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PRESENTATION

Operator

Good afternoon. At this time, I would like to welcome everyone to the Q1 2024 CooperCompanies Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to Kim Duncan, VP of Investor Relations and Risk Management. Please go ahead.

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

Good afternoon, and welcome to CooperCompanies First Quarter 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. 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 revenues, EPS, operating income, tax rate, FX and other financial guidance and expectations, strategic and operational initiatives, market and regulatory conditions and trends, and product launches and demand.

Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption forward-looking statements in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K and Form 10-Q filings, all of which are available on our website at cooperco.com.

Also, as a reminder, the non-GAAP financial information we will provide on this call is provided as a supplement to our GAAP information. We encourage you to consider our results under GAAP as well as non-GAAP and refer to the reconciliations provided in our earnings release, which is available on the Investor Relations section of our website. Should you have any additional questions following the call, please e-mail ir@cooperco.com.

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

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

Great. Thank you, Kim, and welcome everyone to CooperCompanies 2024 Fiscal First Quarter Conference Call. We're off to an outstanding start this year posting all-time record quarterly revenues of \$932 million. CooperVision started the year on a solid note, growing nicely around the world and CooperSurgical achieved record quarterly revenues with our fertility business posting its 13th

consecutive quarter of double-digit organic growth. Our earnings were strong, and our momentum is excellent with capacity expansion progressing well and demand remaining very healthy.

Moving to the quarterly numbers, and reporting all percentages on an organic basis, consolidated revenues were \$932 million, up 8% year-over-year. CooperVision posted revenues of \$622 million, up 7%, led by strength in our daily silicone hydrogel portfolio, and CooperSurgical posted revenues of \$310 million, up 8%, led by another great quarter in our fertility business. Margins improved and profits were solid with non-GAAP earnings per share of \$0.85, remembering that we just completed a 4-for-1 stock split last week.

For CooperVision, the Americas grew 6%, EMEA 10%, and Asia Pac, 7%. All 3 regions reported success with our innovative product portfolios, market-leading flexibility, and growth in key accounts.

Within modalities, our daily silicone hydrogel lenses, MyDay and clariti, grew 14%, and our silicone hydrogel monthly and 2-week lenses, Biofinity and Avaira Vitality grew 6%. We're continuing to see outsized demand, especially for MyDay, where our capacity is improving, and this is reflected in our higher revenue guidance that we'll cover shortly.

Turning to products, we're seeing very strong growth and demand with MyDay. Starting with MyDay multifocal, our momentum is truly fantastic. The unique combination of an advanced multifocal design, paired with an easy fitting system is resulting in 98% of patients being fit in 2 pairs or less. And patient feedback continues to be outstanding, including my own. As many of you know, I wear these lenses and they're amazing. Whether I'm looking at a screen for long hours, driving home, eating out, or doing anything else, my vision is crisp, and my eyes feel great. I'm comfortable saying these are the best multifocals in the market and our outstanding growth and strong demand certainly supports that. Moving to MyDay toric, this lens is also performing extremely well. The rollout of our parameter expansion across North America and Europe has been a tremendous success, and we look forward to increasing availability as capacity improves. Demand for the product continues to be driven by our market-leading toric design, which mirrors Biofinity's design, and our industry-leading SKU range, which is by far the widest toric range in the daily market. And in our MyDay sphere portfolio, MyDay Energys is approaching its 1-year anniversary in the U.S. market and it's continuing to generate great results. It's innovative DigitalBoost technology delivers optics designed for today's lifestyle, where on average people spend more than 7 hours per day on screens and wearers love it. Meanwhile, our premium MyDay sphere is also posting great results. To wrap up on MyDay, our team has done a phenomenal job supplying existing customers while keeping expectations in-check on new product launches and geographic expansion. I'm now happy to report that our success expanding capacity is easing some of those constraints and allowing us to be more active moving forward. Moving to clariti, with its full family of silicone hydrogel spheres, torics, and multifocals, we're continuing to do well. The comfort, ease of handling and price positioning have led clariti to be a lens of choice for many new wearers.

Outside of dailies, demand for Biofinity remains strong led by torics and multifocals. It's worth highlighting our Biofinity toric multifocal which is growing very nicely as eye care practitioners continue making it their primary lens for patients experiencing more complex vision needs balancing presbyopia with differing levels of astigmatism. We'll be expanding availability of this lens in existing markets and launching in new markets soon, so we're excited about that. Avaira also had a nice quarter, led by torics.

Moving to myopia management, we posted revenues of \$29 million, up 19%, with MiSight up 51%. This was another excellent quarter for MiSight powered by growth across all regions with particular strength in EMEA where we posted record quarterly sales. Worldwide we're continuing to see momentum in key accounts, high retention rates, and a nice halo effect. We're also launching new digital tools and programs to streamline the fitting process making it easier and quicker. MiSight remains the first and only FDA-approved contact lens for myopia control, and it's backed by extensive clinical data and real-world results. This is a critical differentiator as the proactive management of myopia become standard of care within the eye care community to help reduce the progression of myopia in children. Outside of MiSight, our Ortho-K lenses declined 10% due to weakness in China. And on SightGlass, you may have heard from our JV-partner EssilorLuxottica that the FDA recently granted SightGlass spectacles "Breakthrough Device Designation." We're excited about this update and we'll continue working closely with the FDA in hopes of obtaining approval in the second half of 2025.

Finally, as we look to expand myopia care to all children, we've launched a pilot program in the U.S. called "Generation Sight" in collaboration with 3 top optometry schools, the Illinois College of Optometry, the New England College of Optometry, and the Massachusetts College of Pharmacy and Health Sciences, to provide myopia care to underserved children. This program engages local

public-school systems to drive awareness and treatment of myopia by providing free eye exams and free MiSight. It also helps optometry students get real-world pediatric experience while increasing their clinical capabilities as they develop into the next generation of professional leaders. As a leader in the myopia management space, we're certainly proud of programs like this that are making a difference with kids in our communities.

To finish on CooperVision, the contact lens market grew 9% in calendar 2023 with CooperVision taking share growing 11%. We expect 2024 to be another strong year supported by the long-term macro growth trend of more people needing vision correction. It's estimated that 50% of the global population will have myopia by the year 2050, up from roughly 34% today. When you combine this with the ongoing shift to silicone hydrogel dailies, the increasing focus on higher-value products, and higher pricing, we expect many years of solid growth for the industry. Within this, we expect to remain a leader with our innovation, robust product portfolio, ongoing product launches, strength in premium toric and multifocal products, fast-growing myopia management business and leading new fit data.

Moving to CooperSurgical. We posted record quarterly revenues of \$310 million, up 8% organically. Fertility sales were \$119 million, up 11%, which is our 13th consecutive quarter of double-digit organic growth. This success was driven by our outstanding team and market-leading products and services within consumables, capital equipment, and reproductive genetic testing. We're also investing for the future - opening new donor sites, providing extensive training in our Centers of Excellence, expanding geographically, and accelerating innovation.

We believe our focus on investing and delivering the most innovative and advanced solutions to fertility clinics and patients remains unmatched. This includes our recent launch of Witness IQ, a cloud-based digital platform that further enhances the benefits of the Witness system to track activity, reduce errors and improve efficiencies in fertility labs. And we remain at the forefront of fertility-based genetic testing.

CooperSurgical was an early adopter of Artificial Intelligence to identify the best embryos to transfer during an IVF cycle, and we're now further advancing our leadership position with the launch of Primary Template-directed Amplification, a new approach to DNA amplification for embryo biopsy samples. As an enhancement to the existing pre-implementation genetic testing process, this technology better identifies genetic anomalies in a faster and more accurate manner. This is the first major advancement to DNA amplification in embryos since 2009 and will help drive better patient outcomes. Delivering these types of innovations is why we're a leader in this space, and it's our commitment to continue this type of work.

For the global fertility market, the trends supporting significant long-term growth remain intact, including women delaying childbirth, increasing patient awareness, greater benefits coverage, technology advancements that improve success rates, and broadly speaking, improving access to treatment.

The World Health Organization highlights that 1 in 6 people globally will be affected by infertility at some point in their lives, so this is an issue that impacts a lot of people and will continue to do so in the future. As part of this, we remain incredibly committed to the fertility industry and will always stand in support of patients and clinics. Access to fertility treatment is incredibly important for so many people, and Cooper will continue to advocate for increased accessibility and the advancement of human reproductive rights on a global basis.

Moving to Office and Surgical, we posted sales of \$191 million, up 6% organically with medical devices growing 6%, stem cell storage up 4%, and PARAGARD up 7%. Within our medical device business, we reported strength in our Labor and Delivery portfolio including the Cook products that we acquired last November that grew 13%. We also reported strength in our minimally invasive gynecological surgery products, which include market-leading disposables and innovative capital such as our Ally Uterine Manipulator portfolio. Our stem cell business had a solid quarter and PARAGARD outperformed expectations with outstanding execution around a mid-single digit price increase.

To conclude our CooperSurgical, we take great pride in being able to say that every minute, somewhere around the world, a baby is born using CooperSurgical products. We're making a difference in people's lives, and that's a big part of what makes this business special for us.

Before turning the call over to Brian, let me say that in addition to our strong operational performance, our efforts around environmental sustainability, corporate social responsibility, and other important areas within our business are also advancing well. So thank you to our 15,000-plus employees around the world for their hard work and dedication as they drive our success.

And now I'll turn the call over to Brian.

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

Thank you, AI, 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 first quarter, consolidated revenues were \$932 million, up 9% as reported, and up 8% organically. Consolidated gross margin was 67.3%, up from 65.7% last year, driven by efficiency gains and price at both CooperVision and CooperSurgical.

Operating expenses grew 8%, improving to 43% of revenues as we continued leveraging prior SG&A investment activity. Consolidated operating margin improved to 24.4%, up from 22.6% led by the gross margin improvement and SG&A leverage.

Below operating income, interest expense was \$28.6 million, and the effective tax rate was lower than expected at 13.3% due to stock option exercises. Non-GAAP EPS was \$0.85, up 18% with roughly 200 million average shares outstanding.

The impact from FX was \$0.03 negative year-over-year for the quarter. Free cash flow was \$5 million with CapEx of \$118 million. As discussed on prior calls, free cash flow continues to be impacted as we progress with our capacity expansion projects. Net debt increased to \$2.6 billion due to closing the Cook Medical acquisition in November.

To summarize fiscal Q1, this was an excellent start to the year. CooperVision and CooperSurgical both posted strong results, and we expect this to continue. We remain focused on exceptional operational execution combined with high return investment activities such as increasing capacity and expanding geographically, and we're confident this will drive significant long-term shareholder value.

Moving to fiscal 2024 guidance, we're increasing expectations for revenues and earnings by incorporating our Q1 beat, better future operational performance, and slightly lower interest expense. This results in full year consolidated revenues of \$3.85 billion to \$3.9 billion, up 7% to 8% organically.

For CooperVision, we expect strong results to be driven by healthy demand and improving capacity. This translates to an increase in our organic revenue guidance to 8% to 9%, which equates to \$2.57 billion to \$2.6 billion.

For CooperSurgical, we expect continuing strength in fertility along with solid performance in our Office and Surgical category. This translates to an increase in our organic revenue guidance to 5% to 7%, which equates to \$1.27 billion to \$1.29 billion.

We're increasing our non-GAAP EPS guidance to an expected range of \$3.50 to \$3.58, up 9% to 12% year-over-year, or up 15% to 17% in constant currency. This guidance assumes roughly \$108 million of interest expense, which includes no interest rate changes by the Fed during the remainder of our fiscal year.

For tax, we're expecting a full year effective tax rate of roughly 14.5% by incorporating Q1 and assuming no additional discrete items.

For currency, rates are very similar to our initial annual guidance, thus the impact to Q2 to Q4 is essentially unchanged and the full-year impact is still roughly a negative 1% to revenues and negative 5% to earnings.

To wrap up, we had an excellent fiscal Q1, and the business is trending well. We're leveraging our prior investment activity, advancing our production efforts, and investing to drive continued growth. Demand and momentum are strong, and that's reflected in our updated

guidance.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Craig Bijou with Bank of America.

Craig William Bijou *BofA Securities, Research Division - Research Analyst*

Congrats on a good start to your 2024. Maybe just start with some of the backdrop on the overall contact lens market. Obviously, still pretty strong. I heard your comments, Al, on the growth of the market. But I'd love to hear a little bit about pricing volume trends. And the transition to daily and just where you guys are with your supply and how you can capitalize on that?

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

Sure. Yes. Absolutely, I'll cover that. Several comments as we think about it. You're correct, the contact lens market is strong right now, and it doesn't show any indications of slowing down. So we, as an industry, are in pretty good shape.

When you look at pricing and volume trends and the transition to dailies, those are the hot points that are driving the market. And it does go back really to the transition to dailies. That's one of the biggest drivers. As the market continues to shift to dailies away from the 2-week and monthly modalities, that's driving growth of the overall marketplace. And that's continuing to happen, and it has many, many years, in front of us.

From a pricing perspective, you're continuing to see positive pricing. We saw that through the price increases in Q1. I think you're going to continue to see price increases as we move forward given where the market is right now.

Volume trends, if you take that in terms of wearers, we are seeing wearers increase. The number of wearers around the world is increasing at a modest pace as it does consistently. So you have that underlying the growth, but then the transition to dailies and pricing being a big component of it.

The other thing that I want to mention is the growth in torics and multifocals. You see that in our numbers because we report it. But as a market, you're seeing a lot of growth in torics and multifocals. Those are higher-priced products that are doing really well, and they're going to continue to grow because they're underpenetrated throughout the world.

So you have a lot of potential for future growth in torics, multifocals, and when I roll that into dailies and we talk about what's hitting the marketplace now with daily torics and daily multifocals, that supports even more so the strong market growth that's out there.

From a supply perspective, we're in a much better spot than we were when we were talking to start this year. We made a lot of progress. My hats off to the team. We have a fantastic manufacturing team within CooperVision, and they've made some tremendous progress over the last quarter. So we're in a much better position to be able to support our existing customer base and also be able to launch products, new products, and geographic expansion.

Craig William Bijou *BofA Securities, Research Division - Research Analyst*

Got it. And if I could just follow up on the fertility environment. And obviously, you guys had pretty strong growth again, double digits. Obviously, there's a lot of headlines around IVF fertility. And some companies calling or pointing out that benefits may be getting pushed.

So I guess I just wanted to ask you, the benefit environment, and it sounds like the overall environment for fertility is still very strong trends. But any reason to think that you can't continue to do the double-digit growth?

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

You're right, fertility is getting a lot of headlines. Now that's largely a U.S.-based thing because it's tied to Alabama and the court ruling. I won't get on my high horse with my frustration about what's going on there. But obviously, as a big player, we support fertility and all the patients and all the fertility clinics out there and we'll continue to do so.

So there is some commentary that's out there more in the U.S. market than anywhere else around the world. When I look at the global fertility market and how we're doing, I would only put so much weight on that because I think at the end of the day, the fertility market will continue to be really strong. And we'll see how we do quarter-to-quarter. But we're going to continue to post double-digit growth for a number of years, I believe. The underlying characteristics of that market are just too strong and are going to support a lot of growth for many years in front of us.

Operator

Our next question comes from the line of Larry Biegelsen with Wells Fargo.

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

I'll echo my congratulations on the quarter here. Al and Brian, I actually wanted to start with margins and then one on CSI. So Brian, the gross and operating margin were up nicely in Q1. How do we think about the gross margin and operating margin for fiscal 2024 and the phasing? It seems like we could see upside to the margins based on what's implied in the guidance from what I can tell.

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

Larry, thank you. The story is largely pretty similar to the commentary we provided last quarter. Outside of the FX piece, which is negative to us on revenues, and EPS, and OI, and cost of goods, we're still holding gross margins pretty similar to last year. So it will depend a little bit on product mix as you work through the year. It will bounce around a little bit, but I'd expect that we'll land somewhere in the neighborhood of where we ended last year on an as-reported basis from a gross margin perspective.

Operating margin, we've taken up our implied constant currency OI growth to 14% to 17%. So we're effectively increasing our operating margin a touch from where we had guided last quarter. But yes, I would expect operating margins to be up on an as-reported basis year-over-year, up quite a bit more on a constant currency basis.

And from a gating perspective, I wouldn't really point out anything in particular outside of the fact that FX, as we've been telling people last quarter, is a bit more of a negative in Q2, which is our worst FX quarter, and so it's going to impact us a little bit there.

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

That's helpful. And Al, I had a follow-up on Craig's question on CSI. You grew 8% in Q1 organically, you're guiding to 5% to 7%. So why does growth slow? Are you assuming some slowdown in IVF? Or are you assuming new competition to PARAGARD and talk about that, please?

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

Yes. We'll see how fertility does on a quarterly basis. The underlying factors that drive fertility continue to be strong and I believe we're going to continue to put up strong fertility growth moving forward. When it comes to the growth of 5% to 7%, you are correct. I would still say, even with the strength of PARAGARD in Q1, and by the way, I think we're going to have a good quarter with PARAGARD in Q2. I would still guide people to say, "Hey, that's going to be roughly flat on a year-over-year basis", due to ultimate volume demand and maybe a competitive entrant into that market. Now maybe that doesn't happen, and you'll get some upside from that. So you could argue there's a little bit of conservatism in that number. But after one quarter, I think taking it from 4% to 6% up to 5% to 7% is probably enough. And hopefully, we're able to certainly meet that if not beat that.

Operator

Our next question comes from the line of Jeff Johnson with Baird.

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

So Al, maybe a similar question, as Larry just asked on CSI, but for CVI, you're taking that up 100 basis points for the year. This first quarter came in right exactly where you guided right at the 7%, so it does imply an acceleration over the back half. So with 1Q being where you expected, what gives you the confidence to raise this early in the year to faster growth over the next few quarters, number one?

And number 2, I think last quarter, you talked about potentially hitting double digits with CVI in the back 3 quarters of the year after this first capacity-constrained quarter, do you still have the confidence in that potentially getting to the double-digit CVI the rest of this year?

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

Yes. Great question, Jeff. Well, in Q1, we did 7%. It was a strong 7%. We almost got ourselves to round up to 8%. So a good solid Q1 to start the year off. I do think we'll get ourselves back to double digit. As a matter of fact, I think we've got a good chance to get to double digit right away here in Q2.

So when I look at where we sit today, how we did in Q1, how we closed the quarter out, how February is going, improvements in our capacity that we have that's going to allow us a little bit more flexibility, yes, I feel comfortable taking that 7% to 9% up to 8% to 9%. And we'll see how it goes as we move through the year.

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

Fair enough. And then, Brian, if I could ask a clarifying question on the gross margin commentary you made. You were up 160 basis points year-over-year in the first quarter. You're now talking flattish for the year. It implies somewhere around 50 basis points down year-over-year each of the next 3 quarters or maybe it doesn't gate out perfectly even like that. But is that just simply because currency was plus 100 basis points year-over-year in the first quarter, and it looks like in the second and third quarter, it's going to swing back to a negative? Is that just purely currency? Is there something else in there that would get the gross margin from up so nicely in Q1 year-over-year to down a decent amount year-over-year in the balance of the year?

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

Yes. Jeff, thanks for the question. Yes, currency in the first quarter wasn't as impactful as the latter part of the year. Certainly, Q2 and Q3 are worse from an operating profit or a gross profit perspective. Outside of that, I wouldn't really point to anything in particular. I would say Q1 landed about where we expected. Some of it's a little bit of timing. But I would say, in general, we're expecting on an as-reported basis, pretty similar gross margins as we work through the year.

Operator

Our next question comes from the line of Joanne Wuensch with Citigroup.

Joanne Karen Wuensch Citigroup Inc., Research Division - MD

Nice quarter. Mechanically, is there a reason you've consolidated the way that you're reporting some of the revenue for CooperVision. And part of that, where now am I going to see MiSight?

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

So you'll see MiSight in sphere, is where we'll report that. And we consolidated ultimately because it's just a better representation of how we look at the business, combined with competitive dynamics. And that was really the reason behind it.

Joanne Karen Wuensch Citigroup Inc., Research Division - MD

And my second follow-up question has to do with SightGlass. What are the steps now to bringing that to market? And can you please remind us of how the JV shows up on your income statement?

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

Yes, sure. So for SightGlass, most of the JV shows up below the line, below operating income. It's a loss, as you can imagine right now, as we continue to invest in it. So we just run that through our P&L. And that's the way it will be moving forward other than if all goes well, that will turn obviously to a profit, and we'll report that below the line.

The process right now is, without getting into too much detail, is really to continue to work with the FDA. There are some spots, especially among younger children, where we have some really strong clinical data. So, continue with the FDA, meet the requirements that they're looking for, and work hard here to get FDA approval for that product in the back half of next year. In the meantime, we're selling in multiple markets around the world, including in China, and we're getting some great feedback on it.

Operator

Our next question comes from the line of Anthony Petrone with Mizuho Group.

Anthony Charles Petrone *Mizuho Securities USA LLC, Research Division - MD & Senior Medical Devices, Diagnostics and Therapeutics Equity Research Analyst*

Congrats again on the quarter here. Maybe one just on lens capacity and Brian, we spoke about this a little bit earlier this year. Just where are you on the build-out? And maybe to clarify, like how much demand is actually being left out there? Like how much are you not getting because Cooper is a bit supply constrained?

And then follow-up on myopia management. Just maybe a reset on the TAM opportunity of the combined bundle when we think of SightGlass with MiSight. Just kind of a high-level recap of what the overall market opportunity is for those 2 products combined.

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

Sure. Good questions. On lens capacity, I think demand is strong. It's going to continue to be strong because you're continuing to get wearers that are coming in, whether it's a new wearer or an existing wearer moving themselves to dailies and moving into torics and multifocals. So you're going to have that demand. I believe that underlying demand will be strong for years and years in front of us. The position that we're in today from a capacity perspective is allowing us to meet a lot of that demand, not all of it, but a lot of that demand. As I mentioned earlier, I think it may have been Jeff asking about it, we're in a good enough spot here where we're going to be able to, I believe, even return to double-digit growth here in Q2, but certainly put us in a position where we're going to be able to post strong numbers. So that's how I'd answer that right now. And I think that with capacity continuing to come on, it's going to put us in a position to have, frankly, strong years for a number of years in front of us.

If I look at the myopia management market, that's crazy exciting. It's taking a while to develop. We obviously thought it would move along a little bit faster. But when I look at what's going in the marketplace right now with glasses, there are some fantastic products out there and SightGlass is one of those that's making its way into the marketplace and the feedback is excellent. MiSight is doing really well. We're seeing some really good momentum with MiSight in Europe and some other markets. It's a little difficult to get to a TAM, but we're certainly talking about a marketplace that's going to be in the billions of dollars. It's very large. And it's almost every month, we see a society somewhere coming out and pushing myopia management and just saying, "Hey, this needs to become standard of care". I think the U.K. was the most recent one. coming out and saying to optometrists, "This needs to be standard of care." And it does. We need to proactively treat children. It's crazy that we don't do it to the degree that we should.

And frankly, you have one and only one FDA-approved product with MiSight right now, which is great, but we need glasses to come along with that. And I'm happy to say that the industry is making a lot of progress there. So a big opportunity still in front of us.

Operator

Our next question comes from the line of Jason Bednar with Piper Sandler.

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

Nice quarter guys. Al, I wanted to start, in past calls, I think we've heard about your position, maybe from like a new fit perspective. Just would love to hear what you're seeing out there in the data on dailies or daily SiHys, torics, multifocals, just really where you're punching pretty well right now. Just any insight on where your share stands on the new fit side, again, maybe in the context of your current market share in those categories.

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

Yes. As a general answer, I would say that our fit data is certainly in front of what our current market share is. And that's a good sign. And we've been running that way for a little while here, and we're continuing to run that way. The only caveat I would put on that or asterisk, is sometimes it's hard to get that data all around the world. We get that through GFK and a few other sources. But I'm comfortable continuing to say that our fit data is in excess of our market share, which is a really good sign for us.

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

Okay. I mean, maybe one follow-up there and then a separate one. But are there any of those categories where you'd say or maybe outsized share gains, just as we think about where the revenue growth or the accelerated revenue growth is going to come from? As we look out over the next several quarters? And then I think you also mentioned key account strategy wins just across all geographies. Any more color you can add there, and maybe latest update on that strategy and how pricing is trending in that category?

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

Sure. I think that as we look forward, where you're going to see growth is going to continue to be what you've seen, meaning we're going to do well in torics and multifocals. We have a great position in those categories, leadership position. We do really well. I think you're going to continue to see strong numbers there. The other place that you'll see strong numbers, where we're doing well from a fit perspective, is in the daily silicone hydrogel side of things. Now that would include some torics and multifocals, but also on the sphere side.

So that's where we have strength. If you look at legacy hydrogels and some of that stuff, we certainly have weakness in those areas. But our fit data and our strength is in the direction that the market is moving. So that's a great sign.

Within key accounts, yes, we're doing well within key accounts. What I highlighted in the script, which I'm excited to talk about is key account activity within MiSight. The progression with MiSight started with independent optometrists where we did well, and we've been growing. But we started to get some of our key accounts more interested in the product and starting to roll it out throughout their franchises. They need to figure out how they're going to sell it, standardize it throughout the franchise, how they're going to price it, all the activity that goes around creating a new myopia management or myopia control infrastructure. That work is being done, and we're seeing progress on that. It's just solid, consistent progress. That's why we did a little over 50% growth this quarter.

And I think you're going to continue to see that from MiSight, just plugging away at 45%, 50%, 55% growth on a consistent basis. That's being driven by underlying strength in those key accounts, whereas you know, Jason, we have a good relationship with a lot of them through the store brands right now. So expanding that relationship to include MiSight.

Operator

Our next question comes from the line of Patrick Wood with Morgan Stanley.

Patrick Andrew Wood Morgan Stanley - Analyst

On the toric side, I'm just curious, it's like an astigmatism is probably like 1/3 of the population. So I'm just curious, from the data that you guys have, do you have a good sense of like from an Rx perspective, where we are on the lenses, i.e. how underpenetrated that category is it kind of totality?

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

Yes, it's way underpenetrated. So I don't have the numbers right off the top of my head, but I would tell you, it's definitely underpenetrated in the U.S. market, and the U.S. market is by far the most penetrated and it's still solidly underpenetrated. When you go outside of the U.S., it would be way underpenetrated.

And to your point, you're starting to see the fitting of patients who have an astigmatism has improved over the years, and it's much easier to fit a toric product. And by the way, the quality of those products has continued to improve. MyDay toric is just a fantastic product. It fits well. It's very stable, patients really like it.

So that's a great question. I should dig into the details. I can just tell you it's significantly underpenetrated. Off the top of my head, I can tell you there's 10-plus years of significant growth that's going to come out of the toric market as it continues to grow around the world. And as eye care practitioners continue to fit the correct lens for every single patient who comes in looking for the optimal visual correction.

Patrick Andrew Wood *Morgan Stanley - Analyst*

Certainly makes sense. I'm astigmatic as well, so I get it. And then maybe on the Europe side, like that was a big number within CVI, and you gave some color there. Was there anything in particular? I know you have some of the bigger contracts that were rolling over on that side of things, but dynamics in Europe, very curious about that as well.

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

Yes. Yes, good strong number in Europe. I think we're going to continue to have them. We have just a fantastic team there. Our commercial team is just killing it, and they have for a number of years. So I think when you combine the strength of our team over there, the rollout of products, we're going to get some new products in there. We're going to expand some of the products that we currently have put ourselves in a better position to sell.

Yes, we're having strength right there right now with key accounts. As product availability capacity improves, I think you're going to continue to see success. I couldn't be happier with what our European team is doing.

Operator

Our next question comes from the line of Robbie Marcus with JPMorgan.

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

And I'll add congrats on a good quarter. Maybe to start, I know there's some regulations coming out in April for the lab developed tests. I wanted to see what your exposure to that was and any implications in your view?

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

I'm kind of raising my eyebrow. I'm not sure what you're referring to, which means that's probably a really good sign because it wouldn't be applicable to us.

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

Got it. I think it's in some of your filings, maybe I'll circle back. Maybe just to touch on myopia management. It was down quarter-over-quarter. You talked about down 10% in China and Ortho-K. Just maybe speak to the Ortho-K market globally and in China specifically and your view there, both on an underlying basis and competitive.

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

Sure. Yes, we had Ortho-K growth around the world. So our team continues to do well with Ortho-K but within China, it's very bumpy. We grew upper 30%, 39% or something like that in Q4 and down 10% here. So it's pretty bumpy. And whether that's channel fill or some other activity that's happening in China, I believe it's going to continue to be bumpy for us. Now that's not a huge market for us, as you know. So I'm not going to claim to be an expert on China. But we are seeing some volatility with respect to the Ortho-K market and certainly within China.

I would split that from MiSight. And maybe that's one of the reasons you're seeing a little volatility in Ortho-K is because of the strength that we're seeing in MiSight as that continues to improve. But I would probably say, yes, MiSight is really strong, and maintaining strength. Ortho-K is still going to grow for the year, and it's still going to do fine for the year, but it's going to be choppy.

Operator

Our next question comes from the line of [Chris Pasquale with Nephron].

Unidentified Analyst

AI, on the last call, I think you talked about 5% to 7% contact lens market growth in calendar '24, was the underlying expectation embedded in the guidance. Is that still your expectation? Or do you think it will be better than that?

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

I would probably stick with the 5% to 7% right now, but I would certainly lean towards the upper end of that.

Unidentified Analyst

Okay. And then how are you thinking about how MiSight and SightGlass fit together in the myopia market longer term, do spectacles become first-line therapy in contacts or reserve for older patients? Or is it not that clean? Just trying to get a sense for how additive the addition of spectacles in markets like the U.S. could be versus cannibalistic of what you've got going on already?

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

Yes, that's really an interesting one. Spectacles are going to become the first line. Because when a child walks in the door, and we're talking about children. So 5 years old up to 13, 14 years old, the easiest fit by far for the optometrist is to put them in glasses. And I think that's really going to push the myopia management market forward because every single optometrist will be able to fit a child in glasses and get them out the door. And I don't know why you wouldn't do that. It'd be almost malpractice not to put somebody in glasses and treat their myopia progression.

But what you're going to have off that is a couple of things. One is you're going to have what happens in the normal world, which is people want to wear contact lenses and whether that's for sports or some sort of activity or whether that's for looks, you're going to have people wanting to wear contact lenses, and that's what's going to happen in that space.

The add-on to that, though, is going to be compliance. Because in order for that treatment, and it's a treatment, to be successful, the child has to wear their glasses and they have to wear them a lot. If the child is not wearing them when they're going in for their annual appointment, the optometrist is going to be able to tell. It's going to be the same thing with Invisalign. And if you're not wearing it, you're not getting the value of the treatment.

The optometrist is going to be able to see and talk to the parents and say, "Hey, your child has these myopia control glasses, but they're not wearing them enough and I can see the progression of the myopia. We have to get them into contact lenses, so they're getting the full value of that treatment." So I think you're going to have a higher rate of penetration of contact lenses within the myopia control business than you do within contact lenses in general.

Operator

Our next question comes from the line of Steve Lichtman, with Oppenheimer & Company.

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

Congrats on the quarter. I guess, Brian, you're obviously investing behind capacity expansion. So how should we think about CapEx levels and free cash flow this year? And do you expect CapEx as a percent of sales to go higher in the coming years as you maybe try to stay ahead of demand?

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

Steve, yes. What I'd say is we talked about free cash flow last quarter being up versus last year, probably about \$100 million this year. I would say that the first half of the year is we're going to see similar free cash flow numbers as we saw in Q1 in Q2. And then I would expect will inflect nicely in Q3 and Q4. So cash flow conversion will be improved. I'd say as a percentage of revenues, this is going to be high. It should be pretty similar to last year on a percentage basis. But as we look at next year and the years thereafter, I would expect it to come down on a percentage basis.

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

Okay. Got it. And then just a follow-up on SightGlass. Appreciate the update there. Do you expect the investments behind SightGlass in the near-term to go up to support approval? Or do they go down for a bit given the sort of the later approval expectations? Understanding it's below the line. I'm just curious on that.

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

Well, I think we'll continue to invest as we are now. Once we get FDA approval, we'll work with EssilorLuxottica and have conversations about the best way to launch that and how to capitalize on the FDA approval. So we'll continue to spend on it right now, supporting that product and launches around the world and things we're trying to accomplish, including the clinical work that we're trying to do.

And then we'll determine the best path forward, hopefully, when we get the FDA approval in the back half of next year. And that would be a really exciting thing and really open the doors to a pretty significant market for us. So we'll have to have the conversations and see where we go then.

Operator

Our next question comes from the line of Brett Fishbin with KeyBanc Capital Markets.

Brett Adam Fishbin *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Associate*

Just had a couple quick ones on pricing. One, just in the context of the full year CVI guide of 8% to 9%, do you have a directional sense of how much of that is getting driven by price?

And then as a follow-up, just curious because I know you guys are playing a little bit of catch-up this year relative to the market, how the consumer is accepting some of the price changes this year? And if you think going forward, there might be a little bit more room for some continued catch-up activity relative to the industry?

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

Yes. We'll see on future price increases as to how the economy continues to move. As of today, we're not seeing significant pushback, but a lot of the growth of the industry continues to be moved to dailies. So a lot of that is a product mix trade-up, which includes higher price embedded within it, if that makes sense. So as we continue to move forward, that's where you're going to see a lot of that. So that's price increasing, but it's really a product mix shift to higher-priced products.

With pricing for the market and for us, it's looking low single digits in that 2% to 3% range that I talked about, probably more towards the upper end of that, and that's where the industry is residing right now and where we're sitting.

Brett Adam Fishbin *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Associate*

And then just one other question. I think you had a really interesting comment, but it was pretty brief on the idea of introducing some new digital tools to help facilitate MiSight in streamlining the fitting process a little bit, which seems like it might be a little bit of a friction that could be helped with these kind of initiatives. So just maybe expand a little bit on what you're doing there and how it could help that process?

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

Yes, absolutely. One of the challenges that optometrists have with MiSight is they bring the child in. They have to talk to the child. They have to explain what contact lenses are, how to put lenses in, take lenses out. They have to explain to the parent what myopia is and the progression of myopia. The process takes a little while.

And when you layer contact lenses into it, it makes it a little bit more difficult than glasses. So, anything that we can do to improve that process and make it faster is going to be definitely beneficial. And our marketing team has done a really nice job there, and the development team, on streamlining some of that activity to ensure that optometrists understand the fitting process and are able to do it very quickly.

I won't get into the technical attributes of what we're doing. But suffice it to say, yes, anything that we can do to streamline that and help make that process easier and faster, the better. So yes, you picked up on that, it's a good point because that is a benefit, and it's going to help us continue to drive growth.

Operator

Our next question comes from the line of Jon Block with Stifel.

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

I'll try to be somewhat brief, 2 quick ones. First on PARAGARD, I don't know, I just feel like the talk track has seemingly improved maybe from 3 months ago, nothing has really changed from a regulation standpoint. Al, am I right? Is there anything behind that where, again, you had a decent beat in the quarter. You talked about a pretty good start in fiscal 2Q. It just seems a little less dire, if correct? Is there something more to it?

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

I think with respect to PARAGARD, that's going to be a little bumpy. The underlying demand is still a struggle there in terms of being able to grow volumes. And then the other aspect of that ends up being a competitive product. We talked about that before. There was a product that could potentially get FDA approval that's essentially a generic. But if that does get approved and hit the market, that would impact us. When we gave guidance back in December, we incorporated some of that. That product has not been approved. So, if you look at it as we move through the year, that makes me, a little bit more optimistic for better performance this year.

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

Okay. And second quick one, just within CVI, just cleaning up a little bit. The overall 7%, I think, was in line with estimates. You guys sort of signaled that. But from ROC, EMEA was decently ahead, APAC below and anything to call out specific to APAC? Because when I look at the year ago comp, it was actually one of the easier ones from fiscal '23. I don't know if that's where we sort of go from a capacity standpoint. But maybe if you could just elaborate on that?

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

Yes. Not too much to say on that other than I think it got picked up a little bit about some communication we had in Japan with respect to some capacity constraints. So when you look at allocation of product and capacity constraints that we had, that negatively impacted Asia Pac and probably will, a little bit again here in the second quarter.

But the underlying fundamentals, the team and the success we're having in Asia Pac is still strong. I think there's just a little bit on the capacity constraint side of things that you're picking up.

Operator

Next question comes from the line of Issie Kirby with Redburn Atlantic.

Issie Kirby Redburn (Europe) Limited, Research Division - Analyst

We'll just stick to one. I mean obviously, you have your hands full with MyDay and the strength of that product. But I would love to know how you're thinking about potential new innovation within the vision care space, potential new product launches. I think it's been close to 10 years now since we saw MyDay first hit the market. So I guess, what is next? How are you thinking about new launches? And to what extent does capacity right now hinder your ability to introduce perhaps a new lens family?

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

Yes. Great question. If we look at MyDay as an example, I think the multifocal just came out a couple of years ago. MyDay Energys, as an example, just came out roughly a year ago in the U.S. market. So we still need to roll the multifocal out around the world. Frankly, there's still areas we need to get the toric out more, the expanded parameter range. There are markets we need to get MyDay Energys into. So you're just going to continue to see, for the coming years, a bunch of launch activity, but it will be associated to mostly the products that you've already heard of.

Issie Kirby Redburn (Europe) Limited, Research Division - Analyst

Okay. And then just a quick follow-up, if I may, just on daily penetration. I mean we've talked a lot about the runway in toric but really I guess what's the runway like in daily? Just in terms of units where do you see it currently sitting, I guess, for 2023? And where do you think the ceiling really is for dailies in terms of units?

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

Yes. It's tough in terms of units because there are so many units when somebody's wearing dailies. Because if they go from Biofinity, they need 24 lenses a year and depending upon how often they're wearing their dailies, 700-and-some lenses a year. So it's tough. But I would tell you, if you looked at a comparison of the FRP market, the 2-week and monthly market, and said, that's where dailies is going to get ultimately, without getting into all the gory details, I would tell you that you have a very significant runway in terms of dailies and wearers. So that's where I go back to saying, the market is a great market for 10 years or something like that because it's so underpenetrated on the dailies side.

Operator

There are no further questions at this time. I'll now turn the call over to Al White, President and CEO.

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

Great. Thank you. Thank you to everyone for taking the time and joining the call. As you can probably tell from our commentary and response to questions, we're excited about where we are now. We started the year off really well. We're in a really good position moving forward. So thanks again, and I really look forward to catching up with everyone on our next earnings call. Thank you, operator.

Operator

This concludes today's conference call. You may now disconnect.

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