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OVERVIEW:

Company Summary

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PRESENTATION

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

Good afternoon, everyone. I'm Robbie Marcus, the med tech analyst at JPMorgan. Very happy to introduce our next session Al White, the CEO of CooperCompanies. Al will do a 20-minute presentation, then we'll do some Q&A.

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

Fantastic. Thank you, Robbie. We'll jump right into it here. Our first slide, for those of you who do not know us, CooperCompanies, a leading global medical device company. We're a leader in the vision space and in the women's health, fertility, OB-GYN space. Within the vision space, we operate under CooperVision, which is about 2/3 of our revenues in the contact lens business. So we'll spend a lot of time here as we go through this presentation on the contact lens industry.

We've been a member of the S&P 500 since 2016 and recently moved to NASDAQ and now trade under NASDAQ under COO. A couple of interesting points here, just 50 million plus people benefiting from our products. As you can imagine, a significant number of global contact lens wearers, around 43 million people wearing our contact lenses. 130-plus countries where our products are sold and a workforce of over 15,000 people.

And geographically, you can see the breakdown, which supports the countries around the world with the Americas being our largest business, followed by Europe or EMEA and Asia Pac.

This is a cool slide that I enjoy talking about but if you look at the last 10 years, we were just slightly over $1.5 billion in revenues and now almost $3.6 billion. So that is an all-time high for us. Our revenue roughly doubling over the last 10 years. The other nice thing about this chart that you can see is the consistency of it. Obviously fiscal '20 we had Covid and the impact of Covid, but outside of that, just good, solid, consistent revenue growth. We'll talk a little bit about that as we go through the presentation.

But the contact lens industry is a great industry. It's a very consistent solid grower. Fertility is somewhat over 40% of our women's health care business, another very solid grower. This is a great slide. I believe we're going to continue to see it move up. Our fiscal 2024 guidance would indicate that. So I look forward to continuing to post this and the long growth.

Speaking of guidance, you can see in the top middle, the $3.8 billion to almost $3.9 billion revenue guidance. So another strong year. This year, 6% to 8% organic growth versus last year. Within that CooperVision, the contact lens business, 7% to 9% growth. CooperSurgical business growing 4% to 6% organically. Just as a note, the CooperSurgical 4% to 6% is driven by the fertility business, which is upper single-digit grower for us. As a matter of fact, we've had 12 straight quarters of double-digit growth in that business. But when we look at it this year, at least here to start the year, talking about upper single digits, we've got a stem cell storage med device business that are growing in the low mid-single digits.

And we've got PARAGARD, we'll spend a little time on that nonhormonal IUD, which we're forecasting this year being flat to down a little bit, driven by some volume reduction. You can see the non-GAAP EPS there. Last year it was $12.81, we're guiding to $13.60 to $14 this year. One of the things that we have going for us right now is we spent a very significant amount of time, energy, money on building out the infrastructure of the business. We're going to see a greater degree of leverage coming out of our SG&A investment activities this year.

So last year, our constant currency OI growth was 11%. This year, we're looking at 13% to 16% growth SG&A leverage, some positives coming from pricing and so forth, all supporting the non-GAAP EPS there, the $13.60 to $14. Probably a quick add that's worth mentioning is we gave this guidance at the beginning of December in our Q4 earnings call, we do get influenced by FX as many do, but that has moved positive since we gave that guidance, which is nice to have in our back pocket.

If we look at recent activity here, we closed the acquisition of several medical devices from Cook. We closed that deal on November 1, almost $60 million in revenues. We expect that to grow at 5% to 7% this year. So a really nice tuck-in acquisition for us, roughly $0.20 of EPS accretion in fiscal 2024. We have a fairly long history as a company of doing these type of acquisitions, which we always refer to as tuck-in acquisitions.

We have a pretty sizable sales force in our OB-GYN part of our business, so anytime we can acquire products out there, we can buy the product, roll it right into our salesperson's bag, turn around and sell that and gain leverage off that. Those are traditionally very positive acquisitions for us. So I think the Cook transaction is going to be the same way. We closed that at the beginning of our fiscal year here. As a matter of fact, things are going well on that. I'd say they're going better than expected as we sit here today. So we'll get more detail on that on the Q1 call, but those are the types of acquisitions we do well at.

Stock split. We did announce a stock split on our last earnings call, that's actually going to go into effect in the middle of February. So a little bit over a month from now. That's a 4-for-1 stock split, see the details there. Lastly, for a recent announcement, we paid a very de minimis dividend that we had sitting out there forever. So with the stock split, we decided to stop paying that dividend.

Looking at the long-term strategy of the business, a few bullet points that are worth discussing, driving sustainable revenue growth. Our industries are strong. I've touched on contact lenses in vision. I'll touch on them a little bit more, but 2 really good, strong growth industries that have really positive macro growth characteristics to them. So we stay very heavily focused on that. The 6% to 8% growth I talked about earlier, for our consolidated business, is important to us. We're going to continue to drive strong revenue growth for many, many years.

Profitability and leverage, I touched on a little bit with respect to guidance, a lot of investments in our business. We're continuing to roll a lot of investments out as we move forward whether that's in the fertility business, where we're continuing to expand on a global basis, and within contact lenses with investments in myopia control, which is helping reduce the progression of myopia in children.

If you look at stewards of investor capital, I touched on that a little bit with acquisitions. We have about $2.7 billion in debt right now, so we're little bit more focused I would say in debt reduction than we are in acquisitions, but we take our requirement, if you will, of all of our investors in delivering strong returns, which is very, very important to us.

And foster culture and community. Everybody talks about that. I'm sure it gets mentioned a lot, whether it's ESG or the culture. But we have a great culture within Cooper. We have a great team of executives who do a fantastic job. It's important we continue to invest in our people, and we will.

CooperVision. So we move and talk a little bit about the contact lens industry and our business. These are some of our products, MyDay, and clariti, our daily silicone hydrogel products. And then you have our monthly product Biofinity, including Energys. And MiSight, which is our myopia control product.

If we look at the global soft content lens market in total before getting into the CooperVision details, it's about a $10 billion market, as you can see, a little bit over $10 billion. Three players control around 89% of that from a revenue perspective. That's ourselves, Alcon and JNJ you can see there. If you look at the $10 billion and you break it down by products, the majority of it is traditional spheres, but 26% of the market now is torics. So anyone with an astigmatism that's getting fit in a toric lens, that's a growing part of the market. That 26% continues to trend higher.

Multifocals at 11%, that's also trending a little bit higher as technology improves, happy to say that I wear our MyDay multifocals, fantastic product and nice to be able to see everyone clearly out there. So for all of you who are presbyopic, let me know, I'll help you with our multifocals.

For the industry, high barriers to entry, very capital intensive. You have patents, you have knowledge. You have FDA regulations around the world and just a long history of product innovation. And that product innovation is new product launches themselves, but it's also how to manufacture and improve manufacturing of existing contact lenses.

And then favorable industry characteristics. This industry has been growing 5%, 6% on an organic basis for many, many years. We're forecasting this year for the industry to grow around 5% to 7% and us taking share a little bit north of that. But some really great fundamental growth drivers. Within that growth, you're seeing wearer growth is part of that, and you're seeing the stuff I talked about in terms of torics, multifocals, is part of that.

If we go one more time to the marketplace and you look at where is this market going? Where is the whole vision correction marketplace going? You look at today and you say about 1/3 of people, 34% roughly of people are myopic around the world. Studies have come out and is pretty clear that half of people are going to be myopic by the year 2050. And that's always an amazing slide to me.

So when you look at the vision industry in total, it's just a fantastic industry. When you look at contact lenses, when you have 1/3 of people and you're going to half of people worldwide are going to need vision correction, your business is going to grow just because you're going to have wearer growth. When you layer on a number of the other things I was talking about, those things are going to drive even greater growth. And it's very consistent growth. That's one of the great things about our space.

You look at why, increased screen time is one of them. I mean, I've said this many times to parents and people, get your kids outside, spend time outside, don't spend time looking at a phone, but we all do it in this room and certainly our kids do it, and you see kids all over the place, staring at their phones. That increased screen time and lack of time outdoors, that's not a good thing. Kids need to be outside.

Having said that, that's not what's happening. The whole world is going to more and more screen time. That's positive for the industry. It's obviously positive for us. The risks associated that we have here really go towards all myopia, but certainly more towards high myopia, which is people who have more significant vision correction needs and long-term ocular health and so forth, is a big deal.

We jump to contact lens market drivers. I touched a little bit on some of these, but the growing wearer base is out there because more people are becoming myopic. But the next bullet point I want to talk to, well, the next 2, right? You're seeing a shift to dailies. So for a considerable period of time in the contact lens industry, people wore monthly lenses, monthly or 2-week lenses and you take them out and you would clean them every night and you put them back in the next day.

The whole industry is shifting over to dailies. And that shift is continuing. And we have many years of that, we probably have 10, 15 years left of people shifting over to daily lenses. Meaning, I put them in at the beginning of the day, I take them out, I throw them out at the end of the day. That shift is a significant trade-up to us as an industry. We get a lot more per wear of revenue dollars when someone is wearing a daily lens versus a 2-week or monthly lens.

The same holds true in torics and multifocals, which are higher priced, more specialty lenses. So we've seen that shift continue to drive the market forward. The higher global net pricing is a more recent thing. Prior to COVID, we were seeing about 1% in price. As we worked through COVID and got into the subsequent years, we were seeing pricing because of inflation. More recently we're seeing pricing because of demand. Demand is outpacing supply.

And that's an issue because when I talked about the contact lens industry moving into dailies, if we're manufacturing monthlies for somebody, we're making 24 lenses a year for them. The minute that we go to dailies, we're making 700-some lenses for them. The contact lens industry can't keep up with the demand of that shift to dailies. So all of us are struggling through that activity. Well, part of that activity is investment dollars and one of the resulting outputs ends up being price. So pricing has been more positive. I think it's going to continue to be positive based on the demand we've seen for foreseeable future.

Kind of a neat slide here, but when I talk about that consistent sales growth, durable, if you will, last 10 years within CooperVision, 7% revenue CAGR up to the $2.4 billion. And when you look at market share, we have taken market share now every year since 2006. So 19% since 2013 after most recently 26%. So we're continuing to take share, continuing to do really well.

Jump briefly to the myopia control side of the market. I'm really going to touch on MiSight. A child has myopia, mom and dad are myopic and let's say, mom and dad are both minus 5s, as an example. Because of genetics, there's a high probability, the child is going to be minus 5. The earlier you can start treating that child to minimize the progression of myopia, the better. We have the only FDA-approved product in the market. That's MiSight that a child can start wearing it at 8 years old to reduce the progression of myopia. There's a significant number of children actually, see no myopia progression once they start wearing the product. So it's really a fantastic, cool product.

And over time, you're going to see myopia control become standard of care for everyone. We're working with EssilorLuxottica on SightGlass for glasses, and that's the next step. They're not available in the U.S., but they're being sold outside of the U.S. But there's no reason that every single child who walks in, who gets vision correction doesn't have a myopia control product to reduce or eliminate the progression of that myopia. It's really fascinating. It's taking us a little while to get rolling.

We launched MiSight right before COVID hit, had a few bumps in the road, but we're seeing very strong, consistent solid growth right now in MiSight and some exciting things in our partnership there on SightGlass.

This slide has a number of things on it here, but in short we're well positioned to succeed. Our products are fantastic. We have an entire industry that's capacity constrained, us included. We're continuing to invest there. We have really strong customers on the key account side of things, great long-term relationships. There's a number of points that you can touch on with best-in-class products to innovative products in terms of Energys and some of the other products we've launched recently.

Our customer service, our key account relationships with some of the biggest accounts around the world are really strong, a lot of long-term contracts that we have in place with some of the biggest names out there that you would certainly know, you have Specsavers and Costco, National Vision, a whole variety of other great companies that are out there that we do business with. So a number of different things here that are going to support our growth.

If we jump over to CooperSurgical. This is the healthy women, babies and families part of our business. A big piece of this is fertility, 41%, where we're a true leader in the global fertility space. I'll touch on that a little bit more in the next slide. But I like this quote here, which is that, "every minute somewhere around the world, a baby is born using CooperSurgical products." I think that's just a cool quote.

Whether it's on our fertility side or OB-GYN side, the products and services we offer are fantastic. And it stretches all the way from genetic testing of embryos to basic medical device products within the OB-GYN offices. That's a cool slide. From a culture perspective, we certainly have a lot of passionate people about the culture and about the things that we do in CooperSurgical, and you can count me amongst that group.

If we talk about the fertility piece. Fertility market is just fantastic. We've posted 12 straight quarters of double-digit growth in our fertility business. We're going to continue to post really strong growth in that business. Where we compete, which would be this section on the left here, consumables, capital equipment, the genetic testing I touched on. We're a leader in egg and sperm donor activity around the world, cryopreservation, the full gamut of services that a fertility clinic is going to need.

That's a market that's north of $2 billion with 5% to 10% annual growth on that. We are seeing very strong consistent growth throughout the world in the fertility space. And I frankly think we're going to see it for the next 10 - 20 years. That gets driven by more people needing fertility assistance, greater coverage, greater insurance reimbursement and coverage. Countries around the world, Japan and others who are saying, "Hey, we want to increase our birthrates", so offering support for that.

But a couple of neat statistics there, really over 1 million babies are born annually from ART cycles. Fertility, a lot of people historically have said, oh, that's a woman's issue. It's not. It's 1/3 women, 1/3 men and 1/3 some combination of those. So it impacts a lot of people. 1 in 6 people have experienced infertility at some stage in their life. That's a big number. It's becoming much more open, much more commonly known. There's not a stigma attached to that.

And you look at these growth drivers, you have women delaying childbirth. In a lot of countries, women are having children at 30 plus years old now. That drives a lot of these fertility needs, improving access to treatment. You're seeing more fertility clinics open around the world. Patient awareness that, this can be done. This can be reimbursed and so forth.

And then a number of other things here, the technology improvements, the number of clinics, growing disposable income, just a lot of growth drivers that are pushing the fertility market forward.

Outside of fertility, we have a pretty large business. It's broken up really into 3 areas, which is our office and surgical medical devices, PARAGARD nonhormonal IUD that we offer and our stem cell storage that we recently entered when we did the Generate acquisition, some great products in there. Endosee, INSORB, CBR that are mentioned here.

If I go to the next slide and touch on the growth drivers. Medical Device is a low mid-single-digit grower. You're seeing procedure volume, minimally invasive procedures grow. So that's a good market for us. It's just a good solid growth market.

If we look at stem cell storage, that's a nice business. It fits in really well with us, as you can imagine, from an OB-GYN perspective, it comes together well from a sales force perspective. As a matter of fact, in November, we announced and started the integration of some of our sales forces to drive some leverage and better performance in this part of our business. But I think we grew stem cell storage 6% last quarter. We talked about that growing in the 4% to 5% range.

And similar to CooperVision, this is a neat slide, but you look at 10 years, 14% revenue CAGR for our CooperSurgical business going from $320 million up to almost $1.2 billion and continuing to grow nicely this year. And as I mentioned, our fertility business posted its 12th consecutive quarter double-digit growth last quarter. In the sake of time, I'm going to skip through this relatively quickly, but you can certainly read that ESG is part of the fabric of who we are. We've been doing ESG long before ESG was a buzzword, that was popular. It's truly embedded within our manufacturing platform and an important part of who we are.

And then let me just touch here, and then we'll move to some Q&A, but the long-term sustainable growth. A few things here. As I talked about, we operate in 2 leading markets in contact lenses and especially fertility, but also touching on some of the other aspects of our CooperSurgical business. Great brand leadership with products like MyDay that we have out in the world, MiSight and so forth.

Leveraging our investments and driving continuous improvement activity. That's a big focus right now. We spent the last 5 years, since I became CEO, really elevating our growth rates and getting better, stronger, longer-term growth rates. Now we're starting to see some leverage on that. So I'm excited about what we're going to be seeing from a return perspective coming through the P&L. Long-term focus and discipline on creating shareholder value. We've got to drive long-term shareholder value. I mean that's what we do. That's our responsibility as an executive management team. Proven track record of delivering the strong financial results and revenue growth. We had several slides on that, that showed the revenue growth over the last 10 years. And frankly, with the markets we operate in, the products we have and the team we have, I'm looking forward to 10 years from now coming back and showing those slides going from $4 billion up to $8 billion because we're in those markets, and we have those growth opportunities.

So with that, I will wrap up and take some Q&A with Robbie.

QUESTIONS AND ANSWERS

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

Great. Thanks, Al. So you had lots of positives on those slides, and you're coming off another really good year of organic sales growth in both divisions. I want to start maybe just as you see the overall business today, you've sustainably grown high single digits, sometimes low double digits.

You talked about pricing benefits. You talked about increases in new fits around the world on the vision side and the product portfolio. You talked about surgical, how you're broadening, you're in a leadership position. Maybe just start with a state of the union and how you feel about the growth you've been able to put up and your ability to continue to deliver that type of growth going forward?

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

Sure. Yes, it's a great question. I might break that up and answer that in 2 pieces. The biggest challenge that we have in the CooperVision side of our business, the contact lens side of our business, is managing demand. We have more demand than we have capacity. And I can say that comfortably for the industry when you're talking about silicone hydrogel lenses. We have very aggressively moved into the daily silicone hydrogel space. The demand there is just fantastic, especially when we talk about torics and multifocals. You've seen that for quite a while here.

When you look at our growth rates, you'll see double-digit growth rates there. That's the challenge we have, which is managing excess demand or excessive demand, for probably 10-plus years. We're spending a lot of time and money right now, bringing capacity online. All of that is going well. I talked about it a little bit on the last earnings call.

At the beginning of December to today, We're executing on our plans. I would say we're a little bit ahead of where we talked about being because we are executing and we're performing against those expectations. So from a CooperVision perspective, we're in a great spot. We're going to post pretty strong growth for a number of years from that investment activity. And you're going to see a number of additional double-digit growth quarters.

When we look at the CooperSurgical side, the one that really shines is fertility. I think we're going to continue to post double-digit quarters, will we do it every single quarter? I don't know. We've done 12 in a row. We're going to continue to put up some really nice numbers there. That one has really long-term, strong growth characteristic as a market. So as a leader in that space, taking market share and growing in a very fast-growing market, I think we're going to continue to do well. I don't see a lot that's going to slow down the fertility industry in the foreseeable future.

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

Maybe just to be a little myopic here and touch on supply. You said you're moving a little faster than expected. I think The Street is around 6% for first quarter. We are a touch above that. It sounds like that might be a little too low for the first quarter, given the progress you've been able to make through the quarter. Is that a fair comment?

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

Well, the progress that we've been making would be more towards bringing new lines on, bringing success online. So we're going to have a good first quarter. But as we think about the improvements that we're making and doing even better than we were thinking about, what that's going to do is bring a little bit more success, into 2024 and certainly into 2025. And 2025 should be a strong year for us because as we manage through this year with some capacity constraints, including in the first quarter here. 2025, we alleviate some of that and we also get an easier comp. But I think that what we're doing now is de-risking some of the rest of this year and 2025.

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

And correct me if I'm wrong, the supply issues, it's not that you're actually having patients that are Cooper today not getting supply. This is preventing you from going out to launch new products, right? So once that supply issue is resolved, is there any sort of magnitude you can speak to of how much capacity or how much of the extra demand you'll be able to fill with this new capacity?

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

Yes. Well, it will come out over time. You're exactly right. I'll give you a great example like MyDay Energys. We launched MyDay Energys, which is a DigitalBoost lens. So for anyone who's out there who uses electronic devices a lot and notices their eyes tiring, especially at the end of the day, if you wear a regular sphere. If you flip over to MyDay Energys, a fantastic product, it will help alleviate that eye stress you're getting from digital screens. We launched that product here in the U.S. and it's just doing fantastic. We do not have the ability to produce enough to be able to launch that around the world. As we increase our production capabilities, we'll launch that in additional markets. We know that product is going to do well. We know it's going to be successful. It's just a matter of getting that out there in the marketplace into people's hands.

So it's a little hard to answer like, okay, well, what is that boost, when is that boost? But we know as additional capacity comes on, it's been allocated already. And that would be similar to some other products where we've launched them in some countries, but not all countries or into some accounts, but not all accounts. We know those are going to be successful as those products get launched and rolled out there. So as we expand capacity, we'll be able to meet that demand.

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

On the slide talking about pricing. You talked about this on the earnings call a bit. Should we think of pricing as the overall net prices going up? Or is it that rebates are shrinking? Or is it a combination of both?

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

Well, really, at its core, it's true net pricing is increasing. And in our industry, especially when you're talking about contact lenses, you'll hear price increases or you'll see list price increases, but there are some rebate activity, whether that could be consumer or whether that could be between us and a big retailer, as an example. So there's a difference between your gross and your net price increases.

But what we've seen is that shrink. We've seen the amount that's flowing through from a true net price increase improve. That's never been huge for us as an industry, but you've certainly seen that improve. And I think you're going to continue to see it improve. I mean frankly, at the end of the day, when you have an industry where you're talking about a big segment of it, has significantly more demand than capacity in the industry, including for us, that's something where we need to invest a lot of dollars for that, and you're going to take price corresponding with that.

So I think you're really talking about true net price increasing, and I think we'll see that for, frankly, a number of years in front of us.

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

You have a great product with MiSight. You have a gigantic market that's not being particularly well treated right now for myopia management. What does Cooper have to do to take this great product and get it more broadly adopted in the market?

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

Yes. So when we talk about myopia control, I touched on this a little bit earlier, but this is a parent bringing their child in and saying, "My child is having eye problems." They can't see the blackboard or whiteboard or whatever it is today. But you end up saying, okay, how can we treat that child? Because historically, you just gave that child glasses or maybe you gave them contact lenses.

But what ends up happening now is the newer technology is almost like a little bit bigger than a pinhole in glasses. You train the child's eye to look through that. And you're reducing the elongation of the eye, and that's reducing the progression of myopia. Any child who's coming in, their myopia is going to increase up towards where their parents are, there's a pretty big genetic tie. You layer in other things like staring at screens and so forth. That's an issue.

So when we launched that product, it was like, okay, here's a fantastic product to address that. The challenge of that ended up being one, we launched it right before COVID. And as you can imagine, we're talking about a product that's FDA approved for 8- to 12-year olds. You have to show the child how to put the contact lenses in, take the contact lenses out. You've got parents who are nervous about that. And I can tell you, as much as people are nervous about it and say, "Oh, I can't touch my eye. I can't put contact lenses in or whatever," That's not a problem children have. It's not. People think it is. Kids are way better at that stuff. Adults get a little freaked out touching their eye. Kids are pretty straightforward with that kind of stuff. It didn't matter, right? You launched during COVID, you don't have the time, you don't have the effort around that.

So what's happened over the last couple of years as we moved out of COVID, and we've had better fitting activity in the optical offices, we've seen the growth from that. And we're going to continue to see growth from that. Having said that, what's really going to drive it is glasses because you want every child to come in and receive myopia control.

And the easiest thing by far is the glasses. So you give a child glasses, they walk out the door, that's helping reduce their progression of myopia. Now what's going to happen 6 months later or a year later, when that child comes back and their myopia is continuing to progress? That's a noncompliance issue most likely. And that's because the kids have taken their glasses off, and this is a treatment. That's a child that you're going to have to move over into contact lenses.

Certainly, as kids age and get to 11, 12 and especially 13, 14, 15, for any of those who have kids. Boys recognize girls exist and girls recognize boys exists, and sports come on, all those kids switch over to contact lenses. So some of this is going to happen just because of time, and that's what we're seeing right now. It's just time is helping get the word out there that these products exist and they're available and they work.

There's no FDA-approved glasses, but they are in markets around the world. In several markets, China, as an example, are doing really, really well with getting glasses in the marketplace. Contact lenses will follow behind that, the best product by far out there for this is MiSight. So I believe what we're going to end up seeing here is rather than the fast ramp where we thought we'd really see it shoot up. What we're seeing is very consistent, solid growth.

And I think you're going to hear that from us. I think we'll be on earnings calls talking about, hey, this part of our business grew 50%, again it grew 43%, it grew 52%, whatever the number. But it's going to continue to grow very consistently at very solid growth rates for quite a long time. The marketplace frankly, it's billions of dollars. It's a multibillion-dollar marketplace that almost doesn't exist right now.

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

What's the latest expectation for sight glass FDA approval timing?

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

So no update right now on SightGlass. That's a joint venture for everyone that's aware that we have with EssilorLuxottica. Great relationship, it's a fantastic company. We enjoy working with them. we have a spectacle design, that we JV with them, that we've been working on getting FDA approval on. We have launched the product in a number of countries, it's in China and Canada, Netherlands, Israel, a number of additional countries.

So the products out there being sold right now. We're continuing doing clinical work and hoping to get FDA approval at some point here in the near future.

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

Just to remind us, do you book JV revenues on the sales line? Or is it down the P&L?

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

For that JV, we only book gains and losses below operating income. So for now, because you have minimal sales and a decent amount of investment activity, those are only losses below the operating income line for us.

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

And the U.S. will be the same?

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

Yes. So globally, that will be the same for us. That's the JV relationship we have with them.

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

I want to touch on surgical. This is an area it's hard to really put external investment dollars into the lens side. But we've seen Cooper put a lot of investment over 5-plus years into Surgical. So I know you get this question all the time, but why does it belong within the Cooper portfolio, 2 very different businesses, run differently, different investment profiles, different growth profiles, different cash flow profiles. What's the justification for keeping them together still?

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

Yes. Some of this comes just like every other company, you get big because of who you were when you were small and you continue to grow those businesses and you are who you are. I would say that the fertility business, as much as fertility is different than contact lenses, a lot of similar characteristics there in terms of being consumer medical device, high growth rates, high revenue growth rates, high gross margins in those businesses.

We're investing a lot in fertility to drive a lot of that growth. But those 2 businesses end up being somewhat similar, from a P&L perspective. And even a management perspective, our teams work very closely together as we're continuing to drive and grow fertility and learn as we expand around the world. There are some areas within CooperSurgical that are a little bit more of a head-scratcher perhaps, but some of that comes just because of how we grew the business over time and different acquisitions that came with things.

Stem cell is a good example. I like that business. It's a good business, but we bought Generate because they were the leader in donor sperm and egg activity. And that fits just perfectly like a glove within our fertility business, and I love that part of our business, and it's great. But what came along with that was the stem cell business. And it's great. It fits well, but it's one of those ones that came because of a deal we did.

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

We've seen so many med tech spins over the past 12, 24 months. I feel like I had to ask at least once again. I want to talk to you -- we spent all the time on the top line. And I would say Cooper has done a fantastic job on the top line, good but maybe not a great job on the bottom line, at least delivering double-digit EPS growth that I imagine your investors want to see from Cooper and that you want to be able to deliver.

You talked about on the last earnings call, a deeper focus on consistency on the bottom line. So maybe speak to what you're doing as a management team to be able to deliver more consistent reported EPS growth. And then also remind us of some of the headwinds that have been impacting the bottom line.

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

Sure. One of the things that's impacted us pretty significantly has been currency. If you go back a few years, even pre-COVID and compare today and operating margins, about half of that change has come because of currency. That's what it is. The rest of the business, I'd say, greater focus, and we are going to deliver more profits to the bottom line. But there's a decent degree of that that's happening naturally. Meaning we did projects, we did IT upgrades. We did integration activity and sales teams. We did a significant amount of activity over the last year and even in the beginning of this year, to put the company in a position to be able to deliver better bottom line growth.

And we're in that spot, and we're going to start seeing that leverage and see that profitability come back. Now currency is better than when we guided at the beginning of December, knock on wood, that holds or even gets better. Interest expense went from something like $25 million to $50 million. I think we guided to $110 million this year. We'll see what happens with interest rates, it will help drive EPS higher.

But on a constant currency basis, right now, we're talking about OI growth of 13% to 16% this year. So we're expecting some pretty solid growth this year and I envision that will continue, frankly, into next year. And we'll see, hopefully, currency makes it so that those results are as reported results or even better.

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

Same on free cash flow with the last minute here. Cooper has done a pretty good job on free cash flow. How do you feel about where you're looking at the next 3, 5 years and your ability to drive free cash flow better than earnings growth?

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

Yes. We did a really nice job driving significant free cash flow years ago. And then we focused on a lot of different things here. We've been driving a lot of growth in a lot of different areas and our free cash flow has come down a little bit. It hit a low point this year. You're going to see a decent amount of improvement in free cash flow this year. And I think you're going to continue to see that moving forward. I won't go into all the reasons, I'm happy to, right? But there's a number of drivers that are for that.

CapEx was high last year, will be high again this year, and then we'll start to see it come down, but operating cash flow is going to move higher. Working capital management, some of that stuff is going to put us in a position where we have better free cash flow returned a little bit closer to what we were a few years ago. A lot of that is going to go to pay down debt. We still have a decent amount of variable rate debt.

The way our markets are set up right now in terms of our ability to acquire is somewhat limited. So I think you're going to see more free cash flow and you're going to see more of that free cash flow allocated to debt reduction, than what you have seen in the past several years.

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

Okay. Well, great. We're out of time. Al, thank you so much. Thanks, everyone, for coming today.