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Q4 2024 COOPERCOMPANIES INC EARNINGS CALL

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- **Operator**
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- **Larry Biegelsen** *Wells Fargo - Analyst*
- **Jeffrey Johnson** *Baird - Analyst*
- **Jonathan Block** *Stifel - Analyst*
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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the CooperCompanies' fourth-quarter 2024 earnings conference call. (Operator Instructions)

Thank you. And 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 *CooperCompanies Inc - Vice President - Investor Relations and Risk Management*

Good afternoon, and welcome to CooperCompanies' fourth-quarter and full year 2024 earnings conference call. During today's call, we will discuss the results and guidance included in the earnings release and then use the remaining time for questions. Presenters on today's call are Al White, President and Chief Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

Before we begin, I'd like to remind you that this conference call will contain forward-looking statements including: revenues, EPS, interest events, operating income, tax rate, FX, and other financial guidance and expectations, strategic and operational initiatives, expectations for collaborations and acquisitions, market and economic 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 *CooperCompanies Inc - President, Chief Executive Officer, Director*

Thank you, Kim, and welcome everyone to today's earnings call. I'd like to start by congratulating our employees on a fantastic fiscal 2024. This was a tremendous year with all-time record revenues of $3.9 billion, including both CooperVision and CooperSurgical reporting record revenues. Within this, Q4 also closed with record revenues and improving margins that drove record non-GAAP quarterly earnings. We've now entered fiscal 2025 with a focus on taking share, driving profitability, and executing on our strategic priorities including increasing the availability of our innovative products, expanding our state-of-the-art manufacturing capacity, optimizing our technology investments, developing and launching new products, and investing in our people.

Before getting into the details, let me provide some high-level comments on Q4 and fiscal 2025. For Q4, CooperVision had a solid quarter led by strength in silicone hydrogel dailies and our full suite of torics and multifocals, with the main offset being unexpected softness at the end of the quarter. CooperSurgical also had a solid Q4 led by double-digit growth in fertility, offset by a greater decline in Paragard than expected. Our P&L improved with prior investment activity driving margin improvements and strong earnings growth. Moving into fiscal 2025, we forecast the contact lens market growing 5% to 7% in constant currency with us taking share growing 6.5% to 8.5%. Price should offset inflation, supporting around one-third of the growth, with the rest coming from a variety of items, including the ongoing trade-up to dailies, growth in torics and multifocals, growth in wearers and, for us, growth in myopia management. For CooperSurgical, we expect organic growth in the mid-single digits with fertility reporting high single-digit growth, and the remainder of the business posting low single-digit growth.

Moving to Q4 details, consolidated revenues were $1.018 billion, up 10% year-over-year, or up 7% organically. CooperVision reported quarterly revenues of $676 million, up 9% or 8% organically, led by strength throughout our market-leading product portfolio. CooperSurgical posted quarterly revenues of $342 million, up 12% or up 5% organically, including fertility taking significant share growing 15% or 13% organically. Non-GAAP earnings per share grew 19% to $1.04.

For CooperVision, we extended our position as the number-one contact lens company in the world in terms of wearers with our new fit data remaining very healthy. We also gained share on a revenue basis driven by strength in dailies, torics, and multifocals with the Americas growing 6%, EMEA, 11%, and Asia Pac, 7%. Within categories, torics and multifocals grew 9%, and spheres grew 7%. Within modalities, our daily silicone hydrogel lenses, MyDay and clariti, grew 14% and our silicone hydrogel FRP lenses, Biofinity and Avaira, grew 8%. And our myopia management [portfolio] (corrected by company after the call) grew 7% with MiSight up 24%.

Turning to daily silicone hydrogel lenses, we posted another great quarter. MyDay, our premium daily silicone hydrogel lens, led the way with strong growth across its full portfolio of spheres, torics, and multifocals. In particular, MyDay Energys drove growth in the US, and we look forward to that trend continuing. MyDay Energys offers an innovative DigitalBoost technology designed specifically for today's digital lifestyle and patients love it. Meanwhile, our MyDay Toric parameter expansion across North America and Europe is performing nicely with its market-leading design and industry-leading SKU range. And our MyDay multifocal continues to do well with its unique combination of an advanced design, paired with an easy fitting system that has resulted in very high satisfaction levels, including a 98% fit success rate in two pairs or less. For all these products, the future remains bright as demand is strong and improving capacity will allow us to expand availability. Moving to clarity, we had another solid quarter. These lenses are known for their comfort, easy handling, and affordability, and this is resulting in strength in fitting new wearers and upgrading legacy hydrogel wearers. We've also seen momentum with the launch of our upgraded multifocal which brings our highly successful MyDay multifocal design into the clariti material. This lens is being received well in the US and we'll be launching it around the rest of the world during this year. Speaking from personal experience, both of these multifocals are terrific products. If you're presbyopic and not wearing multifocal contact lenses yet, you're missing out. For me, I didn't need any visual correction until I got into my 50s, and then it hit me. Getting clear, crisp vision without reaching for reading glasses has been a game changer, so I'm really happy that we now offer several outstanding multifocals to choose from.

Moving to our frequent replacement silicone hydrogel lenses, Biofinity and Avaira had another strong quarter in Q4. We continue to see consistent growth from both of these franchises and our innovative manufacturing platforms and market-leading lens designs have created an effective moat, especially with respect to extended ranges and made-to-order products. We expect this performance to continue given our momentum.

Moving to myopia management, MiSight fitting activity remained strong in the quarter and October was our second highest revenue month ever, benefiting from back-to-school momentum. That being said, US inventory contraction in October suppressed results. Regardless, given the positive fitting trends that we're seeing around the world, we remain comfortable that MiSight will grow around 40% in fiscal 2025, similar to what it did this year. Regarding activity, we just concluded national media campaigns in the US and targeted Asia Pacific markets, educating parents about myopia and the benefits of proactive treatment. These campaigns were very successful and resulted in a significant number of children being fit in MiSight. We also showcased our global scientific leadership and extensive clinical evidence at the 2024 International Myopia Conference in China and at our annual Asia Pacific Myopia Management Symposium in Korea, partnering with the Korean Association of Pediatric Ophthalmology to deliver insights on gold standard clinical interventions. In the US, our Myopia Collective partnership with the American Optometric Association continues to gain momentum creating considerable visibility through media interviews, seminars, and presentations at conferences.

Moving to CooperSurgical, we reported revenues of $342 million, up 12% or up 5% organically. Within this, fertility posted quarterly revenues of $139 million, up 15% or up 13% organically. Fertility continues to be driven by our leading portfolio of innovative products and services, including consumables, capital equipment, reproductive genetic testing, and donor activity. And we're continuing to drive our portfolio forward with innovation. This was highlighted at the recent American Society of Reproductive Medicine Conference which featured meetings and presentations on our leading genomics capabilities. As the [foremost] (corrected by company after the call) fertility company offering genetic testing built on statistical machine learning and artificial intelligence methods, we were excited to present updates to our suite of tests being developed that will detect variations in the DNA at an embryo level, providing further insights to improve the likelihood of having a healthy baby. We also announced a groundbreaking collaboration with ASRM and the Society for Reproductive Biologists and Technologists for a newly formed Clinical Embryology Learning Lab, a first-of-its-kind national training program to support the growing need for more highly trained professionals in the fertility space.

Regarding the broader fertility industry, the global market continues to expand, driven by strong underlying macro growth trends. These include women delaying childbirth, improving access to treatment, increasing patient awareness, increasing benefits coverage, and improving technology. The World Health Organization estimates that 1 in 6 people worldwide will experience infertility at some point in their lives due to a variety of health factors, so this is a large industry that offers significant long-term growth potential. As a leader in the space, we remain deeply committed to supporting patients and clinics by driving innovation, improving access to care and addressing the critical global challenges of declining birth rates. Our focus on offering the most advanced solutions is continuing into 2025 where we'll be launching new products and services, providing extensive clinical training, expanding geographically, and advancing our R&D efforts.

Moving to Office and Surgical, we posted sales of $203 million, up 11% year-over-year, driven by the successful strategic acquisitions of certain Cook Medical assets at the beginning of the year, and more recently, Obp Surgical. Excluding these deals, Office and Surgical sales were flat organically. Our medical devices delivered solid growth led by our minimally invasive gynecological surgical devices such as our ALLY Uterine Manipulator portfolio in our labor and delivery portfolio of products. But this was offset by a 10% decline in Paragard, which was weaker than expected as we continue to feel the pressure from other birth control options.

To wrap up on CooperSurgical, we had some challenges this year with the Q2 upgrade of our US IT system, but that system is now stable and puts us in a much better position to continue our great growth trajectory. With our diversified portfolio of products and services, we expect solid revenue growth and margin improvements this coming year as we launch new products, leverage prior investment activity, and reap the benefits of successful integration work.

Before I turn the call over to Brian, let me say this was a great year for Cooper. We reported record revenues and made significant advancements throughout our organization investing in capacity expansion, operational improvements, and employee development. As we enter fiscal 2025, we're continuing to execute on our long-range strategic objectives and looking forward to reporting another strong year.

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

Brian Andrews *CooperCompanies 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 our earnings release for a reconciliation of GAAP to non-GAAP results.

For the fourth fiscal quarter, consolidated revenues were $1.018 billion, up 10% as reported and up 7% organically. Consolidated gross margin was 66.9%, up from 66.7% driven primarily by price and efficiency gains, offset by the negative impact of currency. Operating expenses were managed well, up only 6.8% and reducing to 41.1% of revenues. We're continuing to see leverage at both CooperVision and CooperSurgical as our prior investment activity pays off. Consolidated operating income was up 16.2%, improving the margin to 25.9% led by strong SG&A leverage. Below operating income, interest expense was $25.6 million, and the effective tax rate was lower than expected at 11.8% due to stock option exercises. Non-GAAP EPS was $1.04, with roughly 201 million average shares outstanding. With respect to FX, it was $0.02 negative for the quarter, as expected in our Q4 guidance. Free cash flow was $128 million with CapEx of $140 million. Net debt decreased to $2.48 billion, with our bank-defined leverage ratio dropping to 1.94 times.

Regarding full year results, we delivered record revenues of $3.9 billion, up 8% and up 8% organically. This included 9% organic revenue growth at CooperVision, which was at the high end of our initial guidance range, and 5% for CooperSurgical, which was at the middle of our initial guidance range. This was an excellent year with particular strength in daily silicone hydrogels and fertility. Within the P&L, we continued our momentum delivering stronger gross margins and leveraging our SG&A investments. Gross margins improved 60 basis points, SG&A improved by 90 basis points, and operating margin expanded 130 basis points. Operating income grew 19% in constant currency, which exceeded the top end of our initial guidance of 13% to 16%, and EPS grew 15%, which hit the top end of our initial guidance of 12% to 15%. We've talked about our commitment to driving efficiency gains and EPS growth, and we delivered in 2024.

Moving to fiscal 2025 guidance for CooperVision, the revenue guidance range is $2.733 billion to $2.786 billion, up 6.5% to 8.5% organically, and for CooperSurgical, the range is $1.347 billion to $1.372 billion, up 4% to 6% organically. On a consolidated basis this translates to revenues of $4.08 billion to $4.158 billion, up roughly 6% to 8% organically. Moving down the P&L, we closed this past fiscal year strong from a production perspective and expect this to translate to improving gross margins, which should help deliver roughly 10% to 12% constant currency operating income growth, which matches our guidance commentary from our last earnings call. Assuming no interest rate changes by the Fed, we expect interest expense to be roughly $90 million with improving free cash flow being prioritized to reduce debt. We expect the full year effective tax rate to be slightly over 15% and expect non-GAAP EPS in the range of $3.92 to $4.02. For currency, we're expecting a headwind of roughly 1.5% to revenues and roughly 4% to earnings.

With that, let me conclude by saying that we met or exceeded the expectations we set for fiscal 2024, and we'll work hard to do that again in fiscal 2025. We're in a great position from a revenue perspective with market-leading products and improving capacity, and we expect strong operational performance as we remain focused on delivering a more leveraged P&L. This includes gross margin expansion from higher production levels, price increases, and cost reduction projects, helping to drive operating margin expansion. Within this, we'll still invest, balancing our financial objectives with support for new product launches and expanding our leadership positions in myopia management and fertility.

And now I will hand it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Craig Bijou, Bank of America.

Craig Bijou *Bank of America - Analyst*

Thanks for taking the questions. I wanted to start with the comment on unexpected softness at the end of the quarter and hoping that you can provide a little bit more color on that. And maybe just a clarification of where that softness was from a geographic perspective as well?

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

Sure, Craig. Yes, we were running along with a pretty good quarter, and had some softness mid-October to end the year and frankly, carrying over into the beginning of November. We saw some softness in the US market, no doubt. It's a little hard to put your finger on whether that was coming from the hurricanes or some other activity, but saw some softness here. And then there were a few other pockets around the world where we saw some softness like China as an example. As I mentioned, it has worked its way into November for a little bit, but then it stopped and we've seen things move back to normal. So, like a month of softness there, which was unexpected.

Craig Bijou *Bank of America - Analyst*

Okay. That's helpful. And maybe if I could follow up on the CVI guide. So, the last two years, you've guided 7% to 9%. Obviously, it's 6.5% to 8.5% this year, you're 50 basis points less.

I think your market expectations was 5% to 7% for next year, and I think that's what you said last year as well. Maybe just a little bit more color on the lower guide. What's reflected in that? Any concern about the level of share you can take. Just want to understand the dynamics of the slightly lower guide than what you've done previously?

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

Sure. I wouldn't read too much into that from the perspective of comparing to prior years. To me I think we're going to continue to grow faster than the market. The 5% to 7%, when I look at it is a little bit slower. For last year, we came in a little bit higher. This current year, the market grew 5% in the first calendar quarter and then 7% and then 7%. We'll see how it plays out going forward. For us, when I look at our growth guidance, the 6.5% to 8.5%, is a fair way to start the year.

We're still in a situation where demand for MyDay exceeds our manufacturing capacity. We're bringing new lines on. We're advancing that. We're doing well in those efforts, but we're not able to meet all the demand that we have right now. That would be one of the things that would hold us back just a little bit. We're going to continue to make advancements and bring on lines. It will position us well as we move through this year and certainly as we think about fiscal '26 and '27.

Craig Bijou *Bank of America - Analyst*

Great. Thanks for taking the questions.

Operator

Larry Biegelsen, Wells Fargo.

Larry Biegelsen *Wells Fargo - Analyst*

Hey, guys, good afternoon. Thanks for taking the question. Maybe first question on Paragard, the 10% decline in Q4 and the pressure you talked about. Talk a little bit more on that and what you're assuming for fiscal '25 from a growth standpoint for PARAGARD and a competition standpoint? And I had one follow-up.

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

Yes. Paragard grew 2% for the year, which was pretty similar to what we were thinking at the end of the day. We came in softer than we were expecting, down 10% in this quarter. When you look at the market right now and you look at competitive products out there, we're going to continue to see pressure in Paragard from a unit perspective. And I've talked about that for a while now. And I think we're going to continue to see that next year. Now each individual quarter will bounce around a little bit like it does for Paragard. So, when I look at fiscal '25, it's going to be down a little bit to maybe up a little bit. We haven't heard anything new on the competitive side of things. So if a competitive product does get approved, it will depend when and how it launches. So, Think about Paragard in that down a little bit to up a little bit range for fiscal '25.

Larry Biegelsen *Wells Fargo - Analyst*

That's helpful. And Brian, any color on the cadence of sales and margins in fiscal '25? And then any color on Q1? Thanks.

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

Larry, thanks for the question. Honestly, I really wouldn't highlight much of anything. You follow us really closely, and you know all about the seasonality of Q1 and Q2 tend to be lighter than Q3 and Q4. So I would just think about modeling '25 similar to the way you've seen it in the past.

Larry Biegelsen *Wells Fargo - Analyst*

All right. Thanks so much.

Operator

Jeffrey Johnson, Baird.

Jeffrey Johnson *Baird - Analyst*

Thank you. Good afternoon, guys. Al, I just want to confirm the lightness in the market, softness in the market that you were seeing in October into the first couple of weeks of November. Is that different than the MiSight inventory reduction?

And assuming those are factors, any way to quantify how much that MiSight inventory reduction weighed on F Q4 and then just what drove that channel correction there?

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

Yes. MiSight would have been pretty similar to its normal growth rates without that. What we ended up seeing was some buy-in in fiscal Q3 and you saw some of that level itself out in fiscal Q4, meaning Q3 wasn't quite as strong as we thought, Q4 is clearly not quite as weak as we reported.

Then, the marketplace itself, being different than that, you're right. The marketplace wasn't dramatic. I don't want to act like there was some big all of a sudden thing, but it was softer oddly enough. Now we see that every once in a while. It usually doesn't happen where it impacts the quarter where I talk about it, but it did this quarter for a little bit in a couple of markets.

But again, it happened and it ran through a little bit, and we've seen things return back to normal. ISo, it feels like that was just a little blip for some reason. And maybe that was inventory or something where some people were tightening some things down. But there's nothing that indicates that there's any continuation of it.

Jeffrey Johnson *Baird - Analyst*

Okay. No, that's fair. And then I guess just pushing a little bit on that comment about the end market. If I look at J&J and Bausch, they both put up double-digit US growth in their calendar third quarter. And I know it's not a perfect overlap, and they didn't have October in there, obviously. But, I think the US market is getting a little bit more competitive or there's just lots of new products coming out from a lot of good manufacturers in that. So how to think about, the 6.5% to 8.5% that you're guiding to, your confidence level on being above market in 2025. How important it is you maintain. Are you managing the business to beat the market by a couple of hundred basis points or if the market is a good market, if you're a point or 2 above it, that's good enough?

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

Yes. A couple of points on that, and all fair points. Good question. If I look at calendar Q3, we grew 9% and the market grew 7%. So, when I look at it by calendar quarter, I didn't really see much of a difference in performance against our competitors. But when you roll October in and you drop a month, pick up a month, for our fiscal, and you get the impact of October, that's where you start to see a little bit of a difference. Now obviously, I don't know what our competitors did in October, but we'll be able to comment on that at a later date. I think that there are some good competitive products that are entering the market. But at the end of the day, we're going to continue to take share. We're going to grow a little bit faster than the market. I don't see that changing. And then some of that will be because of our myopia management, our MiSight franchise and some of that will be because of what's happening in the dailies space with MyDay.

We're not trying to hit some particular number, and we wouldn't take any strange short-term moves in order to try to drive market share gains. We're going to have a good market, and I think we'll grow faster than the market. My gut tells me we're probably being a little conservative when we talk about 5% to 7% for the market, when I look at what the market is doing right now and I look at price increases, my gut tells me we're probably a little conservative on our guidance. But beginning of the year, prudent to set expectations at an appropriate range.

Jeffrey Johnson *Baird - Analyst*

Yes, makes sense. Thank you.

Operator

Jon Block, Stifel.

Jonathan Block *Stifel - Analyst*

Great. Thanks, guys. Good afternoon. I'll start on MyDay. And Al, just any color on when you think that supply will get back to where it needs to be. I just feel like that might be taking a little bit longer than anticipated.

And just to tack on to that, would you point to that as the sole culprit to the more modest APAC numbers that we saw in fiscal '24, that growth rate was steadily right around 13%, 14% in '21, '22, '23, sort of cut in half? Or would you point to any changes to the competitive landscape in APAC as well? And then I just had a follow-up.

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

Sure. Yes, APAC is definitely tied to MyDay. There's no question about that. Out of the three regions, that's the one most negatively impacted by not having sufficient MyDay capacity. I think as capacity improves, you'll see the Asia Pac region strengthen.

We're going to continue to add capacity. We continue to be challenged, to be honest with you, by new fit data. We're continuing to see strong new fit activity in MyDay, and we keep adding capacity. We're investing, and you can see it in our CapEx numbers that we're catching up, and we're going to be in a good spot as we work through this year and into next year. Catching up by adding capacity and being able to meet the demand out there. But it's a journey, right? Because this isn't an industry where you can order a line and get it the next day. It can still take 1.5 years or something to get a line in - have it ordered and in for full production. So that's what's taking time.

Jonathan Block *Stifel - Analyst*

Okay. Helpful. And then maybe just as a follow-up, I'll stick to CVI. The delta from like torics and multifocals, I think that was up 9%. And overall CVI was up 7%.

So both certainly healthy numbers, but it's one of the tightest spreads that I can remember between the two, call it the specialty and overall CVI. So is there anything on the toric and multifocal competitive landscape, new entrants or anything there that you'd point to that changes dynamic?

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

Not too much. Multifocal's strong, no doubt about that. If we broke those out, you'd be like, okay, that's the one that makes sense to me. Torics, maybe a little bit, just that we're trying to build some inventory with respect to MyDay to get some additional product out in the marketplace in some different locations. So I wouldn't take too much out of that. That's more us than it is the marketplace.

Jonathan Block *Stifel - Analyst*

Fair enough. Thanks, guys.

Operator

Robbie Marcus, JPMorgan.

Robbie Marcus *JPMorgan - Analyst*

Great. Thanks for taking the question. Wanted to ask on the P&L for '25. And I know you've been talking a lot about a focus on reported margins, and we saw that play out in fiscal '24, particularly in fourth quarter here with nice margin upside.

How should we be thinking about gross margin and operating margin in '25? I know you said improving gross margin and 10% to 12% operating income growth. How do we translate that into hard reported numbers for '25?

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

Hi, Robbie, I'll take that. Thanks for the question. We are executing at a high level. We're seeing leverage from the investments that we've been putting into the business, paying off.

You saw that play out in '24. I'm a bit more confident today than I was a year ago that we will see gross margin expansion. We're raising prices. We're getting better freight costs that help out our intercompany shipping, but there’s productivity and successes that we're driving within manufacturing, and I've got a lot of confidence we're going to see gross margin expansion this year.

So that will drive those efficiencies. Our ability to leverage the P&L and also balance out our investment activity, while also being committed to operating margin expansion, that 10% to 12% constant currency OI growth, we're committed to that. We want to make sure we invest in this business to drive future growth and get future returns. So it will be a bit of a balance this year, but certainly, we've got shots on goal to drive leverage in 2025.

Robbie Marcus ***JPMorgan - Analyst***

And any color on the reported numbers, how we think about gross and operating margins on a reported basis?

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

Unfortunately, FX from where we were three months ago to today has turned in the other direction. But even with the guidance that we've given, as reported operating margins are going to be up year over year based on the guidance that we shared today.

Robbie Marcus ***JPMorgan - Analyst***

Okay. And then as a follow-up, it's anyone's guess as to what will actually happen with the incoming administration and tariffs. I know you have a lot of manufacturing plants outside of the US. Maybe just help us understand your exposure should there be tariffs put in place? And how much of your product is manufactured outside the US and sold inside the US?

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

Yes. I don't want to speculate on what happens with the administration change. But based on the news that's out there, it seems like there's a lot of concern about companies that are manufacturing in places like China, Mexico, and Canada, and happy to report that we have no manufacturing in any of those countries. So we've got manufacturing in a number of different places, and they serve different markets around the world. But without knowing what the new administration says and how it's going to come down, it's really hard to speculate.

Robbie Marcus ***JPMorgan - Analyst***

Great. I appreciate it. Thanks a lot.

Operator

Chris Pasquale, Nephron

Christopher Pasquale ***Nephron Research - Analyst***

Thanks. Al, I was hoping you could just comment on the sustainability of the pricing environment you're seeing in contact lenses. Inflation is not quite where it was pre-pandemic but it's come down. And it feels like the improved pricing environment is sticking. So as you look at FY25, are you confident that, that trend will continue?

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

Yes. I think that we're in a market right now where the contact lens industry will offset the impact of inflation. We'll see where our competitors come out with their price increases. But if we look at inflation being somewhere around 2.5%, 3%, I think you'll see pricing offset that. My belief is we'll see that this year, and where pricing is and where products are, you have a pretty good chance that you'll see that pricing next year. I won't speculate too much on the future, but depending upon where inflation is, I think the industry itself is now at a position where it will pass along those inflationary pressures.

Christopher Pasquale ***Nephron Research - Analyst***

That's helpful. And I just want to make sure as we're thinking about the contribution from acquired revenue, particularly before it becomes part of the organic base. I think we've lapped Cook now, so that should be done.

But are we right in thinking you guys have about $25 million in annualized revenue from the more recent deals that will be coming out over the next few quarters? And then maybe just talk a little bit about the M&A environment that you see heading into FY25. Do you expect to continue to be active?

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

Yes. That $25 million is pretty close to right. We had Obp, which grew really nice. It was up 30% or something like that since we bought it. And Zymot has been up nicely. I think maybe that's up 10%, 11% or something since we bought that. So a couple of smaller deals, but performing really well. I would say right now, for us, the environment is really quiet. It's really quiet. We did a couple of good deals there. It's worked out really well for us. We're continuing to integrate those. We have to finish some integration activity we have there, and continue to perform on those deals. If other deals come along, so be it. And if they don't, then that's okay, too. Right now, it's pretty quiet.

Operator

Jason Bednar, Piper Sandler.

Jason Bednar *Piper Sandler - Analyst*

Good afternoon. Thanks for taking the question here. Al, as we contemplate the revenue softness that we were discussing earlier, you did institute a price increase that took effect, November 1, can you talk about when you communicated those price increases?

I thought I saw the communication maybe didn't come out as early as normal, which maybe would have limited some of that pre-buying activity that normally occurs in October. So maybe I'm totally off base, but just trying to understand to what extent price increases influenced or didn't influence contact lens buying activity in your fourth quarter.

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

Jason, that's a good question. I asked that same question. Because the price increases that we put in place go in throughout the first quarter around the world. So different geographies at different times and different amounts by products. So it's pretty hard to triangulate back and say, oh, it was due to this or it was due to that. But I think that's a fair question as to whether there was an impact because of some of the price increases, especially since the timing was slightly different than it was last year.

Jason Bednar *Piper Sandler - Analyst*

Okay. All right. That's helpful. You mentioned a couple of things at the outset in your very first part of your prepared remarks, manufacturing capacity, launching new products. Maybe on that latter piece, if you could help us out what's on the docket?

What's coming out of the pipeline here over the next 12 to 18 months that we can look for? Because as Jeff noted, your competition seems like picked up the pace on their own respective launches.

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

Yes. And I think that the one thing they're going to do and that we're going to do is continue to get products pushed out, around the world. When you think about things like MyDay Energys, which has been a really nice success for us here in the US, we'd love to get that product launched in additional markets and have it around the world. I think we'll get there. We'll be able to do that. When I look at MyDay toric, the expanded range, love to get that in more markets and increase availability, MyDay multifocal, love to get that in a few more markets, increase availability.

So when I look at almost anything associated with MyDay, it even includes spheres, that's what you're going to see more of. It might sound like the same old, same old because we've talked about MyDay for a little while. But we still have products that we have to get out into the marketplace around the world.

And I think you'll see something similar from our competitors. If you listen to them, they're saying, hey, we've got some products launched, we need to continue to get those products out around the world.

I think we're all in a pretty similar boat right now. But I feel good that our products have proven to be very successful products. And as we launch them and increase availability, we're going to get a good return from that.

Jason Bednar *Piper Sandler - Analyst*

Thanks so much. Yes.

Operator

Issie Kirby, Redburn Atlantic.

Issie Kirby *Redburn Atlantic - Analyst*

Thanks for taking my question. First one on the vision piece. One of your competitors coming out with a seven-day wear lens in 2025. Just wanted to get your thoughts on that category and any risks you potentially see to your FRP portfolio.

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

Yes. So very early on that. I haven't seen any reaction in the market yet. I think that that's more targeted at the two-week market. We don't really play in the two-week market. We're dailies and monthlies, which is where the majority of the market is. But there still is a two-week market. You see it certainly here in the US. So at the end of the day, we'll see how that seven-day lens plays out. I'm not quite sure how it will play out, but I do think that it will be much more linked to those wearers who are two-week wearers and people who use contact lens solutions.

Issie Kirby *Redburn Atlantic - Analyst*

Okay. Great. And on fertility and the growth side, I mean, can you just perhaps give some color on what's really supporting the outperformance there, the share gains and what you're also seeing in the market, again, particularly with some of the commentary that's been made by the incoming administration.

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

Sure. It's interesting when you look at the incoming administration, they've made a number of comments, Trump has, about being very positive about IVF and reimbursement associated with IVF. It seems like a lot of people have asked me questions about that from a negative angle, like the new administration is bad. From everything I've seen and what we're hearing in the marketplace, I would argue that is actually going to be positive for the industry. We'll see how that one plays out.

We had strength this quarter from a number of different areas in fertility. Our consumables were good with products like media. Our genomics was good. I mentioned some of the new tests we have coming out. So that part of our business was good. Our donor activity that we had acquired back from the old Generate acquisition; that was good. We are probably a little bit stronger than usual this quarter with some of our capital equipment. And I've mentioned in the past how sometimes you'll see quarters be a little stronger or a little bit weaker depending upon capital equipment. This would have been a quarter that was lifted up because of capital equipment activity. So it was pretty much across the board. It's just a really good, sound, quarter by the fertility team.

Issie Kirby *Redburn Atlantic - Analyst*

Thanks so much.

Operator

Steven Lichtman, Oppenheimer.

Steve Lichtman *Oppenheimer - Analyst*

Thank you, guys. A couple of questions on the financial side. First on free cash flow as we look into FY25, CapEx obviously moved up in this past year and put a little bit of pressure on free cash flow conversion. How should we be thinking about that into FY25? Will you see any relief on CapEx or given the supply commentary we've talked about today, will it be pretty steady?

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

Hi, Steve, thanks for the question. CapEx came in just a little bit higher than we anticipated. We talked last year about how free cash flow is going to be around $300 million, we ended up just under that. And then CapEx is around $420 million. So I would probably steer people towards really thinking about CapEx on a percentage basis.

If you think about CapEx as a percentage of revenue being around 11%, that's probably a good place to think of where CapEx will land in 2025. I talked about in my prepared remarks how free cash flow is going to be driving higher from somewhere in the neighborhood of $350 million to $400 million. I think that's going to come from some combination of revenues and operational improvements, working capital improvement.

Interest expense will be a little bit better, but FX and taxes and then that CapEx driving a bit higher, somewhere in the neighborhood of $450 million, is going to be sort of your puts and takes that gets you free cash flow higher next year.

So certainly, capacity expansion drives future growth, and we're investing in the business to ensure that we capitalize on the opportunities.

Steve Lichtman *Oppenheimer - Analyst*

Okay. Great. And then just a follow-up on FX. Obviously, as you mentioned, dynamic here. One, where will we see some of that headwind?

Will it be on gross margin again on a reported basis? And two, anything first half, second half on that front in terms of where the flow-through of that headwind will show up?

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

Yes. I guess I would just say FX is hitting us relatively evenly through the quarters. I mentioned 1.5% headwind to revenues and 4% headwind to EPS. So on the EPS side, you're looking at it fairly consistent from quarter to quarter.

Steve Lichtman *Oppenheimer - Analyst*

And primarily in the gross margin side is where we'll see it?

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

Yes. I mean, cost of goods hasn't impacted quite so much, but certainly to revenues, you'll see it.

Steve Lichtman *Oppenheimer - Analyst*

Okay. Thanks so much.

Operator

Brett Fishbin, KeyBanc Capital Markets

Brett Fishbin *KeyBanc Capital Markets - Analyst*

Hey, guys, thank you very much for taking the questions. A lot of good ones already asked. I'll just ask a question on MiSight. I think you mentioned 40% growth expectation for FY25. And I was just curious how you're thinking about the contribution from the US versus some of the international markets?

And then maybe just as a follow-up to that, any more color on how you've seen the momentum progress in areas such as being in the UK and Korea for MiSight? Thank you.

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

Yes. Good question. Some of the areas out there, like Korea as an example, we've been very successful with MiSight. And we're trying to take those learnings and put them in other markets. The UK is another market where we're gaining some real traction as we start working with some of the bigger key accounts in the UK and in Europe.

When I look at the US, I think all the markets are going to drive MiSight forward. We grew about 40% this year. The number is bigger, but I still think we'll grow 40%, something like that, next year. And I think you'll end up seeing it driven by markets around the world.

The one thing that could drive that higher that I continue to watch is the uptake by some of the bigger key accounts and some of the bigger retailers that are out there. That activity, I've talked about it in the past, has definitely started, it's definitely gaining traction. We're getting some good positive movement there.

I'm optimistic that we'll be able to be north of 40% this year. But we'll see how that plays out, and we'll see what markets move a little bit faster in that direction. But I think Europe will definitely be one of them. And Asia Pac should be pretty good, too.

Brett Fishbin *KeyBanc Capital Markets - Analyst*

All right. Super helpful color. And then just one follow-up. You've talked a bunch in recent quarters about MyDay Energys as well as Biofinity Energys supporting growth for their respective product families. Just curious if you can comment a little bit directionally how sizable the Energys product lines have become just thinking about the CVI business as a whole?

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

Yes. For competitive reasons, I won't get into the size of them, but I will say that they're doing well. And certainly, MyDay Energys is doing well. I highlighted that as a product that’s pulling a lot of growth forward. That's a true innovation, right?

It's a very unique product for us. I think people sometimes have a tendency to forget some of the innovation that we deliver to the market, whether it is something like MiSight or Energys. But yes, I'll steer clear of giving numbers, but I will say it's becoming more material.

Brett Fishbin *KeyBanc Capital Markets - Analyst*

Fair enough. Thank you very much.

Operator

Navann Ty, BNP Paribas.

Navann Ty *BNP Paribas - Analyst*

Hi, thanks for taking my question. I had a follow-up on the greater erosion in Paragard. Is that in anticipation of that new competitor? Or is Paragard losing share versus organic implant (inaudible)? And also does the 2025 guidance, including the low double-digit operating income growth assume the entry of that new low copper IUD?

And then also on fertility, if you could discuss the trends across the government. I know you touched base on the US, also the corporate fertility benefits and the competitive landscape that supports the high single-digit growth going forward? Thank you.

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

Sure. A couple of points there. I think the fertility market will grow nicely again this year. The piece that we play in, medical devices broadly defined , I'll be surprised if we don't see mid-single-digit growth, maybe a little bit above mid-single-digit growth.

We've been seeing pretty good growth in the industry for a while now. There's great underlying growth characteristics. You touched on some of them when you look at insurance reimbursement. And there are some countries that are getting more focused on reimbursement for fertility. The trends there are positive.

I think the industry-wide growth being a good solid mid-single digits is probably going to be in place for a number of years. And that's why I always talk about us being in upper single digits.

We clearly have posted double-digit quarters, and we can continue to post that. But I think it's a good, solid, healthy market with a lot of good underlying macro growth trends.

When I look at Paragard in the IUD space Paragard is still the only nonhormonal IUD on the market, so it has the full market share here in the US. The competitive product has not been approved. I don't know when that's going to get approved. I don't have any details on that. I would say the performance of Paragard has had nothing to do with that.

I do think that some of the competitive products that are out there, and they're hormonal products, but some of the products out there are doing a little bit better and maybe taking a little bit of share from IUDs in general, I think.

I'm not sure we're doing worse than the IUD market, but the IUD market is a little bit softer, I believe, from a unit basis. And that's probably due to some of the other competitive products that have entered the marketplace.

Navann Ty *BNP Paribas - Analyst*

Thank you. That's very helpful.

Operator

Young Li, Jefferies.

Young Li *Jefferies - Analyst*

Hi, great. Thanks for taking the questions. I wanted to ask about the health of the consumer in key regions worldwide. You have a sizable private label business, so a wide range of pricing. Any incremental changes with the consumer price sensitivity, daily SiHy adoption, trade-ups, trade downs and private label growth.

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

Nothing to highlight there. We're continuing to get nice growth and similar growth in our branded products as we are our store brand products that are in the marketplace. You're seeing continued strength in the monthlies space, which is a little bit less expensive. But you're also seeing continued growth in multifocals and in the dailies space where we were in the teens again.

So pretty consistent performance from our portfolio, not seeing a lot of change from consumer behavior right now. And this calendar quarter grew 7%, last calendar quarter grew 7%. So not a lot of change from consumer fitting activity and consumer wearing habits.

Young Li *Jefferies - Analyst*

Okay. Very helpful. For my follow-up, just on the supply-demand dynamics. You made a lot of investments in the past two years, doubling CapEx and are seeing some of the excess capacity coming online. Where do you think the competitors are in terms of ramping up their own supply? How much more manufacturing capacity is still needed to balance demand as an industry? Any risk for overcapacity as their capacity comes online in addition to yours?

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

I don't believe so. I believe everybody is investing right now because of the shift to dailies. So as wearers move to dailies, we as an industry and obviously CooperVision, have to produce a lot more lenses. Producing a lot more lenses, obviously, is taking more machinery, more time. It creates more challenges throughout your logistics. So I think the shift over to dailies is going to continue for many, many years in front of us, and that's going to require a lot of capital from a lot of people.

Now we've had this bulbus going, and I think we probably have it again in '25 before it starts coming down some because we've had some facility expansion in addition to the lines. We're putting ourselves into a lot better position here with more flexibility in our manufacturing lines and a little bit of a different mindset around some of our expansion activity. I think we're in a better spot here to position ourselves for 2026, '27, '28.

I think as long as the market shifts into dailies, you're going to have to continue to add capacity. And I think the industry is, and will, for a while, to be catching up.

Because, again, the point I made earlier is well worth remembering. When you order a manufacturing line, it's going to take you a year or two years from the time you're ordering that line to getting it in and fully producing product to put it into the marketplace. So it's not a fast solution.

Young Li *Jefferies - Analyst*

Thank you very much.

Operator

Anthony Petrone, Mizuho

Anthony Petrone *Mizuho Group - Analyst*

Thanks. Maybe one on CVI and one on MiSight, just on CVI, SiHy daily torics in particular. Silicone hydrogel daily torics are margin accretive to the business. SiHy as a material within dailies has been growing. But maybe just to recap on where your SiHy daily mix is overall? And how much of that can shift to toric over time? And what would that mean for margins?

And then I have one quick follow-up on MiSight.

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

Yes, Anthony. Boy, that's a good question. There's a lot to that one when you peel that onion back. When you're talking about a sphere wearer, making a sphere and getting a sphere throughout your logistics and distribution systems and into the marketplace, is pretty straightforward.

Somebody who has astigmatism and gets fit in a toric, the toric range is considerably larger. We're the number one company in the world in terms of selling toric lenses out there. We know how complex it is. And as you do those expanded ranges it increases the complexity. I mentioned earlier how we're trying to build up some inventory on that to be able to launch a little bit more aggressively in a couple of spots and get some more fitting sets out there.

That's a dynamic that I could probably talk about for a couple of hours. I'll try to summarize it quickly by just saying that we are seeing nice growth in torics. You are seeing opticians recognize and correctly fit patients who have astigmatism in torics. It's a great product for us. It has good margins and we're going to continue to see it grow.

So I'll pause there just because that's a little bit of a hard one to answer. It's a good question, but it's a hard one to answer. And I do think because of the price point, you're going to continue to see torics grow faster than the overall market for ourselves and our competitors.

I'll be surprised if you're not hearing for years, almost every competitor talking about strength in torics driving their contact lens numbers higher.

Anthony Petrone *Mizuho Group - Analyst*

That's helpful. And really just quick on MiSight. You mentioned a little bit on an inventory contraction. So you had strong back-to-school fits. But then in October, you had inventory contraction. So anything there? Or is that do you think that's just going to be the seasonal pattern? Thanks.

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

Yes. I think that's just seasonal pattern tied to distributors. We have seen distributors around the world tighten some of their inventory up. We've seen people generally tighten up inventory just a little bit, as everybody is looking at cash and interest expense. To me, that's just a matter of a fairly high-growth product where you have distributors managing their inventory.

And I think you'll see some fluctuations higher and lower on MiSight because of that. And I think we'll probably deal with that a little bit as we move through next year. And I'll just try to really be transparent on that, that if it's helping growth, highlighting that a little bit, and in a quarter like this when it pulls the growth numbers down a little bit, mentioning it.

Operator

And that concludes our question-and-answer session. I will now turn the conference back over to Mr. Al White for closing remarks.

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

Great. Well, thank you, everyone. As Brian summarized with the numbers, and I said, fiscal '24 was a really good year. We closed strong, and we feel good about where we're at today. And we're confident we're going to be able to produce really strong results in fiscal '25.

We're obviously going to do what we always try to do, which is outperform the guidance that we give. I look forward to catching up with everybody through the quarter and when we report our next quarter. Thank you. Thank you, operator.

Operator

You're welcome. And ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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