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Q4 2022 Cooper Companies Inc Earnings Call

EVENT DATE/TIME: DECEMBER 08, 2022 / 10:00PM GMT

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PRESENTATION

Operator

Good afternoon, and welcome to CooperCompanies Fourth Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the call over to Kim Duncan, Vice President of Investor Relations and Risk Management. Please go ahead, Ms. Duncan.

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

Good afternoon, and welcome to The CooperCompanies Fourth Quarter and Full Year 2022 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 contains forward-looking statements, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions or trends, product launches, operational initiatives, regulatory submissions and closing or 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 coopercos.com. Also as a reminder, the non-GAAP financial information we will provide on this call is provided as a supplement to our GAAP information. We encourage you to consider our results under GAAP as well as non-GAAP and refer to the reconciliations provided in our earnings release, which is available on the Investor Relations section of our website under Quarterly Results. Should you have any additional questions following the call, please e-mail ir@cooperco.com.

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

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

Thank you, Kim, and welcome everyone to CooperCompanies Fourth Quarter and Fiscal 2022 Year-End Conference Call. We finished this year with CooperVision reporting its seventh consecutive quarter of double-digit organic revenue growth and CooperSurgical posting an eighth consecutive quarter of double-digit organic revenue growth within its fertility business. Demand for our products and services was very strong in Q4 and we're seeing that continue into fiscal 2023. I'm extremely proud of the dedication of our Cooper employees and the hard work it took to post another year of record revenues in fiscal 2022, and I look forward to another record-setting year in fiscal 2023.

Moving to the numbers, consolidated quarterly revenues reached an all-time high of $848 million and we closed the fiscal year with record revenues of $3.31 billion. CooperVision posted quarterly revenues of $562 million, up 11% organically, and reached a new record high of $2.24 billion in fiscal year revenues. CooperSurgical posted record quarterly revenues of $286 million, up 15% organically, and reached new record fiscal year revenues of $1.07 billion.

For the quarter, CooperVision's growth was led by our daily silicone hydrogel portfolio and myopia management products, while CooperSurgical's growth was broad based with strength in PARAGARD, fertility, and our broader medical device portfolio. Non-GAAP earnings per share were $2.75. This was lower than we were forecasting primarily due to commercial spending tied to product launches and elevated distribution costs and Brian will cover this later in the call.

For CooperVision in Q4, and reporting all percentages on an organic basis, revenue growth was strong and diversified in all geographic regions and across all product categories, spheres, torics and multifocals. The Americas grew 5%, EMEA was up 13% and Asia Pac reached 16%. This performance was driven by new product launches, expanded product ranges, market-leading flexibility through our customized offerings, and growth in key accounts.

Regarding product details, daily silicone hydrogel lenses grew 20% with especially strong growth from MyDay and from clariti in the Asia Pac region. Daily silicones continue to be the main driver of growth for the contact lens industry, and we offer the broadest portfolio in the market with MyDay and clariti available in a broad range of spheres, torics and multifocals. Our silicone hydrogel FRP lenses, Biofinity and Avaira, reported another solid quarter of 6% growth.

Regarding product launches, we remain extremely active. The MyDay multifocal launch is going incredibly well and the feedback from customers and practitioners remains outstanding. In the meantime, the MyDay toric parameter expansion launch has been overwhelmingly positive in the U.S. and Canada. With over 4,000 SKUs, we now match our standard Biofinity toric range and have the widest daily toric range in the market by a wide margin.

Not only does this expand the daily toric category for everyone, but for many FRP toric wearers, this is their first opportunity to enjoy the freedom of a daily contact lens. We'll be rolling out these expanded parameters in additional markets as we move through fiscal 2023 and look forward to continued success.

And lastly, on MyDay, we're excited to be bringing MyDay Energys to the market. This lens uses the same innovative technology as Biofinity Energys to alleviate digital eye strain, and eye care practitioners are excited to be getting this technology in a premium daily offering. We started seeding the U.S. market and a full national rollout is scheduled for early spring. Combining all this MyDay activity truly exemplifies CooperVision's leadership in the daily silicone hydrogel space and our focus on offering practitioners a wide variety of market-leading technologically superior products.

Outside of MyDay, demand for Biofinity remains especially strong to the point where we're somewhat capacity constrained. We've increased price and production, especially in the extremely high demand, made-to-order extended range torics and toric multifocals, and we'll continue to focus on increasing capacity on a broader scale moving forward.

Moving to myopia management, we posted revenues of $26 million, up 29%, including MiSight up 88%. For the full fiscal year, we reported myopia management revenues of $93 million, which was impressive given the negative impact of currency and ongoing COVID restrictions in China. For MiSight, we're rolling out an expanded parameter range and launching in new countries and I'm happy to report that MiSight is now available in 41 countries.

Within this, we're seeing increased fitting activity from both independent optometrists and key accounts and we're continuing to see a positive halo effect with our MiSight customers accelerating their use of other CooperVision lenses. All this is a good sign and points to a strong fiscal 2023 where we expect myopia management revenue of $120 million to $130 million, up roughly 35% at the midpoint in constant currency.

And as a reminder, MiSight contact lenses are the first and only FDA-approved soft contact lens proven to slow the progression of myopia in children aged 8 to 12 at the initiation of treatment. The product is backed by extensive clinical data and remains a shining example of CooperVision's leadership in the contact lens industry.

Moving to SightGlass, we've been making progress with these myopia control glasses as part of our great joint venture with EssilorLuxottica. This includes selling in China, and pilot programs in Canada, the Netherlands, the U.K. and Israel. In the U.S., the JV submitted an FDA application to be the first spectacle lens product to receive FDA approval for myopia control, and we hope to receive a positive response by calendar year-end.

And to conclude on the importance of myopia management and why it needs to become standard of care, the risk of visual impairment and eye complications such as glaucoma grows exponentially with vision loss, so preventing higher levels of myopia is critically important for the long-term health of our children's eyes.

To finish on CooperVision, the contact lens market is performing exceptionally well with growth of roughly 9% in calendar Q3. There are still COVID-related challenges, especially with respect to staffing shortages in optometry offices negatively impacting patient flow, but progress is being made. Meanwhile, the long-term growth drivers of the industry remain intact. This starts with a macro growth trend and more people needing vision correction with an estimated 50% of the global population expected to have myopia or nearsightedness by 2050, up from roughly 34% of the population today.

This is driven by a variety of factors including greater levels of screen time and less time outdoors, especially among children. Other industry drivers include the market's continuing shift to silicone hydrogel dailies, the increasing focus on higher-value products such as torics and multifocals, and higher pricing, which is running ahead of historical trends. We expect global growth to remain healthy and believe we'll remain a leader with our robust product portfolio, ongoing product launches, fast-growing myopia management business, and leading New Fit Data.

Moving to CooperSurgical, we posted a great quarter with growth throughout our portfolio. Fertility reported sales of $109 million, up 15% organically, its eighth consecutive quarter of double-digit organic growth. Success was seen throughout the product portfolio and around the world. And given our momentum as we enter fiscal 2023, we're continuing to invest in our team and in our fantastic product portfolio, which includes leading consumables, capital equipment and genomics. Demand remains very strong, especially among our key accounts, so we need to keep building infrastructure, investing in our people, and delivering the products and services required in this high-growth market.

Regarding the overall fertility market, the future looks bright. There are several industry growth drivers, but one of the key factors being women delaying childbirth. The average age of a woman's first birth in the U.S., and several other developed countries, now stands at a record high of 30 years old, and age is one of the key factors in needing fertility assistance. Additionally, factors such as improving access to treatment, increasing patient awareness, improved product offerings such as cryopreservation, increasing fertility benefits coverage and technology improvements for both male and female infertility are driving the industry forward. In total, it's estimated that roughly 15% of reproductive aged couples have fertility challenges and that over 750,000 babies are born annually through fertility assisted measures, and these numbers are growing.

Regarding CooperSurgical's market positioning, we compete in a portion of the market that's roughly $2 billion in annual sales, and we forecast growth of 5% to 10% for many years to come. Within this, we're well positioned to continue delivering strong results with the broadest portfolio in the industry, a market-leading commercial footprint, and strength in key accounts.

Moving to office and surgical products, which includes OB/GYN medical devices, PARAGARD and stem cell storage, we posted sales of $178 million, up 58%, and up 15% organically. Within this, PARAGARD grew 19% and office and surgical medical devices were up 13%. PARAGARD posted strong results rebounding from several tough quarters, and our OB/GYN medical devices benefited from strong demand, especially for surgical products, combined with clearing some backlog. Lastly, our stem cell storage business grew 2%, in line with expectations against the difficult comp.

To conclude on CooperSurgical, we made a ton of progress this year. Our fertility business continues to post great results, our office and surgical products closed the year strong, and we completed an incredible amount of integration activity associated with several acquisitions, including the Generate deal.

Before I turn the call over to Brian, let me say this was a great fiscal year for Cooper. We reported record revenues and made significant advancements throughout our organization. As we enter fiscal 2023, demand remains strong, supported by stable consumer activity and price increases, our investment activities, including new product launches and capacity expansion are going well. Our employees are highly engaged, and we're continuing to execute on our long-range strategic objectives. Having said that, we are aware of global inflation, geopolitical risks and other factors that could cause a global recession, and we're thus managing our investment activity with prudent cost controls and will continue to be vigilant in our operations.

With that, let me turn the call over to Brian.

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

Thank you, Al, and good afternoon, everyone. Most of my commentary will be on a non-GAAP basis, so please refer to our earnings release for a reconciliation of GAAP to non-GAAP results. Fourth quarter consolidated revenues were $848 million, up 12% as reported and organically. Consolidated gross margin was 65%, down 250 basis points from last year primarily due to currency and higher costs associated with supply chain challenges. Operating expenses grew 12% and were 42.8% of revenues primarily as a result of the acquisition of Generate. Consolidated operating margin was 22.2%, down from 24.9% last year primarily due to currency.

Before moving on, let me say our Q4 operating income did not meet expectations. The primary drivers were commercial spending tied to product launches, and elevated distribution costs tied to shipping and inefficiencies associated with capacity expansion and automation efforts. Some of this activity will continue in fiscal 2023 and I'll touch on that in guidance.

Moving below operating income, interest expense was $23 million with higher rates and debt balances driving the increase. The effective tax rate was 14.2% and non-GAAP EPS was $2.75, with roughly 49.6 million average shares outstanding. Regarding earnings, FX negatively impacted the quarter by $0.75, which was $0.11 more than we had built into our guidance on our September earnings call. A large part of the $0.11 was attributable to the remeasurement of foreign currency-based intercompany trade receivables, including exposures from before we began mitigating certain balances. Free cash flow was $36 million including CapEx of $95 million tied to capacity expansion and net debt reduced by $31 million to $2.61 billion.

Moving to fiscal 2023 guidance, we are assuming a modest recession, ongoing inflation and rising interest rates. For the year, we're guiding to consolidated revenues of $3.455 billion to $3.515 billion, up 6% to 8% organically, with CooperVision revenues of $2.325 billion to $2.365 billion, up 7% to 9% organically, and CooperSurgical revenues of $1.13 billion to $1.15 billion, up 4% to 6% organically. Non-GAAP EPS is expected to be in the range of $12.30 to $12.60 based on $106 million of interest expense and a 15% effective tax rate.

For interest, we're assuming a 50 basis point rate increase from the Fed in December, another 50 basis point increase in February, and then an additional 25 basis point increase in March. For the tax rate, we're assuming no discrete items. For currency, we're using yesterday's rates with a little conservatism given the FX volatility. This results in year-over-year FX headwind of roughly 2.5% to revenues, while being neutral to EPS. From a quarterly gating perspective, we expect consolidated Q1 revenues and earnings to be slightly less than Q4 with currency continuing to have a significant negative impact. After Q1, assuming rates hold steady, the currency impact will lessen and ultimately turn positive towards the middle of the fiscal year.

Moving to the full year P&L, let me touch on the details that will drive our financial results. During Q4, we ramped up investment activity and expect that to continue. As an example, we accelerated work on roughly doubling our U.S. CooperVision distribution center to get the building shell done before winter, and we now expect to be utilizing this additional 150,000 square feet of space this coming summer.

We are also expanding other distribution and manufacturing locations at CooperVision and CooperSurgical and implementing substantial automation. Additionally, we're adding significant capacity to our contact lens manufacturing footprint. We saw some of this activity in Q4 with CapEx of $95 million, and we expect this to continue with CapEx being around $400 million this fiscal year. Near-term demand is strong and long-term growth trends are very positive, so this activity is needed to support our growth initiatives. Having done this type of expansion work in the past, we know we'll get it done and probably ahead of schedule, but it does create inefficiencies. When you're dealing with an already strained global supply chain, it makes things even more difficult. We built expectations around this inefficiency into our guidance, along with inflation assumptions, and believe we've sufficiently captured everything. In total, for fiscal 2023, this means strong revenue growth, slightly improving gross margin supported by price increases, and higher than normal OpEx, resulting in our operating margin being up slightly year-over-year.

To conclude on guidance, note that this does not include the pending acquisition of Cook Medical's reproductive health business, but does include the acquisition of SynergEyes, a small specialty contact lens business we closed on November 1. Regarding Cook, we're exploring options to get regulatory approval, including the potential sale of certain Cook assets and are hoping to close by June 30, 2023.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Jon Block from Stifel.

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

Great. Well, I'll start on MyDay Energys. I know it's very soft launch, but any early, early feedback on the lens? And you got a competing lens for digital eye strain that's priced at the really high end of the market. And does that give you any thoughts on how you can price this or get a little bit more aggressive on the positioning of MyDay Energys in the market? And then I'll ask my follow-up.

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

Yes. So Jon, the response so far from eye care practitioners has been pretty positive. A lot of them know this technology because they've used it with Biofinity, so they're comfortable with it. They've been requesting it in a more premium daily, which is MyDay that we're giving to them now. So I'm optimistic it's going to do well. We're just getting it in the hands of key opinion leaders starting here in November, and we'll continue to expand that out in the coming months. But positive response on that. It will be priced at a premium to the MyDay sphere. I won't go into pricing details yet as we don't have it out in the market, but it will be a premium priced product.

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

Okay. Helpful. And then maybe shift gears, Brian, this one might be for you. Just any details on the, call it, the low $13 EPS number for '23 last quarter on the soft guide. And now the $12.45 at the midpoint that you came out with this afternoon, is it all attributable to some of those elevated OpEx costs that you called out on the distribution side that seems to be playing a role in '23? Or are there any other variables we should be thinking about? And then just sort of a tack on to that is, do you really see those higher distribution costs as somewhat transient, call it, a '23 and that it hopefully that subsides as we think about '24?

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

Jon, yes, good questions. I'll take the second part of your question first. Yes, there's a good part of that, that was transient that really was particular to the quarter. And then there's an element of the inefficiencies and elevated OpEx that will persist into 2023. Now I touched on some of the things that drove our guidance, including the strong revenue growth, gross margins improving, driven by price increases, and operating margins up slightly.

We are assuming a modest recession, including those inflationary pressures and those continued inefficiencies. And then , the rate increases and some conservatism on FX. Obviously, currency was brutal last year. It's going to be bad in Q1. It'll improve quite a bit after that. But we got hit hard with increased costs in 2022. Those may settle down a little bit, but we are factoring some of that in.

We are seeing some normalization of freight and wages. We'll annualize some of those, and we're seeing some improvements already, but we did not factor some of those improvements into our guidance. So in short, yes, the elevated OpEx is taking our EPS guidance maybe a touch lower than where we were 3 months ago. But it's still not materially different from where we had set guidance , what we had said about a quarter ago about driving to low single-digits earnings growth. We just have higher interest and just some of the elevated OpEx that we've factored in perhaps for a little bit of conservatism as we start the year.

Operator

Our next question comes from Larry Biegelsen from Wells Fargo.

Unidentified Analyst

Hi, it's Lei calling in for Larry. Can we talk a little bit more about the margins, gross margin and operating margin? You talked about the higher distribution costs and some investment for new products. Can you help us bridge from fiscal Q4 through fiscal '23? How do you think about that cadence? Do the margins get worse before they start to improve? Or is it mostly stable?

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

Yes. So on margins, Q4 to next year, I gave a little bit of guidance in my prepared remarks just around Q1 being a little bit lower than Q4. Gross margin is going to be somewhat similar, but OpEx is still going to be elevated. We saw some of the issues that we dealt with in Q4 bleed into Q1.

As you work through the year, currency improves, gross margin will improve from price, and then operating margins, while they're going to be up slightly year-over-year, they are being held down a little bit from the elevated OpEx. The cadence and the gating around revenues is going to be pretty similar to the way it is typically. So that's basically the gating. Did I answer your question, Lei?

Unidentified Analyst

That's fine. Just to be clear, you said both of revenue and margin will be lower in Q1 versus Q4?

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

So revenues will be a little bit lower and gross margins probably a little bit similar, but you've got higher OpEx and certainly higher interest expense, which will drive your EPS a little bit lower versus Q4.

Unidentified Analyst

Okay. That's helpful. And if I can just have another question on the guidance. You talked about $120 million to $130 million in myopia management revenue. What's assumed on SightGlass in that? And what do you assume about SightGlass launch costs in the guidance?

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

So there's nothing in there for SightGlass revenue. As you know, Lei, that's a joint venture that we have. So we don't recognize revenue from that other than a little bit of the product that we distribute, but it's pretty minimal. We've assumed continued costs there. We've had expenses associated with SightGlass that have been rolling through our P&L every quarter. We've assumed that will continue.

The only thing that I would probably highlight that's not factored in is what happens with FDA approval. If we do get FDA approval, I'm sure there will be incremental launch costs associated with that activity. And we'll pull that out and highlight that specifically, but that's a little bit of an unknown. So that's the only thing that wouldn't be in there.

Operator

Our next question comes from Jeff Johnson from Baird.

Unidentified Analyst

This is Dane on for Jeff. On the kind of 7% to 9% CVI organic guide, it looks like maybe you got 150 basis points of tailwind from myopia management. We were just wondering kind of what is the pricing assumption in there? I know I think you mentioned it being a little bit higher than this year. So what's kind of the organic ex price, ex myopia kind of CVI growth you're expecting?

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

Yes. I think that price this year ends up being somewhere around 2% as a positive. And that's probably true for us, and an industry comment, it's going to be somewhere in that range. So yes, when you look at the 7% to 9% depending upon how you want to look at that compared to prior years, you've got 1%- 1.5% coming from myopia management and a couple of points coming from price still within that.

Unidentified Analyst

Okay. And just to clarify, that 2% is for '23?

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

Correct.

Unidentified Analyst

Okay. And then just one follow-up on PARAGARD. I know this quarter you guys had an easy comp. But we did see some data starting to suggest office visits improve and just IUDs improve overall. So what are your kind of thoughts on the end market growth for IUD and PARAGARD into '23?

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

Yes. I think that it's okay, but I wouldn't go really any farther than okay. When I look at fiscal Q4, and how we started this year, we've got some good numbers there because of rebound activity. But if I look at actual patient traffic with respect to OB/GYN visits, specifically associated with IUDs, we haven't really seen much of an improvement there. So I think there are signs of potential improvement, but I wouldn't read too much into that right now. I think we'll still have a challenging year with PARAGARD in terms of getting a lot of unit growth out of it.

Operator

Our next question comes from Joanne Wuensch from Citibank.

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

A couple of questions. You're talking about a 9% contact lens market growth that absorbed, say, 2% price. Maybe that makes a 7% market grower. That's higher than the normal average. What's driving that growth?

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

Yes. Boy, there's a lot of good demand out there when it comes to contact lenses, I can tell you. And I would say that's probably true for all visual correction companies. Pre-COVID, we got up to running around for a market, 5% to 6%, and maybe there was a 0.5% or a point of price.. It's stronger than that right now. The shift I talked about, to torics, the shift to multifocals, the shift to daily silicones, that stuff that was happening before is still happening.

You're getting a little bit, honestly, I think, from COVID. I think that you had so many kids who were inside and so many people who have not been able to go to the optometrist that you're still seeing a push there. I mean you can still talk to retailers in optometry offices about issues they're having meeting the demand from patients. And some of that's not enough optometrists and changes in optometry work habits and so forth, but there are still staffing challenges. There are still demand-related challenges that are out there. I think it just ends up being a better industry, frankly, than it was even years ago. The macro growth drivers are arguably stronger than they were pre-COVID.

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

And then as a follow-up, help me understand what gross margins might look like next year, given everything.

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

Yes. I think that you've got a couple of different things that pushed gross margins higher and lower, and you certainly have currency in there that ends up starting to be a positive to help us. But the price increases we're talking about also flow directly through. So at the end of the day, we're expecting to see improvement year-over-year in gross margins. I won't go into specific numbers on that, but gross margins should be up year-over-year.

Operator

Our next question comes from Jason Bednar from Piper Sandler.

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

Al or Brian, within that 7% to 9% organic revenue guide for CVI, can you help us understand how you're thinking about the geographic buildup within that guide? I ask because the Americas' performance was a little soft this quarter. Just, again, curious how you're thinking about the growth contribution when you look around the globe for fiscal '23.

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

Yes. The Americas is in line with market. That's where we've been running a little bit for CooperVision for a couple of quarters. And then we've been outperforming in Europe and outperforming in Asia Pac. I would assume that's going to continue. We put up some good numbers. In Europe, and there are some questions about that in terms of what happens with the consumer there, but we're continuing to see good demand in Europe.

Our key account strategies are really successful there. So I'm expecting us to continue to put up solid results in Europe. Asia Pac is certainly coming back. We posted a good quarter. As you'll remember, pre-COVID for a number of years, we were double-digit in Asia Pac. We've got a great presence there, a great team there, and I would expect us to continue to put up strong numbers in Asia Pac. The Americas, I think, continues to grow aroundin this area. I do think one thing that could help the Americas some will end up being price.

We all talked about price, but the key on price ends up being the net price that you realize. Taking price and then offering discounts or other activity to retailers and people doesn't get you the true price. You have to look at the net price increases. I think as an industry and us included, everybody is doing a better job focusing on that, saying, "Hey, we have to get the net price increase." I think that's going to help the Americas market a little bit as we're in 2023 also.

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

Okay. That's helpful. And then Al, as you're thinking about pricing for next year, I mean the stability for fiscal '23, 2% next year versus 2% you just put up. But I thought there was a supposed to be maybe some lagged effect on some of those key accounts you have the contract resetting. So I guess is the 2% tailwind for pricing next year, is that just conservatism? Or are those contracts not resetting like we thought they were? Just curious how you're thinking about that dynamic.

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

Sure. Yes. I don't think we got 2% last year in terms of price increases. CooperVision did not get 2% in terms of price increases. So I think we were probably more in the 1% to 1.5% range for price increases. And I think that increases to 2%, which picks up the things that you're talking about. And that bodes well when you think about that from the perspective of what that means for Q3, Q4 this year and probably fiscal '24 because the things that you're referencing are all future positives for us.

Operator

Our next question comes from Robbie Marcus from JPMorgan.

Lilia-Celine Breton Lozada ***JPMorgan Chase & Co, Research Division - Research Analyst***

This is actually Lilly on for Robbie. We've heard about supply and manufacturing issues from both of you and some of your competitors. So do you think this is affecting share? And have you seen any benefits or loss from these dynamics?

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

I don't think we've seen really share shifts. We've all had our challenges. I think that it cost us some. We met a lot of the customer expectations through expedited shipping[BA1]. And that's some of what Brian was talking about, as those costs to meet consumer expectations can get expensive. I think at the end of the day, when you're talking about share shifts , it takes a little bit longer to see that.

The practitioners fitting what they want to fit. They need to go through a period of time where they're unable to get product from someone before they really start changing their fitting behavior. So I don't think we've seen shifting share dynamics because of that. We've been taking share for the same reasons that we've taken it historically, great product portfolio and a great sales team out there executing. I don't think that we've really seen much in terms of share shift because of supply chain challenges or shipping related issues.

Lilia-Celine Breton Lozada ***JPMorgan Chase & Co, Research Division - Research Analyst***

Got it. And then just a follow-up. The SiHy daily number came in pretty well above what we were thinking. So maybe just on the competitive environment there. Is there any color you can share on what you've been seeing in terms of share capture versus trade-ups from your own base?

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

Yes. Yes. I think that people are underestimating the power of CooperVision's daily silicone hydrogel portfolio. It's complicated, right? And it's probably more complicated than some of our competitors in terms of the offerings that we have. But when we talk about something like the MyDay toric parameter expansion launch that we're going through, I understand that's a hard thing for people to understand or get their arms around, but it's powerful and it's important, and there's incredible traction associated with that and great annuity streams on high-priced products.

So I think at the end of the day, that's probably what it is. And if you think about that in the context of not only a product like MyDay toric, but also the multifocal and you think about Energys, a really, really strong product, and by the way, I don't want to ignore clariti, which is doing really well, especially in Asia Pac right now. It's not surprising to me that we're continuing to put up strong daily silicone numbers and I would expect those to continue as we move through 2023.

Operator

Our next question comes from Zach Weiner from Jefferies.

Zachary Ross Weiner ***Jefferies LLC, Research Division - Equity Associate***

I just want to focus on MiSight. Can you give some color on how patients volumes are turning through optometry offices and if that thing is impacting MiSight at all? And then any color on MiSight retention rate through the quarter?

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

Sure. Yes, MiSight was a positive this quarter, better than my expectations. The myopia management number, in total we hit the 93 million, but ortho-k was weaker than expected. We ran into some issues in September and October with our Ortho-K product line in China. We all know what's been happening in China. And our Ortho-K sales came in definitely lower than expected.

The flip was true on MiSight, where we posted some good numbers. I was happy with that. The fitting activity is pretty strong there. The interest in activity we're seeing from some key accounts and retailers is positive. Retainage of wearers was positive again this past quarter, so some good positive trends with respect to MiSight. It's almost a little under the surface, but I was really happy with our Q4 performance there.

Operator

Our next question comes from David Saxon from Needham.

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

Maybe I'll start with the guidance. The organic guidance, at least, held for a slowdown. CVI 7% to 9% versus, I think, it was 12% in fiscal '22, and CSI 4% to 6% versus 8% in '22, and below the 5% to 10% market growth you call out. So just wanted to ask if this just kind of comp dynamic, you are facing touch comps, or are there any change in the marketplace that's causing the slow down?

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

So yes, tough comps is part of it. As a matter of fact, a couple of years with pretty decent performance here and tough comps. We're seeing strong results so far this quarter. We're not seeing anything to really indicate a material slow down, that's for sure. Having said that, we're giving guidance for the full year. So when you think about the factors Brian mentioned, talking about guidance, and the potential that we're factoring in a moderate recession and inflation and other items that are out there, yes, we try to take that all into consideration and give what we thought were prudent guidance ranges.

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

Okay. Got it. And then maybe a two-parter on the M&A front, I guess. Any update on the math around the Cook deal? Help us think through kind of the impact from selling assets needed to get the deal done and higher interest rates. And then on the SynergEyes deal, maybe give us a brief overview on that and kind of how it fits into your specialty lens portfolio?

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

Sure. Yes. On Cook, I'll stay away from commenting anything on that. We're actively out in the market right now, trying to see if we can make a transaction happen. And depending upon what happens, it will obviously have a decent impact on what the final numbers will look like. Obviously, some things have moved against us, interest being clearly one of them. When you update for interest rates, that's clearly more negative than it was when we announced that deal. But I'll stay away from commenting beyond that just because there is a lot of activity behind the scenes on that one now.

On SynergEyes, yes, a nice little specialty business here in the U.S., around $20 million in revenues. We paid about $30 million for that business. Just a nice little tuck-in into our specialty business unit. They have a cool hybrid lens and some other technologies that'll fit well into our space. As you know, we're a leader in the specialty space, whether it's things like MiSight and Ortho-K and scleral lenses. So that's an important part of our legacy, our history and something we want to remain a market leader in. So tucking in that technology is a positive for us. It's new to us. We don't have that technology. It's adding something new for us. So yes, that's the story behind that one, small deal though.

Operator

Our next question comes from Steve Lichtman from Oppenheimer & Company.

Steven Michael Lichtman ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Brian, you mentioned during the prepared remarks, assuming a mild recession in your guidance. Can you guys talk more about what that means in terms of assumed headwinds? In what ways across CVI and CSI are you assuming the modest recession could potentially impact, whether it is to mix or them in lens fittings, anything you can provide in terms of qualitatively would be helpful.

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

Sure. Hi, Steve. Yes. As it relates to the recession risk comment, we factored that into our OpEx assumptions primarily, but also the revenues and cost of goods. We feel we can hurdle the latter 2 with price increases. Regarding OpEx, you still have wages and freight, for example, that we put in assumptions in around inflation. As I said earlier, we're seeing some improvements and normalization.

We didn't factor them into the guidance. So not putting that inflation abatement or any upside that we're starting to see, we're starting the year off a little bit conservative. We've got the full year ahead of us. We want to be prudent, as Al said. So that's what we put in. And then, of course, just some of the commentary around interest rates and FX, also maybe a touch conservative there, too.

Steven Michael Lichtman ***Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst***

Got it. And then just a quick follow-up. I appreciate the comments on CapEx for this coming year. Can you talk about overall what you're thinking regarding free cash flow this year, either quantitatively or just directionally versus FY'22?

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

Sure. Yes, operating cash flow should be better than last year. You still have things like interest and taxes that'll offset some of the operating cash flow versus last year, but still net-net, operating cash flow up probably just a bit, just slightly. And then with the $400 million CapEx that I cited, you're probably somewhere around $300 million of free cash flow in 2023.

Operator

Our last question will come from Matthew Mishan from KeyBanc.

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

Just the first one is on Europe. I understand the Asia growth. I think that seems like it's been a great market for you for a good amount of time. Just help me understand how you guys are doing like double-digit growth right now in Europe? And maybe is there a difference in how consumers purchase contact lenses in Europe than they do in the U.S.? Is it more of a subscription service versus, like, a sale of the optometrist?

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

Yes. We have a really strong team there. Debbie Olive runs that team. I was just over in Europe with our Italian team who's crazy strong. Just really, really proud of that team, and they're executing incredibly well. I wouldn't highlight anything necessarily where I'd say, "Hey, there's a different subscription model and so forth." There are differences, but they're more subtle.

But the team is just executing well all over there, especially with respect to key accounts. Our key account team is really, really strong and they've been executing and being successful there. So we're taking share and believe that there's a decent chance we're going to continue to be able to do that moving forward.

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

Okay. And then on the investments you're making in distribution and capacity. I remember a couple of years ago, you were kind of really making major investments to drive that. Just help me understand, like, put these investments that you're making in the context of the investments that you made a couple of years ago.

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

Yes, that's a good question. Yes, we took a decent step forward a few years ago in terms of investing in our distribution networks. What I would describe this as is we did a bunch of that work in some of our big distribution facilities and our big manufacturing facilities. We've continued to see significant growth around the world, so we're needing to expand. Now one of the great things about this that actually gives me some comfort is a lot of the technology is already in some of our distribution centers as an example.

We're rolling it out to other distribution centers that used to be small that have now gotten larger and we need to automate or automate sections of that. When I look at manufacturing, we're upgrading a lot of our lines and improving a lot of our lines as we move to really high volume production. It's expanding on those high-volume lines. So this is a pretty big expansion, though. I step back and kind of look at it, and Brian talked about the numbers, I mean it's pretty sizable dollars.

So we're going around. We're doing this expansion. We're building our capacity to really support a long-term growth story. I've talked about that in the past, right? I continue to say that we're in some great growth markets when it comes to contact lenses and fertility and we're investing accordingly to be able to continue to put up strong top-line growth for many, many years, so this is real. I mean we're spending some money and doing some hard work to do it.

And while we're doing it, by the way, it is hitting the P&L a little bit, but let me give you an example on that side of things. When you're doing an upgrade on some packaging lines as an example, let's say you're doing an IT upgrade. We're continuing to run those lines, while at the same time, we're putting in the upgrades. And we're not disrupting service. So we'll get inefficiencies by doing 2 things at the same time.

As soon as we're comfortable that the new upgraded system is better, then we'll stop using the old system, and we'll get rid of it and get rid of those duplicate costs. So we've done this before. We're doing it again. We're trying to maintain high customer service levels. We're trying to meet the demand that's out there from a long-term perspective.

We're entering into contracts that are tied to long-term growth. So there are things like that where we're comfortable the demand is there. So anyways, long story there, Matt. Just saying that I'm excited about it. I think there are some really cool things that are going on and are going to support a lot of long-term growth for us.

Operator

We have no further questions. I would like to turn the call back over to Albert White for closing remarks.

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

Great. Thank you. I'll give you one closing remark, and that's if FX rates stay where they're at, I am certainly happy that we're going to spend less time talking about currency. I mean last year, currency was negative to us around $2.32, so a pretty significant hit to EPS and a big hit to the top line. As Brian mentioned, FX is still a decent negative to us in Q1, but then it actually starts turning the other direction to the point where it actually starts moving positive.

If that holds where it's at right now, that's going to put us in a good position to get back to the back half of this year, where all else being equal and holding steady, we could be back up to double-digit EPS growth. So I'm excited to get currency behind us. I'm excited about what the team is doing right now and the momentum that we have and the investment activity that we're putting dollars behind. I think our business is in a really, really good place right now.

So with that, I'll thank everyone for the call and say happy holidays and look forward to speaking with everybody in the future. Thank you.

Operator

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

[BA1]Consider adding back?