim, and good afternoon, everyone. Welcome to our first-quarter 2016 conference call. We're off to a good start this year and I'm optimistic about our performance as we move forward. Let me start by touching on three key items.

First, I'm pleased to report our fiscal first-quarter financial results were strong. On a consolidated basis, we reported $450 million in revenue and non-GAAP earnings per share of $1.83. We are raising our FY16 revenue and earnings guidance to reflect this outperformance and to incorporate updated currency rates.

Second, CooperVision posted 4% constant currency revenue growth, which met expectations. As such, we are maintaining our 5% to 7% constant currency revenue guidance for CooperVision for the fiscal year.

Third, CooperSurgical had a strong quarter, posting revenue growth of 12%, or 6% pro forma. This was especially impressive, given non-GAAP operating margins expanded 400 basis points over Q1 of last year. As a result of this outperformance, we are raising CooperSurgical's full-year revenue guidance to 15% to 18%, or 5% to 8% pro forma. I'll expand on these items as I walk through this quarter's performance, but suffice it to say, I'm proud of where we stand and excited about the future.

CooperVision reported Q1 revenues of $364 million, down 1% year over year but up 4% in constant currency. The Americas were down 3% in constant currency due to the tough comp and aggressive promotional activity by Johnson & Johnson associated with their new daily silicone hydrogel product, which we discussed last quarter. Going forward, we expect the Americas to return to more normal growth starting in the second quarter.

Regarding EMEA, sales grew 8% in constant currency. This was despite the Sauflon integration disruptions we discussed on our last earnings call. These disruptions ended in Q1 but resulted in certain customer concessions that reduced results. EMEA growth was driven by a full family of silicone hydrogel products, Biofinity, Clariti, MyDay, and Avaira.

We also had a strong quarter in Asia-Pacific, growing 12% in constant currency, and this growth was also driven by our family of silicone hydrogel products. We expect both these regions to continue performing well going forward.

Within our specialty business, overall Toric sales were up 4% year over year and multifocals were flat, both in constant currency. This was softer than in the prior quarters due to the Americas where -- which is the largest region for these types of lenses. We remain a global leader in specialty lenses, and expect sales to bounce back in Q2 as the Americas returns to growth.

Looking at silicone high hydrogel lenses, this family of products delivered a strong growth of 13% in constant currency. Biofinity and Avaira combined to grow 7% in constant currency, with the only weakness being seen in the Americas, and again, we expect the Americas to rebound in Q2. We remain under-indexed in the two-week and monthly silicone hydrogel space, with the market being roughly 77% silicone hydrogels and us at 72%, so we anticipate posting nice growth for many years to come.

Regarding 1-Day silicone hydrogel lenses, sales of Clariti and MyDay grew a solid 50% in constant current. We remain very optimistic about these products and are committed to our growth strategy, which includes the two-tiered approach, with Clariti positioned as the mass-market offering and MyDay as the premium offering. Remember, the contact lens market is being driven by 1-Day growth, and we strongly believe we have the best product offering in the space, as the only Company with premium and mass market lenses, including a full portfolio of 1-Day, Sphere, Toric, and multifocal lenses.

Regarding production on these products, MyDay is ramping up nicely and we're selling everything we can make. Production is also extremely well -- going extremely well for Clariti, and we continue to expect Clariti gross margins to be accretive to worldwide gross margins as we exit the fiscal year. Regarding Proclear, sales of this hydrogel product line were down 4% in constant currency, driven by our continuing shift to silicones.

Before moving to market data, let me finish with a comment on CooperVision's non-GAAP adjustment. As expected, we had around $23 million in charges this quarter, but roughly 60%, 40% between manufacturing and operating expenses. With the majority of the Sauflon integration behind us, we expect this number to decline to under $10 million in Q2, with most of the charges in cost of goods associated with accelerated depreciation, which relates to decisions we made last year.

Now let me comment on CooperVision's performance against overall -- the overall contact lens market, and remember, this information is on the last page of our earnings release. For calendar Q4, we continued taking market share, growing 6%, with the market up 4%. Regarding the market, the underlying story was J&J's strength due to a new product launch and easy comps, while Alcon's business was soft against difficult comps.

Regionally, CVI grew 9% in EMEA, with the market up 5%. In Asia-Pac, CooperVision grew 12%, with the market up 5%. And in the Americas CooperVision grew 1% with the market up 4%. If we look at the market on a modality basis, the single-use market continued driving growth, with CVI up 14% and the market up 12%. For non-silicone use lenses CVI grew 2%, while the market declined 1%. And as you can see, our growth remains diverse and strong.

For the full year, calendar year 2015, CooperVision grew 7% and the market grew 4%. 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 the shift to dailies, geographic expansion, and expansion of the wearer base. We expect to continue taking market share, led by the strong silicone hydrogel portfolio.

Moving to CooperSurgical, we reported Q1 revenues of $85 million, up 12% year over year, or 6% pro forma. We made solid progress in our office and surgical business, growing 7%, and in our fertility business growing 6%, both pro forma. These results are much stronger than our initial guidance, and there are a number of ongoing activities which are driving this.

First, we significantly increased our focus on sales during the fiscal fourth quarter of last year. This included existing products, new product launches, and acquired products. This new emphasis was seen in our Q1 results, and we believe it will continue through the year.

Second, we are combining our office and surgical and fertility businesses, including transforming to a geographic sales focus. This is enabling us to cross-sell more effectively, which is especially beneficial with products such as our newly launched disposable hysteroscope, EndoSee, which sells to OB/GYN offices but also to fertility centers. This change will also allow us to better manage our infrastructure going forward, and we'll reinvest those savings in sales and marketing to continue driving revenue growth.

Third, as we continue to progress through the year, we'll be adding more sales personnel in underpenetrated areas and increasing our focus on high growth areas, such as genetic testing. We anticipate doing this while leveraging revenue growth to improve operating margins as we did in Q1. All in, CooperSurgical is clearly moving to a more aggressive and efficient business model with a life sciences look and feel.

With respect to CooperSurgical's products, the office and surgical business comprises a diverse portfolio of roughly 600 products sold primarily to obstetricians and gynecologists. As I stated earlier, this product portfolio grew 7%, with strength in several key products.

Within fertility, we grew 6% pro forma. Sales growth is still being negatively impacted by our strategic decision to exit low margin, non-CSI manufactured capital equipment. This will continue through Q2, but then become largely immaterial in Q3.

Also within fertility, our genetic testing business is performing extremely well. We entered the lab services space with the acquisition of Reprogenetics last August, and it's proving a very nice strategic fit.

Lastly, we added complementary IVF products in mid-December with the acquisition of Research Instruments, and we also acquired a small fertility micro-needle company at the beginning of February, which we expect to add roughly $1 million of revenue per quarter going forward. These deals are incorporated in our updated guidance.

So overall, I'm very bullish on CooperSurgical. The passion drive of our surgical team is extremely high, and I'm really proud of their efforts and excited about our future.

Now let me touch a little more on guidance. Our FY16 revenue guidance for CooperVision remains unchanged at 5% to 7% constant currency growth. We are raising our CooperSurgical revenue guidance to 5% to 8% pro-forma growth, or 15% to 18% on an as-reported basis. We're also raising our non-GAAP earnings per share guidance to $8 to $8.30, up 13% to 17% pro forma. For cash flow, we continue to expect around $300 million of adjusted free cash flow for FY16.

In conclusion, we're continuing our successful strategy, which we frequently articulated in the past. This includes investing to take market share by expanding geographically, aggressively rolling out new products, and investing in emerging markets. We do this while remaining focused on growing earnings per share and cash flow to deliver strong shareholder value.

I'm pleased with our results and happy the issues we encountered in the fourth quarter, such as the European Sauflon integration activity, are behind us. I remain very optimistic about the underlying fundamentals of our businesses and I believe we are well positioned to deliver strong results for FY16 and beyond.

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

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

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

Looking at gross margins, in Q1 the non-GAAP gross margin was 61.4% compared with 64.2% in the prior year. Factors which impacted our non-GAAP gross margins were a net unfavorable FX impact, with the favorable UK based cost-of-goods sold impact more than offset by the unfavorable revenue impact.

In addition, product mix was a negative, as the sales weakness Bob mentioned in the Americas hurt our margins, as this region has the greatest amount of Toric and multifocal lenses, along with being a strong Biofinity franchise. We expect gross margins to rebound in Q2.

CooperVision, on a non-GAAP basis, reported gross margin of 60.9% versus 64.2% in Q1 of last year. The factors which impacted our non-GAAP gross margin were the unfavorable net FX impact, as well as the product mix I just mentioned. CooperSurgical had non-GAAP gross margin of 63.6%, which compares to Q1 2015 at 64%. Strength in the OB/GYN and IVF product families were offset by the inclusion of our two recent acquisitions, Reprogenetics and Research Instruments, which have lower gross margins.

Looking at operating expenses. On a non-GAAP basis, SG&A decreased approximately 3% to $161.8 million, or 36% of revenue, down from approximately 38% the prior year. The primary driver behind this was a reduction in G&A, where we saw leverage and good management of expenses within the businesses.

Now looking at R&D. In Q1, R&D on a non-GAAP basis was $14.8 million, or 3.3% of revenue, down from 3.6% in the prior year. We are seeing investment in CSI, offset by synergies from the Sauflon acquisition and CVI.

Moving to operating margins. For Q1, consolidated GAAP operating income and margin were $57.4 million, and 12.8% of revenue, versus $73.1 million, and 16.4% of revenue in Q1 last year. Non-GAAP operating income and margin were $99.4 million, and 22.1% of revenue, versus $102.6 million, and 23% of revenue for the prior year. The difference in operating margin year over year is the reduction in gross margin we discussed, partially offset by operating expenses.

In Q1, CooperVision's non-GAAP operating income and margin were $87.4 million and 24% of revenue, versus $98.4 million and 26.6% of revenue in the prior year. CooperSurgical's non-GAAP operating income and margin were $22.8 million and 26.7% of revenue versus Q1 2015 of $17.5 million and 23.1% of revenue.

Looking at depreciation and amortization, in Q1, depreciation was $37.3 million, up $8 million year over year, which includes $6.1 million of accelerated depreciation related to the Sauflon acquisition, which we exclude in our non-GAAP numbers. Amortization was $16.2 million, up $2.6 million. The year-over-year amortization increase reflects recent acquisition activity. Interest expense was $5.3 million for the quarter, up $1.3 million year over year, primarily due to acquisitions and higher interest rates.

Looking at the effective tax rate, in Q1, the non-GAAP effective tax rate was 3.9% versus a non-GAAP effective tax rate of 10.8% in Q1 2015. The year-over-year effective tax rate was favorably impacted by several items, including the release of reserves associated with a prior-year tax filing, which would normally have reversed in Q3 of 2017, as well as reduction in the UK tax rate, which was enacted in November. Also note, as we've mentioned before, the effective tax rate continues to be below the US statutory rate, as a majority of our income is earned in foreign jurisdictions with lower taxes -- or lower tax rates.

Earnings per share, our Q1 earnings per share on a GAAP and non-GAAP basis was $1.05 and $1.83 respectively, versus $1.25 and $1.75 for GAAP and non-GAAP in the prior year. Non-GAAP EPS on a pro-forma basis, which adjusts for currency and acquisitions, grew approximately 15% in the quarter.

Looking at FX impact. The net currency impact on EPS year over year for Q1 was unfavorable by $0.18. This was $0.04 less than we guided, as currencies were generally favorable to guidance rates.

Looking at the balance sheet and liquidity in Q1 we had cash provided by operations of $89.5 million, less capital expenditures of $45.1 million, resulting in $44.4 million of free cash flow. Excluding integration costs of $12.3 million, adjusted free cash flow was $56.7 million. Total debt increased within the quarter by $28.1 million to $1.377 billion, primarily due to acquisitions, partially offset by operational cash-flow generation.

Inventories increased approximately $11.2 million to $430.9 million from last quarter, primarily due to an increase in daily lenses for CooperVision and an increase due to acquisitions for CooperSurgical. For the quarter, we are seeing months on hand at 6.9 months. DSO is at 57 days, which is consistent with the prior quarter and last year.

Before I get into guidance, let me comment on our senior credit facilities, which we mentioned in our earnings release under Other. We entered the bank market a couple of months ago to refinance our $1-billion revolver and raise a small term loan.

We priced theses facilities as investment grade and were pleasantly surprised at the demand. As such, we closed a five-year replacement of our $1 billion revolver and a new five-year, $830 million term loan. We used the term loan proceeds to repay certain existing indebtedness and will be reducing our $700 million term loan, which matures in August of 2017.

Overall, this activity is very positive, as it extends the life of our facilities at very favorable terms and conditions, while providing additional flexibility through greater capacity. The financial impact we're expecting is for interest expense to be higher by roughly $1 million per quarter going forward. As Bob mentioned, this is offset by the higher operating income being generated by CooperSurgical.

Now turning to guidance. Foreign exchange rates have been very volatile and can have a large impact on our results. For guidance, on our main currencies, we are using 1.07 for the euro, 1.15 for the yen, and 1.38 for the pound. With our rate assumptions, we are expecting a negative impact to full-year 2016 revenues of approximately $58 million, and an unfavorable $0.41 impact full-year 2016 EPS.

Given Q1 was a negative $22 million in revenues and $0.18 on EPS, we are looking at a negative $36 million in revenue, or $0.23, for Q2 to Q4, with more of the negative impact in Q2 and Q3. The negative revenue impact of $58 million is unchanged from our December guidance, which may be surprising.

The positive moves from several currencies, including the euro and the yen, are offset by the negative move in the pound, along with a few other currencies like the Russian ruble and the Brazilian real. Having said this, the earnings-per-share impact is less negative as the pound is helping COGS in the back half of the year and positive moves in currencies like the yen are having a positive flow-through impact to our operating income.

For 2016 guidance, the revenue range for the Company is $1.865 billion to $1.905 billion, or approximately 5% to 7% pro-forma growth. CooperVision's revenue ranges is $1.51 billion to $1.54 billion, or 5% to 7% constant currency growth. CooperSurgical's revenue range is $355 million to $365 million, or 5% to 8% pro forma growth.

We expect non-GAAP gross margin to be around 64% for the year. OpEx is expected to be around 40%. Operating margins are expected to be around 24%. Interest expense is expected to be around $24 million. Our effective tax rate is expected to be around 8%. Our expected share count will be around 49.2 million shares. Our non-GAAP EPS is expected to be in the range of $8 to $8.30, which equates to a pro forma EPS of 13% to 17% growth. CapEx is expected to be around $200 million. Adjusted free cash flow is expected to be around $300 million.

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

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

Operator, we're ready to take some questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from the line of Joanne Wuensch of BMO Capital Markets. Your line is now open.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you very much. I have two questions. The first one is what did you give for the year-over-year growth of silicone hydrogels? And can you help break out how your daily silicone hydrogels are doing?

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

Joanne, two things. Our year-over-year growth for silicone hydrogel was 13% for the entire family of four, Biofinity, Avaira, Clarity, and MyDay. For the 1-Day silicone hydrogels it was 50% constant currency year over year.

Joanne Wuensch - *BMO Capital Markets - Analyst*

Thank you. And are you planning on launching any next-generation types of products beyond Clariti and MyDay? I've been hearing about next-gen Biofinity, for example.

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

Let's just say that our focus is on, obviously, the two that we're in the middle of, which is Clariti and MyDay. There will be enhancements along the way of many of our family of products. There will be extended ranges of the family, and so suffice it to say, you can call those future generation upgrades, if you will.

Operator

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

Unidentified Participant - *- Analyst*

Hi everyone, this is actually JP in for Matt. Thanks for taking the question. My one is just on -- I'm trying to dig into what changed in your core EPS for the full year. The $8 to $8.30, when I back out the $0.17 from FX reduction, plus the $0.30 beat in the quarter; is there anything changing in the core business, or is that flat from an EPS standpoint?

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

We had a $0.26 beat for the quarter, of which $0.04 was foreign exchange, compared to guidance, or $0.22. And for the back nine months, we improved it $0.15 in aggregate, $0.14 of which was foreign exchange and $0.01. It's actually $0.14 in aggregate, of which $0.13 was foreign exchange and $0.01 is basically improvement in operations.

Operator

Thank you. And our next question comes from the line of Chris Pasquale of JPMorgan. Your line is now open.

Chris Pasquale - *JPMorgan - Analyst*

Thanks. Bob, I wanted to circle back on your comments about the slower growth in Torics and multifocals. I get that the US is the biggest market for those products and you're facing some competitive headwinds there, but the new competitive launches are primarily spheres, if I'm not mistaken. If you can talk a little more about what's causing the slowdown in specialty lens and how you reverse that.

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

So the slowdown is really a function not of what's getting an eye. It's year-over-year tough comps, which is US dominant, if you will. We had 11% growth a year ago and so it's against that tough comp.

Since the US is so weighted to specialty lenses compared to outside the US, yet shows up as what appears to be a deceleration of the growth of the lenses in our specialty area, Torics and multifocals. Our expectation, as we indicated several times, is that the comps are easier post the first quarter. So we expect to return to a more normalized growth rate, which is built into our revenue guidance, and certainly that would impact specialty heavily because of its US orientation. And it will also impact our gross margin going forward, since specialty lenses carry a higher gross margin percent.

Operator

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

Brian Weinstein - *William Blair & Company - Analyst*

Hello. Thanks for taking the question. It sounds like you are selling everything you can on MyDay. But where are you on building out the capacity for that? It would seem to me that if demand is strong for that, that you're going to be looking to aggressively build out the capacity to sell more product. I don't think I heard anything on the call about where you are on that capacity build. Thanks.

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

As of today, we're still capacity constrained with MyDay. We are rolling out shortly into Japan. We are ramping up very nicely. We're happy with that. And suffice it to say that within the next year, we will expect to say we are no longer capacity constrained even on MyDay.

Operator

Thank you. And our next question comes from the line of Jeff Johnson of Robert Baird. Your line is now open.

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

Thank you. Good evening. Two questions, Bob, for you. Can you quantify at all the customer payouts in Europe. If CVI was 4% constant currency growth, what would it have been ex-those, what I believe were contra revenue payments?

And then also, you mentioned Clariti gross margins exiting the year accretive to Company-wide. I think last call, you just talked about maybe going from the low 50%s to the low 60%s. My definition of accretive to gross margin would be closer to 62%, 63%. Is that a fairer range of where you think those Clariti gross margins go exiting the year?

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

So on the first item, we're not going to get into the specifics of what concessions we made that impacted revenue. But suffice it to say, Europe put up reasonably respectable numbers as -- in the growth area, at 8% constant currency. So that probably will allow you to gauge it a little.

From the point of view of Clariti being accretive, our intent is consistent with what your assessment is that it would not be a drag on our overall gross margin going into the acquisition of Clariti. And that would be, yes, north of that 62%, 63% range that you assessed.

Operator

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

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

Thank you. Just two quick ones. Bob, I think you mentioned roughly $200 million of CapEx spending for year. Again, just coming back to an earlier question around MyDay. Is there a scenario where you might decide to step that up a little bit to again, improve your ability to supply MyDay?

And then the second question is, UPP continues to hang around. If that goes away, what would your expectations be for the market and the way Cooper's positioned?

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

As far as could we do anything to accelerate the MyDay rollout by expanding our CapEx requirements, there are long lead times with MyDay. So we've already put in place all the orders, so to speak, and requirements to get that ramped up to where we need to. That's already in the works and built into our forecasted CapEx numbers. And things, as I indicated, are going very well to plan in that arena.

Relative to UPP, if it went away or unilateral pricing policy went away tomorrow, I'm not sure there would be much of a significant impact on the industry or the competitive landscape. Suffice it to say, I think many independent eye care practitioners figured out that there are work-arounds out there to UPP, and maybe it's not all that it was cracked up to be when it first came out as a novel new idea. So, as long as the eye care practitioners are being taken care of relative to servicing those that write the script, I think nothing major will have changed and life would go on if it went away. And I'd applaud that if it happened, actually.

Operator

Thank you. And our next question comes from the line of David Roman of Goldman Sachs. Your line is now open.

David Roman - *Goldman Sachs - Analyst*

Thank you and good evening, everybody. I wanted just to start back on the competitive dynamic. You talked about in your prepared remarks some of the traction J&J has gained, but right now it does look like the other large competitor is facing some fairly significant headwind. Could you maybe give us some perspective on how you expect the landscape to unfold as we pace through 2016, particularly as Alcon undertakes this market recovery plan?

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

You're correct. The competitive landscape is pretty jumpy right now, if you will, a lot of changes within all of the competitors, if you will. Alcon's undergoing a major restructuring within Novartis, and they're pulling things out of what we used to call Alcon, and will probably in the future -- I don't know how they'll deal with the names.

But that certainly is not a handicap to us. J&J's going through another assignment of executives in some of their key areas, which is a training ground for J&J in the contact lens space. So there's a change there. They of course have put a lot of muscle, or the executive that was transitioning out put a lot of muscle the last two months -- the last two quarters in rolling out Oasis one day and other thoughts are in the works there.

We like change in that sense. We like some of what J&J did by way of trying to accelerate the death, if you will, of the two-week space in the US, which they happened to own well north of 80% of. So any time they put their own franchise in play, I think all the competitors like that. And whether it goes into the so-called one week, the so-called one day or were it to go into the one month, that's putting it all in play. That's fine from our perspective.

So we still think we're the one to be caught up with relative to complete portfolio of silicone hydrogel 1-Day at both the mass market and having a silicone hydrogel entry into the 1-Day premium market. So we think we have the best deck of cards or hand of cards, if you will, and like the way the industry continues to perform in good times and in bad times.

The growth of the industry is there. Everything we said about the trading up into 1-Day as a driver of the industry, the fact that it's 4X to 6X or 400% to 600% more revenue for the same patient, all of that is continuing to come about.

Operator

Thank you. And our next question comes from the line of Matthew Mishan of KeyBanc. Your line is now open.

Matthew Mishan - *KeyBanc Capital Markets - Analyst*

Good evening. Thanks for taking my questions.

I've got two real quick. First, I was hoping you could talk about some of the Cooper-specific things that you're doing in the Americas in response to J&J and their resurgence, that would give us more confidence in a return to growth for you. And then just secondly, an update on where you're at with the you MyDay launch in Japan.

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

First, on what Cooper's doing, Cooper is continuing to execute its plan, which was to roll out MyDay as a premium 1-Day silicone hydrogel and Clariti as a mass market 1-Day silicone hydrogel with a complete family of Toric, multifocal, and Sphere. Nothing is changing by way of our focus on executing that strategy.

We still believe that silicone hydrogel belongs in the 1-Day space, and therefore, the fact that 77% of the non-1-Day space is already silicone hydrogel, we still believe we have the right product portfolio in the right space and it will convert into silicone hydrogels as we go forward. And nothing in any of the numbers we're looking at by way of the growth of the 1-Day market or the growth of silicone hydrogels causes us to take pause in that view.

The fact that J&J put up robust numbers, yes, they came out with a new product and, yes, they distributed it widely and deeply. They had very easy comps from the prior year, though some of that growth is anomalous. And you may recall in the prior years, they were going through that transition where they were the only one that did adopt UPP, or unilateral pricing policy, for not only new products, wherein we were dedicating a lot of time to the eye care professional to learn the new products, they decided to do it for the products they've had in the marketplace for 10 years.

So there was nothing new about it. There was no reason to think that the eye care professional had to dedicate a whole bunch of new time to learn the new technology. But it was easy comps.

So nothing changes from the point of view of our expectation, as I pointed out. We had very tough comps in the first quarter. We do not have those same tough comps in the second, third and fourth quarters. So our focus remains on execution.

As far as MyDay in Japan, we are rolling it out literally this month, which is March, and we're not doing, because of capacity limitations anything like the J&J Oasis 1-Day rollout where they hit everyone all over. So it will be a much more orderly rollout that will -- I wouldn't go crazy because of our capital limitations or our capacity limitations on having high expectations for significantly moving the needle on the top line this fiscal year.

Operator

Thank you. And our next question comes from the line of Anthony Petrone of Jefferies. Your line is now open.

Anthony Petrone - *Jefferies & Co. - Analyst*

Thanks.

Two questions as well. Maybe, Bob, can you just review for us where silicone hydrogel daily, as a category, is today just from a market standpoint and where do you think it can go over time? And then on the competitive front, there's been quite a bit of change going on at Valiant. I'm just wondering if you're seeing any changes in the presence of Bausch & Lomb in the marketplace due to these changes over the past six months or so.

Thanks.

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

Okay. Well, first of all, silicone hydrogel 1-Day today is around a little north of $600 million. It's north of 20% of the 1-Day category, which is about $3 billion, a little north of that. We expect that $3 billion of a $7.4 billion industry, if you will, to move to about be 50% of a $10 billion industry constant currency provisional between now and 2020. So of that $10 billion in 2020 at current exchange rates, we expect half of it to be, or $5 billion, to be in the 1-Day modality, and that of that $5 billion, a lot more than 20%.

Suffice it to say, your barometer is some place between that 20%, which is rapidly going higher and the 77% that is in the non-1-Day modality. It will be some place in the middle. And one could easily pick the middle of it and say about 50% of the $5 billion, which is 50% of the $10 billion is not a bad gauge for 2020.

Operator

Thank you. Our next question comes from the line of Jon Block of Stifel. Your line is now open.

Jon Block - *Stifel Nicolaus & Company - Analyst*

Great. Thanks. Good afternoon. Let me just try to get in two upfront. First, can you elaborate, Bob, a little more on the Biofinity and Avaira? I think it was up 7% year over year in the quarter. It seems like a decent step down from the recent run rate. Is there some inventory fluctuations there?

And then second, I know you want to stay away from a specific 2016 si-hy number. But do you still have the same expectations that si-hy dailies accelerates from that mid-40% pro-forma constant currency that you did in 2015? In other words, can you maintain this 50%-ish si-hy daily growth throughout 2016?

Thanks, guys.

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

I'll do the latter one first. The expectation on the si-hy daily is that it will, as you indicated, we expect higher growth in 2016 than 2015, and 2015 was mid-40%s. And this last quarter in constant currency was 50%. So that we expect to hold -- to equal that or exceed it, if you will, going forward. Or at least exceed the 45% of last year for the entire fiscal year. So nothing has changed in our expectation on that and the rollout there.

Relative to Biofinity and Avaira, which dropped below double-digit for the first time in, I think, ever, at 7%, that 7% is basically anomalous relative to its concentration in -- particularly Avaira is primarily a US product. And so that concentration in the Americas weights that down, and we expect that to normalize going forward and be double digit.

Operator

Thank you.

(Operator Instructions)

Our next question comes from the line of Steve Willoughby of Cleveland Research. Your line is now open.

Steve Willoughby - *Cleveland Research Company - Analyst*

Can you hear me okay?

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

I can hear you fine, Steve.

Steve Willoughby - *Cleveland Research Company - Analyst*

Okay. Hey, Bob. Bob, regarding the 1-Day silicone hydrogel market that you were just describing and going, looking out a few years, I was wondering if you could talk about, particularly in light of you guys continuing to add capacity there, where MyDay margins are today? Where you expect MyDay margins to be once it has capacity and it's up and running?

And just from a big picture perspective, it's my understanding that other people's 1-Day silicone hydrogels don't have all that great of margins either. So if effectively a quarter of the market moves to 1-Day silicone hydrogels over the next four years or so, does that negatively impact the overall margin profile of the industry?

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

So on where is MyDay today, we indicated we expected it to move into the 20s. It is in the 20s as a gross margin. We, longer term, expect it to move into the 50s, which is more the traditional 1-Day modality, if you will, gross margin.

Relative to if all of silicone hydrogel moves deeply into the 1-Day modality, or as my model was, $2.5 billion out of $5 billion out of $10 billion, $10 billion being total, $5 billion being 1-Day, $2.5 billion being silicone hydrogel in 2020, if that were to happen, given where we are with Clariti as a mass market high gross margin 1-Day silicone hydrogel, we think we would be a big enough player that it wouldn't put an undue drain on the entire industry.

Having said that, there is no doubt that if we were comparing what the industry would be if it stayed and moved from two week and 1-Day into the monthly modality, where margins would be going up because, by definition they're monthlies, compared to the 1-Day, there's no doubt that a 1-Day modality is lower than a monthly modality.

A two-week non-compliant market, which is -- defines or profiles the US market, could only and should only do better no matter where it goes, because a non-compliant two-week isn't an optimal gross margin. And the industry is focusing in on how to make compliance better, and the best way to do that is kill off the two week, if you will.

Operator

Thank you. And our final question comes from the line of Larry Biegelsen of Wells Fargo. Your line is now open.

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

Thanks for taking the question. Just Bob, two quick clarifications and then one real question. On the sales concession, if you -- you expect to accelerate in the second quarter. So, I know it was asked earlier, but if you could give us some sense of how much that depressed growth, it would obviously help us understand the underlying trends a little bit better. Second, just on Joanne's question.

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

Larry, can come back on -- Larry, can you repeat that question?

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

You were a little hard to hear, Larry, a little light.

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

Sorry guys, I'll try to speak up. The sales concessions, you're not giving us the number, how much it depressed sales in the quarter. But if it impacts our ability to understand the underlying trends, and I know you expect to improve in the second quarter. So if you would give that, it would be helpful. But anyway that was just a request.

And then on Biofinity, Joanne asked about another new version. So just to be clear, you talked about extended ranges. So it sounds like you're not ready to come out with an aspheric version with UPP in 2016.

Sorry guys, just lastly for my real question. J&J, if they do come out with a monthly lens, Bob, how do you see that for Cooper? Obviously, there's some rumors of that. We haven't confirmed it, but what would be the impact for Cooper if they came out with a monthly lens?

Thanks for taking the questions.

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

All right. On the concessions, we indicated we were not going to disclose that. Said the same thing on the fourth-quarter call. I think other than me pointing you at the EMEA growth of 8% as being fairly robust, meaning the factors that hit gross margin, and I think Greg touched upon them are multiple. And concessions is one, but they're clearly foreign exchange and the lag on that is another. And quite frankly, the ramping up of MyDay, while it's still in a lower gross margin category, all factors. No one is driving our gross margin of 61%, and I think we indicated we're expecting to be in around 64% by the end of the year, to give you some indication where direction that will go.

Relative to the new version Biofinity, I used the extended range as an example of things that we're doing, particularly in the area of Torics, where extended ranges, custom lenses matter. One of Cooper's claims to fame and why we're so good in specialty lenses is we're very capable of customizing lenses and giving -- and addressing 100% of the audience instead of 80%.

A lot of our competitors only worry about the bell curve, the 80%. When we talk about making Biofinity even better, it's things like that. And whether or not we upgrade and add things that some of our competitors have done over the years when they have a product that's been around a long time, will there be some refreshing of different things? Perhaps. But we're not going to go any further into that at this juncture.

I was using the extended range just to -- because it is a broadening of the family and availability of the family. As far as J&J, if they move into the monthly, that will only further exacerbate the death of the two week. So who's to say? They own north of 80% of the wearer base in the two-week space. They know better than anyone how non-compliant it is, and they know if they can move people from the two-week space to the monthly space and charge 30%, 40%, 50%, or 60% for a monthly higher than a two-week non-compliant, they are much better off, even if they don't get -- they have to get the lion's share. But even if they don't get it all as they put people in play.

We view -- net-net-net, we view J&J activity, putting the two-week market in play as a plus for Cooper, as a plus for the industry.

Operator

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

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

Well, thank you. I want to thank everyone for joining us today.

I hope you're as excited as I am about our start to the new year and our outlook for the new year. We look forward to updating you on our second-quarter conference call, which I believe is June 2nd, and in the interim we'll be able to execute on a number of other things, including the launch in Japan. So we'll update you more on the progress we're making there, as well as a continued expansion of MyDay and our success in the 1-Day silicone hydrogel space. We look forward to updating you in early June. Thank you.

Operator

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