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PRESENTATION

Operator

Good afternoon. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to The Cooper Companies Second Quarter 2023 Earnings Conference Call. (Operator Instructions)

Thank you. Kim Duncan, VP of Investor Relations and Risk Management, you may begin your conference.

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

Good afternoon, and welcome to CooperCompanies Second Quarter 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 all revenue and earnings per share guidance and other statements regarding anticipated results of operations, market or regulatory conditions or trends, product launches, operational initiatives, regulatory submissions and closing or integration of any acquisitions or their anticipated benefits. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the company to differ materially from those described in forward-looking statements are set forth under the caption Forward-Looking Statements in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K and Form 10-Q filings, all of which are available on our website at cooperco.com.

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

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

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

Great. Thank you, Kim, and welcome everyone to CooperCompanies Second Quarter Fiscal 2023 Conference Call. This was another strong quarter with CooperVision and CooperSurgical both outperforming expectations. For CooperVision, we reported record quarterly revenues and our ninth consecutive quarter of double-digit organic revenue growth. For CooperSurgical, we reported record quarterly revenues, and our fertility business reported its tenth consecutive quarter of double-digit organic revenue growth. And earnings exceeded expectations. Our teams are delivering impressive consistent growth, and we're seeing nice momentum. So we remain very

positive about the future.

Moving to the numbers, consolidated revenue reached a record quarterly high of \$877 million. CooperVision posted revenues of \$589 million, up 10% organically, and CooperSurgical posted revenues of \$288 million, up 5% organically. CooperVision's growth continues to be led by our daily silicone hydrogel and myopia management portfolios, and CooperSurgical's growth was led by our fertility and OB/GYN medical device portfolios. Non-GAAP earnings per share were \$3.08. For the quarter and reporting all percentages on an organic basis, CooperVision's revenue growth was strong and diversified. By geography, the Americas grew 6%, EMEA grew 7% and Asia Pac grew 19%.

Results were driven by new product launches, expanded product ranges, market-leading flexibility and growth in key accounts. Within categories, torics and multifocals remain especially healthy with both posting growth of 15%. Within modalities, daily silicone hydrogel lenses grew 17% with especially strong performance from MyDay. Daily silicone hydrogel lenses continue to be the main driver of growth for the contact lens industry, and we offer the broadest portfolio with MyDay and clariti available in a wide range of spheres, torics and multifocals. And lastly, our silicone hydrogel monthly and 2-week lenses, Biofinity and Avaira Vitality, reported growth of 5%.

Turning to products, the U.S. rollout of our latest innovative offering, MyDay Energys, is going exceptionally well. This premium lens caters to the demands of today's lifestyles by incorporating DigitalBoost technology to alleviate the impacts of digital eye strain. Interestingly, we've been receiving a lot of positive feedback that patients in their 20's and 30's really like this lens, which is great news as the original Biofinity Energys has been more heavily used by patients in their 40's. Given almost all of us are spending considerably more time on screens, which reduces blinking and causes eyes to dry out and become uncomfortable, it's not surprising that wearers of all ages are appreciating the digital boost in their MyDay Energys.

Meanwhile, MyDay multifocal sales remain robust and we're seeing great momentum in new geographies as the lens becomes more readily available in EMEA and Asia Pac. I'm happy to report these launches are proceeding better than expected with feedback from customers and practitioners remaining very positive. Our MyDay toric parameter expansion rollout in North America is also continuing successfully, and our recent launch in EMEA is ahead of schedule. Given the success of this product, we'll be increasing availability throughout EMEA and we're looking forward to launching in Asia Pac in the near future. With almost [4,400] (corrected by company after the call) SKUs, MyDay toric has set the industry standard with the widest daily toric range in the market by a wide margin.

With this broad range, it's providing many 2-week and monthly toric wearers the option to enjoy the freedom of wearing a daily contact lens for the first time in their lives. To conclude on MyDay, this technologically superior product family is performing exceptionally well, and momentum is strong. And lastly, within the daily segment, our clariti family of lenses continues to perform well by offering a high-quality option at a mass market price point. Outside of dailies, demand for Biofinity remains healthy led by torics, multifocals and extended range offerings. We still have some capacity challenges, but with new production continuing to come online, we remain in good shape to meet ongoing demand.

Moving to myopia management, we posted revenues of \$30 million, up 36%, with MiSight up 49%. This slightly exceeded expectations and keeps us well on track to reach our goal of \$120 million to \$130 million this year. MiSight and Ortho-K sales were strong around the world except China where we didn't see a rebound until late in the quarter. Regarding MiSight specifically, we're seeing improving performance as we increase availability in key accounts, target practices with higher levels of pediatric patient flow, and integrate the sales process into our regular sales channel. All this bodes well for MiSight, but also for our other products, as there's a nice halo effect with MiSight practitioners accelerating their use of other CooperVision lenses.

It's important to remember that MiSight is the first and only FDA-approved contact lens for myopia control, and the product is backed by extensive clinical data. This is a critical 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 risks of long-term eye health problems associated with myopia such as cataracts, retinal detachment, and macular degeneration.

To finish on CooperVision, the contact lens market grew 12% in calendar Q1 with CooperVision growing faster at 14%. We expect the markets to remain healthy supported by the macro growth trend of more people needing vision correction. It's estimated that 50% of the

global population will have myopia, or nearsightedness, by the year 2050, up from roughly 34% today. This is driven by the increasing 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 such as torics and multifocals, and higher pricing, we expect many years of solid growth for the industry. Within this, we expect CooperVision to remain a leader with its robust product portfolio, ongoing product launches, fast-growing myopia management business, and leading new fit data.

Moving to CooperSurgical, this was another strong quarter. Our fertility business posted sales of \$125 million, up 11% organically for its tenth consecutive quarter of double-digit organic growth. Success was seen throughout the product portfolio as the team executed exceptionally well with our diverse offerings within consumables, capital equipment, reproductive genetic testing, and donor activity. Regionally, the Americas and EMEA continue to lead growth, and the future is bright as we have solid momentum in both regions. Asia Pac is also performing well, and we're excited about the potential of that region. With the uncertainty of the Cook transaction, we do have work to do in that region to build out our footprint, and we'll do that. In this light, we're currently doing targeted investment activity while also exploring ways we can advance efforts more quickly. Overall, though, we're well positioned to maintain success given our strong team, diverse portfolio, and global momentum.

Regarding the broader fertility market, we compete in a segment that's now over \$2 billion in annual sales, and we expect strong growth for many years to come. This industry is unique in that it has multiple growth drivers, starting with women delaying childbirth. The average age of a woman's first birth in the U.S., and within several other developed countries, now stands at 30 years old, and age is a key factor contributing to the need for fertility assistance. Other growth drivers include improving access to treatment, increasing patient awareness, increasing fertility benefits coverage and technology improvements for both male and female and fertility challenges. The World Health Organization just released updated data showing that the prevalence of infertility affects more people than we thought, with approximately 1 in 6 people having experienced infertility at some stage in their lives, so the macro trends clearly support this industry's growth.

Moving to Office and Surgical products, which includes OB/GYN medical devices, stem cell storage and PARAGARD, we posted sales of \$163 million, up 1% organically. Within this, OB/GYN medical devices reported excellent results growing 11%, driven by positive trends in patient activity and strength in several core products. In particular, our Labor and Delivery group continued performing really well. Our stem cell storage business grew 3%, in line with expectations. Our current educational campaign starring Chrissy Teigen highlights the importance of preserving newborn stem cells, and we're really happy with the positive feedback, and we're looking forward to that effort gaining more traction. Meanwhile, PARAGARD declined 15%, primarily due to buy-in activity from the price increase in Q1. Our IUD revenues remain a challenge, and we're continuing to not expect any unit growth in PARAGARD this year, so any growth we do see will be driven by price.

To conclude on CooperSurgical, it's with great pride that we say that every minute, somewhere around the world, a baby is born using CooperSurgical products. Our business makes a difference in people's lives, and we love that. We're also operating in several markets that have fantastic, long-term sustainable growth characteristics such as fertility, so we feel good about where we're positioned and what the future holds.

Before turning the call over to Brian, let me summarize by saying this quarter really highlights the stability and consistency of our businesses. CooperVision posted its ninth consecutive quarter of double-digit growth and CooperSurgical's fertility business posted its tenth consecutive quarter of double-digit growth, and both businesses reported record quarterly revenue.

Our momentum is strong, our investments are yielding solid returns, and our management team is fully engaged and executing at a high level. Lastly, I hope everyone has had a chance to read our recent ESG report which highlights a lot of accomplishments. Advancing our ESG efforts is an important part of Cooper's culture and I'm proud of the success we've had, and excited about what we'll be accomplishing in the future.

And with that, let me turn the call over to Brian.

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

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

Second quarter consolidated revenues were \$877 million, up 6% as reported or up 8% organically. Consolidated gross margin was up 40 basis points to 67.1% driven by currency improvements. Operating expenses grew 9% to 43.5% of revenues, and consolidated operating margin was in-line with expectations at 23.7%. This was down from 24.5% last year primarily due to commercial investments and distribution. Below operating income, interest expense was \$26 million, and the effective tax rate was 13.9%. Non-GAAP EPS was \$3.08, with roughly 49.8 million average shares outstanding. To summarize the P&L this quarter, revenues came in ahead of expectations while margins met expectations. The net impact from non-operational items such as FX, interest expense, and taxes was slightly negative against our initial expectations. Overall, we exceeded our consolidated EPS expectations by roughly \$0.06 and will pass that along in guidance.

Free cash flow was \$51 million including CapEx of \$74 million. Net debt decreased to \$2.51 billion. And during this last quarter we fixed the interest rate on an additional \$300 million of debt so we now have \$1.3 billion fixed going out roughly 2 to 4 years.

Regarding 2023 guidance, we're increasing expectations for revenues and earnings by incorporating our Q2 revenue and earnings beats. This results in consolidated revenues of \$3.51 billion to \$3.57 billion, up 7% to 9% organically, with CooperVision revenues of \$2.37 billion to \$2.4 billion, up 8% to 10% organically, and CooperSurgical revenues of \$1.15 billion to \$1.17 billion, up 5% to 7% organically. Non-GAAP EPS is expected to be in the range of \$12.66 to \$12.96. Interest expense is expected to be around \$110 million assuming another 25-basis point rate increase by the Fed this month, and the effective tax rate is forecasted to be slightly below 14.5% when incorporating Q2.

Within this, we're continuing to invest in our businesses to support long-term growth objectives. Demand across both businesses remain strong and the long-term growth trends are very positive.

Before concluding, let me add that we took a \$45 million charge this quarter for the breakage fee associated with the pending acquisition of Cook Medical's Reproductive Health business. We now believe it's probable that this transaction, as originally contemplated, does not close. We are still working on the deal though and we'll provide updates as we have more information.

In conclusion, this was another strong quarter. We're very happy with the consistency of our businesses and we have great momentum. We're closely monitoring expenses, and will continue to do so, but we're also investing to drive long-term, sustainable revenue growth. We're taking guidance up again and remain positive we'll execute at a high level delivering strong operating results through the back half of this year and into next year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jeff Johnson with Baird.

Jeffrey D. Johnson

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

Can you hear me okay?

Albert G. White

The Cooper Companies, Inc. - President, CEO & Non-Independent Director

Yes.

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

So Al, I know when we look at like the GFK data, that sell-out data, you guys and everybody else report sell-in data. So it's never apples-to-apples in that, but I think it's pretty clear, January was a very strong month for contact lenses. It really was across all of medtech. April, obviously, a weaker month. So just maybe help us understand the gating throughout the period of the quarter you just reported, February, March, April, and then maybe any updates on what you've been seeing so far in May. And just the range of implied guidance for CVI now kind of 6% to 10% in the back half, just how you're feeling about the low-end versus the high-end of that range.

Albert G. White The Cooper Companies, Inc. - President, CEO & Non-Independent Director

Yes. And you're right, January was a really strong month. As we worked through the quarter, it was okay. February was a good month, March. April was a weaker month for us. You can see that if you look at the calendar quarter compared to the fiscal quarter for us because we grew in the calendar quarter 14% and then grew 10% in the fiscal quarter, so when you trade those months off, you're right, April was a little weaker. May has been a good month. We did have some stuff move from April into May, but May has been a good month for us. So we've seen the contact lens marketplace at least for our business, rebound in the month of May. So that's been a positive.

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

Okay. And then if you can address that CVI guidance, that's implied in the back half 6% to 10%, just high end, low end, where your confidence is there. But the real follow-up question I wanted to ask was on pricing. It seems talking to Alcon and some of your other competitors looking at some of the pricing data we have for your lenses, there's a good price tailwind this year for, probably 2 to 3 points, something like that. Is that about the ballpark you're expecting? And then secularly or longer term, how comfortable are you if we stay in a persistent inflationary environment that you can maybe keep up 2%, 3% pricing a year for the next few years?

Albert G. White The Cooper Companies, Inc. - President, CEO & Non-Independent Director

Sure. Yes, I think you're spot on. I think that 2% to 3%, net pricing, I'm talking about net pricing, is the way to look at it. The actual pricing that we've seen out there has been higher meaning the actual price increases have been higher, but if you look at the rebates and everything else, 2% to 3% is probably a good way to look at it right now. I think that's going to continue.

I think that we're probably a little bit behind our competitors in that because we do have a lot of large contracts, especially some of the bigger store brand contracts that are multiyear contracts. So as those renew, we'll look at opportunities to adjust pricing on those. But I think that you're seeing that now. And frankly, I think you're going to see that for the next several years given supply constraints within the industry in general.

If I look at our performance in the back half of the year, the 6% to 10% you're talking about for CooperVision, I expect to be at the higher-end of that range, unless something happens to derail that. It'd have to be something unexpected, some economic event or something out there. Even this past week, it's been a little bit of a tough time for us coming up with some of the guidance with the debt ceiling and all the other activity that has been going on here recently. But no, we have good momentum. I feel optimistic that we'll continue to put up strong revenue numbers.

Operator

Your 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

Congrats on the nice quarter. Al, can you hear me okay?

Albert G. White The Cooper Companies, Inc. - President, CEO & Non-Independent Director

Yes, I can hear you.

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

Yes, I guess I'll ask the question on the guidance. First, the top line, you raised the top line and the bottom line by the amount of the beat in the quarter. I would think FX was a little more favorable, particularly on EPS. Brian, maybe you could help us with that bridge, how

much currency changed from last quarter to this quarter for fiscal '23. And I guess the question is, why not raise by a little more than the beat? And I had 1 follow-up.

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

Larry, I'll take the currency question. Currency was starting to move in our favor as we were working through the quarter and then they retraced. There was very little positive to the P&L from revenues down to OI. But really, the impact that we saw in the quarter was a negative tied to our FX losses below the line. As we talked about before, we're hedging some of our material currencies, but we still have several currencies and smaller exposures that we're not hedging.

And so we had a loss below the line. That took our earnings down to \$3.08, but it would have been a little bit better, but we basically adjusted for the currency in the quarter. The impact for the second half of the year for currency, interestingly enough, all netted to being the same. So we're still looking at a roughly 2.5% headwind to revenues for the year and a weaker 1% tailwind to EPS for the year.

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

And why not raised by more than the beat?

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

On EPS?

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

Yes.

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

Well, we raised by the operational -- the net beat. But with everything, as Al just said, with the macro uncertainty, Fed, FX, recession, we're exercising prudence in setting guidance. The good news is that we're not seeing demand or behavior shifts. And since gross and operating margins [landed] (corrected by company after the call) as expected, and things are progressing, we're just exercising some caution in light of the macro.

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

That's helpful. Just, Al, on my follow-up here. Asia Pac, plus 19%, really strong. And myopia management, if I heard correctly, the \$30 million, up \$5 million, sequentially. That was one of the strongest absolute growth increases we've seen in a while. Just talk about the drivers in Asia Pac and myopia management and the sustainability.

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

Yes. Interestingly, on myopia management, it was a good quarter, and we're gaining some traction in MiSight, finally. We talked about it for a long time. Great to finally be gaining some real traction. And interestingly, it was not China. We actually struggled in China with MiSight this quarter until the very end of the quarter. So MiSight was being driven by success here in the U.S., and [markets] (added by company after the call) throughout Europe were big drivers, and some of the markets in Asia Pac. So I think we're in good shape with our myopia management business, and I'm expecting Q3 to be a good quarter, Q4 to be a good quarter. As I was saying, we're certainly in good shape to hit, if not beat our \$120 million to \$130 million "guidance" range for myopia management.

Asia Pac, we're in good shape. I would say China being a little bit different if I look at our regular lenses in that it was more of a contributor in terms of our regular sales. But no, Kathy is doing a great job running that business, and we finally have some momentum going in Asia Pac. And I think we're going to continue to put up good quarters as we move through the back half of this year.

Operator

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

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

Can we pick apart PARAGARD a little bit? Because I want to make sure that I understand what's going on there. Is this another setup where you've got 4 quarters of pricing headwinds and then you start to grow again? Or how do I think about that?

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

No. Great question. No, it won't be that way. I would expect PARAGARD to grow here in Q3 and Q4 and for us to put up low-single-digit growth probably for this year. We did have the tough quarter here in Q2, obviously. But some of that was tied to inventory in the channel, some of that movement around the price increase. So I wouldn't necessarily read too much into that. I would restate what I've said on some of the prior quarter's [calls] (added by company after the call). We're not envisioning unit growth there. But I still think we'll post an okay Q3, okay Q4 and post growth for the full year.

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

Excluding PARAGARD, is there a way to describe how the rest of that business is doing? Because that was pretty much only the weak link in the quarter.

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

Yes. Well, obviously, fertility is really strong. That team is doing an amazing job, just consistent strong performance, and it's really diversified around the world and by product family. So fertility is in good shape. We should continue to do well in fertility. Our med device business is doing really well, our traditional OB/GYN medical devices. We've seen some strength there in the labor and delivery side, and some of our surgical products are doing really well.

So yes, outside of PARAGARD, it was a pretty good quarter. I mean Holly's got that business humming over at CooperSurgical. So expecting them to continue to put up good results.

Operator

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

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

And maybe just a couple of clarifying on PARAGARD. Can you remind us, Al, just the price increase that was put in earlier in the year and the extent of the volume declines, I guess, through the first 2 quarters of the year? So that would be my first question.

And then maybe just in terms of overall share in contact lenses, at least according to our numbers, it looked like certainly, there was gains for Cooper and torics as well as multifocals, but perhaps maybe a little bit of slippage in dailies, again, just looking at the fiscal at plus 8%, and it looked like competitor data for dailies was a little bit higher than that. So just an overview on the share trends through May in lenses.

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

Sure. Sure, Anthony. The PARAGARD price increase was [8%] (corrected by company after the call) that we put in place. Yes, from a volume perspective, I don't know if I would highlight necessarily too much on volume. What you're seeing here in Q1 and the quarter we just had, and frankly, you'll see a little bit here in Q3, is tied more to channel inventory, whether it's through the distributor or down actually into the physician's office, you're seeing fluctuations in that driving our as-reported results.

So if you look through that, and say, regardless of inventory, how are we looking at actual volume, that's where volume has been flat. We just haven't really seen those increases. And I'm not anticipating that we're going to here in the near term. So again, I said it last quarter, I'd say it again, I hope I'm wrong on that and being conservative. But as of right now, I think that's where we stand with PARAGARD. But again, a lot of movement tied to inventory. So I do think that we'll get growth in Q3 and Q4 to be clear. And I do think we'll post some low single-digit growth in PARAGARD for the full year.

Contact lenses, yes, this was a great quarter. Now if you look at it and you step back and you say Biofinity and Avaira grew 5%, you can see our "non-single-use sphere, other" grew 2%. So that's what you're getting to, Anthony, right, which is the sphere side of things. We

did have a couple of larger Biofinity orders that fell from April into May. And you had quite a bit of Biofinity sphere activity there. So I wouldn't read too much into that. If you're thinking about quarter end, yes, that number came in a little bit lighter, but we'll pick that up because we started off Q3 with a good quarter or a good -- from a good perspective when you look at that part of our business.

Operator

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

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

I wanted to start with free cash flow and cash flow generation in general. It's been a little low the past few quarters. Maybe speak to the reasons behind it and how you're thinking about cash flow generation going forward.

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

Robbie, yes, sure. So operating cash flow continues to drive higher. We do have some things that are driving free cash flow a little lower. One of them obviously, is CapEx. It's quite a bit higher than in years past. Some other larger components having an impact downwards are interest, our interest expense is doubling from \$53 million to \$110 million last year to this year, taxes depending on what time horizon you're looking at, our tax rates keep going up. Our inventory levels from last year to this year also are going higher. So that's having an impact as well. But overall, our operating cash flow continues to be strong and expect to deliver strong free cash flow for this year. Offsetting the operating cash flow is the higher CapEx, which we've been talking about around \$400 million this year.

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

Great. And then maybe on new fits. You talked about strong global new fits. Are you seeing any divergence in different regions? Just trying to get a sense of the future of the business and the trends there.

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

From a new fit perspective, no, not really. In terms of regional, we're seeing pretty good activity there. There's still a lot of demand on optometrists for appointments, and the new fit activity is pretty strong. And our CooperVision new fit activity is looking really good right now. We're winning certainly our fair share when it comes to new fits. So I'm pretty optimistic from that perspective.

Operator

Your next question comes from the line of Matthew Mishan with KeyBanc.

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

This is Brett on today for Matt. Just wanted to ask a little bit about the trends in Europe given how robust several of the historical quarters looked, a little bit of a deceleration here. Just wondering if there was anything driving that step-down.

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

Brett, we're #1 in Europe when it comes to contact lenses. We've got a fantastic franchise there, that team's done a great job not only building up our infrastructure around a lot of the independent optometrists, but also with some of the key accounts where we're especially strong. So no, I think that the European market is doing well. We have not seen a pullback in that market tied to any economic concerns or anything. The contact lens market is strong there, and we're leading the charge and I think we'll continue to do that.

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

All right. And then just turning to MiSight. It sounded like trends in Americas in retailing key accounts was actually the driver of the step-up this quarter. Do you see a potential maybe to drive some upside to that guidance range given China seems like it's starting to recover and it might actually be an incremental driver to the positivity you're seeing in the Americas?

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

I guess the short answer to that would be yes. Yes, we're in a better spot when it comes to MiSight today than we were 6 months ago when we initiated that \$120 million to \$130 million [guidance] (added by company after the call). So I think we've got a good shot to be at the higher end of that range or even push above it.

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

All right. Awesome. And then last question for me. I think you touched on some of the continued supply chains in the industry being a positive driver for pricing growth. Wondering if there are any pockets of particular issues from other companies that might be benefiting Cooper given the investments you've been making in your own production?

Albert G. White The Cooper Companies, Inc. - President, CEO & Non-Independent Director

Yes, that's a tough one. I don't think there's too much there in terms of disruption from others. There are supply chain challenges that we all have right now. Our competitors do and we do too, in terms of just being able to produce enough product. I mean in a lot of cases, I think a lot of us are selling everything that we can make right now. So not only are we dealing with whatever supply chain issues you could have associated with distribution and everything else, and all those are certainly lightening up, but we're also dealing with demand.

I'll talk about ourselves. We're a business that's been healthy for a long time, growing around 7%. And now we put up our ninth straight quarter of double-digit growth. That puts pressure on the business in terms of having to make more product and run more products through your distribution channels. So there's just a natural challenge on that from a supply chain perspective. I think it's industry-wide, and we're all going to continue to deal with it because I think we're all increasing our production capabilities and expanding our capabilities throughout our logistics networks. But it takes time, it takes effort, and the demand is there.

So we're going to continue to see strength in the contact lens industry. I don't think you're seeing too much in terms of one person struggling so much that someone else is picking up business, as much as you're seeing supply chain issues or challenges just because of the global demand of the contact lens industry.

Operator

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

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

Al, I wanted to ask on Biofinity toric. We've been hearing some greater channel inventory shift from a competing toric lens to Biofinity toric. I know it's been going on for a while, but are you able to quantify or do you have any metrics around maybe what share you've picked up with Biofinity toric? How much of this is maybe adding to the toric revenue growth was pretty impressive in the quarter. And then sorry to pack a few into here, but how much tail is left from this conversion to toric and whether or not you're seeing any, again, channel inventory shift with toric or even more broadly?

Albert G. White The Cooper Companies, Inc. - President, CEO & Non-Independent Director

Yes, there's probably something there, but I just don't put too much weight on it, honestly. We've had some competitors pull back a little bit on some of their SKU ranges, and we have those SKU ranges. As a matter of fact, our Biofinity toric family is the widest toric offering out there. And when you roll in things like the toric multifocal, it's just an amazing franchise right now. We've been building that franchise out for a number of years. We spent a lot of time and a lot of money on the manufacturing side and also on our distribution network to be able to manufacture and distribute all those products in a wide SKU range.

So do I think that we're maybe getting a little bit of help because some competitors or a competitor has pulled back on some of their SKU ranges? Yes, probably. But this isn't coming because of one quarter or an action that somebody took. This is coming because of a multiyear strategy that CooperVision has deployed to drive growth in our torics. Jerry Warner runs that business for us, does a fantastic job. He's just laid out a great strategy there in terms of torics and multifocals, appreciating that the market is growing. That portion of the market is growing faster than the sphere market, and it's a really sticky, and great market. So we've invested a lot of time and money for a lot of years to be in the position we're in. And I give the team a lot more credit in that activity than I do saying that a small movement by a competitor is allowing us to take a lot of share.

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

Okay. That's helpful. And then maybe if you can just follow up your comment on whether or not you're seeing any inventory shift in the channel at all. But then separate follow-up. I actually wanted to ask another one on PARAGARD here. I think you've probably tried every

which way to get this product line to grow. We've seen different advertising, sales repositions, greater commercial focus. The effect here has been tough. Does there come a point where you'd look to evaluate different options for PARAGARD or maybe better set of strategic and financial fit, still make this a good asset for Cooper.

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

Yes. On the channel inventory side, I'd say we probably ended our fiscal quarter a little light on channel inventory. I referenced that a little bit with some of the Biofinity shipments. But I'd say we were probably a little lighter from a channel inventory perspective. Nothing to go crazy about, but since you're asking.

On PARAGARD, yes, boy, we bought that. We put some money into it. I think we've gotten a great return on that asset. But having said that, we put some money into it. We put some TV advertising out there and a lot of different marketing campaigns to really try to energize the non-hormonal IUD market. We had some success on that, but not a ton. And then you get to where we're at today. There's some fundamental shifts in the market that are causing challenges for us. You're not seeing women go into their gynecologists as much as they were pre-COVID for annual wellness exams and so forth.

And as that's happened, combined with the fact that a lot of birth control options, especially birth control pills, the availability has increased, or the ease to get that birth control has improved, and that's hurt the IUD market, and it's hurt PARAGARD. So we're evaluating that like we always do right now. I mean that's a good product. It does okay in the marketplace. It's a decent fit in terms of our women's health care franchise. But we'll always evaluate that just like we do everything else in terms of our long-term strategic planning.

Operator

Your 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*

Really good quarter, but just despite the top line beat, you came in a little bit hot on OpEx as a percent of sales relative to our estimate. And if I look at fiscal 1H '23, I think OpEx, as a percent of sales, you might be up roughly 100 bps from last year. Brian, I think you mentioned some investments. Is it CVI? Is it CSI? Where are those investments being made? And does that sort of remain front and center for the next couple of quarters until sort of lap them, call it, exiting fiscal '23 and we can think about recapturing leverage into fiscal '24?

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

Yes. Good question. Thanks, Jon. Yes. I'd say the total OpEx dollars came in where we expected along with our gross and operating margin results. We continue to invest in commercial activities, including sales and marketing tied to the product launches and the rollouts that Al mentioned in his prepared remarks. We had also continued fertility investments, and that includes building out more of our competencies in various regions like Asia Pac.

And then lastly, we still have inefficiencies that we expected in distribution that were higher year-over-year, and Al just mentioned the challenges that we have when revenues continue to drive higher and the strain it puts on distribution. But we're working through those challenges. And I'd say total OpEx landed where we expected, but our real focus is on driving operating margin expansion.

And like I've said before on the last call, and I'll say it again here, our operating margin at the midpoint of our constant currency revenue guide, we're expecting constant currency OI growth of around 11%. So as long as we're driving that operating margin expansion, and that's in this year, driven in large part from gross margin expansion, then we're putting up a leveraged P&L. And so that's the goal for this year.

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

Got it. Fair enough. And maybe just to shift gears. This one Al might be for you. But within APAC, I know you're overweighted to Japan, but I sort of want to take the opportunity to ask what you're seeing in China, the slope of the business of late. I just think there's been a lot of headline noise, news. And so just would love to get your thoughts on what you're seeing on the ground in the sort of April and to May time frame.

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

Sure. Yes. We've seen some improvements in China, but China, even now, comes and goes a little bit. When you look at it from our perspective, it's probably 2 different stories. Because you have our regular contact lens business there, the retail side, which we've seen some traction on and we've seen some improving results. And then you have the myopia management side, which is MiSight, but also a lot of Ortho-K that gets sold through the hospital. That's a different channel.

So I do think that we're seeing some improvements in the hospital channel, which is actually going to help us a little bit on Ortho-K and MiSight. The other side, the retail, the general population, comes and goes a little bit. Now having said that, Jon, remember, that's a pretty small market for us. Some of our competitors have much bigger share in China than what we have.

Operator

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

Ron Feiner *Oppenheimer & Co. Inc., Research Division - Research Analyst*

This is Ron on for Steve. I wanted to ask you guys about SightGlass a little bit. What is your estimate for the approval timing? And with MiSight being in the field for a bit now, how are you thinking about how SightGlass will be positioned in the field versus it?

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

Yes. So no real update on SightGlass when it comes to regulatory approval here, waiting to receive the final 4-year data and compile that, and then take next steps. So nothing really to add from that perspective. As you know, we've got a great partnership with EssilorLuxottica on that product. And the product has been launched in many markets around the world, and it's selling and it's doing well. That's within the joint venture itself. So I continue to be really optimistic about that product long term. But that is within that joint venture, not in our P&L, other than the investment activity gains or losses below the line.

When it comes to MiSight and how that looks, to me, glasses are going to do nothing but be a positive for the myopia control market. We want people getting into myopia control. They need to be wearing the product. So children need to be wearing those glasses. Compliance is really important. As children get into myopia control, let's say they do that a lot at 5, 6, 7, 8, 9, 10, certainly, as they get to become teenagers, and certainly anyone who has compliance as an issue, you're going to want to be moving to contact lenses.

So anything that we can do to drive the myopia control market forward and increase it, is a positive for us, positive for MiSight, positive for the industry.

Ron Feiner *Oppenheimer & Co. Inc., Research Division - Research Analyst*

That's really helpful. And I guess sort of a follow-up on that. You guys mentioned that the headwinds on myopia in China are kind of abating towards the end of the quarter. Can you say what changed like towards the end? What was the shift? Because China has been a headwind on myopia for a little bit.

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

Yes. It's really that those products are sold through the hospital channel. So you need the hospitals to open up and have more availability for children. You need to transition back to a more traditional normal hospital environment within China. So I think that's what we're seeing, as COVID starts to get in the rearview mirror and you're getting patients going back into the hospital for more traditional needs you're opening up some space for optometry, and that's helping with the fittings.

Operator

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

Patrick Andrew Wood

Amazing. Two left for me, please. I guess the first one is on the fertility side, maybe just zooming out. If we just hypothetically say Cook doesn't close, how committed are you to APAC as a region? You hinted by saying maybe some accelerated pathway to growing that. I'm just curious if you could put a little bit of meat on the bone to how you feel about the region, how critical that is for you and fertility going forward.

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

Yes. That's a really good question. That is an important region, and we are going to invest in that region. Right now, we're going to continue to invest there. One of the primary reasons we were doing the Cook transaction was for growth in that region. There's a number of markets there that are really, really strong fertility markets. I mean really strong growth rates. So we have a solid presence in parts of that region, like Australia, but there's a number of countries where we don't have a presence or the presence is pretty small. We need to hire some people, build out some infrastructure there.

So we're evaluating that activity right now. Because when you look at our business as a leader in the space, and as well as we do with our broad portfolio in the Americas and throughout Europe and in parts of Asia Pac, there's no reason we shouldn't be able to build out infrastructure and continue to drive growth there. So that's a matter of the typical thing we do as a company, which is evaluate those opportunities, look at the return metrics associated with them. Because you do have inefficiencies anytime you're building out infrastructure in a new region like that. So we're going through the process and evaluating all that activity right now.

Patrick Andrew Wood

Amazing. And then one more, which is I was really interested around MiSight and the positive halo effect of selling in the rest of your offering. I mean is that more a function of MiSight opening the door in the first place where there isn't a relationship because it's such a unique offering and then being able to sell more in? Or is it more about incremental depth with accounts where you already have that relationship?

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

Yes. It's a really good point because you're right. There's a lot of optometry offices where they're much stronger with some of our competitors to the point where they might just use competitor products and not our products. And MiSight has cracked open the door in a number of those accounts. And it's gotten our people in there, and all of a sudden, we're able to have conversations about products like MyDay as an example and about our extended toric ranges and so forth. It's opened the door, and it's continuing to open the door into more new opportunities for us.

I do [also] think there are some [opportunities] (added by company after the call) in terms of existing accounts where we're going in with an innovative product, and they can see the technology advancements and they get more comfortable with Cooper. But you're spot on, I would not discount the importance of virgin Cooper stores where we can go in there and finally start selling some of our core products.

Operator

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

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

Congrats on the quarter. Maybe I'll ask 2 on CooperSurgical, starting with PARAGARD. I mean I heard the comments about flat volume growth, and you talked about some of the market dynamics. Do you think PARAGARD can return to seeing volume growth over time? Or is this flat volume growth more of a longer-term expectation and kind of pricing is really the key driver over the long term?

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

My gut tells me, depending upon how you define long term, but certainly, for the coming years here, that volume is going to be flat. I think when you look at the availability of other offerings, the ease of availability and the additional offerings that are out there, now those are on the hormonal side, but when you look at the birth control market, I think the volumes for IUDs and PARAGARD are going to be flat for a little while here.

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

Okay. Got it. And then in fertility, I just wanted to hear what you're seeing in terms of new fertility clinic openings, trends there. And any way to size how much of fertility growth is driven by like de novo clinics opening up and kind of how big of an opportunity that is for you guys.

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

Yes. The new fertility clinics is a phenomena outside of the U.S. You're definitely seeing more of that activity in some of Asia Pac and some parts of Europe. You're seeing consistent opening of new fertility clinics. The numbers aren't that huge at the end of the day, but they're big enough to continue to drive growth because we see some of that in our capital equipment sales. And obviously, that's a great part of our business. Anytime you can get capital equipment in, you've got the consumables following afterwards.

So I'm not sure I've looked at it in terms of quantifying it because it hasn't been a spike or anything. It's been consistent here for probably the last 4 or 5 years. Even through COVID, we were seeing new clinics continuing to open up. I would probably answer that by saying the fertility industry, I keep talking about 5% to 10% [growth], but obviously, it's grown more towards the upper end of that [range] (added by company after the call), certainly. And embedded within that is the new fertility clinics opening. And I would envision the number of new clinics that we've been seeing open over the last 5 years, or something, to continue at a very similar pace probably for the next 5 years.

Operator

Your last question today comes from the line of Anthony Petrone with Mizuho.

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

Just wanted a follow-up on Cook. Apologies if I missed it, just have another call there. But it sounds like the probability is lower, but there's still efforts to find a resolution. So maybe a little bit on just where the process sits and probability for close. And under a scenario where it does not close, there was an \$875 million commitment and maybe just thoughts on where CooperSurgical M&A activity can go from here if this deal does not close.

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

Sure. So yes, just a quick recap on Cook. We did take the \$45 million hit to the P&L. We accrued for it this quarter because the original transaction that we discussed is probably not going to happen. That \$45 million would get paid under that scenario at the beginning of August.

So that's where we sit with that transaction today. You're exactly right. We are talking with Cook. We have a great relationship. They're a great group of people there. So we continue to have conversations with them to see if there's some transaction that we could still do. But I would certainly say, with respect to that transaction, the likelihood is that we'll pay that \$45 million.

You're right, it was a big number, \$875 million, that we committed on that transaction. Right now, the capital focus, is very similar to what it's been over the last couple of years. We're going to look at paying down debt. We're going to look at acquisitions if they make sense. They have to be strategic, accretive acquisitions that fit well into what we want to accomplish at CooperSurgical or CooperVision, and that will continue. But there's nothing wrong with paying down some debt either.

Operator

This concludes the question-and-answer session for today. I turn the call back to AI for closing remarks.

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

Great. Thank you. And thank you everyone for joining today. We appreciate the time. As I mentioned, we're pretty proud of where we're at. We had a good quarter, and things are starting off well this quarter, so we're well positioned. And we look forward to getting together again in 3 months and updating everyone after our next quarter. So thanks again.

Operator

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

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