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COO.OQ - Q2 2025 Cooper Companies Inc Earnings Call

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## OVERVIEW:

Company Summary

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

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**Issie Kirby** *Redburn Atlantic - Analyst*

**Larry Biegelsen** *Wells Fargo Securities, LLC - Analyst*

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## PRESENTATION

### Operator

Hello, thank you for standing by. This time I'd like to welcome you to the Q2 2025 CooperCompanies earnings conference call. (Operator Instructions) I would now like to turn the conference over to Kim Duncan, VP of Investor Relations, and Risk Management. Please go ahead.

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### Kim Duncan - CooperCompanies Inc - Vice President - Investor Relations and Risk Management

Good afternoon, and welcome to CooperCompanies' second 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 Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

Before we begin, I'd like to remind you that this conference call will contain forward-looking statements, including statements relating to revenues, EPS, cash flows, 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 emphasized and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the Company to differ materially from those described in forward-looking statements are set forth under the caption, "Forward-Looking Statements", in today's earnings

release and are described in our SEC filings including Cooper's Form 10-K and Form 10-Q filings, all of which are available on our website at cooperco.com.

Also, as a reminder, the non-GAAP financial information we will provide on this call, is provided as a supplement to our GAAP information. We encourage you to consider our results under GAAP, as well as non-GAAP, and refer to the reconciliations provided in our earnings release which is available on the Investor Relations section of our website under quarterly materials. Should you have any additional questions following the call, please e-mail [ir@cooperco.com](mailto:ir@cooperco.com). And now I'll turn the call over to AI for his opening remarks.

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

Thank you, Kim, and welcome, everyone, to today's fiscal Q2 earnings call. This was another solid quarter with consolidated organic revenue growth of 7%, led by double-digit growth in both our daily silicone hydrogel lenses at CooperVision, and our office and surgical portfolio at CooperSurgical. We also continued executing at a high level, delivering operational improvements and OpEx leverage that drove double-digit non-GAAP earnings growth.

Similar to other companies, we're dealing with a more complex global operating environment, but we're controlling what we can by executing well, including taking share, delivering leverage, launching products, and completing capacity expansion projects. And we'll cover all of that on today's call. Moving to the numbers, consolidated revenues were \$1.002 billion, up 6% year-over-year or up 7% organically. CooperVision reported quarterly revenues of \$670 million, up 5% or up 7% organically. CooperSurgical posted quarterly revenues of \$333 million, up 8% or up 7% organically. Margins improved nicely, and non-GAAP earnings were \$0.96, up 14% year-over-year. For CooperVision, and reporting growth rates organically, the Americas grew 8%, EMEA 6%, and Asia Pac 5%. Within categories, torics and multifocals grew 7%, and spheres were up 6%. Within modalities, our daily silicone hydrogel lenses, MyDay and clariti, grew 10%, and our silicone hydrogel FRP lenses, Biofinity and Avaira, were up 6%. Our myopia management portfolio grew 19% with MiSight up 35%. Turning to products and starting with daily silicone hydrogel lenses, MyDay continued growing double digits with particular strength in torics, multifocals, and our innovative Energys offering. We remain very bullish on this product family as we increase availability in new markets and in new channels to capitalize on opportunities from greater penetration in existing accounts and with new customers.

With improved capacity, we're back to being aggressive and that can be seen in a number of areas including increasing availability of our multifocal and extended toric ranges, new launch activities such as MyDay Energys in Canada, and our upgraded clariti 1 day sphere with WetLoc technology in Japan, and expanded private label discussions. A lot of this activity is tied to increasing fitting sets and trial lenses, so we expect this to accelerate revenue growth starting in fiscal Q4, which is supported by the strong fitting activity we're seeing today. To add a little more color, we just launched MyDay Energys with its innovative DigitalBoost technology in Canada through a series of well-covered events and early feedback is extremely positive. We're receiving significant requests for fitting sets and initial orders are rolling in.

Meanwhile, our MyDay Toric parameter expansion, which provides eye care practitioners with the widest SKU range by far for a daily toric lens continues progressing well across North America and Europe, and we'll be launching the range expansion in targeted Asia Pac markets soon. And lastly, MyDay Multifocal's unique advanced 3 - add design paired with its easy fitting system is performing exceptionally well as market availability continues to increase.

Turning to clariti, we posted solid results with this high-quality, lower-priced lens portfolio, offering a great alternative to MyDay. The redesigned multifocal, which now mirrors MyDay's design, is a fantastic product and grew double digits this quarter. And I can speak to this product's great handling, comfort, and visual acuity as I'm happily wearing them right now reading this script. Moving to frequent replacement lenses, Biofinity continues to strengthen its position as the number one contact lens in the world with more people wearing it than any other lens. We're seeing nice growth throughout its full portfolio of market-leading prescription options, including spheres, torics, multifocals, extended ranges, made-to-order products, and Energys. Biofinity provides eye care practitioners the ability to fit an amazing 99.9% of all patients, by far the widest offering of any contact lens family on the market.

Turning to MiSight, we saw growth in fitting activity accelerate this quarter with revenues reaching \$25 million, up 35%. A key component to the improved fitting activity is the implementation of a new pricing model initiated following the conclusion of our global pricing review that confirmed

that the annual wearer cost is not a significant barrier to greater fitting activity. Price certainly matters, and training eye care practitioners and educating parents on myopia is important, but the key driver is just getting kids into the lens. Once kids begin wearing MiSight, they love it, and with retention rates running around 90%, they stay in it. And when parents verify the benefits of the treatment with their ECPs, they're sold on the technology. With this data, our focus is now heavily on reducing upfront fitting barriers by offering promotions such as an initial 1 - 3 months free. This provides a no-risk opportunity for parents to get comfortable with their children wearing contact lenses and for kids and young adults to get comfortable wearing contacts for the first time. With the broader rollout of this strategy, along with the launch of a large key account private label deal, we're already seeing a nice acceleration in fitting activity in EMEA, and we expect similar success in other markets. This new initial free fitting period will result in a moderate headwind in Q3, but based on current fitting activity we expect a considerably stronger Q4. And lastly, we're progressing well with our launch planning for MiSight in Japan, along with MyDay MiSight in EMEA, with both anticipated to occur in early 2026.

Moving to CooperSurgical. We reported revenues of \$333 million, up 8% or up 7% organically. The quarter was driven by success in our surgical medical devices, labor & delivery portfolio and PARAGARD. Fertility was a little softer than we were expecting, so let me start there. For the quarter, fertility revenues were \$127 million, up 3% and up 2% organically. Although supported by positive signs such as double-digit growth in our donor business and in our Witness system consumables that fertility labs use to track activity, overall growth was lower than expected due primarily to market softness. This was largely tied to Asia Pac where fertility cycles continue to decline year-over-year and from fertility clinics managing cash tighter, which is including delaying capital purchases and installments. We expect this softness to continue and to put pressure on market growth and our growth. Having said that, cycle growth in EMEA and the Americas remains solid which supports the market near term, and we remain incredibly bullish on the long-term prospects for fertility as the underlying growth fundamentals remain intact, including women delaying childbirth, improving access to treatment, increasing patient awareness, increasing benefit coverage, and improving technology. Additionally, it's estimated that 1 in 6 people worldwide will experience infertility at some point in their lives, so this is an issue that impacts a lot of people. As a leader in the space, we will continue delivering innovation, launching new products and services, providing extensive clinical training, and expanding geographically.

Moving to office & surgical, we posted sales of \$206 million, up 13% or up 10% organically. As mentioned on our last earnings call, we expected a strong Q2, and we delivered. Performance was driven by strength in minimally invasive gynecological surgical devices, such as our Ally uterine manipulator portfolio, and within labor & delivery with products such as Fetal Pillow and our Cervical Ripening Balloon. Although not included in organic growth, we also saw considerable strength in obp Surgical, our most recent acquisition of an innovative suite of single-use, lighted, cordless surgical retractors, which grew 31%. PARAGARD grew 18% this quarter, supported primarily by the conclusion of buy-in activity before our May 1 price increase, but also due to continued interest in our new single hand inserter, which we launched earlier this year. With PARAGARD now having grown 15% through the first six months of the year, heavily driven by channel fill, we now expect a mid-teens decline in fiscal Q3 before a flattish Q4, resulting in low to mid-single-digit growth for the full fiscal year.

To conclude, let me comment on our revenue guidance which we're tightening and raising at the midpoint. This incorporates our solid Q2 performance and the positive impact from updated currency rates, offset by lower organic growth rates that corresponds to a reduction in our market growth assumptions for contact lenses and fertility.

For contact lenses, the industry grew 4% in calendar Q1, so we're reducing growth expectations to the 4% to 6% range for the year, down from 5% to 7%. This new range matches the industry's historical growth range, which we saw for many years pre-COVID. With this change, we're adjusting CooperVision's organic growth expectations to 6% to 7%. To be fair, industry pricing remains solid, and consumption remains healthy, so this may prove conservative depending on market conditions and channel inventory. For CooperSurgical, we're reducing market growth expectations for fertility to the low single digits, down from mid- to upper single digits, and correspondingly reducing our fertility growth expectations. This is partially offset by the strength we've seen in PARAGARD, but still reduces CooperSurgical's consolidated organic growth rate to the 3.5% to 4.5% range. Again, it's important to note, our commercial execution at CooperVision and CooperSurgical remains strong and we're taking share, but against an expectation for softer market growth. And with that, I'll turn the call over to Brian to cover our financial results in more detail, including our earnings guidance.

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

Thank you, AI, 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 second fiscal quarter, consolidated revenues were \$1.002 billion, up 6% as reported and up 7% organically. Consolidated gross margin was 68%, up from 67.3%, driven by continuing efficiency gains and mix. Operating expense increased

6% but declined as a percent of revenue to 43.1% driven by leverage in several functional areas as prior investment activity continues to yield positive returns.

One line-item worth highlighting this quarter is R&D where expenses increased 21%. Investments in this area were higher than historical levels for both CooperVision and CooperSurgical as development work continues on several exciting projects. For competitive reasons, I won't get into the details, but we're certainly looking forward to launching these new products in future years. Consolidated operating income was up 11%, improving the operating margin to 24.9%. Below operating income, interest expense was \$23.5 million, and the effective tax rate was 14.6%. Non-GAAP EPS was \$0.96, up 14%, with roughly 201 million average shares outstanding. Free cash flow was \$18 million with CapEx of \$78 million. Net debt increased slightly to \$2.47 billion, while our bank-defined leverage ratio reduced to 1.9 times.

Lastly, we repurchased approximately 537,000 shares of stock back this quarter for roughly \$40.6 million. This leaves \$215.8 million of availability under our Board approved \$1 billion repurchase plan. Moving to fiscal 2025 guidance, we're adjusting our revenue guidance to incorporate Q2, improving FX rates and updated market assumptions. On a consolidated basis this translates to revenues of roughly \$4.11 billion to \$4.15 billion, up roughly 5.5% to 6.5% or up 5% to 6% organically. CooperVision's revenue guidance range is now \$2.76 billion to \$2.79 billion, up roughly 6% to 7% as reported and up 6% to 7% organically. CooperSurgical's range is \$1.35 billion to \$1.36 billion, up 5% to 6% as reported or up 3.5% to 4.5% organically.

Regarding gating for revenues, we expect organic growth in Q4 to be stronger than Q3 when considering year-over-year comps, the timing around the rollout of products at CooperVision and the gating impact of PARAGARD for CooperSurgical. For earnings, we're raising our non-GAAP EPS guidance to \$4.05 to \$4.11, which is growth of roughly 10% to 11.5% year-over-year. For free cash flow, after a seasonally slow Q2, we expect sizable improvements in the back half of the fiscal year and continue to expect free cash flow to be in the range of \$350 million to \$400 million. We'll prioritize debt reduction with these proceeds, but also opportunistically evaluate share repurchases as we did in Q2.

Regarding tariffs, we expect a negative impact to cost of goods this year of roughly \$4 million, which is built into our guidance. It's too early to guide to next fiscal year, but to help level set everyone, if tariffs remain as is, we expect a pre-mitigation negative impact of roughly 3% to fiscal 2026 earnings. Once we have clarity on what the tariffs will be, we will implement mitigation actions to reduce this impact. With respect to the impact of currency on revenues and earnings for fiscal 2025, we now expect a roughly 0.5% headwind to revenues and a roughly 1% headwind to earnings. This is down from roughly 1.5% and 4% headwind to revenues and EPS, respectively, that was assumed in last quarter's guidance. There are a number of moving parts, but to summarize our updated guidance for earnings, we're increasing the midpoint of guidance by \$0.10, passing along the positive impact of currency and our Q2 beat, offset by tariffs. With that, I'll now hand it back to the operator for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Jeff Johnson, Baird.

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

I was wondering if we can just start contact lens end market, sorry, that's my phone making some noise there. I guess my question more than anything is last quarter, you seem to be a decent amount below market or a point or two below market for CVI this quarter, one point or two above.

It'd be interesting to hear about some of your online data, other independent industry data that you might have because it does seem like channel inventory has really been making it hard to compare to your growth rates versus others for the last couple of quarters when we just look at revenue reported from the different companies. So any one and or other independent industry data you can share?

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

Yes, good question, certainly because the numbers are bouncing around for ourselves and for some of our competitors as you see some of the channel inventory move around. And I think that's going to continue because distributors, retailers, people are just a little bit tighter with their money than they have been historically. So a reduction in channel inventory is something that's probably going to continue to pressure us. When I look through the fit data, our fit data remains strong. As a matter of fact, it's accelerating right now.

As we get more aggressive putting MyDay fitting sets out in the market and finally have some availability for trial lenses for people, we're starting to see a pickup in MyDay activity, which is great in a number of markets. I touched on MiSight, same thing that we're starting to see in MiSight with an acceleration of some fitting data. So I would say behind the scenes, underneath the numbers, is some improvement in fitting activity.

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**Operator**

Issie Kirby, Redburn Atlantic.

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**Issie Kirby** - *Redburn Atlantic - Analyst*

I wanted to ask about the lower market growth assumption for Vision Care for this year. When you think about the 4% to 6% versus where you're at earlier in the year, is this lowering of the guide really more on softer pricing? Is it more on volume? Or is it really around mix as well? Just help us understand some of the puts and takes there.

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

Sure. Yes, the market for a long time was growing in that 4% to 6% range, and it's been stronger than that post COVID. And I think we're back to that growth range. And I know a couple of our competitors more recently said that. I'm pretty consistently an optimist when it comes to the market.

But I do have to look at the market data. And you look at calendar Q1 and the industry grew 4%. And at the end of the day, the fitting activity is still pretty good out there. As I said, it's accelerating some for us. Pricing is still sound.

I'm not seeing anything when it comes to discounts or any pricing activity. As a matter of fact, the rumblings in the market are there's going to be some potential price increases here as we move forward. Volume is still good. The mix shift over to dailies is driving a lot of the growth. Torics, multifocals, the specialty lenses, that kind of stuff is still doing well.

I still remain optimistic about it. But I also have to be practical and say, hey, look at the numbers and where they came out, they came out at 4% for calendar Q1. If I look at the growth for this full year, it's probably more mid-single digits, probably historical ranges, and I think we'll take a little bit of share. So at the end of the day, I don't take back anything on what I've said about our business. We continue to do well. I continue to think we'll take share. But if the market is growing 4% to 6% and I'd say we're growing 6% to 7%, that's still decent market share gains, and I'm still comfortable with that. It's more taking down the market just for general softness, rather than a specific thing I'm pointing to.

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**Issie Kirby** - *Redburn Atlantic - Analyst*

That's helpful. I'm not sure if I can squeeze in a follow-up on the fertility and the IVF market there and just any more color about really what's driving the softness in Asia? And then any thoughts on the consumer or the cyclical risks to IVF demand in the US.

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

Sure. I think there's two pieces to that. Asia Pac is down on cycles. Now some of that goes to the year of the snake in China, which is impacting some of the cycles there where I think some women either move forward faster or have delayed IVF cycles a little bit to avoid having a child in the year of the snake. My gut tells me it's a little bit more of a temporary thing for Asia Pac that we'll work our way out of as we move through this year.

I do think that there's a little bit there on the consumer side. Now we became a large fertility player, number one fertility player in the marketplace when you look at med device, probably starting 10, 11, 12 years ago. So, this economic difficulty is something we haven't lived through, but I think there is a little bit of consumer pressure there.

You're talking about a process that could cost somebody \$15,000, \$20,000, and a lot of that, all of that potentially is out of pocket. I think when you combine that with fertility clinics themselves just tightening up a little bit in terms of what they're doing with expansion activity and channel inventory,, when you put that together, you're getting a market that's growing a little bit softer. And last quarter, I was still very optimistic about that and thinking we would be able to work through that. I'm not sure that's the case right now. And again, I have to look at the market numbers. And when I look at the market numbers, our results, results of our competitors and what I'm seeing from some clinic and cycle activity, as much as I want to be an optimist and think it's going to be better, I think that the fertility industry is probably a low single-digit grower this year.

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**Operator**

Larry Biegelsen, Wells Fargo.

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**Larry Biegelsen** - *Wells Fargo Securities, LLC - Analyst*

AI, can you hear me, okay?

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

Yes, I can hear you.

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**Larry Biegelsen** - *Wells Fargo Securities, LLC - Analyst*

Okay. Good. So AI, back to the contact lens market, I think you said in calendar Q4, it grew 9%, calendar Q1, 4%. Obviously, a big deceleration. What changes are you seeing in the market at the distributor level?

And what changes are you seeing from consumer behavior and in which geographies? You talked about fittings being strong. We heard consumers are just buying lower supplies. In other words, 3 months as opposed to 12 months. And any color on April and May trends. And I did have one follow-up.

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

Yes, Larry, I think you're spot on there. That's some of what we're seeing, which is when I talk about channel inventory, a lot of times, people think about that in the context of contact lenses at a distributor, but that does run through distributors, retailers, and individuals who are holding contact lenses in their medicine cabinet. If somebody is not buying a year of supply, but they're buying a three-month or a six-month supply or they're adjusting their wearing habits just a little bit and maybe stretching the lenses or something. All that stuff has an impact. So you end up in a situation where consumption or fitting activity continues to look good, but you get a little bit of softness in your revenues and I think that's the situation that we're in right now.

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**Larry Biegelsen** - Wells Fargo Securities, LLC - Analyst

April, May trend go back?

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

If I'm remembering right, April was the best month that we've had this year, May, fine. Certainly fine starting off this month. I think there's just a little bit of general pressure out there. There's not a big glaring thing that's coming out there that we can point to other than it's more just general market softness.

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**Larry Biegelsen** - Wells Fargo Securities, LLC - Analyst

And Brian, Q3 versus Q4 in CVI, and CSI, how much lower do you expect Q3 to be? I mean do you expect Q3 to be both in the range of the full year organic growth guidance?

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

Larry, thanks for the question. What I would say is if you're trying to model Q3, I would think about those two, Vision and Surgical, being below the bottom end of the guidance ranges and then looking at Q4 conversely, those two at or above the top end of the guidance ranges.

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**Operator**

Jon Block, Stifel.

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

I guess maybe just following up on a couple of questions here. So AI, where are we with inventory? Maybe if you want to break that apart amongst the distributors and the consumers in your view? And what's the company's expectations going forward, call it, for the rest of the year because seems like you're landing right around 6.5% for 1H. So somewhat two dissimilar 1H-2H when we look at a year ago.

So curious what the assumption there is and just overall market growth in we think about how to tie up for the balance of the year.

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

Yes. I think that we're just going to continue to get pressure as we move through this year from inventory levels on a year-over-year basis. I wouldn't put my finger on one particular thing, again, I wouldn't come back and say, focus on distributors in the US or focus on retailers in Europe or in Asia Pac or something. I would say just generally, I think as an industry, we're going to continue to have pressure on inventory levels on a year-over-year basis.

And as Larry said, somebody buying three months rather than a six month or three months rather than a year or something like that. I think that's what we're going to see. Now I don't want to overdo that, by the way, because you look at our midpoint of our guidance was 7.5% and now our midpoint of our guidance is 6.5%. And the market is just coming down a point. So I don't want to overdo this, right?

But I do think that we're going to see that consistent pressure as we move through this year. And then, we'll lap that. And inventory will have set itself down a little bit and probably lower than it should be. But I think we will just see that through the year. Not a dramatic shift in any individual quarter, but just a little bit softer all year long.

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

Okay. Maybe just a quick follow-up. It seems like just a change in tune with fertility, right? You've always been relatively resilient, consumer able to power through, or different messaging this quarter in my view. And so how do we think about that over the next handful of quarters?

Is it this is the new trend line we're probably safe is extrapolating that out until we get better clarity from a macro perspective? Just again, the messaging seems a little bit different than maybe just a one quarter blip, the top equipment had been responsible for here and there before.

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

Yes. I mean we have a great market-leading fertility team, and our team knows the industry and what they're doing like the back of their hand. And we grew, I believe, it was 14 out of 15 quarters double digits before we got into Q1 of this year, and we've had the softer Q1 and Q2 of this year.

So I look at it right now and say, okay, with that level of consistent growth that we had, that level of excellence, and now you see the pullback to where it's at right now. I think you're getting some of this temporary activity out there as concerns with the economy or whatever you want to call it, have tightened up activity in fertility clinics.

To me, I think we probably swung that a little bit too far it feels like. And I think the fertility industry and us get a little bit stronger here, and I would be really surprised if Q3 and Q4 don't show strength in comparison to the beginning of this year for the industry and for us. But I don't think right now that it jumps back up. I'm not confident like I was last quarter, it jumps back up to the mid or upper single digits. I think it's more low single digits for the market, maybe a little bit stronger for us, mid-single-digit growth in Q3 and Q4.

**Operator**

Robbie Marcus, JPMorgan.

**Robbie Marcus** - *J.P. Morgan Securities LLC - Analyst*

Sorry to belabor the point here. But as you think about the lowered guidance for the rest of the year, I'm still a little unsure how much is from what you've actually seen in results so far because you did put up 7% on a really tough comp in CVI. How much is what you're expecting? How much is what you're seeing so far in fiscal 3Q? And maybe just walk us through if fits are so strong, is it changes in inventory or so on? Maybe just put all the pieces together.

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

Yes, Robbie, it's a great question. And you could certainly make an argument that we're being conservative here based on the underlying data and the survey data that's out there when you look at consumption and fit activity. And I sure hope we are. But I also look at it and go, okay, well, what is reality, we had a 4% quarter here. We are seeing some pressure from the marketplace in terms of channel inventory.

We can't ignore that. So I hope I am being conservative, but I don't want to ignore that. It's not a dramatic shift down, but it is a reduction. Now to be fair and to be clear, currency moved in our favor. We passed all that along. Our actual midpoint of our revenue guidance on an as-reported basis is higher year-over-year. But again, to go back to just the organic growth of the industry itself. Yes, I think it's just a matter of not ignoring the fact that something is going on with the channel inventory, and it's coming down because the fitting data, consumption data, that type of activity, pretty much on a global basis, continues to be pretty good.

**Robbie Marcus** - *J.P. Morgan Securities LLC - Analyst*

Okay. Great. Maybe just one on margins moving forward. You've shown good margin progression first quarter and second quarter here. As we think about the rest of the year, how should we think about the cadence of margins and where that will come from on the lower revenue guide.

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

Yes. Sure. Robbie, thanks for the question. Yes, the margin story is very much a continuation of what we've been seeing. We're getting efficiency gains and leveraging prior investment activity. You saw gross margins up year-over-year again this quarter. I'd expect in the second half of the year, gross margins are up year-over-year. That will help drive operating margins higher.

We're still getting leverage from prior investment activity in the OpEx line items, with distribution being one of them, but certainly, across a number of the support functions where we are being very disciplined in managing our investment activity and being disciplined around cutting some costs where it makes sense so that we can drive leverage through the P&L.

What you'll see in the back half of the year is a continuation of the story that you've been seeing, which is better operating margins year-over-year.

**Operator**

Craig Bijou, Bank of America.

**Craig Bijou** - *BofA Securities, Inc - Analyst*

I wanted to start with a follow-up just on not the contact lens market, but your outperformance of the market. And I think the outperformance is still the same, even though you lowered the guidance. I think it's still 150 basis points above the market at the midpoint. So maybe the moving quarters, some quarters beat some or a little bit below the market. Just what gives you the confidence that you can outperform the market for the rest of the year?

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

Sure. I think there's two things tied to that. One is we spent a lot of time over the last couple of years talking about MyDay and the demand for MyDay. It still remains strong out there. We're getting a lot of fitting sets and trial lenses out into the market so that more people can try that product.

We're in active discussions right now talking about expanding private label contracts that we have, and deals that we have getting more MyDay into the channel. So, when I look at it and I look at the fitting activity and the interest in that product right now that I see, I feel pretty confident that MyDay is going to get going, it's going to accelerate some. Now I think it will take just a little bit, as Brian said, because a lot of it's going to, again, trials sets and free lenses right now. But the fitting activity is there. I see the fitting activity. We see the improvement in it. I think we'll have a stronger Q4. The midpoint of market is 5%, and we're 6.5%. So we are not backing away from taking share in this market. That has remained consistent.

The other one, I would say, ends up being MiSight. MiSight is on a \$100 million run rate. We'll do over \$100 million in revenues for MiSight this year. Maybe it's not growing quite at the clip that I thought it was going to grow, but we still probably do 30%, 35% growth in MiSight this year.

And I think you're going to see an acceleration in MiSight activity in Q4, that's going to be our strongest quarter because again, I can see a lot of fitting activity right now, and I see a lot of kids starting to wear that product. You see that especially true in Europe right now where we're seeing a pickup.

We've got brand-new large private label contract we entered into, first one like that, that's going out with MiSight technology in Europe. We're seeing fitting activity associated with that. It's tied to free lenses upfront, try it, you'll like it and you'll keep it, but we're seeing that fitting activity right now with MiSight. So when I look at that, I think we've got an excellent opportunity to continue to take market share.

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**Craig Bijou** - *BofA Securities, Inc - Analyst*

Maybe for Brian. Just on tariffs, can you just help us give a little bit of color on what's driving that \$4 million that you have in your guidance for tariffs this year, which countries and how to think about that?

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

Sure, Craig. Yes. Similar to other companies, the way that we account for the activity in cost of goods, and we capitalize it and run that through the P&L six months later. The activity that's impacting us this year is impacting us in Q4. A lot of our manufacturing sites support the markets in those regions, so we benefit from that activity.

But where we are seeing tariff impact predominantly is from manufacturing out of Hungary and to a lesser extent, [out of the UK. I talked about the 3% for next year. That summarizes our expectations on the tariff impact based on today's assumptions on tariffs](corrected by company after the call).

Sorry, I think I said Hungary earlier. Let me correct that. Costa Rica has the biggest impact from tariffs to us. Second is the UK, Hungary is negligible. Hopefully, that's clear.

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**Operator**

Joanne Wuensch, Citi Bank.

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**Joanne Wuensch** - *Citi Investment Research - Analyst*

What I'm trying to get my head around is when you put the new guidance together, how much of this is reflective of this is what we're seeing in the market? How much of it is this is what others are reporting and how much of it is maybe conservatism? I'm trying to get my head around this because you did just beat the quarter. And then I have a follow-up question, please.

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

Yes, that's very fair, Joanne. And a part of it is, yes, what we've seen other people reporting. I was a little surprised by some of the numbers that came out. What we see reporting, Q1 4%. What we've seen in the market, we are seeing some tightening of the market when it comes to the channel inventory that we've been talking about.

And then I would say a portion of it to be fair, is conservatism. I think that we needed to reset our numbers. Our expectations out there were a little bit high. We just had a good quarter. We just did 7%. We beat expectations for vision, we beat expectations for surgical, we beat earnings expectations. I mean, frankly, we raised revenue guidance at the midpoint. We raised earnings guidance.

So it's an across the board, raise. Having said that, you look through to the organic growth rates, and I think it's just a prudent time to be a little bit more conservative.

**Joanne Wuensch** - *Citi Investment Research - Analyst*

And my follow-up question has to do with FX because FX has moved so dramatically since we all got together and talked less than 90 days ago. What are you dialing in for FX impact? And can you just remind us how to think about that as we go forward and the world continues to dance or shift?

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

Yes, I'll comment quickly, and then Brian, obviously knows this like the back of his hand. With respect to OpEx, the one thing I would say is I think people are probably underestimating the efficiencies that we're driving in the organization right now.

There are a lot of moving parts here. But the operational efficiencies that we're delivering from our manufacturing team who's driving cost per units down on the products and then the leverage that we're getting through the P&L that Brian talked about in some of these areas like distribution is quite a bit more than people are thinking. We invested a lot of money for a couple of years there, and people saw that in terms of our investment activity.

Those returns are now starting to work their way through the P&L. So, there's a lot of noise with FX, but it's operational efficiencies. And I'll turn it over to Brian because he's a big part of that, and he's one of the guys who's driving that throughout our entire organization. So he deserves credit, I should shut up and let him talk.

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

Al, you said it pretty well. It's a lot of really hard work being demonstrated by our operational leaders around packaging, labeling, manufacturing, shipping, that's all across Vision, Surgical, working together, really grinding away, and making sure that we get the leverage from that prior investment activity. And that's also true within OpEx. We all remain vigilant and disciplined during these uncertain times making sure that we are managing our expenses closely. When we took down the revenue ranges at the midpoint for organic growth, the operational efficiencies in cost of goods and OpEx really helped to offset all of that. And so what you're left with is FX being a big part of the EPS raise along with the Q2 beat and the impact from tariffs. So that's how you get to the \$0.10.

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**Operator**

Young Li, Jefferies.

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**Young Li** - *Jefferies Financial Group Inc. - Analyst*

I guess to start, I wanted to hear a little bit about the private label business growth, if you can provide any color on the growth versus branded and if you can comment in general, if there's any differences you're seeing between the higher-priced products versus lower price products consumer seems to be a little bit.

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

Sure. So two things on that. I'd say private label business for us at CooperVision is growing a little bit faster than our branded business. No real surprise there, trends continuing. We'll continue to see that activity based on what I'm seeing out there with contracts and sales.

I think you'll see the private label business grow a little bit faster than the branded business. The high price, low price, that question, it's interesting. The high-priced products, when we talk about like MyDay, torics, multifocals, continue to outperform. They continue to do well. We haven't

necessarily seen anyone moving to lower-priced products, but we've seen a shift in some of the purchasing behavior for some of those more expensive products.

So we'll see what happens with that. Like, is there ultimately a shift over to some of those where people say, hey, I want to wear my contact lenses every single day and I shift over to clariti or something? I don't know, we'll say. But as of right now, we're continuing to see pretty good demand and activity around the higher-priced products.

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**Young Li** - *Jefferies Financial Group Inc. - Analyst*

All right. Great. Very helpful. I guess to follow up one of your competitors launched a weekly product. Seems like the early momentum is pretty good. Wondering how much you're seeing that market and your interest in that type of modality, if you were to try to get something out that's similar? How long would that (technical difficulty)

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

Yes. That's a market that we don't really play in, which is kind of funny because it seems like we play in every market. But that would be a segment of the market that we're not really in, which is the weekly/two-week market. That's J&J and Alcon that are out there playing in that market right now.

So that's not a market we're going to enter. Like we're in the daily side of things, and we're on the monthly side of things. So I'll leave it to those two guys to battle out the winner of that space.

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**Operator**

Chris Pasquale, Nephron.

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

Al, one just on contact lens market and then Brian, a follow-up for you on tariffs. On the market. So Al, I think you used the word sound for contact lens pricing. The biggest difference between the last few years and the pre-COVID period, as far as we can tell, is that pricing has been above the historical trend.

So is this downshift in market growth as simple as pricing trends returning to what we used to consider normal, and then you mentioned rumblings about a new round of price increases to come. As you look at your own business, do you still see the same opportunities for price as what you had the last couple of years?

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

Yes, I do. I think that as an industry right now, and I'll speak for us, in particular, as we look at inflationary pressures, I think we have the ability to pass along price increases that tie to inflation. Not above and beyond that, but inflationary pricing, I think all companies can pass that along. We can pass that along, a retailer selling the product can pass that along. So I don't see much change in terms of pricing.

Yes, there are some rumblings out there from at least one competitor about a midyear price increase tied to tariffs. We'll see how that plays out. But I do think that pricing right now in the market is solid. I think future pricing is probably going to be a little bit higher than what it was pre-COVID.

So I think this is probably more a period of challenges around channel inventory and purchasing and wearing behavior than it is anything to do with pricing.

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

Okay. That's helpful. And then, Brian, you talked about a 300 basis point headwind from tariffs next year, absent any mitigation efforts, if I heard you correctly. You guys seem to be perennially capacity constrained on manufacturing. So what abilities the company have to move things around if you need to get some of that production to different geographies to try and mitigate that impact.

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

Chris, thanks for the question. There's a number of things that we could do. The first thing, and AI just talked about it, is to consider additional price increases., That's something that we don't have factored into our guidance for this year, but it's certainly something that we can consider that will help offset [the tariff impact](added by company after the call). Beyond that, it comes down to what do we do with our supply chain flows, how do we manage inventory differently and how do we adjust some of our manufacturing. We have the ability to do some of that, and we're evaluating those moves right now.

It just seems like even over the last 48 hours, we've heard different commentary about tariffs and what might happen and what's not going to happen as of a few hours ago. So we are absolutely in the planning mode of what could we do, what's easier to do, what's harder to do, but there's a number of things that we can do to take action on, but we want to make sure there's a little bit more clarity. And so that's why we're taking a bit of a wait-and-see approach before doing anything disruptive to our operations.

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**Operator**

Jason Bednar, Piper Sandler.

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

AI, sorry to belabor this point. The topic is on the CVI guidance seems to be this channel inventory dynamic. But I'm having a hard time squaring that against the comment you made earlier that you posted your best month of the year in April. So where is the disconnect? Because you obviously didn't see it in April.

Does this have to do with what you think is happening to channel inventory for others and you expect it to happen to your business? Or is this like visibility that you have to inventory adjustments that you think are coming in like the next few months?

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

Yes, Jason, I say this, it feels like every quarter, you just have to be so careful in this industry. When you look at any month's performance because you talk about a big April, well, you saw the numbers, that would mean that February and March were softer months. Let's not read too much into any individual month because you have big shipments that go to key accounts and channel inventory swings that are going from one month to the next month that can impact any month or any individual quarter. So I wouldn't read too much into that.

I still think when you're a year in the future and your turnaround and look back, you see big months and low months as shipments happen. But ultimately, what ended up happening for this year, that's where I get back to the 4% to 6% growth for the full year, and that's where I get back to some channel inventory contraction that happens in the marketplace.

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

Okay. All right. Fair enough. On the pricing side, just a follow-up there on some prior questions. I mean we've seen some of those pricing schedules from one of your peers. They do look like some large price increases. I guess I'm curious how you're thinking about your price strategy and response, do you try to move forward in a similar fashion because you now have cover to take price as well? Or are you going to take an approach of wait and see how the market responds to these tariff-related increases and then proceed as such?

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

Yes. Right now, I'm not going to give any other color other than to say we're evaluating it. We'll see what's going on with the market, and we'll evaluate it. And if it's appropriate to take price increases, we'll look to do that and if we decide not to, we won't. So the team is working on that right now.

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**Operator**

Brett Fishbin, KeyBanc Capital Markets.

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

Just wanted to ask if you could expand a little bit on what you're seeing around broader demand for toric and multifocals. It seems like we got into like a pretty steady cadence of double-digit growth from those categories for a pretty long time. Just like noting growth has come in a little bit, I think, 7% this quarter and a lot lower growth of the overall CVI portfolio. So I'm just wondering if there was any competitive dynamics to call out or anything else that might be driving that?

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

Yes. No, not too much. I remember when I saw those numbers coming through this quarter, I asked that same question. But there's not too much to read into that. Torics and multifocals continue to do well. You definitely get some activity associated with dailies. Now that marketplace has continued to shift more and more to dailies, you're getting some bigger swings in some of those numbers. But no, the toric and multifocal markets continue to do well and our products continue to do well there. That got a little bit more tied to some of the Biofinity shipments that were going out there for those products. I wouldn't read too much into that.

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

All right. Very helpful. And then I'll just ask a really quick follow-up. I think last quarter, you mentioned that China was a decline year-over-year. Just curious if you're able to give any color on how China performed in CVI this quarter as well.

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

Sure. Yes. China was down quite a bit last quarter. It was essentially flat this quarter for us. MiSight business was actually down a little bit. I mean we had 35% growth in MiSight on a global basis with China being just a little bit negative, but essentially a flat business in China for Q2.

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**Operator**

Steve Lichtman, Oppenheimer & Company.

**Steve Lichtman** - *Oppenheimer & Co. Inc - Analyst*

I wanted to follow up on your comments on MiSight. I think you mentioned price isn't the headwind based on your analysis but you are instituting the free trial program. So what is driving you to start that program if price isn't a factor?

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

Yes, Steve, 100%. We did this work. We've done it for actually a decent period of time in a lot of different markets. Looking at the annual price of that and thinking, hey, that's the thing that's holding back greater adoption of this product. What we've really found out is it's not that it's the initial pricing, it's the initial activity.

You have to get the parents comfortable that their child can wear contact lenses. You have to get the child comfortable that they can put the contact lenses in and take the contact lenses out. The parents are saying hey listen, I don't want to go down that journey and pay all this money upfront when I don't think that my child is going to be able to wear them or like to wear them. So I'm hesitant to even get started in MiSight because of that.

Once you go to them and say, hey, here's three months free. Go ahead and try this product. They're daily lenses, here are three months for you, go ahead and try and wear them, make sure that your kid can wear them, make sure that your kid is getting the treatment benefit that the eye care practitioner is saying they'll get.

Once you give them that and the kid goes through the process of figuring out how to put lenses in and take them out, I mean, bam, they get the visual correction associated with the lenses, the kids love it and want to stay in them once they get comfortable with them. The parents go back and say, wow, this treatment is actually working. I really like the fact that treatment has worked, and I want to continue to offer that to my child. Once you get over that hump, then you're in. That's where the retainage rates is like 90%. What we've really found is it's not that annual cost, it's the cost of the initial purchase activity. You have to hook them, into the value of contact lenses and into the value of the treatment.

Probably not a shocker. When you look at the massive success that you're seeing from spectacles, outside of the US, when you see it in China and European markets, parents are very interested in it, the hesitancy is tied to that initial cost. So that's what we're talking about with the free initial trial period.

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**Steve Lichtman** - *Oppenheimer & Co. Inc - Analyst*

Got it. And then just quickly on the fertility market commentary, you mentioned capital purchasing delays given the macro. Was that a comment for any particular region? Or are you seeing that globally? Any more color on that?

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

Yes, well, for us, that would be greater in Europe and India. But we're also seeing that some here in the Americas. It's prevalent in a number of locations right now. I don't think that's going away. I think it's more somebody or a fertility clinic looking at stuff saying, hey, do I need new workstations do I need some of that kind of activity? Yes, I would like to upgrade. Do I have to upgrade today? No. I can delay this activity a little bit. It seems to be much more tied to that than anything else.

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**Operator**

David Saxon, Needham.

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

Maybe just a follow-up on these on MiSight. So you talked about the promo activity during the third quarter. Can you quantify the impact that you're expecting? And then for the myopia management portfolio, including Ortho-K, can you talk about the profitability of that portfolio, is it profitable? And then longer term at scale, how should we think about the margin profile relative to kind of core CVI margins?

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

Sure. So yes, I was talking about MiSight, right? We're doing a lot of this activity. I don't want to lead anyone down the wrong road. I mean MiSight in Q3 is still going to be a decent quarter.

My guess is probably 25%, 30% growth, something like that. My expectation is we're over 40% growth in Q4. So if this goes the way I think it's going to go, solid quarter in Q3, maybe just a little bit lighter, and then good, strong Q4. Ortho-K this quarter was roughly flat. When I look at those combined from a profitability perspective, gross margins are good on those, would fall in line with company-wide averages. Operating margins depending upon how you allocate costs, you can argue those are still lighter because we're still investing a lot of dollars. We're integrating a lot of the sales activity into our regular commercial infrastructure to be able to sell the product more efficiently and get better coverage. So I think that long term, that is going to be a margin-accretive portfolio for us.

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**Operator**

Patrick Wood, Morgan Stanley.

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**Patrick Wood** - *Morgan Stanley & Co. LLC - Analyst*

I'll keep it just one. Trying to keep you time efficient. I don't mean to belabor the point, but the industry has taken probably cumulatively 10%, 15% gross pricing over the last couple of years. Is it the like mix of new fittings that's giving you confidence that you're not seeing any real beginnings of change in consumer behavior? Because I hear them destocking and holding less and I think a cumulative price increase.

You can't help worry a little bit on our end. Anything you can kind of speak to confidence around how they've absorbed that aggregate total pricing. I'd love to hear anything.

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

Yes, Patrick. Something I didn't touch on that I probably should touch on here because I think it's a component of what's happening. And that is some of the legacy products that are out there, legacy hydrogel products that are out there. That's still a decent portion of the market. There's still quite a bit of older legacy hydrogels that are out there that a lot of the industry are moving out of, that we're moving out of, our traditional hydrogel sales declined pretty decent this quarter. They are masking our growth. And I think you're seeing some of that impact in the marketplace. As you're seeing older traditional hydrogels continue to decline and people tighten up on what's out in the channel associated with those products as those products decline and go away because a lot of people are discontinuing those. I mean we are. We had millions of dollars of discontinued sales this quarter from older products.

So as we continue as a company and as an industry to shift away from some of these legacy hydrogel products, that puts pressure on channel inventory and puts pressure on our as reported growth rates. You flip over to the other side because Patrick, I get your point a little bit of a head scratcher here and you say, okay, price is there. We're not seeing a pushback on price, which we're not. We're continuing to see good growth in the specialty lenses and these higher-priced lenses. We're getting fitting activity, it's a little bit of how do I reconcile that?

We shouldn't ignore the negative impact coming from some of these traditional hydrogel lenses because they are impacting industry growth. They're certainly impacting our growth because we're dealing with that. So that's an important component. I probably should have said that earlier.

**Operator**

Navann Ty, BNP Paribas.

**Navann Ty** - *BNP Paribas Securities Corp - Analyst*

So back on fertility, there's a fertility pharma company that reported a sluggish performance in China, but did not revise down their global fertility guidance. So I'm curious what is Cooper's original mix for fertility revenue? Maybe you see a difference between fertility consumables and therapeutics.

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

Yes. We do not have any fertility pharma products. I would definitely split those two. When you look at a fertility treatment, the largest cost associated with that treatment is on the pharma side. And we just don't have those products.

So when I'm speaking about fertility growth, I'm talking about consumables, genetic testing, donor activity, capital equipment, but not pharma-based. I definitely wouldn't automatically link any commentary or any pharma sales activity to our industry or our market.

**Operator**

There are no further questions at this time. I'll turn the call back over to Al White, President and Chief Executive Officer.

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

Great. Thank you, everyone. I appreciate the time. I know we had a lot to go through, and hopefully, we were able to communicate all that clearly. Look forward to catching up with people during the quarter and certainly look forward to our next earnings call. Thank you. Thank you, operator.

**Operator**

This concludes the meeting. You may now disconnect.

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