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## Q3 2021 Cooper Companies Inc Earnings Call

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to the Third Quarter 2021 Cooper Companies Earnings Conference Call. (Operator Instructions) As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Kim Duncan, Vice President, Investor Relations and Risk Management. Please go ahead.

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

Good afternoon, and welcome to CooperCompanies' Third Quarter 2021 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 Q&A. 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, and integration of any acquisitions, or their failure to achieve 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 coopercos.com. Should you have any additional questions following the call, please call our investor line at (925) 460-3663, or e-mail ir@cooperco.com.

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

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

Thank you Kim, and welcome everyone, to CooperCompanies Fiscal Third Quarter Conference Call. I'm pleased to report another very strong quarter with record revenues at CooperVision and CooperSurgical, driving record earnings and robust free cash flow. CooperVision's growth was broad-based and led by our daily silicone hydrogel portfolio of lenses and a solid rebound in EMEA, while our myopia management products also performed really well, and of course, we received the exciting news about regulatory approval for MiSight in China.

CooperSurgical continued posting great results led by fertility and a nice bump in PARAGARD, helped by buy-in activity from a price increase. Moving forward, we expect core operational strength to continue driving strong performance even with challenges from COVID and currency. With this expectation and the opportunities we're seeing in myopia management, daily silicones, and fertility, we've increased our constant currency revenue guidance for both CooperVision and CooperSurgical and will maintain our investment activity to capitalize on the potential for incremental share gains as we move towards fiscal 2022.

Moving to third quarter results, and reporting all percentages on a constant currency basis, consolidated revenues were $763 million, with CooperVision at $558 million, up 20%, and CooperSurgical at $206 million, up 58%. Non-GAAP earnings per share were $3.41.

For CooperVision, our daily silicone hydrogel portfolio led the way with all 3 regions posting strong growth. Particular strength was noted in our daily toric franchises, but daily spheres and multifocals also performed well. And, in a great sign, we've seen a nice uptick in fit data for MyDay and clariti, which bodes well for share gains and future growth.

Within the regions, the Americas grew 16% led by MyDay and clariti, and continued improvement in patient flow. EMEA grew a healthy 24% as consumer activity returned in the region and we took share. We're #1 in EMEA and we're seeing the benefits of increasing patient flow, so we'll continue investing to support the reopening activity happening in many of the European markets. Asia-Pac grew 18%, led by a slow but steady improvement in consumer activity. For us, a significant portion of Asia-Pac is driven by Japan and although consumer activity remains somewhat muted, we're performing well and taking share, and we're well positioned to capitalize on future opportunities given our recent product launches.

Moving to category details, silicone hydrogel dailies grew 31%, with MyDay and clariti both performing well. MyDay, in particular, continues taking share, led by strength in MyDay toric in all regions. For our FRP portfolio, Biofinity continued its solid performance led by Biofinity Energys and Biofinity toric multifocal.

Regarding product expansions and launches, we remain very active. We're finishing the launch of clariti sphere and the MyDay second base curve sphere in Japan, we're rolling out Biofinity toric multifocal in additional markets, we're rolling out an expanded toric range for MyDay giving it the broadest range of any daily toric in the world, and we're also completing the rollouts of extended toric ranges for clariti and Biofinity. We've also started pre-launch activity for MyDay multifocal with the full launch on target for the U.S. and other select markets in November. Feedback on this lens remains extremely positive, including from fitters commenting that our OptiExpert fitting app has the highest fit success rate of any multifocal on the market. Recent data shows that over 90% of contact lens wearers over the age of 40 expect to continue wearing lenses, with the biggest challenge being finding a good multifocal. Given the feedback we've been receiving, we believe MyDay will be the best multifocal on the market and, combined with the fact that it's joining an already highly successful MyDay sphere and toric, we're very optimistic about its success.

Moving to myopia management, our portfolio grew a robust 90% this quarter to $18 million, with MiSight up 187% to $5 million and Ortho-K products up 68%. As a global leader in the myopia management space, our portfolio is the broadest in the industry comprised of MiSight, the only FDA-approved myopia control product, our broad range of market-leading Ortho-K lenses, and our innovative SightGlass Vision glasses. We continue targeting $65 million of myopia management sales this year including MiSight reaching $20 million.

Regarding MiSight, there was a lot of positive activity this quarter as we continue capitalizing on our first mover advantage. We received regulatory approval in China and we're extremely excited about that opportunity. The approval requires lenses to be manufactured post approval, so we've quickly initiated production and packaging, and plan to seed the market starting in early fiscal Q1 with a full launch in fiscal Q2 of next year. As part of this, we're immediately ramping up marketing efforts and working quickly to ensure the product is positioned for success. Myopia rates are very high in China, so the market potential is significant. As an example, it's estimated that over 80% of high school kids are myopic, so treating children at a younger age is of high importance in the country.

Outside of China, we continue making great progress with our large retailers and buying groups. Our pilot programs are live and expanding, and we've finally been able to resume in-person training in many markets, including in the U.S. We now have over 40,000 children wearing MiSight worldwide and that number is growing quickly. Additionally, the average age of a new MiSight wearer remains 11, so this treatment is bringing children into contact lenses at a much younger age. Lastly, on MiSight, we did see momentum pick up even more in August, including here in the U.S., so we're bullish for a strong Q4.

Regarding our other myopia management products, we had a solid quarter for Ortho-K driven by our broad product portfolio and from the halo effect we're seeing with MiSight. And we continue making progress with our SightGlass myopia management glasses, preparing for several upcoming launches later this calendar year. We've also submitted our application to the FDA for approval for [SightGlass] (corrected by company after the call) as a myopia management treatment and expect to receive initial feedback within a couple of months. In the meantime, as the myopia management market continues developing, we're definitely seeing the value of offering multiple options to eye care professionals, so we look forward to expanding our offerings and availability.

To wrap up on myopia management, our innovation pipeline is very healthy with 8 focused pipeline products, our sales and marketing efforts are proving successful, and our focus on leading with clinical data and providing the best and broadest portfolio on the market, has us in an excellent position for continued success.

To conclude on Vision, our business is doing really well. The back-to-school season is healthy, new fits are doing well, and we're excited about our existing products and upcoming launches. On a longer-term basis, the macro growth trends remained solid with roughly 33% of the world being myopic today, and that number is expected to increase to 50% by 2050. Given our robust product portfolio, new product launches, myopia management momentum, and strong fit data, we're in great shape for long-term sustainable growth.

Moving to CooperSurgical, this was an outstanding quarter with record revenues of $206 million. Fertility, in particular, continued to perform exceptionally well, growing 72% year-over-year to $83 million. Strength was seen around the world and throughout the product portfolio, including from consumables, capital equipment and genetic testing. Some areas of strength included growth in media, pipettes, needles, incubators, and embryo transfer catheters, along with another very strong quarter from RI Witness, our proprietary automated lab-based management system that clinics implement to maximize safety and security by optimizing their lab practices. We're also benefiting from increased utilization of our artificial intelligence based genetic testing platform which increases a doctor's ability to select the best embryos for transfer. Similar to last quarter, we're continuing to see COVID impact the market, but share gains and improving patient flow in most countries are driving our results.

Regarding the broader fertility market, the global landscape remains fragmented with significant geographic diversity, and with an addressable market opportunity of well over $1 billion, and mid- to upper-single-digit growth, this is a great market for us. It's estimated that 1 in 8 couples in the U.S. has trouble getting pregnant due to a variety of factors, including increasing maternal age, and that more than 100 million individuals worldwide suffer from infertility. Given the improving access to fertility treatments, increasing patient awareness, greater comfort discussing IVF, and increasing global disposable income, this industry should grow nicely for many years to come.

So overall, on fertility, our portfolio and market positioning are excellent. We remain in a great spot for future share gains with improving traction in key accounts, we're seeing continued reopening activity around the world, and the industry has great long-term macro growth drivers. For all these reasons, we remain very bullish on this part of our business.

Within our Office and Surgical unit, we grew 50%, with PARAGARD up 51% and office and surgical medical devices up 49%. For PARAGARD, we implemented a roughly 6% price increase towards the end of the quarter, which resulted in a buy-in of roughly $4 million. This will impact our Q4 performance, but the price increase is a long-term positive noting with contracts and reimbursement timing, the price increase rolls in over the next couple of years. Within medical devices, several products performed well, including EndoSee Advance, our direct visualization system for evaluation of the endometrium, and our portfolio of uterine manipulators.

To wrap up on CooperSurgical, this was another excellent quarter, and it was great to exceed $200 million in sales for the first time ever. Similar to CooperVision, we have powerful macro trends supporting our underlying growth, and remain confident in our ability to continue delivering strong results.

And with that, I'll 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.

Third quarter consolidated revenues increased 32% year-over-year, or 28% in constant currency, to $763 million. Consolidated gross margin increased year-over-year to 68.3%, up from 66.3%, with CooperVision posting higher margins driven by product mix and currency, and CooperSurgical posting higher margins from product mix tied to the significant year-over-year growth in fertility and PARAGARD.

OpEx grew 28% as [expenses] (corrected by company after the call) increased with a rebound in revenues, along with higher sales and marketing expenses associated with investments in areas such as myopia management. Consolidated operating margins were strong at 26.6%, up from 23.2% last year.

Interest expense was $5.6 million, and the effective tax rate was 13.5%. Non-GAAP EPS was $3.41, with roughly 49.8 million average shares outstanding.

Free cash flow was very strong at $180 million, comprised of $224 million of operating cash flow offset by $44 million of CapEx. Net debt decreased to $1.5 billion, and our adjusted leverage ratio improved to 1.5x.

Overall, this was a very strong quarter, and we exceeded our financial performance expectations.

Moving to guidance, we continue monitoring and evaluating the scope, duration, and impact of COVID-19 and its variants, and while this remains a risk factor, our visibility is sufficient to provide the following update to our guidance. For the full fiscal year, we're increasing our constant currency guidance for both CooperVision and CooperSurgical and maintaining our non-GAAP EPS guidance. Specific to [fiscal] (added by company after the call) Q4, consolidated revenues are expected to range from $730 million to $760 million, up 7% to 11% in constant currency, with CooperVision revenues between $540 million and $560 million, up 6% to 10% in constant currency, and CooperSurgical revenues between $190 million and $200 million, up 8.5% to 14% in constant currency. Non-GAAP EPS is expected to range from $3.24 to $3.44.

To provide color on this guidance, currency moves since last quarter have reduced the benefit of the full year FX tailwind from 3% to 2.5% for revenues and 7% to 5% for EPS. With respect to Q4, this equates to reducing revenues by $10 million at CooperVision and $2 million at CooperSurgical and reducing EPS by $0.14. CooperVision is offsetting some of the impact with expected strength in daily silicone and myopia management sales, while CooperSurgical is also expecting continued strength, although incorporating the Q3 PARAGARD buy-in of $4 million and hopefully some conservatism regarding COVID's impact on elective procedures. Consolidated gross margins for the fiscal year are still expected to be around 68%, with fiscal Q4 gross margins expected to be around 67.5% driven primarily by currency. Operating expenses are expected to be slightly lower sequentially, but similar to fiscal Q3 on a percentage of sales basis, as we continue investing in multiple areas such as myopia management and fertility. Our Q4 tax rate is expected to be around 11%. And lastly, our free cash flow continues to improve, and we're now expecting roughly $550 million for the full year.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Matt Mishan from KeyBanc.

**Matthew Ian Mishan** ***KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst***

Al, prior to COVID, I think you used to give early thoughts on the forward year on this conference call. And I'm just wondering if you would give any kind of thoughts around how we should think about FY22 at this point given these really strong quarters, you're putting up?

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

Matt, good question. We thought about that, and I have certainly done that in the past, and I'd love to be able to do that, but I'm going to refrain from it just because of what's going on with COVID and the Delta variant and so forth. We're still in that quarter-by-quarter phase to some degree. So, once we hit December, we'll give full year guidance and give as much detail as we can at that point. But for now, I'll stay away from fiscal 2022.

**Matthew Ian Mishan** ***KeyBanc Capital Markets Inc., Research Division - VP & Senior Equity Research Analyst***

Okay. And then it also looks as if FX is impacting the fourth quarter versus your original guidance, but it also seems like your SG&A is running hotter, and you are investing a lot more behind your growth drivers, which I think is a positive, but my question is, when do we get to a point where we see more leverage on the operating line? And then how do you make sure in this environment you're hiring the right people, given how tight the labor environment is and how difficult it is to find people?

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

Yes. Some good questions in there. The labor market is tight. You're seeing that around. We are pretty actively hiring right now. When I look at the areas of opportunity for us, we're obviously investing in myopia management, we're hiring around the world myopia management specialists and putting dollars behind product launches which we have going on in a lot of markets around the world. It's a struggle in a few markets because of COVID restrictions and so forth, but we're still establishing a presence in a lot of new markets and growing myopia management. I look at areas like fertility as another good example where we're investing around the world. We're doing our best to go out there and recruit top talent who's going to support the business for long-term growth and I feel good about our ability to continue to put up gains. The other area I'd mention is single-use silicones. We're doing well there. We're gaining share there. We've got products in the marketplace, and new products coming, so we're excited to invest in that area.

When you look at operating leverage, I look at the 2 businesses a little bit differently, and maybe you'd have to dig down. Operating leverage for something like myopia management, next year is when we start getting big enough. We should be in that $100 million range or so for our myopia management portfolio. You start getting to a point where you're starting to be able to leverage some of those investments and then you do a better job of that in the next couple of years.

If you look at something like fertility, as an example, great global business, nice growth, big opportunities, but still somewhat small. So, it's hard to leverage that infrastructure. You're going to see the leverage from that come over the years as we continue to get bigger. But suffice it to say, you are summarizing that correctly. We are continuing to invest in the business. We are seeing share gains and opportunities for incremental share gains, so we're continuing to invest.

**Operator**

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

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

Al, if I could start just first on MiSight in China. I appreciate the color there. But wondering if you could expand maybe on what the launch in this market looks like beyond just some of the limited and full launch details, maybe how many doctors you're expecting to or planning to train and really how you're thinking about servicing this market?

And on that note, you already use Essilor for your Ortho-K distribution in China. It would seem like MiSight is just a good natural extension for that relationship. Is that the right way to think about how you plan to tackle that market, at least in the near term?

And then just relatedly, sorry for the series of questions, but can you address MiSight and myopia management revenue targets for fiscal '22 and maybe how China fits into that?

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

Sure. Yes, when you look at China, it's a little different market than a lot of people probably think when they think of optometry. Here in the U.S. and Europe, you get a lot of markets where there's independent optometrists or it's heavily driven by chains. You certainly get that in China when it comes to what we'll call regular contact lenses. When you're talking about a product like MiSight, treatment products, they're largely sold through hospitals. So, that's what we're going to see from MiSight as it'll be sold through some major, major hospitals there. Whether it's a public-owned hospital, (government-owned hospital), or a private hospital. So, it's a different call point largely than what you would have for your traditional contact lens business. You are correct, Essilor has a very strong distribution network there. We received the approval on MiSight a little bit faster than we were anticipating it. We're in active negotiations right now, you should hear something shortly on how we'll distribute that product through that marketplace.

But to step back a little bit on that, as I mentioned on the call, we received the approval. The approval does require us to manufacture and package those products post approval. We're very actively doing that right now, ramping everything up. We'll get that product into the market probably in the November-December time frame is when you'll see it really coming in. We're supporting that with prelaunch activity right now. Then we'll have [MiSight] (added by company after the call) in the market much more aggressively in the January-February time frame.

If we look at the 2022 targets, we talked about those a decent amount in the past. I'm more comfortable with the discussions we've had where we've talked about that $50 million number for MiSight next year. We talked about $100 million of myopia management number. We'll firm that up in December when we give the guidance. The only negative that I've seen on that, frankly, has been currency. A lot of our sales for Ortho-K and MiSight are international sales. But outside of that, I'd be more optimistic on our 2022 myopia management growth opportunities.

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

Okay. Great. That's very helpful. And just it sounds like pretty similar to what we talked about in the past there then. Just real quick as a follow-up and related to the myopia management discussion. You mentioned 8 products there in the pipeline. Could you help us understand maybe the cadence of launches, not to get too far ahead of ourselves, but just any additional detail on maybe how impactful any of those individual launches could be? Or any other color there would be great.

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

Yes. I won't, for competitive reasons at this point, get into details on what those products are. But there is some exciting stuff that we have, and I thought it was worth mentioning 8 individual targeted opportunities that we have in there. You'll be seeing those over the coming years. So, the point is that we have an excellent myopia management product portfolio today. We're making advancements in each of the areas within there. We're going to be launching SightGlass, we're doing improvements on some Ortho-K products and launching those, and we have a number of things within the soft contact lens side tied to MiSight of rollouts that you're going to be seeing, [including] (added by company after the call) those 8 products, probably in the coming 3 years.

**Operator**

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

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

Just 1 follow-up on China, 1 on the recovery. So maybe thinking further ahead, Al, on China. I mean if we look at kind of what Essilor is doing with Stellest, 1,000 pairs a day, apply the ASP roughly $500 for MiSight in China. I mean, it's easy to see $100 million in sales for this product. I guess my question is, could you see peak sales at over $100 million in, say, 5 years? Just trying to understand what you think the long-term potential is. And I had 1 follow-up.

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

Yes. So, we need to let a little bit of that play out, because if we go with Essilor, that will end up being a distributor relationship, and then we need to see how the sales actually work their way through. The environment in China for a product like MiSight is very positive as there are very high levels of myopia. Because so many children go through hospitals, and you're not selling to tons of different optometrists, it's a more focused sale. Because of the clinical attributes of a product like that, it can be very successful. What we've seen in a lot of spots is optometrists do like glasses and they do want to push glasses, especially for kids younger than 10 years old. But you also hear pretty frequently from optometrists that "I want to get kids into this treatment in contact lenses as soon as I can", because their belief is it's more efficacious. You want to have the treatment going all day long. Kids can take their glasses off, do a variety of things with their glasses. With contact lenses, you put them in, you wear them. So, it's going to be interesting, but I could certainly see a market for MiSight that would be well north of $100 million, that's for sure.

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

That's helpful. And just I had 1 question on how you approached the Q4 guidance and what you're seeing from the Delta variant. It does seem like when you look at growth for CVI and CSI over the same period in 2019, it does look like the midpoint of the guidance assumes some deceleration. How much of that is just some conservatism versus what you're seeing in different geographies? And if you could give a little bit of color on what you are seeing, that would be helpful.

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

Sure. I'd kind of say that we're not seeing too much right now. Having said that, if you look at the Delta variant, and we all read the same thing, you [hear] (corrected by company after the call) about deferrals of elective procedures. That kind of activity has hurt us a little bit when it comes to some of the CooperSurgical products as an example in the past. I don't know if it will hurt us this time or not. I think Brian said we're hopefully conservative and I would certainly agree with that commentary. On CooperVision, it's somewhat similar. We've been seeing things continue to improve. Whether you're in Europe, whether you're in Asia Pac, you're seeing things continue to improve. The U.S. came back relatively quickly, but we're still seeing fits improve a little bit in the U.S. So, we're not seeing a lot of negatives coming out of the COVID and Delta variant yet, but I certainly think it's prudent to be a little careful when you're guiding to numbers and what's going on in the marketplace today.

**Operator**

Our next question comes from the line of Andrew Brackmann from William Blair.

**Andrew Frederick Brackmann** ***William Blair & Company L.L.C., Research Division - Associate***

Maybe just a pivot to fertility for a second, another strong quarter there. So, Al, I really appreciate your comments sort of on the macro tailwinds there. But maybe specifically to your business, can you just sort of talk about maybe some of the initiatives that you're putting at play there to drive that growth?

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

Yes, absolutely. One of the things that I love about our fertility business is over the years, we've built the full spectrum of products that a fertility clinic needs. So, when we walk into a clinic, we're able to say, hey, soup to nuts, from the beginning of the process to the end of the process, Cooper fertility is here for you, and we're able to provide products for you. Now, we don't have pharma, so exclude pharma from that, but when you think about everything else, we have that.

So, when a new clinic is opening, or when a clinic is getting larger and they're looking at it from a financial perspective of, hey, how can we maximize our own profits, when you're looking at key accounts, we've been very successful on Vision. When you're looking at key accounts within the fertility space, and the bigger clinics that are out there standardizing things, taking advantage of their volume purchases and so forth. It puts us in an excellent position to be able to offer everything. So, there is a focus on a variety of things. There is geographic expansion because there's new areas out there we're going into, there's areas around the world where you're seeing additional clinics being built out. A focus on key accounts trying to expand our relationships with those key accounts.

And then being a top customer service provider, ensuring that clinics are getting products. That's one of the things that's tough in a lot of industries right now with demand for products and supply constraints. We've done a fantastic job. The team has really, really killed it in terms of maintaining our manufacturing and distribution network. So, there's all kinds of areas. I'd love to be able to narrow that down to 1, but the answer is a little bit more complex, but it's a full-scale sale into fertility clinics.

**Andrew Frederick Brackmann** ***William Blair & Company L.L.C., Research Division - Associate***

Great. Yes, I get it. And then maybe just as a follow-up there. Obviously, I appreciate your comments on sort of the infrastructure that you're building here. But as we think about sort of capital deployment and the free cash flow that you're generating, how should we be thinking about M&A in this sort of area moving forward?

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

Yes. We still have some debt. We're paying down a little bit of debt. Our leverage is in much better shape than it's been in a long time now and cash flow is pretty strong. When it comes to M&A, we'll look for opportunities and if we find something, we're happy to do it.

Again, I'd still say the stuff that we're going to look for is going to be strategic. And I don't mean made up strategic stuff, I mean stuff that if we happen to find a deal, it's like the deals we've done, you're going to be like, I get that, that fits in. That's an Ortho-K company, that's an OB/GYN medical device company, that kind of stuff. So, we'll continue to look at those opportunities, but we're also going to model those out. And we're careful about that, we're not going to run around and overpay for stuff. We have a long-term business model here and financial metrics that we need to hit in order to do deals. Otherwise, you do what we're doing, paying down debt, and we'll look at buying back stock and so forth if the opportunities arise.

**Operator**

Our next question comes from the line of Jon Block from Stifel.

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

Great. Hope you can hear me. I guess the first one, Al, I thought I heard you correctly saying you're going to pursue or submit MiSight as a treatment to the FDA. And I would love a little bit more color. In other words, what does that do for you guys? Does it sort of strengthen the marketing message to the parent? Or is that also possibly the first step down the road for reimbursement if you're able to go that route, as we think about it more in the out years? And then I've got a follow-up.

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

Yes. MiSight is already approved basically as a treatment. So, we're there. SightGlass is the one that we're going for right now, to get to get FDA approval for SightGlass. And I think that's really powerful. To me, we get the questions on glasses, rightfully so, when it comes to myopia control. If we can get approval for SightGlass, then it becomes the only FDA-approved myopia control glasses option on the market. I mean that is pretty exciting to me. So, we submitted that right now.

Now to be fair, it took 3-year clinical data for the FDA approval on MiSight. We have 2-year data on SightGlass. SightGlass is clinical. It's specifically developed to meet the FDA's clinical requirements. So, the question will end up being then looking at that data, which is good data, do they need 3-year data, or would they be willing to potentially approve off 2-year data? So, it will be interesting to see how that plays out. But it's really SightGlass that I was referring to when I was talking about new approvals.

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

My bad. My bad. I misheard you. So now I'll try to try to jam in 2 questions into one. So, the first one, Al, is, when I think about your numbers on your myopia management portfolio, next year, MiSight going from $20 million to $50 million. It implies, if the overall portfolio goes $65 million to $100 million that really, the Ortho-K sort of goes from $45 million to $50 million or only. And so maybe just talk through -- why would it decelerate like that? It's growing so rapidly right now, the markets early, do you think there's some cannibalization there? So that's my sort of 1 freebie question for screwing up the last one.

And the other one is just the Americas, I mean it was really strong results in CVI, but I was a little bit surprised to see the 2-year stack step down a good amount. Americas seems to be sort of the best backdrop when we think about Americas, EMEA and APAC. So maybe just some color why the deceleration in the 2-year stack? Is it market share? Is it Delta? Or is it just lumpy?

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

Yes. On a 2-year stack, I'll look at it a little differently, because everybody seems to calculate that a little differently. If you look at the constant currency growth over 2019 for the calendar quarter, try to do apples-to-apples, we were up 8%. So, a pretty good number there. To try to get down to what's going into the U.S., in particular, that's a little harder to get to. There's a lot of channel inventory and stuff moving around. I hear people commenting about that. We haven't really seen too much of that, but I know there's some of that activity around. I might just pull that up, Jon, just to the highest level and just say, hey, on a total basis, for calendar Q2 against calendar Q2 of 2019, we grew 8%. Do you remember, Kim, what was the market at?

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

4%.

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

4%. So twice what the market grew. So not quite sure how to answer the U.S., because I don't have all that data, but we're obviously doing really well against the overall market.

If you step back to your myopia management question, you're right in those numbers. You look at MiSight going $20 million to $50 million, you look what's embedded in there from Ortho-K, $45 million to $50 million, that would be at $100 million. So, just to be clear, I continue to say north of $100 million. We haven't given any more color to that or any granularity to that in terms of the numbers. So, I'll wait till December. But our Ortho-K franchise is doing well. It's growing nicely. It has good momentum. We have a really strong team there, some really smart folks that are driving that business forward. I continue to remain pretty optimistic on Ortho-k.

And no one should read anything into that as there's cannibalization or anything else, because we're actually seeing some of the opposite. We're seeing MiSight helping our Ortho-K business. So, all good there. Yes, don't read anything into that $100 million right now. Make sure you note it as $100 million plus.

**Operator**

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

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

Al, maybe just following up on Jon's question there. So, you were going through some of the calendar versus the fiscal numbers. I mean if I look at your fiscal 2-year growth, and this is the number I think Jon was pointing to as well. I'm at about 5.6% or so, is my math anyway for that 2-year fiscal growth in the Americas. You talked about 8% for the calendar quarter. One, it would seem like there has been a pretty big deceleration in July for those 2 numbers to sync up, and I can't imagine that happens, so maybe help me with that. But then more importantly, you talked about a 4% market number. We know Bausch put up 17%, Alcon 16%, J&J was at 6% in the calendar 2Q, 2-year growth rate in the U.S. So, I'm having a hard time reconciling your 4% market growth, too. So maybe I know there are so many numbers floating around, but just help us kind of understand kind of how you're getting some of your numbers.

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

Yes, Jeff. So, I'm just doing calendar Q2 growth against 2019 on a constant currency basis. So, I'm not sure of all the numbers you're quoting there. But if you go to calendar Q2 of this year against calendar Q2 of 2019 and look at those numbers on a constant currency basis, that's what I'm talking about. When you get down to some of the individual markets, it can get pretty lumpy and get a little bit more difficult to dig into those details, because how are you going to adjust those numbers? How are you going to adjust for commentary that you hear from some of the competitors about $10 million of channel inventory or this, that or the other thing. So, I'm just kind of trying to pull it up. Jon was asking about market share. When I look at it, I'd say, okay, well, what did you grow against 2019 Q2. We grew 8% and I've got the market growing at 4%.

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

Yes. Okay. And I just struggled on that 4% number...

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

Yes. And just to be clear, we didn't see anything strange happen like going into the 1 month of July. July was a fine month for us.

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

Yes. Okay. Well, maybe we'll follow up offline with some of those numbers, how we can reconcile them. And then just on the MiSight side, I think you've gone through $2 million or $3 million or something like that in 1Q, I don't remember, honestly, $4 million, now $5 million. It's a pretty big sequential step to get to the approaching $20 million or close to $20 million you're now talking about and then the run rate has to kind of continue to accelerate on that to get to that $50 million next year. So one, does China add to that $50 million? I was trying to understand your comment there that just gives you increased confidence in the $50 million. And two, how do we connect the dots just here in the near term on kind of that sequential improvement that's kind of implied over the next few quarters?

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

Yes. You're right. We do need a solid Q4. So, if I look at it, we did a touch over $3 million, we did a little over $4 million, we did a little over $5 million. When I look at August, which was a great month for us, we've seen that momentum pick up on that. I'm feeling pretty optimistic about a good Q4. A couple of things maybe to remember, if you look at as an example, let's go with the U.S. market, Q4 of last year, you'll remember, we gave a lot of fittings away for free. Remember, we were with a lot of optometrists and said, hey, the first 2 fittings are free to get you in, and then we stopped doing that. You're now getting a lot of those kids coming back, making purchases for the "first time." The dropout rates are really, really low on MiSight. So, all those children who went in, in fiscal Q4 of last year, that "didn't pay" or at least we didn't receive money, are now paying. So not only are you getting the new fits, but you're getting all those other kids coming in on top of that.

And then we've seen a little bit of a momentum pickup in some of the markets outside of the U.S. I sit here today and I look at it, and I don't want to get ahead of ourselves on that, but Q4 should be a pretty good quarter for MiSight. Yes, and then China is included for fiscal 2022. It will be interesting to see how that plays out in terms of stocking and order patterns and everything else that happens. A market like that and the growth opportunities there make me more comfortable of our ability to hit $50 million for MiSight.

**Operator**

Our next question comes from the line of Anthony Petrone from Jefferies.

**Anthony Charles Petrone** ***Jefferies LLC, Research Division - Healthcare Analyst***

Maybe one just on CVI in terms of back-to-school. Obviously, that historically is a little bit of a bump for new fits, but the guidance sort of suggests maybe a muted back-to-school season. So just kind of high-level thoughts there. And follow-ups on MiSight would be, one, an update on trained optometrists, where that number sits? And what percent of those are actively fitting lenses? So those would be the 2 questions.

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

Sure. On back-to-school, it's solid. The Delta variant is hurting us a little bit there, because you're still seeing some activity where it's hard for optometry offices to staff up enough. And you're just seeing a little bit of a struggle there that's making it not quite as strong as it could be. Having said that, it's still solid. When I look at the fit data that's come out, I do see the shift moving to daily silicone hydrogels picking back up. You saw that our numbers were a little bit better this quarter when it came to daily SiHy. The fit data, in particular, for clariti and MyDay was stronger. So, that was cool to see because that's a really good sign. And all that will bode well as we continue to move forward here.

The other thing is when you think about back-to-school here in the U.S., certainly, it does run into our fiscal fourth quarter. So, we need to see how some of that is going to play out. Again, hopefully, being a little conservative with the Delta variant, we'll see how that plays out. I will say that optometry offices are pretty booked. You can go to a lot of areas. You can go right into Manhattan and start asking questions, but there's many other spots around the U.S. where you're seeing optometry offices fully booked with appointments going out several months. So, patient flow-through is really important right now.

If you look at the number of trained optometrists, I don't have the exact number off the top of my head. It continues to grow in the U.S. market. We've talked about that in the past, somewhere around 5,000 and well, well north of that around the world. The breakdown gets pretty detailed pretty fast in terms of who's fitting and how much they're fitting and what the fit characteristics are of all the different practices out there, and it gets a little bit more convoluted when you dig into some of the buying groups and some of the big retailers where we're doing a lot of activity right now. And they're starting to expand all their pilot programs and roll out to more stores and so forth. So, that's a hard one for me to answer. I just fall back to the revenues at this point and say, the proof is in the pudding, if we're going to move to an $8 million quarter, and we have a lot of people doing a lot of fitting.

**Operator**

Our next question comes from the line of Chris Cooley from Stephens.

**Christopher Cook Cooley** ***Stephens Inc., Research Division - MD***

Congratulations on the record quarter. Just 2 for me. One on CVI, how it would be helpful? I realize you're not going to give an early look into FY '22. But help us make sure we're level set correctly in terms of what your expectations are in terms of a return to kind of normalcy in Japan and how to think about these investment spends as you support all these product launches around the world. Is this more of a 4Q, 1Q type phenomenon or on the investment side, is this something that we should maybe think about carrying through the majority of fiscal '22?

And then just quickly for my follow-up, on PARAGARD. In the prior period, there really wasn't much of a channel inventory. So, I'm kind of curious, one, obviously, you had a little bit of a fill there with the step-up in the ASP, but help us think about kind of what the channel looks like right now and overall end market demand? I'm assuming it's trending pretty favorably here that gave you the confidence for the 6% step-up in the ASP, but any color you could provide around that would also be appreciated.

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

Sure. Yes, Chris, let me just tackle that one first on PARAGARD. We did do the price increase, so we allowed a buy-in before the price increase. So, we saw that, and we probably pulled in around $4 million into Q3. So, you can expect the Q4 PARAGARD number to be down some because of that. If I step back and look at PARAGARD where we're at today and where we're going moving forward, I still am in that same place that I was pre-COVID, maybe a little bit more optimistic. But I tend to say, hey, we're going to get somewhere around 4% to 6% growth in that product, half coming from price, half coming from unit growth. I would continue to say that. When I look in the outer years, I'd say that's what we're going to see. It will move around a little bit. But at the end of the day, if we can get that growth, say, put it at 5% in the middle of that. If we can get that growth on that high margin of a product, I'd be pretty happy with that. So, that's where we're sitting right now with that product. To me, all good with respect to PARAGARD.

On investments within CooperVision, we're hiring some salespeople in different spots around the world. I think you mentioned Japan, we're doing it in Japan. We have some exciting product launches and things going there. One of the things that you saw this quarter, as Europe started to come back and strengthen, you saw positive results from us because of that. I believe you'll see the same in a place like Japan. It's been pretty muted, but we're strong there. We're hiring there. We're investing there. We've launched products there. If Japan can start coming back, like we've seen in the U.S., like Europe is doing more so right now, that's going to be the next positive for us. As that happens, that's the next kick for us, because it's one of those markets we're strong in. I know a lot of people like to focus on the U.S. market. In this business, we focus on everything around the world. So, we have a lot of strong different markets. When you look at investment activity, a lot of that bulbus investment activity is tied to myopia management more than it is everything else. We're hiring salespeople and expanding for our core business, but we expect to get a return on those investments relatively quickly.

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**Operator**

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

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

I want to spend just a minute or 2 on CooperSurgical. I mean, I was looking at the numbers, and I was like you've now crossed over the $200 million per quarter mark, which is pretty impressive. Could you remind us of the operating margins for this business? How do you think about building it out? And does it still fit within the Cooper framework?

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

Yes. We stopped providing operating margins on the business units, because of allocation of corporate and everything else, but they're high. That business has strong operating margins and very strong cash flow. If nothing else, you have PARAGARD in there pulling everything up. But the fertility business is also a strong margin business. So, pretty happy with where that business is. And to me, yes, it fits within Cooper wonderfully. There's a lot of medical device businesses that are large that have different products underneath them and different kind of business units. I think it's just a great fit for us to work together. Vision runs its business. Surgical runs their business. From a corporate perspective, when we look at capital allocation, we try to ensure that we're maximizing returns to our shareholders. At the end of the day, we're stewards of investor capital, and that's how we look at it in terms of investing in those businesses. Right now, we're in a great position to be able to invest aggressively in both businesses, and pay down debt. So, we'll continue to do that. But I think everything fits together wonderfully under Cooper right now.

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

Okay. Since I didn't get the operating margin for CooperSurgical, I'm going to try a different question, which is how do you think about overall operating margins and the potential for expansion over the next couple of years? You used to give sort of a 3- or 4- or 5-year goal. Is there a way to sort of hit refresh on that?

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

Yes. I'm still pretty bullish on where operating margins are going to go. The reason that we haven't talked about that recently is because of myopia management. That's thrown a wrinkle into things. And there's such a great long-term opportunity there for growth. And we're investing pretty heavily right now. So that's obviously fairly dilutive to our operating margins. But I do believe that as we move forward in the coming years, and the myopia management business continues to grow, you're going to see the op margins on that part of our business really ramp themselves up. So, maybe at the end of next year at some point, Kim asked me about that operating margin and putting it back in the presentations, we'll probably get there. It's just a matter of getting more comfortable where the myopia management is because right now, it's really growth, growth, growth.

**Operator**

Next question comes from the line of Robbie Marcus from JPMorgan.

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

Two for me. Al, one is when we talk to a lot of doctors, they've seen a bolus of patients fitted for contact lenses who don't like wearing glasses with masks. Is there any way to quantify the benefit of that? And how sustainable you think that is?

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

Yes. That's a really interesting one, because we have heard the same thing, and it's actually come up interestingly now with kids. Because it was a big deal with adults for a long time for obvious reasons. Now you have kids like here, everyone in California has to wear a mask, all the kids do. So, you have obviously kids with glasses. I coach my daughter's soccer team and last night 2 girls on the team were like, "Hey, I didn't know you did contact lenses. Can we get lenses? Because we hate wearing our glasses in school." So, I can't quantify that. I don't know how big that is. But it's definitely something that's not only happening here in the U.S., but it is happening around the world where masks are becoming more the norm and frustrations around wearing glasses with masks definitely exists. I don't know what it is, but it's certainly a positive for us.

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

All right. And then you had a really good cash flow quarter and you just talked about healthy margins with CooperSurgical and good cash flow. Can you remind us what your priorities are sort of the first time in a while where you've been a little flushed with cash? How are you planning to spend it going forward?

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

Yes. I would go with the same answer we've given for a while. Default position being paying down debt, looking at M&A opportunities if they're available, we can find them and they fit strategically and make sense, and then share buybacks if the opportunity presents itself and those make sense we would certainly do that.

**Operator**

Our next question comes from the line of Rob Cottrell with Cleveland Research.

**Robert Sohngen Cottrell** ***Cleveland Research Company - Research Associate***

I'll start on just August and the fourth quarter commentary. It sounds like, Al, your comments are pretty positive. Myopia is still strong in August, not seeing too much impact from Delta yet. So, in terms of the maintained full year guidance, is it just the FX headwind that we should be thinking about? And then there's some conservatism around Delta? Is there anything else that we should be thinking about in terms of potential pressures on 4Q?

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

No, that's really it. Brian had mentioned some of the numbers there with respect to FX, taking $10 million away from Vision in Q4 and $2 million away from Surgical in revenues, and a $0.14 EPS impact. To me, looking at our business and where we are today, and the opportunities for share gains and growth, it didn't really cross my mind, to be honest with you, to say, oh, I want to cut back on all the investments and all the good stuff as we have to hurdle that $0.14 FX. Now, we've been putting up good numbers for a number of quarters here, and I envision we'll continue to put up good numbers. So, there's nothing else to read into that other than FX was a negative for us, and we're going to continue to invest and look to take advantage of opportunities. I want to put up pretty good sales growth for fiscal 2022.

**Robert Sohngen Cottrell** ***Cleveland Research Company - Research Associate***

Okay. Got it. And then lastly, can you quantify where new fits are now across the industry relative to pre-COVID levels?

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

New fits are still down in the U.S. They've come back quite a bit, but they're still down compared to pre-COVID levels. And it would be very heavy on a regional basis. Europe getting better. Asia Pac still having fits quite a bit lower, excluding China probably, still having fits quite a bit lower. You still have a lot of restrictions in place in a lot of the markets in Asia Pac that are causing challenges. So yes, pretty heavily dependent on the region you're in. The U.S. probably arguably being the best.

**Operator**

Our final question comes from the line of Steven Lichtman from Oppenheimer.

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

Al, you mentioned your estimated market growth in Q219 at about 4%. Do you think that holds on a unit basis as well? Is net price holding flat in your view?

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

It's always hard to look units because of the difference between like dailies versus monthly lenses and so forth. But I think the core of your question really goes back to price, and that's a really good question. And we've seen pricing trending higher. We had, earlier this year, some reduction in rebates. You've seen ourselves and competitors take list price up a little bit. As we've moved into the back-to-school season, where traditionally, you'd probably see a little bit more aggressiveness in terms of some push on back-to-school pricing. You haven't really seen that. So, I would say if you're looking at where pricing is today, it's a positive, probably a modest positive. We'll see where it goes with inflation, and with everything else going on, and future price increases and so forth. But, I would say it's at least a positive right now.

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

Got it. And then just a couple of quick last ones. Would you be willing to provide us with the approximate discrete investment for myopia management here in FY '21? And about how much of the $5 million MiSight was U.S. this quarter?

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

Yes, we're not going to get into that number. We were giving that for a little while, but now we just embed it into our guidance. The U.S. was certainly over $1 million in this quarter of the $5 million.

**Operator**

This does conclude the question-and-answer session of today's program. I'd now like to hand the program back to President and CEO, Al White.

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

Great. Thank you, everyone. I mentioned this as we went through the call, business is looking pretty good, and we're pretty excited about where we are and what the future holds for us. A lot more stuff going on. Hopefully, we'll have some good news as we move through this quarter and look forward to giving you that update and present '22 guidance on our December call. So, thank you, everyone, for your time, and we'll talk soon. Thanks.

**Operator**

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.