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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Cooper Companies Second Quarter 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Kim Duncan, Vice President of Investor Relations and Risk Management. Please go ahead, ma'am.

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

Good afternoon, and welcome to CooperCompanies Second Quarter 2022 Earnings Conference Call. During today's call, we will discuss the results and guidance included in the earnings release and then use the remaining time for questions. Our presenters on today's call are Al White, President and Chief Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements, including all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions and acquisitions, integration of any acquisitions or their anticipated benefits. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties.

Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption forward-looking statements in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K and Form 10-Q filings, all of which are available on our website at coopercos.com. Should you have any additional questions following the call, please call our investor line at (925) 460-3663 or e-mail ir@cooperco.com.

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

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

Great. Thank you, Kim, and welcome everyone to our second quarter conference call. Let me start by highlighting that our businesses are performing extremely well. Both CooperVision and CooperSurgical posted strong revenue growth, gained share, and are continuing to see strong momentum. We're successfully managing through a variety of challenges, from supply chain to COVID restrictions in China, and we're maintaining our market-leading growth rates, so I'm really pleased with how the year is progressing. For the full year, we're increasing our organic revenue guidance for both businesses by incorporating our Q2 outperformance and the strength we're continuing to see.

Moving to the quarter, consolidated revenues reached an all-time high of $830 million, with CooperVision at $554 million, up 12% organically and CooperSurgical at $276 million, up 40% as reported or up 6% organically. The quarter was led by strength in CooperVision's daily silicone hydrogel portfolio and our myopia management products, and CooperSurgical's fertility business which posted another double-digit growth quarter. Non-GAAP earnings per share were $3.24. Brian will provide the details, but this quarter was negatively impacted by FX and our contact lens solutions business.

Moving to CooperVision, and reporting all percentages on an organic basis, our revenue growth was strong and diversified as we grew nicely in all product categories, spheres, torics and multifocals within all 3 geographic regions. The Americas were up 8%, EMEA grew 17% and Asia Pac grew 11%. This resulted in nice share gains, which is impressive following our strong Q1 performance. And for those of you tracking calendar quarters, our calendar Q1 organic growth rate was 16% against a market we estimate grew 12%. So, strong numbers, and we remain well positioned to continue gaining share as we launch new products, expand product ranges, provide market-leading flexibility through our customized offerings, execute on key account relationships, and deliver fantastic customer service.

Regarding products, our daily silicone hydrogel lenses posted very strong results, growing 28%. Daily silicones continue to lead the market, and we offer the broadest portfolio in the industry. Our premium 1-day offering, MyDay, is available in a broad range of spheres, torics and multifocals, and while all these categories are performing well, it's worth highlighting the multifocal. The launch of the MyDay multifocal is still limited geographically, but it's rapidly taking share in markets where it's available, and we'll continue rolling it out as we progress through the year. The feedback from optometrists on our breakthrough Binocular Progressive Fitting System remains fantastic and patients are continuing to say the lens is the best multifocal they've ever worn. This success is driving a nice halo effect on our already successful MyDay spheres and torics, so we remain very optimistic about the future of this brand.

The other brand in our daily silicone hydrogel portfolio is clariti, which is also available as a sphere, toric and multifocal and is typically sold into more of a mass market setting. This lens performed really well again this quarter, especially in our Asia Pac region, where we're continuing to roll out the sphere in Japan. Our silicone FRPs, Biofinity and Avaira, reported another solid quarter of 8% growth. And lastly, as an umbrella comment about all these offerings, I'm happy to report that we're seeing an uptick in the growth rate of our branded product sales. As many of you are aware, we take a lot of pride in our customized offerings, which includes customer brands, but our own high-quality CooperVision brands are also showing strong growth, especially MyDay.

Moving to myopia management, we posted revenues of $23 million, up 61%, including MiSight up 144%. The specialty part of our business is extremely healthy, driven by growing traction in key accounts and continued strength with private practitioners. We have some challenges in China where COVID restrictions are hurting our Ortho K sales and impacting our MiSight launch, but the rest of the world is performing really well. MiSight, in particular, is excelling in all geographies as the ophthalmic community continues to embrace the growing myopia management segment of the market. And on another encouraging note, we're also seeing positive halo trends with our tracking data showing customers who are selling MiSight are accelerating their selling of our other lenses.

Moving to SightGlass myopia and management glasses, we closed our joint venture with EssilorLuxottica in March, and we're already seeing exciting progress, including additional availability of the product in additional markets such as China. Regarding an FDA approval, the 3-year clinical data for SightGlass is being compiled right now, and we look forward to receiving the data and sharing it with the FDA in the near future. So, in summary, we're seeing strong momentum in all areas of myopia management and we expect to continue posting strong results.

Before moving to market data, let me touch on our contact lens solutions business. Recent supply [chain] (added by company after the call) challenges have hit this operation hard, and we've experienced a significant decline in sales. Given this, we completed a strategic review and confirmed this is a nonstrategic business in a declining industry that's going to require a lot of capital to upgrade the facility, so we decided to exit the business by fiscal year-end. From a financial perspective, we expect this business to report roughly $20 million in revenues this year, down from $44 million last year. We are excluding these results from our organic growth rates to ensure transparency and comparability, and Brian will provide additional color on the rest of the P&L in a few minutes.

To wrap up on CooperVision, the contact lens market is performing exceptionally well, even in the face of continuing COVID challenges. Growth in daily silicones and an increasing prevalence of childhood myopia are offsetting the lower patient traffic tied to COVID. We expect global growth in the industry to remain strong as patient traffic continues to improve, and we look forward to what should be a strong back-to-school season this fall. Growth is also supported by the macro trends around vision correction, including that roughly 1/3 of the world is myopic today, and that is expected to increase to 50% by 2050. For CooperVision, we have a robust product portfolio, ongoing product launches, a fast-growing myopia management business, and our fit data remains very strong, so we remain very bullish on our future.

Moving to CooperSurgical, we posted another strong quarter led by double-digit growth in our fertility business. Our OB/GYN medical device portfolio also returned to growth, and our stem cell storage business posted a solid quarter. We did have some unexpected weakness in PARAGARD, but believe our performance tracked the broader IUD market, which hasn't rebounded as fast from COVID as other areas. Walking through each of these, let me start with fertility.

Fertility posted sales of $114 million, up 15%. Strength was seen throughout our product portfolio of consumables, capital equipment, genomics and donor egg activity. Particular strength was seen from our RI Witness products, which comprise our proprietary automated lab management system that clinics implement to maximize safety and security by optimizing their lab practices, along with strength from our AI-based genetic testing, which doctors use to select the best embryo transfer.

Moving to our office and surgical category. We posted sales of $162 million, down 1%. Our OB/GYN medical devices grew 3%, which was strong given this is the area where we were most impacted by global supply chain challenges. Particular strength in this business unit was seen within our labor and delivery portfolio, and laparoscopic closure products.

Moving to our stem cell storage business that we entered with the Generate acquisition, sales grew 5%. There is a ton of activity right now integrating this business into CooperSurgical, and it's going well. The teams are seeing early success on commercial synergies, and they have some exciting ideas to drive additional growth synergies, so I remain bullish on our future in this space.

Lastly, on PARAGARD. Sales were down 6% for the quarter, and we're continuing to see softness in the market. This certainly doesn't appear to be product specific as the entire IUD marketplace has remained under pressure with lower volumes driven by lower patient flow and what we believe is a temporary shift in buying behavior to birth control pills with telemedicine. We're closely monitoring the market and we remain cautiously optimistic we'll see a return to pre-COVID levels as we move towards the end of the year.

To wrap up on CooperSurgical, let me highlight a few key takeaways. First, we're seeing success from our Generate acquisition, both on the fertility and stem cell storage parts of the business. There are a lot of commercial synergies that we're capitalizing on, and this acquisition is certainly looking like a success right now. Second, our fertility business continues to perform extremely well. This is a solid growth industry with strong macro trends, and we continue forecasting long-term market growth of 5% to 10% with us in the upper part of that range. Lastly, our team has completed 6 acquisitions since the beginning of last fiscal year and they've maintained market-leading customer service and strong sales, even while integrating these businesses and managing through significant supply chain and logistics challenges, so impressive performance.

To conclude, we operate in recession resistant industries with strong macro growth trends. Additionally, significant amounts of our sales are annuity in nature. So we need to be resilient in times like this, investing intelligently to capitalize on growth opportunities while ensuring we're advancing our infrastructure projects to support our growth. We'll remain sensitive to the challenges facing us and be proactive managing our businesses, maintaining a focus on delivering long-term shareholder value. This includes continuing to make progress on our ESG initiatives. We just released our second ESG report which highlights progress in several important areas, and you can find this report on our Investor Relations page.

And lastly, I'd be remiss if I didn't thank our fantastic employees. It's their hard work and dedication that drives our success and makes Cooper such a special place to work, so a big thank you to all Cooper employees.

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

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

Thank you, Al, and good afternoon, everyone. Most of my commentary will be on a non-GAAP basis, so please refer to our earnings release for a reconciliation of GAAP to non-GAAP results.

Second quarter consolidated revenues were $830 million, up 15%, or up 10% organically. Consolidated gross margin was 66.7% down 140 basis points from last year driven primarily by currency. Operating expenses grew 18% and were 42.2% of revenues, primarily as a result of the acquisition of Generate Life Sciences and higher R&D investments. Consolidated operating margin was 24.5%. Within this, we did see challenges from supply chain and inflationary pressures, but our teams did a nice job managing costs and price increases and continuing efficiency improvement initiatives, such as the consolidation of CooperSurgical's production into Costa Rica, helped offset the impact.

Interest expense was $10.8 million, and our effective tax rate was 13.7%. Non-GAAP EPS was $3.24, with roughly 49.7 million average shares outstanding.

Year-over-year FX negatively impacted earnings by $0.53 in the quarter, which was $0.15 worse than we forecasted at the time of our last earnings call. One point to mention is that a large portion of the quarterly FX loss was from the remeasurement impact of yen and euro based intercompany trade receivables. These remeasurements happen every quarter and the net amount is usually relatively small; however, significant currency moves towards the end of the quarter resulted in a larger loss in "other income and expense".

The other unusual item from this quarter was the operating loss from our contact lens solutions business of roughly $0.05. To add some color to what Al mentioned earlier, this has not been a profitable business for us this year. We had a recall in Q1 which resulted in low sales and an operating loss. We expected the business to rebound in Q2, but continuing supply chain challenges prevented that, and Q2 sales were only $4.4 million with a roughly $2.7 million operating loss. From a non-GAAP perspective, we recognized and excluded many costs from the shutdown decision this quarter, but the business remains operational so activity remains in our non-GAAP P&L and will remain so until we exit the business at fiscal year-end.

Returning to the quarter, free cash flow was $88 million, net debt decreased $125 million to $2.86 billion, and our adjusted leverage ratio reduced to 2.59x. Net debt decreased by more than free cash flow due to the positive impact from closing the SightGlass Vision joint venture.

Moving to guidance, we're increasing our revenue growth ranges for CooperVision and CooperSurgical to include our Q2 results and the strength we're continuing to see in our markets, offset mostly by the impact of currency. For EPS, we're updating our guidance to reflect the negative impact of currency and interest rates but holding it unchanged outside of that. Outside of that, there are a number of moving parts, but ultimately positives such as higher revenues, efficiency efforts, and a lower effective tax rate are offsetting supply chain, inflationary pressures, and the negative impact of the solutions shutdown.

This all results in a consolidated revenue guidance range of $3.280 billion to $3.312 billion, up 9% to 10% organically, with CooperVision revenues of $2.225 billion to $2.247 billion, up 10% to 11% organically, and CooperSurgical revenues of $1.055 billion to $1.065 billion, up 6% to 7% organically. Non-GAAP EPS is expected to be in the range of $13.09 to $13.29. For interest expense, we're assuming a 50-basis-point increase in both June and July, and a 25-basis-point rate increase in September. Regarding currency, the year-over-year impact from FX is now a roughly 5% headwind to revenues and a 14% headwind to EPS. Although we don't provide quarterly guidance, with a number of moving parts, let me add that we expect Q3 earnings to be similar to Q2 driven by the significant negative impact of currency for the quarter. We also forecast a large increase in interest expense in Q3 but expect that to be offset by a lower tax rate. For Q4, we expect a rebound in EPS, led by a lower pound flowing through our cost of goods, helping CooperVision's gross margin.

And note, this guidance does not include our pending acquisition of Cook Medical's Reproductive Health business. That transaction is still pending regulatory approval and we'll update you once we're closer to completing that process.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Matthew Mishan with KeyBanc.

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

A lot of moving pieces here, but I'll start with a bigger macro piece. Are you guys seeing any kind of change in consumer activity due to the inflation that we've been seeing?

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

I think, Matt, it's a little different depending upon where you are around the world. Because some markets are obviously "back" like the U.S. and then other markets are in situations where it's quite a bit more restrictive. But as of today, I would say, we have not seen a lot of consumer activity changes because of inflation. I wouldn't highlight that as something that we've really seen.

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

Okay. And then I'm not sure if I missed it or not, but what is your expectation for myopia control this year as far as the $100 million goes? And how much of that $100 million was China, I guess, including the Ortho K?

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

Yes, I won't break out all the China details. The thing that's hurting us probably more than anything right now ends up being currency because that's impacting a lot of our sales around the world. I think we still have a chance to get to that $100 million even in the face of currency, and even in the face of the China shutdowns that we've seen in Shanghai that have negatively impacted the MiSight launch over there. It's negatively impacted our sales. But we have so much strength with MiSight, especially here in the U.S. and throughout Europe that I think we still have a chance to get to $100 million. Maybe, it's because of currency, it's $95 million to $100 million when I roll in currency in China and everything else, but I'm not giving up right now on the possibility of getting to $100 million.

Operator

Our next question comes from Larry Biegelsen with Wells Fargo.

Lawrence H. Biegelsen ***Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst***

Just one on Cook Medical and one on the EPS guidance for Brian. So Al, just an update on Cook Medical deal and next steps, confidence that the deal will close in late calendar '22. And do you expect potential divestitures? And have the economics changed, the accretion change just from the old economics, just a different starting point? And I have one follow-up.

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

Yes. I'd love to give you some more information on that, Larry. Unfortunately, I don't have much to give. We're in discussions right now with the FTC to try to sort things out and get that thing moving forward quickly and hopefully getting it closed. So, there's not much to add outside of that right now. As soon as we know more, and as we start making progress to get resolution and try to get that closed, I'll certainly update everyone.

Lawrence H. Biegelsen ***Wells Fargo Securities, LLC, Research Division - Senior Medical Device Equity Research Analyst***

Fair enough. And then, Brian, could you bridge, there's a lot of moving parts, kind of the old EPS guidance to the new EPS guidance? I mean you gave the pieces, but can you give the numbers? How much worse is FX from an EPS standpoint, interest, the contact lens solution, just kind of the pieces you called out? Can you kind of give us some numbers on that and tax?

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

Yes. Sure, Larry. The midpoint of our last guidance was $13.95. The FX detriment to Q2 was $0.15. The second half FX detriment is $0.41. And the interest expense degradation from the Fed increasing rates 50, 50 and 25 basis points is $0.20. So, your $13.95 gets brought down to $13.19, solely from FX and interest expense. And what we said was higher revenues, the efficiency efforts that we're undertaking, and the lower tax rate helped to offset the supply chain and inflationary pressures as well as the lens care exit disruption that we're likely to see in the back half of the year.

Operator

Our next question comes from Jason Bednar with Piper Sandler.

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

Al or Brian, when I'm looking at the model and really trying to update for the, I guess, the implied margin outlook for the year, it looks like maybe we settle out around 25% for adjusted operating margins this year. Maybe I'm off a little bit. I'm just trying to go back to the envelope here quick. But that's obviously come down quite a bit for FX. I mean how much do you think you can get back purely from pound and foreign weakness that could flow through next year? And then are there any cost actions or spending decisions you can make on SG&A to recapture what's been lost here in fiscal '22?

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

Yes. The pound is a 6-month lag. So, we're going to get some benefit from the pound in the fourth quarter. So as the pound weakens, that certainly has a nice impact to cost of goods. We'll have to see what happens on revenues. Obviously, the impact to revenues this year has been so significant. So, any move in the right direction significantly helps. Now when you look at your operating margin of around 25%, yes, I would say that's in the ballpark, that certainly fits within the guidance that we've suggested. That's really just being driven down primarily by currency. We're certainly going to get some OpEx leverage from more of the integration efforts that we're undertaking. We've been accelerating our integration efforts. Al mentioned the 6 deals we did since the beginning of last fiscal year. We've moved faster to integrate Generate, as an example, fertility is integrating faster.

But in general, we're integrating those more quickly. Generate's going to get some more OpEx leverage next year and then just the continued moves that we're making around Costa Rica. You'll get the full benefit next year. We put a power plant in place in Puerto Rico. That will help gross margin next year. So I'd say overall, gross margin should be up on a constant currency basis within both divisions at least a little bit next year and operating margins, we should get some leverage out of OpEx next year on a constant currency basis.

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

Okay. All right. That's helpful. That's very helpful. And then maybe just as a quick follow-up, Brian. I know many of us haven't experienced interest rate movements like what we've seen and are expecting to see here this year. Your variable rate debt has been great for multiple years. But I guess just the question here is, is there a philosophical change on converting that floating rate debt that you have to fixed and avoid some of the sensitivity that the variable rate debt creates if the pace of rate increases accelerates even further?

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

For now, the decision is to really stay the course. Just like currency, interest rates are going to move and bounce around. Our first priority with respect to capital allocation is to pay down debt. So we're going to generate a decent amount of free cash flow in the back half of this year. That will go towards paying down debt and investing back in the business like into CapEx. But we're still going to be able to take out a decent chunk of debt in the back half, and that will continue next year. So we'll have to see how things play out. But for now, we're going to stay the course. And as everybody knows, we have $1 billion hedged at fixed for another several years. As we take down [the floating rate] (added by company after the call) debt, it will help offset some of the interest rate moves.

Operator

Our next question comes from Chris Cooley with Stephens.

Christopher Cook Cooley ***Stephens Inc., Research Division - MD***

Just 2 for me, if I may. First, just near term, when we think about just the margin structure there. You had an acceleration in daily silicon hydrogel sequentially just in terms of the growth rate. So as we think about the mix kind of going into the back half of the year, ex currency, can we start to think about a little bit better margin profile overall with growth in myopia management as well as some of these premium offerings just within the broader CVI portfolio?

And then just for my follow-up. Just a little bit curious that maybe I didn't catch this in the prepared remarks, but you mentioned an improvement in the outlook for PARAGARD as we're exiting the fiscal year. But wasn't sure if you now expected to see actual growth year-over-year in the franchise. And so just trying to think about how to square that as we trend through the back half of the year.

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

Sure, Chris. I'll take the PARAGARD. I'll let Brian comment on the margins for Vision in Q3, Q4. For PARAGARD, we're going to see a pretty sizable year-over-year decline in Q3. You may remember, we took a price increase last year in Q4. So, we had some buy-in associated with that. What you're going to end up seeing in Q3 and Q4, will be on a year-over-year comparison basis, a decent decline in Q3 and then strong growth in Q4. So that's just how the numbers are going to play out. What we're seeing some right now is a lack of patient traffic basically is hurting IUDs.

And we think that's going to start to improve a little bit here because one of the things we've seen historically, and we believe we're seeing now, is you'll see when this is happening, some of the channel inventory gets burned down, that's out in the field. And then that, at some point, levels off, and at some point, even increases back up. So we think from a channel inventory perspective, and we think from improvement in just patient traffic in OB/GYN offices, we'll start to see a general increase here as we get into Q4. But yes, expecting a challenging quarter, if you will, in Q3, certainly from a comp perspective and even patient traffic and then starting to improve some in Q4.

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

On the gross margin question, I would say that currency is just having a bigger impact on margins in the back half of the year than really anything else. I mean certainly, there are puts and takes when you look through FX. Myopia management is a positive to gross margins, but we're seeing a really rapid acceleration back into daily SiHys. And so that puts a little bit of pressure on our gross margins. So that would be kind of one of the offsets. I'd say in Q3, we always have a little bit of negative manufacturing variances that hit us in Q3 from shutting down our lines in the first fiscal quarter of the year. So that's going to be a little bit of a headwind. And then you get some benefit, like I said, in cost of goods from FX in the fourth quarter, and the business is going to be performing really well in the fourth quarter with strength in both businesses. So I would say nothing really tied to myopia management, but the puts and takes are those couple of elements.

Operator

Our next question comes from Jon Block with Stifel.

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

Maybe just first on CVI, a solid increase in the CVI organic growth for fiscal '22. I guess sort of a couple of questions in here. It seems like 100 bps of that roughly is exiting the solutions business, if I have that right, Al or Brian, maybe you can comment there. And then, Al, if you can just talk to how price is trending in the market for fiscal '22 and how that compares to prior years?

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

Sure. Yes, you're right on the solutions side of things. That's about 1 point, right, going 44 to 20. So when you remove that, you pick up a point. And then outside of that, you have several different positives. I think price is a positive. We took some price at the beginning of this year. Frankly, we don't have it in guidance, but we'll probably take some additional price is my guess as we move through this year to offset some of the inflationary pressures. And then you have, as Brian alluded to it, growth in daily SiHys. I mean we're just really strong in that market. We have the best portfolio in the daily silicone hydrogel marketplace. So you're getting good growth there. And to be fair, when we did our last earnings call in early March, it was 1 week after Russia invaded Ukraine. We probably had a little conservatism in the back half of the year in our Q3, Q4 organic growth rates for CooperVision. We've worked through that. We're continuing to see nice trends in all 3 geographies and with all of our markets. So taking up guidance even as much as we did, seems to make a lot of sense.

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

Got it. That's helpful color that. And then I'll actually shift gears and move over to CSI and more specific fertility. Now I'd just love your thoughts. Really solid fertility numbers, but your thoughts on the consumer, call it, for this segment. So expensive treatment on one end, but then on the other end, call it sort of a finite window for that individual in their childbearing days. So if inflation just continues to spiral out of control, we get a weakening consumer over the next 12 to 18 months. Just your thoughts on fertility and what it means for that particular business.

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

Yes. So as of now, we haven't seen anything. And I think you're spot on when you talk about a limited window. So when a woman decides she wants to have a baby, time is her enemy. You need to go in and go through the IVF process as soon as you can, trying to have a baby. So a lot of times, the cost ends up being secondary. This is one of those areas where cost is secondary to the actual process itself. The other thing is you've just got a [good] (added by company after the call) industry. Fertility as an industry is a pretty high-growth marketplace. So when we look at the number of new clinics that are coming on, when we look at upgrades within existing clinics for capital expenditures and so forth that are growing on, when you look at all that activity on top of the fact that going through fertility treatments is becoming more common, more accepted and so forth, you're seeing just really strong underlying growth of the industry. And, as you know, we do well in that space, so we participate in that growth. And I think even if you get in a situation here where the economy moves closer to a recession or even into a recession, that will be a very recession-resistant industry. We've seen that in the past. I don't see any reason that would change right now.

Operator

Our next question comes from Joanne Wuensch with Citibank.

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

Ask the same question for contact lenses, as you just answered for women's health. Historically, that's been also very recession resistant. Do you feel the same way about that in the current environment?

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

Yes, Joanne, I do. I've been doing this a long time, so we've been through several recessions, and we've seen contact lens growth come back a little bit in some of the recessions. But frankly, even when it comes back as a market, it's still kind of a low single-digit grower. I think even in some of the worst parts of prior recessions, we were still kind of a mid-single-digit grower. So with the underlying fundamentals there, I'd say, similar to fertility in that more people are becoming myopic, right? 1/3 of the world is myopic today. It's going to be 50% in 2050. And the underlying growth factors for vision correction are just powerful. They're just there. It's just happening. So regardless of what happens with respect to the economy, people are going to need visual correction. Now there could certainly be a little bit of a difference in terms of what people are buying, right? Is everyone going to buy some of the highest-priced daily silicones hitting the market? Or do they buy some more Biofinity or do they buy some clariti or something else. There could be a little shift in buyer behavior, but underlying growth is going to remain there, even in any recessionary type of environment. Contact lenses are a great industry to be in from that perspective.

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

And a follow-up question. Historically, at one stage, you had a foreign exchange hedging program. I don't believe you have that currently. Are there thoughts to put that back into place?

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

Joanne, yes, I instituted that program in 2006, and I think we ceased it around 2011 or '12, but it's been several years now. We just made that decision a long time ago not to hedge because not only is it costly, but it also requires resources and it's time consuming. But unless you're going to manage your business differently, all you're doing is delaying the inevitable. If you're hedging something, you know what to expect some period of time ahead of time. So unless we're going to change the way that we're going to operate our business from doing hedging, it ends up being not worth the time or the effort or the cost to do it. So now that the yen is where it is and everything is kind of in a bad place, it'd probably be a horrible time to start hedging. Of course, it could still continue to go in the wrong direction. But I'm a bit of an optimist. Hopefully, we get a little bit of relief here over the next couple of quarters. But no, there's not going to be any change to our hedging strategy.

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

Yes, I'd add on that one, quick add, which I don't know if everyone saw it or not. But as we were working through this and talking about the script and reconciling things and so forth and the FX loss that was in our other income and expense. It was interesting today that Microsoft just came out and made a statement about that and talked about the impact from the exact same thing we saw in the month of April. So I don't know if other people will see it, but Microsoft announced it today, and we had the same thing happen. So it won't surprise me if you see it from some other people.

Operator

Our next question comes from Jeff Johnson with Baird.

Jeffrey D. Johnson ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

I always want to make sure I understand this. But when you talk about 12% market growth for you guys or for the market in Q1, calendar Q1, and you go to 16%. That 12%, I'm assuming this time you're getting to that by just kind of looking at the 4 companies growth rates. Is that right? It's not like a CLI data end market kind of number that's looking at kind of the 4 companies?

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

Yes, true growth of the market, if you will, right? Because CLI is gross data rather than net data. So it doesn't take into consideration discounts and GFK doesn't capture the whole market, all that kind of stuff. So yes, I have a tendency to just look at what a company is actually reporting.

Jeffrey D. Johnson ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Yes, I would agree. And I think when Alcon was talking in their quarter about like mid-single-digit market growth, they were in CLI and GFK and that was looking more sell out and you're looking at more kind of, if you will, sell in for you guys to the distributors or to the end market?

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

That's correct. Yes.

Jeffrey D. Johnson ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Yes. Okay. And then on that point, you're 16% and even your daily SiHy number, probably a little stronger than we were expecting here this quarter. I think we've been hearing a little bit of increased chatter around things like PRECISION1 and things like that, but you guys seem to be holding in well there. So just with the update you're seeing kind of competitive environment, especially with some of these new products rolling out from especially Alcon but some others.

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

Yes. Alcon is doing really well. They have a big portfolio of legacy wearers that they'll be trading up, and they'll be trading up, I'm sure, for a long time. I think that the story remains the same to some degree, if you will, for us, which is we don't have as large a legacy portfolio to trade up. But we're winning our fair share certainly of new fits. So I think that's probably the differentiator. When you're talking about new fits, new wearers coming into the market and you're talking about products like MyDay and clariti, where we're certainly winning our fair share of that new fit activity. I think that's the thing that's held up really well. It continues to hold up well based on the latest data I've seen, which is a really good sign for us because, frankly, that's where we need to get a lot of our growth from. We can't get as much from trading up legacy wearers. So we have to be able to win new wearers coming into the market.

Jeffrey D. Johnson ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Yes, understood. And then the last one I've got just on MiSight. I've got you at about $18 million year-to-date now. It seems like you're going to come short of that $50 million. But just I hear you on still feeling okay, maybe at the $100 million myopia. Where are you at on thinking about the $50 million for MiSight? And then just talk maybe about the stability of kind of those MiSight wearers who are now rolling over into year 1 or 1.5 of where in this macro environment are you seeing any kind of dropouts from those established wearers now on the MiSight side?

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

Yes. I just had the team update the numbers on MiSight for wearers. And it's a little different geographically, but it was running kind of in the 85% to 95% retainage rate, if you will, going into multiyear. So not a lot of change from what we've seen in the past, which I'm really happy to report. And it's working for a very significant number of kids and they're staying in the lens, which is great news. On MiSight, yes, I was kind of expecting $40 million to $50 million this year, depending upon what happened with China. We're still going to be in that $40 million to $50 million. I wouldn't change that range to get to $50 million, we're going to need some uptick in China. I mean we should be farther ahead ideally. A lot of our activity, including some of our distribution activity is literally through Shanghai. So the shutdowns in Shanghai have certainly hurt us. Now the activity when we first launched that in China and first went in there was really strong. It was definitely stronger than I thought it was going to be. So we received some early kind of pickup, if you will, there. And then all of a sudden, it really shut itself down here. Now Shanghai just started reopening a little bit here in the last day or 2. So hopefully, we get some improvement. If we get kind of a snap rebound on that, I still think we could probably move up maybe towards that $50 million. But I think we'll be somewhere in that $40 million to $50 million and I think we still have a decent chance to get to $100 million if the market in China comes back a little bit because we'll pick up a lot of that Ortho K activity. But I still think we'll be at least mid-90s.

Operator

Our next question comes from Zach Weiner with Jefferies.

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

Just one on the strong performance from the Vision Care business. Could you parse out some of the share gains for switch fit versus new fits?

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

I would love to, but no, it's incredibly difficult to get because of trade-ups. So when you get trade-up activity and how it all gets classified in terms of switches and new fits and so forth, and when you look at round on a global basis, it's just viciously difficult to get into. I think that as a general comment, you'd see we're doing really well when it comes to new fits, especially in torics and multifocals. We're certainly doing fine in spheres, but I would say that's where we're seeing strength. But it's hard to get those numbers. I mean even you'll see some stuff from GSK in places, but it's like partial data and only in certain markets, it's hard to get that level of granularity.

Operator

Our next question comes from Andrew Brackmann with William Blair.

Mike Besenjak ***William Blair***

This is Mike on for Andrew today. Maybe just to dig in on your comments a little bit more on the expected FX headwinds and the interest rate impact to the bottom line. Can you sort of just level set us from a strategic standpoint around how you view spending in the sort of environment we find ourselves in. Is this something that will cause you to pull back a little bit? Or what do you do to better balance spending here just given the macro backdrop?

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

Yes. It's a really good question, Mike. I mean we've spent quite a bit of time thinking through that. We ended up saying, the fundamentals of our business, at Vision and Surgical, are really strong right now. We're taking share in the Vision space. We've got a bunch of great products. We're launching products around the world and expanding parameters. We also have a lot of good things going with fertility, and we're gaining some traction on some of our medical devices, and international med device. So we looked at it and said, you hate to take the foot off the pedal. It's hard to get momentum and, now that we have momentum, we really want to keep it. So we ended up saying, we have different factors pushing and pulling on that side of things. And we said, okay, well, if we exclude FX and we exclude the interest rate increases, can we continue to do everything that we want to do as a business? Can we invest everywhere we want to invest? Can we hurdle the solution stuff? Can we hurdle the supply chain and inflationary pressures and everything else? And then you pull that apart, you're like, yes, we've got price increases here. I've got some growing revenue. I've got a lot of different positive cost containment efforts and initiatives that I can net all that kind of stuff out and get myself in a situation where kind of my core margins are even up year-over-year, if you will. But I can't also hurdle FX and interest expense without cutting into some of my momentum and my growth opportunities that are out there. So that's the way we ended up separating it and saying, the fundamentals of the business are too strong to ignore right now. We're not going to hurdle the interest and the FX. Now unlike maybe in prior years, or other companies, when FX goes the other way, we're just going to pass that FX right along back. So I hope that happens sometime soon. That will go right back into our numbers. Interest expense is going to do what it's going to do, as Brian said, we're focused on paying down debt right now. So we're going to generate some cash flow, we're going to pay down debt to help offset that. But that was our strategic thinking, if you will, for the back half of this year and into next year.

Mike Besenjak ***William Blair***

Great. That was really helpful. And then maybe one more. Al, you mentioned some potential synergies that the CooperSurgical team is coming up with during the integration of the Generate acquisition. Is there anything specific you could tell us on those opportunities?

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

Yes, I'll give you an example. We have a labor and delivery group. And we have a very strong sales force within our OB/GYN medical device team, which includes labor and delivery and a couple of other areas. Leveraging that sales force, educating them on what stem cells are and regenerative medicine and so forth and then incentivizing them to help the stem cell business from Generate to cross-sell, and the teams to work together and to help one another be more successful. We've worked through that process. So we accelerated all the Generate acquisition activity. We've worked through that training activity. And we, "if you will", increased our sales force by utilizing our existing sales force, and we're seeing some positives from that already. And I think that as we move through the back half of the year, I think we'll continue to see positives from that. So those are the kind of synergies that I'm talking about that we're starting to find and to implement.

Operator

Our next question comes from Robbie Marcus with JPMorgan.

Robert Justin Marcus ***JPMorgan Chase & Co, Research Division - Analyst***

Free cash flow came in a bit weak in the quarter. I was hoping maybe give us a sense of what drove that. How much is due to currency versus deal integration? How do we think about free cash flow for the balance of the year?

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

Yes. So I mentioned the $88 million of free cash flow. It was impacted interestingly by a $41 million SightGlass Vision cash outlay. We settled a revenue milestone. We bought out a milestone tied to a contingency of revenues, and that cash outflow was a negative to operating cash. And so, we had been remeasuring that contingency last year, and that was hitting OpEx, and we were calling that out as it was being remeasured in OpEx. And so now when you're paying it out, it ends up being a detriment. Even though, by the way, we received more than that from SightGlass as part of closing the joint venture and part of getting the money from them to help support the 50% payment of this buyout. So that was a big part of it. Obviously, you've got FX and lens solutions, cash cost tied to shutting that down. And then just some higher inventory costs just with raw materials purchases and just trying to get ahead of some things. So, the amalgam of all that was resulting in an $88 million. But expect still strong free cash flow in the back half of the year. With CapEx really just being one of those things where I'd expect CapEx is going to inflect up a little bit in Q3 and start to trend a little bit higher. The demand is really, really strong for our lenses right now. We've got basically very little idle costs, and we're utilizing all of our equipment. So, we want to make sure that we stay ahead of the game and buy equipment, and we're putting some into production. So, we'll continue to do that, and you'll see CapEx come up in the back half of the year but see free cash flow is still looking really solid as we round out at the end of the year.

Robert Justin Marcus ***JPMorgan Chase & Co, Research Division - Analyst***

Great. And I just wanted to follow up. I think it was Joanne who asked a question about hedging before. And I was hoping you could expand on it a little bit. 5% top line impact from FX is kind of what we're seeing across the board in med tech, but 14% is probably the most significant impact by far that we're seeing. So how do you think about just when you set out your guidance, do you plan it in constant currency or reported? Why are you, I guess, leaving FX as a risk for the business? And any natural hedges you can do to offset that over time?

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

Yes. Robbie, that's a good question and a lot there to unpack. But the long story short is we do have some natural hedges in our business, but they're fairly insignificant in the grand scheme of things. When you look at what's been really moving, even just from last quarter to this quarter throughout the P&L, this was a story of the yen and euro and pound hitting that impacted revenues. But with the yen moving so significantly weaker, we have very little to offset that. Our OpEx in Japan is very, very low. So the flow-through is immediate and it's significant. And we have that play out throughout Europe and other currencies. We talked about in the second quarter, the majority of the delta of $0.15 from last quarter's guidance to this quarter's guidance, stemmed from intercompany. And as Al mentioned earlier, Microsoft mentioned that today that $50 million impact that they experienced was just balance sheet stuff. You're remeasuring intercompany trade balances from one month to the other, you might settle that every 30 days. And typically, that doesn't result in a very significant loss to the bottom line because you have pluses and minuses. But in this case, those balances are always there. There was a big impact towards the end of the quarter, and that made up a large part of that $0.15. And so, like I said before, and we've said in the past, currency sometimes is in your favor, sometimes it moves against you. When currency starts to move in our favor, that will be a big positive to us, and you'll see a big impact move the other way. When it comes to setting our guidance, we take a look at our forecast, and we apply roughly current rates, and that's what you get. And so that's what we tell you is the headwind. So, there isn't any magic around it. That's how we arrive at the guidance.

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

Yes. Robbie, to add a point on that. The 5% and 14% that you're highlighting with the delta being abnormally large between that, that's misleading because we're the same as every other company in terms of that delta. One of the primary differences for us from a lot of different companies is our FX gets capitalized within our cost of goods, and it turns through inventory 6 months later. So, we're not getting any of the positives within our manufacturing from the change in the pound. All we're seeing right now basically is negatives coming from inventory. And the only offset is OpEx. The pound starts flowing through at the end of our fiscal year and into next year. And all of a sudden, that's when you get the bigger offset from currency. So, it's a little misleading the 5% and 14%, that's happening because it's all happening within a fiscal year. If you stretch it out over a full year, it wouldn't be that dramatic of a difference. It would be very similar to what you see from other companies.

Operator

Our next question comes from Steven Lichtman with Oppenheimer.

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

Just, I guess, outside of the solutions business, how much are supply chain inflation impacting you guys on the bottom line this year? And do you see second half similar to first on that front, better? Any comments generally would be helpful.

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

Yes. Solutions is a little bit different of an animal with the plastic that you need to purchase and so forth for the solution bottles and so forth, that's been a challenge for us. There's no question about that. We're working through it, and we've actually made some progress on that, but that has definitely impacted us. Now we're shutting that business down at the end of this year but we're trying to take care of our customers. We did have a decent operating loss in Q1 from that business. We had a decent operating loss in Q2. I think in Q3 and Q4, where we're at now, we made the decision and are working to right size things very quickly so revenues probably hold fairly stable as we supply as much as we can to our customers. And then because of rightsized infrastructure, we probably get to a neutral operating profit or no operating profit in Q3, Q4.

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

Okay. Got it. Brian, you mentioned tax rate as an offset. What are you guys assuming now in the guidance for the year?

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

Around 13%. So, coming down from around 14% to around 13%.

Operator

Our next question comes from David Saxon with Needham & Company.

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

Maybe on 2 CVI, starting with MiSight. Just wondering what inning you are for MiSight trending in the U.S.? And how are you thinking about MiSight pricing in a potentially recessionary environment?

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

Yes. We're still, as far as I'm concerned, in the first inning when it comes to MiSight. We are just very early in what is going to be a very large myopia management marketplace. And we're going to have a number of additional products coming out. We just expanded the parameter range on MiSight. So I'm excited about that. You're going to see more products coming out of R&D continuing to expand and grow. And I think the industry is just going to continue to grow because anywhere you go right now within the ophthalmic space, you're seeing everyone talking about myopia management, and what that means, how they can build it within their practices, how they manage it and so forth. So, it's exciting that you're seeing eye care practitioners saying, hey, I have a way to treat this disease. I can tackle this thing, and I can help kids, and I can help society and benefit everyone. So, we're definitely gaining some momentum there. So, we're very, very early in that process. Pricing to me is that we haven't made changes in pricing. I mean, if anything, I think in some spots around the world, we've taken pricing up a little bit. We have a fantastic, FDA-approved, strong clinical product that works, and it's the only one in the market out there right now that's doing that as a contact lens. So, from our perspective right now, we'll continue with pricing roughly where it's at.

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

Okay. That's helpful. And then you did call out the growth in your branded products. So just wondering, are you seeing anything new in the key account segment or if that's just strong underlying branded growth?

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

Yes. We talked for a while about a lot of the growth being driven by more of our customized solutions, the customer brands and so forth. We've seen a little bit of shift in that more recently. Some of the products, MyDay, in particular, Biofinity also, the torics, the multifocal, a lot of which gets sold through private practitioners and so forth. A lot of that strength we're seeing from more traditional branded products. So that's a really good sign. I'm really happy to see that. It doesn't really surprise me, but it's still nice to see.

Operator

And at this time, I'm showing no further questions in the queue. I'd like to hand the conference back over to Mr. White for any closing remarks.

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

Great. Thank you, operator, and thank you, everyone, for attending today's call. And we appreciate your time and so forth and look forward to updating everyone again in September on our next earnings call. So thank you. Appreciate it.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.