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The Cooper Companies, Inc. (COO) CEO Al White on Q3 2019 Results - Earnings Call Transcript

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FQ3: 08-29-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $3.23 beats by $0.05 | Revenue of $679.4M (2.94% Y/Y) misses by $-8.15M

Earning Call Audio

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The Cooper Companies, Inc. (NYSE:COO) Q3 2019 Earnings Conference Call August 29, 2019 5:00 PM ET

Company Participants

Kim Duncan - Vice President, Investor Relations & Administration

Al White - President & Chief Executive Officer

Brian Andrews - Chief Financial Officer & Treasurer

Conference Call Participants

Larry Biegelsen - Wells Fargo

Jeff Johnson - Baird

Joanne Wuensch - BMO Capital Markets

Matthew Mishan - KeyBanc

Larry Keusch - Raymond James

Chris Cooley - Stephens

Anthony Petrone - Jefferies

Robbie Marcus - JPMorgan

Steve Willoughby - Cleveland Research

Operator

Good day, ladies and gentlemen, and welcome to the Cooper Companies Incorporated Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Kim Duncan, Vice President, Investor Relations and Administration. Ma'am, you may begin.

Kim Duncan

Good afternoon, and welcome to the Cooper Companies' third quarter 2019 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 maybe 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, 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 email ir@cooperco.com.

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

Al White

Thank you, Kim, and good afternoon, everyone. Welcome to our third quarter 2019 conference call. For the quarter, we reported $679 million in consolidated revenue, up 3% year-over-year or up 5% pro forma. CooperVision posted revenues of $509.1 million, up 4% or up 6% pro forma. CooperSurgical posted revenues of $170.3 million, flat year-over-year, up 2% pro forma. Non-GAAP earnings per share were $3.23. These results were driven by our market-leading products and strong operational execution, and we expect this success to continue.

Now, as I walk through the quarterly results today, the numbers would be on a pro forma basis, but it's mostly constant currency now as other adjustments are minimal. For the quarter, CooperVision posted growth throughout the world with the Americas up 5%; EMEA 3%; and Asia Pac up 13%. All three regions were led by our daily silicone hydrogel lenses MyDay and Clariti, which grew 23%. Biofinity also performed well with Energys and torics leading the way and our Avaira franchise was solid leading the RFP, or two-week and monthly silicone hydrogel growth of 6%.

Moving outside of brands, torics grew 8% and multifocals grew 2%. Touching on the details, Asia Pac continues to post very strong results. Our growth in that region is highly diversified from a product and geographic perspective, and it's driven by a fantastic team. Growing double digits for as long as they have with the momentum to keep it going is not easy, so I wanted to highlight that and say great job to the team.

Second, EMEA was a little softer than we were expecting, largely due to lower stocking levels as that region experienced fluctuations, working through challenges associated with Brexit. And finally, just a reminder that our consolidated third quarter growth from last year was 9%, meaning this was a very solid quarter off a tough comp. And looking forward, we're guiding Q4 to 6% to 8% and that's against a very tough 10% comp, so our business remains strong.

We're also continuing to take share as we stay on the offensive with our strong product portfolio and our successful key account strategy.

Moving on to our myopia management strategy, I'm going to focus on MiSight rather than the broader specialty unit, as that's where most of our future investments will be dedicated. As you'll remember, MiSight is our innovative myopia management lens that is selling in several European countries, Canada, and a few Asia-Pacific countries.

I'm proud to announce MiSight exceeded $1 million in revenues this quarter for the first time ever, more than doubling on a year-over-year basis. The lens is supported by strong five-year clinical data, and we're continuing to see significant interest and accelerating demand for the product.

Regarding the U.S., we're continuing to work with the FDA and hope to provide a meaningful update prior to calendar year-end. Given there are currently no FDA-approved myopia management contact lenses, an approval would obviously be a major milestone and cement our leadership in this extremely exciting space.

With this positive activity, we've ramped up pre-launch investment efforts in the U.S. to get a better understanding in the market, and we've accelerated sales and marketing and educational activity outside the U.S. These investments will add several million dollars in additional cost in Q4, but I'm excited to see the results as I remain extremely excited about MiSight's potential and the positive halo effect it will have on the rest of our portfolio.

Moving back to the quarter for CooperVision, let me briefly walk through our ongoing infrastructure investments as this is an important part of our customized solution strategy to support our long-term growth initiatives.

We're continuing to invest and support key accounts and independent practitioners by upgrading our distribution and packaging operations, our IT systems, and our overall customer service capabilities. We're also enhancing manufacturing by maintaining an intense continuous improvement mentality, while expanding facilities and increasing the use of automation.

Lastly, we're also investing in sales and marketing activities, including increasing in-store promotional activity, education, advertising and new sales and marketing hires. These efforts are critical to our long-term success as we need the appropriate infrastructure to support our partners in growing their contact lens businesses for many years into the future.

Moving to market data and important trends. On a trailing 12-month basis, the market grew roughly 7% to $8.7 billion with the primary growth driver being dailies up 11%. The market continues to be healthy, and I remain comfortable targeting growth in the mid to upper part of the 4% to 6% range I frequently discussed. This growth will continue to be driven by several factors including the shift to dailies, the trade up from traditional hydrogel to silicone hydrogel dailies, geographic expansion, and growth in torics and multifocals.

To put some numbers to some of this, roughly 41% of dailies sales are now in silicones, compared to 83% of FRP sales and I believe we'll see daily silicone sales approach or even reach the FRP levels, as pricing comes in line and new products are launched.

From a dollar perspective, this means that roughly $2 billion in current daily hydrogel sales should be converted to silicone dailies, which will drive solid market growth for many years to come. Additionally, new wearers entering the market in daily lenses drive significantly more revenue than existing FRP -- I'm sorry, than exiting FRP wearers, so the transition we're seeing to daily lenses from two-week and monthly lenses is another underlying positive factor in the market's growth.

With respect to CooperVision, our daily market share is roughly 18% compared to 31% within the FRP space, so there's a long runway for us to continue growing faster than the market. The key remains executing on our core strategies and winning new wearers, and I'm very happy to say that New Fit Data is very strong, showing our momentum is continuing.

Moving to CooperSurgical. We reported revenues of $170.3 million, up 2% with our office and surgical business roughly flat and fertility up 5%. Within office and surgical, PARAGARD was unexpectedly flat given continued ASP improvements, but we believe there were two factors that impacted performance with those being our decision to pause certain advertising programs, including TV ads to take the time to assess the returns on these initiatives; and some channel inventory contraction at the physician level.

We found a clear correlation between our consumer awareness campaigns and unit growth, so our challenge moving forward is to optimize the return on this activity. There is more work to be done, but I'm confident we'll be successful given the strength of the sales and marketing team we've built, and a significant amount of insightful direct-to-consumer information we've obtained.

The question right now is what's the long-term growth opportunity for PARAGARD? And the answer in that revolves largely around unit and price performance. When looking at these two items, I feel comfortable reiterating that PARAGARD should grow in the mid single-digits and I believe in the upper part of that for the next several years.

This is supported by roughly 3% annualized unit growth, which we believe we'll be able to obtain through normal sales and marketing activity and then roughly 3% coming from price. As we've discussed, our experiences have shown that we can push the unit growth rate higher than 3% through higher advertising, but we need to keep working and challenging ourselves as to the returns we're getting from that activity.

On price, we have an adjusted price since we acquired the product, but we've seen our competitors increased their base price on the hormonal side of the IUD market. Given current market conditions, we're currently evaluating a price increase, noting that any potential price increase rose through the P&L over time due to Medicaid and contractual arrangements.

Regarding fertility, growth was led by our device portfolio, which includes consumable products like IVF media and our market-leading Wallace embryo transfer catheter. We also saw stabilization in our genomics business, as our restructuring activities are now completely behind us, including our lab consolidation efforts where we reduced the total number of labs from 16 to three, which will result in significant efficiency improvements going forward.

Overall, the fertility space continues to offer mid to upper single-digit long-term growth potential, so we're investing in sales and marketing talent as we expand internationally, driving product improvements through R&D and implementing new selling and advertising programs.

Outside of commercial part of CooperSurgical, we're making a lot of progress upgrading our infrastructure, including expanding our headquarters in Connecticut, increasing our distribution capabilities, such as adding a new facility that just went live in Europe and expanding our Costa Rica manufacturing facility.

Regarding the Costa Rica project, production is growing and we're on target with our build-out plans, including tripling the size of the facility to accommodate the relocation of several production lines from other facilities around the world.

Once completed, this facility will be a state-of-the-art manufacturing location, including what we believe will be the most technologically advanced fertility manufacturing operation in the world. The team is doing a fantastic job, handling all the complexities associated with this activity, and I'm extreme pleased with the progress.

Before concluding, I want to wrap up by mentioning, we just refreshed our corporate brand with a new logo, brand identity and website. This is an exciting step for the organization and better ties the visual representations of CooperVision, CooperSurgical and Cooper Companies together. You could check it out on our new website at coopercos.com.

I'm also happy to say, we're continuing to make nice strides with our ESG incorporate responsibility efforts, including expanding our philanthropic efforts, increasing support in our local communities, and increasing our environmental sustainability efforts.

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

Brian Andrews

Thank you, Al. 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.

Al covered revenues, so I'll focus on the rest of the financials and guidance. Consolidated gross margin for the quarter was essentially flat at 67.3% versus 67.4% last year. CooperVision's gross margin was 65.6%, down from 65.9% last year, due largely to higher secondary handling costs as we complete the distribution center upgrades that we've discussed before.

CooperSurgical's gross margin increased to 72.4%, up from 71.7%, driven primarily from improvements in our fertility business where we're starting to see the progress following the completion of our genomics integration activity.

Consolidated operating margin increased nicely to 28.4% from 27.8% last year, as we saw leverage from consolidated operating expenses only growing 1.3% year-over-year. Investments were very targeted in key areas, including selling and marketing, and distribution within CooperVision and selling customer service and distribution within CooperSurgical.

Interest expense was $16.7 million and our effective tax rate was 8.9%, which included additional excess tax benefits received from the exercising of stock options. Non-GAAP EPS for the quarter was $3.23, with roughly 50.1 million average shares outstanding.

Free cash flow was $121.3 million comprised of $196.7 million of operating cash flow offset by $75.4 million of CapEx. Net debt decreased by $122.8 million to $1.702 billion and our adjusted leverage ratio declined to 1.83 times.

One last matter from this quarter was that we implemented a soft freeze on our pension plan effective August 1, 2019. Like many companies, our focus is shifting to what our employees are requesting and that's programs such as the 401(k) and our new employee stock purchase plan. This move did not impact our financials, but you'll see it in the Q, so I wanted to mention it.

Moving to guidance, our pro forma revenue growth ranges are basically unchanged, while EPS is being raised. For the full year, we're now guiding consolidated revenues to $2.635 billion to $2.655 billion with the CooperVision range being $1.966 billion to $1.976 billion, which remained 7% to 8% full year pro forma growth; and CooperSurgical at $669 million to $679 million, which remains full year pro forma revenue -- pro forma growth of 4% to 6%.

Full year non-GAAP EPS guidance is being raised $0.12 on the bottom end to $12.27 to $12.35. Calculating this for adjusted the fourth quarter shows CooperVision revenue guidance of $503 million to $513 million, up 6% to 8% pro forma; and CooperSurgical revenue guidance of $171 million to $181 million, up 1% to 7% pro forma; and non-GAAP EPS of $3.22 to $3.30. Note the Q4 assumption is for roughly 10.5% effective tax rate.

Regarding FX, rates have moved around a lot around over the past three months, with the pound and yen making decent moves. But the ultimate impact is a minimal change from last quarter, with a fiscal year impact on revenues being a negative $67 million and a negative $0.60 to EPS. Our assumptions are based on generally current rates including the euro at $1.10, the pound at $1.22 and the yen at $1.06.

Regarding fiscal 2020 guidance, it's too early to provide much detail, but at a high level we remain focused on taking share by driving strong sustainable revenue growth and posting low double-digit constant currency and operating income growth. Having said that, we remain very excited about MiSight and there could be incremental investments in that product depending on the timing around an approval from the FDA and/or from accelerating demand we're seeing outside the United States. As is our practice, we'll provide full guidance for next year on our fourth quarter 2019 earnings call, which is set for December 5.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Larry Biegelsen with Wells Fargo. Your line is now open.

Larry Biegelsen

Good afternoon. Thanks for taking the question. Just two from me to start with the Q4 CooperVision guidance. Al, I think to reach the midpoint, you need to accelerate growth on a nominal and a stacked two-year basis. So, what drives the acceleration in Q4? And how much was that kind of Q3 impact from Brexit? Is that something you will quantify for us, it's something you'll get back in Q4 and I have one follow-up.

Al White

Yes. I think that when you look at Q4, if you kind of compare it sequentially to Q3, you'd say the Americas are going to be similar, probably a little bit stronger, I would expect, in Q4 than they were in Q3. Asia-Pac is somewhat similar, and I think EMEA puts up a better number. And you kind of touched on it there, we did see some destocking this quarter, so assuming that we don't get a rebound in that, we'll just have a regular kind of quarter for EMEA. I think they'll post a stronger number than what they posted this quarter. That pushes you somewhere to 6 being equivalent to this quarter to as high as 8 in Q4.

Larry Biegelsen

That's helpful. And then on 2020, appreciate the color. Can you give us a little color right now on where kind of FX would be -- the impact for sales and EPS at this point? And the tax rate Al, is it still 13% to 14%? Is that the right way to think about tax for 2020? Thanks for taking the questions guys.

Al White

Yes. I think that on the tax rate side, probably 14% is the right way to think about it. I mean you're right, I do think of it in that 13% to 14% kind of range. At the end of the day, we've had some excess stock comp benefit and that's been around 1.5% for the last couple years, so that could certainly push it lower, but somewhere in that range and probably 14%, but right now it's probably the best number to go with just as a placeholder. We'll, obviously, update that in December. FX, I think right now kind of current rates is neutral to may be a little positive for next year, and we'll update that obviously in December when we get there, but right now at least we don't have anywhere near the headwind that we've had this year.

Larry Biegelsen

Thanks for taking the questions.

Operator

Thank you. And our next question comes from Jeff Johnson with Baird. Your line is now open.

Jeff Johnson

Thank you. Good afternoon, guys. So, Al, the only other place in CVI that maybe was a little short of our number other than the EU question that Larry just asked was on multifocals, up 2%. Is that competition there? Was there any specific destocking in multifocals in the EU that would explain that? Just kind of what's going on in the multi-focal category would be helpful.

Al White

Yeah, Jeff. I think, it's tied more to competition than anything. Some of our competitors have put out some pretty good lenses recently. We have a significant market share in the multifocals space. We do, as you know, really, really well in that space, but there is some heightened competition there.

The next real step for us is probably tied to like MyDay multifocal. I can tell you, we'll come out with that lens eventually and it's going to be received incredibly well in my opinion. It's just a matter of production on that. So I think for right now we're probably looking at closer to kind of low-single-digit growth in multifocals where the market would be more in the upper-single digits.

Jeff Johnson

Yes. And when do you think that MyDay multifocal could roll? And then as a follow-up to that, I'll count that just as my first question as a follow-up to that, you did talk about some pre-launch activity in Q4 for the myopia lens in the U.S. for MiSight. That would suggest to me you have some confidence that you hear something good before year-end from the FDA.

And as we've talked to some people out there, sounds like the FDA is really just concerned about putting contact lenses on eight-year olds, not necessarily on the process of reducing myopia progression. So, it would seem like a low bar you have to kind of hurdle to get them to approve this product, but just any commentary you can provide would be helpful? Thanks.

Al White

Yes. On the multifocal, let me hit that one first. On MyDay multifocal, no timeline on that one yet. We have some significant demand, and not only significant but actually accelerating demand on MyDay right now and that's even with us raising price. We dropped the rebate in the U.S. We've raised price in a lot of markets, and MyDay demand is actually accelerating.

So I'm not sure the multifocal is going to be out that soon. So -- but at the end of the day, that's not that detrimental to us. The multifocal market is still 4% or 5% of the overall market, so we'll update on that as soon as we can. We're bringing production lines on, and we'll continue to bring them on next year, so the faster we can ramp up production, the faster we'll get a multifocal out there.

On MiSight, yes, I mentioned in the prepared comments, I think, I'm keeping my fingers crossed. We'll have a nice positive announcement prior to calendar year end on that product. So I think you're right on your commentary on the FDA. We're working with them right now trying to get through that process. So, I won't comment too much more than that other than to say, fingers crossed, and yes, we are accelerating, pulling forward, if you will, activity associated with that from a pre-launch perspective.

And then, we've seen really, really strong demand in MiSight outside of the U.S., and that's just been fantastic, and that's kind of accelerating also. So, we're doing a lot of work right now on understanding the market and launch activity and engaging sales professionals and so forth on that side.

Operator

Thank you. And our next question comes from Joanne Wuensch with BMO Capital Markets. Your line is now open.

Joanne Wuensch

Good afternoon. How are you all doing today?

Al White

Good. Joanne, how are you doing?

Joanne Wuensch

Excellent. It looks like the contact lens market has accelerated somewhat over the last few quarters, and particularly this quarter. Is there any particular reason why?

Al White

Yeah. I think that you're starting to see people grab more and more and more a hold of the shift to daily silicones. I mean, for a little while you had J&J in there just a little bit and Alcon a little bit and you had us a little bit, but capacity constrained in spots.

And then, we've extended our portfolio. You've seen J&J ramp up capacity of their daily SiHy's. Obviously, Alcon has some stuff going on. I mean, that's your biggest shift. So as you’re seeing wearers exit the market, a lot of those wearers are FRP wearers. They are two week or monthly wearers. The new wearers coming into the market are daily wearers, so that's a pretty significant trade-up. And then, the trade up, if you will from a traditional daily hydrogel wearer to a silicone hydrogel wearer is another 20% or so trade-up.

So we've talked about this for a number of years, right? I think that its gaining traction is what it comes down to. And I think it's going to continue to gain traction as you get capacity ramping up new products and so forth from out. I quoted that number of $2 billion that needs to be converted over.

If you convert just that $2 billion over that changes to somewhere around $2.4 billion, $2.5 billion of revenue adding $400 million to $500 million of revenue to the industry. That will probably take five to 10 years. But then you also roll in the other factors, some growth in wearers around the world, the torics, the multifocals, the other stuff that's going on. And then, the general transition to more daily wearers and it's all just a lot of really good positive trends.

Joanne Wuensch

I like to hear that. You had spoken about owning to a key brand strategy a couple of quarters ago. Could you just give us an update clear on how that's going? Thanks.

Al White

Yeah. Absolutely. Yeah, we are focused on that. We mentioned a lot of the investment activity we're doing. We put the key account team in place, and it's a fantastic team. They're doing really, really well. We've had some very nice wins in the key account -- within the key account team. We're working on some other stuff right now that's really exciting. So I hope that, you will continue to see some stuff in the near future here, it's going to be pretty positive. I'm pretty excited about. It's going well.

Joanne Wuensch

Thank you. And have a great weekend.

Al White

Thanks. You too.

Operator

Thank you. And our next question comes from Matthew Mishan from KeyBanc. Your line is now open.

Matthew Mishan

Great. Thanks for taking questions. Hey, Al, one of your competitors is working to improve the productivity of its new manufacturing lines. I'm just curious like how confident you are that -- with the manufacturing process that you acquired with Sauflon can still be a competitive advantage for you moving forward?

Al White

Oh, yeah. I'm very confident with that. I think in my opinion right now looking at it, I mean we have the best manufacturing team in the contact lens industry and we have the best lines that are out there right now. So that Sauflon acquisition was just phenomenal for us. And linking in that technology into our real high volume technology we have, and pulling those together to standardize those lines, I think that's a true competitive advantage for us. And frankly I think you see that in our margins. You see that in the strength of the CooperVision margins that are out there. And we can't rest on our laurels there and we're not. We have a very highly focused intense continuous improvement mentality within manufacturing. So we are really working hard to drive continuing production improvements and cost reduction. So I feel good about that on the manufacturing side.

Matthew Mishan

Okay. And then on the revenue growth side, I think you -- I think that's the first time you mentioned targeting growth at the high-end of the market. But you've been coming in well above that for like the last couple years. Are you suggesting like the recent -- that recent growth in this 7%, 8%, is it a viable target for you moving forward?

Al White

No, no, no. It definitely is. So I would say that, I continue to believe that we can put a pretty strong growth. I talked about it in the context of the market at 4% to 6%, and we talked about ourselves taking share, we'll talk about that 6% to 8% growth. So I think we can continue to put up those numbers. I do think that the actual market growth could get stronger. I don't think that will be detrimental to us. But I do think the market growth can be stronger.

You can use Alcon as an example. They come out with PRECISION1, great product they're trading up for DACP wearers and they're getting 20% or so trade up from that. I mean, that alone is going to increase them. But we're going to continue to put up our numbers in growth. So I feel pretty good about our growth and I think the market kind of is stable here to maybe even a little bit improving.

Matthew Mishan

All right. Thanks Al.

Al White

Yes.

Operator

Thank you. And our next question comes from Matt O'Brien with Piper Jaffray. Your line is now open.

Unidentified Analyst

Hi guys, this is Jerome [ph] for Matt. Thank you for taking the questions. I guess the first I want to touch on what you just mentioned then. Obviously, over the last couple quarters, clariti growth has been great. I mean this new competitor bringing a product in the next couple months. Probably going to take a little while to scale, but now that you've seen the product sort of how do you think that stacked up against your product portfolio?

Al White

Yes. I think that our product portfolio is very strong. I mean, we have -- keep in mind, clariti has sphere toric and multifocals, so it's a full set of products. MyDay is out there right now as a sphere toric also. So, we're now in good shape. Now, we do need to expand parameter ranges, we had a base curve for instance to MyDay. So, there's a number of things we're doing to continue to expand our existing portfolio.

So, we're quite ahead of a lot of people in the game right now. So, I mean competition's going to come that's part of where we are. That's the industry we live in. We have good big competitors, but we're not sitting around doing nothing that's for sure. We're expanding the portfolio, getting product out in more countries and locations, and so forth. So, we still have many years in front of us of upside from that type of activity.

Unidentified Analyst

Okay. And then obviously PARAGARD has been on the tariff for the last couple quarters, it moderated maybe a little bit here in Q3. I know you guys have been a little hesitant to go down the television advertising route. So, I guess the question is one, I mean have you restarted your television ads yet? And then two, kind of what is the hang-up from pushing a little bit more aggressively into that DTC channel? Thank you.

Al White

Yes. Great question. Yes, on the TV ads, we have not started those back up. So, we thought about this a little bit in the past. We were running TV ads and some really heavy promotional activity in addition to kind of the social media, print media everything else that we're doing. So, we stepped back from some of that activity.

As we discussed, we've kind of talked about this openly to see what the impact would be to see how closely the correlation between those advertising campaigns and our unit sales were and to really understand the -- kind of the cost/benefit of that. A lot of that activity is very expensive to do.

So, we're doing exactly what we said we would do and exactly what you want to do and we have great Intel on that. I do think that you'll see us come back with some TV ads, are going to be more focused, more targeted TV ads. Because there are certain markets in the U.S. where we can target and be very successful with those TV ads. So, I think you're going to see more. We're just trying to fine tune in that.

But if I do step back, I'd say PARAGARD's going about 6.5% year-to-date and I think that's a decent number. I think PARAGARD's going to grow around 6% if we just look at core unit growth from doing what we're doing well plus price gets us to around that 6% number and we can drive that number higher. We've proven we can drive that higher. It's just going to be the cost benefit of doing a lot of that activity.

So, still learning, still working through it, but clearly we feel very positive about that product. And I talked for a while about a mid-single-digit grower and I would be more comfortable at this point saying, yes, mid-single-digit is, right but the upper part of that mid-single-digit is probably the most accurate.

Unidentified Analyst

Very helpful. Thank you.

Operator

Thank you. And our next question comes from Larry Keusch with Raymond James. Your line is now open.

Larry Keusch

Thanks. Al could you -- you alluded to in your prepared comments about New Fits doing very well. Can you provide just some more color in any way you can on -- to helping us think about that kind of how the New Fits are going?

Al White

Yes, the New Fit Data was strong this quarter, no question about it. We saw an acceleration in some areas in new fit data that excite me and specifically, when it came to new fits on the daily silicone hydrogel side. That's what I would really point to. I think this quarter we hit an all-time high in some of those metrics and one of the key metrics certainly we hit an all-time high. So that's where the market is going. Market's going to daily silicone hydrogels and that's where we're focused and that's where we're excelling.

And when I see that new fit data coming through, it makes me feel really good, because it might not happen immediately, but it's going to happen. When you're getting the wearers, you're going to get the revenues associated with it.

Larry Keusch

Okay. Perfect. And then just one other one, again, sort of you alluded to accelerating demand for MyDay toric. So maybe you can talk about sort of geographically where you're seeing that? Your ability to actually, meet demand particular that continues to accelerate and maybe we've been there just sort of again how you're thinking about your manufacturing capacity and expansion plans?

Al White

Yeah, Larry, that's a great question. MyDay toric came into the market and it has been received so well. We had that halo effect where it brought this sphere up. And we're in this situation where we've been increasing our manufacturing capacity so the team's doing really well there with the existing lines we have. We've ordered a number of new lines that will be coming in over time. So we're going to be growing capacity. We've taken price up in many markets around the world and we've actually -- you've seen that in the U.S. through a reduction in rebates.

Having said that, MyDay demand continues to accelerate in the face of all that, so that's the great news. The challenge for us ends up being avoiding back orders and those types of problems. So we are putting stuff in place right now with respect our supply chain to ensure that we don't go into back order situations and we take care of all of our customers. And right now we're kind of playing in that fine line of ensuring we give high quality customer service, while we're ramping up production.

And I think that you're going to see production come online, I don't want to get in too much detail for competitive reasons, but you're going to see production coming online in this next fiscal year and especially at the tail end. So I think we're positioned well to put up good numbers next fiscal year and then I think we're positioned frankly extremely well to really put up some good numbers in fiscal 2021 as that capacity comes on and we can expand our offerings and our parameter ranges and get back to, as I mentioned, to, Jeff, like a MyDay multifocal and so forth on the market.

Larry Keusch

Okay. Terrific. Thanks very much.

Albert White

Yep.

Operator

Thank you. And our next question comes from Jon Block with Stifel. Your line is now open.

Unidentified Analyst

Hi. This is Trevor on for John. Thanks for taking my question. So, first, on Vision, has the rebate activity on dailies remains suppressed relative to six to 12 months ago? And should we view that as a tailwind to reported revenues looking forward over the next few quarters?

Albert White

Yeah. Rebate activity is kind of flattened out. There's a little activity and there always seems to be here in someone will run like a small promotional activity for back-to-school and some of that kind of stuff. So you'll see everyone saw some rebate activity come in. But at the end of the day a lot of that has stabilized. I do think we're working through some of that still, but it stabilized which is good news. And you are seeing some base price increases, so I think the trend there is at worst neutral and probably -- slightly positive.

Unidentified Analyst

Okay, great. Thanks. And then on surgical, where would you say your winning share from on PARAGARD? Is that just you’re getting larger volumes from current prescribers, or are you to bringing in new docs in order to expand the product a little bit?

Al White>

Yeah. I think both. I think both. Some of it is just awareness. It's consumer awareness and it's also awareness to the physicians. So we're out there doing physician training and so forth.

The product had kind of gone quiet, so to speak, for a number of years before we bought it. So, to get back out there, to get into some training programs and talk to physicians who are working through school, I think, we're picking up some new docs and I think we're also picking up some wearers from some of the consumer awareness activity. So that's what kind of makes me feel pretty good about that 3% unit growth. We've actually been growing a little bit faster than that. So, I think, we'll be able to hold that for a number of years.

Unidentified Analyst

Great. Thank you.

Operator

Thank you. And our next question comes from Chris Cooley with Stephens. Your line is now open.

Chris Cooley

Hey, good afternoon. Thanks for taking the questions. Al, just two for me. On PARAGARD, I appreciate the additional color there about volume and pricing. Curious, just to get your take on overall category potential. Obviously, it tapered here a little bit with the lack of advertising. So just where do you see the broader IUD category here in the States? And specifically, the non-hormonal segment of that going relative to maybe other markets? And then, I've got a quick follow-up on Vision.

Al White

Yeah. The kind of IUD market in total in the U.S. is some – it's over $1 billion, it was, I'll call it, close to kind of $1.1 billion. And you're seeing decent growth within the space. So, as IUD market, you're probably seeing around 2% to 3% unit growth, plus price. We're a little bit on the higher end of that from a unit growth perspective. As I mentioned, we haven't taken price recently, but looking at that.

And then, when you look at how the non-hormonal market, because keep in mind, we have the only non-hormonal IUD product in the U.S. market. When you compare that to markets outside of the U.S., the non-hormonal penetration rates are higher than they are in the U.S. So, I think we could just do our job and get out there in the market and make sure people know the products available. The trends are in our favor there.

Chris Cooley

But just to be clear, no change in your long-term view there, even though you had a little bit of a step back here in the most recent quarter?

Al White

Yes, absolutely, no change there. No, we pulled back on that intentionally, right? We saw some destocking, which probably isn't a surprise. We were doing all that advertising and promotions and you got a little buy in from physicians and some distributor kind of activity.

You get that kind of stuff, while you're doing all of that. And then you pull-back and you get a pause in the marketplace. But no, I don't have -- I'm not stepping back at all from the positive feelings I have about PARAGARD. It was just a much more profitable quarter, if you will, with the pull-back in some of that.

Chris Cooley

Understood. And then, just lastly for me, on the Vision side, just looking ahead, if we do see some volatility just in the economy, is there anything different when we think about the current contact lens market here in the States versus say the 2007, 2008 timeframe?

We saw purchase go to maybe more to the six to nine month versus the full annual supply at the time of the exam? With the shift to dailies and with the focus now on key accounts, should we be thinking about that, if we're trying to risk-adjust numbers in the out years? Or is that now changed structurally such that, you purchased still a full year supply at the time of the exam? How should we think about that going forward?

Al White

Yeah. I think that, the market overall probably in a little better place than it was then. But to be fair, if we get an economic slowdown, even with the shift to dailies, even with the things we've seen and all of that continuing, you can't get somebody that doesn't wear their daily lenses every day. They could always wear five days a week and wear their glasses for over the weekend or something like that, which would take the year's supply of lenses that they purchase out to make it a 15-month supply or a 14-month supply. So, it wouldn't surprise me if you saw that. Any time you move to that kind of environment people are trying to save money. Those are the kind of things that are pretty easy to do to save money on a Saturday or Sunday, you just put your glasses on. But I still think, you go to 2009 contact lens market in the middle of the recession grew 3%. I would be really surprised under any scenario to see it get down there or lower.

Chris Cooley

Thank you.

Operator

Thank you. [Operator Instructions] Our next question comes from Anthony Petrone with Jefferies. Your line is now open.

Anthony Petrone

Thanks. One on CVI and then one on PARAGARD. Just could you recap in terms of where silicone hydrogel penetration is in dailies right now? And maybe what that -- the value of that market is in dollar terms? And then, as you think of silicone hydrogel material becoming more evenly weighted within dailies specifically where that total markets can go?

And then a follow-up on PARAGARD would be, it was trending I believe at around $170 million run rate last quarter. So it's a little bit of a step-down this quarter, so trending around 17% market share. When you think of the positioning of PARAGARD within the IUD space, is it still possible that that market share could double over time in the IUD market? Thanks.

Al White

Yes. I'll take PARAGARD first. Yeah, I do think it could. I mean there are markets outside of the U.S. where you see hormonal or non-hormonal on equal footing. And you'll see 30%, 35% even 40% there's several markets where you get it's kind of 50/50. So I do think there is the chance to make that happen. It just takes time and it takes effort. And we want to make sure that we do that in the most intelligent way possible. And that maximize our return.

So, I think if we went out with a massive marketing program and blanketed the U.S. with television ads and so forth, we can push a PARAGARD really fast. I really do think that. And the TV ads, where we did metro New York and San Francisco, we saw some really positive responses on that.

But I don't think it's going to happen that way. I think it will be more of a general trend in that direction. So, I would say with a product like that, with the margins we're getting on it, if we can get that kind of mid-single-digit 6% growth and push that up some time, we're going to be pretty happy with that, so no reason to push that further at a -- from a negative return perspective.

On SiHy and daily SiHys, right now 41% of dailies SiHys are being fit in silicone. So, I think that's probably key numbers. The market right now, a little bit over half of the market is in dailies and 41% of that being in daily silicones. It gets a little confusing with the numbers. But right now, if you look at a two-week and monthly market, about 83% of that is being fit in silicone hydrogel lenses.

So there's no reason daily silicones in my mind don't get up to that kind of same level. And when you look at that conversion, you're talking about another $2 billion in product. That's the big shift right there, right? Where it's to go from 41% up to the 80% level, and that 41% that I'm quoting right? Where I think it was 39% last quarter, 38% a quarter before I can't remember exactly, but somewhere around there. It continues to move up a point every quarter.

Anthony Petrone

Thanks.

Operator

Thank you. And our next question comes from Robbie Marcus with JPMorgan. Your line is now open.

Robbie Marcus

Great. Thanks for taking the question. Maybe first just a housekeeping question. Can you walk through how FX impacted the P&L on sales gross margin and the bottom-line?

Brian Andrews

Sure. I'll take that. Yes. So, in Q3, the impact to sales was about $13 million. So, that's about a $3 million -- that's a detriment, so $3 million better than our previous guidance. To EPS the impact was a negative $0.06, which was $0.06 better than our previous guidance.

Robbie Marcus

Okay. And then as you think about fiscal 2020 and I realize you haven't given guidance yet, so it's more in a hypothetical sense. What's your confidence in driving above peer operating margin expansion here? We see with a pretty good topline this year, FX is eating away a lot of it. And maybe you could just give us the year-to-date number to help us calibrate on operating margin. But how do you think about your ability to expand operating margin going forward? Thanks.

Al White

I'll answer this and certainly let Brian jump in. We can’t continue to expand operating margins. I don't see anything that's preventing us from doing that.

I mean, we're going to get some leverage we're doing a lot of investment activity right now. I kind of walked through that. And that's within CooperVision and within CooperSurgical also.

So, we will get some leverage in that. We're just really building out right now in anticipation of some big years going forward, because just as I touched on with the MyDay capacity expansion and so forth, we see a lot of good things in the future.

So, we're kind of getting ourselves ready so to speak in front of a lot of that. So, we'll get some leverage from some of that kind of activity. And I think when you look at products like PARAGARD, that's another one that we're going to get some pretty good operating margin improvement from a product like that because that has really a high operating margins.

Brian Andrews

Yes. And I guess just to add to that. I mean, we've talked about this in prior quarters around just how we kind of manage our key accounts really down to the operating margin levels. So, -- and as we continue to evolve in those relationships, I'd expect operating margins to improve. We've got some push and pull. I mean, we've got -- with rates going down even though that's great for interest expense; our pension service cost goes up. It runs counter to that.

And -- but I think in general, I mean, Al's hit the nail on the head, we’re going to – we’ll expect to see some expansion. But it's -- with the thinks we're doing, especially around also distribution where we said this year it's a little bit elevated and I’d expect a little bit of leverage next year.

Robbie Marcus

Great. Thanks a lot.

Operator

Thank you. And our next question comes from Steve Willoughby from Cleveland Research. Your line is now open.

Steve Willoughby

Hi. Good evening. Thanks for taking my questions. I've actually got three things for you. First a quick one Brian. Was there any M&A contribution in the quarter?

Brian Andrews

Not really. I mean it was -- when you look at last year, you had a couple million dollar positive and then a couple million dollar negative. So, the net impact was zero on a consolidated basis.

Steve Willoughby

Okay. And then secondly Al, more commentary that in the past on PARAGARD as it relates to price. What are your thinking on timing of potential price increases? And if you can remind us how much of a discount PARAGARD is to the hormonal competitors right now? And if you think you can bring that up to parity? And then I have one quick last one.

Al White

Yes, Steve. We bought that -- and Teva had done the price increase. Remember we talked about that, because there was kind of all the disruption in the channel and so forth as we worked through that. So, this will be the first price increase that we've done. So, we are very actively right now kind of going through and evaluating, where we stand and how the price increase rose through the P&L and when to do it. So I would expect something in the near future here in terms of price increase. We are priced below our competitors, who are in the hormonal side of that depending upon what product you look at it. I mean, it can be 15% or so kind of beneath them. There's a lot of different factors that go into that pricing. But there's certainly some room for us to take a decent increase in price and still be priced below them as one more tool kind of in the toolbox in order to be able to sell the product in addition to the fact that it's the only non-hormonal product in the market.

Steve Willoughby

Okay. And then just last thing for you, Brian, on the tax rate. I believe you said 10.5% for the fourth quarter. Doing my math that it looks like it implies about 7.5% for the full year which is actually flat to slightly down year-over-year. Am I thinking about that the right way because that adds based on my math kind of 10% to 15% -- $0.10 to $0.15 of EPS this year versus your guidance a quarter ago?

Brian Andrews

Yeah. That's right.

Steve Willoughby

Okay. Thanks very much.

Operator

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

Al White

Thank you. Thank you for everyone who called in. I know we have our next call beginning in December, I think December 5, so I look forward to catching up with everyone. In the meantime, have a great long weekend and we'll talk soon. Thank you.

Operator

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.