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COO.OQ - Q4 2025 Cooper Companies Inc Earnings Call

EVENT DATE/TIME: DECEMBER 04, 2025 / 10:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. At this time, I would like to welcome everyone to the fourth-quarter 2025 CooperCompanies earnings conference call. (Operator Instructions)

I would now like to turn the conference over to Kim Duncan, VP of Investor Relations and Risk Management. You may begin.

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

Good afternoon, and welcome to CooperCompanies fourth-quarter and full-year 2025 earnings conference call. During today's call, we will discuss the results and guidance included in the earnings release and then use the remaining time for questions.

Our presenters on today's call are Al White, President and Chief Executive Officer; and Brian Andrews, Chief Financial Officer and Treasurer.

Before we begin, I'd like to remind you that this conference call will contain forward-looking statements, including statements relating to revenue, EPS, cash flows, interest, FX and tax rates, tariffs, and other financial guidance and expectations, strategic and operational initiatives, market conditions and trends, and product launches and demand. Forward-looking statements depend on assumptions, data, or methods that may be incorrect or precise and are subject to risks and uncertainties.

Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption forward-looking statements in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K and Form 10-Q filings, all of which are available on our website at coopercos.com.

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

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

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

Thank you, Kim, and welcome, everyone, to today's earnings call. I'll start by highlighting three key strategic priorities and then move into our quarterly results and guidance. Our first priority is to deliver consistent market share gains for CooperVision. We've accelerated the global rollout of our MyDay premium daily silicone hydrogel lens portfolio and we're seeing momentum build. We're executing on numerous global private label contracts and winning new ones, and we're strengthening branded sales, especially among independent optometrists. We're also looking forward to several upcoming product launches to further strengthen our positioning and ensure CooperVision delivers steady revenue growth throughout fiscal 2026 with the strongest performance expected in Q3 and Q4 and as MyDay achieves full traction.

Second is our continuing commitment to earnings and free cash flow. This quarter marked our eighth consecutive quarter of beating consensus earnings expectations and our fiscal 2026 earnings guidance exceeds current consensus expectations driven by significant cost savings from our recent reorganization. Additionally, for the past two years we've reported double-digit earnings growth and we're targeting making it three years in a row. And importantly these earnings are turning into cash with $150 million of free cash flow delivered in Q4, beating expectations. I'm also pleased to announce this momentum is continuing and we're raising our fiscal 2026 to 2028 free cash flow target to more than $2.2 billion. Our entire organization is aligned behind these efforts as free cash flow became a bonus metric in 2024 alongside revenue and earnings.

Third is our attention to returning capital to shareholders. We repurchased nearly $200 million of stock in fiscal Q4 bringing our total fiscal year repurchases to almost $300 million or roughly two-thirds of our 2025 free cash flow. For fiscal 2026 we expect to allocate a similar percentage to share repurchases with the remaining portion targeted to debt pay down. To support this effort and to reinforce our commitment to share repurchases being a core component of our long-term capital allocation strategy, the Board authorized an increase in our share repurchase plan to $2 billion in September.

Before moving into the quarterly details, I want to emphasize that our Board and management team remain highly focused on driving long-term shareholder value. We've accelerated share repurchases, insiders have bought stock, we've completed significant re-org and integration activity to increase profitability and cash flow, and we've been winning new contracts and solidifying long-term customer partnerships at CooperVision and CooperSurgical. Additionally, we initiated an evaluation of strategic alternatives earlier this year and presented our initial findings to our Board in October, alongside ongoing governance discussions around the timing of our Chair's transition to retirement. Today, we have taken the next step by issuing a press release announcing a formal strategic review to ensure that we explore every opportunity to unlock long-term shareholder value. We also announced the transition of our Chair role from Bob Weiss to independent Board member, Colleen Jay. And finally, we're adding Total Shareholder Return to our Executive performance share plans to further align leadership incentives to our stock's performance.

With that, let's move to the Q4 results. Consolidated revenues were up 4.6% year over year or up 3.4% organically, to a quarterly record $1.065 billion. Operating margins improved meaningfully and non-GAAP earnings grew 11% to $1.15.

For CooperVision, we reported revenue of $710 million, up 4.9% or up 3.2% organically. These results were consistent with our guidance driven by improved global availability of MyDay partially offset by market softness in China in certain areas in EMEA. Overall, the global contact lens market continues to trend toward premium offerings, which is a positive for our MyDay portfolio, including our premium private label MyDay business, but it does create headwinds for clariti and older hydrogel lenses. On an organic basis, by category, torics and multifocals grew 5% and spheres grew 2%. By modality, daily silicone hydrogel lenses grew 5% with double-digit growth in MyDay and declines in clariti. Our silicone hydrogel FRP lenses, Biofinity and Avaira, grew 2% and MiSight delivered strong growth of 37%. Regionally, the Americas grew 5% led by strength in daily silicone hydrogel lenses. EMEA grew 3% strengthening our number one market position led by MyDay and Biofinity. This was slightly below expectations due to market weakness in a few countries, but this doesn't appear to be tied to consumer activity, and we've already seen a pickup this quarter. Asia Pac was flat as growth in MyDay was offset primarily by a 28% decline in China driven by continued weakness in low-margin e-commerce channels where we're not chasing aggressive pricing activity.

Moving to products, MyDay delivered a strong quarter led by torics and Energys. We're continuing to execute on the private label deals we won in Q3, and I'm pleased to report that we won quite a few more contracts in Q4, several of which are in the US and Europe, so you'll see those in the coming months. Momentum is robust and we're seeing increasing fitting activity with especially strong interest in our premium comfort MyDay Energys lens featuring our innovative DigitalBoost technology which we expect to launch in Europe in Q2 of this year, from our MyDay Multifocal which continues to roll out in the APAC region and from our MyDay Toric parameter expansion which is expanding around the world. We'll also be launching MyDay MiSight and MyDay Toric Multifocal in 2026, and we expect those offerings to be received incredibly well. For clariti, we're progressing with repositioning the product family in Asia Pac and we're seeing early positive signs with products such as clariti's new 3-add multifocal launch which delivered double-digit growth in the Americas.

Regarding frequent replacement lenses, Biofinity delivered solid performance in the Americas and EMEA led by multifocals, Energys, and our innovative made-to-order lenses, but remains soft in Asia Pac, especially outside of Japan. This was similar to last quarter with continued weakness in markets such as China.

Turning to myopia control, MiSight delivered strong growth of 37%, driven by robust performance in the Americas and another record-setting quarter in EMEA. Our back-to-school campaigns boosted fitting activity, while customer engagement initiatives and new pricing models supported higher purchase volumes. We expect this momentum to continue into fiscal 2026 with the upcoming launches of MiSight in Japan and MyDay MiSight across Europe, both scheduled for fiscal Q2. Private label programs in Europe and other select markets are also proving highly successful and we expect more deals to be signed this year. With MiSight growing 30% in fiscal 2025 reaching $104 million in sales, we expect growth of at least 20% to 25% for fiscal 2026 with further strength in 2027 as product launches gain traction.

To conclude on Vision, let me share details of our performance relative to the market. This is calendar quarter data, so it's apples-to-apples with our competitors. In calendar Q3, we grew 5%, in line with the market, and on a year-to-date basis for the three calendar quarters of 2025, we've grown 4%, also in line with the market. CooperVision has gained share for 17 straight years, and we remain focused on achieving that goal for an 18th consecutive year in calendar 2025.

Turning to CooperSurgical., we delivered quarterly revenue of $356 million, up 4% or up 3.9% organically. This was at the high end of our guidance range driven by solid execution. Within Fertility, revenues were $141 million, up 1%, in line with expectations given last year's 13% comp. Growth was driven by market share gains in EMEA and strong global genomics performance, partially offset by softness in the US. As we enter fiscal 2026, we're optimistic this will be a stronger year. We're seeing encouraging traction with new RFP wins from some major fertility clinics, we're receiving significant interest in Witness, our automated lab tracking system, and our genomics portfolio is seeing an uptick in momentum following the recent launch of several new tests. For the overall fertility market, consumer spending remains tight, especially in Asia Pac, and clinics are continuing to manage spending carefully, but we are seeing some early positive signs including improving cycle activity in the US and growing global clinic interest in new technology. We remain highly optimistic about the long-term outlook for fertility given the underlying fundamentals supported by the estimate that one in six people globally are expected to experience infertility at some point in their lives underscoring the long-term significance and resilience of this market.

Moving to Office and Surgical, sales were $215 million, up 6% and up 6%, organically. PARAGARD grew 16% following a softer Q3 driven by strong demand for our single-hand inserter upgrade that was launched earlier this year. Medical Devices grew 3%, led by double-digit growth in our labor and delivery portfolio and a 35% increase in our obp Surgical line of innovative single-use lighted cordless surgical retractors. These gains were partially offset by softness in legacy products.

Moving to fiscal revenue guidance. For CooperVision, we're guiding fiscal Q1 to 3.5% to 4.5% organic growth as we continue stair-stepping higher with execution around ongoing contract wins. For the full year we're guiding to 4.5% to 5.5% assuming the market grows 4% to 5%. Our expectation is that current momentum will result in strong share gains in Q3 and Q4, but we're maintaining conservatism to avoid having guidance be too back-end loaded. For CooperSurgical, we're guiding Q1 to 2% to 3% growth and full year to 4% to 5% growth. Within this, we're forecasting only a modest improvement in fertility which we're optimistic will prove conservative given some of the recent market trends along with much easier comps.

Before turning the call over to Brian, I want to thank the entire Cooper team for their outstanding execution this quarter. Delivering strong results during a period of significant organizational change reflects our team's commitment to building a more streamlined and efficient company and it speaks volumes to the company's dedication to excellence.

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

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

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

For the fourth fiscal quarter, consolidated revenues were $1.065 billion, up 4.6% and up 3.4% organically. Gross margin declined marginally as expected to 66.2%, driven by tariffs and product mix, partially offset by positive foreign exchange. Operating expenses were flat, reflecting disciplined cost management, and operating income increased a healthy 9% to a 27% margin. Interest expense was $23.7 million, and the effective tax rate was 14.2%. Non-GAAP EPS grew 11% to $1.15 with 198 million average shares outstanding. Free cash flow was strong at $150 million with CapEx of $98 million, and net debt was $2.4 billion, improving our bank-defined leverage ratio to 1.76 times. Lastly, we repurchased 2.9 million shares for $197.3 million, leaving approximately $1 billion of availability under our $2 billion repurchase plan.

Before moving to guidance, let me recap the reorganization and integration work we completed in Q4. We began executing this effort in early Q3 and moved quickly with a clear focus on improving operational efficiency and reducing back-office costs. By leveraging prior IT investments supported by AI capabilities, we integrated key support functions and are unlocking meaningful productivity gains. At the same time, we completed significant acquisition-related integration work. From a financial perspective, we recorded approximately $89 million in charges associated with all of this activity and expect annual pretax savings to be roughly $50 million or $0.19 starting in fiscal 2026. Beyond operating margin expansion and free cash flow benefits, these savings strengthen our ability to invest in high-return opportunities, repurchase stock, and pay down debt, fully aligned with our commitment to long-term value creation.

Moving to guidance and starting with Q1, we're guiding to consolidated revenues of $1.019 billion to $1.03 billion, representing roughly 3% to 4% consolidated organic growth. CooperVision's revenue is expected to be in the range of $693 million to $700 million, up 3.5% to 4.5% organically, and CooperSurgical's revenue is projected to be $327 million to $330 million, up 2% to 3% organically. For earnings, we're guiding to non-GAAP EPS of $1.02 to $1.04 with improving operating margins from strong operational leverage offset by lower gross margins due to tariffs and mix. Interest expense is expected to be around $24 million and the effective tax rate to be in the range of 15% to 16%.

For the full-year fiscal 2026, we're guiding to consolidated revenues of roughly $4.3 billion to $4.34 billion, reflecting 4.5% to 5.5% organic growth. CooperVision is expected to be in the range of $2.9 billion to $2.925 billion, up 4.5% to 5.5% organically, and CooperSurgical is expected to be in the range of $1.4 billion to $1.413 billion, up 4% to 5% organically. For earnings, we're guiding to non-GAAP EPS of $4.45 to $4.60. This assumes another year of strong operating margin improvement driven by operating expense leverage offset by lower gross margins due to tariffs and mix. Interest expense is expected to be around $85 million, assuming no share repurchases or changes in Fed policy. Note that if the Fed does lower rates next week by a 0.25 point, interest expense would be reduced by roughly $2 million in fiscal 2026. The effective tax rate is expected to be in the range of 15% to 16%.

Free cash flow for fiscal 2026 is expected to improve to $575 million to $625 million driven by stronger operating cash flow from higher profits, working capital improvements, and lower onetime costs. CapEx will also decline on an absolute basis as CooperVision's investment cycle winds down. These positives will temporarily be somewhat offset by roughly $70 million tied to our reorg and final payments on building activity including our new CooperVision R&D facility. From fiscal 2026 through 2028, we expect to generate over $2.2 billion in free cash flow. This outlook reflects two key drivers: first, consistent improvements in operating cash flow from higher profits, lower onetime items, and tighter working capital management supported by a streamlined and AI-enabled operating structure; and second, CapEx normalizing in fiscal 2027 to roughly 5% of revenues covering both maintenance and growth investments.

Lastly, on cash flow, at the divisional level, CooperSurgical generates more free cash flow per revenue dollar than CooperVision, but we expect that gap to narrow materially in 2027 as CooperVision's CapEx declines and free cash flow accelerates. From a capital deployment standpoint, we remain committed to investing in growth and innovation, repurchasing stock, and reducing debt.

Lastly, as you'll see in our 10-K tomorrow, we have successfully remediated the material weakness related to certain IT general control failures from fiscal 2024.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Johnson, Baird.

Jeffrey Johnson - *Robert W. Baird & Co Inc - Senior Research Analyst*

Thank you, guys. Good evening and congratulations on the progress in the quarter. Al, I wanted to talk first on clariti, obviously, a good MyDay number in the period. Did you give a number for how much clariti was down? And I think that's been about a $400 million annualized line for you guys. What is maybe the floor on that? And as that continues to come down and MyDay grows, do you see those MyDay gross margins eventually within the next year or two getting to clariti gross margin levels? Thanks.

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

I'll let Brian comment on the gross margins because we made a lot of progress there. clariti was down a couple of percent this quarter, and it approached $400 million this year. It's still a sizable product line for us. We're doing a lot of work on it right now. We've got some new products that we're launching that we're excited about. The 3-add multifocal in the US is being received really well. But on the flip side of that, we're doing some repositioning in places like Asia Pac to put that lens family more in the entry-level space that we want it to be in. And so we're going to continue to have some push and pulls over the next couple of quarters. But I do still think that there's a place for that lens and the opportunity to be very successful. If there's ever a situation where the market moves a little bit more towards mass market or is a little bit more price conscious, I think you'll see that lens take off. But in the meantime, to hit on the start of your question, Jeff, good quarter for MyDay. We are making a lot of progress there. We have a lot of really exciting stuff going on.

You want to comment on the margins?

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

Thanks for the question, Jeff. I won't comment on individual product line gross margins, but I will say that the gross margins for the family of products of daily silicone hydrogel lenses, is below CooperVision's gross margins. I talked about mix being part of the reason for the gross margin decline in Q4. It will be part of the reason for the gross margin decline year over year next year. And as we sell more daily silicone hydrogels, I expect that we'll still have pressure on the gross margin line. Now that being said, we do get more revenue per patient.

When we sell daily SiHys, we get more gross profit dollars, and we get more operating income dollars. As we leverage our prior investment activity and a more streamlined organization, I expect we'll be able to drive operating margin expansion and earnings growth despite some of the headwinds we'll be seeing from the gross margin line.

Jeffrey Johnson - *Robert W. Baird & Co Inc - Senior Research Analyst*

All right. Thank you, Brian. And maybe just one quick follow-up. Just whenever you guys give calendar versus fiscal numbers, it always opens it up to a question like this. But if you did 5% growth in calendar 3Q, Al, and you did 3.2% in fiscal Q4, it would seem to imply a pretty weak October, I believe, if I'm thinking about that correctly. But just tell me why I'm wrong there or at least help reconcile those two, the 3.2% and the 5% number. Thanks.

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

It was the flip side, Jeff. It was actually the overlap in the beginning of the quarter, not the end of the quarter. October was a good month.

Operator

Lawrence Biegelsen, Wells Fargo.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

Hey. Good afternoon. Thanks for taking the question. Al, could you please talk about the strategic review? How long will it take? And what's your reaction to those who have advocated for splitting up CVI and CSI and adding new Board members?

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

We announced a strategic review, for those who haven't seen, we issued a press release concurrently with the earnings release. We're going to take a look at options out there because we want to drive shareholder value. We were doing that work proactively with our Board over the summer. We actually presented strategic analysis and a strategic review to them in the month of October, and we've now put that out publicly. We'll provide an update on any activity on our next earnings call, which is the beginning of March, that's our Q1 earnings call, unless something material happens beforehand. And if it does, we'll issue a press release or make a statement on that. Outside of that, I'm not going to comment too much on it, but it's underway.

Larry Biegelsen - *Wells Fargo Securities LLC - Analyst*

So Al, just maybe your latest thoughts. There are others out there now advocating for splitting up CVI and CSI. Has your position changed? Just love to hear your latest thoughts on that? And I'll leave it at that. Thanks for taking the question.

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

My position has not changed on that. We discussed that actually, Larry, at your conference in September, you raised it, and I gave my opinion on that. My opinion has not changed. Our job is to drive long-term shareholder, if taking certain actions are beneficial for our long-term shareholders then we need to evaluate those. As I talked about in the September meeting that we did, I believe if we drive value in this business that will maximize long-term shareholder value. And that's what we're doing. That's what we did with the reorg. That's what we're doing with stock buybacks. That's what we're doing driving cash flow. That's what we're doing in a whole slew of different ways. But we're going to look at the value of this business and do what's best for our long-term shareholders. That's our job as executives of a public company.

Operator

Jon Block, Stifel.

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

Al, I think your contact lens market growth expectations for 2026, I think you said for the market, 4% to 5%. Year-to-date, the market's 4% and I don't know, it just seems like industry pricing power is fading a bit. So just talk, about the market growth assumption or construct, like what's behind that assumption if we do finish this year four or even a tad below, what's responsible for market growth acceleration if pricing power is decelerating? And then I'll ask a follow-up.

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

I might go the other direction a little bit on that one. The market grew 4% in calendar Q1 and 4% in calendar Q2. The market grew 5% in calendar Q3. So it actually increased this last quarter. I do think that we're going to be in a 4% to 5% market growth for this year, I'd be really surprised if we're not. From a pricing perspective, I think global pricing for next year will end up being around that 1% on a true global net basis, so pretty similar to what it was this year, which leads me to believe we'll probably be somewhere in that 4% to 5% range next year.

This quarter, which was 5%, was probably a little bit better representation of where the market is. So I'd say 4% to 5%. But honestly, I think it will be closer to 5% next year.

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

Okay. Fair enough. And then just to shift gears, I take a different approach in terms of CVI numbers for you guys rather than from a product standpoint, just from a geography standpoint. I mean, APAC falling around 0% for fiscal '25. It was up, gosh, 7% in '24. And then at some point, this thing was growing 13%, 14% in the prior year.

So for fiscal '26, is it more the same argument in Americas and EMEA for the most part, but we just see that APAC claw back a little bit closer to mid-single digits, a function of MyDay, but also a function of getting some of these quasi one-timers behind you. Just looking for any direction from a geographic perspective.

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

I think you're right, Jon. We had some struggles in Asia Pac this year. It was heavily focused on the pure play e-commerce channel. That's where we lost share. I mentioned that China was down 28% in Q4. As you remember, it was down mid-20%s in Q1 and Q3. Our China business is quite a bit smaller this year than it was the year before and again, heavily focused on low-margin business. That's the reason that you've seen our revenues come down and be a little bit softer, but you haven't seen the impact on our profit.

Now, we clearly do not chase revenues at all costs. We would never do that. And that's a great example of where we don't do it. We're not chasing the market where we're seeing some participants with super aggressive pricing out there. We're maintaining fiscal responsibility and sensibility around how we operate. What I will say is as we move into fiscal '26, these markets like China and the pure-play e-commerce and some other markets, have become a much smaller percent of our overall business. So we're not going to see the same detriment in '26 that we saw in '25.

Operator

Robbie Marcus, JPMorgan.

Lilia-Celine Lozada - *JPMorgan Chase & Co - Analyst*

Hi. This is Lily on for Robbie. Thanks so much for taking the question. The guide is a bit more back-end loaded from a revenue growth perspective. So what gives the confidence in growth stepping up over the course of the year? And what are some of the variables across Vision and Surgical that we should think about as improving over 2026.

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

Sure. Thanks, Lily. It's a little bit back-end loaded, but it's not that much back-end loaded. We intentionally did not get overly aggressive on Q3 and Q4 so that we wouldn't have a situation where it was heavily back-end loaded. Even though I'm pretty optimistic we're going to have a strong Q3 and Q4 given where MyDay is today and the momentum that we're seeing. But to answer your question, it ties to the MyDay sales that we have right now. The momentum that we’re seeing out there, we won a number of additional private label contracts during Q4. As I mentioned, a number of those are in the US and in Europe, so a number of people on the phone will start seeing some of those as we get into 2026. I'm excited about what's going on with MyDay and the progress that we're making. That's going to be one of your biggest drivers that's going to push forward the CooperVision business.

When it comes to CooperSurgical, we're forecasting a relatively similar year next year to this year, and that includes being conservative on fertility. I'm optimistic fertility picks up. We certainly have easier comps that we're going to report against that's going to help us a little bit. But we want to stay a little conservative on fertility and on consumer spending. When I think about CooperSurgical, remember that we launched the single-hand inserter for PARAGARD at the beginning of last year, so we had a really strong Q1, that's the reason that we're guiding a little bit softer here for Q1. Having said that, PARAGARD just had a really strong Q4 and finish to the year. We'll see how that plays out because guidance for CooperSurgical assumes flat to low single-digit growth in PARAGARD, and we did quite a bit better than that this year.

Lilia-Celine Lozada - *JPMorgan Chase & Co - Analyst*

Great. That's helpful. And then just as a follow-up, I was hoping you could talk a bit more about the improved free cash flow outlook. What's driving that increase relative to the prior guide? And is any of that step-up coming from decreased investment in SG&A or R&D? Thanks so much.

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

The way to think about free cash flow is it is not back-end loaded. It's just consistent performance, consistent execution. We'll step up nicely this year by continuing to do exactly what we've been doing. We just posted the $150 million in Q4, which was strong, and we're going to continue to post strong quarters by delivering earnings growth by doing some of the working capital management that Brian mentioned. Then, as we move into next year, you're going to see CooperVision's CapEx come down. Our maintenance and growth CapEx is about 5% of revenues. It's somewhere in that range and we've been running upper single digits. You're going to see that come down as we make final payments on our MyDay lines this year. And then, we're also completing some relatively significant business activity. The last thing we really have this year is our new CooperVision R&D facility going up. As those roll off and you continue to see profits grow, 2027 is going to be a nice free cash flow year. Then it's just more consistency the next year. We're saying over $2.2 billion now. We feel pretty good about the over $2.2 billion side of it.

Operator

Jason Bednar, Piper Sandler.

Jason Bednar - *Piper Jaffray Inc - Senior Research Analyst*

Hey. Good afternoon, guys. I think I heard you right, there aren't any repurchases assumed in earnings guidance for fiscal '26. But I thought you referenced in the supplementary PR today that you're allocating free cash entirely to repurchases. So just how to reconcile that. Is that just conservatism? Or do I ask something incorrect there?

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

We spent about two-thirds of our cash flow this past year on share repurchases, and we're targeting spending about two-thirds of our free cash flow on share repurchases in '26. That will be EPS accretive. We did not include that in the guidance range.

Jason Bednar - *Piper Jaffray Inc - Senior Research Analyst*

Okay. All right. Got it. And then as a follow-up, Al, good to see the TSR addition to the comp plans, I think a lot of us will be happy to see that.

I did want to ask, just if you could discuss how you landed on Colleen as the next Chairman for the business. I know it's maybe a bit of a hot button issue right now, just given some of the items out there in the public domain. But if you could just discuss why that was the right move for the Board in the context of other options, whether currently on the Board or not on the Board? Thank you.

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

We've been having conversations over the last year with Bob. And it's driven by Bob. Bob is a great guy, he adds a ton of value, but he's gotten to the point where he's saying, hey, I want to go into full retirement and it's that time for me. So we were talking about it in the context of transitioning the chair leadership and how that should happen and when that should happen. And this was the right time to do that.

Colleen has been with us for a number of years. She's fantastic. She's super smart. She was a top executive at Proctor & Gamble. She's got global experience, she's got branding experience. She brings a lot to the table, and she just does a really nice job and she adds a lot of value across the board, which is great.

She was the one who probably six months ago, brought up the TSR and said, hey, we need to roll the TSR in and look at shareholder returns and make sure we're aligning executive comp even closer to the stock's performance. She brought that together with our consultants and put a plan together and as I mentioned, we're going to be rolling that in. I think she's the perfect person to step in as the Chair. Bob's plan is to continue to work with her and transition the roll over to her to ensure it's a really smooth process.

Operator

Travis Steed, Bank of America.

Travis Steed - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Hey, everybody. Just curious on the strategic review, your willingness to take short-term dilution to create longer-term value and how you balance the short term for the long term? And also how you think about consolidation in the contact lens space, are there potential synergies there or antitrust risk with actions like that?

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

You're always going to have some of those questions around short-term investments and short-term activity and the impact on the long term, be it across the board, product launches or product development or any number of moves that you can potentially make. The important thing is we've done some work on a strategic review. And people have asked the question what does that mean and what actions can you take?

What I want to be clear about, and we issued the press release, is we've done a bunch of work on that. We're rolling up our sleeves to do more work on that. And we're taking a serious look at all the different alternatives that are out there, be it a number of things, that we put in that press release. I'm not going to go into all the details behind that other than to say, we are rolling up our sleeves, we're working with our advisers, we're looking at the different alternatives that are out there, and we want to ensure that we're driving long-term shareholder value, and that's our heavy, heavy focus.

Travis Steed - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Right. That's fair. And then gross margins down in'26. Just trying to understand exactly how you're giving operating margin leverage. Is SG&A not growing on '26 and how much are you going to be cutting in the business?

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

When you look at it, you can just plug the numbers in, you can see that OpEx or SG&A, is not going to grow very much because that's where we're set right now. This is not additional cuts. This isn't like we need to go do things. We had this reorg activity planned out a while ago, and we completed it aggressively. The team did a fantastic job doing it aggressively and getting it done. You can see that in the SG&A or in the OpEx in our Q4 as reported results and you should assume to continue to see that level of excellence in terms of spending, supporting the top line, and driving leverage on a go-forward basis.

Operator

Matt Miksic, Barclays.

Matt Miksic - *Barclays Services Corp - Analyst*

Hey. Thanks so much for taking the questions. One follow-up on an earlier question around your intention expectation of gaining share in the fourth calendar quarter. Maybe just talk about where you see the various business lines impacting this is envisioned obviously. Just some color as to which catalysts do you think are lifting off a little bit in the last month or so of the year. And then I have one follow-up.

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

Sure, Matt. That's a really good question. You'll remember last year in Q4, we did not have a particularly good quarter. We had some competitors launching product and they had a lot of activity going on, and it was one of the weaker quarters that we've had with respect to the market in a long time. We are comping against that and we are in a significantly better position in this calendar Q4 than we were in last calendar Q4. What it comes down to is just weakness last year and strength this year, and a lot of that ties right to the topics we've been discussing starting with MyDay. I do think we have an excellent opportunity to close this calendar year strong. When you compare that to last year's weakness, it should be a pretty good number. I said it in the call, we're 17 straight years of market share gains, and we have not given up on making that 18. So we'll see how things close out.

Matt Miksic - *Barclays Services Corp - Analyst*

That's great. And then the follow-up, your question earlier on this as well, the separation, you've talked about it, you've answered how you feel about it creating shareholder value. It feels like these reporting lines and operating-wise feels like it has been running separately or independently in many ways and some might say ready to separate for some time. If that's the case, have you looked at this before, what is changing now given the new Board involvement and new investor involvement that you think could make this possible now from a tax basis? Is the restructuring done and it's a tuned up upgraded portfolio that we think will get more interest? What would you say? Thanks.

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

If you talk about a separation, it is a negative in that it will create dis-synergies. It is a negative from a tax perspective. Having said that, you've seen a number of companies, whether in the med device space, med tech more broadly, or those with diverse portfolios, exploring ways to unlock value. And many have pursued strategic alternatives, such as spinning off their diabetes business or they're going to spin this off or they're going to spin that off and look at different strategic alternatives.

I think that's good hygiene. I think that's important to do. Now is an appropriate time for us to do that. We made a ton of progress at CooperVision to position ourselves to really grow again and take market share. We made a ton of progress in CooperSurgical with our fertility business, and we're going to do great in fertility. When you look at the businesses right now, it's fair to ask the question, are there strategic moves that we can make to unlock shareholder value. And that's one of them. And I think it's important for us to roll up our sleeves and evaluate that, and that's what we're committed to do.

Operator

David Saxon, Needham & Company.

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

Yeah, great. Thanks for taking my questions and good afternoon. Maybe I'll start with CSI just on PARAGARD. Al, I think you said flat to up low single digits for fiscal '26. It looks like the competitive IUD is going to launch in the first half of calendar '26. Is there anything embedded in that PARAGARD expectation as it relates to that launch?

And then, when you first acquired it, you talked about the margin profile really strong. Has there been any meaningful change to that margin profile? And then I have one follow-up.

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

Sure, David. A couple of things. There is the competitor product that was approved. I have no idea if it's going to launch or when it's going to launch or anything else about it. We did factor in some conservatism into the guidance of flat to up a couple of percent, assuming that there is a competitive launch.

PARAGARD grew 9% this year. I'm optimistic we'll have another good year. But we did factor in a little conservatism around the potential for a competitor launch. I will say the margins have come down a little bit because of the single-hand inserter launch, nothing that I would classify as material. But the gross margins are a little bit lower on that product.

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

Okay. Great. Thanks for that. And then just on CVI. The Asia Pac e-commerce dynamics, it sounds like we'll lap that in the fiscal first quarter. But any residual impact from the distributor channel inventory dynamics you talked about a couple of quarters ago or the private label conversion from clariti to MyDay. Just how we should think about those moving pieces as it relates to fiscal '26. Thanks so much.

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

As we think about that from an Asia Pac perspective, I think you're still going to have a little bit of that noise in Q1 and we factored that into the guidance. We did 3.2% globally, and we factored in 3.5% to 4.5% as a company and we factored in continuing weakness in Asia Pac in Q1. Whether we see that or not or how much that changes, we'll see and we'll play that out. But you can see some of that as you continue to transition.

Operator

Young Li, Jefferies.

Young Li - *Jefferies LLC - Analyst*

All right. Great. Thanks for taking the question. I guess to start, maybe a question about the pipeline. I did hear that you're launching some new products that can contribute to growth. But some of your competitors have been talking more and more about next-generation contact lenses and materials. I was wondering if you can comment where you are with your program.

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

We have some great stuff going on in R&D. A couple of things that I'm not going to get into that I'm super excited about. We have some launches going on right now that I talked about. We have some stuff like MyDay MiSight. That is market-leading innovation. First of all, we're the only contact lens company with an FDA-approved product for myopia control in MiSight and now we're launching MiSight on the silicone hydrogel platform. We're one of the leading brands out there in MyDay. You can't get much more exciting and innovative than that, and that's coming in Q2.

We've got some other really cool innovation and stuff, including some material work that we're doing internally. I'm not going to start touting that right now. It's not the time to do that. But suffice it to say, we have some good exciting stuff going on ourselves, and we have some product launch activity that's pretty exciting right in front of us.

Young Li - *Jefferies LLC - Analyst*

Okay. Great. Thanks for that. I guess the follow-up question just on the fertility business. Can you maybe go a little bit more into detail on the assumptions for growth next year, talking about the geographic variances between US and its impact from consumers?

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

It's going to be interesting to see what happens with fertility. I happen to believe that fertility, by the end of the coming year, will end up growing mid-single digits, and I think we'll grow a little bit faster than that. I think some of that's going to come because of the easier comps. Some of that's going to come because consumer activity levels off in Asia Pac, where it's been weaker. Some of that's going to come because you have some pretty cool technology upgrades that are working their way through the system right now, including by us and you're going to see some fertility clinics upgrading.

Having said that, that is not what we factored into our guidance for this year. We factored in a more conservative expectation around fertility because I don't want to get ahead of ourselves. When we look at it from a guidance perspective, it's a market more in the low single digits and us growing more in the mid-single digits.

Operator

Navann Ty, BNP Paribas.

Navann Ty - *Exane Bnp Paribas - Analyst*

Hi. Thanks for taking my questions. On the MyDay momentum, can you discuss the revenue contribution of the MyDay product label contract in APAC throughout 2026 and 2027? And then, on fertility, could you provide more details on the recently improving cycles you have called out and any changes in competitive landscape between you, Vitrolife, and Nexpring? And I don't know if you can give some details on the new technologies the clinics are interested in. Thank you.

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

Sure. A number of things there. I'll answer your last one first because some of the new technology you may have just seen or if anyone follows it at ASRM, which is the big fertility conference here in the US, we just launched three new genomics tests that are being received incredibly well. And we have some other technology advancements that we're going to be launching this year within our genomics space and also within our capital space. And then we've got some super exciting stuff that we're working on in our R&D side that I'm excited to get out in the coming years.

I'm going to step back to the MyDay momentum. I talked about that last quarter and that we were winning contracts, and we've been executing on those contracts. A lot of that was tied to Asia Pac. As I mentioned, we're now seeing contract wins in EMEA and in the US, and you're going to see that momentum build as we move into Q3 and Q4. That's a process that's going to happen. That's why I talk about step improvements because we have to manufacture the product, we have to label it, package it. We have to get it over into the hands of the retailer, the key account, whomever it is that’s selling that product, and we have to get it launched. It does take a little bit of time. We clearly took a step forward here in Q4, and we're going to take a step forward again, and then we're going to take another step forward as we execute on those contracts. This is not the first time we've done it. I've seen this many times over the years here at CooperVision and it's going to happen again this time. I won't give you specific numbers, but I will just say that as you win those contracts and as you execute on those contracts, just over the quarter, you start picking up energy, and we see that momentum right now picking up from fitting activity, and that's the key. The first step is get product in people's hands, get the fitting activity increasing, , then it transfers over to the sales and you see that momentum building, and that's what we're seeing and that's what I'm referencing. I won't give you specific numbers on that, but hopefully, that gives you enough color to get comfortable with it.

Navann Ty - *Exane Bnp Paribas - Analyst*

Thank you. That's helpful.

Operator

Joanne Wuensch, Citi.

Unidentified Participant

Hi. This is Anthony on for Joanne. Thanks for taking the question. Could you just talk about your expectations for MiSight and the management portfolio for fiscal '26? Thank you.

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

For MiSight for fiscal '26? Sure. We closed the year out well. We had a good solid quarter. I think we're going to have a good year next year. As I mentioned, I think we'll do at least 20% - 25% in fiscal '26. There's a lot of reasons to believe that we're going to be stronger than that. But we also have the Stellest launch that's happening here in the US. We're building a little conservatism in because of that. Right now, it's actually looking like it's a positive because you're seeing so many people in the optical community talk about myopia control for children and how important it is and how it needs to be standard of care. In my mind, there's no question that long term, it's a significant positive and it's a significant positive for MiSight.

If I look at just fiscal '26, could that impact our revenues here in the US market a little bit? It could. And if it does, we factored that in. That was our assumption, if we are negatively impacted because of Stellest in the very short term, the growth on MiSight might come down towards the 20% range. But there's a lot of reasons to be more optimistic.

MiSight is launching in Japan, that should be a great market. It's not until Q2, but that's coming. I'd argue MyDay Misight is arguably the most innovative thing going on in the contact lens market, probably by a wide margin, going on in the contact lens market. That product is launching in Europe and we're going to hit a few other countries in Asia as we move through the year. There's a lot of reasons to be excited about MiSight right now. We'll see how the year plays out.

Operator

Brett Fishbin, KeyBanc Capital Markets.

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

Hey, guys. Thanks very much for taking the question. Just had a couple of follow-ups on some of the CVI assumptions for FY26. You were just talking about MiSight, but maybe just drilling into the Japan launch, which I think you mentioned today is planned for 2Q. Was hoping you can maybe just touch on how you're thinking about the longer-term opportunity in that region. And then just coming back specifically to what's expected in the FY26 guide as a result of that launch.

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

Let me just be clear because the launch is for MiSight in Japan. We have MyDay there now, although to be fair, it's pretty new and a lot of the contracts are pretty new. So let me just bifurcate that quickly. Because I think that MiSight itself going into Japan for the very first time should be very successful. That's an ophthalmologist market. A product like that relies on clinical data, and that's the key when it comes to MiSight. MiSight is the only lens with this really strong clinical data. That will go over really well in a country like Japan. Although it's a Q2 launch, it will gain traction as we move through the year, and I would envision that's going to be a really successful product towards the end of '26 and into '27.

If I think about Japan on a broader basis, we just didn't have the amount of MyDay capacity that we wanted there. We weren't able to do a number of the private label contracts that we wanted to because we didn't have product. As you remember, Brett, we stopped being capacity constrained over the summer. We were able to aggressively go into all of Asia Pac, including Japan and start winning the private label contracts. We've won a number of those. We're executing on those now. The assumption is not anything herculean, it's just that we execute under the contracts that we have and continue to get the product into the marketplace.

So relatively straightforward. That's one of the reasons that we put guidance at 3.5% to 4.5% in Q1. We did 3.2% this past quarter. We're not saying that we're going to get a hockey stick immediate ramp up. We're just saying we're going to continue to get consistent, solid, improving performance.

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

All right. Thank you for that color. And apologies if I misspoke, I meant to say MiSight. And then just circling back, one other question. You've talked about some of the distributor channel inventory dynamics in the Americas. I was hoping you could just update whether that had any impact on 4Q, either negative or if there was some positive reversion? And then if you're still assuming like a relatively neutral impact there for FY26. Thank you.

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

Sure. There was really nothing there from an inventory perspective. I didn't raise it because there was nothing to talk about.

Operator

David Roman, Goldman Sachs.

David Roman - *Goldman Sachs Group Inc - Analyst*

Thank you. I'll just ask two questions here quickly upfront. One is, can you give us just a little bit more detail on the nature of some of the reorganization efforts that you've undertaken here? And then what are some of the actions you're taking to ensure retention. Sometimes with these restructurings, there’s unintended consequences of losing the right people, you need to execute the business on a go-forward basis. What are you putting in place to ensure you have the right people to achieve the forward strategic objectives?

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

David, good question. On the reorg, it was pretty much across the board with a heavy focus on back-office support. We did look at all of our areas. CooperSurgical a little bit more so because we had some integration-related work and some sales force consolidation there. But there was a lot of leverage opportunity in our support function areas because of all the IT upgrades that we've done. You hear people talk about AI all the time. Well, it is real. And when we looked at the AI that we've deployed and our opportunities to leverage it, there were some good opportunities there. When I look at retention details, we have fantastic people with great teams of people who are here and the one thing that we're pushing on our organization right now is that we want everyone to embrace AI, continue to embrace it, continue to learn it, make AI your friend. We made the moves that we needed to make in Q4 and our teams know that right now, it's about staying focused on executing, leveraging our growth, making all the appropriate moves. But one of the things that we want to make sure we do we always try to do is, first and foremost, promote from within. And that's a key point. If I gave you the stats, you would be amazed at how many promotions we have from within. And we're going to continue to do that. We train our people and we want our people promoted from within. We want everybody to be successful, make more money, and get ahead because we're a growing organization. We just need to do it intelligently so that we can really truly leverage this revenue growth on a go-forward basis. And the company right now is so much more efficient than it was and less bureaucratic. We're in a great spot right now to just do our jobs and execute.

Operator

Anthony Petrone, Mizuho Group.

Anthony Petrone - *Mizuho Securities USA LLC - Analyst*

Thanks. And maybe one on CVI and one on strategic review. Just on CVI, maybe a little bit on the private label business, how that trended in the fiscal year, were there bigger opportunities out there that you either gained or lost, how is that going to set up for '26 as well just thinking of the private label trend?

And then on strategic, maybe just to recap on historically, what are the synergies of having CSI and CVI under one umbrella. And then over the years, have you noticed any dis-synergies? In other words, has capital allocation between those two businesses, has that been an issue that could be resolved if they were two separate entities? Thanks, again.

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

Sure. On the private label trends,I would point to the new private label contracts that we've won in the US and in Europe. There's some exciting stuff there. I'm not going to go too far into it, but you'll see some of it because it will be hitting and making itself public in maybe even January, but February, March timeframe. That's going to set us up well for Q3 and Q4 this year to be good quarters for us. I like the momentum that we have in Asia Pac in some different areas, but I'm equally excited about some of the newer contracts that we've won and that we'll be rolling out.

On the strategic synergies, I would say, from a capital perspective, we have always invested in CooperVision first and foremost. That's our main driver. We put our dollars there. You've seen that over the years in terms of new manufacturing lines and distribution center upgrades and IT upgrades.

We've also done a number of deals at CooperSurgical as we built that business out. But the last one we did was over a year ago, we did a little tuck-in in August of last year. It's been a little while. We've got a great business there. Holly has pulled everything together and has a much more efficient business today than it was a year or so ago. Because of that, we've been able to do that work and reallocate our capital to share repurchases, and we're going to continue to focus in that area. I would say that there's been no negative at all from a capital allocation perspective. The synergies that we have are back-office synergies largely. And I talked about that and how we're just doing all that more intelligently, but it's still back office-type synergies. Those businesses still to a great degree run separately.

Operator

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

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

Great. Thank you, operator, and thank you, everyone. As you could tell, we had an incredible amount of work that was completed in this last quarter. And I'm excited that we were able to get on the phone with everyone today and go through those details and present it. And we look forward to speaking with everyone over the coming weeks. Thank you. Thank you for your time.

Operator

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

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