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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Q4 2021 Cooper Companies Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Kim Duncan, Vice President, Investor Relations and Risk Management. Ma'am, please go ahead.

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

Good afternoon, and welcome to The Cooper Companies Fourth Quarter and Full Year 2021 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 would like to remind you that this conference call 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 acquisitions, integration of any acquisitions or their 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 and Form 10-Q filings, 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 email ir@cooperco.com.

And now, I will turn the call over to Al for his opening remarks.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Thank you, Kim, and welcome, everyone, to Cooper Companies' fiscal fourth quarter conference call. I'm pleased to report another strong quarter led by record revenues at CooperVision, where we exceeded the high end of expectations for the quarter. Our daily silicone hydrogel and myopia management portfolios posted strong results, and our key account strategy generated share gains in markets around the world.

Within CooperSurgical, our fertility business continued to perform extremely well, and we recently announced an exciting agreement to acquire Generate Life Sciences, a great strategic fit with our fertility and labor and delivery offerings.

For the full fiscal year 2021, I'm proud to report record revenues at both CooperVision and CooperSurgical, record non-GAAP earnings and record free cash flow. As we enter fiscal 2022, we have strong momentum and expect another record-setting year.

Regarding fourth quarter results and reporting all percentages on a constant currency basis, consolidated revenues were $759 million, with CooperVision at $565 million, up 11%; and CooperSurgical at $194 million, up 11%. Non-GAAP earnings per share were $3.28.

For CooperVision, our daily silicone hydrogel portfolio led the way, growing 19%. All 3 regions reported strength in this product category, with our premium product, MyDay, and our mass market product, clariti, both performing really well. Biofinity also had a solid quarter, supported by strength in torics and multifocals.

For the regions, the Americas grew 6%, led by our daily silicone hydrogel lenses, with particular strength in MyDay, where we continue seeing strong fit activity. EMEA grew a healthy 15%, with improving consumer activity and strength in our key accounts driving growth and share gains. Within this region, we posted broad-based growth from our daily silicones and Biofinity. Asia Pac grew 14%, led by a steady improvement in consumer activity and success with several new product launches. This region remains a very important growth driver for us, and we're investing accordingly as we're outperforming the market and taking share.

For our FRP portfolio, Biofinity posted solid results, driving growth in markets around the world with its broad offerings, including the toric multifocal and Energys, the most innovative product in the monthly space.

Regarding product launches, we remain incredibly active. I've highlighted in the past the many products and range extensions we've been launching around the world for MyDay, clariti and Biofinity, and all that activity continued. This has driven consistent share gains, and we expect that to continue.

One recent launch that I want to highlight this quarter is our new MyDay multifocal. We've launched the product in the U.S. and several major European markets, and the feedback and results are absolutely fantastic.

We're consistently hearing from eye care practitioners that the new Binocular Progressive Fitting System is a breakthrough approach that simplifies fit and provides optimal visual acuity at all levels. And we're hearing that from patients who are touting it as the best multifocal they've ever worn for exceptional near, intermediate, and distant vision. We expect this launch to continue performing extremely well and to provide a nice halo effect, supporting the already successful MyDay brand of torics and spheres.

Moving to myopia management. Our portfolio grew 63% to $21 million, with MiSight up 165% to $7 million and Ortho K products up 40%. We reached our goal of $65 million for the year, up 76% year-over-year, and our momentum is strong. As a global leader in the myopia management space, our portfolio is the broadest in the industry, comprised of MiSight, the only FDA-approved myopia control product; our broad range of market-leading Ortho K lenses; and our innovative SightGlass Vision glasses.

Regarding MiSight, we didn't quite reach our target this quarter, but we did reach $19 million in sales for the full year, up a very impressive 149% year-over-year. We're making great progress with independent optometrists, buying groups and retailers around the world, and we're seeing momentum in all these channels.

We're also making great progress in China, where we signed an exclusive distribution agreement with Essilor. Essilor is now actively promoting MiSight following a soft launch last month at one of the largest ophthalmic trade shows, and we're on target for a full launch in fiscal Q2.

We've also assembled an advisory board of key opinion leaders, whose affiliated hospitals represent over 50% of myopia management contact lens volume in China. This team of experts is providing fantastic insight into our MiSight positioning and how we can grow Ortho K even faster and how SightGlass will successfully fit in. As a reminder, childhood myopia rates in China are estimated at over 80%, and reducing myopia is a priority for the Chinese government, so the opportunity is significant.

Lastly, we recently presented our industry-leading 7-year clinical study of MiSight, confirming the product works for nearly all myopic children. It cuts myopia progression by roughly 59% on average. It works at any age a child starts treatment. It works for as long as the child wears it. And there's no rebound if treatment is stopped. These are the drivers that will continue supporting short- and long-term growth.

Regarding our other myopia management products, our Ortho K portfolio performed really well, led by success in China. And in November, we commercially co-launched our SightGlass myopia management glasses in Europe with Essilor, and we'll be partnering with them on several additional launches coming soon.

Overall, on myopia management, our momentum is strong, and we're still targeting constant currency growth of over 50% in fiscal 2022, to roughly $100 million in sales.

To conclude on Vision, we estimate the overall contact lens market grew 7% in calendar Q3, while CooperVision grew 8% even as new fits remain below pre-COVID levels. According to recent U.S. data, roughly 64% of eye care practitioners stated they had capacity to serve more patients but cannot, mostly due to staffing challenges. Having said that, trends are positive, and we expect the market to grow in the 4% to 6% range this coming year, supported by improving fit activity in the U.S. and EMEA and reopening activity in Asia Pac.

Meanwhile, the long-term macro growth trends remain solid, with roughly 1/3 of the world being myopic today and that is expected to increase to 50% by 2050.

For CooperVision, we closed this fiscal year on a really strong note, exceeding the high end of our expectations, and we've entered fiscal 2022 with a robust product portfolio, new product launches, a fast-growing myopia management business, and strong fit data. To ensure we're seizing the growth opportunities in front of us, we've increased our sales force investments, and we'll continue with our successful myopia management investment strategy. We have strong momentum, we're growing faster than the market, and we expect that to continue.

Moving to CooperSurgical. Our fertility business performed exceptionally well, growing 24% year-over-year to $82 million. Strength was seen around the world and throughout our product portfolio, including from consumables, capital equipment, and genomics.

One particular area of continued strength was our RI Witness platform. This is our proprietary automated lab management system that clinics implement to maximize safety and security by optimizing their lab practices. A system like this is especially important in today's world to improve quality control and workflow management, to enable social distancing and prevent mistakes such as embryo mismatches, which you unfortunately occasionally hear about.

Regarding the broader fertility industry, our addressable market is approaching $2 billion, with 5% to 10% long-term growth expected. It's estimated that 1 in 8 couples has trouble getting pregnant due to a variety of factors, such as increasing maternal age, and that more than 100 million individuals worldwide suffer from infertility. Given the improving access to treatments, increasing patient awareness, greater comfort discussing IVF and increasing global disposable income, this industry should grow nicely for many years to come.

Within our office and surgical unit, we grew 3%. Medical devices performed well, growing 20%, led by our portfolio of uterine manipulators, several of our surgical devices and our next-generation EndoSee Advance product line.

Meanwhile, PARAGARD declined 17%, largely as forecasted due to buy-in activity from last quarter's price increase. Having said that, similar to what we've seen from the general IUD market, the performance was soft, likely due to COVID staffing challenges.

Lastly, for CooperSurgical, we recently announced an agreement to acquire Generate Life Sciences for $1.6 billion. Many of you may know this company as a cord blood storage business, but they've done a phenomenal job expanding over the years, and this business is now a great strategic fit for CooperSurgical as they're a leader in donor egg and sperm and cryopreservation services for fertility treatments, as well as being a leader in cord blood and cord tissue storage, which is an excellent fit with our labor and delivery group.

We have an investor presentation on our website that summarizes the deal but let me provide some additional color.

Roughly 1/3 of the business is in fertility, which we estimate will grow 5% to 10% long-term, supported by general industry growth. Meanwhile, combining Generate's offerings with our existing portfolio allows us to leverage our infrastructure, launch new products, and go international to accelerate growth beyond this range.

2/3 of the business is in cord blood and cord tissue storage, which we expect to grow 3% to 5% long-term. This is driven by increasing demand for cord tissue stem cells due to optimism around the significant number of clinical trials using these stem cells for regenerative medicine. Consolidated, this business offers long-term, sustainable growth of 4% to 6%, and we believe there are opportunities to push that range higher with potential revenue synergies as we leverage our expertise.

To finish, let me make a few comments on fiscal 2022. Introducing annual guidance in today's world is a challenge given COVID uncertainties. Regardless, our organic revenue growth is strong, and we expect that to continue. We're investing in product launches, and we're doing that intelligently by leveraging our operations to ensure we receive strong returns.

I believe CooperVision is the most innovative company in the contact lens space today, with leading products in myopia management and the broadest product offerings in the market, and CooperSurgical is in an extremely exciting position, led by our fertility business. As a company, we remain on a steady upward trend, and we see that continuing for fiscal 2022 and many years beyond.

And with that, I will turn the call over to Brian.

Brian G. Andrews ***The Cooper Companies, 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.

Fourth quarter consolidated revenues increased 11% year-over-year, and also 11% in constant currency, to $759 million. Consolidated gross margin decreased year-over-year by 20 basis points to 67.5%, driven primarily by currency, partially offset by lower manufacturing costs at CooperVision.

Operating expenses grew 16% as strategic investments in sales and marketing to support myopia management and fertility continued. Within this, we did see slightly higher than initially forecasted investments for SightGlass Vision and MiSight in China, along with elevated distribution costs tied to higher demand of direct shipments.

Consolidated operating margins were 24.9%, down from 26.8% last year. Interest expense was $5 million on lower average debt, and the effective tax rate was 10.3%, helped by stock option exercises in the quarter. Non-GAAP EPS was $3.28, with roughly 49.9 million average shares outstanding. FX negatively impacted us and was roughly $0.05 worse than expected when we gave guidance last quarter.

Free cash flow was solid at $110 million, comprised of $175 million of operating cash flow, offset by $65 million of CapEx. Net debt decreased to $1.4 billion, and our adjusted leverage ratio improved to 1.38x.

Moving to 2022 guidance and excluding the recently announced Generate Life Sciences acquisition, consolidated revenues are expected to be in the range of $3.032 billion to $3.090 billion, up 6% to 8% in constant currency, with CooperVision revenues between $2.225 billion and $2.267 billion, up 6% to 8% in constant currency, and CooperSurgical revenues between $807 million and $823 million, up 6% to 8% in constant currency.

Non-GAAP EPS is expected to range from $13.60 to $14.00, up 9.5% to 12.5% in constant currency. And the tax rate is expected to be around 13%. At the midpoints of guidance, this equates to constant currency revenue growth of roughly 7% and constant currency EPS growth of roughly 11%. Regarding currency on a year-over-year basis, we're expecting an FX headwind of roughly 2.5% on revenues and 7% on EPS. This impact will be most detrimental in Q1, where we're expecting EPS in the $3.00 to $3.10 range.

Before opening the call to questions, let me touch on the Generate Life Sciences acquisition that we announced on November 10th. As of today, we're optimistic we'll close in the next couple of weeks, which would give us roughly 10.5 months of their operations in our fiscal 2022. Having said that, we're still waiting for final regulatory approval, so we're not providing specific guidance today.

In the meantime, let me walk you through the deal accretion that we expect. As previously announced, Generate has roughly $250 million in trailing 12-month revenue. Gross margins are expected to be roughly 70%. And OpEx is expected to be elevated in year 1 as synergies are expected to be minimal as we integrate and invest in the business. As we are now closer to securing permanent financing for this transaction, we are updating our year 1 non-GAAP EPS accretion estimate to around $0.50 and would add that we expect this accretion to improve in year 2 with synergies.

In summary, we're pleased with how we closed this fiscal year. And, as we look forward into 2022 and beyond, we continue to believe our strategic investments will drive top line momentum, supporting share gains in both businesses and long-term sustainable earnings growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Andrew Brackmann of William Blair.

Andrew Frederick Brackmann ***William Blair & Company L.L.C., Research Division - Associate***

Maybe just to start here on the Generate business that you're going to be acquiring here shortly. This is sort of the first call that you've had sort of post-announcement. So maybe just from a strategic sort of standpoint, Al, can you just sort of talk about how this sort of meshes with your current offering, how you're going to mesh these commercial organizations that you have? And then just broadly, Generate had a nice DTC marketing angle. Anything that you guys can do there to maybe expand that capability on your fertility side right now?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Sure. Yes. I'm happy to be talking about this. I know we made the announcement, and it was frustrating for many of you, and absolutely frustrating for me, to not be talking about a deal that I'm pretty passionate about.

Yes, this is a great deal for us. It's a great fit. I mean you're talking about 1/3 of this business that's in fertility. We, as you know, have a great position in the fertility industry. Adding the donor piece of it to our existing product is one more thing that allows us to walk into a fertility clinic and offer a full suite of products. So, I'm really excited about how that's going to roll in. And when I think about our ability to leverage that with our existing salespeople and our ability to leverage that with our existing relationships of fertility clinics in the U.S. and outside of the U.S., I get pretty excited about that.

So you've got a fertility business that's growing 5% to 10%, at least as you can see by the reported numbers, and this part of the industry is growing along with that, and has been. And so I do think we're going to be able to accelerate that growth when I think of some of the new products we're going to be able to launch in that space, and then with some of the leverage we have. So, kind of a slam dunk fit, if you will, on the fertility side of things. And that's not even touching on the cryopreservation, which is a perfect fit.

If you look at the other piece of it, about 2/3 of that business is on the storage side for cord blood and cord tissue. That's been around for a long time, and many people on the phone know about that. Anyone who has had kids probably knows about that. That space has gotten a little bit more exciting recently because of the cord tissue.

The stem cells are used for regenerative medicine. There's a ton of clinical studies that are going on right now, well over 1,000, so you've seen an increasing interest in storage of cord tissue. So that's kind of exciting. They have a relatively small sales force handling that. We have a great team calling on OB-GYNs around the U.S., 100 people or so, so we're going to be able to take that messaging directly to the

OB-GYN.

And you touched on the DTC side of things, and that's great. DTC is certainly fine, but the medical professional drives a lot of the decision-making. Our ability to bring that in, the first time that you're actually going to have a company own one of these businesses who's calling directly on OB-GYNs with great relationships, I think we're going to be able to add some real value there. So, I'm kind of excited about both pieces of that.

Andrew Frederick Brackmann ***William Blair & Company L.L.C., Research Division - Associate***

Great. Maybe just to switch gears here a little bit on the margin side, so 70% gross margins for Generate, can you just sort of talk about how this might be accretive on the operating margin side? I know you guys have sort of talked about expanding total Cooper margins sort of in the 30% range or so over time. It doesn't look like that's going to be this year. But can you sort of talk about how this plays into that longer-term goal of around 30%?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Sure. Yes. And that continues to be an objective. As you know, and Brian touched on it, currency is a fairly decent negative to us this year. So that's causing us to take a step back, from an as-reported perspective, but not from constant currency perspective. Yes, good gross margins on the Generate business, 70% or so, fits in really well. Now this first year buying this, we'll be a little careful on the integration activity. They had acquired a business this past summer that took them into Australia and Canada. We need to roll this business into our operations. We need to take care of everything from IT to customer service and a variety of other things. So, we're not anticipating a lot of leverage in the first year, but then we will roll it in through the year and we will get leverage from this business.

Now the question mark ends up really being when you look at the $0.50, is more around the interest expense. We're not going to get into OpEx at this point in time or interest expense, because, one, we haven't closed Generate yet; two, we haven't closed the permanent financing for it yet. So when we do, we can supply a little bit more color. But suffice it to say that long-term, this will be accretive to company-wide gross margins and help us get to that 30%.

Operator

Our next question is from the line of Larry Biegelsen.

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

And congrats on a nice quarter, Al. Yes, a couple for me. Just on myopia management for fiscal 2022, that $100 million. I know you're not giving MiSight guidance anymore, but help us think about the components of that. And I guess, I'm particularly interested to hear how you're thinking about the contribution from China. I think we all see how many pairs of Stellest Essilor is selling per day in China, over 2,000 per day now.

What do you think, what percent of that, like how should we think about the ramp of MiSight in China relative to what they did with Stellest? I mean we've heard things like maybe it could be 1/3 or so, which would still be pretty strong. And then I had a follow-up.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes, so you're right. China is really exciting. We have a strong relationship, obviously, with Essilor. Essilor distributes our primary Ortho K product in China. Now we have the exclusive distribution with them for MiSight. We did the soft launch already there. We are in a really good position with them. We're hitting on all cylinders, early here in China.

You talk about Stellest, which is their glasses that they're selling into China right now and doing really well with. The Chinese government has said publicly that addressing myopia is a very significant concern of theirs. So, they're taking it seriously. These glasses or contact lenses are sold through the hospitals. So, it's something that can move fairly quickly and can be very successful. I won't necessarily break the dollars down in our expectations, but we definitely have high hopes for a lot of success in China.

When I look at that $100 million mark, we've talked about that in the past. We still stand by that. You know my opinion on MiSight. I think we're going to have a lot of success. It's going to depend on China how successful that is this year. But at the same time, we're seeing success in China with our Ortho K product. So, I'm happy about that, and maybe even a little bit more [optimistic about] (added by the company after the call) success than I was thinking about it.

So, a few different moving parts there, and I wouldn't discount SightGlass. That's a product that we just launched, co-launched with Essilor in Europe. As you said, Stellest is doing really well. We'll bring SightGlass into China at some point in time. So, a lot of different moving parts there that are going to drive that $100 million.

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

That's helpful. And for my follow-up, Al, I mean, obviously, we all see the inflationary pressures. How are you thinking about your ability, at least in CooperVision, to take price in fiscal 2022? What are you assuming in the guidance? I mean we have heard that your competitors are taking over 4% in 2022, which is a little bit above average. How are you thinking about price in '22?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. I don't want to get into a specific number right now, but we will be taking price. So that's coming. You're seeing the inflationary pressures and so forth out there. We're in a great industry on both sides of our business within contact lenses. It's a good industry and higher pricing is warranted on an annual basis. This year, you have inflationary pressures in shipping and everything else that goes along with it. So yes, we'll be taking price higher. I just, I'll stay away from giving a number at this point in time, but you'll see it at some point in the near future.

Operator

Our next question, from the line of Matthew Mishan of KeyBanc.

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

Hey, Al, I'm just trying to understand your thoughts around starting at 6% to 8% with the CVI guidance. That's where you were, the starting point for 2018 and 2019. But now, you have the myopia control portfolio as an extra lever. You have some easier comps, especially in the first quarter. And from what you just said, you have some price increases also helping you out as a potential tailwind there. So how are you thinking about that 6% to 8% starting point?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

I'll answer it as easy as one word, COVID. That's it, right? So if you want to think the 6% to 8% is conservative, I'm not going to argue with you on that. But I'm also not sure what's going to happen with COVID and some of the variants out there. So, you have to try to factor that in a little bit. It's only prudent when you're giving annual guidance in a period like we're in today to try to build in a little bit of conservatism for that.

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

Okay. I think that's fair enough. And then on the EPS side, when you think about the year-over-year walk, I think you said 11% constant currency EPS growth, if I'm not mistaken, at the midpoint. We can all walk that down to what the FX impact was, and you gave it to begin with. But how should we think about the impact of year-over-year on increased investments that you're making and tax on EPS?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. Tax, we have gone up a little bit because it was in the low 11s, going to 13. So obviously, if you excluded tax, our profit growth would be better. If you look at leverage through the P&L, I guess I would probably do it at a high level and say, if I went to the midpoint of guidance, 7% is the midpoint of revenue guidance in constant currency. And the midpoint of EPS guidance is 11%. And that includes hurdling the tax, that we talked about. So that's your leverage right there, right? I've talked in the past about how we have a business where we can lever this business. We've invested a lot in myopia management. We're going to continue to invest there. And frankly, we're investing in Vision more aggressively in a number of different areas, which we started this past quarter, with some sales force expansion in several markets. So, a lot of investments going into Vision right now. Sales force, product launches, MyDay multifocal, super excited about that, SightGlass, a lot of different areas. We're doing all those investments, and we're still talking about 7% and 11% leverage through the P&L. So, I feel pretty good about that. And that, again, hurdles the tax increase.

Operator

The next question, from the line of Jeff Johnson of Baird.

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

Hey, Al, maybe another pricing question, not just on the core portfolio, but MiSight. When we go out and talk to a lot of these docs, it just seems like everybody is really excited about the technology, wants to be pushing this into more and more patients. But that $750 wholesale price or selling price, however you want to look at it, it's kind of a big hurdle, especially if you guys want to put $500 in professional fees or something on top of that or in some cases, even more.

So how comfortable are you with that $750? I mean if you did $19 million in MiSight revenue, even if you haircut the per-box price by a good amount to really push penetration, you probably make that up within a year or 2 or maybe faster. So I mean, just what do you think of that wholesale price that is pretty high right now?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes, that's a great question, Jeff. And we're talking about that internally right now. We wanted to get through year-end here, where we had a good comp, especially in the U.S., against last year, where you remember, we gave a lot of the lenses away for free. So we are looking at that. We are doing some sensitivity on that. To your point, you cut price, but can you sell more product, and does that make up for it? So, we're evaluating that, right now.

Having said that, the #1 pushback by far is definitely not price. That's on the list, but it's not #1. It continues to be the staffing concerns and fit concerns and the amount of time it takes to talk to the parents, talk to the kids, get the kids in it. It's just a longer process than what we initially thought. We're still seeing a situation where we're getting there and we're converting a ton of the patients, but it's taking 6 months, 9 months, something like that, 12 months.

The kid has to come in again, right? The ECP explains that they have myopia, what it means, how it's progressing. The parent doesn't want to pay, to your point, or they're concerned about putting their kids in contact lenses. So they delay the decision, and then they come back in and the ECP explains that their child's eyesight is worse and it's going to continue to get worse. That's when the sale actually happens.

So the actual sell, which frankly I thought was going to happen a little bit quicker, obviously, when I put the numbers out there, and the uptake, is still happening, it's just a little bit more delayed. So, I think pricing is a component of it, but just better fit activity is going to drive it also.

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

Yes. That's helpful. And then maybe as a follow-up, just kind of titrating around that 4% to 6% market and 6% to 8% per CVI, one, if I take out the myopia, the $35 million incremental there on a constant currency basis, anyway, that's about 1.5 points, a little north of 1.5 points. So let's say you're kind of talking about your core portfolio in the 4%, to 4% to 6%, 4.5% to 6.5%, so you're kind of saying we think we're going to be about in line with the market. Historically, you've been nicely above market.

Is that conservatism? Is that again just COVID? Is that competitive launches? So one there, and the 4% to 6% market assumption you're going with, does that include maybe a step-up in pricing, you think, for the whole industry this year and you think it's 4% to 6%? And then if people do take 3, 4 price instead of historically 1 or 2 price, that there's some upside to that 4% to 6% market?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. I think you do have pricing in there. You could certainly make an argument that the 4% to 6% could be a little bit lower, because you do have, obviously, the COVID concerns, you have everything else that's going on in the marketplace in different markets around the world.

So, sitting here today, I think that we'll end up in that 4% to 6% range with some pricing in there. I think we'll take market share. I'll be really surprised if we don't take market share on a core, on a like-to-like basis. Our myopia management portfolio will add to that, and ensure, that we're above market growth.

But on a like-to-like basis, I think we'll take share. I'm not sure it will be a lot of share, but I'll be really surprised if it's not share. There are some other good competitive launches and stuff going on out there. So, I don't want to necessarily get ahead of ourselves. But based on the strength I'm seeing with some key accounts and so forth, especially in Europe and Asia Pac, we'll take share.

I think the degree of share gains for us on a core portfolio basis, meaning on a like-to-like basis, will certainly be tied to some geographies. If Asia Pac continues to come back and places like Japan, where we're really well-positioned right now, we would stretch our share gains.

Operator

The next question, from the line of Jon Block of Stifel.

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

Brian, maybe the first one for you. Just any color on other parts of the P&L for '22? To Al's prior point, there seems to be some implied leverage in the model when we think about things, especially after taking into consideration the higher tax rate. But how about just the moving parts? Is it a little bit of gross margin expansion? But think about OpEx as a percent of revenue, maybe flattish, because you guys have flagged and called out some ongoing investments.

Brian G. Andrews ***The Cooper Companies, Inc. - Executive VP, CFO & Treasurer***

Well, first of all, Jon, thank you very much for the question. I don't think I got a question last call. Happy to take one today.

So yes, as it relates to guidance, gross margins and operating margins, when you start at the midpoint of our guidance, gross margins on a constant currency basis will be up year-over-year, and operating margins will be up even more year-over-year.

So, when Al was talking about the leverage and we were talking about hurdling some inflationary pressures, like wages and freight and other higher costs and then also having this continued investment activity in growth areas, like myopia and fertility, we're getting leverage from the P&L and from higher revenues, and that's showing up in operating margin. So, I would expect the operating margins to be up nicely year-over-year.

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

Yes. Got it. Got it. And I'll equally weigh my question. So I guess, the next one, just out of the fertility side, I mean, over the past handful of years, we've seen a lot of fertility deals, obviously smaller than Generate. But now, you've done Generate or about to do Generate. So in your opinion, does this sort of fully build that out, the fertility part of the business? Does it complete the puzzle, so to say?

And then maybe just to tack on, on CSI, PARAGARD did miss their number. I know there's some moving parts due to the price last quarter and the buy-ahead. But maybe exiting fiscal '21, do you feel like inventory is in a good place due to the buy-in on the PARAGARD side of things?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. On fertility, you know I love that space. It's a great industry. It's growing. It's got all kinds of potential. Interestingly, it's still relatively fragmented, and there's different players in different markets around the world, some sizable players in different markets around the world, in different areas of fertility.

So, I think that Generate was a good example of one that came out and is a nice addition for us. We'll see. We certainly have a great fertility franchise right now and a lot of opportunities to grow and grow in excess of the market rates. But if we could find other transactions to fit in there that could make sense from a geographic expansion perspective, that type of thing, we would certainly evaluate those.

If I look at PARAGARD, it's funny, within our medical device space, probably similar to a lot of companies that you follow, we did see some softness in September. That's for sure. But we even saw some softness in October. I was pleasantly surprised with how our core medical device products held up during that time. Some of them hold up naturally because they're tied to childbirth and so forth. But even the elective procedure products held up okay, and we had a decent October. That was not the case as much for PARAGARD.

Now, I don't think PARAGARD is unique. When I look at the IUD market in general and you look at the other products out there, those have also been soft. So, I'm not sure how to really fine-tune that down to the point of an individual product. But I do think that some of the staffing restrictions and so forth that are out there are causing problems with IUDs and some other products.

Frankly, I think you're going to continue to have a few of those struggles even in our fiscal Q1, to be honest with you, because you're still seeing some of those staffing challenges and so forth out there on the medical side of things. We don't see that really on the contact lens side, but we certainly see it on the med device side of things. And PARAGARD is caught up in that.

Now, I don't think it's doing any worse, by the way, just to be clear, with respect to the IUD market. It's in line or maybe even doing a little bit better, but that part of the market has been hit.

Operator

Next question, from the line of Jason Bednar of Piper Sandler.

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

One on Generate Life and one on MiSight for me. Al, starting on Generate Life, I totally appreciate the strategic merits for the transaction, but this asset does clearly come with a little bit of a checkered past, has a big price tag of $1.6 billion, largest in your history. So I guess the question is what made this the right transaction for you right now over maybe some other faster-growing assets that you've been maybe were looking at?

And then can you also talk about how you expect GLS to operate more effectively under the CSI umbrella than maybe some of the pieces did prior to maybe private equity ownership?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. One of the things that's going to make it more effective for us and one of the things that's exciting for us is the size of our business. We have a very large fertility business, and we have a large OB-GYN business and some great products, specifically within the OB space. So, we're talking to those professionals. We know those professionals really well.

One of the challenges you have when you're a company like Generate is you're seeing a lot of your success come from direct-to-consumer activity, that type of thing. It's more DTC and not direct to the professional. We're known as a high-quality educational shop within CooperSurgical, within the OB-GYN space and within the fertility space. If you look at the training we do, there's just extensive training and knowledge, communication and so forth that we do with medical professionals in that side of things.

That's not something that Generate has really been able to take advantage of because they just didn't have the size to be able to do that. When you take their business and combine it with our strengths, that 1 + 1 is a 3. That's what's so cool about this. So yes, this opportunity came up. I've been following it, frankly, for a long time. When it was a cord blood storage business, that was a little bit of a different story. As you fast-forward to where it is today and you think about things like regenerative medicine and what's going on with over 1,000 clinicals in process, who is able to talk to the obstetricians about that? Who's able to speak to the fertility clinics of the value of that and those clinical studies and so forth? We are. We have the professionals already in there talking to them and doing training and so forth. So, I really think we can add a lot of value there, and frankly, at the end of the day, deals come up when deals come up, when opportunities are available. I've been looking at this thing for many, many years. I was happy to see it come up, and I was happy to see us get the opportunity to win this business. So, to me, I looked at it as, yes, it's a big deal and it is a big deal for us. It's an important deal for us. But when you find something that's a great strategic fit, that's growing mid-single digits, and you think that you're going to be able to enhance that growth, you look at those opportunities, you take advantage of them, especially on something that's going to throw some nice accretion to the bottom line.

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

All right. And that's great and very helpful. Maybe for the MiSight question, Cooper did have a representation today at the HCPCS Meeting lobbying for a Level II code for MiSight. Could you update us on where you're at with the reimbursement strategy for MiSight here in the U.S. and where securing this coding and associated payment would fit into the overall plan and how you're considering that maybe as an element of adjusting price points in the future, just to maybe go back to Jeff's earlier question?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. So right now, we have nothing in any assumptions regarding reimbursement. Anything that we ever could get on that side of things is upside and could be material upside. But that's all I would say at this point in time.

We're working on stuff, obviously. We're highly interested in that. And there's reasons for us to want that to be successful. But at the current state of the game, we have nothing factored in, no assumptions made around that. We'll see how that plays out. And I hope, at some point in time in the future, to be able to give you that good news.

Operator

Next question, from the line of Joanne Wuensch of Citibank.

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

I appreciate the color on the sales process for MiSight. Can we shift to the other side of that, which is the training process for physicians? Is there a way to quantify how many physicians have been trained, of those that have been trained, which ones start integrating it into their practice?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. I don't have that number on me. It's significant because it's continued to grow. There's a lot of ECPs trained on it right now. I would say the more important takeaway probably from that, Joanne, is if I had to do it over again, how would I go about it over again, right? Because a lot of these ECPs are getting trained. They're fully certified. They go back into their practice. They're excited about it.

Maybe they don't have a lot of kids coming in, a lot of volume. And it ends up kind of falling into the backseat, so to speak, because they're dealing with staffing challenges. They're dealing with patients that they're trying to pass through, that are easier to fit and sell to.

What we've seen is that once you get the ECP trained and excited about it, and you have a myopia specialist, which we have now as we've fully staffed up our myopia management specialists around the world, when you have that myopia management specialist talking to them and working with them and answering their questions as it comes up, about how to sell it, how to fit it, how to charge for it and so forth, we are dramatically more successful.

So that's the key. It's ended up not being so much how many do you have, it's how many do you have, combined with how many are you working with and helping. Once they fit a few kids and get rolling, it's like a snowball going downhill. Okay. Now I'm comfortable with it. I'm comfortable fitting children and talking to parents. I'm going to do this for every child that walks in the door. Every single child, I'm going to talk to them about this because I've got the process down. I understand how to do it. I understand how to sell it. So that ends up being the key.

And in some of these newer markets that we're going into right now, we're having a lot more success a lot faster because we've learned so much over the last couple of years about how to successfully transition someone from the training, to the actual selling of the product.

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

That's really helpful. Can I ask a very boring question? FX in the first quarter, can you quantify it, revenue and EPS impact?

Brian G. Andrews ***The Cooper Companies, Inc. - Executive VP, CFO & Treasurer***

Yes. I'm not going to quantify it. Obviously, it's, by far, the biggest impact for FX relative to all the other quarters in the year. It's a double-digit headwind to EPS in the first quarter. And we're hit the worst in cost of goods as well in the first quarter.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

And you kind of get the double whammy, right, because you get the pound 6 months later, flowing through bad, and the revenue's immediate hit.

Brian G. Andrews ***The Cooper Companies, Inc. - Executive VP, CFO & Treasurer***

Yes.

Operator

Next question, from the line of Anthony Petrone of Jefferies.

Anthony Charles Petrone ***Jefferies LLC, Research Division - Healthcare Analyst***

And a couple on MiSight and then one on GLS. On MiSight, we've had calls where we've heard that the attach rate and the stickiness going into next year is going to be quite high. So just thinking about the existing ECPs that have already implanted patients this year and fitted patients this year, do you expect the attach rate to be like a traditional contact lens?

And then in terms of just the effectiveness, you mentioned the clinical data, Al. We've heard that, in some cases, they've actually slowed progression by almost half. And so they have seen some good effectiveness in controlling the progression of myopia. So those would be the first 2 on MiSight, and I'll have a follow-up on GLS.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. Well, certainly, there's no question the product is working in the marketplace. If you go and look at the success rate, it is reducing the progression of myopia for children at a fairly high level, on average, 59%. There are a number of kids who see their myopia progression essentially stop entirely, which is amazing. Could you imagine that? But that definitely happens. And we have many instances of eye care professionals telling us that. So that's really fantastic.

The retainage rate on those sales is really high. It's somewhere kind of 85%, 90% or so. There are still kids who are non-responders to MiSight. You give them the lens. They wear the lens. We've seen that in the clinical data, and we see it in the real-world application, where some kids, for whatever reason, continue to have their myopia progress at the same rate.

I mentioned, last call, we have a lot of clinical work going on. We have 8 products in R&D right now specifically associated with this. And some of those are addressing the non-responders right now so that we can come out with some additional products to try to address everybody. But yes, it's something like 9 in 10 kids are staying in the product. It's a pretty high-level retainage.

Anthony Charles Petrone ***Jefferies LLC, Research Division - Healthcare Analyst***

And then just to follow up on GLS, when you mentioned, Al, just the opportunity on drug development, a few thousand trials, how does that play out for that business just when you think about clinicals versus when these products go commercial? Like how does that revenue opportunity sort of shape up?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes, it's really interesting. There's enough clinicals out there, and some of them are not Phase I. I think the one on kidneys is an example. I think the one on liver is like Stage IV. There's some real work being done there on the clinical side of things for regenerative medicine. And the best stem cells to use are the cord tissue stem cells. You don't have to use those, but those are the best.

And just so everyone is aware, those are different stem cells between the cord blood that we've always heard about when we've had kids over the years, to the stem cells with cord tissue. There are legitimate clinicals going on that are showing a lot of potential for success. So, there's definitely more interest in that.

When we were doing our diligence in our work, we actually did a bunch of survey work asking people about that, asking women who just had children, who are currently pregnant, "Are you going to store your cord tissue?" And the rates were pretty low.

Then when we took them through the clinical side of things, and said, "Hey, this is what's going on with regenerative medicine. There's no guarantees here, but this is what's going on," the desire to store their cord tissue went to almost 100%. So, I think a bunch of it is education. If you try to sell that on a DTC basis, you're going to have a hard time.

If you're talking to medical professionals and there's people out there, and this does not have to be an OB-GYN. This could be an oncologist. This could be some sort of sports injury professional. There are all kinds of things you could use regenerative medicine for.

So, you're saying, "Hey, there's no promises here, but there's a lot of really, really strong clinical work going on, much more so than there is the stem cells associated with cord blood." So, some good exciting stuff going on. We'll see how it plays out, but I think there's some opportunity to increase storage there as a just-in-case, if you will.

Operator

Next question, from the line of Robbie Marcus of JPMorgan.

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

2 for me. First, you guys, I believe, spent $25 million in 2020 incremental on MiSight marketing. Do you have that number for 2021 and what you're expecting in 2022? And I guess, it's probably more better to be inclusive of more of the new product launches.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

No, we don't, Robbie, just because that whole thing has kind of mushed itself together, so it's not just MiSight, it's all together under myopia management. And we stopped breaking that number out and separating it.

It was a decent number, that's for sure, this year. We had some pretty decent investments going out in Q4. And it will be a sizable number this year. Having said that, we actually get leverage on it year-over-year, meaning that's part of the reason you're seeing leverage. We put a pretty good infrastructure in place this year. So, we're able to start to leverage that a little bit in terms of comparing year-over-year when it comes to our myopia management investments.

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

Got it. And maybe as a follow-up, I think it would be helpful if you maybe run through just your thought process on M&A and capital allocation. The Generate deal is growth-dilutive to the overall business, accretive to CSI, but dilutive to the overall business. So maybe just how you're thinking about deals, how you think about growth rates versus return on invested capital, what kind of metrics you're looking at and how you're thinking about priorities for cash going forward.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. And I guess, to start, I certainly personally do not believe that the Generate deal is going to be dilutive to our consolidated growth rate, just to be clear. I do think that based on their history and based on where I see the market going, that's probably a 4% to 6% kind of grower, and that's what we've talked about. But we have multiple areas to drive that growth rate higher. We have some new products that we're already talking about right now that we're going to be launching. And we have other forms of revenue synergies coming from our sales forces and then international expansion also, where there's some faster growth rates out there. So, I am optimistic about our ability to drive growth.

Now it's pretty close right now. I mean 4% to 6% is not bad. That's for sure, especially on an annuity sale and a very high cash flow product with strong margins. So that's the other side of this. I mean, because at the end of the day, we still look at this stuff and say, "Okay. Well, what makes sense from an acquisition perspective?" We have a tendency to really focus on traditional discounted cash flow models. We're very serious, and we focus on that, and we try to be very intense about the numbers that are going in that and ensure we're getting a sufficient return on that. We do that a little bit more than we would do ROIC and some of that kind of stuff because of the nature of our business, strong cash flow, growth business, so on and so forth.

So, the other thing I would add is strategic deals. I've talked about that in the past. If we could find strategic acquisitions that meet the financial metrics, that can drive value in this business, then we're going to look at doing those kind of deals, and this one kind of checks all those boxes.

Operator

Next question, from the line of Rob Cottrell of Cleveland Research.

Robert Sohngen Cottrell ***Cleveland Research Company - Research Associate***

Just first, on the first quarter guidance, I understand the FX headwind and the $3 to $3.10 EPS. But wondering if you've seen any change in top line trends here in November, just given the fourth wave in Europe, or any other changing momentum in either business.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

No. November was a good month.

Robert Sohngen Cottrell ***Cleveland Research Company - Research Associate***

Okay. Okay. And I guess, more strategically then, Al, in the past, you've talked about not wanting to change investment pacing or strategy given FX headwinds. Clearly, right now, with a 7-point headwind next year, it's materially worse than it's been in the past. Does that change your thinking at all around managing costs into next year?

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

No. It frustrates me. I mean Brian said, gross margins would be up year-over-year on a constant currency basis. And our guidance shows that on an as-reported basis, those gross margins are going to be down year-over-year. So that frustrates me.

And when I look at operating margins, and we talk about getting to 30%, we would be having a nice positive move in operating margins if currency held true. Having said that, we're still running a business that's a long-term business. We're looking at 5 years, 10 years, long-term growth, and doing what makes sense to drive long-term growth. I want sustainable mid-upper single-digit growth as a company with margin expansion.

We can't jerk the business around because of FX. And I'm not going to play the game where when FX is good, and then we're going invest a whole bunch. And then when FX is bad, we're not. That's just not how we're going to run the business.

Operator

Next question, from the line of Chris Pasquale of Guggenheim.

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

Al, I wanted to follow up on your comment about driving growth from the Generate assets above that mid-single digits you get to if you just look at the business today and in particular, how we should think about the opportunity for geographic expansion. I would think that distance from the patient to the facility might be a factor when you're talking about something like cryopreservation.

So are you going to have to invest in building new storage facilities to get into new markets? And how should we think about the CapEx requirements of this business? Because historically, CSI has not had a lot of CapEx associated with it.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Yes. The CapEx is really low in this business. The storage tanks and so forth are cheap. So at the end of the day, you have to have everything else that goes along with [the business] (corrected by the company after the call) -- really high-quality control systems, security systems, all that kind of stuff, but the actual CapEx itself is not high.

When you look at the international expansion opportunities, let's go to fertility because that's one I would really highlight, a lot of that gets done with the fertility clinic. You're teaming up with the fertility clinic because when you're talking about donor eggs and donor sperm, that's usually a fairly quick transaction, unlike the traditional storage. Like we'll obviously do permanent storage of eggs and sperm, that type of thing.

But a lot of that activity aligns itself directly with fertility clinics. And you're using the fertility clinics and working with them, their operations. So, you just don't get a situation where you have significant CapEx. It's low CapEx. It's really high cash flow in that business.

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

Okay. That's helpful. And then, Brian, I'll give you another at-bat here, too. So, we saw CapEx for the core business here come down by about $100 million this past year. Can it go lower in 2022? How should we be thinking about the CapEx requirements of the existing Cooper business? And is just low 200s now a good run rate going forward? Or do you have more potential to drive that down?

Brian G. Andrews ***The Cooper Companies, Inc. - Executive VP, CFO & Treasurer***

Thanks, Chris. Yes, I appreciate the question. I know we've given CapEx over the years. And as you know, CapEx is a moving target. It's always -- it's based on timing of projects and milestones and lead time, which is getting longer, capacity needs, demand, things like that. Rather than getting into that level of detail, whatever it is, we'll cover it.

I've mentioned we'll do around $600 million of free cash flow in 2022, which is a nice increase over '21. So operating cash will be strong, and therefore, free cash flow will be strong again in '22.

Operator

And there are no further questions at this time. I would like to turn the call over to Al White. Please continue.

Albert G. White ***The Cooper Companies, Inc. - President, CEO & Non-Independent Director***

Great. Fantastic. Well, thank you, everyone. I appreciate you taking the time for the call. And obviously, we're happy to announce the numbers, and we're pretty positive about where we stand as a business. So, I look forward to continuing to produce here and speak to everyone in early March, when we do our next earnings call. Thank you. Thank you, operator.

Operator

Thank you, and that concludes today's conference. Thank you, everyone, for participating. You may now all disconnect.