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CORPORATE PARTICIPANTS

Kim Duncan *CooperCompanies Inc - Vice President of Investor Relations & Risk Management*
Brian G. Andrews *CooperCompanies Inc - Executive EVP, CFO & Treasurer*
Albert G. White *CooperCompanies Inc - President, CEO & Non-Independent Director*

CONFERENCE CALL PARTICIPANTS

Steven Michael Lichtman *Oppenheimer & Co. Inc. - Analyst*
Robert Justin Marcus *JPMorgan Chase & Co - Analyst*
Patrick Andrew Wood *- Analyst*
Navann Ty Dietschi *BNP Paribas Exane - Analyst*
Lawrence H. Biegelsen *Wells Fargo Securities, LLC - Analyst*
Jonathan David Block *Stifel, Nicolaus & Company, Incorporated - Analyst*
Joanne Karen Wuensch *Citigroup Inc. Exchange Research - Analyst*
Jeffrey D. Johnson *Robert W. Baird & Co. Incorporated - Analyst*
Jason M. Bednar *Piper Sandler & Co. - Analyst*
Issie Kirby *Redburn (Europe) Limited - Analyst*
David Joshua Saxon *Needham & Company, LLC - Analyst*
Craig William Bijou *BofA Securities - Analyst*
Brett Adam Fishbin *KeyBanc Capital Markets Inc. - Analyst*
Anthony Charles Petrone *Jefferies LLC - Analyst*
Chris Pasquale *Nephron*

PRESENTATION

Operator

Thank you for standing by, and welcome to CooperCompanies Second Quarter 2024 Earnings Conference Call. (Operator Instructions). Thank you.

I'd now like to turn the call over to Kim Duncan, Vice President of Investor Relations and Risk Management. You may begin.

Kim Duncan ***CooperCompanies Inc - Vice President of Investor Relations & Risk Management***

Good afternoon and welcome to the CooperCompanies Second Quarter 2024 Earnings Conference Call. During today's call, we will discuss the results and guidance included in the earnings release and then use the remaining time for questions.

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

Before we begin, I'd like to remind you that this conference call will contain forward-looking statements, including: revenues, EPS, operating income, tax rate, FX and other financial guidance and expectations; strategic and operational initiatives; market and regulatory conditions and trends; and product launches and demand. Forward-looking statements depend on assumptions, data, or methods that may be incorrect or imprecise, and are subject to risks and uncertainties. Events that could cause our actual results and future actions of the Company to differ materially from those described in forward-looking statements are set forth under the caption "forward-looking statements" in today's earnings release and are described in our SEC filings, including Cooper's Form 10-K, and Form 10-Q filings, all of which are available on our website at coopercos.com.

Also as a reminder, the non-GAAP financial information we will provide on this call is provided as a supplement to our GAAP information. We encourage you to consider our results under GAAP as well as non-GAAP and refer to the reconciliations provided in our earnings release, which is available on the Investor Relations section of our website under quarterly materials.

Should you have any additional questions following the call, please e-mail ir@cooperco.com. And now I'll turn the call over to Al for his opening remarks.

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

Thank you Kim, and welcome everyone to today's call. I'm pleased to report record quarterly revenues and great operational progress throughout our organization. CooperVision returned to double-digit revenue growth driven by our portfolio of leading silicone hydrogel lenses, and CooperSurgical posted a solid quarter despite some unexpected challenges with a system upgrade impacting our U.S. distribution center.

Margins improved as we leveraged prior investment activity, and we delivered excellent earnings growth. As we move forward, we're increasing our revenue and earnings guidance by incorporating this past quarter and the momentum we're seeing in our markets.

Moving to the details, and reporting all percentages on an organic basis, consolidated quarterly revenues were a record $943 million, up 8% year over year. CooperVision posted record quarterly revenues of $636 million, up 11%, led by our daily silicone hydrogel portfolio, and CooperSurgical posted revenues of $307 million, up 4%. Margins improved and non-GAAP earnings per share were $0.85.

For CooperVision, the Americas grew 10%, EMEA 14% and Asia Pac 7%. All 3 regions were led by our innovative product portfolios, market-leading flexibility, and strength in key accounts. Within categories, torics and multifocals combined to grow 12% and spheres were up 9%.

Within modalities, our daily silicone hydrogel lenses, MyDay and clariti, grew 18%, and our silicone hydrogel FRP lenses Biofinity and Avaira combined to grow 10%. And our myopia management portfolio was up 17%, with MiSight growing 39%. All in, a very nice quarter with strength around the world and throughout our focused product portfolio.

Turning to product details and starting with our high-growth daily silicone hydrogel portfolio, we add another fantastic quarter with MyDay leading the way delivering outstanding results. MyDay is growing in every market and every category, with particular success in our innovative toric and multifocal products. Our ongoing toric parameter expansion launch across North America and Europe is enabling eye care professionals, or ECPs, to fit more wearers in our market-leading design and industry-leading SKU range, which is by far the widest toric range in the daily market. And MyDay Multifocals unique combination of an advanced multifocal design paired with an easy fitting system has resulted in very high satisfaction levels, including a 98% fit success rate in two pairs or less. We continue to receive very positive feedback on this fantastic lens, and I continue to count myself as an ecstatic wearer of what is without a doubt the best multifocal contact lens in the market. We've also seen success with our MyDay spheres, especially with our Energys product which is showing very strong growth. Energys is driven by its innovative DigitalBoost Technology designed specifically for today's digital lifestyle and this meaningful technological improvement is important to contact lens wearers and the ECPs. Given the strong performance of this lens in the U.S., we're excited to launch it in additional markets in the near future. Moving to clariti, our other complete family of silicone hydrogel daily lenses also remains a growth driver. ECPs love this product for its comfort, easy handling, and affordability, which makes it an especially good choice for new wearers. It continues to be a driver in expanding our daily wearer base with noted success in upgrading legacy hydrogel wearers.

Outside of dailies, demand for Biofinity and Avaira remains very healthy. The Biofinity portfolio has continued expanding beyond the traditional ranges of spheres, torics, and multifocals into expanded ranges, made-to-order lenses, toric multifocals, and Energys, and now provides ECPs the ability to fit an amazing 99.9% of patient prescriptions. This is an incredible manufacturing accomplishment and a fantastic benefit to those patients who require the most complex types of vision correction. This is a true differentiator in any office and one of the reasons Biofinity remains so successful. With new state-of-the-art manufacturing lines now in service, we'll be expanding availability of these lenses in existing markets and launching in new markets in the near future.

Moving to myopia management, MiSight continues to gain traction powered by healthy demand. Asia-Pac posted a record quarter, EMEA was strong and the Americas reported a record revenue month in April, although revenues were negatively impacted by a reduction in channel inventory during the quarter. Our back-to-school promotional campaigns are starting soon, and we expect robust results based on the success we saw last year, so we're expecting strong results in the back half of this year. In the meantime, we're marking a milestone anniversary for MiSight with 2024 being the 10-year anniversary of the pivotal MiSight 1-Day clinical trial which led to MiSight becoming the first, and still the only, FDA-approved optical intervention for myopia control. This study remains the gold standard in clinical trial study design and duration from myopia control, and the longest running study of contact lens wear in children.

CooperVision's commitment to establishing myopia control as standard of care continues and can be seen via 2 important initiatives that launched this quarter. First, as part of the continuation of our exclusive partnership with the World Council of Optometry, we've launched a digital Myopia Management Navigator tool available to ECPs around the world. This interactive toolkit provides practical tips and resources to help offices integrate myopia management into their practices. Second, CooperVision and the American Optometric Association have partnered on a groundbreaking initiative, The Myopia Collective, to rally U.S. ECPs to adopt myopia management as the standard of care for their pediatric patients. The program is currently recruiting 51 ECPs representing each state plus the District of Columbia who will work proactively with the AOA and CooperVision to advocate for community and policy change.

To conclude on contact lenses, the market grew roughly 5% in calendar Q1 with Cooper taking share, up 7%. We continue to expect a robust market moving forward driven by several positive, long-term, macro growth trends. Within this, we expect to remain a leader with our innovation, robust product portfolio, ongoing product launches, strength in premium products, fast-growing myopia management business, and leading new fit data.

Moving to CooperSurgical, we posted quarterly revenues of $307 million, up 4%. Demand was strong but a systems upgrade caused shipping interruptions in our U.S. distribution center for our medical device and fertility products. We were largely able to overcome this with strength in PARAGARD, but not entirely. Having said that, we've made a lot of progress and we're comfortable we'll manage the backlog and reach our full year organic revenue guidance range which remains unchanged. Implementing IT infrastructure upgrades can certainly be challenging, but this type of work is critical to our long-term success as it supports efficient growth, creates a better customer experience, and makes internal operations more effective with improved real-time data.

Moving to fertility, sales were $124 million, up 4%. We continue seeing strong demand around the world with our leading products and services continuing to position us well with fertility clinics as they open new facilities, upgrade existing locations, and look for opportunities to improve outcomes and optimize our operations. We're also investing for the future, opening new donor sites, providing extensive training in our Centers of Excellence, expanding geographically, and accelerating innovation. Our focus on investing and delivering the most innovative and advanced solutions to fertility clinics and patients remains unmatched. This includes the first and only European approval for a uniquely formulated one-step media. This specialized culture and transfer media reinforces embryo-endometrial communication for improved embryo development, sustained implementation, and pregnancy. Similar to the advances we're making in fertility-based genetic testing, the science is complex, but the goal is straightforward, providing innovative, market-leading technologies to improve the journey to parenthood. Developing and delivering these types of innovations is why we're a leader in this space, and it's our commitment to continue this type of work.

Regarding the broader fertility industry, this dynamic market is supported by several positive macro growth trends including women delaying childbirth, increasing patient awareness, greater benefits coverage, technology advancements, and improving access to treatment. The World Health Organization highlights that 1 in 6 people will be affected by infertility at some point in their lives, so this is an issue that impacts a lot of people and will do so in the future. As a leader in this space, we remain incredibly committed to advancing the industry by delivering innovative products, standing in support of patients and clinics, and improving access to treatment on a global basis.

Moving to Office and Surgical, we posted sales of $183 million, up 4% with medical devices declining 6% due to the previously mentioned shipping challenges, stem cell storage was up 5%, and PARAGARD up 22%. Within medical devices, demand was healthy driven by our minimally invasive gynecological surgical products led by our Ally Uterine Manipulator portfolio. And our Labor and Delivery portfolio is now arguably the most comprehensive obstetrics portfolio of medical devices, ensuring the safety of mothers and babies, and demand remains strong.

Our stem cell business had a solid quarter and PARAGARD outperformed expectations with the benefit of stocking related to a mid-single-digit price increase. This stocking will naturally offset itself largely in fiscal Q3.

To conclude on CooperSurgical, with our expanding obstetrics portfolio of products and services, we can now update our impact to the global community and say that roughly every 30 seconds, somewhere around the world, a baby is born using CooperSurgical products. We're making a difference in people's lives, and that makes this business very special.

To wrap up, let me add that we just released our latest ESG report which highlights our efforts around environmental sustainability, corporate social responsibility, and strong corporate governance. It's on our website and well worth reading when you have a chance. We are passionate about sustainability, and I'm thankful to our employees around the world for their commitment to doing things the right way.

So with that, let me say thank you to our 15,000-plus employees for their continuing hard work and dedication as they drive our success. And I'll now turn the call over to Brian.

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

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

For the second quarter, consolidated revenues were $943 million, up 7% as reported, and up 8% organically. Consolidated gross margin was 67.3%, up from 67.1% last year driven by continuing efficiency gains and price.

Operating expenses grew in line with revenues with SG&A showing leverage and R&D growing faster. Regarding R&D, we've increased our investment activity in several exciting areas to ensure we remain a technological leader by continuing to launch some of the most innovative products in our markets. More to come on this as products are developed and launched.

Consolidated operating margin improved to 23.8%, up slightly from 23.7% last year led by the gross margin improvement. Below operating income, interest expense was $27.5 million, and the effective tax rate was 13.5% due to the positive impact of stock option exercises.

Non-GAAP EPS was $0.85, up 10% year-over-year, with roughly 201 million average shares outstanding. Free cash flow was $37 million with CapEx of $74 million. Net debt decreased to $2.6 billion.

Foreign exchange negatively impacted earnings by $0.07 in the quarter which was $0.01 worse than we were expecting at the time of our last guidance, even with a positive offset from our hedging program.

To summarize fiscal Q2, this was a solid quarter. CooperVision returned to double-digit growth, CooperSurgical made tremendous progress implementing system upgrades, and margins improved year-over-year, even against currency headwinds. Tax and FX offset one another, and we delivered a strong bottom line.

Moving to fiscal 2024 guidance, we're increasing expectations for revenues and earnings by incorporating our Q2 performance and the momentum we're seeing as we enter the back half of the fiscal year. This results in full year consolidated revenues of $3.86 billion to $3.9 billion, up 7.5% to 8.5% organically. For CooperVision, we're increasing our guidance to $2.59 billion to $2.61 billion, up 8.5% to 9.5% organically driven by healthy demand and improving capacity. For CooperSurgical, our organic revenue guidance is unchanged at 5% to 7% which equates to $1.27 billion to $1.29 billion. Interest expense is also unchanged at roughly $108 million, which assumes no interest rate changes by the Fed for the remainder of our fiscal year.

And for tax, we're forecasting a full-year effective tax rate of roughly 14%, assuming no additional discrete items. Given all this, we're increasing our non-GAAP EPS guidance to a range of $3.54 to $3.60, up 11% to 13%.

Regarding currency, the impact from FX is roughly $0.02 worse in the back half of the year compared to last quarter's guidance, but we expect to hurdle that with stronger operational performance.

Lastly, on quarterly gating, we anticipate non-GAAP EPS to be higher in Q4 than Q3. This is primarily the result of a lower gross margin in Q3 associated with higher cost contact lens inventory rolling through the P&L in Q3. Currency is also slightly more negative in Q3 than in Q4.

In summary on guidance, we're raising CooperVision's growth rate to reflect improving capacity, leaving CooperSurgical's growth unchanged, and raising our non-GAAP EPS range by $0.04 on the bottom and $0.02 on the top, even against the negative impact of an additional $0.02 from FX in the back half of the year.

To conclude, we remain focused on delivering strong revenue growth and consistent operational performance. Our capacity is improving, we're leveraging prior investment activity, and we're deploying capital with a focus on organic investments which offer the highest return for investment dollars. Our momentum remains very healthy, and that's reflected in our updated guidance.

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

QUESTIONS AND ANSWERS

Operator

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

Craig William Bijou ***BofA Securities - Analyst***

Congrats on a strong quarter. I wanted to start with the CVI guidance. And the revised guidance for the year assumes growth is going to be similar in the second half to the first half despite tougher comps. So I guess the question is, what gives you the confidence that you can maintain that level of growth in the second half despite the comps? And any help on how to think about Q3 versus Q4 growth?

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

Yes, Craig, thanks. You're right. We do have harder comps, Q3 is a little bit harder, even than Q4 in the back half of the year. On the flip side, we have good momentum right now as we enter the back half of the year and we have improving capacity. And as you know, one of the things that's held us back a little bit has been some capacity constraints in certain products. So as some of those challenges start to reduce, we're able to put more product out.

And I've mentioned this before, but we're in a situation where we have demand exceeding supply, and we probably will for a while here. We know that as we bring these new lines on and produce more product that we're going to sell that product. I think it positions us well. Even in the face of tougher comps, I'm still feeling pretty optimistic about our ability to deliver some strong growth in the back half of the year.

Craig William Bijou ***BofA Securities - Analyst***

That's helpful. And then maybe just on the U.S. distribution center for the surgical business. Any way that you can quantify what that impact was in the quarter? And then how should we think about that impact impacting Q3 and Q4 basically the second half of the year?

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

Sure. I'm not going to quantify that. I don't like to go into that and say what would have happened if this wouldn't have happened and speculate around what those numbers are. But they clearly negatively impacted the quarter, because medical device has a great team, and they put up strong demand again and would have had a decent quarter without the shipping delays and same within fertility. We grew Fertility 12, 13 quarters in a row of double digits and dipped down to 4% with some of those shipping issues. Having said that, we are proceeding better right now. We're having a pretty good May. We're working through the backlog to get ourselves in a better position. I'm optimistic as we work through this quarter that we can address most, if not all of that, and close the year out strong.

Operator

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

Lawrence H. Biegelsen ***Wells Fargo Securities, LLC - Analyst***

Maybe just talk about the IVF market and your growth. Do you think you can get back to double-digit growth in that business, which we saw for quite a few quarters before this quarter?

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

Yes. Following up on my commentary to Craig there, I would say the answer to that is yes. As a matter of fact, I think we have a good chance to report a double-digit revenue growth quarter right here in Q3.

Lawrence H. Biegelsen ***Wells Fargo Securities, LLC - Analyst***

Okay. Good to hear. And then on contact lenses Al, what are you assuming for price for the market and for your contact lens business this year?

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

Sure. For price, we've seen almost everyone take price. Everyone has taken price either earlier this calendar year, or for us, at the beginning of our fiscal year. So pricing is holding where it's at. I think from a price perspective, the market is still very healthy. When we look at the contact lens market growing in mid upper single digits, you're talking about maybe 1/3 of that is coming from price. So very similar to what we talked about in the last few quarters.

Operator

Your next question comes from the line of Issie Kirby from Redburn at Atlantic.

Issie Kirby ***Redburn (Europe) Limited - Analyst***

I first just wanted to touch upon the MiSight progress in U.S. and Europe conscious of stocking there this quarter, but I wanted to ask about the growth there and whether you're seeing a higher number of prescribers or prescribers essentially running more revenue per prescriber basically. And then your thoughts on potential competition in the soft contact lens market for myopia? And then I have a follow-up.

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

Sure. On activity, we are seeing both. We're actually seeing more fitters around the world, and we're seeing more fitting occurring with those practitioners who are currently fitting MiSight. So I'm really happy to say that. One of the things that's driving more fitters is because we're making progress with a lot of our key accounts. So some of the bigger names out there, the bigger optical chains that you would know are incorporating MiSight into their fitting activity. That's maybe moving a little slower than I was hoping because you're going through a lot of training and standardization within those big chains, but that's all moving forward, and we're seeing more fit activity out of that.

If we look at the doctors who are currently fitting MiSight and how active they are fitting MiSight, it's universally increased fitting. And we're seeing that throughout the world right now. I'm really happy where we are from a fitting perspective. We did have a little pull down in channel inventory a little bit here in the Americas. No surprise to me in anything that's going on. But I do think we're going to have a pretty strong back half of the year, Q3 and Q4 are going to be pretty good for MiSight. From a competition standpoint, MiSight is the only product that's approved for myopia control. So there is, as of today, no competition in the market other than people using something off-label or people promoting something that doesn't have the clinical data or the approvals of an organization like the FDA.

Issie Kirby ***Redburn (Europe) Limited - Analyst***

Okay. That's great. And then I just wanted to touch upon some of the areas of organic investment that you focused on, called out heightened R&D investments. Perhaps across those divisions, if you could call out some particular areas you're looking at, anything that's exciting you in the pipeline at the moment.

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

Sure. Again, within CooperVision is probably pretty clear, and that's CapEx. We're investing a lot in manufacturing equipment right now to expand capacity. As I was mentioning, we have a lot of demand, especially for our MyDay products. We have a lot of things that we want to launch. We want to get out in the market and we want to expand into additional markets. So there's quite a bit of launch activity that's on hold as we increase our capacity. So CapEx investments would be a good example.

Within CooperSurgical, off the top of my head on the R&D side of things, we have some cool R&D things going on within Surgical. I won't touch on the specifics behind that, but I look forward to some of those projects coming fruition. So between capital expansion, R&D, and R&D within MiSight, we have some good stuff going on. There's definitely some organic investment activity going on.

Operator

Your next question comes from the line of Jeff Johnson from Baird.

Jeffrey D. Johnson ***Robert W. Baird & Co. Incorporated - Analyst***

Al, maybe a couple of follow-up questions here. So one, you talked in your prepared remarks, 5% market growth, 7% Cooper growth in what would have been calendar 1Q. It's always dangerous to do this, but you put up 11% organic. Does that mean your exit rate in your April month, the month of April was much stronger than it was the first couple of months of the quarter, number one.

And number two, I'm assuming that's GFK data, what's going on maybe sell-in instead of sell out retail data. Any changes is there in inventory. You did talk a little bit about MiSight inventory. But any channel inventory changes or concerns you have U.S. or rest of world on the channel inventory side?

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

Sure. Yes, a couple of comments. April was a strong month, no question. I think it was a good month for the industry. May is a good month. I mean we started the quarter off certainly well. So I'd say April, May, good months in the contact lens industry. And certainly, our performance shows that.

From an inventory perspective, I think you're probably just seeing higher interest rates. Everybody is out there, who holds inventory, trying to reduce inventory levels and take them to the contractual obligated levels. So if anything, maybe inventory is just a little bit tighter as you go through the channels right now, I think you could probably comfortably say that on a global basis.

Jeffrey D. Johnson ***Robert W. Baird & Co. Incorporated - Analyst***

Okay. Just a follow-up on that. I'm assuming since you raised CVI guidance, you're not feeling like that's a big risk. And then just on the APAC number being up 7%, we thought MyDay multi going back into Japan, APAC might have been a source of upside this quarter that obviously didn't happen have you just been a little delayed on getting MyDay multi back into Japan? Or was there something else underlying in Asia Pac this quarter?

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

Yes. I would say on the first part of that, the risk associated with the inventory contraction, that is not a big deal. We've already had most of our customers reduce their inventory levels. So I don't see any real risk associated with that right now. We've already worked through a lot of that.

If I look at the Asia Pac market, you're exactly right. It's still a capacity issue. That team is a great team. And if we could provide more MyDay product, they would no question be selling that product. So right now, that's just a capacity issue in terms of where we can get them product. And ultimately, we'll get it there, and we'll sell it. So yes, that's just a timing thing.

Operator

Your next question comes from the line of John Block from Stifel.

Jonathan David Block ***Stifel, Nicolaus & Company, Incorporated - Analyst***

Maybe just the first one, a little bit of a clarification. So Al, for those distribution center challenges that you called out, you also mentioned the backlog and thought that you can get that out in subsequent quarters. So for those challenges are all those sales pushed or lost? Is it a little bit of a combination of the two? Maybe some clarity there would be helpful. And then I'll just pivot for the follow-up.

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

Sure. I would say most of that is pushed. You never really know at the end of the day whether you lose some of those sales or not, if somebody is going to change some of their order patterns as they wait for your product. In this case, it was an IT-related upgrade. It's not something that we see going multi-quarters. The team has done a really nice job on that. I think, generally speaking, that's more of a push than it is lost sales.

Jonathan David Block ***Stifel, Nicolaus & Company, Incorporated - Analyst***

Got it. Helpful. And then maybe CVI for the second question, you mentioned the good April. Arguably, the good May as well. And we've seen some solid numbers from the market, too. So you did mention the 10% [silicone hydrogel] (corrected by company after the call) FRP growth, it's a big number. And it seems like it was a little bit of an easier comp, but rarely argue double-digit SiHy FRP. If you could just comment on anything to call out with the consumer, modality changes? Is there anything there to look into.

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

Yes, it's a really good question, John. And you're right, that was a really strong quarter for Biofinity and for Avaira, by the way, which I think was also double digits. Both of those product families did well.

I think the one thing that's happening with Biofinity is that we just have such a broad portfolio, and there's been a lot of demand on parts of that portfolio as we've expanded the offerings. We've been capacity constrained on a lot of those products for quite a while. We have some new manufacturing lines, some really cool state-of-the-art new manufacturing lines that are producing product right now. So we're able to meet some of the demand that was out there. I think you saw some of that in the second quarter. I wouldn't read too much into anything outside of that other than just a broad scope of success within the Biofinity and Avaira families.

Operator

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

Robert Justin Marcus ***JPMorgan Chase & Co - Analyst***

Great. Congrats on a good quarter. Two for me. Maybe the first one, you showed really nice operating margin and gross margin beats in the quarter despite the warehouse ramp issue. Maybe speak to some of the specifics of what you're doing, how it's been a focus for management. But any details on what it drove it would be helpful.

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

Thanks for the question. There are several areas, but one place in particular that we've been talking about a lot over the last couple of years is all the investment activity in distribution, and some of that comes with IT and within Vision as well. But putting all that together, we're really starting to get leverage from that prior investment activity. We're seeing improvements in our cost of moving product between and among our different sites, but also in shipping out to our customers. Some of this also has to do with influencing some of the customer behaviors around order patterns. But certainly, our initiatives around trying to drive down our distribution cost and getting more efficient is one of the really meaningful areas within SG&A that we've seen improvements that have led to operating margin expansion.

Robert Justin Marcus ***JPMorgan Chase & Co - Analyst***

Maybe a follow-up for me. I think $0.02 worse currency came in a whole lot there than the fears that I was hearing at least. And I know probably a good part of that was due I know you started, I think it was fiscal third quarter last year, a hedging program on intercompany loans, which helps limit disruption on the other income line. So just wondering, when you look at currency, how much help have you gotten from starting that hedging program? And I'll just leave it there.

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

Yes. Thanks, Robbie. I'm glad you asked that question, and I put it in my prepared remarks. I think there's some misconception out there that we're not hedging. We're absolutely hedging. We started last year. But we hedge different FX exposures to mitigate the impact of currency each quarter. And we've been talking about wanting to drive not only top line beats but bottom line beats and part of that is trying to mitigate the impact from currency. And I think we've done a nice job improving on our hedging program. We continue to hedge.

And as a result, we've been offsetting the negative impact from currency, and we did it again this quarter. I'd say more to come, but we're having success there.

Operator

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

Jason M. Bednar ***Piper Sandler & Co. - Analyst***

I'll echo the congrats here on a nice quarter. Al or Brian, I wanted to start on EMEA, the performance there with CVI just continues to be extraordinarily strong. You've been putting up really good growth, covering up what's maybe being held back a little bit in APAC. How sustainable is the run you've got in EMEA. It's been pretty impressive. Just would love to gauge your confidence level and staying up these low to mid-teens growth levels. And if you could help us out with what's supporting that with respect to its capacity expansion that's helping or are these just like just simple wins that you're having with key accounts or other share gains?

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

Yes, Jason, I think it's a few of those things. First off, Debbie Olive runs that part of our organization, and she absolutely killed it. She's fantastic and her team is fantastic. And I couldn't be prouder of what they've been accomplishing over there because the work they've been doing with key accounts and expanding geographically, it's just been fantastic. I think when you combine that level of excellence with some of the wins that we're getting in some of the key account activities and some of the new product that's coming into that marketplace as we start to be able to meet some of that demand, we're in the early innings of that still, but meeting some of that demand in a better way. You're just seeing all that come together. I wouldn't attribute it necessarily to one specific point but just a lot of really good things happening. It's going to be very difficult to maintain that level of growth, certainly quarter after quarter. But I do expect EMEA to continue to put up pretty good numbers moving forward.

Jason M. Bednar ***Piper Sandler & Co. - Analyst***

Okay. All right. That's helpful. And then I want to maybe follow up with a quick clarification or a follow-up from Jon Block's question. Just wanted to talk about the pushes and pulls in CSI revenue assumptions for the back half of the year. I know you mentioned clearing some of the backlog. It sounds like you think you're going to get a lot of that back that you lost. I don't want to quantify it just yet, but I think you also said that PARAGARD helped make up some of the losses here in the current quarter. I guess just curious how you're thinking about the components of that relatively unchanged CSI revenue guide and whether there's any margin implications from those assumptions if like maybe PARAGARD is helping a little bit more in your updated guide.

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

Sure. PARAGARD, I would expect PARAGARD to be negative here in Q3, probably decently negative. I think I mentioned last quarter, I thought we'd have a strong Q2 for PARAGARD and we did. That will offset itself here in Q3. I would envision fertility, medical device, those areas being much stronger in Q3 to offset that. Yes, PARAGARD has higher margins, arguably more than some of those areas, but it's not so much that it's going to cause an issue certainly. And as you can see in the back half guidance that we gave we're comfortable that we can work through that.

Operator

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

Anthony Charles Petrone ***Jefferies LLC - Analyst***

Congrats on a solid underlying quarter here. Maybe on capacity for contact lenses, just to revisit that, Al or Brian, how far ahead do you think your capacity overall is relative to some of the competitors out there? That would be one question. And then the follow-up to that would be just as we look out in terms of this latest CapEx growth cycle here on manufacturing capacity expansion for contact lenses. How long is this investment horizon going to be? And when does it actually come to a conclusion?

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

Thank you, Anthony. It's a good quarter. Yes, capacity, I think we're probably in similar shape to our competitors right now. We've got capacity. We certainly need more capacity, and we have capacity ordered. We have lines ordered and capacity coming on line as we work through this year and through next year. We just have a lot of demand for our products. And I think our competitors do too because the marketplace is strong. The overall contact lens marketplace is strong.

You're continuing to see a lot of interest and demand around daily products, especially daily silicone hydrogels. And within that, the toric and multifocal categories. So I think that capacity is a bit of a challenge for everybody to some degree, but I think everyone said, "hey, I'm okay on capacity, and I've got additional lines coming on to meet the demand." That certainly seems like it's going to be part of the contact lens industry story here for many, many, many years in front of us.

Operator

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

Joanne Karen Wuensch ***Citigroup Inc. Exchange Research - Analyst***

Very nice quarter. I want to spend a little bit of time on operating margins because you're starting to push those up nicely. And I don't know whether it's a new view towards their meaning or new levers that you have to pull or the new FX program that you've put into place. But I'd love to get a couple of the factors that are driving that.

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

Yes. I'll give a high-level answer, Brian certainly has more detail than I do. But I would say that you'll remember over some prior quarters, over the last several years, we've talked about investment activity in our distribution centers and in other areas of the company. And I know we got questions on that, when we were discussing it. Like when are we going to see a return on that? How is that going to play out? Well, that's what you're seeing right now. We're in the earlier stages of leveraging those investments that we've done. And that's true within the manufacturing side also. Those are true within distribution. And frankly, they're true in some other areas when we talk about some of the IT work that we've been doing and becoming more efficient from an IT perspective. So that investment activity we've been doing over the last number of years, we're starting to see leverage on that and success from those programs. I think we're in some of the earlier innings arguably of being able to deliver some leverage through the P&L.

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

Yes. I don't have much to add there. Joanne, I think Al put it well. What's nice is that we've got some really, really important initiatives behind us towards the end of last year. So now we're working on iterating and continuously improving on that activity that we put into service. So getting that leverage this year has been a little bit easier than it was last year, and we continue to progress across many fronts.

Operator

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

Patrick Andrew Wood ***- Analyst***

Just 2 quick ones, please. I love if you could unpack EMEA in CVI, a little bit more because again, it's another incredibly strong quarter. Just how should we think about the durability given the region growth in general isn't great, you guys seem to be killing it in that market?

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

Yes. I don't know if I'd add too much on top of what I said earlier, a really strong team. Great products, well positioned with a lot of the key accounts that we have there. And I think we've got potential for solid growth moving forward. We are running into multiple quarters, years of really strong performance out of that region. So it gets a little bit more difficult to continue to put up that sizable levels of growth. But I anticipate we're going to continue to perform well there for all those reasons.

Patrick Andrew Wood ***- Analyst***

Sure. And then a quick second one is if I can temperature check on capital allocation because you're obviously running with a relatively unlevered balance sheet. And I know it's challenging to work out like what kind of assets are out there, and I appreciate you those the book assets fairly recent. How are you thinking about the broader capital allocation landscape going forward?

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

Well, I would answer that by saying, number one is organic investments. We touched on that earlier, investing in bringing more capital online, investing in creating or expanding products that we have in the marketplace right now. So I would say there's a lot of focus on that right now, internal investments, which are higher return, lower risk type investment activity, and then paying down some debt. I still don't think there's anything wrong with paying down debt right now. We'll see what happens with interest rates, but we carry a decent amount of debt, regarding your last point, if acquisitions come along or we see some smaller tuck-in type deals we would evaluate those. And if they make sense, we can start doing them.

Operator

Your next question comes from the line of Chris Pasquale from Nephron.

Chris Pasquale ***Nephron***

To clarify the expectations for PARAGARD, was a particularly easy comp. You have a pretty tough comp in 3Q it's a little hard to disaggregate the destocking dynamic from just all the lumpiness in FY '23. Do you think sales are going to be down sequentially in 3Q or just down year-over-year? And maybe just frame for us what do you think full year growth looks like at this point?

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

Yes. I think full year growth is probably in that flattish to up a little bit. It'd probably be up a little bit depending upon a competitor launch or something along those lines. I think we did around $46 million in this quarter. I would sequentially expect that to be lower Q3 lower than Q2.

Chris Pasquale ***Nephron***

Okay. That's helpful. And then one for Brian on the tax rate. Guidance has walked down from 15% to 14.5% now, 14% and even getting to 14% would require it to be higher in the back half than the first. So what's driven it lower? Why should it go back up? And then is 15% still a good starting point as we look ahead to FY '25.

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

Chris, yes, thanks for the question. The story behind our effective tax rate going down in the first and in the second quarter is stock option exercises, as you know, you can't forecast when or how much people are going to exercise. But stock option exercises drove the effective tax rate down probably by 1% in the second quarter. So you're right. I think if you model out the rest of the year getting to 14% around there, at least incorporates the lower tax rate in Q2 and roughly 15% for the balance of Q3 and Q4.

As it relates to our underlying organic tax rate, it is hovering somewhere around that 15% to 15.5% or so range. If we were to start next year, it would be somewhere probably in that ballpark.

Operator

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

Brett Adam Fishbin ***KeyBanc Capital Markets Inc. - Analyst***

Sorry to touch on the PARAGARD question. Just wanted to ask 1 more clarifying 1 there, just given some of the trends. So I know you called out that you thought the second quarter would remain strong, but just trying to make sense of the 22% growth. Maybe the first part would just be was pricing still in the mid-single-digit range in terms of the contribution? And then maybe if you could just elaborate a little bit on why you're expecting such a sudden change into the back half, if that's more weighted to a market slowdown or really just based off of any potential changes in the competitive landscape?

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

You get lumpiness in PARAGARD. We've always had it. If you go back and look over the years, you've always seen a lot of lumpiness around PARAGARD tied to channel inventory and tied to price. In this case, we did a mid-single-digit price increase and customers had a chance to buy in on that at the end of our first fiscal quarter and then during the second fiscal quarter. We saw some buy-in activity, and you'll just naturally see that kind of play itself out in Q3 and go in the other direction.

Underlying theme in the marketplace from our perspective is, the market still struggles from a unit perspective. So yes, you're getting growth from price. It's not coming from units. I mean, there's competitive product out there. There's no other non-hormonal IUD in the market today and maybe a competitive product will come. But there is easier access to birth control pills and other birth control-related items that are out there that continues to make that a challenging market.

Brett Adam Fishbin ***KeyBanc Capital Markets Inc. - Analyst***

All right. Super helpful. And then a really quick follow-up. I know you're not giving the exact numbers anymore, but just curious on the 12% organic growth in the toric and multifocal category, if directionally, one was a lot stronger than the other or more consistent across those 2 categories.

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

They were pretty similar. They're pretty similar.

Operator

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

David Joshua Saxon ***Needham & Company, LLC - Analyst***

Great. Wanted to start on CVI, ortho-k, it looks like it was down kind of low single digits. So how much of that weakness is driven by China still? And how are you thinking about the recovery in that market?

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

Well, that was China because if you go ortho-k outside of China, we grew off the top of my head, it may even have been double digits. But it was China. As a matter of fact, China is a weak market for us, it pulls down our Asia Pac numbers in total. It's one of the reasons that region is probably a little bit less than maybe what some people were expecting or at least what I was hoping it would be. I still believe we have a really strong team in China. So we just need some stability in that marketplace. I think we'll see ortho-k start growing here in Q3 and be in better footing in the back half of the year.

David Joshua Saxon ***Needham & Company, LLC - Analyst***

Okay. Got it. And then just a follow-up on margins. Looking pre-COVID, your operating margins were closer to the high 20%. So just as a follow-up to a previous question, is there anything structurally limiting you from kind of returning to those levels? Or is it more about leveraging some of these investments over time that you were talking about?

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

Yes. I'll give a quick one on that, I'll let Brian jump in. I know FX has been a negative clearly for us in some of the years. It's been a pretty significant negative to us. Outside of that, I think it's a matter of leveraging the investments. There's nothing fundamentally that has changed in our ability to drive margin improvements for the foreseeable future, I think it is something that we can accomplish. Let me turn that over to Brian to add to that.

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

Yes. Again, I don't have a whole lot to add. We're executing really well. It's really just about internal investments, organic growth, and execution. And we're demonstrating that right now. We'll continue to demonstrate that in the back half of this year, and I expect that will continue.

Operator

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

Navann Ty Dietschi ***BNP Paribas Exane - Analyst***

I have one more on PARAGARD please. So when do you expect the low copper IUD by competitor Sebela to be approved? And is there a chance that approval could be pushed to 2025 impacting your guidance for the year?

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

Sure. No idea. I don't have any guess where that stands. There's a competitive product out there that's going through the FDA approval process, but I don't know where that stands. So if, when they get approval and how they decide to launch that product and so forth, we'll obviously be transparent about our expectations and how we think that will impact our business. But until that point in time, I won't speculate on their approvals.

Operator

(Operator Instructions). Your next question comes from the line of Steve Lichtman from Oppenheimer & Company.

Steven Michael Lichtman ***Oppenheimer & Co. Inc. - Analyst***

Brian, on gross margin, how should we think about the second half versus the first half overall? And you mentioned on 3Q higher CVI COGS. Can you talk a little bit more about that and why it would just be, I guess, sort of limited to that 1 quarter.

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

Sure. Yes. So Steve, I mentioned on the last earnings call, and I'll say it again here. Gross margins on an as-reported basis really should be pretty similar to last year. So that would indicate that the second half gross margins on an as reported basis are going to be down on an absolute basis versus the first half.

The color I gave in my prepared remarks around Q3, really speak to just higher cost inventory and our production levels in Q1 that roll through 6 months later into Q3. So we have visibility into that. We know that it's going to impact our gross margin. And then, of course, when we look at the impact of FX to gross profit, we can see that FX in Q3 is worse than in Q2 and, it's also worse in Q4. So that's driving Q3 a little lower than Q4. But to get to a gross margin that's pretty similar to last year, your second half gross margins are a little bit down versus the first half.

Steven Michael Lichtman ***Oppenheimer & Co. Inc. - Analyst***

Got it. And then just on free cash flow, Brian, I guess the first half was a bit behind prior years. Can you point you there? And what's your outlook for free cash flow for the year?

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

Sure, Steve. Yes. No change in my commentary, I think the last quarter and maybe the prior quarter that we expect free cash flow to be about $100 million higher than last year. Obviously, taxes, interest, FX, all are a detriment this year, and that's providing a bit of a headwind and a limiter to how much higher. I'd say we're doing the right things. We're driving free cash flow higher and CapEx is a big part of that. Al talked about the capacity expansion and CapEx is going to be high again this year. But it's all for the right reasons, and we'll continue to drive better free cash flow as we look forward.

Operator

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

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

Great. Thank you, everyone, for taking the time today to join us on our call. I thought we had a really strong quarter, and we've got good momentum in the business. I'm looking forward to Q3 and continuing to give positive updates. So thank you again, and we'll certainly talk during the quarter. Thanks.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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