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PRESENTATION

Operator

Good afternoon. My name is Krista, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2023 Cooper Companies Earnings Conference Call. (Operator Instructions)

I will now turn the conference over to Kim Duncan, Vice President of Investor Relations and Risk Management. You may begin your conference.

Kim Duncan ***CooperCompanies, Inc. - VP of IR & Risk Management***

Good afternoon, and welcome to CooperCompanies Third Quarter 2023 Earnings Conference Call.

During today's call, we will discuss the results and guidance included in the earnings release and then use the remaining time for questions. Our presenters on today's call are Al White, President and Chief Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

Before we begin, I'd like to remind you that this conference call will contain forward-looking statements, including anticipated results of operations, revenue, EPS, operating income, tax rate and other financial guidance, anticipated expenses, benefits of infrastructure investments, strategic and operational initiatives, market and regulatory conditions and trends, product launches and demand and pending or possible transactions.

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 and Form 10-Q filings, all of which are available on our website at coopercos.com.

Also, as a reminder, the non-GAAP financial information we will provide on this call is provided as a supplement to our GAAP information. We encourage you to consider our results under GAAP as well as non-GAAP and refer to the reconciliations provided in our earnings release, which is available on the Investor Relations section of our website under quarterly materials. Should you have any additional questions following the call, please e-mail ir@cooperco.com.

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

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Thank you, Kim, and welcome, everyone, to CooperCompanies Third Quarter Fiscal 2023 Conference Call. Demand for our products and services remains very healthy, and we solidly exceeded revenue expectations, posting record quarterly revenues of $930 million, driven by strong sustainable organic growth.

CooperVision reported record quarterly revenues in its tenth consecutive quarter of double-digit organic revenue growth, and CooperSurgical reported record quarterly revenues with its fertility business posting its 11th consecutive quarter of double-digit organic revenue growth.

Our teams are delivering impressive results, our momentum is strong, and we're executing well on our strategic growth initiatives.

Moving to the numbers, consolidated revenues were $930 million, up 12% organically. CooperVision posted revenues of $630 million, up 13% organically, and CooperSurgical posted revenues of $300 million, up 9% organically. Exceeding $600 million in quarterly revenues was the first for CooperVision and exceeding $300 million was the first for CooperSurgical.

CooperVision's growth was driven by our daily silicone hydrogel portfolios, and CooperSurgical's growth was led by our fertility business. Non-GAAP earnings per share were $3.35.

For the quarter, and reporting all percentages on an organic basis, CooperVision's revenue growth was strong and diversified. By geography, the Americas grew 12%, EMEA grew 13%, and Asia Pac grew 16%. Throughout the world, we're leading with innovation tied to new products, expanded product ranges, market-leading flexibility, and growth in key accounts.

Within categories, spheres grew 9%, torics grew 16% and multifocals grew 19%. Within modalities, daily silicone hydrogel lenses accelerated and grew 23% with MyDay leading the way. Daily silicone hydrogel lenses continue to be the main driver of growth for the contact lens industry, and we offer the broadest portfolio with MyDay and clariti available in a wide range of spheres, torics and multifocals. And lastly, our silicone hydrogel monthly and 2-week lenses, Biofinity and Avaira Vitality, grew a healthy 8%.

Turning to products and starting with our high-growth daily silicone hydrogel portfolio, we're 6 months into the U.S. launch of our highly innovative MyDay Energys lens and the ramp is progressing exceptionally well. This premium lens taps into a fundamental wearer need catering to the demands of today's lifestyle by incorporating DigitalBoost technology to alleviate the impacts of digital eye strain. It's a big success with eye care practitioners and wearers alike, and our sales momentum is very strong.

We're also seeing high demand for MyDay toric as we continue rolling out our parameter expansion across North America and Europe. This demand is being driven by its market-leading toric design, which mirrors Biofinity's design, and our industry-leading SKU range, which is by far the widest toric range in the daily market.

With this broad range, eye care practitioners are capitalizing on the opportunity to offer their 2-week and monthly toric wearers the option to enjoy the freedom of wearing a daily toric lens.

And last, but not least, MyDay multifocal continues to take considerable share around the world, re-establishing CooperVision's position in the premium multifocal market segment. We continue to hear from eye care practitioners how easy the lens is to fit and how fantastic the visual acuity is. And I can speak to this personally as I was recently fit in contact lenses for the very first time, and went with MyDay multifocals. The process was remarkably fast and easy, and these lenses are truly amazing.

To conclude on MyDay, this technologically superior family of products continues to deliver high growth, and our momentum is fantastic. Lastly, within the daily segment, our clariti family of lenses continues to perform well by offering a high-quality product at a mass market price point. It was especially nice to see strength with clariti in several international markets, including an acceleration of sales in Asia Pac.

Outside of dailies, demand for Biofinity remains strong, led by torics, multifocals and our custom offerings, and Avaira Vitality had a solid quarter led by torics.

Moving to myopia management, we posted revenues of $30 million, up 30%, with MiSight up 53%. MiSight accelerated this quarter posting its best growth for the year, even with China declining year-over-year due to tough comps against a stocking order last year. Meanwhile, our ortho-k franchise had a difficult quarter tied to portfolio realignment and weakness in China.

Fiscal Q4 started off well, though, and we remain comfortable with our full year guidance of $120 million to $130 million, albeit probably at the lower end, as strength in MiSight likely won't offset ortho-k softness.

Regarding MiSight, we're seeing improving fitting trends around the world driven by key accounts, higher-volume pediatric optometry practices, and from the successful integration of the sales process from our specialty lens unit into our regular sales channel. We're also continuing to see very high retention rates, including roughly 90% in the U.S., along with an ongoing positive halo effect with MiSight practitioners accelerating their use of other CooperVision lenses.

We also recently confirmed that Aetna is now covering MiSight under medical plans that opt in to lens coverage, which represents 70% to 80% of Aetna plans. This follows Kaiser who started covering MiSight through vision care plans roughly a year ago. This type of coverage is exciting, but it's still very early in the process, and we have a lot of work to do to ensure eye care practitioners and families understand what it means.

To conclude on MiSight, as a reminder, it's the first and only FDA-approved contact lens for myopia control, and the product is backed by extensive clinical data. This is a critical differentiator as the proactive management of myopia becomes standard of care within the eye care community to help reduce the progression of myopia in children, along with reducing the risk of long-term eye health problems associated with myopia such as cataracts, retinal detachment and macular degeneration.

To finish on CooperVision, the contact lens market grew roughly 8% in calendar Q2 with CooperVision taking share at 11%. We expect the market to remain healthy supported by the long-term macro growth trend of more people needing vision correction. It's estimated that 50% of the global population will have myopia, or nearsightedness, by the year 2050, up from roughly 34% today. This is driven by kids spending less time outdoors and the related greater use of digital screens indoors, among other factors.

When you combine this with the ongoing shift to silicone hydrogel dailies, the increasing focus on higher value products such as torics and multifocals, and higher pricing, we expect many years of solid growth for the industry. Within this, we expect CooperVision to remain a leader with its market-leading innovation, robust product portfolio, ongoing product launches, fast-growing myopia management business, and leading new fit data.

Moving to CooperSurgical, we posted 9% organic revenue growth, including fertility sales of $122 million, up 11% organically for its 11th consecutive quarter of double-digit organic growth. Our fertility business continues to perform at a very high level and the future is bright with strong macro trends supporting the industry's growth. For the quarter, we once again realized success from our diverse offerings within consumables, capital equipment, reproductive genetic testing, and donor activity. And regionally we posted solid growth in the Americas, EMEA and Asia Pac. This was accomplished while investing in multiple areas, including geographic expansion, key accounts, infrastructure build-out, and R&D. We continue to launch new products and roll out existing products and new geographies, and we're clearly leading the way as one of the most innovative fertility companies in the world. In summary, we're in a fantastic place, and we're well positioned to continue delivering success given our great team, diverse portfolio, and global momentum.

Regarding the broader fertility market, the macro trends that are driving global growth remains strong, and we're continuing to see a lot of exciting activity in the space. The industry has multiple growth drivers starting with women delaying childbirth. Age is a key factor in contributing to the need for fertility assistance and the median age of a woman's first birth in the U.S., and within several other developed countries, is roughly 30 years old and continuing to move higher. Other growth drivers include improving access to treatment, increasing patient awareness, increasing fertility benefits coverage, and technology improvements for both male and female infertility challenges.

The World Health Organization recently released updated data showing that 1 in 6 people globally are affected by infertility at some point in their lives, and given that 1/3 of the underlying cause of infertility is women, 1/3 is men, and 1/3 is a combination of the two, or unknown, this is an issue that impacts a lot of people and will continue to do so in the future.

Moving to Office and Surgical, which includes medical devices, PARAGARD, and stem cell storage, we posted sales of $178 million, up 8% organically. Within this, medical devices reported strong growth of 11%, driven by positive procedure volume and strength in several core products. In particular, our Surgical and Labor & Delivery products performed well. Meanwhile PARAGARD grew 7% as we saw some bounce back from last quarter's softness. And our stem cell storage business grew 4%, in line with expectations.

To conclude on CooperSurgical, it's with great pride that we say that every minute, somewhere around the world, a baby is born using CooperSurgical products. Our business makes a difference in people's lives, and we love that. We're also operating in several markets that have excellent long-term growth characteristics such as fertility, so we feel good about where we're positioned and what the future holds.

Before turning the call over to Brian, let me make some high-level comments on our strategic growth initiatives. The last couple of years has shown the strength of our businesses with revenue growth accelerating as we exited the COVID pandemic. This is a result of a multiyear effort concentrated on investing to drive sustainable, organic growth. And we've done this while completing several successful strategic acquisitions. We intend to continue with this growth strategy moving forward. And embedded within this is investing in our people, improving our infrastructure, expanding areas such as sales and marketing, and investing in R&D.

With that, let me conclude by saying how proud I am of our teams. None of this is possible without the dedication and incredible hard work of our employees.

Now let me turn the call over to Brian.

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Thank you, Al, and good afternoon, everyone. Most of my commentary will be on a non-GAAP basis, so please refer to our earnings release for a reconciliation of GAAP to non-GAAP results.

Third quarter consolidated revenues were $930 million, up 10% as reported or up 12% organically. Consolidated gross margin was flat year-over-year at 66.1% with positive currency and product mix being offset by certain period costs.

Operating expenses grew 9%, but improved to 42.2% of revenues as we started seeing leverage in parts of the P&L from prior investment activity. Consolidated operating margin improved to 23.9%, up from 23.4% last year, led by leveraging our operating expenses. Below operating income, interest expense was $26.8 million, and the effective tax rate was better than expected at 12.6% due to discrete items. Non-GAAP EPS was $3.35, with roughly 49.9 million average shares outstanding. With respect to FX, it was $0.07 worse than initially expected, mainly due to losses below the operating income line associated with certain unhedged currencies. This FX loss offset a better tax rate.

To add color to the P&L, revenues exceeded expectations, and we're seeing leverage in certain OpEx line items. However, gross margins were below expectations due to softer-than-expected margins at CooperSurgical, and this negatively impacted earnings by roughly $0.08.

This is primarily attributable to period costs, largely in our fertility business. As an example, we are significantly ramping up our donor sperm and egg business that we acquired with Generate. This activity is moving ahead faster than expected, which is great news, but it created unexpectedly large period charges.

We also had some inventory write-offs during the quarter. Some of this activity continued into August, but we expect these matters to be resolved during fiscal Q4 and not impact fiscal 2024. Meanwhile, regarding OpEx leverage, I'm pleased to report that we've completed several important upgrades this year, which will benefit us moving forward. This includes several large infrastructure improvements at CooperVision and CooperSurgical, including a major IT implementation at our primary European warehouse at CooperVision.

Additionally, we essentially doubled the size of our U.S. distribution facility and added several upgraded packaging and labeling lines, and that facility has now gone live. This activity puts us in an excellent position to leverage the P&L moving forward.

Back to the quarter, free cash flow was $52 million with CapEx of $91 million. Net debt decreased to $2.46 billion.

Before moving to guidance, let me add that after quarter end, we paid a $45 million termination fee for ending the contemplated acquisition of Cook Medical's Reproductive Health business. This did not impact Q3 and it won't impact Q4's P&L, but it will negatively impact free cash flow in Q4 as this is treated as a reduction in operating cash flow.

Moving to guidance, we are increasing our full year revenue guidance to incorporate our strong fiscal Q3 results and the strength we're seeing as we enter fiscal Q4. For EPS, we're holding our range unchanged at the midpoint, which reconfirms roughly 11% constant currency operating income growth for the full year.

Specific to fiscal Q4, the consolidated revenue guidance range is $912 million to $929 million, up 7% to 9% organically [with CooperVision's revenues of $613 million to $624 million, up 8% to 10% organically] (added by company after the call), and CooperSurgical's revenues of $299 million to $305 million, up 5% to 7% organically.

Non-GAAP EPS is expected to be in the range of $3.39 to $3.57 based on a roughly 12% effective tax rate, which offsets the softer gross margin at CooperSurgical, and recent FX weakness led by the yen.

For fiscal 2024, it's too early to provide detailed guidance, but let me give some direction. At a high level, our focus remains on executing on our long-term growth objectives, which include expanding capacity and enhancing our supply chain capability. Within this, we will work to leverage the P&L with a focus on delivering low double-digit constant currency operating income growth next year.

Outside of that, we expect a roughly 15% effective tax rate, subject to discrete items such as the positive impact of stock option exercises.

In conclusion, this was another solid quarter. Our organic growth was strong, and our momentum is very healthy in both CooperVision and CooperSurgical.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Jon Block from Stifel.

Jonathan David Block ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst***

Brian, I might just pick up where you left off a little bit. So maybe I'll ask about the quarter and the high level fiscal '24. So you had a solid top line increase for both businesses, EPS midpoint unchanged. I just want to make sure. It seems like that was all COGS related per your comments, Brian, nothing on OpEx. So just looking for verification there. And if that's the case, I'm landing at around 20 or 30 bps of margin expansion this year with the updated guide being fiscal '23, that's got some of the GM headwinds you just alluded to. Should we think about that rate of OM expansion accelerating into fiscal '24, maybe getting back more in that range of 50 to 100 bps when we think about next year at a high level?

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Yes. So just to answer the first part of your question, Jon, you're correct. It was really purely a gross margin miss that softened our EPS delivery in the quarter. In terms of this year, we're going to have margins sequentially up versus Q3. And like I said, we're still maintaining

OI growth on a constant currency basis this year, growing double digits at 11%. And same direction for next year. I'm not going to get into giving guidance now. We'll do that in December, and I'll give more color in a few months once we get there.

Jonathan David Block ***Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst***

Okay. Got it. And then maybe just a second question a couple of moving parts to it. But Al, can you speak to price, durability of price? And just maybe, again, high level, if you think that's sticky going into fiscal '24? And also just talk about your ability to stay ahead of the demand curve. Some of your competitors have been tripped up there. You put up really big growth in silicone dailies, at least relative to our expectations, and obviously, that's got a demand component to it. So just your confidence you're able to stay ahead of the demand curve there.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Sure, Jon. On a pricing perspective, I think that's still positive. We've talked about that for a few quarters now, and I would probably just reconfirm the statements I've made in prior quarters, which is, the market is somewhere in that 2% to 3% range. We're probably a little on the lighter side of that. That will probably improve some for us. But I think you'll see additional pricing in the market as we continue to move forward, since inflation seems like it's lingering.

Ability to manage growth, we've got our challenges too. We do have some capacity issues in different spots, and we've had some challenges through our supply chain, that's for sure. I think we're in a decent place. We're putting up some good revenue numbers. Demand is strong. It's costing us some money. So I'd love to get some additional leverage, especially some operating expense leverage as we move forward out of distribution. But right now, we're pretty focused on delivering really high-quality customer service, meaning somebody orders product, we're able to make that product and we're able to ship it and get it in their hands. And sometimes that costs us a little bit more money than we'd like for it to cost us.

But I think we're in really good shape to be able to continue to hit revenues. It's just a matter of leveraging that, which you're going to see over the coming years. I think next year will be a more positive year. And the year after that will probably be even more positive.

Operator

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

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

Congrats on a nice quarter here. Just 2 for me here. Maybe Brian, on fiscal '24 commentary. Interest expense, should we expect that to be stable and FX headwind to EPS as of today, is that about $0.50? And I had one follow-up.

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Yes, I wish I could give you really good color on that. I would say, subject to the Fed not doing anything surprising, we're going to pay down debt next year. Hopefully, we see our interest expense at least flat or decline with our debt paydown. FX, it's just a moving target. It's just swinging so wildly. I hesitate to give you any kind of commentary on FX until we get to December.

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

Fair enough. And Al, you guided to 6% to 8% organic growth for total Cooper entering this year. You're guiding to 9% to 10% now. How do you think about the sustainability of that momentum next year? Just any color on that would be helpful.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. Larry, you know me, I lean towards guiding to more on the conservative side, but I'm not sure we will because our business is just remaining strong. It's just healthy. The markets that we operate in are healthy, we're healthy, we're taking share, we're continuing to launch products, whether it's in Vision or Surgical, and roll products out around the world. I'm more optimistic than I normally would be at this point in time, as I look forward into next year or the following year. So we'll give that guidance in a few months here, but I'm optimistic.

Operator

Your next question comes from the line of Jeff Johnson from Baird.

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

Al, I wanted to start maybe on your clariti business, you mentioned some strength in Asia Pac and EMEA. How is that clariti business in the U.S.? I mean, obviously, you're putting up double-digit CVI organic growth. You've got a peer that's doing the same. It seems like you two are both doing very well, but their entry level daily silicone in the U.S. is just starting to move into some of those specialty areas where clariti has had some good success here over the years. So how is your clariti business in the U.S. holding in? And CVI growth, do share gains continue into next year at the pace they've been going at here in the last few quarters.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. Clariti in the U.S. is doing fine. I don't talk about it as much, and I'm not sure that's necessarily fair to clariti. It's just that MyDay is performing so well. The numbers are so strong in MyDay across the board, whether it's Energys, which is going gangbusters, or the toric or the multifocal or the sphere, that sometimes I talk about clariti a little less. But, no, clariti is still doing okay. It did accelerate its growth in Asia Pac, which was nice to see, but it's still doing okay in the U.S.

From a share gain perspective, yes, I would think moving forward, the rate of share gains that we've been having should be somewhat similar for the next several years just based on our product launches and the activity we have going on. I mean we're still pretty active with a lot of the product launches and the geographic expansion of some of those products. So yes, I think we'll continue to take share for quite a while.

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

All right. That's helpful. And then just as a follow-up on PARAGARD, I was somewhat skeptical you hit that $50 million number this quarter. I've got you now at $51 million, I believe. So just maybe cross check my math on that. But again, is that all pricing? I would assume it is, but to go from $37.5 million last quarter to $51 million this quarter was a nice sequential bump that I wasn't convinced you could do. So just any color there outside of pricing, anything changing on your view of the PARAGARD business.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes, $51 million, you're right. No, nothing changing in my view. That was predominantly pricing. And there's always a little bit, in all our businesses when it comes to a little bit of channel inventory and some of that stuff. But no, the driver on that is clearly pricing.

Operator

Your next question comes from the line of Matthew Mishan from KeyBanc Capital Markets.

Matthew Ian Mishan ***KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst***

Could you guys walk through the R&D pipeline and then what's driving the increased investments? It's one of those lines that's up a lot year-over-year.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes, Matt, I won't get too detailed on projects, but I will say within CooperVision, certainly, we've got higher R&D associated with myopia management. A lot of our MiSight activity is in there. So that's definitely occurring. Within our CooperSurgical business, there's increased R&D for a couple of different products which would include our fertility space. But it's definitely tied to product development within both businesses.

Matthew Ian Mishan ***KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst***

Okay. And then unfortunately, Cook not being able to go through, how are you thinking about the investments that might need to be made to push fertility into more of a global business. And how does that fit into the context of kind of leveraging the P&L moving forward?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. Well, I would say that right now, fertility is a global business, no question. We have a very big European presence, and we have an Asia Pac presence in some countries, much stronger than others. But no, we're investing in that business right now to drive international growth. We did it here in Q3. We're going to in Q4. We're going to do definitely more investing next fiscal year to support the long-term growth of the fertility franchise, and that's all embedded within the numbers Brian gave you of 11% this year, constant currency OI growth, and within the objective next year to deliver low double-digit constant currency OI growth. So yes, we're continuing to invest. There's no question about that, and fertility is definitely one of the areas we're investing in.

Operator

Your next question comes from the line of Jason Bednar from Piper Sandler.

Jason M. Bednar ***Piper Sandler & Co., Research Division - Director & Senior Research Analyst***

Echo the congrats on the good quarter. Al and Brian, on contact lenses that performance is really good versus the market. As you called out in the fiscal quarter, you had the benefit of trading April for July, which was definitely a good trade. But it also seems like just based on the fourth quarter guidance, you're seeing good results for your core business. Can you elaborate what's changed in your guidance for the fourth quarter? I think you're going to have Street numbers that are moving up a little bit. Is it a certain product category or geography where you're more comfortable or confident today?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. I would say that where we are today, versus where we started the year, we were looking at the possibility of a little bit of a recession or an economic slowdown. We haven't seen that. And if you look at the sales of our products, some of the higher priced products are actually selling better, and even accelerating, when I look at MyDay Energys as an example, MyDay multifocal, some of those products. It just feels like as we sit here today, we're in a better environment. Somebody asked about that earlier when you look at fiscal '24 for us. I just feel like we're in a better, more stable environment right now with a lot of good products that have a lot of good momentum.

Jason M. Bednar ***Piper Sandler & Co., Research Division - Director & Senior Research Analyst***

Okay. And then maybe as a follow-up because I wanted to ask on your key account strategy that's seems like a little bit of a recession hedge, but as you said, your higher value lens are doing better here. I don't think I caught an update on the key account strategy, but maybe just talk about what you're seeing there with respect to share gains and then any shift in terms of emphasis higher or lower on that strategy maybe as we look ahead to fiscal '24.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. You would think that some of the store brands or private label activity, would be driving more of the growth because that would be a hedge against an inflationary environment. And I've read that from some companies talking about increases in those type of sales. That's not what we've seen. If there is an inflationary issue or an economic pullback, maybe you do see that, and we would then see an increase in our store brand activity. But right now, it's being driven more by some of the other products that we are doing some store brands for, but certainly a lot of it is on a branded basis, and those being some of the higher-priced products we have.

Operator

Your next question comes from the line of Joanne Wuensch from Citi.

Joanne Karen Wuensch ***Citigroup Inc., Research Division - MD***

Very nice quarter. I'm trying to peel through your commentary about operating margins next year. And I want to make sure I understand that. When you talk about low double-digit operating margin expansion, is that the margin? Is it the dollar? And is that ex FX? Just peel that away, to make sure we set expectations appropriately.

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Yes. When I mentioned low double-digit constant currency OI growth, operating income growth, it's OI. So it's just operating income on a constant currency basis.

Joanne Karen Wuensch ***Citigroup Inc., Research Division - MD***

Okay. And are you in a position to be able to give us a guidance number for revenue for next year? a range? Should we go back to thinking about how you entered this year at 6% to 7%? Or is that not even the right way to think about things?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

We'll see in December. My gut right now would tell me we would have a hard time giving that level of conservative guidance, but we'll update that in 3 months.

Operator

Your next question comes from the line of Anthony Petrone from Mizuho Securities.

Bradley Thomas Bowers ***Mizuho Securities USA LLC, Research Division - Senior Associate***

You have Brad Bowers here on for Anthony today. So using some of the math on the GM headwind, it looks like it was about a 50 basis point headwind. This would imply a little bit of a step-up into 4Q. But if we assume that reverses, that's a tailwind to 2024 and then the OI comments imply about 100 basis points of op margin expansion. So it seems like that would imply that there would be some more opportunity on the cost leverage side as well as on the organic GM expansion side. So I wanted to make sure that, that math is checking out into how you're thinking.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. I think that math all checks out, and I'll let Brian confirm that, but that makes sense to me. And I do agree with your comment about potentially being able to get incremental leverage. I think one of the issues that we're running into here, and I think we'll continue to have a challenge with next year, is that we do have very strong demand right now. And logically, you might think, hey, that's great. You get those incremental revenues and all that flows through to OI. But in order to support that growth right now, with the infrastructure investments we're doing combined with the geographic expansion and everything else that's going on, you're not seeing that right now.

I've been here a long time now, what history would tell you is when we have this stuff happen, we get comfortable with the better organic growth that we have. And it certainly appears to be sustainable higher organic growth than we have had historically.

Once we get comfortable with that, and what I mean by that is, you get these facilities in place, you get the packaging lines in place, the shipping lines, and everything else and Brian touched on some of that; once you get that stuff in place, you start leveraging it and you're able to really drive some margin expansion. I think that will happen. As a matter of fact, I'm highly confident that's going to happen. But I think we're going to continue to deal with some of those challenges over the next year, or some time frame managing that growth tied to the investment activity that we're talking about, whether it's in the fertility business, where we're putting a lot of dollars, or within our myopia management business, especially MiSight, where we're putting a lot of dollars right now.

So I think when you put that all together, and you step back and you go, okay, low double digits makes sense for this year, it makes sense for next year. It will be interesting as we move forward and we build out some of this infrastructure and are able to leverage it, what will happen in some of the years after that.

Bradley Thomas Bowers ***Mizuho Securities USA LLC, Research Division - Senior Associate***

That's helpful. And one follow-up on that, specifically within the CVI business. You mentioned your strategy to carry more SKUs on the toric side. I just wanted to hear about how much do you think that's contributing to some of the wins in ophthalmology. We had heard from J&J that potentially there was some focus on the more core business as opposed to some of the more tail SKUs. In addition to how much of the infrastructure build-out is related to kind of maintaining that SKU range. And if we talk about in the past, I think it's at least a couple of years, maybe 24 to 36 months to see the benefit from manufacturing those contact lens lines. Is that the right way to be thinking about that and also from a market share perspective?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes, Brad, that is a great question and a great point on that SKU range. I mean we do take the position that if a patient walks into an optometrist office, that they're able to be fit in a CooperVision product. So we have very wide SKU ranges, largest in the industry, there's no doubt when you look at the daily toric, the MyDay toric is by far the widest SKU range that's available.

It is expensive to manufacture those. It's expensive to manage them through your logistics chains through distribution and so forth. But you're exactly right. You move through a period of time where you're increasing your production capabilities, you're improving your distribution capabilities, and so forth, you get that behind you and you're really, really in an excellent place, and it does take several years in order to get there.

So we are on that journey right now. We've been there before. We've done it before. We've done it successfully before. I'm highly confident the team will deliver again. But that is another great example of one of the challenges we're dealing with right now around our growth.

Operator

Your next question comes from the line of Patrick Wood from Morgan Stanley.

Patrick Andrew Wood

I guess, the first one maybe on MiSight. You alluded to some of the work to happen on consumer awareness on that side. I mean you've got better coverage now. Do you think the marginal dollars need to be spent on the optometrist to convince the consumer? Or are we thinking DTC? And why shouldn't we expect quite a lot of money to go in here to take advantage of the better coverage?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Yes. I don't think it's going to be DTC related. We spent money on that side of things. We'll continue to spend some, but I don't think it's going to be significant dollars because that's more social media. The focus is more on the optometrists themselves.

I think the one thing that could be a little different would be we're starting to see insurance reimbursement or insurance coverage. I mentioned, Aetna is now covering MiSight. We've had Kaiser here for a little bit covering it. As we, knock on wood, pick up other insurance companies covering it, working with optometrists and ensuring that they know it's available and how it works and with families. That will take us a little bit of work. That's easier with like pediatric ophthalmologists who are a little bit more comfortable with some of the insurance reimbursement activity. But I think that could be a little bit of work and cost us a couple of bucks, but we built that into all of our assumptions.

But, I know we're gaining traction in MiSight right now. We see it in a lot of different markets, especially here in the U.S. and throughout Europe. So we're going to continue to invest in it. I mean, we've got our shoulder behind it. Now we are going to leverage some of that. We did build out a fairly large infrastructure, and we will start leveraging that a little bit more as we move forward. But there's still dollars to be spent, no question about it, driving that business forward. We want to drive it. It's a good long-term sustainable business. So we want to continue to push it. That's for sure.

Patrick Andrew Wood

Totally. And then maybe just one more. In Vision, I think I know the answer to this because there's been supply chain challenges with some of your peers. But do you have any sense from like sell-in relative to sell out? Like is the channel presumably quite lean in terms of inventory side of a lot of players? Or is it quite normalized at the moment?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

I would say inventory is lean.

Operator

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

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

Congrats on a good quarter. Two for me. Maybe first, gross margin and operating margin are both fairly below pre-COVID levels. How do you think about your ability to return to the pre-COVID margins, particularly on operating margin? And how far out is that event?

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Yes, Robbie, I'll take that. If you look at pre-COVID, a big, big driver to operating margin reduction is FX, that's almost half of that difference. You've got some operational items in there. Obviously, we talked about this a few quarters ago about share-based comp. We had some changes of vesting from 5 years to 4. Supply chain in general, inflation, higher cost, freight, even though things have gotten better, they're elevated from where they were in 2019. And then, of course, all those infrastructure investments, IT being a big one right there that's been elevated since 2019.

If I just play back what Al just said earlier and I had in my prepared remarks, we're going to start to leverage some of that stuff. And hopefully, one of these days, FX starts to move in our favor. We got some OpEx leverage this quarter, you'll see some more next quarter and as we get into next year from leveraging those investments from this year.

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

Great. And maybe one on free cash flow. I know this year has a lot of investments, you're at about a 48% free cash flow conversion through third quarter, fourth quarter is going to be even lower. So let's say you end the year 45% or lower on conversion. Same sort of question. Are you comping yourself against the Medtech average of about 80%? And when do you think you might be able to get back up to those levels?

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Yes. You've got a number of things, a lot of moving parts. If you look at free cash flow this year versus last year, CapEx is driving much, much higher. And then besides that, you've got interest expense as a very big factor. Just those two combined alone is over $200 million. The Cook termination fee, I mentioned that in my prepared remarks, that will be [$45 million] (corrected by company after the call). So outside of that, you've got FX, depending on how far you look back, tax has gone up and then you've got a few other working capital items. So we're definitely investing a lot in our business, a lot of dollars going towards infrastructure, which is really mostly tied to capacity expansion, but do expect that free cash flow will improve next year versus this year.

Operator

Your next question comes from the line of David Saxon from Needham & Company.

David Joshua Saxon ***Needham & Company, LLC, Research Division - Senior Analyst***

Congrats on the quarter. Maybe just a couple on the myopia management portfolio. MiSight was strong despite China. So how are you thinking about the recovery in that region for MiSight? And then ortho-k, maybe can you give a little more color on what that realignment is and how long that impact lasts?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Sure. Yes, China MiSight, we don't have a big business in China. We just don't do a lot in China. But what we do there, and certainly myopia management is included there has been, bumpy maybe is the word to describe it. We take a step forward and two steps backwards, it seems at times over there. So I know personally, I get more optimistic about it because I'm starting to see some good stuff happen. And then all of a sudden, it slows down. So I'm having a hard time reading it.

Now again, I'm not a China expert. We don't do a ton of business there. But at least for what we do there, our part of the business and the myopia management part of the business, it's definitely fits and starts. I wish I could give you more specific detail on that. We don't have a lot built into our assumptions with respect to China. But I'm not sure how that's going to play out.

I will say that the receptivity to MiSight has been really strong around the world, and it's been strong in China. We've gotten really good feedback in China about the product. And I think the product is going to be successful. Now we did accelerate growth this quarter, which was great. We had a stocking order last year. So we even hurdled that and still accelerated MiSight growth, and we continue to see some really nice success with MiSight as we start out the fourth quarter here.

So I'm definitely optimistic on MiSight and where it's going on a global basis, including within China. A little bit more questioning what's going to happen with ortho-k. We did have some portfolio realignment where we had to true up some products. We had a lot of products there. So we had to true up some products up.

We should have a better Q4. As a matter of fact, I think we'll have a pretty decent Q4. But again, it's still bumpy. We held the range of $120 to $130 million. We did 25, 30, and 30. So we're at 85. So that's $35 million to hit the bottom of that range. We're looking at sequentially at least $5 million more in our myopia management business. So that gives you directionally where I'm thinking, you're going to see some bounce back and some improvement. But I'm a little hesitant to get too excited about [China] (added by company after the call) just because it seems like we keep moving forward and stepping back there.

Operator

Your next question comes from the line of Stephen Litchman from Oppenheimer.

Ron Feiner ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

This is Ron on for Steve. I just wanted to ask what was the contribution of price to CVI this quarter? And what are you guys assuming for the rest of the year?

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Price is helping CVI in the low 2%. We would have that same amount kind of factored into fiscal Q4.

Ron Feiner ***Oppenheimer & Co. Inc., Research Division - Research Analyst***

And do you guys have any like early thoughts on tax rate, interest expense, FX impact for fiscal '24 based on where things are at today?

Brian G. Andrews ***CooperCompanies, Inc. - Executive VP, CFO & Treasurer***

Yes, Ron, the tax rate we're expecting to bounce back to is our organic tax rate of 15% pre-discretes. And outside of some commentary I gave a little bit earlier on just subject to the Fed and we'll pay down some debt. And hopefully, we'll see interest flat to declining next year. I didn't give any other sort of nonoperational commentary.

Operator

We have no further questions at this time. Al White, I'll turn the call back over to you.

Albert G. White ***CooperCompanies, Inc. - President, CEO & Non-Independent Director***

Great. Thank you, and thank you for everyone joining today. I'm pretty proud of where we're at right now. The business is doing really well. As everyone knows, we just posted really strong revenue numbers this quarter. And solid EPS numbers and our guidance is strong. So I'm pretty optimistic about where we sit today and what the future holds. And I look forward to December and discussing Q4 and definitely giving guidance for next year and talking about those details. So thanks again, and look forward to hopefully seeing everybody during the quarter.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect.