



**HY17 Result Presentation**  
14 February 2017

**Chris Smith** Chief Executive Officer & President  
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## HY17 – Result highlights



### Positive momentum continues across all markets

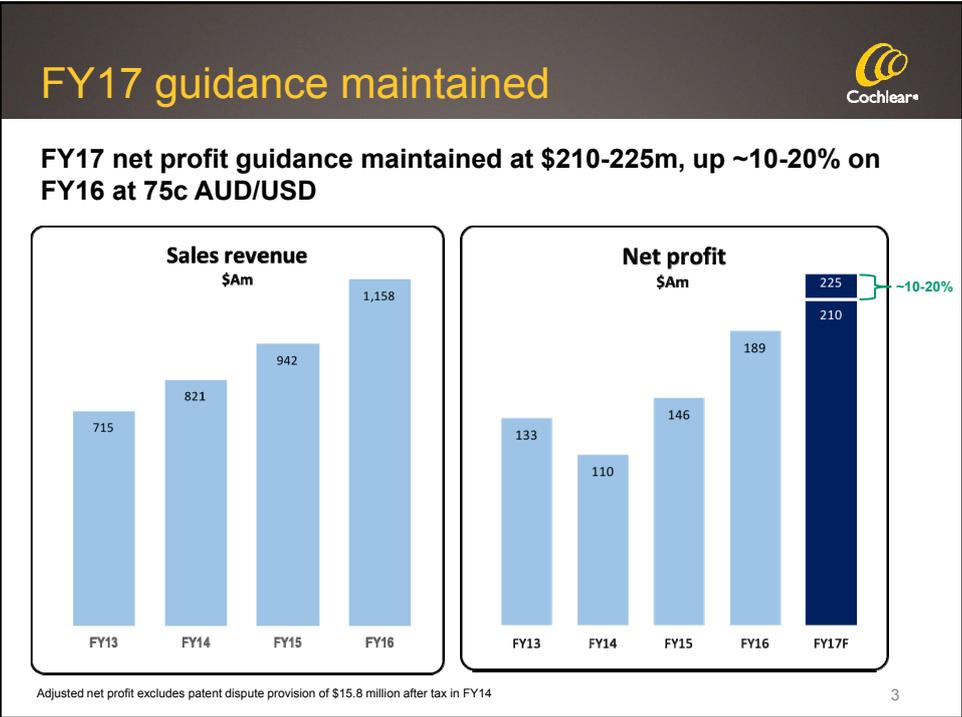
- Cochlear implant units  $\uparrow$  10% (16% excl Chinese Central Government tender)
- ~10% unit growth across both developed and emerging markets
- Sales revenue up 4% (8% in constant currency) with CC growth delivered across all product categories and regions

### Strengthened market leadership position

- New products broadening the portfolio – Kanso and CI532
- Ongoing investment in market growth initiatives – DTC and sales force expansion

### Strong financial position

- Net profit  $\uparrow$  19% to \$111.4m
- Free cash flow up 50% supports increased dividend and debt reduction



## Hearing loss market opportunity



# 360,000,000

Over 5% of the world's population - 360 million people - has disabling hearing loss (328 million adults and 32 million children).<sup>1</sup>

# 1 in 3

Nearly 1 out of every 3 people over the age of 65 are affected by hearing loss. It affects communication and can contribute to social isolation, anxiety, depression and cognitive decline.<sup>2</sup>

# <5%

Market penetration<sup>3</sup>



1. Who.int. WHO | Deafness and hearing loss [Internet]. 2015  
 2. Who.int. WHO | 10 facts on deafness [Internet]. 2015.  
 3. Market penetration. This figure is a global estimate based on Cochlear sourced data.  
 \* Disabling hearing loss refers to hearing loss greater than 40 decibels (dB) in the better hearing ear in adults and a hearing loss greater than 30 dB in the better hearing ear in children.

## Cochlear's mission



We help people hear and be heard.

We **empower** people to connect with others and live a full life.

We **transform** the way people understand and treat hearing loss.

We **innovate** and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.



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## Strategic platforms



Focus on the Customer



Grow the Core



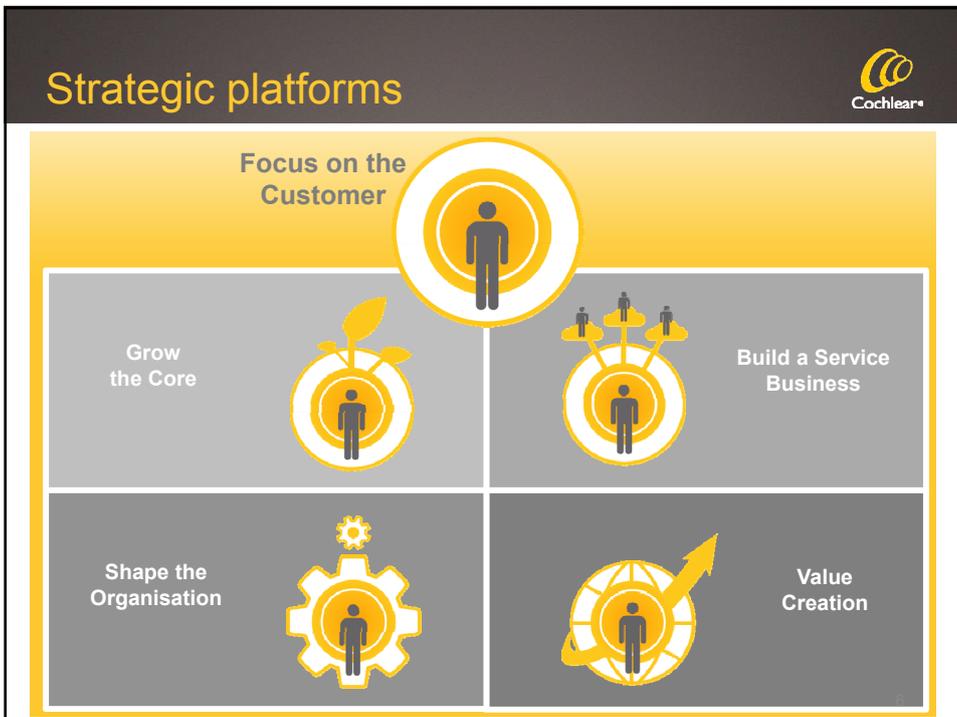
Build a Service Business



Shape the Organisation



Value Creation



## Cochlear implants



### Market-leading products and investment in market growth initiatives drive demand

#### Cochlear implant unit growth ↑ 10%

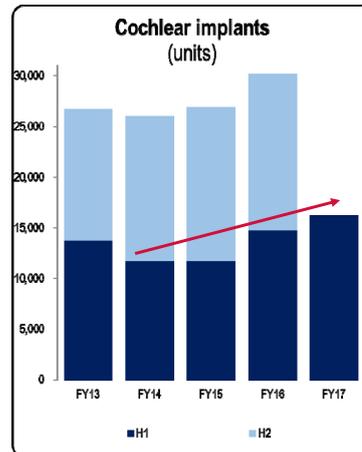
- Unit growth up 16% (excl Chinese Central Govt tender units)
- Developed markets up ~10% – continuing strong growth in the US & Western Europe
- Emerging markets up ~10% – China Other, India and Central & Eastern Europe

#### New products launched

- Slim Modiolar electrode (CI532) & Kanso sound processor

#### Initiatives to accelerate market growth

- DTC & sales force expansion



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## Acoustics

(bone conduction and acoustic implants)



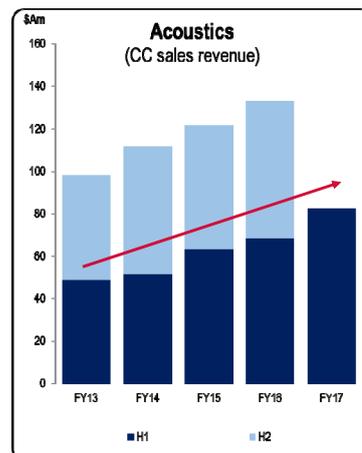
### Baha product innovation driving demand and share gains

#### Sales revenue ↑ 20% in CC

- Solid performances across all regions

#### New products drive sales growth

- Baha® 5 System made for iPhone
- Strong uptake of Baha 5 Power and SuperPower sound processors



CC = constant currency

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## Services

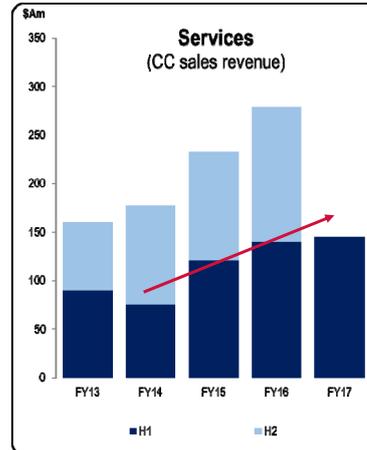
(upgrades & accessories)



### Lifetime relationship with > 450,000 recipients

#### Sales revenue ↑ 3% in CC

- CC sales revenue up ~6% in Americas and EMEA driven by ongoing demand for N6 sound processor
- N6 upgrade penetration of 26% (33% in developed countries) v 22% in Jun16
- Expanded global focus on recipient engagement
- Kanso contribution in H2 with availability as a processor upgrade from Jan17 across most markets



CC = constant currency

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## Americas



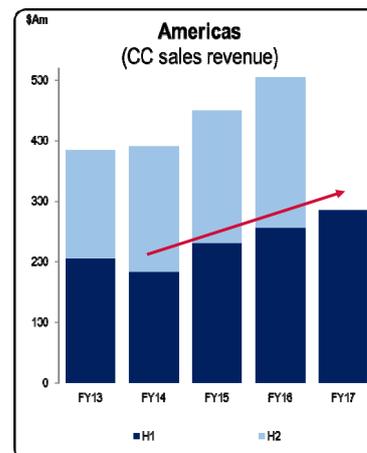
### Market expansion initiatives and new products driving growth

#### Sales revenue ↑ 12% in CC

- US cochlear implant units up ~10%
- US Services revenue up >10% in CC
- Latin American recovery after declining in FY16

#### US market growing strongly

- Kanso and CI532 launch in Q2
- Market growth continues to be strong at around 8-10%\*
- Sales force expansion continuing



CC = constant currency  
\* Cochlear estimate

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## EMEA

(Europe, Middle East & Africa)



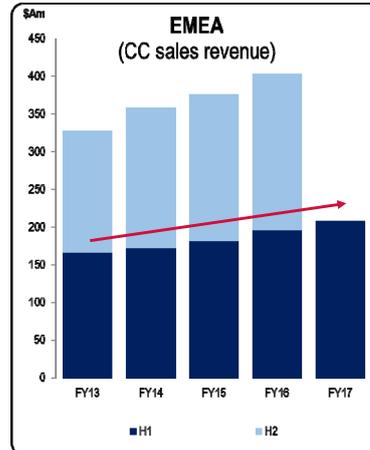
### New products and portfolio affect driving consistent growth

#### Sales revenue ↑ 6% in CC

- Western Europe unit growth of ~10%
- Central & Eastern Europe units up >30%
- CC impact from devaluation of GBP

#### Growing market presence

- Kanso and CI532 full market release
- Sales force expansion across developed markets
- Expanding presence and indications across Middle East and Central & Eastern Europe



CC = constant currency

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## Asia Pacific



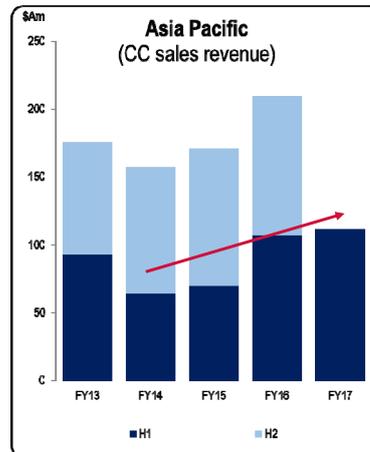
### Strong portfolio growth

#### Sales revenue ↑ 4% in CC

- Solid growth across many markets including Japan, Korea, China Other and India
- Chinese Central Government tender units of 1,100 units (~1,700 in HY16)

#### Market growth initiatives

- Asia Pacific benefiting from sales force expansion and growing awareness
- India growing rapidly as reimbursement expands and number of clinics increases



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## Financial highlights



- Sales revenue up 4% in Australian dollars (8% in constant currency) to \$604m
- Continued investment in market growth initiatives driving top line growth
- Net profit up 19% to \$111m
- Strong cash realisation – 50% increase in free cash flow to fund an 18% increase in interim dividend to \$1.30 per share and \$24m reduction in net debt

## Profit & loss



Net profit of \$111m, up 19%

A\$m	HY17	HY16	change
Sales revenue	604.4	581.7	↑ 4%
FX contracts loss	4.8	(23.6)	
Total revenue	609.2	558.1	↑ 9%
EBIT	156.4	131.0	↑ 19%
<i>EBIT margin % (EBIT / total revenue)</i>	25.7%	23.5%	↑ 2.2 pts
Net finance costs	(3.4)	(4.7)	↓ 28%
Taxation expense	(41.6)	(32.3)	↑ 29%
<b>Net profit</b>	<b>111.4</b>	<b>94.0</b>	<b>↑ 19%</b>

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## Impact of foreign currency



A\$m	\$Am
<b>Transaction impacts</b>	
Reported FX contract gains/(losses) on hedged sales	
- FX gains – HY17	4.8
- FX losses – HY16	(23.6)
	<b>28.4</b>
<b>Translation impacts</b>	
Sales & expenses <sup>1</sup>	
- Sales revenue	(24.2)
- Total expenses including tax	12.6
	<b>(11.6)</b>
Reported asset translation impacts	
- FX gain on asset translation – HY17	2.6
- FX gain on asset translation – HY16	5.8
	<b>(3.2)</b>

1. HY17 actual v HY16 at HY17 rates

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## Cash flow



Earnings growth drives 50% uplift in free cash flow

A\$m	HY17	HY16	\$ chg
EBIT	156.4	131.0	25.4
Depreciation and amortisation	16.0	16.3	(0.3)
Change in working capital and other	(29.1)	(19.4)	(9.7)
Net interest paid	(3.3)	(6.3)	3.0
Income taxes paid	(37.7)	(48.1)	10.4
<b>Operating cash flow</b>	<b>102.3</b>	<b>73.5</b>	<b>28.8</b>
Capital expenditure	(15.0)	(13.4)	(1.6)
Other investments	(2.2)	(3.3)	1.1
<b>Free cash flow</b>	<b>85.1</b>	<b>56.8</b>	<b>28.3</b>

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## Net debt



Reduction in net debt of \$24.4m since June 2016

A\$m	31 Dec 2016	30 Jun 2016	\$ chg
Loans and borrowings			
Current	3.5	4.0	(0.5)
Non-current	169.4	189.3	(19.9)
Total debt	172.9	193.3	(20.4)
Cash	(79.4)	(75.4)	(4.0)
<b>Net debt</b>	<b>93.5</b>	<b>117.9</b>	<b>(24.4)</b>
Total loan facilities	350.0	350.0	
Unused portion of debt facilities	175.0	155.0	

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## Dividends



Interim dividend up 18%, fully franked, representing 67% payout of first half net profit

A\$m	HY17	HY16	% chg
Interim ordinary dividend	\$1.30	\$1.10	18%
Payout ratio %	67%	67%	
Franking %	100%	100%	

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## FY17 outlook



**FY17 net profit guidance range maintained at \$210-225m, up ~10-20% on FY16**

### Key guidance considerations

- continued strong momentum in unit growth
- Chinese Central Government tender units expected to be below FY16 levels
- expect R&D expenditure for FY17 to be similar to FY16
- ~\$1.5m FY net profit impact from the reduction in R&D tax concession rate from 40% to 38.5%
- AUD/USD FX rate of 75 cents for FY17 v 73 cents in FY16
- target dividend payout ratio of ~70% of net profit

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## Disclaimer



### **Non-IFRS financial measures**

Given the significance of the FX movements the directors believe the presentation of non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial measures included in this document have been calculated on the following basis:

- Constant currency: restatement of IFRS financial measures in comparative years using FY17 FX rates

The above non-IFRS financial measures have not been subject to review or audit. However, KPMG have separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the consolidated entity.

### **Forward looking statements**

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No representation is made as to the accuracy or reliability of forward looking statements or the assumptions on which they are based.

Actual future events may vary from these forward looking statements and you are cautioned not to place undue reliance on any forward looking statement.