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COO - Q3 2017 Cooper Companies Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 consolidated revenue of $556m and consolidated non-GAAP EPS of $2.64. Expects FY17 consolidated revenues to be $2.129-2.142b and non-GAAP EPS to be $9.66-9.76. Also expects 4Q17 non-GAAP EPS to be $2.60-2.70.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q3 2017 The Cooper Companies, Inc. Earnings Conference Call. (Operator Instructions) And as a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ms. Kim Duncan, Vice President, Investor Relations. Ma'am, you may begin.

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

Good afternoon, and welcome to the Cooper Companies Third Quarter 2017 Earnings Conference Call. During today's call, we will discuss the results included in the earnings release along with the updated guidance and then use the remaining time for Q&A. Our presenters on today's call are Bob Weiss, Chief Executive Officer; and Al White, Chief Financial Officer and Chief Strategy Officer.

Before we begin, I'd like to remind you that this call is -- contains forward-looking statements, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions and integration of any acquisitions or their failure to achieve anticipated benefits. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption Forward-Looking Statements in today's earnings release, and are described in our SEC filings, including Cooper's Form 10-K, all of which are available on our website at cooperco.com. Should you have any additional questions following the call, please call our investor line at (925) 460-3663 or e-mail ir@cooperco.com.

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

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

Thank you, Kim, and good afternoon, everyone. Welcome to our Third Quarter 2017 Conference Call. This was another solid quarter with share gains, improving margins and strong cash flow. On a consolidated basis, we reported $556 million in revenue and non-GAAP earnings per share of $2.64.

CooperVision posted another strong quarter with 7% as reported revenue growth or up 8% in constant currency. Daily silicone hydrogel lenses grew 47%, while Biofinity and Avaira combined to grow 10% both in constant currency. CooperSurgical posted revenue growth of 13%, up 4% pro forma and -- with fertility up 26% or 6% pro forma.

Moving to the details. CooperVision posted third quarter revenues of $437 million, up 8% in constant currency. By geography, the Americas grew 2%. EMEA grew 13%, and Asia Pacific grew 13%, all in constant currency. The Americas stands out as it was soft, but based on market data, the entire market was soft. We continue to see good fit data in the Americas. So it appears this was an anomaly, and we expect stronger growth in future quarters. Overall revenues continue to be driven by our silicone hydrogel lenses led by my MyDay and clariti in the daily space and Biofinity in the monthly space. Regarding dailies, our 2-tier approach with the daily silicone -- within the daily silicone hydrogel space allows doctors to offer premium and mass market lenses with the latest materials. MyDay is our premium daily silicone hydrogel lens and is offered as a very high-quality sphere and toric. Our clariti products are sold on a mass market basis and remain the only daily silicone hydrogel lens family with a sphere, a toric and a multifocal offering. In addition, clariti is competitively priced against several daily hydrogel products that we maintain a nice competitive advantage. Overall, we continue to believe wearers deserve the healthiest modality paired with the highest quality oxygen permeable materials to ensure the best health for the eye. This is done with daily lenses using silicone hydrogel lenses such as MyDay and clariti.

Moving to other products. Biofinity continues to perform extremely well all around the world. This includes a full product offering of spheres, torics and multifocals, along with our expanded offerings of Biofinity Energys and Biofinity XR toric. We continue to see diversified geographic strength from Biofinity and expect solid performance for many years to come.

Within the 2-week space, we're continuing to transition wearers to our upgraded Avaira Vitality lens from our legacy Avaira product. As we've discussed in the past, this is a large and time-consuming endeavor, but I'm happy to say our customers are receiving this upgrade very positively. Our timing remains the same, which is to finish the transition by roughly the end of fiscal 2018.

Turning to product categories. We remain the global leader in torics, which grew a solid 11% in constant currency, primarily driven by Clariti 1-day toric and Biofinity toric, along with the rollout of MyDay toric in Europe. We believe there's still a lot of room for growth in this category both by modality and by geography.

Multifocals grew 7% in constant currency. We have a diversified set of products in this space and arguably the best multifocal design on the market with Biofinity Multifocal, so we expect continued growth.

Turning to the global contact lens market. For calendar Q2, we grew 7% versus the market that was up 4%. This included growing faster than the market in each geography with the Americas growing 2% against the market up 1%, EMEA growing 11% versus the market up 6%, and Asia Pacific growing 12% versus the market up 8%.

By modality, single-use lenses continue driving growth with CVI up 14% and the market up 12%. And finally, CVI's non-single-use lenses grew 4%, while the market declined 3%. On a trailing 12-month basis, CooperVision also reported very strong numbers, growing 8% versus the market up 4%. Going forward, we are still targeting 4% to 6% market growth, driven by the continuing shift to improve technologies such as wider suite of silicone hydrogel lenses, the continuing trade up of -- to dailies and to specialty lenses, geographic expansion and the expansion of the wearer base, particularly outside of the United States. And given our strength in these areas, along with our broad private label offering, we expect to continue growing faster than the market.

Turning to a different topic. We completed the acquisition of a small specialty contact lens company named Procornea in August. This added a leading ortho-k technology to our lens portfolio and increases access to several fast growing myopia control markets. This acquisition supports our specialty lens strategy led by our MiSight product. Myopia control is currently in its infancy, but we are developing a nice specialty lens platform to remain a leader as this market starts taking shape. Note, the financial terms of this acquisition were not disclosed.

Moving to CooperSurgical. We reported third quarter revenues of $119 million, up 13%, driven by organic growth and acquisitions. On a proforma basis, we grew 4% in fertility -- with fertility leading the way, up 26% or 6% pro forma. This quarter was important over the last -- an improvement over the last 2 quarters, and I believe Q4 will be another step up in the right direction.

Within IVF, we're continuing to work through integration matters, but we're making progress. We're also continuing to execute on our growth strategy as the global leader in medical devices and genetic testing within the fertility space. The IVF space remains a global market with long-term long growth dynamics -- strong growth dynamics, and we look forward to continuing our positive trends.

Our office and surgical products business grew 1% for the quarter with strength in our disposable hysteroscope, EndoSee, offset by weakness in the older product lines.

Before turning it over to Al, I want to express my appreciation to our employees for their hard work and dedication. I also want to especially send our best wishes to those impacted by the storm in Texas, including our employees located in that area.

And now I'll turn it over to Al.

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

Thank you, Bob, and good afternoon everyone. Most of my commentary will be in a non-GAAP basis, so please refer to today's earnings release for a full reconciliation of GAAP to non-GAAP results. Bob covered revenue, so let me focus on the rest of the financials and guidance.

For the quarter, consolidated gross margins were 64.8%, up nicely from 63.6% last year with both CooperVision and CooperSurgical posting improved gross margins year-over-year. CooperVision's gross margin were 65.5%, up from 64.2% last year, driven by product mix shift gains and currency, partially offset by higher cost inventory tied to our annual plant shutdowns in fiscal Q1. As a reminder, our inventory turns through the P&L over 6 months, so our plant shutdowns in fiscal Q1 resulted in higher cost inventory turning through the P&L in our fiscal third quarter.

Bob mentioned the Avaira transition, and I want to comment quickly that we did experience higher sequential costs associated with switching patients from Avaira to Avaira Vitality mostly from writing off inventory. Having said that, we excluded these unique transition costs totaling $2.8 million for non-GAAP reporting purposes. To be clear, this is a very positive transition for us as we're providing a high-quality replacement product while realizing manufacturing improvements to significantly improve future gross margins. We expect we'll see most of this benefit in the back half of next year and into fiscal 2019.

CooperSurgical posted a nice bump in gross margins to 62.4%, up 120 basis points from 61.2% last year. These improvements were driven by success around our integration efforts within fertility along with the margin improvement in our base medical device business. Consolidated operating expenses grew 10.5% in the quarter, driven by investments throughout the company.

We've spent time in prior quarters discussing investments, including our sales force expansion, but I want to highlight that we expanded our investment activity this past quarter to include other parts of the business such as distribution. It's important to remember our revenue growth has been strong for many years, and we believe it will continue for many more years. As such, we need to ensure our infrastructure is capable of meeting our higher throughput and more stringent customer demand. Ensuring we maintain a strong global distribution platform is at the top of this list. Combining these investments with other areas such as sales and marketing, means SG&A spending will likely remain elevated.

Regarding the financial impact of this quarter and into the future, we use currency upside to support these investments, and we'll continue to do so. We had currency as a headwind for many years and tightened our belt, so it's nice to have currency as a tailwind to now support needed infrastructure investment.

Moving to operating income. We grew OI by 9.5% with operating margins improving to 25.9% from 25.6% last year. Below operating income, we reported $8.3 million of interest expense, and our effective tax rate was 6%, both in line with our expectations. Non-GAAP EPS was the $2.64 with roughly 49.6 million average shares outstanding.

Moving to the balance sheet. Total debt decreased $174 million in the quarter to approximately $1.21 billion. This pay down was driven by strong cash flow and a reduction in cash balances. Regarding cash flow, we posted $117 million of free cash comprised of roughly $155 million of operating cash flow offset by $38 million of CapEx.

Before moving to guidance, I want to mention that CooperVision has recently entered into a settlement agreement with respect to the class action complaints relating to UPP or Unilateral Pricing Policy. The settlement includes the payment of $3 million and is still subject to court approval. We have excluded the settlement accrual and related costs from our non-GAAP earnings.

Regarding guidance for fiscal Q4, we're guiding CooperVision revenues to $435 million to $445 million, up roughly 5% to 7.5% proforma against the tough 11% comp. And note, I am highlighting proforma rather than just constant currency as we're including the small revenue from CooperVision's Procornea acquisition in the prior quarter to provide a true organic growth rate. CooperSurgical's Q4 revenue guidance is $117 million to $120 million or roughly 3% to 6% proforma. Regarding non-GAAP EPS, we're guiding to $2.60 to $2.70, off a roughly 9.5% effective tax rate. Within this guidance is an assumption that severe flooding in Texas negatively impacts CooperVision revenue by $2 million, CooperSurgical's revenue by $1 million and EPS by roughly $0.03.

On a full year basis, this translates to raising consolidated revenue guidance to $2.129 billion to $2.142 billion with CooperVision at $1.670 billion to $1.680 billion and CooperSurgical at $459 million to $462 million. We are also increasing our full year non-GAAP EPS guidance to $9.66 to $9.76.

Before concluding, I'd like to make a brief comment about next fiscal year. We are comfortable stating that we expect as reported non-GAAP EPS growth to be in the low double digits for fiscal 2018. This includes assumptions around the investments I discussed earlier. In other words, we anticipate using at least some of the recent positive currency tailwinds to support our continuing infrastructure expansion plans.

With that, let me conclude by saying we remain focused on expanding our businesses and gaining global market share while delivering consistent solid financial results, and this quarter was certainly another step in that direction.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And now our first question comes from the line of Brian Weinstein with William Blair.

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

Wondering if you could talk at all about any kind of pricing benefit that you guys are seeing. I know you raised some pricing on strategic lenses in April. What benefit has that been giving you? And can you talk about the difference how you are going about your price increases versus how some of your competitors do that? And does that cause any kind of an issue in the market?

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

Sure, Brian. I -- pricing gets a lot of questions and has historically gotten a lot of questions. It is true there are some competitors raising prices -- list prices. It's also true that as an industry we've been trading up -- we've been more about trading up. So 90% of the action of growth in the industry is trading up. Less than 10% has anything to do with pricing, and that's been that way forever, for 30 years. So pricing sometimes is a tactic. It allows you to do things as you are shifting wearers from a 2-week modality into a 1-day and a 1-month modality. So you may do something with your list prices. At the end of the day, it's the net growth that matters. It's the trading up that matters, and I would say, pricing is nothing more than a minor tactic in achieving whatever you're trying to do. The industry has done a phenomenal job of moving now people out of the 2-week space into the monthly -- into the 1-day space. The growth of the industry in the last 4 years plus has been the 1-day modality in the U.S. and for the last 10 years, it's been the 1-day modality outside the U.S. So I'm not going to comment too much more on the granularity of pricing tactics.

Operator

And our next question comes from the line of Joanne Wuensch with BMO Capital Markets.

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

Two of them. One, could you please walk us through your EPS guidance bridge? Roughly $0.14 at the midpoint that you raise it. How much of that is from tax, FX and probably some other components in there?

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

Al, you want to?

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

I'll take that one. Yes, from a tax perspective, we came in probably just a little lighter maybe than expecting in Q3 but Q4, as we've guided to, 9.5%. So for a full year basis, we're probably in that 7.5%, a little bit north of that maybe range. So I wouldn't put much in there from tax. From an FX perspective, that's a little bit of a different story. We had about $0.06 -- $0.16, I'm sorry, $0.16 benefit from FX this quarter, and when we look at Q4, we have about a $0.12 FX benefit, so some nice benefit coming from currency in Q3 and Q4. We obviously invested a lot of that, and as I talked about, we're taking the opportunity here to do some upgrades, especially within distribution, throughout the business to ensure we meet customer demands going forward. And I -- there really wasn't much else there. So it's pretty much driven by doing what we were doing, and then outside from foreign exchange, being used to reinvest in the infrastructure of the business.

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

That leads to my second question. The question is, last quarter, you were helpful to give us some idea of how fast you're ramping up your sales force. Can you give us an idea of where those sales force hires are and how the productivity is progressing?

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

Yes. I would say that we have put a lot of energy in the last 12 months into sales force expansion. And while I won't quote exact numbers in terms of feet on the street, I would say we have expanded our sales force year-over-year 20% in Vision, so a lot more feet on the street. We're still under indexed against all of our primary competitors and even a smaller competitor. Having said that, the productivity, I think, is reflective in the fact that we continue to grow twice the market, so we're getting a lot of results out of that expanded feet on the street. It does take 9 to 12 months to have a salesperson fully productive, so we're still marching up that curve very nicely. It's a global expansion. It's not only the U.S., so we continue to fund Asia Pacific, has largely been a bootstrap "pay as you go" basis but it's hire as many as you need to continue to expand your coverage in Asia Pac. In Europe, we're borderline -- almost #1 now in the marketplace, neck and neck with Alcon and continue to add to feet on the street in Asia -- in Europe also. So it's going very well. We're happy with the progress. We're happy with the availability of what is out there to have and attract into the CooperVision family.

Operator

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

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

Could you hear me okay, guys?

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

Very good.

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

Great. Bob, I was wondering -- first question, if you could just talk on the North American market. Obviously, you came in a little softer than we might have expected. I think the numbers at the end of the press release are gross, so that I don't think includes the promotional activities, but maybe you could just talk about kind of what you think is going on in the North American market this quarter.

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

Yes. You're going to have to mute. I think there's something because there is background. Okay, that's good. Yes. the Americas -- North Americas, as I indicated, was soft. We think the on eye activity is good. So the throughput is good. The trading up is phenomenal going from 2 weeks to 1 day. So really, some of the anomaly, I think if we look at the last 6 quarters since J&J started their activity and whether it's the migration from UPP, whether it's consolidation of distribution, whether it's some of the tactics that J&J has used in the marketplace by way of changing distribution channels, there's a host of activities that can lead to tough comps and hard to figure out what's going on. Net-net-net over a multiyear period, and I have to go multiyear even though I usually like to go 12 months, the market is very good. But I must admit, it's been -- I always say 1 quarter does not a trend make. This quarter clearly is not indicative of a trend, nor do I think it's indicative of the market strength, which is fine on a -- clearly on a worldwide basis. Sorry, I don't have a better answer than that, but it's -- I would admit, it's pretty squirrely.

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

Okay. And a very quick follow-up for Al maybe. Promotional activity on Clariti and MyDay went up at -- starting May 1, CVI gross margin maybe a bit softer than we were looking for. Can you quantify any impact of those promotions? Or was it much to the P&L at all this quarter?

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

Yes. Challenging to quantify that, right? No, I would say it was not a big impact to the quarter though, suffice it to say.

Operator

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

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

So 2 quick ones. Bob, you sort of mentioned this. But can you talk a little bit about the recent trends in the 2-week segment of the market? My sense is that, that category is accelerating in its erosion if you will. So I'm really just curious if, a, you think that, that's consistent with what you're seeing and what you guys are really doing to try to continue to capture those 2-week patients as they come loose. And then the second question for Al is could you just -- I'm really just trying to think about next year's cash flow generation, and obviously, CapEx is very cyclical for your business. So I just wanted to get some sense of how you're thinking about CapEx needs for next year.

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

Yes. I'll deal with the first one. You're absolutely right. The -- there is an acceleration of the 2-week space shifting into the daily and to a lesser extent, the monthly. We've been putting up pretty good Biofinity numbers, so yes, some of them are leaving for the monthly category. I applaud the efforts that J&J has in that arena. They are about 90% of that market or a little more. So that's the wearer base, and we want that wearer base, and they know it, out of the 2-week space into other spaces and primarily the 1-day modality. Since they have adopted that strategy, really, when they came out with the 1-week product and then the 1-day product, meaning a 1-week Oasys and then a 1-day Oasys, they have really accelerated the depth of that 2-week space, and we find that good. We are getting our fair share. Obviously, we -- when you look at the Clariti and MyDay numbers, 47% growth over a higher base, so year-after-year, that base goes up, and it continues to grow very impressively. And clearly, the U.S. is a big part of that growth because of that shift from the 2 week into the 1 day space.

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

Yes. I'd say on the CapEx question, obviously, we're closing out a strong year here. We're going to have free cash flow well north of $400 million and our CapEx looking like it's certainly going to be light of $150 million. I would say that, because of the way it's calculated in terms of it's when you write the check, I think that we will close out strong here. It would not surprise me if next year's CapEx is -- I would be surprised if it's not higher. Certainly could be in that $150 million to $200 million range depending upon what we do. As I mentioned, distribution, as an example, wouldn't surprise me if we have new distribution facility, as an example, in each business next year. So I could see -- certainly see CapEx being higher next year. On the flip side, our operating cash flow will continue to grow and year-over-year free cash flow continue to improve. So fiscal '17, strong close to the year should result in strong free cash flow fiscal '18. Even with a higher CapEx, if we have it, it's going to be an even stronger free cash flow year is what I'd say at this point.

Operator

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

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

I have one for Bob on the Americas, one for Al on 2018. I'll try to ask them both upfront, and if you need me to clarify, I will. But Bob, back to the Americas, I mean, the 12-month -- it's been weak -- it's -- the last 12 months have been weak, so it's not just a 1 quarter phenomenon. I guess, what I'm trying to understand is what gives you the confidence that it's going to recover if it's unclear, based on your earlier answer, exactly what's going on. I mean, one theory is that it was via stocking a year ago, and that's just kind of rolling out. So can you give us any color as to why you're confident that the market will recover? It's not just a J&J phenomenon. Obviously, your results in the Americas have also been depressed, so a little bit more color on that would be helpful. And then second, for Al, you talked about EPS, but you didn't talk about sales. Consensus right now is about 7% on the top line. I'm assuming that's underlying excluding currency. Are you guys comfortable with that? And is currency about a 3% tailwind to sales and $0.60 to EPS next year?

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

Okay. On the Americas, our confidence really goes back to -- if we look at it from a 4-year perspective, the Americas has done well, more like 4%, and we do have the acceleration of the trading up. And keep in mind, I've mentioned in the past, that a trade up of an Oasys noncompliant wearer is a 800% trade up to an Oasys 1-day compliant wearer, so a 2-week noncompliant who's wearing it as a monthly and buying it in a -- it's available on a 2-year supply because they buy a 1-year supply at 2 weeks, which turns into a 2-year supply on a monthly basis. They then shift to buying 730 lenses, and they're very compliant because they don't have lens care regimens and all that stuff. So we're highly confident that once you get through the noise level of everything that's gone on, including just how much J&J sells the pipeline in the third and fourth quarters of 2015, that kind of created anomalies throughout the next periods and to and including some of the antics of going direct, trying to go around the middleman and to and including some of the consolidation going on with partnerships of the large retailers. So there's a lot of moving parts, but underlying that is a market that looks very healthy from a wearer perspective and a trading up perspective. So we're highly confident we'll see normalized correlation between that shift and the revenue line in the future.

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

Yes. And Larry, when it comes to guidance, we're not going to provide too much color yet. It's a little early. The business has obviously been performing well from a top line perspective, and we don't fluctuate significantly. So we'll see how that plays out, but I don't want to give specific numbers on that yet or, frankly, with respect to currency as much as the market's move. Making the statement that we're comfortable saying low double digits and use 11% as the midpoint, you could argue that, that's conservative, and certainly, when you look at our Q4 guidance here of 14% to 18% as reported, we obviously strive for stronger numbers. At this point in time though, it's still months and months and months away from next year in giving guidance. So I think it's prudent to just stick with where we are right now and we'll update it accordingly when we get on the December call.

Operator

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

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

A question -- 2 questions for you. First on the CSI business, if I remember correctly, a quarter ago, you commented how you thought some of the headwinds to the business were going to abate here in the third quarter and so just if you could provide any more color on exactly what's going on there and how long you expect the pressure you're seeing on the office business to continue. And then, I guess, just one last question on the Americas. Bob, do you think there's any impact from the increased rebating activity sort of pulling forward demand because there's just more annual supply sales happening these days?

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

Want to take the surgical?

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

Yes, I'll take surgical first. Yes, the third quarter was a touch weaker than, certainly, at least I was expecting it was going to be. The fertility business did okay. There was still some integration activity that probably lingered a little bit longer than I thought it was going to. So I think we'll see a little bit stronger fourth quarter performance there. The base is, though, yes, there's a lot of legacy products there. So EndoSee, as Bob mentioned, our disposable hysteroscope, is doing really well, and we're continuing to make a lot of progress there, but some of the base products are a little bit harder to get moving there. So I still think that business is more along the lines of a 3%, 4%, 5% maybe kind of growth business, that component

-- that base business component of it. So that was a little bit lighter. It's hard to get into any individual quarter and pinpoint a specific issue associated with it, but I do think you'll see a little bit of improvement on that in Q4 also.

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

On rebating, particularly in the Americas, I think there is a silver lining to the whole of rebating. I think you're right that the rebating activity has increased, and that makes sense when you think about what we're doing as an industry, moving from the 2-week space and trying to provide that incentive to a new fit in the 1-day modality. So there's a lot of energy being spent on try it, you'll like it. If we can get you there to try it, once you realize how convenient it is, you'll probably stay and not go back ever again because it's just too convenient. And I speak as a user, not -- I'm not only as a -- a user who used to clean lenses every day. So I don't worry about cleaning lenses every day. I just throw them away every day. So the strategy of rebating and creating that extra incentive to say, hey, net-net-net this is not too expensive right now, keep in mind there's a list price. Now list price is getting higher and higher relative to the net. And so I can net out, take my money I'm spending on lens care and shift it into the 1-day modality and feel real good about that and the convenience. Lo and behold down the road, it could be that the rebates start diminishing once you're a new fit and no longer a new fit but a re-user. Who knows what will happen? So I think more important to have your list price, the list price of that car, the list price of the hotel room, I don't care what list price you're talking about, where you suddenly provide $1,000 list and a $500 refund, well, it's a $1,000 list in -- in a $1,000 bill certain times. So that's kind of same in this industry as every other industry on how you play that out.

Operator

And our next question comes from the line of Chris Pasquale with Guggenheim.

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

Al, I wanted to start by circling back on the guidance update and the impact of currency here. So you guys had been looking for currency to be neutral for the year, which implied about 2% -- sorry, $0.02 headwind in the back half. Now it sounds like it's actually going to be $0.28 positive in the back half. So the implication is that on a constant currency basis full year guidance came down by about $0.15. Is that math correct? And if so, what's driving that?

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

Yes. I mean, I'm not sure exactly how to -- in terms of what's driving it. I mean, obviously, currency has been moved in our favor, so when you look at it, the numbers are roughly correct. That's true. I mean, some of these are given ranges especially on forward-looking guidance, but that's true. The answer to that, though, is the investment side. So when we gave guidance last quarter, we saw the currency strength already. As a matter of fact, when we guided, we guided with some relatively conservative FX rates. And we were getting in front of especially distribution. It's the best example I can give. You guys have heard -- you've done survey work and you have heard us some distribution issues, and we've talked about them in the past. We have a lot more volume going through our distribution centers. A lot of our business is driven by daily growth. We have customers who are demanding a higher level of excellence when it comes to shipping. That's both true within Vision and Surgical. Our businesses are both growing and growing pretty consistently. So we are getting in front of that, and we started that at the beginning of last quarter. Now it's much easier to do that, so to speak, and report good numbers when you have currency at your back. We went a number of years here where we were fighting currency and still putting up pretty good numbers in the face of currency and now it kind of flipped the other side. So we are taking advantage, if you will, of the currency situation to invest some of those dollars.

Operator

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

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

So 2 questions. Al, can you just get a little bit more specific on how much you're going to be investing between this year and next year? How much of it's coming this year? How much of it's coming next year and exactly where those investments are going to be going domestic versus international? And then maybe for Bob. On the Procornea side, that asset, I think if I know it somewhat, has a pretty strong presence in China. Is there an opportunity to accelerate your -- the contact lens business in China as a result of that acquisition? And then myopia control is the segment that I think can be, over time, hundreds of millions of dollars. I mean, when do you think that acceleration in that market occurs? Is it sometime this decade?

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

I'll touch on the investing. A lot of the investing is going to be offshore. So obviously, I mentioned distribution a couple times, and you're going to continue to see that. We'll have probably a couple new distribution centers coming up within Vision and Surgical and an expansion of existing distribution centers. So you're going to see a lot of activity there. We're not going to hold back on sales and marketing investments either. As we've mentioned and Bob was talking through, we're growing at around 2x the market. We have a lot of momentum, a lot of really good products. We're going to continue to invest dollars in both business to drive market share gains. So you're going to see that, and when you look at how much, some of that, frankly, to be honest with you, gets dependent upon currency. I mean, if the euro holds where it's at and continues to give us the opportunity to do some investments, we're going to take advantage of that. Those -- a lot of those are variable expenses, and we can maneuver around that. But we do believe in the long term of the business, and we're going to invest accordingly.

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

On Procornea, we obviously haven't given it a lot of airtime at this juncture, but you're correct that a big part of their business is in fact in China. Relative to whether or not and to what degree that will allow us to accelerate our overall franchise in China, I would assume, yes, there will be some benefits, but quite frankly, a lot of what makes -- what's okay and what Procornea is about in myopia control is pretty much in the hands of a specialty area where people really focus in on what it takes to slow the progress of myopia, particularly in the younger generation -- the younger part of the generation. So I don't think there's a real lot of spill over there. We are tremendously excited about the space, but we also are realistic enough to say this is going to be a long-haul development. Myopia is going up around the world significantly. It's gone from basically 20% of the world and is -- will be approaching 50% of the population by 2050, and directionally, it's clearly headed that way. What's causing it very much is taking people off the rural areas, the countryside, putting them in schools, is one of the leading thoughts. Having less natural sunlight is a thought. Whatever the real reason is, it's clear that myopia is going up around the world and that the world will need a better portfolio of products to address high myopes, which run into problems later in life with retinal detachments and various other forms of eye challenges. So we're excited about it, but it's not going to be immediate. So we're looking beyond the next 5 years, I think, in terms of where it starts moving the needle.

Operator

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

Andrew Ronald Hanover - *JP Morgan Chase & Co, Research Division - Analyst*

So I thought I'd start with Al with my first question and then follow up with Bob for my second. But I wanted to, Al, just go over guidance real quick and just understand the CVI 5% to 7.5% pro forma guidance and what the contribution was in terms of the acquisition last quarter -- a year ago. And then, Bob, on -- torics and multifocal had somewhat of an easier comp this quarter. You're launching Clariti toric in the U.S. and MyDay toric in Europe. Any color you can give there in terms of some of the pushes and pulls in the quarter?

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

Yes. Couple comments on CooperVision revenue. The -- we did not disclose the financial terms details of that acquisition, but it was small. So I could tell you there's a minimal impact to revenues on CooperVision from that. If you look at our guidance from CooperVision from last quarter to this quarter, certainly, some of that was currency as we saw the improvement in currency within the business, but it would take -- we actually took the business up even more than that. So operationally, the underlying fundamentals of CooperVision are very strong and the kind of 5% to 7.5% growth that were given for the next quarter would be an improvement, right? The only reason that it looks like it's less than an as-reported basis is because we're coming off the 11% comp.

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

On the dynamics of torics and multifocals, we have a lot of activities going on around the world, both as to products and as to geography. In terms of a lot of activity that's leading to solid growth in Asia Pac with MyDay toric continuing to roll out there and torics in general, by far, the most mature market in the world, and that's a relative term, not really mature, is the Americas, where torics are far advanced compared to the rest of the world by a factor of more than 50%, meaning there's a lot more penetration in -- for example, in Japan and Germany, there has been a history in the past of dealing with astigmatism by RGPs, big in Germany, big in Japan. But the newer generation, the young adults are not getting RGPs. They're getting torics when they have astigmatism so tremendous growth opportunities there. We're happy with the numbers we're putting up with -- we're happy with some of the progress we've made with MyDay toric, which is early in the game in terms of rolling it out now into Europe and later, next year in the U.S. We're happy with Biofinity extended range, the made to order, so a lot of good things that should keep solid momentum in that specialty contact lens area.

Operator

(Operator Instructions) Our next question comes from the line of Jon Block with Stifel.

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

Can you hear me okay?

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

can hear you fine.

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

First one, Bob or Al maybe. Just the optimal capital structure. In other words, there's chatter out there that there were certain women's health assets that might be for sale. I know you're not going to comment specifically on those assets. But can you talk to your leverage or appetite for more acquisitions in CSI considering it still seems like the integration is going on with some of the deals that were done last year? That's the first question. And the second one, just small P&L questions. Any details on the $3.2 million other income gain in the quarter? And lastly, Al, I want to make sure I heard you right. The $2.8 million that was excluded from non-GAAP results, that was specific to the Vitality transition. That's the case and it was excluded this quarter but not the past couple because it was larger than expected?

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

Yes. Let me rattle a couple off here. Bob, jump in if you want. The Vitality, you're right. $2.8 million, it was something like $1 million or maybe a little bit less last quarter. We had not called it out at that point. Now it's moved up to a point here where I think it's worthwhile to actually highlight and mention. It'll occur again, I think, probably a similar amount in Q4, probably again in Q1, and then it'll tail off. That transition's getting done. So I don't believe it's ever going to be that large of a number, but it's important enough, I think, from our perspective, to be transparent, kind of highlight that. If you look at the $3.2 million, the other income on there, a lot of that's going to be associated with foreign exchange, so that's going to be below-the-line FX gains on our intercompany loans. So we tend to see that fluctuate. You'll see it as a gain some quarters, see it as a loss some quarters. That just kind of maneuvers around with currency. But that's what the majority of that would have been. If you look at our optimal capital structure, I guess, the way I'll say I look at it is, this quarter, our bank-defined net funded debt to EBITDA, which is the way I look at it, was 1.71x. So from a leverage perspective, we're probably a little bit on the light side right now. Obviously, we look at things like investing in the business. We look at acquisitions. We look at share buybacks and so forth, as different avenues that enhance shareholder value. We'll continue to do that. I think that from a leverage perspective defined that way, if you start getting below 1.5x or, certainly, as you move towards 1 or lower, you're getting yourself kind of unlevered in today's low interest rate world. If you were going to move up towards north of 3 or, certainly, as you move towards 3.5, if you were to move that high, right, you'd have to raise a question mark on that as your leverage risk is going to go up.

Operator

And I'm showing no further questions at this time, so this does conclude today's Q&A session. I would now like to return the call to Mr. Robert Weiss for any closing remarks.

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

Well, I want to thank you for joining us today for an update on how the fiscal year is progressing. We have a lot of positive activities going on as you can see. We look forward to updating you as we approach and come out with our year-end numbers, and I believe that's on December 7. And so we look forward to giving you an update at that time. Thank you.

Operator

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