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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Dandarina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q3 2025 CooperCompanies' earnings conference call. (Operator Instructions) I would now like to turn the conference over to Kim Duncan, Vice President of Investor Relations and Risk Management. You may begin.

Kim Duncan - *Cooper Companies Inc - Vice President - Investor Relations and Risk Management*

Good afternoon, and welcome to CooperCompanies' third quarter 2025 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 of 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 statements relating to revenues, EPS, cash flows, interest, FX and tax rates, tariffs and other financial guidance and expectations; strategic and operational initiatives; market 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 coopercos.com.

Also as a reminder, the non-GAAP financial information we will provide on this call, is provided as a supplement to our GAAP information. We encourage you to consider our results under GAAP, as well as non-GAAP, and refer to the reconciliations provided in our earnings release, which is available on the investor relations section of our website under quarterly materials.

Should you have any additional questions following the call, please e-mail ir@cooperco.com. And now I'll turn the call over to Al for his opening remarks.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Thank you, Kim, and welcome, everyone, to our earnings call. In today's discussion we'll cover our Q3 results, Q4 guidance, and early thoughts on fiscal 2026. Starting with the numbers, Q3 consolidated revenues were up 5.7% year-over-year, or up 2% organically, to $1.06 billion. Margins improved and non-GAAP earnings grew double digits to $1.10, up 15% year-over-year. Free cash flow was strong at $165 million, and we repurchased $52 million of our stock during the quarter. While revenues were lower than expected, and I'll speak to that in a minute, I'm pleased to report that we delivered strong margins, double-digit earnings growth, and robust free cash flow, reflecting the operational excellence that remains central to our growth strategy. These results reflect disciplined execution and our ability to capitalize on prior investments to drive consistent operating performance across our business. Looking ahead, we expect this type of execution to continue as reflected in our updated earnings guidance and upcoming commentary on free cash flow.

For CooperVision, we reported revenues of $718 million for the quarter, reflecting 6.3% reported growth, and 2.4% organic growth. These results came in below our expectations, driven primarily by two factors. First, clariti declined globally, led by a noticeable drop in AsiaPac and a slowdown in the Americas and EMEA. As customers continue favoring premium daily lenses, the significant increase in MyDay fitting steps and trial lenses led to a faster-than-expected return to MyDay fitting activity. While MyDay delivered double-digit growth this quarter and this fitting activity indicates the future is incredibly bright, this near-term activity meaningfully impacted clariti orders. Second, we saw greater-than-expected weakness within the pure-play e-commerce segment in Asia Pac, excluding Japan. This mirrored our experience in Q1 in China and was again most pronounced there, although it also affected several smaller regional markets. Despite the top line pressure from this activity, the impact on profitability was minimal as this region's pure-play e-commerce channel has very low margins. Regarding the regional results importantly, EMEA delivered a strong quarter, growing 14% or 6% organically, driven by continued strength across key markets. This performance reinforced our number one position in the region and moved EMEA to being CooperVision's largest revenue region globally. Additionally, early fit set and trial lens activity for MyDay is extremely strong in this region, and we expect continued success moving forward. Meanwhile, the Americas grew 2% or 3% organically, navigating the distributor channel inventory dynamic that we discussed on last quarter's earnings call and clariti softness. And Asia Pac grew 1% but declined 5% organically, reflecting the pressure from clariti, which was down double digits in Japan and China and the weakness in the e-commerce channel.

Digging deeper into MyDay, we're encouraged by several positive developments surrounding this flagship product family. First and foremost, we successfully resolved the manufacturing constraints that previously limited our ability to fully compete. With full sales execution capabilities now in place, we're regaining momentum as we accelerate the global rollout of fitting sets and trial lenses. This marks a key turning point in our ability to deliver sustained growth and meet increasing demand across global markets. We've also recently renewed several large contracts and feature MyDay as a growth driver and we won several new private label agreements that offer significant MyDay growth opportunities. These wins are driving fit activity and increasing our confidence in accelerating growth as we move into fiscal '26.

Turning back to the quarterly details, and reporting on an organic basis, within categories, torics and multifocals grew 6%, while spheres were down 1%. Within modalities, our daily silicone hydrogel lenses, MyDay and clariti, grew 7%, and our silicone hydrogel frequent replacement lenses, Biofinity and Avaira, were up 2%. MiSight grew 23%.

Starting with MyDay and adding some additional color, MyDay grew double digits this quarter with our most innovative and premium price lenses, torics, multifocals and Energys, all posting double-digit growth. In particular, MyDay multifocal grew 20% as this fantastic lens continues to perform extremely well. Importantly, the full family of MyDay products has considerable upside as we expand availability and deepen penetration within existing accounts and new customer segments around the world. Supporting this, we have considerable activity with fitting sets and trial lenses but also launch activity. This includes MyDay Energys, featuring our premium DigitalBoost Technology designed for today's digital lifestyle, which we expect to launch in Europe in early fiscal 2026. MyDay multifocal, which we expect to launch in several major APAC markets soon, along with increasing availability in others. And our MyDay Toric parameter expansion, which is actively being rolled out in multiple markets now.

Moving to clariti, this was a challenging quarter as customers shifted focus to MyDay. However, looking ahead, we're confident that this high-quality value price lens will regain its footing with success from new launches, such as our 3-add multifocal which recently entered the US market and grew double digits, and from wearers focused on high quality at a reasonable price.

Turning to our frequent replacement lenses, our Biofinity brand maintained strong fitting activity across its broad portfolio. While a reduction in channel inventory impacted spheres, growth was supported by continuing strength in torics and multifocals. Additionally, our innovative made-to-order products such as the toric multifocal and extended range spheres and torics, delivered healthy growth again this quarter. These offerings remain unmatched in the market offering the broadest range of prescriptions available. Eye care professionals consistently value these products for enabling patients with complex vision needs the ability to wear contact lenses.

Turning to Myopia Management, MiSight grew nicely, led by another record-setting quarter in EMEA. This performance was driven by increased fitting activity and robust customer engagement initiatives. The new pricing promotions we discussed last quarter are gaining traction and generating encouraging momentum, and we expect this to continue. In the Americas, MiSight delivered mixed results as we rolled out the new promotional structure, but our Back-To-School campaign is well underway, and we're seeing positive trends in fits. We're also pleased to share that we just received final regulatory approval for MiSight to launch in Japan, and commercialization is planned for early 2026. Additionally, we're actively preparing for the launch of MyDay MiSight across Europe and select Asia Pac countries in the first half of 2026. We remain well on our way to hitting our objective of a $100 million of MiSight sales this year and are confident that our momentum and upcoming launches will support continued success in fiscal 2026.

To conclude on Vision, let me share a few thoughts on the contact lens market. Overall market conditions remain healthy and continue to track to the mid-single-digit growth range we discussed on last quarter's earnings call. Consumption trends remained solid and the market continues to see a steady shift towards silicone hydrogel lenses and sustained interest in toric and multifocal products. Looking ahead, we expect this level of market performance to continue with the key drivers remaining the ongoing transition to silicone hydrogel dailies, expanding adoption of torics and multifocals, and to a lesser extent, pricing and growth in new wearers.

Moving to CooperSurgical, we posted quarterly revenues of $342 million, up 4.5% or up 2% organically. Within this, fertility revenues totaled $137 million, growing 6% or up 3% organically, led by strength in genomics and consumables where we gained market share in EMEA. However, we're still seeing signs of pressure on the market with clinics continuing to manage cash conservatively by delaying capital purchases and installations, along with ongoing softness in cycles in Asia Pac. Despite these near-term headwinds, we remain highly optimistic about the long-term outlook for fertility. The underlying fundamentals are strong, supported by trends such as delayed childbirth, increasing access to treatment, rising patient awareness, expanded benefits coverage, and continued innovation in technology. It's estimated that one in six people globally will experience infertility at some point in their lives, underscoring the significance and resilience of this market.

Moving to Office & Surgical, we reported sales at $205 million, up 3% year-over-year and up 1% organically. Growth in medical devices was driven by our labor and delivery portfolio of products, which grew double digit, and our specialty surgical device portfolio, which grew upper single digits. And within this portfolio, while not included in organic growth, we continue to see excellent performance from obp Surgical, our most recent acquisition featuring an innovative suite of single-use, lighted cordless surgical retractors, which grew 23%. This was offset by a 10% decline in PARAGARD following a strong start to this fiscal year driven by advanced purchasing ahead of our price increase and the successful launch of our one-handed inserter.

Now before turning the call over to Brian, let me share our thoughts on our Q4 revenue expectations. For CooperVision, we expect continued headwinds on clariti. While trends from MyDay are very positive and may present upside, a significant portion of the activity is tied to fits and trial lenses, which typically take a couple of quarters to convert into revenue. As a result, we're guiding to 2% to 4% organic growth to avoid being overly optimistic about the ramp of MyDay. And this guidance also factors in risk with the pure-play e-commerce channel in Asia Pac as well as the potential for any further inventory contraction. For CooperSurgical, we're also guiding to 2% to 4% organic growth as softness in fertility is expected to persist through Q4. Looking ahead to fiscal 2026, we remain confident in our ability to deliver sustainable revenue growth and gain market share. For CooperVision, as confidence is grounded in the strong momentum we're seeing with MyDay, the positive impact we'll receive from upcoming product launches, and recent contract wins. We expect to outpace the contact lens market and fitting activity and to gain market share. For CooperSurgical, we expect improvements driven by a rebound in fertility market as the Asia Pac region returns to growing cycles and fertility clinics start investing again. Beyond the top line, we expect operating margin expansion as we lever prior investment activity and a more efficient organization.

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

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Thank you, Al, and good afternoon, everyone. Most of my commentary will be on a non-GAAP basis, so please refer to the earnings release for a reconciliation of GAAP to non-GAAP results. For the third fiscal quarter, consolidated revenues were $1.06 billion, up 5.7% as reported and up 2% organically. Gross margin improved by 70 basis points to 67.3%, driven by continued efficiency gains, mix, and positive foreign exchange. Operating expenses grew in line with sales reflecting disciplined cost management. Within this, we delivered targeted SG&A leverage while continuing to invest in R&D, which was up 11%. These R&D investments are consistent with our planned activity around product development at both CooperVision and CooperSurgical as we continue advancing several exciting development programs and support several regulatory initiatives.

Operating income rose 8%, with operating margin expanding to 26.1%. Interest expense was $24.7 million, and the effective tax rate was 13.4%. Non-GAAP EPS was $1.10, up 15%, based on approximately 200 million average shares outstanding.

Free cash flow was $165 million, with CapEx of $97 million. Net debt declined to $2.35 billion, and our bank defined leverage ratio improved to 1.77x. Finally, we repurchased 724,000 shares of stock for $52.1 million, leaving approximately $164 million ability under our $1 billion Board approved repurchase plan.

Moving to guidance, with just one quarter remaining in the fiscal year, I'll focus on our Q4 outlook and then share some preliminary thoughts on fiscal 2026. For the fourth quarter, consolidated revenue guidance is $1.049 billion to $1.069 billion, representing 2% to 4% organic growth. CooperVision's revenue is expected to be in the range of $700 million to $713 million, up 2% to 4% organically, and CooperSurgical's revenue is expected to be $350 million to $356 million, up 2% to 4% organically. For earnings, we're guiding to non-GAAP EPS of $1.10 to $1.14. This assumes slightly lower year-over-year gross margins, primarily from tariffs, offset by solid operational execution, which we expect will result in better operating margins. Interest expense is expected to be around $21 million, and the effective tax rate is expected to be in the range of 14% to 15%.

For free cash flow, we expect to generate roughly $100 million in Q4, bringing our full year total to roughly $385 million, which aligns with the mid to the upper part of our previously communicated guidance range. We'll continue to focus on debt paydown and share repurchases with these proceeds.

Looking ahead to fiscal 2026, Al covered revenues, so I'll highlight a few additional items. Starting with tariffs, we've begun implementing mitigation strategies and now expect the impact to be approximately $24 million, lower than previously anticipated. While this will pressure gross margins, we plan to more than offset it through disciplined operating expense management. To support this, we're currently executing several productivity and efficiency initiatives to position ourselves for a strong 2026. These actions correlate with the significant progress we've made implementing IT upgrades and finishing integration activity. With this progress, we've been taking a fresh look at our entire organizational infrastructure to ensure we efficiently leverage future growth. Although it's too early to quantify any related charges or P&L benefits, we expect them to be meaningful and will provide more detail on our next earnings call. And lastly, regarding free cash flow, with the completion of CooperVision's large CapEx investment cycle, which significantly expanded our MyDay capacity, we expect much stronger free cash flow ahead. Operating margins remain healthy, and we're committed to further improvement, but just as important is our focus on converting those margins into free cash flow at a higher rate by executing on working capital initiatives, maximizing returns on investments and maintaining disciplined cost control. As a result of these efforts, we expect to generate approximately $2 billion in free cash flow over the next three fiscal years. From a capital deployment perspective, we'll continue investing in growth and innovation while also prioritizing debt reduction and share repurchases.

With that, I'll now hand it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jon Block, Stifel.

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

Thanks guys. Good afternoon. Al, if we back out the likely 100 basis points from MiSight growth contribution this year, I think your 2025 CVI growth is probably 3.5% at the midpoint. And that lagging market that I think you said is around mid-single digits this year. So just how do we think about CVI for fiscal '26? You gave some high-level commentary. But is your portfolio outside MiSight lagging market, in line with market, when we think about fiscal '26 and if you're talking about outgrowing industry next year, is that how we get there? In other words, like core CVI portfolio, call it, in line-ish with overall market and then a 100 basis point kicker from MiSight. And I know there's a lot of numbers. I tried to moved slowly, but hopefully that came across okay.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Yeah, if we look at the market in calendar Q1 and calendar Q2 of this year, the market grew 4% each quarter. In the first quarter, the market grew 4%, we grew 5%, and in calendar Q2, the market grew 4% and we grew 2%. So you are right, a little bit of share loss, through the first half of this year.

I would say that our portfolio has been lagging the market. When I look at it year-to-date and maybe even some into last year, I'd say the portfolio was lagging because we didn't have full availability of MyDay. We were basically fighting with one hand tied behind our back because we just weren't able to provide the product everyone wanted.s And I think our team did really well, and they did the best of their ability with what they had available to them. But that's changed. And it wasn't quite a snap of a finger, but it was pretty close. And we have put out a significant number of fitting sets and trial lenses into the market to drive that success.

I think that when you say the portfolio is lagging this year, it's significantly better from a fitting perspective as we exit the year, and materially better next year from the perspective of daily SiHy. If I look at next year, we're at least at market based on a core portfolio plus the share gains that come from MiSight. I think we've got a chance to be above that depending upon how fast this fitting activity converts into actual revenues.

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

Okay. That was great. Maybe just a quick follow-up. And I don't know if I missed something, but why is MyDay's success arguably disproportionately coming from clariti? I think about clariti as a really good cost effective SiHy daily as how it fits into to the portfolio, MyDay more of a premium. So when you talk about MyDay, it's great to hear about the traction after the fitting set, but why seemingly is it disproportionately coming from clariti versus just competing SiHy dailies. And Brian, any maybe one-liner on how we think about clariti margins versus MyDay. Thanks for your time.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

What we ended up seeing that did surprise us, is there are segments of the market, and it's definitely true in some geographies, such as Asia Pac, where we had people out there selling clariti that wanted to sell MyDay. And they were almost viewed as somewhat similar types of products. There wasn't a clear differentiation between the two products. And where you see that differentiation in some markets, we didn't see much of an impact with all this MyDay activity there. But in some of those markets like Japan, where those were sold much more similar,when we brought MyDay back in, the fitting sets and everything else, what ended up happening was a number of optometrists or ophthalmologists in some of these markets saying, hey, I'm going to hold off for a little while on clariti, and I'm going to tell everybody, hey, try this MyDay, see if you like it, I want to fit you in MyDay and let's take a little bit of time here. We've got these lenses, we’re fitting them, take them, try them, see if you like them, let's figure out if you like those better before we reorder clariti. That was a little surprising to us in terms of the magnitude of that. But it was pretty focused on a few markets where MyDay and clariti are much closer than you think. Because your comment, Jon, is true, you'll see here in the Americas and you see it more in EMEA where there's almost separate channels for MyDay and for clariti. But as I mentioned, that's not exactly true everywhere.

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, Jon, on your question on margin, I won't get into the exact margins, but clariti's margins are a little bit better than MyDay's.

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

Thanks guys.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Good afternoon, thanks for taking the question. Al, it looks like the contact lens market had slowed each year since 2021, and it slowed to, as you said, 4% growth in the first half of calendar 2025. So maybe just zoom out a little bit, why has the market slowed so much? And how confident are you there isn't something else going on here like some consumer softness? And I had one follow-up.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

You are right, Larry. The market grew 7% last year, it's grown 4% so far this year. I think there's a little bit of lightness in some areas where we had strength. One of those areas would be pricing where we [had seen](corrected by company after the call) higher pricing. We've seen higher pricing and that started to lag, especially outside of the US. We saw some of that in particular with this pure-play e-channel stuff I was talking about in Asia Pac, where we maintained our pricing, but some competitors got a little bit more aggressive to actually win share and take sales there. I think that you're seeing some of the pricing come off the market a little bit. That's probably one of your key indicators. There could be a little bit with consumer activity. I talked about that on the call last quarter. But I wouldn't go too far with that, but you could see a little bit on the consumer side.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Okay. That's helpful. Brian, on fiscal '26, thanks for the preliminary color. Maybe a little bit just to push a little bit more. Consensus EPS growth at 9%, any reaction to that? And I heard about the operating margin leverage from Al, but I didn't hear the reiteration of double-digit constant currency operating income growth. And any of the others, just walk us through, it sounds like tariffs are going to be completely offset, if I heard you correctly, FX looks like a tailwind? And then how do we think about tax. It looks like it's coming in at about 14% this year. Should we still think about 15.5%? Thank you.

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Larry, good questions. We did give some color. We gave some directional commentary on next year in our prepared remarks. We are always going to target driving low double-digit constant currency OI growth, especially over a multiyear period. There's a lot of moving parts, not the least of which are tariffs. We're focused on tariff mitigation and driving solid operational execution. But really, we're going to provide more details in

December on how that all translates to OI growth and EPS growth. I think the tax rate you've assumed is a fair estimate. But again, we'll update you in December.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

All right, thanks Brian.

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah.

Operator

Jeff Johnson, Baird.

Jeff Johnson - *Robert W. Baird & Co Inc - Analyst*

Thank you guys. Good afternoon. Al, I'm still trying to reconcile a little bit maybe the clariti and MyDay comments. As I think about it, especially from a top line perspective, you should, as trade outs happen from clariti into MyDay, you should get some nice benefit from that, not pressures from that. And even if there's a little bit of timing uncertainty in those clariti orders going down this quarter and just fitting activity on MyDay picking up, why does that not translate to then a nicer inflection in 4Q and instead kind of the 4Q CVI number coming down. It just seems like there's an extended period where we're not getting the MyDay benefit, but feeling the immediacy of the clariti headwind.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

You're spot on, Jeff. That question is something that we've been spending some considerable time on over the last couple of weeks, which is how does that transition happen? And does clariti bounce back a little bit faster? Or does it not? Does the fitting activity translate to a faster uptake in terms of revenues of MyDay or does it not? Or do we get a situation where we have a similar quarter to this quarter where they come together and it doesn't come to fruition. That's a question mark.

The guidance that we gave assumes a very similar quarter, Q3 to Q4. I'm pretty optimistic, as you know, I'm an optimistic guy in this stuff. And when I look at that data, I feel pretty good about it. But we cannot get in front of ourselves. We've had a couple of quarters where we got ahead of ourselves a little bit, and we wanted to ensure that we gave guidance that was certainly reasonable and something that we were going to be able to reach even if we do see a situation where clariti orders continue to lag, and all the MyDay fitting activity doesn't translate into the size of revenue orders that we're hoping to get.

Jeff Johnson - *Robert W. Baird & Co Inc - Analyst*

All right. Fair enough. And then maybe just on the e-commerce side. Maybe you could flesh that out just a little bit more for us. Are you seeing that from some of your largest competitors, some of those pricing actions? Is that local competitors? Just help us out, that Asia Pac market is a little harder for us to get intelligence on. Thanks.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

I hate to go too much into competitor details, but we are seeing some of that aggressiveness from some of our larger competitors. And again, we lose that business. China was down 25% in the first quarter. It was down similar this quarter. It has very little margin impact because it's such low-margin business. We didn't want to lose it, but yes, we've seen some more aggressive pricing outside of the US, and certainly in the Asia Pac region.

Jeff Johnson - *Robert W. Baird & Co Inc - Analyst*

Thank you.

Operator

Issie Kirby, Redburn.

Issie Kirby - *Rothschild & Co Redburn - Analyst*

I just wanted to touch upon the restructuring that was mentioned at the end of your prepared remarks. Any more color you could give us on what particular areas you're looking at? Is it mainly in Vision? Is it in Surgical or more across the board? And what prompted you to take a look at this now? And then I have a follow-up. Thanks.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

I have a couple of comments. One is that we had done a number of acquisitions over many years. But we haven't done an acquisition in a little while, and we don't have any in the cards. We've done some really hard work on completing integration activity, and we're now taking a fresh look and saying, okay, now that we've got some of that behind us, how does our organization set up and what can we do to make it as efficient as possible moving forward.

We've also had some changes in CooperVision, not just in CooperSurgical over the years, in terms of how we've grown coming out of COVID. And when we take a look at our IT implementations and the number of IT upgrades that we've done that have been very successful, it's a good time to take a look at that and say, hey, we all talk about artificial intelligence, and we talk about ITlet's look at our organization throughout our OpEx structure and with a heavy focus on our G&A areas, and [ask where](added by company after the call) can we leverage all those investments we've done. And it's a hard thing to do. You're seeing a lot of companies do it. We're doing the exact same thing right now. We're going through that challenging period of saying we have to drive more efficient long-term growth. And we've invested very considerably over the last several years to put us in a position where we can complete that analysis and take some appropriate action. So we're going through all that work right now.

Issie Kirby - *Rothschild & Co Redburn - Analyst*

Great. Thanks for the color. And then just on the Myopia business overall, I think MiSight actually holding up pretty well despite some of the potential cost impact. Is that really coming from Europe? How is MiSight doing in Asia? And then do you have any update on the SightGlass approval and whether that's something we could see towards the back end of this year still. Thanks.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

MiSight, is performing really well in Europe. Some of the stuff I talked about last quarter is playing out successfully. We've got good momentum in that marketplace right now. We've got MyDay MiSight coming next year in that market. and that will include at some point, MyDay MiSight toric. We're going to continue to hit that market hard and we're doing really well there, including with some key strategic accounts. I'd say Asia Pac is doing okay. We have our fits and starts there. But I'm excited about getting MiSight into Japan. That's going to be a pretty big market for us. That's over half our revenues in the Asia Pac region, and we don't have that product there.

So we'll be launching that at the beginning of next year, and I think that will give us an extra kick. A little bit slower here in the Americas and in the US. Some of this promotional activity we talked about is coming into the marketplace now and there's been a little bit of confusion around that as we roll it out and work to standardize it. So we'll get that going with the Back-To-School work, but a little bit slower in the Americas. No update on SightGlass right now. It's with the FDA. I'll provide an update as soon as I can on that, but nothing new to add.

Issie Kirby - *Rothschild & Co Redburn - Analyst*

Great, thanks.

Operator

Joanne Wuensch, Citibank.

Joanne Wuensch - *Citibank - Analyst*

Good afternoon and thanks for taking the question. I want to press a little bit on the commentary about the market growing mid-single digits and the potential to grow at the market, and it all seems to be tied to MyDay. Maybe this is too broad of a description, but I'm really trying to understand how the CVI segment has slowed so much and how it's expected to reaccelerate, and thank you.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Joanne, you're right. It is tied to MyDay. MyDay was very successful for a long time, growing well north of 20%. It still grew double digits this quarter because all the capacity that we have been bringing on over the last year or so, we've been producing product and selling product out into the marketplace. Now thankfully, we have a lot more capacity coming because we need that capacity based on all the fitting activity and everything we have going on right now. We got into a situation where we just weren't able to get enough MyDay out to meet all the demand that was in the marketplace and we're there now. And based on all this activity, we're going to sell more of MyDay. I can tell you right now, we have over 30 brand-new MyDay private label contracts and launches going on. We have an almost 50% increase in our fitting sets that are out in the market year-over-year right now, and we have over a 300% increase in trial lenses associated with those fitting sets. Those are pretty dramatic numbers that support the fact that we're going to do well with MyDay, and we're going to get MyDay going again. I look at it and say hey, if we step back, we're going to do somewhere around $1 billion in sales of daily silicone hydrogel lenses this year, a little bit over $600 million of that is associated with MyDay, somewhere around $400 million is clariti. The demand around the activity, the fitting sets, the trial lenses, these new contracts that we have, it's pretty exciting. And maybe it will convert a little bit faster as Jeff was asking about. I hope it does, maybe it doesn't. It takes a little while longer, but it's still there, and we're still going to be successful with it. I really truly believe that. I do end up saying it's almost all tied to MyDay. And I think we'll be pretty successful with it.

Operator

Jason Bednar, Piper Sandler.

Jason Bednar - *Piper Sandler - Analyst*

Hey, good afternoon, I want to come at this MyDay clariti discussion from a different angle. I'm sorry, to be a dead horse here. But it's been a market of trade-ups over the last several years, a couple of decades, the old dynamic we're trading up to silicone hydrogels and then the dailies and then daily silicone hydrogels. I don't recall ever a situation like this where they expect to draw down in demand for one lens ahead of the buildup for other lenses. So a similar track that Jeff was asking around, but can you talk about why the situation with clariti and MyDay would be different from other trade up cycles that we've seen and how you're confident this is just an internal trade out that you're going through the markets going through and digesting versus some competitive challenge you're running into?

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Yeah, absolutely, Jason. I'll take EMEA is a good example of a place where you didn't really see that activity. Did we see a little bit of softness in clariti? Yes. But EMEA still plugged along with a pretty good quarter. That would be a quarter where you had a split almost between MyDay and clariti, much more similar to the way you're thinking about the marketplace. They were differentiated. That's not necessarily as true in the Americas market, and that's where we saw some of the softness there. And it's definitely not true in some of those Asia Pac markets where those two products have been on top of one another. One of the things that we're spending time on right now and that we need to do is ensure that we're properly positioning clariti into the appropriate channels where it's successful. We've seen it have a lot of successes, this high-quality, lower-priced entrant product going into some of these bigger key accounts. That's where it's been successful. That's where it's going to be successful in the future. Because we never had enough MyDay, I've talked about this on prior calls, we've never had enough MyDay to meet the demand in Asia Pac, it's a lower margin region. We pushed a lot more clariti into that region than we did MyDay over the years. And it put us in a situation where that region has a higher percentage of clariti associated with it. And that's what we saw that surprised us and caught us off guard, that segment that quote, unquote, is supposed to be MyDay, was clariti, took this immediate hit. And we just we need to reposition clariti in Asia Pac, and we need to attack the market in a different of a way. That's well underway with us. Hopefully, that explains it a little bit clearer.

Jason Bednar - *Piper Sandler - Analyst*

Okay. All right. So it sounds like you have a pretty good handle that it's not competitive. But as a follow-up question, building out some of the pricing comments earlier. It seems like the first time today where your knowledge pricing, industry pricing may be moderating ever so slightly.

I guess where do you think we sit on a global basis as we look ahead and start thinking about our models here for '26 and go forward. Is this still a market where you think you can take price? I think you typically take price in the fall time period. Is that something you're looking to do again this year?

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

I think you're still seeing some pricing in the Americas. Now that's mostly list pricing. There's a decent amount of discount activity that no one wants to talk about that comes off those list prices. But you're still seeing positive pricing in the Americas. When I look outside of the Americas, especially in Asia Pac, you are seeing more price pressure. And I'm not sure this coming year that you're actually going to see year-over-year pricing based on some of the activity I see from some competitors' region for market share or for sales. I'm not sure you're going to see price increases there. I would say on a global basis, we're probably looking at somewhere for next year around 1% [global net](added by company after the call) price increases, down from the 2% and 3% that we've been talking about. I think it's just a little bit lighter.

Jason Bednar - *Piper Sandler - Analyst*

All right, helpful, thank you.

Operator

David Saxon, Needham.

David Saxon - *Needham & Company LLC - Equity Analyst*

Oh great. Thanks for taking my questions. Maybe I'll switch over to some financials with Brian, just on the free cash flow comment, I think you talked about doing $2 billion over the next three years. I think you've been historically in the mid to upper teens from a free cash flow margin. What's that $2 billion imply on the margin? And how does that ramp over the three year period? .

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, David, thanks for the question. You're right. I think we've actually had free cash flow margin back in 2018, 2019 in the low 20s or right around there. We're now at a place where CapEx comes down, the operating margin improvements are converting to better, stronger operational profits, the actions we're taking contribute to that as well, the working capital initiative. So I would expect we're going to take a meaningful step forward next year. It's a stair step. We took a stair step this year. We'll take another stair step next year, again the year after and again the year after. So we're not talking about a hockey stick. This is a step forward consistently each and every year that gets us to that $2 billion. I feel pretty confident about that.

David Saxon - *Needham & Company LLC - Equity Analyst*

Okay. Great. And then maybe switching back to CVI. So last quarter, you talked about some distributor inventory dynamics. I guess, has that normalized? Or will there be any impact on the fiscal fourth quarter? And then everything about fiscal '26, does any of that distributor inventory, the clariti, the APAC e-commerce stuff. Does any of that spill into fiscal '26? Thanks so much.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Sure. We had some of that, I'll break it in the two markets. We had some of that in the US market. We did factor into our guidance some additional channel inventory reductions in the US market in Q4. We'll see if that happens and to what degree. I don't see a scenario where we're talking about that when it comes to fiscal '26. If I look at the pure-play e-commerce channel over in Asia Pac, we had that happen in Q1 with China, we talked about it. We got the bounce back in Q2. We had another challenge here in Q3. I think we have a challenge with that again in Q4, but I think we just annualize that. Maybe there's a little bit of residual impact that happens there in a few markets, but that should be pretty small and should go away. I don't see a lot. If there's anything, it would be a modest amount in Q1, but I don't see much.

David Saxon - *Needham & Company LLC - Equity Analyst*

Great, thank you.

Operator

Navann Ty, BNP Paribas.

Navann Ty - *BNP Paribas - Analyst*

Hi, thanks for taking my questions and thanks for the color on the contact lenses side. In fertility, could you please clarify the driver of the expected Q4 rebound? Is that driven by the upcoming year of the horse. Can you also comment on fertility in 2026, at least qualitatively. Thank you.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Sure. When we look at fertility, the market is getting a little bit better. It got a little bit better this quarter. We saw some improvements in some areas, genomics and consumables. We took some share in some spots in Europe. I think we saw just a little bit of progression there. The year of the snake is behind us. I mentioned that last quarter. We're seeing a little bit of improvement in Asia Pac, although we're still seeing cycle softness there. When I look at us finishing the year out, we have a really, really hard comp of 13% against last year. I think we probably have another pressure quarter for ourselves to finish up our fiscal year. But I think that you're going to have cycles coming back in Asia Pac. You're going to have fertility clinics that have been delaying for a while start doing some investing again. They're going to upgrade some equipment. I think you're going to start seeing the fertility industry continue to improve from here. I think we're seeing it improve a little bit right now, and I think we'll continue to see it improve over the coming quarters.

Navann Ty - *BNP Paribas - Analyst*

Thank you. That's helpful.

Operator

Anthony Petrone, Mizuho.

Bradley Bowers - *Mizuho Securities USA LLC - Analyst*

Hey, thanks for taking the questions. You have Brad Bowers on for Anthony. First, I want to start with PARAGARD. It's been a drag for a while on the volume side. You're able to cover it with pricing. But I wanted to get an update on market situation, market share dynamics with the competing product launch, and maybe any way to potentially stymie some of the revenue loss and allow the rest of the business to kind of show some of the growth.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

On PARAGARD, no competitive launch in the marketplace as of now. You are right, volumes are decreasing on that product. They have been for a while. The non-hormonal IUD space is seeing declining volume activities. As a matter of fact, you're seeing pressure on the entire IUD market from some alternative options. We have been able to offset that by pricing. We had a pretty good start to the beginning of this year. Our new single-hand inserter was part of that, which we launched that put us on equal footing with Mirena and some of the hormonal IUDs. We had the softer quarter here. I think in Q4, we grow a little bit. We get to the point where we end up with an okay year driven by those price increases. We'll see what next year holds. But as we sit here today, it will probably be similar challenges on volumes offset by pricing.

Bradley Bowers - *Mizuho Securities USA LLC - Analyst*

Helpful, thank you. And then just if I could, on the margin side, obviously, tariff impact sounds like it's a little bit better. Also it sounds like some of the CapEx projects are behind us, so we might start to see some throughput improvement. So I just wanted to hear about some tailwinds to gross margin. And it sounds like on the operating margin side, a lot of the leverage might be coming or upside might come from gross margin, maybe some SG&A, but just how we should think through that. Thank you.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

I'll just quickly answer and then certainly let Brian jump in, he's the expert on this. From my perspective, at a high level, I talked a lot about the growth in MyDay, and we think that's going to be the big driver for us. As Brian mentioned earlier, gross margins are okay on that, and they're certainly improving as we increase capacity, but they're a little bit lighter than clariti. So the product mix itself puts a little pressure on gross margins, and then you also get the pressure from the tariffs Brian mentioned. Brian can quantify it more. Well, he will definitely quantify it more on the Q4 call. But the restructuring activity where we're looking to make the organization as efficient as possible should offset that. So we end up with year-over-year operating margin improvements and still deliver a good year. Thank you. Anything to add?

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. I don't have much more to add there. I mean I think Al said it well. We'll give details on gross margins and SG&A. I'd say we have an ethos here of continuous improvement. That's all the way through from manufacturing down through the organization. So you've got some puts and takes in gross margin as Al talked about. But certainly, the disciplined cost management that we discussed earlier along with some of the actions we're taking are going to help drive SG&A leverage more so next year to help offset some of those headwinds.

Bradley Bowers - *Mizuho Securities USA LLC - Analyst*

Thank you.

Operator

Robbie Marcus, JPMorgan.

Robbie Marcus - *JPMorgan Chase & Co - Analyst*

Thanks. Two questions from me. First, Al, can you help us understand what happened between the last earnings call and this earnings call, there were two months, the Street was saying that 5.7%, 5.8%, something like that. And there's a big gap between your expectations and the results. So help us just bridge exactly what happened in the two months from the last earnings call? And then I got a follow-up.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Sure. I would put it out on those two points, Robbie, we were talking about earlier. One was an expectation that what had happened with the pure-play e-commerce channel in Asia Pac, especially China was behind us. We did not see that play out. So that was a hit to us. And then the other one was clariti. Like we were getting a relatively consistent cadence of clariti orders and revenues from a number of customers and certainly some larger ones that did not transpire as we ended this quarter. So certainly, that activity was at the latter end of this past quarter. And then we incorporated that into the guidance. I think we were a little optimistic in terms of how fast some of this ramped activity would happen with MyDay and how everything would hold up. And I think that the guidance incorporates a reset of that to say that we believe we fully incorporated all of this risk activity into the numbers.

Robbie Marcus - *JPMorgan Chase & Co - Analyst*

Great. Maybe just a quick follow-up. Given some of the uncertainties here in the below market growth, how do you get comfortable with what the market will grow next year and your ability to grow at least with market. Thanks a lot.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Sure. If we look at the contact lens market, it's grown forever it seems in the mid-single digits. And we had some downtimes during COVID, and we had a strong rebound from that. But if you step back from that, you end up with an oligopoly that's supported by this underlying factor that people need more visual correction. Right now, a little over a third people are myopic, and half of people are going to be myopic by the year 2050.

You have more people needing visual correction. At the same time, you have people and optometrists that want the comfort and the ability to put lenses in every single day and be able to take those out. That's a great thing to be able to do. And everybody wants that, the cleanliness associated with that, the flexibility associated with that. You're continuing to see this move over to dailies. You're seeing better fitting activity by optometrists around the world when it comes to torics. You're seeing much better lenses when it comes to multifocals. You're seeing more people wear those.

You have this underlying theme. I sometimes compare it to either going down the river or going up the river. It's nice when the [current](corrected by company after the call) is with you and helping you, and the contact lens market is the same way. Does it end up growing 6% next year? Or does it grow 4% or somewhere in between? My belief is it will grow somewhere in there. And all the underlying fundamentals will end up pushing it in that direction. I think that's where it will grow. And then when I look at how we fit in the marketplace right now, and I'd say what's been holding us back, our ability to deliver all the product that's being demanded by our customers is what's held us back. Having the capacity finally to be able to get all that product out is a big, big swing for us. That's why I think we'll be able to at least hit, if not exceed, market growth when you layer MiSight.

Robbie Marcus - *JPMorgan Chase & Co - Analyst*

Great, thanks a lot, Al. I appreciate it.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Yeah.

Operator

Brett Fishbin, KeyBanc Capital Markets.

Brett Fishbin - *KeyBanc Capital Markets Inc - Equity Analyst*

Hey guys, thanks very much for taking the questions. Just thinking about some of the points that you made on central drivers supporting improvement in growth in CVI in FY26. You mentioned that you won some new private label agreements. And I was just curious if you could maybe expand a little bit on some of those wins, where you are seeing them. I'm wondering if it's substantially all MyDay or across some of the different brands or some of your brands under the private labels? And then just like any way to think about like how much upside these opportunities could deliver next year?

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Yeah, I won't go too far into that because a lot of that gets tied into customers. But these are MyDay private label launches that we're talking about. I made a comment of over 30 of them earlier, and that's what those are. Those are customers of ours who wanted MyDay products. They wanted a larger portfolio or they wanted to offer MyDay as a private label offering, and we have not been able to provide that product to them. During this quarter, especially at the end of this quarter, we negotiated a number of new contracts with people to give them that product and give them the availability. And we started getting fitting sets and trials out to some of them so that they could start all that activity. And I think they'll be active with that throughout the fourth quarter, and I think that will translate into revenue. I won't quantify it other than to say that it's the thing that gives me the most comfort When I think about the number of fitting sets out there. When I think of the activation, meaning the number of trial lenses that are going out, try it, you'll like it. When I think about the number of contracts that we've signed and that we're already out there actively working on, it's that that gives me confidence that we're going to be successful with MyDay, and it's going to ramp up. To me, it's a question of timing as to when it's going to be more so than if it's going to happen.

Brett Fishbin - *KeyBanc Capital Markets Inc - Equity Analyst*

All right. That was helpful. And then just one other question on the CVI business. I think like last quarter, you were talking about implementing short-term promotions, I think you were saying one to three months of lenses to get people fitting with MiSight and potentially become like long-term users, but it sounded like the early results were mixed. So just curious where maybe you saw some initial success or lack of success driving that commentary. I'm curious if you're sticking with the same approach into the back-to-school season or if you're kind of going back and reevaluating if that's the right approach to the market. Thank you.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Sure. Great question on that one. Where we saw success was in EMEA, where we initiated that program and have implemented that pricing. We've seen great fitting activity and we've already been seeing some sell-through on that as that fitting is converted into revenues. Where we did not have that standardized, we have had situations where we have people saying, hey, is that coming this way, when am I going to get it? And should I wait and fit until we have that new pricing structure in place. What kind of promotional programs are there. That's where we got some of the mixed results. That was largely here in the US market that we saw that. We need to get all of that activity resolved, we are. We're working on that very actively right now. And we'll get that resolved so we can level set ourselves correctly so that pricing is standardized around the world. But I would say that the early indications or the early returns on that pricing model, which was basically to allow parents to take lenses home and see if their children can put the contacts in and take them out, and would actually like them. That strategy is working. So we're going to continue to deploy that around the world.

Brett Fishbin - *KeyBanc Capital Markets Inc - Equity Analyst*

Alright perfect. Thanks again.

Operator

Chris Pasquale, Nephron Research.

Chris Pasquale - *Nephron Research LLC - Analyst*

Thanks. I want to follow up on MiSight and then I had one for Brian as well. So Al, you talked about still being on track to do over $100 million from MiSight this year. I think the original goal for the year was 40% growth. And three quarters in by our math, you're maybe a little bit below 30%. So obviously, is still good, but not quite where you hoped. Just curious how you're thinking about where that goes from here. You've got a bunch of stuff heading into FY26. Between the promotional pricing starting to have a positive impact with Japan launch, MyDay, MiSight. Can that drive an acceleration? Or should we expect further growth moderation just because the numbers are getting larger?

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Yeah. I think that it ends up being -- I hate to give anything for next year on that as some of this plays out. But I think that the growth ends up being more similar year-over-year than an acceleration just because the numbers are getting bigger. You're right, we took a little bit of a hit this year because some of the pricing changes and the promotional activity but we're getting better fitting on that, and we do have all those launches coming. We'll see. I'll give an update on that as we get to next quarter. But I will say that I feel pretty good about MiSight, we’re going to get good growth next year. It's certainly going to support the overall business driving our growth.

Chris Pasquale - *Nephron Research LLC - Analyst*

Okay. And then, Brian, CapEx has obviously been really elevated over the past three years. The $2 billion free cash flow target seems to imply a pretty big step back. I would love you to put a finer point on what exactly you're thinking next year for CapEx? And then how do we think about how that grows relative to sales going forward. In the past, it's been hard for CVI to have both strong revenue growth and moderate that investment in CapEx in one or the other. So is it different this time?

Brian Andrews - *Cooper Companies Inc - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. That's a great, great question, Chris. First of all, I'll just talk about next year in CapEx. CapEx is going to come down on a percentage basis and on an absolute dollar basis. We've been trending high as a percentage of revenues on CapEx. If you look back in time, we've been anywhere from 7% to 10% of revenues for CapEx. As we continue moving forward, we're still going to have to deploy capital for investments in new growth, and that's innovation in new lines and new equipment and new launches. So that will be a part of the number. But it's all of the other things that are happening around it with CapEx starting to moderate and normalize and all those other elements that are driving it forward that allow us to continue to confidently now drive free cash flow higher similar to historical levels. So you're exactly right. We're going to have to invest in the business. We have a lot of lines still that need to come in over the next couple of years, and those are on order, and that will continue to play out. But the peak level of CapEx that we've been seeing is now going to be normalizing. And that's what drives along with the other steps that we're taking will drive the free cash flow higher.

Chris Pasquale - *Nephron Research LLC - Analyst*

Thanks.

Operator

Patrick Wood, Morgan Stanley.

Patrick Wood - *Morgan Stanley - Analyst*

Beautiful. Thank you very much. I'll keep it to one, just to keep things flowing. And it's probably a dumb question, but how do you guys know about the clariti versus MyDay dynamic? Was that feedback that came from like chatting with optometrists or is it in from the sales force? Or did you back into it because you saw the really strong MyDay promotional side of things. Like was it all three, I'm just curious, how did you work it out? Because it's obviously a big market with a lot of different things happening, it can be hard to see. That's my question.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Yeah, Patrick, it's pretty straightforward in that a lot of that activity was with larger accounts, and you know what their standard order cycle is, when they order and how much they order. And when those orders did not happen it's a pretty straightforward conversation with them of, hey, what's going on and getting what turned out to be a pretty straightforward response of, we're focusing our time and efforts on MyDay fitting activity right now and taking a little bit of a pause on clariti. And their feedback was we're going to make that move right now, and we'll see what happens. But we're doing, Cooper, what you've asked us to do and what we want to do. It was pretty straightforward oddly enough to see that. I don't want to act like that was the entire thing because there's bits and pieces that go to optometrists and smaller shops. But the biggest clearest point was pretty obvious visibility on some of the order patterns from some of the large accounts.

Patrick Wood - *Morgan Stanley - Analyst*

Super clear. That's encouraging to hear. Thanks guys.

Operator

That includes the question-and-answer session. I would like to turn the call back over to Al White for closing remarks.

Albert White - *Cooper Companies Inc - President, Chief Executive Officer, Director*

Thank you, everyone, and thank you for being on the call. I'm sure we'll have a lot of post call conversations here and look forward to talking about and going through the details, and driving some continued success so we can discuss that in our next earnings call. So, thank you, everyone. I appreciate your time.

Operator

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