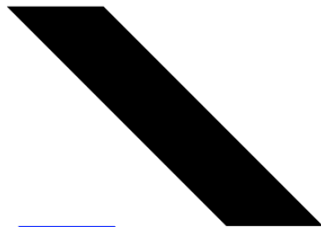
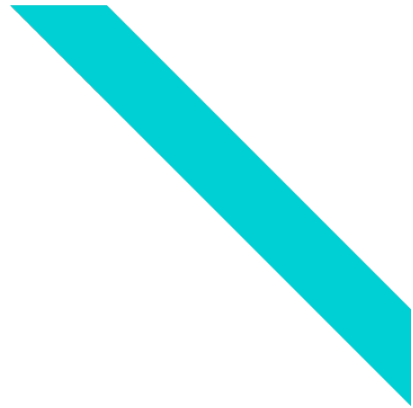


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# EDITED TRANSCRIPT

Q3 2024 COOPER COMPANIES INC EARNINGS CALL

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- **Albert White** *CooperCompanies Inc - President, Chief Executive Officer*
- **Brian Andrews** *CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer*

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- **Operator**
- **Jeffrey Johnson** *Robert W. Baird & Co. - Analyst*
- **Jonathan Block** *Stifel, Nicolaus & Company - Analyst*
- **Lei Huang** *Wells Fargo - Associate Analyst*
- **Craig William Bijou** *BofA Securities - Analyst*
- **Joanne Karen Wuensch** *Citigroup Inc. - Analyst*
- **Robert Justin Marcus** *JPMorgan Chase & Co - Analyst*
- **Anthony Charles Petrone** *Jefferies LLC - Analyst*
- **Jason Bednar** *Piper Sandler & Co. - Analyst*
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- **David Joshua Saxon** *Needham & Company, LLC - Analyst*
- **Steven Michael Lichtman** *Oppenheimer & Co. Inc. - Analyst*
- **Chris Pasquale** *Nephron Research, LLC - Analyst*
- **Navann Ty Dietschi** *BNP Paribas Exane - Analyst*

## PRESENTATION

### Operator

Thank you for standing by. My name is Pam, and I'll be your conference operator today. At this time, I would like to welcome everyone to the third quarter 2024 CooperCompanies' earnings conference call. (Operator Instructions) I would now like to turn the conference over to Kim Duncan, VP of Investor Relations and Risk Management. You may begin.

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### **Kim Duncan CooperCompanies Inc - Vice President of Investor Relations & Risk Management**

Good afternoon, and welcome to Cooper Companies' third quarter 2024 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: revenues, EPS, operating income, tax rate, FX, and other financial guidance and expectations, strategic and operational initiatives, market and regulatory conditions and trends, and product launches and demand.

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.

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 email [ir@cooperco.com](mailto:ir@cooperco.com).

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

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## **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Thank you Kim, and welcome, everyone to today's earnings call. I'd like to start by congratulating our 15,000-plus employees for delivering Cooper's first ever \$1 billion revenue quarter. We couldn't have reached this milestone without the hard work and dedication of our amazing employees, so big thank you to the entire Cooper team.

I'm also proud to announce that both CooperVision and CooperSurgical reported record revenues, and that margins improved nicely, driving double-digit earnings growth and record non-GAAP quarterly earnings. This performance highlights the strength of our business as our multi-year growth strategy to become a leader in the daily contact lens space and a leader in the global fertility industry moves into a stage of healthy revenue growth, combined with leverage through the P&L. To expand on that, at CooperVision, we've taken our highly successful monthly lens strategy built on innovation and flexibility and taken it to the daily space where we're expanding the segment and gaining share. At CooperSurgical, we've expanded our global fertility capabilities while continuing to provide clinics with premium products and services that support every step of the fertility journey. And in both cases, we crafted our portfolios to expand our customers' businesses and improve patient outcomes. We've accomplished this by strategically investing throughout the organization including installing state-of-the-art manufacturing capabilities, implementing technological advancements in packaging and distribution, developing and launching numerous new products, completing significant IT upgrades, and providing extensive employee training. This activity is paying off and I'm proud of our success and excited about what the future holds.

Moving to the details, and reporting all percentages on an organic basis, consolidated quarterly revenues were slightly over \$1 billion, up 8% year over year. CooperVision posted record quarterly revenues of \$676 million, up 10%, led by strength throughout our broad-based product portfolio, and CooperSurgical posted record quarterly revenues of \$327 million, up 5%, including fertility returning to double-digit growth. Non-GAAP earnings per share grew 14% to \$0.96. For CooperVision, we continue to be the most innovative company in the \$10 billion-plus contact lens industry with the broadest portfolio of lenses, the only FDA approved product for myopia control, arguably the most active product launch schedule, and a fantastic R&D pipeline. This has led to the consistency of our results and is why CooperVision is the number one contact lens company in the world in terms of wearers. For the third quarter, we once again took share with the Americas growing 13%, EMEA, 7%, and Asia-Pac, 7%. Within categories, torics and multifocals grew 12%, and spheres grew 8%. Within modalities, our daily silicone hydrogel lenses, MyDay and clarity, grew 13%, and our silicone hydrogel FRP lenses, Biofinity and Avaira, grew 11%. And our myopia management portfolio posted growth of 29% with MiSight up 50%. All in a very nice quarter against a tough comp from last year.

Turning to products and starting with our high-performing daily portfolio, we continue to see strong growth and healthy momentum with MyDay in every category, spheres, torics and multifocals. In particular, we're seeing extremely strong growth in our most innovative product areas, led by MyDay Energys, with its DigitalBoost technology, with our industry leading toric range, and with our easy-to-fit multifocals, which, as everyone knows, is a personal favorite of mine. This product family has been extremely well received by our eye care practitioners and customers, and we have more upside to our growth as we continue bringing manufacturing capacity online to meet the significant demand. This is particularly true of our market-leading toric where there's considerable new wearer opportunity along with upgrade potential given the decade plus success of Biofinity toric, which shares the

same design.

Moving to our mass market daily silicone hydrogel product family, clariti, I'm excited to report that we recently launched an upgraded clariti multifocal in the US this past quarter. The lens design matches our MyDay multifocal design featuring next-generation enhancements that provide better vision and comfort for presbyopic patients, as well as an easy fitting experience for eyecare professionals. The clariti family as a whole is known for its comfort, easy handling, and affordability, and patients appreciate the price point where we're continuing to successfully upgrade legacy hydrogel wearers.

Moving to frequent replacement silicone hydrogel lenses, both Biofinity and Avaira continue performing exceptionally well. For Biofinity, we're seeing nice growth across the entire portfolio with Biofinity Energys and our made-to-order products such as extended range torics and toric multifocals, leading the way. These lenses are made using some of our most innovative manufacturing technologies, and this allows us to provide the widest range of prescriptions in the market, something that is especially important in fitting patients with the most complex vision needs.

Turning to myopia management, MiSight posted record quarterly revenues across all regions and our momentum is strong. We're in the middle of our US Back-To-School campaign and early results indicate we'll see a significant increase in consumption through the end of this year. And we've taken the learnings from our successful US programs and are running similar programs in other key markets such as Spain, the UK, and Korea. We're incredibly proud of the number of children's lives we're meaningfully impacting through the growing adoption of MiSight, and we continue to demonstrate leadership in driving global awareness of Myopia Management working closely with the entire global optical industry to expand usage and establish it as standard of care. In this spirit, in July at the World Congress of Pediatric Ophthalmology, the CooperVision Professional Affairs team showcased the long duration of MiSight science, which now spans 10 years. With multiple additional studies underway in the US and China, MiSight is the most thoroughly researched contact lens for children and the clinical data is excellent. We will showcase more data this quarter at the upcoming International Myopia Conference in China as well as in Korea at our Asia Pacific Myopia Management Symposium, which has become a premier annual that for practitioners and researchers across the region.

To conclude on CooperVision, the contact lens market grew roughly 7% in calendar Q2 with Cooper continuing to take share, up 10%. The market remains very healthy, and that should continue supported by several long-term, macro growth trends. Within this, we're leading with innovation, our broad product portfolio, our ongoing product launches, strength in premium products, fast-growing myopia management business, and leading new fit data.

Moving to CooperSurgical, we posted record quarterly revenues of \$327 million, up 5%. Within this, fertility sales were \$129 million, up 10%. Fertility continues to be a great business for us, and the future is bright as we're taking share and expanding our leadership position globally. Our broad portfolio of products and services, including consumables, capital equipment, reproductive genetic testing, and donor activity, continues to lead the market. And we're investing by launching new products, accelerating innovation in R&D, opening new donor sites, providing extensive training in our Centers of Excellence, and expanding geographically. Our focus on delivering the most advanced fertility solutions remains unmatched, and our dedication to improving fertility outcomes for patients remains a guiding principle. Meanwhile, we're seeing strong demand in our focus markets with fertility clinics increasing patient activity, upgrading to new technologies, and opening and expanding facilities in several markets. Regarding current activity, we just had one of the busiest global fertility events we've ever had at a large European conference in July. Excitement was high for the industry, and for our products and services. In particular, there was a lot of excitement around our new culture and transfer media, which just launched in Europe, around our new Fast Track genomics testing which is knowledge globally, and around Embryo Options, our premier Cryo management software which recently launched in targeted European countries.

Regarding the broader fertility industry, the macro trends supporting growth remain intact with the World Health Organization highlighting that one in six people globally will be affected by infertility at some point in their lives due to a variety of factors, including women delaying childbirth. As a leader in the space, we remain incredibly committed to advancing the industry by standing in support of patients and clinics and improving access to treatment on a global basis.

Moving to Office and Surgical, we posted sales of \$198 million, up 2%. Medical devices grew nicely led by our minimally invasive gynecological surgical products, including our Ally Uterine Manipulator portfolio, and our labor and delivery portfolio, led by Fetal Pillow, a balloon device used in C-sections to elevate the fetal head and facilitate ease of delivery of the baby. Stem cell storage had a solid quarter and PARAGARD slightly declined as expected after last quarter's strong results. One quick note on PARAGARD, we recently received FDA approval for a new single-handed inserter, which makes placing the IUD easier, and we are now in the process of launching this improvement.

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

## **Brian Andrews CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer**

Thank you, AI, and good afternoon, everyone. Most of my commentary will be in a non-GAAP basis, so please refer to our earnings release for a reconciliation of GAAP to non-GAAP results. For our third fiscal quarter, consolidated revenues were \$1.003 billion, up 8% as reported, and up 8% organically. Consolidated gross margin was 66.6%, up from 66.1% last year driven by continuing efficiency gains and product mix, offset by FX. Operating expenses showed leverage, growing slower than sales, as efficiency gains from prior investment activities continue to offer positive returns within SG&A. Meanwhile, R&D grew faster than sales as we maintain our R&D activity in several exciting areas including myopia management and fertility. Consolidated operating margin improved nicely, up to 25.5% from 23.9% last year, led by improved gross margins and SG&A leverage. Below operating income, interest expense was \$27.1 million, and the effective tax rate was 16.6%, higher than expected mainly due to the geographic mix of income. Non-GAAP EPS was \$0.96, up 14% year over year, with roughly 201 million average shares outstanding. Free cash flow was \$118 million with CapEx of \$89 million. Net debt decreased to \$2.5 billion. Foreign exchange negatively impacted earnings by \$0.05 in the quarter, \$0.01 better than expected, helping to offset the higher effective tax rate.

To summarize fiscal Q3, CooperVision reported double-digit organic revenue growth against last year's tough 13% comp, fertility returned to double-digit growth, and we passed the \$1 billion threshold in quarterly revenues for the first time. Gross and operating margins both improved nicely year over year, even against currency headwinds, and this resulted in a very strong operational quarter that delivered solid double-digit earnings growth.

Before moving to guidance, let me mention two tuck-in acquisitions. The first is ZyMot, which closed in June. This deal adds a first-of-its-kind patented sperm separation device that helps optimize fertility procedures. The company had roughly \$9.5 million in trailing 12-month revenue and the purchase price was approximately \$34 million. The second deal is obp Surgical which closed on August 1. This deal adds both a lighted retractor with an integrated smoke evacuation system and a lighted surgical suction device. The company had trailing 12-month revenues of roughly \$14.5 million, and the purchase price was approximately \$100 million. Both deals are accretive to consolidated revenue growth rates, margins, and non-GAAP earnings.

Moving to fiscal 2024 guidance, we are increasing our consolidated revenue and earnings per share guidance on our third quarter results and expectations for continuing operational strength. For the full fiscal year, this results in consolidated revenues of \$3.89 billion to \$3.91 billion, up 8% to 8.5% organically. For CooperVision, the guidance range is \$2.61 billion to \$2.62 billion, up 9% to 9.5% organically and for CooperSurgical, the range is \$1.286 billion to \$1.294 billion, up 5.5% to 6.5% organically. We expect interest expense of roughly \$109 million which assumes no interest rate changes by the Fed for the remainder of our fiscal year. We expect the full year effective tax rate to be slightly over 14%, assuming no additional discrete items. And we expect non-GAAP EPS in the range of \$3.64 to \$3.67, up 14% to 15%. Built within this guidance is our fiscal Q4 expectations including CooperVision growing 8% to 10% organically, CooperSurgical growing 6% to 8% organically, and non-GAAP EPS in the range of \$0.98 to \$1.01. Regarding fiscal 2025, we'll provide specific guidance in December on our Q4 earnings call, but let me say that we remain focused on delivering strong operational performance and low double-digit, constant currency, operating income growth.

To conclude, let me briefly touch on where we are in our strategic journey from a financial perspective. As we've discussed on prior calls, we've spent considerable time and money positioning our business for higher, long-term, sustainable organic revenue growth. This has meant significant investments throughout the company, and we're now seeing that activity pay off with strong revenue growth and leverage through the P&L. We expect this to continue and to lead to improving free cash flow as operating cash flow improves and CapEx moderates.

With that, I will hand it over to the operator for questions.

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## **QUESTIONS AND ANSWERS**

### **Operator**

Thank you. We'll now begin the question-and-answer session. (Operator Instructions)

Jeff Johnson, Baird.

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### **Jeffrey Johnson Robert W. Baird & Co. - Analyst**

Two quick questions. Al, you talked about the 7% contact lens market growth and the 10% you did in calendar 2Q. What are you seeing from an end market perspective? There's been some chatter over the last maybe few weeks, a couple of months, has rebate activity gone up? Has it not gone up? Has end markets softened a little bit with the consumer? It sure seems from the numbers we're seeing from all the companies that the market is holding in well. But just your state of the market, US and globally, would be helpful here on the contact lens side.

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**Albert White CooperCompanies Inc - President, Chief Executive Officer**

Sure. The state of the market is holding up really well. There's a little bit of noise every once in a while with rebates, which is US consumer rebates, relatively small in the grand scheme of things.

But if we look at the market, whether it's the US or we look on a global basis, it remains really healthy, and you're continuing to see growth in the mid- and higher-end products in torics and multifocals and some of the more premium products within those segments. I would say maybe a little bit of noise here and there, but on a US basis and a global basis, still pretty healthy market.

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**Jeffrey Johnson Robert W. Baird & Co. - Analyst**

And then just on the return to double-digit fertility growth, late last year, you had a culture media recall, should we assume, with you back to double-digit growth there and you're calling out culture media as one of the growth drivers that there's no lingering impact, any bad will that built up in any of these fertility centers there, anything? And do we need to think about any kind of big dollar potential litigation risk? Or is this all kind of normal course of business that companies have to deal with at times?

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**Albert White CooperCompanies Inc - President, Chief Executive Officer**

On the litigation side, we're working through that. We have insurance to cover that. And yes, it's something that we'll work through as other companies work through similar situations. That event that you're referencing happened back in the December time frame and rolled a little bit in the beginning of this year. But our fertility team is fantastic, and they've done a great job and the message that they deliver and the message they believe in is that we are going to do what's best for our patients.

And we're going to do what's best for our customers. And we put our heart behind that. And the team did a fantastic job going out and talking to people, being open, honest, and transparent and working through the issue to get back on good footing, and that's what you're seeing. That's why we're back to double-digit growth here.

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**Operator**

Your next question comes from the line of John Block, Stifel.

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**Jonathan Block Stifel, Nicolaus & Company - Analyst**

Maybe the first one, the Americas CVI two-year stacked growth was notably strong, I think one of the strongest in a good couple of years, anything to call out to frame that? Is that a function of increasing capacity with some lenses and that going into the Americas? And then if you can just use that as an opportunity to remind us of where you are with the overall capacity initiative relative to where your expectations were six or nine months ago?

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**Albert White CooperCompanies Inc - President, Chief Executive Officer**

Yes, it was an excellent quarter. When you think about last year, we were at 13%. So, on a two-year stacked basis, definitely a strong quarter. You are seeing some of what you referenced, John, which is we've got some capacity coming online and that's putting us in a position to be able to meet demand. As we sit here today, demand is still greater than supply, and I would say that's especially true with MyDay, in some parts of the MyDay portfolio.

And it's a little bit of a limiter in terms of our ability to meet the demand in locations and also a little bit of a restrictor in our ability to be able to launch some of the activity we want around the world. That makes me optimistic about the future, certainly, as we continue to bring capacity on and expand our capabilities. In the meantime, you're seeing the results of bringing capacity on and the continuing strength of the product portfolio.

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### **Jonathan Block Stifel, Nicolaus & Company - Analyst**

And then Brian, I'll turn it to you. You mentioned the leverage, it was really solid, better than my estimate in the quarter. I believe OpEx that was basically flattish Q-over-Q despite, call it, mid-single-digit sequential revenue growth, is that more CVI than GSI? Was there anything abnormal in the quarter in terms of cadence in OpEx? Because that really stood out in the quarter.

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### **Brian Andrews CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer**

Yes, we expected strong results in the second half of the year. You heard my gross margin commentary in the first couple of quarters being stronger than in the first half than the second half, but we were going to make up for it with meaningful SG&A leverage in the second half. So, we certainly put up some great results in the third quarter with SG&A leverage.

I'd say both businesses are executing really well. Certainly, those investments that stacked on top of one another over the last several years are yielding positive returns, and we're getting efficiencies from those. It's not a one quarter thing, it's a multi-quarter thing and we expect to see that next quarter and into next year. So yes, happy with the results.

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### **Operator**

Larry Biegelsen, Wells Fargo.

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### **Lei Huang Wells Fargo - Associate Analyst**

It's Lei calling in for Larry. Just two for me, please. First, on the call you talked about low double-digit OI growth for fiscal '25. Can you give any other commentary in the top line the last three fiscal years, you started guidance at 6% to 8% constant currency growth, is there any reason to think that you would start differently for fiscal '25? And anything below the line as far as interest rate, tax rate that you can call out at this point for fiscal '25? And I have a follow-up.

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Sure. Lei, I'm not going to get into much detail on guidance at this point in time as we never do. A couple of things I would just say, the contact lens market is certainly healthy as we were just discussing with Jeff and we're giving guidance for ourselves in the fourth quarter of 8% to 10%. CooperSurgical's market is healthy, fertility is healthy. We're giving guidance for CooperSurgical in the fourth quarter of 6% to 8%.

We're optimistic about both marketplaces and where we sit today, I would say, remaining optimistic that both markets are going to continue to be strong in the next year. But outside of saying that, I'm going to hold off on giving any revenue detail until we get to December.

I'll turn it over to Brian on below the line items.

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### **Brian Andrews CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer**

Yes. Similar to AI, I'm going to hold off on providing details until December. But you picked up on the commentary I said about delivering our long-term commitment and our objective to deliver low double-digit constant currency OI growth. So, people can take comfort in the fact that, that objective hasn't changed. We've got a lot of momentum going into next year, next year should be another solid year.

Free cash flow is going to be stronger next year, so we expect we'll pay down some debt. So hopefully, assuming rates hold, that will mean that our interest expense goes down. To the extent that the Fed does something in our favor, then that's going to be beneficial and that will help.

If I talk about FX, I'm knocking on wood right now, Lei, but as we sit here today, FX is a positive for fiscal 2025. So I don't want people to get ahead of themselves, but that could be some upside. And while I'm not providing guidance on taxes, if we use 2024 as a guide, our effective tax rate pre-discreted this year will be around 15.5%. So we've got momentum, hopefully, some of these upsides play out, and we're going to have a great year.

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### **Lei Huang Wells Fargo - Associate Analyst**

And for my follow-up, can you just remind us when you last took price in CVI? So when does that anniversary? And how are you thinking about price into fiscal '25?

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

We took price in fiscal Q1 of this year. I would anticipate we take price again in fiscal Q1. When I look at ourselves or the industry, inflation has come back a little bit, but it's still running in the 3% range. So, I think where we've been is raising pricing to offset inflation. And I would anticipate the industry will continue to take price to offset inflation. And I would anticipate we'll do that in fiscal Q1. So more to follow on that.

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### **Operator**

Craig Bijou, Bank of America.

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### **Craig William Bijou BofA Securities - Analyst**

I wanted to start on the distributor issue that you had last quarter? And really just wanted to see if it impacted any of your sales or growth numbers in the quarter and if it will continue into Q4 at all?

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Yes, that was the CooperSurgical related IT upgrade issue that we worked through last quarter. Yes, it did disrupt things a little bit into this quarter. But we've worked our way through that. I think you probably get a little bit of the residual upside from that in Q4. As you saw, we did 5% growth in CooperSurgical in Q3, and we're guiding to 6% to 8% in Q4. So, finishing the year strong as CooperSurgical gets back on full footing.

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### **Craig William Bijou BofA Securities - Analyst**

And switching over to CVI and maybe a follow-up on one of the earlier questions. Just looking at APAC growth. I wanted to ask where you are in getting full capacity or full supply to that region specifically. That's one, if you look at the growth rates, it stands out as maybe a little bit more sluggish than some of the other geographies. I know that you're working on meeting the demand there. So just maybe a little bit of color on where you are and how we should expect that maybe to ramp over the next several quarters and into '25.

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Our Asia PAC numbers, yes, a little bit softer than we were running historically. We've got a great team there, Kathy and her team of folks in Asia PAC, I've got all the confidence in the world, they're a strong team. They just need more product is what they need at the end of the day. And if we have more product, those numbers would be stronger, that's what it comes down to.



So we're working hard on that. We're bringing capacity online. We're trying to get more MyDay so we can get it out in the marketplace and get it over to help that team execute at the level that we know they can. I won't give any specific details on that at this point. I'll touch on that and give a little bit more color in December as we start discussing next year's guidance.

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## Operator

Joanne Wuensch, Citi.

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## Joanne Karen Wuensch Citigroup Inc. - Analyst

Talking about Myopia Management, if my math is right, you're probably looking at about a \$40 million per quarter revenue run rate with really healthy double-digit growth. How do you think about where you are in terms of the adoption curve and the marketing of it and sort of the education of the physicians?

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## Albert White CooperCompanies Inc - President, Chief Executive Officer

Yes, we did about \$37 million this quarter total Myopia management. MiSight is bigger than Ortho-k now. As you can see in the number, continuing to gain traction. I would say, though, we're still in the early innings of that. You're seeing Myopia control continue to gain interest among the eye care community around the world.

You're seeing more interest in some of the parts of the world where there's Myopia Control spectacles. We have a joint venture, as you know, with EssilorLuxottica, who's doing a great job with Stellest, and we're seeing some great numbers with SightGlass in China.

I'm really optimistic about that entire marketplace. I still believe the Myopia Control market is just going to be a really large market. As everyone knows, the only approved product right now in the US, through the FDA, is MiSight. I look forward to getting glasses approved at some point in time. I think that's going to take everything to a whole other level.

But to your point, Joanne, we're doing well. Business is growing, we're gaining traction, it's moving closer to being standard of care in pediatric optometry in many markets around the world, which is fantastic. So that's all positive news. It's not as big as I'd like it to be, but it is definitely moving in the right direction and continuing to get larger. And to be fair, 50% growth on MiSight, off a little bit bigger number, the numbers keep getting bigger and the growth rate has been holding. So things are pretty positive there.

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## Operator

Robbie Marcus, JPMorgan.

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## Robert Justin Marcus JPMorgan Chase & Co - Analyst

I wanted to see if I can maybe push my luck a little bit here with fiscal '25. And I appreciate it's early, and it's a really strong guide to start. With low double-digit operating income growth and positive FX, does that translate down to EPS as well? I think what people are looking for, is that low double digit or better EPS growth in '25? Is that the implication?

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## Albert White CooperCompanies Inc - President, Chief Executive Officer

Brian covered it well, which is FX, as we sit here today, would be a positive on a year-over-year basis. We'll see what happens with interest expense. But we're going to generate some decent free cash flow. We'll pay debt down, that's going to help. If the Fed lowers rates, that's going to help. The effective tax rate is going to be higher year-over-year, as Brian said, 15.5% without the discrete this time. So I think it would be higher next year. But if you plug all that in, yes, that should result in some pretty decent EPS.

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## **Robert Justin Marcus JPMorgan Chase & Co - Analyst**

And maybe just to dive in, you touched on some of this, but gross margins and operating margins were particularly strong. I know you touched on that already. But maybe just some of the particular drivers, especially in gross margin, as more and more dailies come online, you would expect that to maybe drop down, but it's holding in firm. So how are you offsetting that? And how should we think about that moving forward?

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## **Brian Andrews CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer**

Price and efficiency gains are offsetting the FX. On the efficiency side of things, we're making progress on our intercompany shipping. When we put all of those infrastructure investments in tied to packaging, some of the labeling and so forth, and when we're moving product intercompany between and among our sites, we've gotten a lot more efficient at doing that.

And so what you've seen is that efficiency flowing through cost of goods as well as the price helping to improve gross margins. You've got a little bit of mix there as well. Americas, we've got a bit higher margin than in other parts of the world and then some mix also at CooperSurgical. So you put it all together, and it's offsetting that FX to a large extent.

I'd expect that we'll continue to do that type of activity. You'll see daily sihys be a bit of a headwind, but as we work through our capacity increases and we eventually get to moderating on that CapEx and we start working on continuous improvement activities, that's going to be another opportunity for us to continue to take gross margins higher over the longer term.

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## **Operator**

Anthony Petrone, Mizuho Group.

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## **Anthony Charles Petrone Jefferies LLC - Analyst**

Maybe a couple on CVI and then one on CSI. On lenses, maybe just a little bit on the pricing dynamic. It's been a tailwind here for a number of quarters. Pricing, I believe, resets possibly every 6 months depending on distributor versus optometry versus retailer contracts. And so maybe just the visibility on pricing. Is something in the range of 200 basis points the new normal for contact lenses? And when we think about a mix toward toric, in any modality when we go from a sphere or a toric, or just get a new toric user relative to a sphere, what is the margin uplift of toric versus sphere and then I'll have one on CSI.

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## **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Yes, a couple of different things. On pricing, we have really strong visibility internally on pricing, of course. But it's a complex model, as you could imagine. You talked about a couple of the items there. Distributors versus retailers and the direct channel to optometrists. That's why I always say to people, be careful reading too much into something like consumer rebate activities that occur in the US and not outside of the US.

At the end of the day, what you're thinking about is right, 2% to 3% support for market growth is probably the range that we're sitting in. I think where inflation is, it won't surprise me if we continue to sit in that range for a little while longer. We'll see what happens long term on that.

When you think about the growth of the market overall, it ties to your question on torics which is one of the reasons the market is growing nicely, it's not only price in terms of pure price but it's price coming from a product mix shift.

And as you get more growth in torics and you get more growth in multifocals, and some of the other specialty lines, we have some of the most innovative products in the market when it comes products like Energys, you do get a different margin profile. Now that one is a little challenging to answer specifically because it depends on the life cycle, meaning when you're launching some of these products, especially wide SKU range torics, you're going to have lower margins. But once you get the products fully into the market, you'll get margins at or even above sphere margins.

So at the end of the day, we really look at operating margins, more than gross margins. And all of this activity is going to end up being long-term accretive to operating margins.

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### **Anthony Charles Petrone *Jefferies LLC - Analyst***

A quick one just on CSI. We've been hearing a little bit on competition for PARAGARD from a competing copper, non-hormonal device coming on the market. So maybe just a little bit on the competitive landscape in IUDs broadly and your take on just brand loyalty to PARAGARD versus a new copper alternative in the marketplace.

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### **Albert White *CooperCompanies Inc - President, Chief Executive Officer***

Sure. Right now, PARAGARD is the only approved non-hormonal IUD product in the marketplace. And it's worth remembering that IUDs are governed as pharma products. The regulatory approval process is long and arduous, and I can't comment on somebody else's process or their journey to getting approval. But what I can say is that we have a fantastic team selling PARAGARD, it's been in the market a long time. It has a 10-year indication, which is very unique to it. We just went through the full approval process to get a single handed inserter approved. We've got that product into the market right now. That's a more efficient way for the practitioner to insert the IUD, so that's fantastic. And if there was pushback on PARAGARD, a lot of times, it was tied to that. So that's a nice improvement we have in the marketplace. So where PARAGARD sits right now is actually in a pretty good spot.

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### **Operator**

Jason Bednar, Piper Sandler.

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### **Jason Bednar *Piper Sandler & Co. - Analyst***

I wanted to come back to CVI, and really see if you can provide a bit more color on the cadence of demand throughout the quarter, the exit rate you had from July into August. I think you mentioned a good back-to-school season for MiSight. So I guess just wondering if that extends to the rest of your business as we exited the third quarter, if that was on a high note.

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### **Albert White *CooperCompanies Inc - President, Chief Executive Officer***

Yes. We had a good July. I would say we're having a good August. Somebody asked the question earlier about market demand and I'd say the market is remaining healthy, certainly. And we're seeing that in our business. I am excited about MiSight and where we're at. The receptivity on that seems to have increased and we're seeing more positive news on MiSight, so I'm expecting another good quarter for fiscal Q4. But yes, in general, the last couple of months have been good and the month we're in is starting off well.

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### **Jason Bednar *Piper Sandler & Co. - Analyst***

And then one other one. We're hearing that J&J's reversing course on its decision to cut its toric SKUs. I think that was a decision from 18 months ago or so. But Cooper was a big beneficiary of that original decision from J&J to cut those SKUs that you won over a lot of toric patients.

Do you see any risk of share give back for that lens class? Or is there any reason to think that share would be less sticky, any less sticky for those patients than what you would normally see with a typical contact lens consumer?

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### **Albert White *CooperCompanies Inc - President, Chief Executive Officer***

No, I'm not too worried about that. First of all, it wasn't that big of a deal. They cut some SKUs out of some ranges in the wider part of the bell curve, so it would not be fair to say we took a lot of toric business or a lot of toric patients from them because of that decision. We did take some. And when you fit somebody in a toric, especially a toric like ours, we're a market leader there with the

best designed toric in the marketplace, period. We don't lose patients once they come into our products. So no, I think we're fine on that side of things.

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## Operator

Brett Fishbin, KeyBanc Capital Markets.

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## **Brett Adam Fishbin KeyBanc Capital Markets Inc. - Analyst**

It's been pretty striking, I have to say, some of the uneven results that we've seen in the contact lens space this year with the market seemingly really healthy and perhaps like a major exception over the past few quarters. Just curious if you can comment maybe on that level of the difference that we've seen across some of the different players? And what are the biggest differentiators separating, the outperformers such as yourself from the underperformers over the past few quarters?

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## **Albert White CooperCompanies Inc - President, Chief Executive Officer**

When you look at the contact lens market, it's always a little tough to take at any individual quarter because a lot of different things can happen. We've seen them over the last couple of years when it comes to people having some shipping issues or supply issues. But at the end of the day, I look at our business model and I say, okay, we have the broadest portfolio, some of the best, arguably the best, markets and best products in a lot of segments of the market.

So I think you're going to get consistency from us. I think when you look at the rest of the market, you've got disruptions and different business profiles and then you've got portfolios where people are in the life-cycle of their portfolios. The market has shifted and continues to shift to silicone hydrogel dailies and specifically, daily torics and daily multifocals.

As you know, over the last five, six years or so, we put a heavy emphasis on expanding our capabilities in the daily side of things, bringing our monthly portfolio into the daily side of things, expanding parameter ranges for torics, and creating products like MyDay Energys and MiSight to expand the daily market.

And that's worked out really well for us. I don't read too much necessarily into all the competitors quarterly results because at the end of the day, you have a strong market and everyone is going to continue to put up decent results moving forward because you just have healthy underlying demand.

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## **Brett Adam Fishbin KeyBanc Capital Markets Inc. - Analyst**

And then just a really quick follow-up on the other side of the coin with Myopia management. Have there been any updates around the SightGlass FDA approval timeline? And if not, what's really like the next data points that we should be paying attention to?

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## **Albert White CooperCompanies Inc - President, Chief Executive Officer**

On SightGlass, no updates on that. We're working through that clinical process right now to try to get FDA approval. The last commentary we gave on that was hoping to get FDA approval in the latter part of next year. I mentioned it earlier, we have an excellent relationship and joint venture with EssilorLuxottica who is a true leader in Myopia Control, and they're doing some fantastic things in that space, and we're working with them. We're doing some fantastic things.

So two great companies working together to promote Myopia care and really trying to help children that need visual correction around the world. With SightGlass, we have the product in China right now. It's doing really well there, and we're looking forward to continuing to do really well there and get it launched around the world, and ultimately get FDA approval and be really successful here in the US, and have it really help MiSight also.

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## Operator

David Saxon, Needham.

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### **David Joshua Saxon Needham & Company, LLC - Analyst**

Maybe I'll continue on with Myopia management. So ortho-K, at least on my math, it looks like return to growth in the quarter. So I guess what's driving that? How much of that is driven by China recovery versus strengthening the rest of the world? And then for MiSight, can you talk about what percent or what inning you're in, in terms of commercial payer coverage, when should we expect you to reach critical mass on that? And I'll have one follow-up.

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

I would say when it comes to Myopia management, and I would say this is true for ortho-K and MiSight, our weakest market is China. We don't do a lot of business in China as a company. But there's a tremendous amount of opportunity with Myopia Control, and these treatments in China because there's such a high percentage of the pediatric population that's Myopic.

But that would be a market where we struggle. So, as well as we're doing, it's largely being driven by success outside of China. You guys probably know better, as you probably follow China closer than I do, but it'd be great to get some consistency in growth out of China because I think there's some tremendous growth opportunities there with MiSight and ortho-k but, right now, we're not really seeing it, that's not a driver.

If I think about MiSight and insurance coverage, we continue to make progress, slow but sure. I've talked about Aetna coverage in the past and Kaiser coverage in the past. Were just continuing to make slow and steady progress on insurance reimbursement.

I will go back to some prior comments I've made on other calls that we really need to get spectacles in the market and really get the myopic control market to become standard of care so that all optometry practices are looking at that when kids come in, and treating them the way they should be treating them. And I think that's going to really kick-start insurance reimbursement. Until that point, I think we'll just continue to plug along slowly, but surely.

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### **David Joshua Saxon Needham & Company, LLC - Analyst**

And then in CooperSurgical, I think last quarter, you talked about PARAGARD expectations of being flat to slightly up. Is that still the case? And then in the stem cell storage and medical devices part of the business, I think, Brian, you had called out some growth. Maybe can you get a little more granular, what kind of growth? Is that single digits, high singles, et cetera? And then what is driving that? Is that kind of M&A contribution or some of these organic product launches?

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

I'll give a couple off the top of my head and see if Brian has anything to add. PARAGARD is going to be up this year or we're anticipating it being up this year, just a little bit, not a lot, but it will be up slightly. Stem was usual, it was up around 4%, and that was just organic growth. We haven't done any acquisitions or anything on that side of things. We just did the two small ones Brian mentioned.

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### **Brian Andrews CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer**

Yes. David, I don't have anything else to add. Those are the right numbers.

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### **Operator**

Steve Lichtman, Oppenheimer.

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### **Steven Michael Lichtman *Oppenheimer & Co. Inc. - Analyst***

Just wanted to follow up on PARAGARD, so you've had moving parts with the stocking dynamics in the last few quarters. As you look beyond just this coming quarter, what is your outlook for underlying growth for PARAGARD looking forward and sort of the pluses and minuses driving your outlook?

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### **Albert White *CooperCompanies Inc - President, Chief Executive Officer***

Yes. You can back into the numbers, PARAGARD will be down a little bit in Q4 again. But I think if I look longer term, you're talking about a marketplace that has declining unit sales. So we're getting a little bit of growth because of price. We've taken price a few times, maybe we'll take price again. But the marketplace is declining in terms of units, which creates the challenge, as ultimately, there's more options available to women for birth control.

And I think non-hormonal IUDs, meaning PARAGARD, is going to continue to do okay. But that's not a big growth market. It's just not. But it's fine. It's less than 5% of our revenue. I don't know why we spent so much time talking about it, but that would be the answer.

And then, Brian, you mentioned CapEx moderating. Just given the demand outstripping supply, what drives the ability to moderate that investment?

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### **Brian Andrews *CooperCompanies Inc - Executive Vice President, Chief Financial Officer, Treasurer***

Steve, yes, I just want to be clear though. While I talked about in the future when CapEx moderates, we'll get to work on continuous improvement activities, and that will result in efficiency gains. I wasn't necessarily suggesting that next year is going to be a light CapEx year, and I wasn't certainly even giving guidance to next year.

Certainly, we have demand still outstripping supply, we're capacity constrained in a number of places. We're modulating some of our launches and our launch activities based on the capacity and the supply that we have, but capacity is coming on just about every month, and we're doing great at adding capacity and better-than-expected yields and results.

So I'd expect that next year, we're still going to have a big CapEx number. I just talked about free cash flow being better next year than this year. And this year, I'm reiterating around \$300 million of free cash flow. So things are looking positive, but I wouldn't necessarily say that there is major change in CapEx for next year.

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### **Operator**

Chris Pasquale, Nephron Research.

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### **Chris Pasquale *Nephron Research, LLC - Analyst***

I'll ask one more PARAGARD question for you just to fill out the slate. Could you just clarify the number this quarter? I thought we were looking for down sequentially. I think I heard down a little bit year-over-year, which would be up actually a fair amount sequentially. So what did PARAGARD do in 3Q?

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### **Albert White *CooperCompanies Inc - President, Chief Executive Officer***

\$48 million

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### **Chris Pasquale *Nephron Research, LLC - Analyst***

And then the Biofinity and Avaira growth was strong this quarter. Every time the delta between dailies and FRP compresses stands out relative to what we're used to seeing historically. Was there anything unusual that helped those products? And then I'd love just

a general sense of where we are in that transition to dailies in places like the US and Europe that have been playing this very long game of catch-up relative to markets like Asia that were quicker to adopt.

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Probably not too much to read into Biofinity and Avaira this quarter. It was a strong quarter and it was driven by some of the products that I've mentioned, Energys and extended range torics and toric multifocals. But I think you're going to get some stronger quarters and then some lower quarters. That will fluctuate around with dailies. So not too much to read into that.

When I think about the marketplace on dailies, we still have a long runway as an industry. Less than half of people are being fit in dailies right now. If we call somewhere around 45% of fits going into dailies, about 75% of those fits are going into daily silicone hydrogels. Those numbers are increasing, they continue to increase.

But the fact that less than half of people are being fit into dailies right now just tells you how much of a runway we have to go as an industry. It's amazing. I wear dailies and I would never go back to not wearing dailies. They're just so easy to put in and take out, throw them out, clean, safety, everything else that goes along with it. So, I just think that trend is going to continue.

And then I would add on to that, as you've seen products like the one I'm wearing, MyDay multifocal, which is just an amazing, amazing product. And what we've seen is people try MyDay multifocal and they stick with it and they stay in it for years and years rather than dropping out of contact lenses.

And the last one I would add is torics. Getting the fit that you should get, the correct lens for your eyes that gives you the best eyesight is critically important. And doctors' ability to fit people in torics right now has improved. And now that you're getting the availability of torics within dailies, it's continuing to grow that market. I don't know what inning we're at, if you ask me that way, but we have many years left as an industry continuing to shift over to daily silicone hydrogels and torics and multifocals.

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### **Operator**

Navann Ty, BNP Paribas.

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### **Navann Ty Dietschi BNP Paribas Exane - Analyst**

First on capacity progress at CVI, do you have enough visibility to resume more launch activities in the near term? And then I have a follow-up on PARAGARD. Is the single hand inserter a differentiator versus the upcoming competition?

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

On the single hand inserter, I'd say it puts us on par with the market. There is a single-hand inserter used by hormonal IUDs and that puts us on par with the market. I don't know what the competitor is going to do and what they'll get approval on or won't get approval on. So I won't speculate there. But I will say that it puts us on par with the other products like Mirena that are in the marketplace.

On capacity, we are making great progress on capacity, and we are more active in terms of getting product into the market and evaluating some incremental launch opportunities. We have very good visibility on that and it would be positive news.

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### **Operator**

There are no more questions. I will now turn the conference back over to Al White, President and CEO, for closing remarks.

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### **Albert White CooperCompanies Inc - President, Chief Executive Officer**

Great. Thank you, and thank you to everyone who called in. We had a really strong operational quarter as we talked about. As Brian said, we're really focused on that and we're going to continue to deliver results in the short term and long term. That's our plan. So

thank you again. Look forward to seeing everyone during this quarter. Thanks.

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**Operator**

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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