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PRESENTATION

Operator

Thank you for standing by, and welcome to the Q4 2023 CooperCompanies Earnings Conference Call. I would now like to welcome Kim Duncan VP, Investor Relations and Risk Management to begin the call.

Kim, over to you.

Kim Duncan ***CooperCompanies - VP of IR & Risk Management***

Awesome. Thank you. Good afternoon, and welcome to CooperCompanies Fourth Quarter and Full Year 2023 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 revenue, EPS, operating income, tax rate and other financial guidance, a pending stock split, expected revenue growth and accretion related to our recent acquisition, 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 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 under non-GAAP and refer to the reconciliations provided in our earnings release, which is available on the Investor Relations section of our website under quarterly materials. Should you have any additional questions following the call, please e-mail ir@cooperco.com.

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

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

Thank you, Kim, and welcome, everyone, to CooperCompanies 2023 fiscal fourth quarter and year-end conference call.

This was a fantastic year for Cooper as we finished with all-time record revenues of almost $3.6 billion. And we closed the year on a really positive note with CooperVision posting its 11th consecutive quarter of double-digit organic growth and CooperSurgical posting record quarterly revenues driven by our fertility business posting its 12th consecutive quarter of double-digit organic growth. Truly tremendous accomplishments by phenomenal teams. We've now entered fiscal 2024 with a lot of excitement and focus on executing on our long-range strategic objectives, including gaining market share, driving profitability, launching innovative products and services, and maintaining our fantastic Cooper culture.

Moving to the quarterly numbers, consolidated revenues were $927 million, up 9% organically year-over-year. CooperVision posted revenues of $623 million, up 11% organically, and CooperSurgical posted revenues of $304 million, up 7% organically. CooperVision's growth was led by strength in our daily silicone hydrogel portfolio, and CooperSurgical's growth was led by a very strong quarter in our fertility business. Margins improved and profits were solid with non-GAAP earnings per share of $3.47, up 26%.

For CooperVision, and reporting all percentages on an organic basis, revenue growth was strong and diversified. The Americas grew 12%, EMEA grew 9% and Asia Pac grew 10%, with all 3 regions having success with our innovative products, market-leading flexibility, and growth in key accounts.

Within categories, torics grew 15%, multifocals grew 18%, single-use sphere grew 7% and non-single-use sphere, other grew 4%. Within modalities, daily silicone hydrogel lenses grew 19%, and our silicone hydrogel monthly and 2-week lens Biofinity and Avaira Vitality grew 8%.

Turning to products and starting with our high-growth daily silicone hydrogel portfolio, we continue to outperform expectations with MyDay. We just passed the 2-year anniversary of the MyDay multifocal launch and the pace of growth on this product remains outstanding. The unique combination of an advanced multifocal design paired with an easy fitting system has resulted in very high satisfaction levels, including a 98% fit success rate in 2 pairs or less. This makes it a win for the doctor and the patient, and it shows in our results and momentum.

From a personal perspective, as I shared last quarter, I now wear MyDay multifocals, and I continue to be amazed at how easy the lenses are to insert and remove and how fantastic my distance and near vision are. And I put these lenses in as soon as I wake up, and I don't take them out until bedtime. I may be biased, but I truly believe these are the best multifocal lenses on the market and our sales growth certainly supports that.

Moving to MyDay toric, demand remains very strong following the rollout of our parameter expansion across North America and Europe. This success is due to the product's market-leading toric design, which mirrors Biofinity's design and our industry-leading SKU range.

And MyDay Energys, our most recent launch, continues to impress eye care practitioners and patients with its innovative DigitalBoost Technology designed specifically for today's digital lifestyle. The lenses deliver fantastic comfort, and sales are exceeding our expectations. And I'm proud to say that MyDay Energys was recently voted the most innovative product of 2023 by U.S. eye care practitioners, an awesome accomplishment and great recognition for our team. With the success of these MyDay products, we certainly look forward to rolling them out in additional markets around the world as soon as capacity allows.

And while MyDay continues to be our key growth driver in the daily silicone segment, we're continuing to have success with clariti, which offers a full family of spheres, torics, and multifocals at a great price point. The initial comfort, excellent handling, and price positioning have led clariti to be a lens of choice for new wearers.

Outside of dailies, demand for our Biofinity family of products remains healthy led by torics and multifocals. And I'm excited to announce we'll be launching our highly successful Biofinity toric multifocal to several new markets in the coming year in response to extremely strong demand. Avaira also had a nice quarter led by torics.

Moving to myopia management, we posted revenues of $35 million, up 41%, with MiSight up 46%. This was another excellent quarter for MiSight powered by growth in the Americas and EMEA, while Asia Pac was flat due to challenges in China. As we enter fiscal 2024, we're expecting excellent growth with the positive trends in the Americas and EMEA continuing and Asia Pac returning to growth as the region has hurdled past stocking orders and is already showing improving trends. Additionally, we're continuing to see high retention rates, growing momentum in key accounts, and a nice halo effect on our other products. All this adds up to over 250,000 children around the world wearing MiSight and momentum being very strong.

MiSight remains the first and only FDA-approved contact lens for myopia control, and it's backed by extensive clinical data. This is a crucial differentiator as the proactive management of myopia becomes standard of care within the eye care community to help reduce the progression of myopia in children, along with reducing the risk of long-term eye health problems associated with myopia, such as cataracts, retinal detachment, and macular degeneration. Meanwhile, our Ortho K franchise had a nice rebound quarter, growing 37% year-over-year.

To finish on CooperVision, the contact lens market grew roughly 7% in calendar Q3, with CooperVision taking share growing 10%. We expect the market to remain healthy growing 5% to 7% this coming 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. This is driven by kids spending more time indoors and the related greater use of digital screens, among other factors. 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, our fast-growing myopia management business and leading new fit data.

Moving to CooperSurgical, we posted record revenues of $304 million, up 7% organically. This included fertility sales of $121 million, up 15% organically, which was our 12th consecutive quarter of double-digit organic growth. Within this, we saw share gains around the world and throughout our portfolio, driven by our market-leading products and services including consumables, capital equipment, and reproductive genetic testing. We also continued investing in geographic expansion, key accounts, and R&D.

We're entering fiscal 2024 as one of the fastest growing and most innovative fertility companies in the world. We're developing and launching new products, opening new donor sites, providing extensive training through our centers of excellence, expanding in new and existing geographies, and we're well positioned to continue delivering success given our great team, diverse portfolio, and global momentum.

For the broader fertility market, the macro growth trends remain intact starting with women delaying childbirth. Age is a key factor in contributing to the need for fertility assistance and the median age of woman's first birth in the U.S., and within several other developed countries, is roughly 30 years old, and moving higher. Other growth drivers include improving access to treatment, increasing patient awareness, increasing fertility benefits coverage, and technology improvements to address both male and female and fertility challenges.

The World Health Organization's data highlights that 1 in 6 people globally are affected by infertility at some point in their lives and given that 1/3 of the underlying cause of infertility is women, 1/3 is men, and 1/3 is a combination of the two, or unknown, this is an issue that impacts a lot of people and will continue to do so in the future.

Moving to Office and Surgical, we posted sales of $183 million, up 3% organically with medical devices growing 3% against a very challenging comp. Within this part of our business, we recently closed the acquisition of several highly strategic products from Cook Medical. Given the strength of our medical device team and the success we're having in the Labor and Delivery space, where several of these acquired products reside, this will be a great deal for us, and I look forward to reporting future results on these products. Stem cell storage posted solid growth of 6%, and PARAGARD was flat as higher pricing offset decline in unit sales.

To conclude on CooperSurgical, we take great pride 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 part of what makes this business really special for us.

Moving to fiscal 2024, let me provide comments on revenue guidance and Brian will cover the rest of the P&L.

We expect CooperVision to post strong results and are guiding to 7% to 9% organic revenue growth for the year. The main limiter to this growth is capacity challenges from new wearer demand, especially for MyDay. We expect these capacity constraints to pressure revenues in fiscal Q1 resulting in growth of around 7% for the quarter. We are actively bringing additional capacity online though and expect to report high single-digit to double-digit growth as we move through the year. For CooperSurgical, we're guiding to full year organic revenue growth of 4% to 6% which includes another year of strength in Fertility, low to mid-single-digit growth in medical devices and stem cell storage, and flat to slightly down in PARAGARD due to declining volumes.

To conclude, let me say this was a great year for Cooper, and we've entered fiscal 2024 with great momentum. But none of this is possible without the incredible hard work and dedication of our employees, so a big thank you to the entire global Cooper team for another incredible year.

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

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

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

For the fourth quarter, consolidated revenues were $927 million, up 9% as reported and up 9% organically. Consolidated gross margin was 66.7%, up from 65% last year, driven by better operational performance at both CooperVision and CooperSurgical, along with favorable currency. Operating expenses grew 8%, improving to 42.3% of revenues as we saw leverage from prior investment activity. Consolidated operating margin improved to 24.4%, up from 22.2% led by the strong gross margins and leverage from our operating expenses.

Below operating income, interest expense was $26.4 million, and the effective tax rate was slightly higher than guidance at 12.8%. Non-GAAP EPS was $3.47 with roughly 49.9 million average shares outstanding. With respect to FX, it was $0.25 positive year-over-year for the quarter, which was $0.02 worse than expected in our Q4 guidance. Free cash flow was $29 million with CapEx of $145 million. Net debt decreased to $2.45 billion.

For the full year 2023, we reported record revenues of $3.6 billion, up 9% or up 10% organically and non-GAAP EPS of $12.81. Within this, consolidated operating income grew 11% on a constant currency basis.

To provide additional color on our fourth quarter results, first, we had solid execution with an emphasis on delivering stronger gross margins and leveraging our operating expenses. This focus on delivering a more leveraged P&L as continuing in fiscal 2024. Second, we completed a significant amount of infrastructure and integration activity this quarter. This puts us in an excellent position to deliver success moving forward including ramping up capacity and implementing continuous improvement projects. And lastly, we finished the majority of the integration of our Specialty Lens Care unit into our core CooperVision business. This is a great move from a commercial and efficiency perspective, but it did result in a noncash intangible asset impairment charge associated with the discontinuation of certain products, which is a large part of our non-GAAP adjustments this quarter.

Before moving to guidance, let me mention that we closed the acquisition of select Cook Medical assets on November 1. The purchase price was $300 million with $200 million paid at closing and the remaining $100 million to be paid in two $50 million annual installments. The acquired assets generated approximately $56 million in trailing twelve months revenue as of September 30, 2023, and we expect growth of 5% to 7% in constant currency this year. Excluding one-time charges and deal-related amortization, the transaction is expected to be accretive to non-GAAP gross and operating margins and accretive to non-GAAP earnings per share by approximately $0.20 in fiscal 2024.

Moving to guidance, we're guiding to fiscal 2024 consolidated revenues of $3.81 billion to $3.88 billion, up 6% to 8% organically, with CooperVision revenues of $2.55 billion to $2.6 billion, up 7% to 9% organically, and CooperSurgical revenues of $1.26 billion to $1.28 billion up 4% to 6% organically.

Non-GAAP EPS is expected to be in the range of $13.60 to $14.00. This assumes roughly $110 million of interest expense, which includes the debt from the assets acquired from Cook Medical and no interest rate changes by the Fed during our fiscal year.

For tax, we're still expecting a roughly 15% effective tax rate excluding any discrete items such as stock option exercises. For currency, we're using roughly current rates which results in a year-over-year FX headwind of roughly 1% to revenues and roughly 5% to earnings. And lastly, the EPS range corresponds to roughly 10% to 13% constant currency OI growth excluding Cook or 13% to 16% with the Cook acquisition accretion.

To wrap up, as announced in our earnings release, our Board has approved a 4-for-1 stock split with an effective date of February 16, 2024. This is in response to many years of strength in our stock and our desire to adjust the price to make ownership more accessible to employees and investors. And lastly, we made the decision to stop paying our de minimis semiannual dividend.

With that, let me conclude by saying fiscal 2023 was a record year for Cooper, and we're well positioned to deliver solid growth and leverage in fiscal 2024. And now I'll hand it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jason Bednar with Piper Sandler.

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

Congrats on a nice close of the year. I wanted to start first on CVI revenue growth guidance and really connect the discussion on pricing. You're guiding to more share gains here, Al and Brian, I think growth is like 2 points above the market, at least how you're calling. I think you've historically been seeing price gains below peers, though. We're hearing you implemented a price increase at the beginning of this month that's at or above peers.

So when we think about your CVI growth guidance and you're getting a little bit more aggressive with pricing than you have in the past, but your growth in performance versus the market is similar to where we started fiscal '23, I guess does this imply you're anticipating volume growth to moderate due to those capacity challenges you mentioned?

And then maybe just -- again, sorry for packing a few in here, but can you confirm that you have visibility these capacity challenges aren't going to be a headwind beyond the current fiscal first quarter?

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

Sure. Jason, a couple of things. We're still going to put up good growth in the first quarter here. I mentioned we think we'll be somewhere about roughly 7%. We are capacity constrained in that we could grow faster if we had more capacity, but a lot of wearer demand on that. So we have new lines coming in. We'll progress through the year bringing additional lines on so that we'll be able to continue to report upper single digits or even double-digit growth in some quarters.

When I look at our guidance, the 7% to 9%, and I think about price. I'll give it in the context of the market. Last year, if we look at '23, the market pricing was about 2% to 3%. We were on the lower end of that. I think if you looked at this year, pricing again in the market will probably be 2% to 3%. We'll be at the higher end of that, and that's how I would define it. So I wouldn't read too much into a dramatic delta between our price increases and where I think the market is ultimately going to be. We did some of our price increases earlier in the year than normal. We'll see what some of our competitors do with respect to pricing in the coming months.

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

Okay. Yes, definitely a high-class problem with the capacity challenges, and it sounds like the pricing may be more in line with peers than in the past. I want to zoom out one other maybe bigger picture question, Al. And this is a question I get a lot from investors. What's it going to take to get operating margin expansion to come back to the business? It's the most common question we get. I think we're now 3 years into really seeing good growth across CVI and fertility. I guess can you sustain that good top line growth if you moderate some of those investments? I know FX has been a challenge. But I guess will there become a time when you're more willing to commit to like a multiyear margin expansion plan that could take us back into that 27% to 28% margin range for the business.

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

Yes. I guess my response would be that we grew operating income 11% this year on a constant currency basis, that's faster than revenues. Our consolidated guidance this year, at the midpoint is 7% and Brian just mentioned that our operating income constant currency growth is 10% to 13%. So that's leverage again, and we're focused on improving our operating margins and driving success there. So we did it in '23. We're anticipating doing it in '24, and my belief is you'll continue to see that in the coming years.

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***

Al, I just wanted to understand on the last call, you talked about guiding less conservatively at the start of the year. The guidance for fiscal '24 is, I think, exactly the same as it was at the start of fiscal '23. Is the only thing that changed the capacity? And any more color on where those capacity constraints are?

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

Yes. The capacity constraints are tied to MyDay. We have continued to win wearers in MyDay at a faster clip than we were anticipating. A lot of that wearer growth and growth in MyDay, is coming from torics, especially, which have a wide SKU range. So that's put some pressure on us. I would say, the success that we're having, in terms of wearer growth has driven some of those capacity changes.

Now we knew it. We saw that stuff. We've been investing in CapEx. You can see that in our CapEx numbers. We have additional manufacturing capacity coming online. So we're in good shape. We're just running into a little bit of a very short-term issue where we'll have a strong quarter, but maybe not a double-digit quarter.

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

And is that the reason the guidance is exactly the same where you alluded to it on the Q3 call being a little bit more aggressive to start this year versus last year? Is there anything else?

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

If we had more MyDay capacity, the guidance range would be higher.

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

Okay. And then, Brian, can you talk about the assumptions in the guidance for gross and operating margin for the full year and the cadence? I thought I heard sales commentary for the cadence, but not margin. And I didn't hear the myopia management number for fiscal '24.

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

Yes. Larry, currencies are negative for both gross and operating margins next year. But gross margin should be pretty similar to last year, up on a constant currency basis. With respect to operating margins, again, currencies are negative, but it will be a little bit better on an as-reported basis than last year. We're getting operating leverage from OpEx.

With respect to our myopia management range, Al, do you want to take that?

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

Sure. Yes, we're not going to give a guidance range for myopia management this year. Similar to our other products, like we don't do for daily SiHys or anything else. I mean we'll continue to give growth rates and details and so forth, but I'm not going to get into a guidance range.

One other thing, Larry, I just want to mention our "usual" guidance, put that in quotes, and certainly pre-COVID, was running at the marker at 4% to 6% and us 6% to 8%. The market at 5% to 7% and 7% to 9% is greater than our pre-COVID traditional guidance. So I just want to be clear that we are guiding to a stronger market overall and stronger performance than we used to guide too, at least pre-COVID.

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***

Al, just going back to some of the capacity and supply issues. We hear a letter went out in Japan. I'm not sure if it did in other markets as well just on some of those supply constraints. So should we be thinking about geographically that 7% is going to be most impacted in the Asia Pac region, number one.

And number two, I think over the last couple of years as a lot of contact lens companies, you guys included, have dealt with a lot of this rebound and strong move to dailies in that, which is helping fuel that top line, we've seen some things pop up, right, on the distribution side, on the warehousing side, some added costs. You are having to put in some extra lines to kind of hit these demand things, which are good. Can you give us any assurances that this year, you don't feel like there's going to be anything that gets uncovered kind of midyear that all of a sudden adds some cost or takes away from some of the earnings that are being guided to for this year?

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

Yes, great questions. Let me answer that second one first. You are right. We have a lot more volume going through our supply chain, or through our logistics chain. We did a significant amount of that work over the last couple of years. And I take my hat off to our global distribution team, they've done an amazing job. I'm happy to say that the vast majority of that activity is getting behind us. And I'll use the example I talked about, which is our West Henrietta distribution center outside of Rochester, New York. Great team. They're a great group of people. They've done a really nice job. That expansion is done. So the risk associated with that activity is significantly lower. Same thing, our Liege team in Europe did a fantastic job with software updates and so forth.

I think we're in a really good spot when it comes to our distribution, our packaging, labeling, distribution. I've got a lot of confidence in the team there. So happy to say a lot of that work is behind us.

On the supply constraints, again, it's MyDay-related. From a regional perspective, we'll see how that plays out. I don't want to point to any particular region or tip my hat from a competitive perspective or anything else to anyone. So we'll see how it plays out. I'll certainly, give commentary on that in the Q1 quarter. But again, I just want to be clear, we're still expecting a good solid Q1.

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

Yes. No, you've come up against double-digit comp. I get that. So all good there. And then, Brian, I guess, if I could just pin you down a little bit on the guidance, on the EPS guidance. I just want to make sure I understand, the pound, the euro, some of those currencies have been kind of in a pretty tight range here over the last few weeks. The yen is what has really strengthened quite a bit in just the last week or two. Obviously, you guys have a pretty big sensitivity to the yen. So when you say you're using current rates, I'm assuming you guys didn't update your guidance this morning as the yen was off or strengthened a couple 2.5, 3 points. So just are you at 148 on the yen, 146 on the yen, 144? I know it's ridiculous to have the single currency, but just the sensitivity is there. So I'd like to know kind of where we're starting the assumptions on that $13.60 to $14.

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

Jeff, yes, what I'll say is we use roughly current rates, but you're absolutely right. We did not factor in today's currency moves, in particular the yen. Like with guidance, we're initiating the year. We always exercise a certain level of prudence, and I would say we did that with respect to currency as well.

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 want to just stick with the constraint for a second. Al, you always mentioned the challenges on capacity, and I think you're always very transparent about it. But you had been seemingly staying ahead of the demand curve unlike some of your competitors. What recently changed? Because I wouldn't think the demand, in an industry that's very consistent in terms of the growth rate, can the demand really spike so suddenly in a 6-, 8-, 10-week time frame that caused you to be from in front of it to behind it? Or was it really acute because it's in one particular part of the portfolio? And then maybe if that's the case, how do you have the confidence that you are able to rectify or reconcile it over the next 2 to 3 months?

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

Yes. Great question, Jon. It's not a demand spike, so to speak, as much as it has been consistently strong demand. Remember, that when you're talking about the MyDay lines, a lot of our manufacturing lines now, it's still taking us somewhere in the area of 18 months from the time we order that line to the time the line is producing product that we can sell into the marketplace. That's still a little bit longer because of all the robotics, camera systems and so forth.

So you're talking about if we had an increase in demand, which we've seen on those products, say, over the last 6, 9 months, that kind of thing, right? You can order new lines, but to catch up on that, sometimes it takes a little while. So what you're getting in for production right now would be lines that we ordered a year and a half ago.

I think the team did a really nice job in terms of planning that out, and we continue to plan that out in advance. But it's a little hard to tie it all together. And when you get an extended period of time of winning more wearers than you anticipated, you can get yourself in these types of situations.

But where I get comfortable is that we know what lines are coming in. We can see the production, we see the lines coming on. Our manufacturing team is insanely strong at getting these lines ramped up and into production, and they're doing a great job. We have all the schedules, we have the demand, we see all the activity, and we're able to manage it.

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

Okay. That was great color. And just to shift, Brian, over to you. I'm sorry if I missed this earlier on EPS, but anything to call out regarding the cadence throughout fiscal '24 as we think about FX being particularly violent last year? And maybe, I don't know, less leverage in fiscal 1Q due to some of those constraints that are most acute in the coming quarter?

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

Jon, yes. There's nothing in particular that I would point out. I think we'll start off with a good year, as Al said. But if there's going to be something that I'd point out is, if I look at currency today, the biggest impact from currency is probably hitting us in Q2 versus the other quarters. But outside of that, I would say normal seasonality gain and phasing through the year.

Operator

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

Unidentified Analyst

This is actually Anthony on for Joanne. Just one from us. Do you think you're losing any potential new customers related to these capacity challenges in MyDay?

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

We're definitely not losing any customers. That's for sure. And we're continuing to gain new wearers. There's no question about that. Could we be gaining even more wearers? Yes. Do I think we're going to permanently lose them? No, because we are going to have the product. It's rolling into the market. I'm not talking about a dramatic change. We're giving guidance for the year of 7% to 9%, and we're talking about doing 7% in Q1. So let's not blow this out of proportion, right? This is a short-term little thing here from a revenue perspective. But we are winning wearers at an abnormally large clip. We're going to continue to win wearers this quarter in Q1, and we're going to win them the rest of this year.

Operator

Our next question comes from the line of Craig Bijou with Bank of America.

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

I wanted to start with a follow-up on FX. And obviously, it's been volatile. To the extent that the dollar weakens over the course of your fiscal year, I just wanted to get a sense for how you guys plan to either let that fall to the bottom line? Or if there is potential reinvestment of some of the benefits there?

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

Craig, yes, great question. We've been getting this question a lot because currency has been really moving against us year after year after year. I certainly would love to see this trend continue. But certainly, if it does and the dollar were to weaken, yes, we're going to let that currency fall through to the bottom line.

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

You want the recent trend to continue.

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

The recent trend. That's exactly right.

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

Yes. Understood. And then maybe for you, Al. Any update on SightGlass and the timing or any communications or maybe even any expectations that you expect on the data front or that you've heard from the FDA? Just what's the timing? What's the thinking on SightGlass?

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

No, unfortunately, no updates right now on SightGlass. We're continuing to progress and do work. We're selling that product in markets around the world. There continues to be positive momentum. I'm excited about it, but I don't have any updates to give you right now, maybe on the next call that we have, but really nothing right now.

Operator

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

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

Great. Two for me. First, on free cash flow. It looks like you came in plus or minus $170 million on the year. I think that this time last year, you guided to $300 million. So what drove the shortfall in '23? And how should we think about free cash flow generation in '24?

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

Robbie, yes, we actually came in at $215 million of free cash flow. We had a pretty large CapEx year. We ended the year at $393 million in CapEx. We had been guiding around $400 million, so we kind of landed right at that mark.

We had the Cook termination fee that we paid in 2023, so that offsets some of the free cash flow. Interest, FX, and taxes were also headwinds in 2023. So that put a damper on free cash flow generation. I do expect that free cash flow will improve in 2024 probably in excess of $100 million over 2023. We still have some headwinds tied to FX, taxes and interest, probably about $50 million that are creating more of a headwind for us. But certainly, if I look at CapEx, it's going to be elevated again in 2024, probably a similar level as we saw in '23.

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

Great. And apologies on my math. Maybe more of a strategic question here. You've had the past few years, double-digit organic top line growth, yet we're just not seeing it translate down to the bottom line for a number of reasons, whether it's operating margin or currency. So how do you think about your commitment to double-digit EPS growth on a reported basis? And are there any things you could do moving forward to help with the consistency. I don't know if it's a return to hedging or something else. But how do you think about the necessity of giving us reported EPS leverage growth?

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

Sure. Yes. I'll go back to the question Craig asked there with Brian. A couple of things. One is, as we talked about last year, and as we gave guidance this year, we are talking about our operating income growth in constant currency. When it comes to FX, we've seen it move nicely in our favor. As Jeff said, some of that's not incorporated in the current guidance, but it's great to have currency moving in our favor. And I'll reiterate what Brian said, which is we're going to continue to manage the business that way. If currency moves in our favor, that currency is going to flow through the P&L.

We have great investors, and a lot of them have stuck with us as we've worked through the last several years where currency moved against us. And they deserve to get the opposite side of that. If currency moves in our favor, that will flow through the P&L, and we'll post some strong quarters. I think EPS was up 26% this quarter, I'd love to see currency move in our favor and post some more really strong quarters.

So that's what I would tell you is that we run this business to drive constant currency, leverage and growth. And we plan on delivering that and hopefully, fingers crossed, we get some positive currency that helps us drive that more. And then on top of that, one other add would be generating cash flow, paying down some debt, reducing interest expense.

Operator

Our next question comes from the line of Steven Lichtman with Oppenheimer.

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

Al, you mentioned expected price increases for the industry here near term at about the same year-over-year level as we saw over the last 12 months. What is your confidence in the sustainability of price increases for you and the industry is as year-over-year inflation moderates? I think you've said that 2% to 3% -- maybe 1 point, 1.5 points above historical levels.

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

Yes. We're a little early probably this year compared to some other years in terms of our price increases. So we'll see what other people do. But I've talked a little bit about some of the constraints we have here in capacity. We have competitors who have similar challenges. Although we don't have some of the other supply chain challenges some of them have been working through.

But at the end of the day, the core contact lens industry is growing nicely. And it's growing for a number of different reasons, trade-ups, growth in torics, growth in multifocals, growth in wearers, geographic expansion. One of the things that's happening as we've moved to this oligopoly, because remember, ourselves, J&J and Alcon are close to 90% of global revenues for contact lenses, is you're seeing a lot of demand for contact lenses, and that's creating an environment where all of us are struggling to keep up with that demand. And it takes a lot of time to get new manufacturing lines, and to ramp up capacity, and manage through all the logistics that you have to do to manage this growth.

So that's a long way of saying that I believe for the foreseeable future, the contact lens industry is going to have very strong demand. Anytime you have strong demand and you have capacity-related issues associated with demand challenges, you normally have an environment where you have pricing. Companies are able to take pricing in that to offset some of those challenges and then I would also add any inflationary pressures that are potentially out there. I happen to believe you're going to see pricing trend at a higher level here for a number of years in front of us.

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

Got it. Thanks Al. And Brian, just a follow-up on the tax rate for FY '24 here. Does that contemplate Pillar 2 or based on your fiscal year it doesn't. And if it doesn't, how should we be thinking about that over the medium term?

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

Steve, yes, that does contemplate Pillar 2. Our expectations are incorporated in guidance, and I'll just restate, we expect our ETR to be around 15% pre-discretes.

Operator

Our next question comes from the line of David Saxon with Needham.

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

Great. Maybe one on CVI, one on CSI. For CooperVision, I just wanted to ask on MiSight. What inning are we in, in terms of MiSight coverage? And for the payers that are covering it like Aetna and Kaiser, what portion of the cost do they actually reimburse?

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

We're in the first inning on that. I don't even know if there's one out in the game. It's very early in that. So Aetna just started coverage. Kaiser has some coverage. But in terms of insurance reimbursement and getting that through the industry to optometrists, it is very, very early in that process. So, there's some very significant potential upside associated with that. But I do not want to get in front of that because we are very, very early in that game.

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

Okay. And just, I guess, how much are they reimbursing? And then I'll just ask my second question on PARAGARD. I mean volumes obviously have been kind of flat to down, especially this past quarter. So just wanted to get your updated thoughts on that product. Is there anything you can do to drive recovery in volumes? Or is PARAGARD growth going to be kind of primarily driven by pricing over the long term? And if so, I guess at what point does that ability to drive growth through pricing kind of go away?

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

Yes, sure. Yes, the amounts vary depending upon who it is. And how it's covered and what plans people have for MiSight. Some of the coverage gets fairly high, as high as 80%. I think a lot of that coverage would be half of the 80% coverage. But again, I just want to caveat that by saying it's very early in the process of how it's defined and how it's reimbursed. So a lot of work there.

On PARAGARD, yes, we're guiding to a flat to maybe down year. The challenge is around volume. There's access to other birth control options that are out there, be it easier access to birth control pills as an example or other areas. I think the IUD market is going to continue to be pressured from a volume perspective. We do take price as do other people in that space, and that offsets it.

But I think as you look at IUDs at least for this year, and I don't know if I want to forecast too much further out, but we're going to be looking at flat to declining volume. So that's just the world that we live in right now with respect to IUDs.

Operator

Our next question comes from the line of Navann Ty with BNP Paribas.

Navann Ty Dietschi ***BNP Paribas Exane, Research Division - Analyst***

So will the 2024 share gains be in contact lenses and CooperSurgical as well? And will that be driven by innovation? And can I also please ask about your capital allocation priorities after the maternal health acquisition?

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

Yes. I would say on capital allocation, our focus, frankly, is on paying down debt right now. We'll continue to do the things we do, but we'll have a heavier focus on paying down debt.

If I look at share gains, yes, we anticipate continuing to take share in contact lenses. A lot of that will come from innovation because there are some exciting products out there, like MyDay Energys, as an example, which is doing really well, a really cool, innovative product that's doing well.

And then some of it, I'd call innovation tied to some of the stuff that we've been doing on the multifocal side and on the toric side. So I think we'll have another good year within the Vision space.

And I think we'll take share within CooperSurgical, certainly within fertility. Great team there, doing just an absolutely fantastic job, just posted a tremendous quarter. I have all the faith in the world in them, and we're continuing to invest behind them. And we'll continue to invest behind them moving forward. And I think we'll see ongoing share gains within fertility.

Operator

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

Anthony Charles Petrone ***Mizuho Americas LLC - MD of Senior Medical Devices, Diagnostics & Therapeutics Equity Research Analyst***

Maybe one on Vision, one on Surgical. On the Vision side, going back to MiSight, maybe just a recap on what you're seeing from early patient adopters? Are there any noticeable drop-offs? Or is the attach rate still high?

And then when you think of prescribers, the early adopters on the prescriber end, are they writing more prescriptions for MiSight?

And then just really quickly on Surgical, when we think of the M&A landscape, we would assume that IVF, there was issues there from antitrust, so that wouldn't be an area. What other areas in women's health are potentially attractive to CSI?

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

For CSI, yes, we'll continue to look at some tuck-in acquisitions if we can find them. Again, I would reiterate, though, that we are looking at paying down debt. I think the Cook deal is going to turn out to be fantastic for us, that we closed November 1st. So we'll keep our eyes open maybe on some medical device stuff or some smaller tuck-ins that are out there. If something comes along that makes sense, we'd evaluate that. Otherwise, we'll focus on paying down debt.

If I look at MiSight, our retention rates remain very high. We use an app that tracks all that. All of our patients are on an app, and we're still running somewhere around a 90% retention rate. We are seeing increasing fitting activity around the world. We're seeing increasing fitting activity within key accounts also, which is exciting for us right now.

So the trends are good there. We had a good Q4. I'm anticipating a good Q1 right off the bat. We normally have our business show kind of a sequential decline. It will be interesting to see whether we even have that within MiSight given the strength of that business, the momentum that's going on right now in terms of the number of fits and the growth that we're seeing. So more to come on that one.

Operator

I would now like to turn the call over to Al White for closing remarks.

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

Great. Thank you. Just to summarize, record year, record revenues in Vision, Surgical, strong OI growth this year, we're giving guidance, and we believe we're going to have another strong year all the way through the P&L. So, I'm excited about where things stand today, and I'm looking forward to this year because I think it's going to be a really good year for us.

So thank you to all of our employees around the world who killed it this year and are continuing to do an amazing job. And thank you for everyone who called in, and we'll talk later. Thank you. Thank you, operator.

Operator

I would like to thank our speakers for today's presentation, and thank you all for joining us. This now concludes today's call, and you may now disconnect.