

Initiated 2026-09-22 · Price \$54.12 (2026-09-21, stockanalysis.com) · Mkt cap \$10.29bn · Health care / medical devices · Model: verified

Rating: Hold — Conviction: Low

Cooper is cheap against its peers and against its own history for reasons that are real, not imagined: three years of decelerating growth, a guidance cut, a strategic review that ended with nothing, and an activist now demanding the CEO's job. The model's Base case lands at a 5.6% implied return — which is to say the stock is worth roughly what it costs, with no margin of safety, on the most generous discount rate applied to any name in this rotation. The case spread is enormous (−49% to +69%), and which end you get depends less on contact-lens demand than on whether the board fixes the governance problem. That is not a forecastable variable, so this is a genuine Hold, and the low conviction is the honest part of the call.

MODEL VALUE RANGE VS PRICE



Business overview

Two businesses. CooperVision (~67% of revenue, \$717.0mm in Q3 FY2026) makes soft contact lenses, with a strong position in the specialty end — torics, multifocals, and the MiSight myopia-control lens for children. CooperSurgical (~33%, \$349.2mm) sells fertility products and services plus office and surgical gynaecology devices. Earnings are driven by three things: the mix shift toward daily-disposable and specialty lenses, which raises revenue per wearer; fertility cycle volumes, which are largely cash-pay and therefore discretionary; and manufacturing operating leverage on an unusually capital-intensive asset base — capex has run 8.9–10.9% of revenue for three years. FY2026 revenue is guided to \$4,229–4,252mm, up 2–3% organically.

Bull case

- The CooperVision weakness is inventory, not demand** — management attributes flat CooperVision revenue to planned US channel destocking and expects most of it complete by fiscal year end. Plays out if Q1 FY2027 organic growth steps back toward the market rate. *Model: rev_growth*
- Myopia management and fertility are structural growers** — CooperSurgical grew 3% organic with fertility up 5%, against a flat lens business. Plays out if demographics and widening coverage keep compounding while the lens channel normalises. *Model: rev_growth*
- Margin recovery on capacity already built, with capex turning** — EBITDA margin went 25.8% → 24.4% → 23.3% → 26.5% across FY2022–FY2025 as the capex wave landed, and capital expenditure fell from \$421.2mm (10.8% of revenue) in FY2024 to \$362.4mm (8.9%) in FY2025. Plays out if revenue grows into the plant while capex keeps moderating; each point of capex is roughly \$42mm of free cash flow. *Model: ebitda_margin, capex_pct_rev*

4. **A \$3.0bn buyback against a \$10.3bn market cap, at an 11.92x multiple** — the authorisation was raised from \$2.0bn alongside Q3 results and \$339.1mm was repurchased in Q3 at an average of \$69.16, well above today's price, while the stock trades at 11.92x forward earnings against Alcon at 16.06x and Bausch + Lomb at 16.38x. Plays out on any evidence the deceleration was cyclical. *Model: exit_ev_ebitda, wacc*

Bear case

1. **Three years of deceleration is a trend** — revenue growth ran 13.2% → 8.6% → 8.4% → 5.1% across FY2022–FY2025, and FY2026 is guided to 2–3% organic. Plays out if share is genuinely leaking to larger competitors rather than sitting in a channel. *Model: rev_growth, exit_ev_ebitda*
2. **Working capital is absorbing the growth** — receivables plus inventory less payables climbed from 28.3% of revenue in FY2022 to 33.6% in FY2025, with receivables up 15.6% in FY2025 on 5.1% revenue growth. Plays out if collections and channel inventory don't normalise. *Model: rev_growth, nwc_pct_rev*
3. **Capital intensity and fixed costs cut both ways** — a business spending 8.9–10.9% of revenue on capex for three straight years has a large fixed base, so 2% growth strands cost rather than leveraging it, and one year of lower capex is thin evidence the build is finished. *Model: ebitda_margin, capex_pct_rev*
4. **Floating-rate leverage at 2.2x into an unresolved governance fight** — essentially all \$2,544.2mm of debt prices off SOFR with spreads that ratchet on the leverage ratio, so a rate shock hits earnings directly and not only the multiple. Meanwhile the board ended the CooperSurgical review without a sale and cut guidance in the same week, and Jana Partners (1.8%) now wants an external CEO search, a new chair and buyers explored for both units. Plays out as a distraction whatever its outcome — and it is the variable the model cannot express. *Model: wacc*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV / EBITDA (TTM, third-party definition)	13.88x	n/a (unverified)	ALC 14.68x · BLCO 13.17x	stats / peer_alc / peer_blco, 2026-09-22
Forward P/E	11.92x	n/a (unverified)	ALC 16.06x · BLCO 16.38x	stats / peers, 2026-09-22
FCF yield (TTM FCF / market cap)	6.59% (\$678mm)	n/a (unverified)	n/a (unverified)	stats / quote, 2026-09-22
EBITDA margin (GAAP op. income + D&A / revenue)	26.5% (FY2025)	21.3% → 26.5% over FY2021–FY2025	n/a (unverified)	edgar_opinc / edgar_da / edgar_rev, FY2025

Model-implied value range (from `model-summary.json` ; generic module, DCF-Gordon and DCF-exit-multiple, midpoints): Bear \$27.84 · Base \$57.14 · Bull \$91.18 per share, i.e. implied returns of –48.6% / +5.6% / +68.5% vs \$54.12. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The market price sits just below the Base case and far above the Bear — a different message from a cheap screen. On these assumptions Cooper is fairly valued, not obviously undervalued, and the 11.92x forward multiple is compensation for a wider outcome distribution rather than a free lunch. Two caveats cut the same way: the Base rests on an 8.25% WACC, the lowest in this rotation, so raising it turns +5.6% negative; and the Bull needs both a growth reacceleration and a re-rating to a premium over Alcon, which are not independent events.

Balance sheet: net leverage 2.21x FY0 EBITDA (\$2,544.2mm of debt against \$154.7mm of cash), gross leverage 2.35x, coverage 9.32x. Nearest material maturity is \$550.0mm of 2021 term loan due 2026-12-17 — three months out — covered several times by \$1,333.3mm of undrawn revolver; the rest is \$966.7mm of revolver (4.65%, due 2029-05-01) and \$950.0mm of term loan due 2031-02-03 (4.52%). In compliance with all covenants at 2026-07-31. No agency ratings retrieved.

Model note: Built and LibreOffice-verified across all 3,188 formula cells; 0 failing error checks, 0 assumptions without a basis, no remaining scenario consistency CHECKs after one reconciliation pass (S6's first build showed rate relief outweighing the demand hit; the recession shock was deepened, which is the more defensible reading). Two unverified inputs, both immaterial and both disclosed in the file:

`market.other_claims` is assumed zero because the full balance sheet was not retrieved, and the \$77.5mm "other debt and finance

leases" tranche is derived as a residual with an estimated 2027 maturity. The cash tax rate (15% base) is judgment — the nine-month GAAP rate of –40.5% is distorted by a \$307.2mm discrete UK tax benefit and no clean multi-year series was retrievable. Generator note (2026-09-24): in this module `share_change`, `capital_return_pct` and `cost_of_debt` move EPS and the net-cash path only, and `peer_pe` feeds a cross-check only; none changes the value range, so bull/bear tags no longer cite them. Scenario deltas were rebuilt after `multiple_pct` shocks were extended to the Gordon method (previously they moved only the exit-multiple half), and EPS now uses average diluted shares.

Scenario stress test

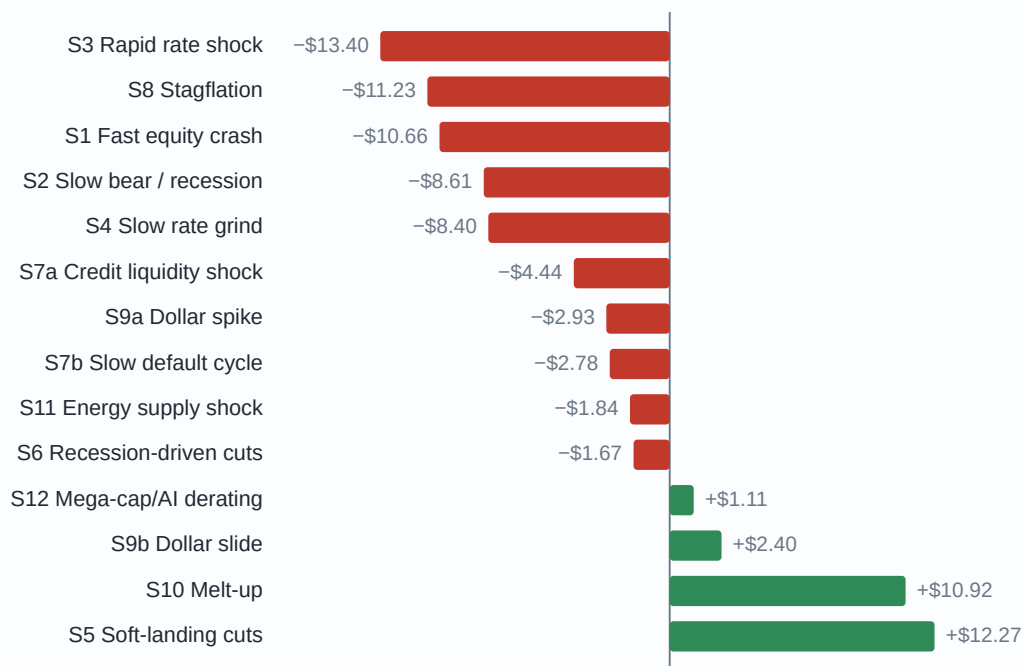
Reasoned from the bull/bear drivers above; the model column comes from the scenario overlays (Base + shock). Cooper is unusual in this rotation in that its debt is essentially all floating, so rate scenarios reach earnings directly and not just the discount rate.

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	De-rates with everything, but from 13.9x rather than a growth multiple; a 0.82 beta means less to give back	Med	–\$10.66
S2 Slow bear / recession	–	Fertility cycles are cash-pay and deferrable; lens wearers stretch replacement schedules and downtrade from dailies	Med	–\$8.61
S3 Rapid rate shock	–	The worst row: all \$2.54bn of debt is floating, so the shock hits interest expense <i>and</i> the multiple, and the December 2026 maturity reprices at the worst moment	High	–\$13.40
S4 Slow rate grind	–	Same two channels, slower, across the full horizon	Med	–\$8.40
S5 Soft-landing cuts	+	The best row: floating debt reprices down into earnings while discretionary demand holds — the leverage that hurts in S3 helps here	High	+\$12.27
S6 Recession-driven cuts	–	Demand damage deeper than S2 because the labour market is breaking; cheaper debt offsets almost exactly	Low	–\$1.67
S7a Credit liquidity shock	–	\$550.0mm matures 2026-12-17 into a shut window; \$1,333.3mm of undrawn revolver makes this a cost problem, not a solvency one	Med	–\$4.44
S7b Slow default cycle	–	Revolver pricing ratchets with the leverage ratio; a levered mid-cap medtech reprices with the complex	Low	–\$2.78
S8 Stagflation	–	Silicone-hydrogel resins and automated lens lines are energy- and petrochemical-intensive, while prices to a consumer-paid category lag	High	–\$11.23
S9a Dollar spike	–	Management already flagged FX as a Q4 revenue and margin headwind; a spike widens it	Med	–\$2.93
S9b Dollar slide	+	Reverses that headwind	Low	+\$2.40
S10 Melt-up	+	Participates but lags — not a momentum or narrative name	Med	+\$10.92
S11 Energy supply shock	–	Energy and feedstock cost on one of the more energy-intensive manufacturing models here, plus freight on a high-unit-count product; no demand channel	Low	–\$1.84
S12 Mega-cap/AI derating	+	One of the few rows that helps: a leadership unwind rotates money toward exactly this profile — 0.82 beta, 11.9x forward, no AI exposure, at a 52-week low	Low	+\$1.11

Magnitude labels re-ranked 2026-09-25 to match the model's dollar deltas (skill 3a-v-b item 7; the 2026-09-24 generator fix enlarged multiple-shock rows): S2 High → Med.

Currently active/on watch per the playbook: S3 partially active (price-level leg no longer met at a 4.96% 10Y as of 2026-09-21); S8, S10 and S11 on watch. S3 is this name's worst row and is the one the playbook currently flags.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: CooperVision organic growth returns above 3% for two consecutive quarters, confirming the channel explanation; or the board resolves the governance overhang credibly (external CEO search launched, chair refreshed) without a distracting proxy fight; or capex falls below 8% of revenue while margin holds, which converts the bull case's free-cash-flow step-up into evidence. **Downgrades if:** FY2027 guidance implies organic growth below 2%; or working capital keeps building — receivables growing faster than revenue for a third year; or leverage rises above 2.75x net on buybacks funded with debt rather than cash flow.

Watch items

- **W1:** CooperVision organic growth in Q4 FY2026 and Q1 FY2027 against the 0–2% Q4 guide and management's "destocking done by year end" claim — Q4 release (early December) — *Model: rev_growth*
- **W2:** Refinancing or repayment of the \$550.0mm term loan due 2026-12-17, and the rate on whatever replaces it — 10-K or 8-K, by December 2026 — *Model: cost_of_debt*
- **W3:** Resolution of the Jana campaign: CEO search, board changes, or a proxy contest through the FY2027 annual meeting — 8-K, DEF 14A, 13D/A — *Model: none*
- **W4:** FY2027 capex guidance against FY2025's 8.9% of revenue, and receivables growth against revenue growth — Q4 release and 10-K — *Model: capex_pct_rev, nwc_pct_rev*

Sources

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