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COO - Q3 2018 Cooper Companies Inc Earnings Call

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OVERVIEW:

Co. reported 3Q18 revenues of $660m and non-GAAP EPS of $3. Expects FY18 consolidated revenues to be $2.515-2.530b and non-GAAP EPS to be $11.55-11.65. Expects 4Q18 total revenues to be $634-649m and non-GAAP EPS to be $2.90-3.00.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Cooper Companies, Inc. Third Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Kim Duncan, Vice President, Investor Relations and Administration. Ma'am, you may begin.

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

Good afternoon, and welcome to The Cooper Companies Third Quarter 2018 Earnings Conference Call. During today's call, we will discuss the results included in the earnings release, along with the updated guidance, 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 cause -- 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, 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.

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

Great. Thank you, Kim, and good afternoon, everyone. Welcome to our third quarter 2018 earnings conference call. We made a lot of progress this quarter, and I'm happy to say our strategic investments are paying off through accelerated revenue growth and strong momentum. As we continue driving success by capitalizing on current market condition and our strong product portfolio, we have accelerated investment activity around several initiatives, including advertising and promotions associated with key accounts at CooperVision and PARAGARD at CooperSurgical. We're confident this investment strategy will result in continued strong revenue growth.

Regarding our third quarter consolidated financial results, we reported revenue of $660 million, up 19% year-over-year, which is an all-time high for the company. Non-GAAP earnings per share were $3, up 14% year-over-year. Overall strength in revenues, gross margins and a lower tax rate were offset by planned spending and incremental currency headwinds, including FX being $0.10 worse than we had forecast for the quarter.

Looking at our 2 businesses. CooperVision posted record quarterly revenue growth of $489 million, up 12% or up 9% pro forma. We saw a noticeable uptick in our dailies silicone hydrogel lenses with pro forma growth of 43%, driven by MyDay and clariti posting solid growth worldwide. CooperSurgical posted record revenues of $171 million, up 44% or up 6% pro forma, led by a stronger-than-expected growth of 9% from PARAGARD.

Moving to the detail. CooperVision posted solid revenue growth in all 3 regions, with the Americas up 8%, EMEA up 6% and Asia Pac up 4% (sic) [14%], all pro forma -- 14%. The Americas strength was driven by a very strong quarter for clariti and MyDay. In particular, the launch of MyDay toric is going extremely well, and we're seeing a halo effect on the sphere, where MyDay sphere posted really strong results. EMEA posted solid results against a very challenging comp, with growth in the region driven by our full suite of silicone hydrogel products, including our dailies and our Biofinity and Avaira suite of products. Success was especially evident within our key accounts, where we have been heavily focused in gaining traction. Asia Pac continued posting very strong results driven by our silicone hydrogel dailies and Biofinity. This is a fantastic growth region for us, and our investment strategies around key accounts, sales force expansion and geographic expansion continue yielding a lot of success.

So overall, Q3 was a very strong quarter for a number of reasons, and we expect the strength to continue based on our momentum.

On products, Biofinity and Avaira combined to grow 7% pro forma. Regarding Biofinity, we were slightly capacity constrained again this quarter but have already added capacity and will be adding even more in the coming months. This capacity expansion will help the entire Biofinity franchise but especially Biofinity Energys, where demand has exceeded supplies. This new product has been more successful than expected. Regarding Avaira, total sales declined slightly, but the Vitality upgrade is now finished outside of a few small markets, where we're waiting final regulatory approval. A nice takeaway is that we have growth outside the Americas, where we generally have been able to focus on selling rather than transitioning the product, and that's a good sign for future results.

Turning to product categories. We remain a global leader in torics and multifocals and grew 9% and 10%, respectively, pro forma. Growth was driven by our silicone hydrogel lenses including MyDay toric, which is being received extremely well in numerous markets; and clariti multifocal, which posted strong growth.

Turning to the broader $8.3 billion soft contact lens market. We're continuing to see strong growth led by the shift to dailies silicone hydrogel lenses' broader product offerings and geographic expansion. Daily lenses continue to drive the majority of the growth, now accounting for roughly $4.3 billion or 51% of the overall market. And within dailies, it's no surprise that silicone hydrogel lenses are driving the majority of that growth.

With respect to New Fit Data, CooperVision saw significant strength with New Fit solidly outpacing our market share, and this was especially true for silicone hydrogel dailies. The strong New Fit Data is a great sign for continued robust growth and is a nice segue into a topic I want to spend a couple of minutes on, and that's key accounts.

Key accounts is a general term we use, which includes a global retailers, regional chains and certain buying groups. This is a topic many of you have heard me discuss recently as these accounts are growing faster than the overall market, and we expect that to continue as a sustainable long-term growth trend. As such, we have been proactively investing in this area, and our performance has been exceeding expectations, which is reflected in our revenue growth and strong New Fit Data. We further accelerated investments in this area in the third quarter expanding our key account management sales and support teams while increasing related promotional and advertising activity. This is in conjunction with our heightened investment activity enhancing our distribution and packaging capabilities to improve our ability to provide customized product offerings. All this activity is focused on supporting our partners and shifting new wearers to CooperVision faster than in the past as we look to capitalize on our robust portfolio of silicone hydrogel product and current market conditions. A key part of this strategy is remembering we operate in an annuity business. And while the upfront cost to win new patients will tail up, the revenue from these patients will continue for many years as new wearers stay with their lenses on average 7 years. It's also important to add that the independent practitioner remains an important part of our business, and we will continue fully supporting this channel including through our unique digital marketing and support platforms, such as Eye Care Prime. Given all this, we are more confident in our future revenue growth and are raising CooperVision's Q4 pro forma revenue growth guidance to 8% to 10%.

Moving to CooperSurgical. We reported quarterly revenue of $171 million, up 44% or 6% pro forma. This was driven by our office and surgical products, which grew 8% pro forma led by PARAGARD, up a healthy 9%.

Regarding PARAGARD. Based on the momentum we've been seeing, we have increased promotional and advertising support and recently added a number of additional sales reps. We remain confident this product offers a high margin multiyear growth opportunity and are investing accordingly.

Outside of PARAGARD but still within office and surgical products, we had a very strong quarter with strength in several focus products, including our EndoSee hysteroscope and our next-generation uterine manipulator, adding to some unexpectedly strong buying activity at some of our old products.

Meanwhile, fertility grew 4% pro forma led by fertility solutions, which includes products such as media and medical devices growing double digits. This growth was offset by softness in our genomics business, where significant time was spent completing the transition away from carrier screening and NIPT. This process wasn't easy, but we moved quickly and are now returning our full focus to the IVF clinics, which is exactly where we want to be. We're a global leader in fertility, and our engagement with fertility clinics around the world is very strong. We offer market-leading products throughout our portfolio including media, micropipettes, Embryo Transfer Catheters and certain genetic tests. And this product portfolio has been growing nicely, which we expect to continue.

In conclusion, I want to highlight that I'm really excited about our market positions for both CooperVision and CooperSurgical.

To summarize a few key points, CooperVision posted a very strong quarter with 9% pro forma growth led by strong throughout the world, including a nice uptick in the Americas and very strong growth from our daily silicone hydrogel franchise. CooperSurgical posted pro forma growth of 6% with strength seen in several areas, including PARAGARD growing 9%. Given our strong product portfolios in both businesses, combined with current market dynamics, we are excited about the future and look forward to maintaining our strong momentum.

And with that, I'll turn the call over to Brian.

Brian Andrews - *The Cooper Companies, Inc. - Senior 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 today's earnings release for a full reconciliation of GAAP to non-GAAP results.

As Al mentioned, revenues were strong this quarter, and gross margins also showed nice improvement, increasing to 67.4% from 64.8% last year. CooperVision's gross margin was 65.9%, up from 65.5% last year. Improvement was seen from positive manufacturing efficiencies due to the higher volume moving through our plants and favorable product mix with Biofinity and the shift to Avaira Vitality being key drivers. This was partially offset by the negative impact of currency and a modest increase in rebate activity. CooperSurgical's gross margin improved significantly to 71.7%, up from 62.4%, driven by the addition of PARAGARD.

Regarding expenses. Consolidated operating expenses grew 20.8%, driven by advertising and promotion activities supporting key accounts and PARAGARD and a 27% increase in R&D related to new product development work, including activity around myopia management. Operating income grew an impressive 27.5%, with operating margins improving to 27.8%, up from 25.9% last year. Below operating income, we reported $22.8 million of interest expense and an FX loss of $2.7 million from negative currency moves against our intercompany loans. Our effective tax rate was 6.2%, which was lower than expected, primarily due to the realization of investment credits associated with offshore manufacturing expansion and excess tax benefits related to stock-based compensation. Non-GAAP EPS for the quarter was $3, with roughly 49.7 million average shares outstanding. Within this, FX was $0.10 worse than we had forecasted. We had posted -- we posted $183 million of free cash flow for the quarter comprised of $235 million of operating cash flow, offset by $52 million of CapEx. Free cash flow is very strong, helped by improved working capital management, including executing on an advantageous receivables program. With this strong cash flow, we reduced total debt to $2.294 billion, and net debt declined to $2.146 billion. Our bank-defined leverage or net debt to adjusted EBITDA decreased to 2.45x, which moved us a tier lower in the pricing grid, thus, reducing our borrowing rate by 25 basis points.

Regarding guidance. For fiscal Q4, we expect total company revenues in the range of $634 million to $649 million, including CooperVision revenues of $468 million to $477 million, up 8% to 10% pro forma; and CooperSurgical's revenue of $166 million to $172 million, up 3% to 6% pro forma. Non-GAAP EPS guidance is $2.90 to $3, assuming a roughly 8% effective tax rate. Within this, our FX assumptions from the time we provided guidance last quarter reduced revenue by roughly $10 million and reduced non-GAAP EPS by $0.13. On a full year basis, this translates to consolidated revenue guidance of $2.515 billion to $2.53 billion, with CooperVision at $1.869 billion to $1.878 billion and CooperSurgical at $646 million to $652 million. Full year non-GAAP EPS guidance is $11.55 to $11.65, and free cash flow is still expected to be around $423 million for the year.

Regarding fiscal 2019 guidance, we're not going to get into details at this time other than to say that we're focused on driving strong revenue growth and low double-digit constant currency operating income growth. As is our practice, we'll provide full guidance on our December earnings call.

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

QUESTIONS AND ANSWERS

Operator

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

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

Can you hear me okay?

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

Jeff, yes.

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

All right. Great. So Al, I just want to dig into the key account commentary a little bit. I guess, a couple of questions on that. One, breadth versus depth of those accounts, these investments and that, have you won any new key accounts, any that you can talk about, versus how much are you going deeper maybe capturing more business there? And then how much are the new distribution center capabilities? I think in Rochester, some of the new robotics and labeling stuff that you've been working on hasn't yet come on or maybe it does here in the near term. But how much does that maybe set you up in the near -- or longer term, I'm sorry, to depend when [additional] that business or take even bigger share in those retail accounts and other key accounts?

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

Yes, Jeff, good questions. On the first point, on key accounts, this is -- we're talking about new business here. So one of the things that's interesting is, as we've done more work with what we're calling key accounts and some of the large retailers and other operations around the world, we've been winning new business there. So when we go win and win business with a new account, that is frequently a multiyear contract. And some of those contracts are very large, and we're in the early stages of those contracts. So when you win that kind of business and you get the opportunity, you have the chance to go in there and be aggressive and work with the partner in terms of increasing your advertising, your promotional activity with that partner to drive new wearers to your products faster. That's what we're talking about doing. So we're kind of in a unique opportunity here, where we're winning some business, we've won business, we actually had some business opportunities that we're working on that we're pretty excited about. So we're talking about executing upon contracts, and that's different than what we'd discussed in the past. We've talked about adding sales force and putting more feet on the street. We've done that. Well, that's proving to be successful. Some of that success has resulted in some new multiyear contracts, and now we need to execute on that. So pretty excited about that, and it kind of props up our future revenue growth. If you look at the DCs, we have been doing a lot of work on that, you're exactly right, to really upgrade our distribution centers and our capabilities around labeling and packaging and shipping smaller units and so forth. A lot of that activity is in process right now. We'll start that at the very beginning of this next fiscal year and kind of slowly roll that out through our distribution centers so we don't have shipping problems and so forth, and you'll see that in the coming years. Now one of the things that you naturally get anytime you're doing that kind of work we're doing in DCs, which includes opening brand new distribution centers, expanding distribution centers and upgrading distribution centers, is you build those out for future growth. So you naturally end up with inefficiencies there because you have excess space or excess capabilities and so forth, and you grow into those over time. So I think we're probably at that stage from a distribution perspective where we're on the front side of that, and we're dealing with the burden of higher costs and so forth. But as you said or kind of alluded to, right, it positions us really, really well to be able to win these contracts and continue to be able to offer things to key accounts that they require in order to win bigger pieces of their business.

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

Yes. And I guess, my follow-up on that would just be so if I look at your FX guidance, it looks like the cut you made the full year kind of fits perfectly with the $0.10 and the $0.13 that you're talking about as headwinds this quarter next, but that would also mean none of the revenue upside or at least the pro forma organic growth upside is not flowing through the EPS, and that's -- I would assume that's just -- again, because you reinvesting that, it's the DC investments, it's the promotional investments and the new key accounts, things like that, is that the way to think about it, that you -- that just doesn't flow through because of those investments?

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

Yes, you're absolutely spot on. So FX kind of brought us back. We incorporated that. Our tax rate came in a little bit lower this quarter and a little bit -- it looks like it will be a little bit lighter, but we are increasing our investments. Most of that stuff, the vast majority of those incremental investments are associated with winning wearers faster from contracts that we already have. I think that's a key point. This isn't about putting feet on the street hoping to win business. This is executing on business that we want. And we're in a great position from a competitive standpoint of having products available, premier products available in the marketplace. We have the most robust silicone product portfolio in the market right now, and now is the time to be proactive and aggressive and capitalize on that.

Operator

And our next question comes from the line of Larry Biegelsen with Wells Fargo.

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

Al, can you just clarify one thing in Jeff's question? Could you -- is FX $0.23 worse since last time? Or was it $0.13 worse since last time?

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

It's $0.10 worse in Q3 and $0.13 worse in Q4. So $0.23 in the back half of the year, but at $0.10 and at $0.13 by quarter.

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

Perfect. Then for my questions, I wanted to focus on 2019 now. When you look at the full year 2018 guidance for Cooper overall, it's about 6%. It looks like pro forma CVI, about 8%. But the second half is much stronger than the first half of the year. So how should we think about the momentum into fiscal 2019? Should we be looking kind of at full year 2018 guidance as the jumping-off point or the second half of 2018 as the jumping-off point? I did have one follow-up.

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

Well, I'll tell you, I look at it a little bit more as the second half of this year. We have good momentum in both businesses right now. We're investing accordingly to take advantage of that. I would anticipate you see that return, so to speak, starting to show up in revenues in the -- in fiscal 2019.

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

That's helpful. And then sticking with fiscal 2019, just turning to EPS. I heard the commentary there, but could you maybe quantify some of the headwinds? Tax, how do you see that sequentially at this point, interest and FX? So could you just help us just refine some of the comments you made or Brian made in his prepared remarks versus how to think about earnings in 2019?

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

Yes. I think that if you look at headwinds kind of -- and Brian was referring to operating income growth, we obviously have taxes. We're probably looking, right now, I would say, at around an effective tax rate of, let's say, 14%, something like that, with respect to next year. And I will fine tune that number as more tax information comes in and we do our work and so forth so we can give you a better number in December. But right now, I think that's probably a fair number to plug in there. We're doing a great job on cash flow generation, so we'll be generating cash. We'll be focused from a capital perspective and kind of paying down debt, maybe looking at a couple of small tuck-in acquisitions if we can find them and some stock buybacks. But I think we'll get in a situation where debt reduction will help offset any future interest rate increases. We'll see how that plays out. Again, we'll add more color on that by the time we hit December. And then FX, and FX is always a little bit of a wildcard. So when I look at it, though, one of the points I think that's an important takeaway is that we are doing incremental investments here in order to drive our revenue growth. But as a company, we're still going to put up strong OI growth. And that's why we're -- that's where we're going and saying, "Hey, guys, double digit or low double-digit OI growth on a constant currency basis is something you can still expect from us even with these enhanced investments." So next year, by nature, is a little bit more of a challenging year for us, if nothing else, just because of having to hurdle the big jump in the effective tax rate.

Operator

And our next question comes from the line of Larry Keusch with Raymond James.

Lawrence Soren Keusch - *Raymond James & Associates, Inc., Research Division - MD*

So Al, I just want to stay on the topic of the spending. And look, I think, clearly, the top line reflects a lot of efforts here. And I think you've been, in fairness, suggesting that you were looking to invest more. But I just want to be ultra clear as we think about this going forward. Do you anticipate that you will be in investment spending mode here for the next several quarters? I don't know if you want to sort of think of it as you move into

2019. And I guess, the other part of that question is, there's a lot of proactive nature to this and focusing on the accounts, but I'm also wondering if you're seeing anything out there in the marketplace that also suggests you that you need to spend more to keep that top line engine going.

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

Yes, Larry, I would say probably the key point here is no. We're not seeing something out in the marketplace that's saying, "Oh, we have to go spend a bunch more money in order to drive our growth or to keep it at certain decent number." We're looking at it saying, "From a market position, where we are today with our products and with our offerings and our capabilities, we believe we're in a position right now where we can execute and take a lot of share." And what I'm talking about is new wearers, new fits, and that's what you're seeing. We're seeing that in the New Fit Data, which continues to be very strong for us, and our New Fit Data being solidly ahead of our market share. So when I look at something like that and I say, "Okay, New Fit Data coming in strong. We're winning business from key accounts," we need to execute on that and take advantage of it and convert wearers. You convert a new wearer and you spend a couple of extra dollars to get that new wearer, obviously, and you're promoting, you're working with your partner, you're making that happen, you have that wearer for a long period of time, as I mentioned, 7 years on average. So you're getting a fantastic return on that. So right now, it's a matter of saying, "Hey, we can drive higher growth." I mean, you haven't seen CooperVision posting numbers like 9% pro forma growth in a long time. That's a really solid number. Our guidance for this quarter, 8% to 10% pro forma growth. It's a really solid guide. So I look at this as, hey, we're investing and so forth, but we've proven that it can be as successful. We just put up a good number in Q3. We're guiding to a good number, and we feel confident we're going to be able to put up good numbers. Now when you look at the future, we are working on other opportunities out there. I mean, frankly, I hope we win those opportunities and we continue to capitalize on them. So you never know with the market. You have competitors, they come out with new products, and they do different things. But when you have opportunities you take advantage of the opportunities. And to me, that's exactly where we're at right now.

Lawrence Soren Keusch - *Raymond James & Associates, Inc., Research Division - MD*

Okay. Perfect. That makes a lot of sense. And then I guess, just the second question is, so in Asia Pacific, which, on a comp-adjusted basis, decelerated last quarter and then accelerated this quarter? Again, just thoughts on what's doing well there in Asia Pacific because it feels very strong right now.

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

Yes. The Asia Pacific region is strong. You're right on that. The thing I love about that region when you look at it is how diversified the growth is. We'll talk a lot in the Americas about the trade up to dailies and the trade up to dailies silicones within that. You look at the Asia-Pac region, we're getting growth from our full portfolio of products there. Dailies, silicones are doing really well. Our Biofinity is doing well. Even some of our traditional hydrogel products are doing well there. You're seeing diversified growth geographically, meaning there's a number of different countries that are driving growth there for us. And you're seeing opportunities with some of the key accounts, some of the bigger chains and so forth there that we're getting in the door and having some opportunities with. Keep in mind, we're under indexed in Asia Pac. So we're investing there in order to be able to drive that growth. I think some people, at certain points, have thought that our investments and sales force expansion and so forth was really a U.S.-dominated theme, but it's not. It's also Asia Pacific. And you're right, we do have a good runway there for many years of strong growth.

Operator

And our next question comes from the line of Jon Block with Stifel.

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

Just 2 relatively quick ones. The first one, I also want to go back to the key accounts and just flesh out a couple of things. Just the margin profile, Al, the key account, it seems like some of these wins are certainly helping to keep the top line momentum. And we see that in your fiscal 4Q guide. But on the margin side, is it really the upfront cost to win the business? Or is it the ongoing margin structure of the key accounts? Is that a bit lower due to the fact that they're larger accounts and maybe some pricing concessions? Maybe if you can flesh it out a little bit.

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

Jon, a lot of that is really upfront cost, and what we're trying to do right now is change the way we've handled some of these opportunities from the past. So if we had a similar opportunity with some of these key accounts, we would go in there and we would convert wearers to our products working with our partner trying to make that happen. Now at times, we would "tighten our belts," so to speak, because currency would move against us. Well, that is an example, would mean pulling back on some of that activity. Now that would pull back on some growth opportunities, but it would put a little better earnings in the very near term to the bottom line. What we're talking about right now is saying let's not react to short-term currency moves. Let's take advantage of the portfolio we have. Let's invest those upfront dollars, let's win those new wearers, and we'll keep those wearers for a long time. So the returns are very strong on those. You'll see that in the outer years. There's not a situation here where the margins are worse. Now each individual contract is different, but I would certainly not look at it as ongoing cost as much as I would look at it as upfront cost.

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

Okay. Got it. So arguably, to your last point, those wins should start to pay off and materialize at some point, call it, back half fiscal '19 into fiscal '20 is when we would see those returns really sort of flush through the P&L more meaningfully?

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

Yes, depending upon the timing of any other new contracts and so forth we won. But I think that if revenues start to come down, then our profit situation will be better than what it would've been before the strategy is being implemented.

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

Understood. Okay. And then just a quick shift over to the CSI part of the business, and more specifically PARAGARD. So rev is up 9%. I think last quarter, it was up 11%, I believe. I think the 9% was actually off of a difficult comp because of what went on right before you guys acquired the assets. So maybe just, Al, high level thoughts. Good return from the sales hires, are you ready to go ahead and say, "Hey, this is a high single-digit grow or mid-single digit plus? Or how do we view PARAGARD longer term?

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

Yes. Well, the guys are doing a fantastic job there. I was impressed by that number and continue to be impressed by the work that the team is doing there around PARAGARD. And I've seen some of the new advertising work, and I think it's spot on. So I'm really excited about it and excited about the numbers. I still would probably temper some enthusiasm there. I think we'll probably get a mid-single digit, maybe strong mid-single-digit kind of growth number in Q4 and probably thinking our product has been in the market a long time, so maybe I'm being a little bit conservative thinking mid-single digits. But it's a little tough one to answer, like I don't want to get ahead of myself on that one, but the numbers keep coming in pretty strong. So for now, I would probably lean towards mid-single digits. And frankly, if we can get mid-single-digit growth out of that product at the margins that it has and the cash flow that it throws off, we'd be really happy with that. Now if we can invest a little bit more and get that to be more sustainable kind of upper mid-single digit or even in the upper single digits, I would -- that would obviously be fantastic. So we'll see how that plays out, but pretty good results and pretty good momentum there right now.

Operator

And our next question comes from the line of Brian Weinstein with William Blair.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Talking about the New Fits in your comments that you're outpacing the market. Can you give us an idea about what the share of New Fits are? And specifically, where were you referring to that? Was that Americas? Is that worldwide? Is that within a specific product category or not?

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

Yes, Brian. So we get New Fit Data in different markets. A lot of that comes from the Americas here. We -- what we try to do every single quarter, and we kind of have a standardized internal model on the New Fit Data, is look at all the data that we get here and from around the world and we pull that together and say, "Okay, what's the trend behind that?" Now it's not the best data in the world because there are some people who don't supply data. You can only get so much information. But frankly, over the years, we've accumulated a pretty good internal model that shows what the New Fit Data is and on an overall basis and then also down to the some of the levels like on dailies and even sublevels like daily silicones and so forth, where we get some decent information. So when I look at that, the strength, overall, so if I look at our overall New Fit Data strength, it's quite a bit -- I'm not going to go into specific numbers. But it's a decent amount, ahead where our market share is, again another quarter in a row where we've seen that kind of strength, and we've really seen some robust improvements in the daily silicone hydrogel fittings side. So when it comes to New Fits, dailies SiHys, that's where we're strongest, and that's where we're really trying to capitalize right now.

Brian David Weinstein - *William Blair & Company L.L.C., Research Division - Partner & Healthcare Analyst*

Great. And then as a follow-up on the Biofinity constraints. What do you think that, that cost you in the quarter? And do you say that you [probably] would have those taken care of in the fourth quarter? I think I missed that comment.

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

Yes. So we have had a little bit of capacity issues with Biofinity, meaning demand has been ahead of supply. That was true a little bit last quarter. It was true again a decent part of this quarter. We have already added new production capabilities, so our capacity is up to the level right now that we need it to be. We are adding more Biofinity capacity in this quarter. So we're in a pretty good situation in terms of now being able to meet the demand that's out there. I'm not going to quantify that other than to say that it did impact us. It probably impacted -- well, it did -- I think in my mind, impacted Biofinity Energys probably more than the rest of the Biofinity franchise just in that, that product launch went really well. People are excited about it, and there's a lot of demand for that product, and that kind of caused a little bit of a problem there. We obviously didn't get into it until really now, because now we fixed the capacity problem. So now we're unconstrained, and the team can go out there and aggressively sell Biofinity, including Biofinity Energys.

Operator

And our next question comes from the line of Joanne Wuensch with BMO Capital Markets.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Can you hear me okay?

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

Yes.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Wonderful. This is the first time, I think in my memory, that I have heard you discuss the concept of key accounts and now investing in them. I think this was asked previously, but I really want to make sure that I -- that we spend just a moment more on it. Is there a reason that this is being discussed at this stage? Is there something in the market? Is there something in your portfolio? Why is this coming up now?

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

Yes, great question, Joanne. If you look at the marketplace over the years and where we've had a lot of strength, as you know, we've had a lot of that strength with independent practitioners, be that here in the U.S. or in different spots around the world. We've had a lot of success there, and that links back to the broad product offering we have with torics and multifocals and specialty lenses and so forth. Once we completed the soft line acquisition and brought clariti in, we had a mass market dailies silicone hydrogel wins, not only a sphere, but a toric and multifocal and a unique product that we're able to offer the marketplace. Not only can we offer it, we can make it. We have capacity. We can -- and we can expand capacity relatively easy. That's allowed us to walk into a lot of these buying groups, in these large retailers who are heavy on the dailies side, where we've had historically a difficult time winning business, winning some of these big opportunities. Well, you know what, we built out a sales team. We went in there. We tried to win some of those opportunities and say, "Hey, we're here. We have the products. We have some of the best products out in the marketplace. We can supply you. We don't have capacity issues. We're a market leader in terms of logistics and distribution. We can offer you unique capabilities in terms of labeling and packaging and so forth." That has been successful. That's been successful. And there's always a little question mark around that about how you're going to do. Well, you know that the CooperVision sales team, Dennis Murphy and team, have done an amazing job there, an amazing job, and they won some new opportunities. And once you get those opportunities, you try to take advantage of them. So that's kind of a position we're in. We did start talking about it a little bit, but it's just become more important now, and now it's driving up our revenue growth a little bit here in the near term. It's also driving up some of our advertising and promotional activity.

Joanne Karen Wuensch - *BMO Capital Markets Equity Research - MD & Research Analyst*

Okay. That's helpful. As a second question, I can't say it's a follow-up. I want to spend a little bit of time on foreign exchange because that's impacting the third quarter, also your fourth quarter guide. And clearly, it's going to be there for 2019. Can you walk us through, at today's rate, what type of impact do you think you will be seeing in 2019 and remind us of the impact on gross margins? Because it seems to me that will be -- it will show up there also.

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

Yes. So we're not going to get into kind of those specific numbers as we move into next year. I mean, we'll go through guidance, and we'll update guidance and so forth in December and incorporate current FX rates. And you're right, I mean, that is something we have to deal with it. It's a headwind out there. But I think that one of the points I wanted to make, at least for next year, is on a constant currency basis, we still are planning on delivering low double-digit operating profit growth. So we have some issues below the line there, but we're still intent on driving that. Now you might say, "Okay, well, wait a minute. You guys are going to invest, and you're going to have heightened investments. Fine. I'm okay with that because you're going to drive better revenue growth. How are you going to drive double-digit OI growth in the face of some currency and so forth?" Well, we are anticipating gross margin expansion. So we do have a lot more volume coming through the plans. For us, volume is a good thing. It drives down our unit cost. We have more efficiencies as we utilize equipment, utilize space and so forth and manufacturing. So I would say that versus maybe 6 months ago or something like that, probably when I look at fiscal '19, a little bit better gross margin than what I was thinking we were going to do, but heightened expenses associated with that. But net-net, it's still allowing us to deliver that double-digit constant currency, that OI growth.

Operator

And our next question comes from the line of Isaac Ro with Goldman Sachs.

Isaac Ro - *Goldman Sachs Group Inc., Research Division - VP*

Al, I just want to follow up with another question on the efforts you're making here to push forward into the channel with marketing dollars. I'm interested in sort of the ways in which your go-to-market dollars has been allocated maybe differently this time around versus in the past, and whether that be, as you pointed out, some of the larger customers versus just different medium. I'm just kind of curious how the strategy here is different now than it would have been a couple of years ago and just trying to get a better vision for where those dollars are being spent.

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

Yes, that's a good question and probably an important one because when you look at some of our competitors in the marketplace and how we talk about advertising, promotional, sales, dollars, what we're talking about here is partner-related activity. So that's not TV ads. We're not talking about, hey, we're going through a big strategic shift here, and we're going to have TV ads all over the place and ads all over in magazines and so forth. That's not what we're talking about. We're talking about doing what we've done well for many, many years, which is partner or work with our partners, be the independent practitioners or buying groups or retail operations and so forth. Work closely with them to help them be successful. A lot of those contracts, a lot of the work we do has buying discounts. So the more a retailer buys from us, the lower their pricing is. We want to work with them on that. We want more wearers coming to us faster. We want them to have the opportunity to get better pricing, and we try to link all that together and be a good partner with them. The activity we're talking about is investing in that -- those -- that sale side of that, the advertising, the promotional, trying to link that all together so we're good partner with the big retailers. So it's very similar to the advertising promotional sales work that we've done over the years.

Isaac Ro - *Goldman Sachs Group Inc., Research Division - VP*

Okay. Makes sense. And just a quick follow-up on the surgical side. Can you maybe give us a bit of a sense of what's embedded in the guidance for the rest of the fiscal year as it relates to the impact to PARAGARD? I think you talked a little bit about the long-term growth potential, but just trying to get a handle on kind of the next whether it's 3 to 6 months kind of what's a reasonable expectation as we exit the calendar year and start to benefit a little bit more from some of the marketing dollars you talked about.

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

Yes, I would kind of think of PARAGARD being somewhere around that $45 million number for Q4, which means our full year PARAGARD number is a couple million dollars higher than what we thought it was going to be last quarter. And if you look at that, you're probably talking somewhere in that kind of mid-ish, maybe mid to even slightly up or kind of single digits. I think that's probably where we're going to come in, in the fourth quarter here. Obviously, that can change a little bit. It's not that big of a product. The dollars aren't that big. So if it little bit pushes into the quarter, that can swing it. But I think we feel pretty good about that right now being at least a mid-single-digit grower.

Operator

And our next question comes from the line of Matthew O'Brien with Piper Jaffray.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Just to put a maybe little bit finer point, Al, on the outlook for the business next year. You've got currency going against you. You've got a higher tax rate. You're going to spend more money, which I think everybody understands. Is this a business that can have some EPS growth next year of a really difficult comparison? And then should we expect a big snapback in 2020 as maybe some of these investments wind down a bit?

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

Yes, I mean, we'll see where FX ends up, right, in December. But as of today, I would certainly anticipate EPS growth next year. That's for sure. I mean, we need that hurdle, the tax rate. But outside of the tax rate, I mean, we're generating a lot of cash, and we'll be paying down some debt. And yes, as of today, I don't know why we wouldn't be growing EPS year-over-year. If I look at the following year, assuming similar tax rate, yes, then you're going to see a much better fiscal '20 EPS growth rate than you would see in fiscal '19. That's true. I think that when you look at our tax structure and so forth, too, obviously, the tax rate is moving higher as part of the tax reform. We'll implement plans and strategies and so forth to do our best in terms of where we produce product and how we produce and ship it and so forth to manage our tax structure. So yes, I would expect growth rates to be a decent amount better in 2020. And when I kind of look at 2020, 2021 and so forth and these investments that we're doing right now, should return pretty good numbers in those years. And by the way, I don't want to go overboard here on these investments. I mean, when you look at it, our Q4 guidance that we're giving is adjusted down $0.13. That's the exact amount of FX hit that we're taking. So I don't want anyone to walk away from this call being like, oh my god, these guys are spending like crazy, or this is out of control or something, because that's not the case at all. I mean, the spending is highly focused as return metrics associated with all of it, and we're talking millions and millions of dollars here, certainly not tens of millions of dollars.

Matthew Oliver O'Brien - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Got it. That's super helpful. And then as a follow-up, can you talk a little bit about the MyDay toric rollout, where you're at as far as rolling that out to your accounts? And then sorry to do this to you a little bit, just on the investment side again. But I think historically, you've talked about getting to 30% market share here with some of these investments, these capabilities that you have now with Sauflon. Can we expect you getting to that metric faster, maybe by a year or 2? Or any kind of qualitative commentary would be helpful there.

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

Yes. The MyDay toric rollout is going really well, but we see that in many markets. We see it right here in the U.S., where that the -- that product is being received really well. And what's exciting about that is the halo effect that we're seeing at MyDay sphere because that product had a really nice quarter. So we're really excited about where MyDay is at right now and how that's product is being received in the market. And it kind of confirms, if you will, the strategy that we've had about having a multipronged approach of a premium daily silicone in mass market and a more traditional hydrogel. So we're in good shape, and that's being received well. So I'm really happy about that. Obviously, saw the strong uptick in terms of daily silicone hydrogel numbers. So I think that's good. I think that if you look at -- I think you're kind of alluding to some past discussions. And very general numbers when you look at our market share and you kind of, okay, you guys have 23% -- a very strong 23% global market share, but you're in that 30% range from multifocals and 30% range for torics and you're kind of in that 30% range for FRPs and so forth and for silicones in general. We have been running at about 16% market share in dailies. Now that is improving. So that's been true for a number of quarters. We actually moved up to 17% global market share in dailies this quarter. That number is accelerating. That is accelerating. So as to when we move that up and get to the same level and take our total market share up towards 30%, we'll see when that happens, but it's based on where we are today and the momentum we have today. Yes, you're right, that will happen faster.

Operator

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

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

Great. Al, is it a fair assumption that over the next couple of years, MyDay or at least these DAILIES TOTAL1 pretty much round out the full family of the dailies SiHys? And then traditionally, it's positive for the brands. But kind of what do you think several brands doing at around the same time can do for the category?

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

I think it's fantastic. I really do. I mean, you talk about a trade-up strategy that's great for the industry and great for the wearer. That is right where we're at right now, and we're still in the early innings of that. You want patients wearing daily lenses. That's what's best for the patient. For their eye health, it's best for them to wear daily lenses. Throw that lens out every day. Put a fresh, clean one in every day. You want them wearing silicone hydrogel lenses for the oxygen permeability, the water content, the things we talk about in terms of the best combination of a lens that you can offer your patient. So this is not only a situation where you have manufacturers offering premier products and it's good for the manufacturer. Well, it's good for the wearer also. So this is good for the marketplace, it's good for the health of the people, it's good for manufacturers. And the fact that you have -- you mentioned J&J and Alcon's products and ourselves as leading products in that space, is to me fantastic, and we should all continue to push that and be successful with that strategy, and I think we will be.

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

Okay. Got it. And just a follow-up. How should I think about the accounting for rebates? Is it a net number reflected in sales? Or do you get the full benefit in sales with an offset in advertising and promotion?

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

Yes, it's a -- it's -- the rebates are reduction in revenues, so that's taken as an immediate reduction in revenues in the quarter.

Operator

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

Christian Diarmud Moore - *JP Morgan Chase & Co, Research Division - Analyst*

This is Christian on for Robbie. Maybe taking a look at the overall contact lens market. Strong results obviously for me today at 9% pro forma and the competitors as well. It looks like that market has kind of ticked up to the 7% range, above the historical 4% to 6%. Kind of if you could maybe break it down for us. How much of that is attributed to the same product pricing uplift? How much is geographic expansion? And then how much of that is from the shift of overall product mix to dailies SiHys?

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

Yes, you're exactly right. The market is stronger, and there's different dynamics that are driving that strength by competitors. So if you look at someone like J&J, as an example, they're in a fantastic position. And I think those guys are doing a great job right now trading wearers up, and I think they have a long road in front of them of success there because I think they have a good team that's smart, that's doing a good job on that. So I would envision, they continue to be successful driven by product trade-up. And you have -- I've obviously talked about our situation of focusing and winning some new wearers and capitalizing on our product portfolio, which includes the high end and the more mass-market silicone. But that is the driver of the market. That shift to dailies that we're talking about is the driver of the market. Pricing, frankly, at the end of the day, is relatively flat. You can look at list pricing and pricing out there and say, is it increasing? Yes, I would say it is increasing, but we've seen rebate activity also. We're starting to annualize that rebate activity, but rebate activity kind of offsetting that so that pricing will be relatively neutral. The other component, you're right, is geography. So there is still some geographic expansion. The established markets are relatively flat from a wearer perspective. But when you go into Eastern Europe and you go into China, in certain markets, emerging markets around the world, there's definitely still wearer expansion there. So I wouldn't put a big part of the growth attributable to that, but that's certainly a consistent kind of underlying driver of growth.

Christian Diarmud Moore - *JP Morgan Chase & Co, Research Division - Analyst*

Great. And then maybe focusing on the daily SiHy space. Bausch + Lomb launching their product into the space in 4Q. What do you expect that to do? Obviously, you've seen accelerating results there. But do you see that as a benefit for all players in the market to help accelerate utilization there? Or could pricing get worse? And just kind of your high level thoughts there.

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

Yes. Unfortunately, I don't have much to say on that. I don't want to speculate on when Bausch is going to launch their product or how or where they're going to launch it or what price they're going to launch it on. So when information comes out on that, I'm happy to comment on it. But for now, I'd say I'm not in a position to speculate or guess what's going to happen there.

Christian Diarmud Moore - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And maybe just one last one, kind of on the geographic perspective. I know that last quarter, you mentioned that getting some of the gray market activity under control, you expected a deceleration in Europe going into the back half of the year, but we actually saw acceleration across geographies in the quarter. Do you see that trend continuing into 4Q? And then any commentary on if and what type of gray market activity you're still seeing.

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

Yes. The gray market activity, the team has done a really nice job of working through that, so there's not a lot to discuss on that. I would say that Europe had a good quarter, a very challenging comp. They certainly had a nice quarter. They have good momentum there. That -- Mark already runs that business over there. He's doing a really nice job over there, and I would expect that to continue. There's been a heavy focus there, as I mentioned in the prepared remarks, on key accounts and success around key accounts, and we have good traction there. And that's a region that links perfectly into the discussion we've been having on key accounts and why we're investing. So I would envision that continues in Q4.

Operator

And our next question comes from the line of Anthony Petrone with Jefferies.

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

And maybe, Al, just to jump back to key accounts for a moment there. Is there a way to maybe quantify what percent of the global market actually runs through key accounts? And so you're 23% globally. As you invest in that part of the channel, what is sort of the upside potential maybe in share points or dollars over time once, perhaps, returns start coming in from these investments? And then I have a couple of follow-ups.

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

Yes, I think the key account discussion is a tough one because it's a pretty long discussion. Now one of the issues that you have is key accounts are not all the same. So you have some large retailers, some very large retailers, where the optometrist is essentially independent optometrist. They're not an employee of the retailer, so they're renting space, so to speak, from the retailer. Then you go to the other extreme, where the optometrist is employed by the retailer themselves. Now as you can imagine, if it's an employee relationship, there's a lot more influence by the corporate office than if there is an independent relationship. And then you also have buying groups and so forth in there. But a large portion of the market is going to be related in some form to key accounts, and I would say that's especially true because of buying groups. When you get into places like the U.S., you talk about independent practitioners, they're not nearly as many true independent practitioners as there have been historically. So the market is moving. That's why I kind of talk about a long-term sustainable trend. The market is definitely moving to these buying groups and allowing people to work together and buy in volume, take advantage of store brands and special packaging and offering and so forth, anything they can do to help lock down their customers. So I guess, just high end answer would be key accounts are a pretty sizable part of the market, but, again, much more complex than just a generic term.

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

Yes, and a follow-up there would be just, from time to time, the business has seen various different ebbs and flows within the distributor channel, and it seems like this is certainly a channel that's linked closely to distributors and different stocking levels and the like. So is there anything we should be looking out for as it relates to the level of stocking quarter in and quarter out as this process takes hold? And then last, just your comments, Al, just as you look into 2019, just high level competitively, J&J, obviously, at the Analyst Day, has an aggressive launch plan. And then Alcon, CIBA should be spun at some point next year. So just any thoughts there.

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

Yes. We have not seen anything in terms of stocking levels. So I know that there's been some discussion kind of in prior quarters, prior years certainly with us and prior quarters in terms of some stockings, some up and down associated with channel inventory levels. We haven't really seen anything on that. Ours have been fairly consistent here, so I wouldn't attribute anything either way to kind of channel inventory for us. On a go-forward basis, the way that we're handling these relationships, I would envision, will not have situations where you get inventory or stocking levels moving up or down to a material level. If they do, we'll obviously communicate that as being part of the positive if it is or part of the detriment if it goes the other way. So we're pretty open and transparent on that and continue to be. From a competitive standpoint, yes, it's another -- and like I said at Bausch, it's a little pop on Alcon. I know there's ramblings out there about them launching a new product and about them spinning into their own stand-alone company and Novartis doing that. And I don't know, you guys -- I'm not going to speculate on that one either. You guys probably have as much, if not more color, than I do on some of that. And yes, J&J has been pretty public about wanting to grow the business, and I think that's fantastic. And I think they're going to continue to grow the business, and I think they're going to continue to put out good numbers. And that's good. That's good for the entire industry.

Operator

And our next question comes from the line of Steve Willoughby with Cleveland Research.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Two questions for you. I guess, first, just regarding Brian's comments regarding 2019 in terms of low double-digit operating income growth, excluding FX. I guess, Al or Brian, just what I'm looking at it, tax rate going from 8% to 14%, and then giving current FX rates, I'm looking at about an 8.5% headwind to EPS growth, which would then put potential earnings growth next year in kind of a low single-digit range versus the 7% current consensus. So just wondering if you have any comment on that, and then I have a follow-up.

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

Yes, Steve. I don't think they're too far off on that, frankly, at the end of the day. This is always a tough one, right, because currency moves. And a significant part of our business is offshore, unlike some other medical device companies and so forth here. We have a large part of our business offshore, and it's growing nicely. So we do get hit more by FX than other companies. And then we're in a little unique position because of our fiscal year that we do get hit by that tax rate. So we'll obviously update for currency. We'll see where that stands in December. But I think, generally speaking, you're in a ballpark, yes.

Stephen Barr Willoughby - *Cleveland Research Company - Senior Research Analyst*

Al, and then just a second question, kind of a couple of parter here. I guess, given the conversation around key accounts, and Joanne commented it's never really come up before, it seems like, from my stance, key accounts is being sort of a focus of the company for much of the last decade. And so I'm just wondering kind of where new key account wins can come from, and particularly given that you're really the only company that does private label in the space. And then just I wanted also to be clear, you're not really assuming any impact from any potential competitive launches whether it's one of your contacts, Bausch or Alcon, et cetera.

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

Yes, competitive launches, I mean, we're -- for a respect of this guidance, we're basically a month in, right? So there's no launches out there. We have 2 more months. So no, there's really nothing in there obviously for competitive launches other than what we know as of today. So I'm not quite sure what to add outside of that. I know there's a lot of questions out there on a competitive standpoint, but we're working with what we have. When you look at key accounts, Steve, yes, we talked about key accounts in the context of kind of buying groups, in the context of working with some retailers. You talk about some that we've discussed in the past here in terms of Costco or somebody in terms of private label opportunities. Where things have changed for us is our opportunity to go into these folks who some of who we have a leadership with and some of whom we have not had a leadership with and be able to go in and say, "We have market-leading daily silicone hydrogel products. We have capacity to be able to supply them. We have the logistics to be able to get them to you. We have the packaging and the labeling to be able to do something unique for you, and we now have a sales team and efforts we're we can promote and work with you to ensure the success of those." That is a different animal than what we've had in the past. Now I know we've owned Sauflon for a few years. It's taken us a little while to get everything behind us. It's taken us a little bit to get all of our distribution stuff cleaned up, going in the right direction, manufacturing, sales and marketing teams within key accounts and so forth. But we're in that position, and we're doing really well, and we're investing there, and we're starting to reap the rewards of all that work.

Operator

(Operator Instructions) And our next question comes from the line of Steven Lichtman with Oppenheimer.

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

Al, you mentioned that the independent practitioner remains important even as you increase investments on key accounts. I'm just wondering from -- relative to investment dollars. Is any of the work you're doing on key accounts coming from spend previously earmarked toward independent practitioners and you're shifting some resources? Or is this all incremental investment?

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

That's a great question. No, it would be incremental investments. I mean, when you look at the independent channel, we are continuing to invest there. I mentioned like Eye Care Prime as an example. And if people aren't aware of that, I would encourage you to kind of go look at the website for Eye Care Prime. But I mean, that's a relationship management and marketing software tool that we offer to optometrist right now. And we have it in 12 countries, and we have over 45 million patients that we work with through that tool. Yes, that's kind of a unique offering, and we have other things like that. So we are continuing to invest and be active with respect to independent practitioners. They're a core part of our business, and they remain a core part of our business. So I would not want anybody to think that in any way we're not going to fully support our independent practitioner friends.

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

Got it. And then, Al, you also mentioned potentially some tuck-in deals. Fair to say that M&A likely remains focused on the surgical side of the business? And what generally are your areas of focus as you look for some portfolio adds there?

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

Yes. I'd say that with respect to the M&A, we'll see if we can find stuff. I would say it's going to be smaller tuck-in stuff. Whether that's vision or surgical, we've kind of done some small tuck-ins on both side of those. We'll see if we can make something work there. If not, I don't mind paying down debt right now. That would be okay to do, and to earmark dollars to share buybacks is something else I'm certainly comfortable with. So I think we're in a raising rate environment when you start looking at saying a little different utilization of cash, maybe even historically, if that makes a little bit of sense.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back over to Albert White, President and CEO, for any closing remarks.

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

Great. Thank you. Well, thank you, everyone. I appreciate it. Obviously, if you have any questions or comments or anything, reach out to us through our Investor Relations group, and we'd be happy to connect on that and look forward to catching up with everybody again in equity conferences and so forth and then on our December earnings call. So with that, we'll go ahead and end the call, operator. Thank you.

Operator

Thank you. Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.
