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ASX Announcement

15 August 2023

Cochlear Limited Financial Results

For the year ended June 2023

Sales revenue increased 19% (16% in constant currency*) to a record $1,956 million, with strong growth across all business units. Cochlear implant units increased 16% driven by a combination of market growth, improved clinical capacity, market share gains and COVID catch-up surgeries. The successful launch of the Cochlear™ Nucleus® 8 Sound Processor late in the second quarter generated strong demand for cochlear implant systems and sound processor upgrades during the second half. An improving trend in adult referral rates is providing us with early indications that awareness and access initiatives are having some success.

- Sales revenue increased 19% (16% in CC) to $1,956m, with second half revenue up 29% (24% in CC)
- Statutory net profit increased 4% (7% in CC) to $301m, with innovation fund-related revaluation gains in FY22 and losses in FY23
- Underlying net profit** increased 10% (14% in CC) to $305m, the top end of the guidance range
- Underlying net profit margin (pre cloud investment) was 17%, a point below the 18% target, driven by a decision to further lift growth investment as second half sales momentum increased
- Strong balance sheet and cash flow generation supports the 21% increase in the final dividend to $1.75 per share, taking full year dividends to $3.30 per share
- $30m in shares repurchased as part of the progressive on-market share buyback which commenced in March and aims to reduce the cash balance to around $200m over a number of years
- FY24 underlying net profit guidance range is $355-375m, a 16-23% increase on FY23, which is expected to be driven by a combination of revenue growth and improved net profit margin

	FY23	FY22	Change % (reported)	Change % (CC)*
Sales revenue ($m)	1,955.7	1,641.1	⬆ 19%	⬆ 16%
Underlying net profit ($m)**	**305.2**	**277.0**	**⬆ 10%**	**⬆ 14%**
% Underlying net profit margin**	16%	17%		
% Underlying net profit margin (pre cloud investment)**	17%	18%		
One-off and non-recurring items after-tax ($m)	(4.6)	12.1		
Statutory net profit ($m)	**300.6**	**289.1**	**⬆ 4%**	**⬆ 7%**
Underlying earnings per share**	$4.64	$4.21	⬆ 10%	⬆ 14%
Final dividend per share	$1.75	$1.45	⬆ 21%	
Total dividends per share	$3.30	$3.00	⬆ 10%	

*Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance (refer p12).
**Excluding one-off and non-recurring items (refer p12).

Operational review

$m	FY23	FY22	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	44,156	38,182	⬆ 16%		
Sales revenue					
Cochlear implants	1,131.4	935.2	⬆ 21%	⬆ 17%	58%
Services (sound processor upgrades and other)	584.4	503.9	⬆ 16%	⬆ 14%	30%
Acoustics	239.9	202.0	⬆ 19%	⬆ 15%	12%
Total sales revenue	**1,955.7**	**1,641.1**	**⬆ 19%**	**⬆ 16%**	**100%**

Cochlear implants

Cochlear implant units increased 16% to 44,156 units, with strong growth across both developed and emerging markets. Sales revenue increased 21% (17% in CC) to $1,131.4 million.

Developed market units grew around 15% (18% in the second half) with strong growth across all markets driven by a combination of market growth, improved clinical capacity, market share gains and COVID catch-up surgeries. The Cochlear™ Nucleus® 8 Sound Processor has been well received, commencing its rollout in Western Europe from October and the US during November.

The clinical capacity constraints we experienced in FY22 from hospital staffing shortages stabilised during the first half, with indications that much of the remaining COVID-related surgical backlog cleared during FY23. We are seeing an improving trend in adult referral rates in key markets, providing us with early indications that initiatives to improve awareness and access for adult cochlear implant candidates are having some success.

Emerging market units grew close to 20% with strong growth across all regions, with most countries now trading well above pre-COVID levels. Growth was particularly strong in markets most impacted by COVID, including India and Latin America. Government tender activity increased following subdued activity during COVID shutdowns and private pay continued to perform strongly. China also delivered strong growth.

Services

Services revenue increased 16% (14% in CC) to $584.4 million. First half revenues slowed in anticipation of the Nucleus® 8 Sound Processor, which was launched late in the half. Second half revenues grew 32% (27% in CC) with strong uptake of the new sound processor across the developed markets. Emerging markets also performed well with growing rates of sound processor upgrade penetration across most markets.

Acoustics

Acoustics revenue increased 19% (15% in CC) to a record $239.9 million, with strong demand across all regions as the business benefits from a strong product offering and a continued recovery in surgery volumes following COVID delays. The Cochlear™ Osia® 2 System continues to gain momentum with new accounts opened in existing markets and a growing presence in new markets, with more than 12,000 systems sold since launch. The Cochlear™ Baha® 6 Max Sound Processor continued to generate demand for sound processor upgrades across all regions.

Our strategy

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society.

Our strategy is focused on improving awareness of and access to implantable hearing solutions for people indicated for our products. In helping more people to hear, we create value for our stakeholders by building a healthier and more productive society, providing a lifetime of hearing solutions for our recipients, having thriving employees and being environmentally responsible. Doing these things well should enable us to achieve sustainable financial returns over time.

We help more people to hear, creating value across five pillars	What we aim to achieve over the longer term
A healthier and more productive society Delivering societal benefit through improved health outcomes, educational cost savings and productivity gains.	**Grow the hearing implant market** Help at least 8% more people to hear each year with a cochlear or acoustic implant.
A lifetime of hearing solutions Innovating to build a market-leading portfolio of products and services that improve hearing outcomes and provide a lifetime of hearing solutions for recipients.	**Retain market leadership** Develop market-leading technology and deliver a world-class customer experience to recipients and professional customers.
Thriving people An engaged, capable, high-performing and diverse workforce that delivers on our strategy and supports the creation of sustained value.	**A stronger organisation** Retain employee engagement levels at or above 80%.
Environmental responsibility Minimising the impact of our operations on the environment.	**Minimise environmental impact** Net-zero carbon emissions in our operations by 2030 and across our value chain by 2050.
Sustained value Maximising spending to grow the market while maintaining our competitive position. Ensuring we operate fairly, honestly and legally.	**Consistent and sustainable growth** Sustainable and responsible business practices, targeting growth in sales revenue of around 10% per annum and an 18% net profit margin.

FY23 highlights

In FY23 we continued to lift our investment in research and development (R&D) and awareness and access activities with good progress made across our key value drivers.

A healthier and more productive society

Strategic focus: Grow the hearing implant market

We are focused on building a healthier and more productive society, delivering societal benefit through improved health outcomes, educational cost savings and productivity gains. We do this by transforming the way people understand and treat hearing loss through awareness and access activities.

Helping more people to hear

Our mission is to help more people to hear and in FY23 we helped over 44,000 people hear with one – or two – of our cochlear or acoustic implants, an increase of 15% on last year. In doing so, we provide an estimated net societal benefit of more than $7 billion over the lifetime of this year's new recipients from improved health outcomes, educational cost savings and productivity gains.[1]

Strengthening the referral pathway for adults

An important long-term goal for us is to support the development of a consistent process by which all healthcare professionals diagnose, refer and treat adults eligible for hearing implants. This goal is supported by the growing recognition that hearing is an essential part of healthy ageing and treating age-related hearing loss is cost-effective.

Over the past few years, we have invested in awareness and access activities alongside industry professionals and advocacy groups. Achievements include the development of a global consensus on a minimum standard of care for treating adult hearing loss, the World Health Organization advocating for improved hearing screening, and the establishment of the Living Guidelines initiative. The Living Guidelines set clear, practical, evidence-based recommendations to improve the standard of care and quality of life for adults living with hearing loss. Through clearer screening, diagnosis, referral, treatment and aftercare, thousands more people will be able to access the right treatment at the right time and reconnect to life.

During FY23 we collaborated with university partners, industry and advocacy groups globally to adapt the Living Guidelines into country-based clinical guidelines, with plans for their roll out over the coming years. We have also focused on increasing professional education to strengthen the referral channel.

New evidence showing hearing intervention slows cognitive decline

In July 2023, new research found that after wearing hearing aids for three years, cognitive decline slowed by 48% for a group of older adults with mild to moderate hearing loss who were at a higher risk of cognitive decline.[2] The results add to the growing evidence that support addressing modifiable risk factors for cognitive decline and dementia could be effective in reducing the future global burden of dementia.

The findings are a major advancement in understanding the broader impact of hearing loss and the need for adults, policy makers and health professionals to prioritise treatment of hearing loss. It not only helps people to hear but has the potential to reduce cognitive decline for adults at high risk.

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[1] Cochlear estimates based on the published economic model findings of Neve et al 2021. Dollar amount relates to all recipients implanted with a cochlear implant in FY23 across the developed markets.

[2] Lin FR et al. Hearing intervention versus health education control to reduce cognitive decline in older adults with hearing loss in the USA (ACHIEVE): a multicentre, randomised controlled trial. The Lancet. [ePub ahead of print] DOI: https://doi.org/10.1016/S0140-6736(23)01406-X. Available at https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(23)01406-X/fulltext

Expanding indications and reimbursement

Over the past 12 months we have been successful in expanding indications and funding across a number of countries.

In the US, the Centers for Medicare & Medicaid Services expanded coverage of cochlear implants for Medicare beneficiaries to a level of hearing loss more closely aligned with the FDA indications and most private payers. Candidates with a moderate-to-profound hearing loss who demonstrate limited benefit from amplification will now be funded by Medicare.[3]

The introduction of newborn hearing screening is a key priority in emerging markets where penetration rates are very low. It is important for identification of children needing cochlear implants, enabling early intervention and providing better lifetime outcomes. This year Thailand and Malaysia committed to adopting universal newborn hearing screening and Karnataka in India adopted mandatory newborn hearing screening.

The Osia® 2 System achieved funding in Australia and New Zealand, and we achieved additional funding for cochlear implants in Canada, Argentina, Mexico and the Netherlands.

A lifetime of hearing solutions

Strategic focus: Retain market leadership

We innovate to build a market-leading portfolio of high-quality products and services that improve hearing outcomes and provide a lifetime of hearing solutions for recipients. And we invest in education and clinical support tools to ensure our professional customers have convenience and confidence in caring for implant candidates and recipients.

Growing investment in research and development

Our market-leading technology underpins our global market share of over 60%[4], and in FY23 we invested over $240 million in R&D, representing 13% of sales revenue. Our product pipeline is full, with good progress made across our key projects over the past year.

Launch of the Cochlear™ Nucleus® 8 Sound Processor

The Cochlear™ Nucleus® 8 Sound Processor achieved regulatory approval across major markets during the first half and has driven strong growth in sales revenue since launch. It is 15% smaller and 13% lighter than its predecessor. It's smarter, designed to help recipients hear conversations more clearly and easily, particularly in noisy situations, and it is better connected, building on the direct streaming capabilities and connectivity features available in our latest sound processors.

The Nucleus® 8 Sound Processor was awarded the 2023 Red Dot Award for Design in the Medical Devices and Technology category, recognising its outstanding design, including aesthetics, functionality and innovation providing an 'exceptional user experience'.[5]

Helping recipients hear better

The new Nucleus® 8 Sound Processor has driven strong growth in the Services segment. By delivering our latest sound processor upgrade technology to our recipient base, we helped over 48,000 of our prior generation cochlear implant recipients to hear better, improving their hearing and quality of life.

Bimodal control in the Nucleus® Smart App

We launched bimodal control in the Nucleus® Smart App to help patients quickly and easily manage their compatible ReSound hearing aid and Cochlear sound processor in one app to get the most out of their bimodal hearing. Recipients can access commonly used features such as volume adjustment and program selection to help achieve their best possible hearing experience.

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[3] https://www.cms.gov/medicare-coverage-database/view/ncacal-decision-memo.aspx?proposed=N&ncaid=306

[4] Cochlear estimate for cochlear and acoustic implants

[5] https://www.red-dot.org/project/cochlear-nucleus-8-sound-processor-63928

Thriving people

Strategic focus: A stronger organisation

Our people are our most valuable asset and are an engaged, capable and high-performing team that delivers on our strategy and supports the creation of sustained value. We have a diverse workforce with around 4,800 people across the globe. Their knowledge, expertise, passion and focus on delivering excellence is key to achieving future success.

Shaping our culture

We have an inclusive organisation and a healthy corporate culture that is strongly connected to our mission and puts the customer at the centre of everything we do. As our workforce continues to expand, we work hard to intentionally shape the culture that will enable us to grow and deliver for our customers in the future.

We are pleased to report that overall employee engagement continues to remain strong at 80%, with 92% of employees reporting that they feel proud to tell people they work at Cochlear, 93% understand their contribution to our strategy and 94% understand how they contribute to the satisfaction of our customers.

Strengthening enterprise leadership

Integral to our culture work has been strengthening our enterprise leadership with a focus on inclusive leadership, building critical skills and capabilities at both an individual and organisational level. We broadened our Culture Conversations training through all levels of the organisation, with 75% of all people leaders globally having completed this training. We also continued to take steps to invest in our talent and made strong progress towards building the strategic capabilities which provide us with a sustainable competitive advantage over the longer-term.

Championing a diverse and inclusive workplace

A diverse, equitable and inclusive organisation improves employee engagement, our performance and productivity as well as our customer engagement. Achieving gender equality is one important element of our diversity and inclusion strategy. Across the business, 53% of our people are female and we have achieved 43% female representation amongst our senior leaders. At Board level, 40% of directors are female. We are committed to maintaining at least 40% female representation at senior manager and Board level.

Environmental responsibility

Strategic focus: Minimise environmental impact

We are implementing initiatives to promote the sustainable use of natural resources, reduce our environmental footprint and help tackle climate change.

Pathway to net-zero emissions

We made significant progress in FY23, reducing Scope 1 and 2 emissions by 68% from our FY19 baseline by increasing renewable energy use at our manufacturing sites. We reached 96% renewable energy at our manufacturing facilities, using 100% renewable energy in five of our six facilities.

We are making steady progress in reducing business flight-related emissions. Our target is to reduce our flight-related emissions by 50% by FY25 from our FY19 baseline. In FY23 we reduced these emissions by 91%. We achieved this by reducing business flights per full time equivalent employee by 47% from our FY19 baseline and purchasing offsets for approximately 80% of our remaining business flights. In May we initiated a complete Scope 3 emissions inventory and expect to complete the process during FY24.

Enhancing resource efficiency

We are identifying ways to improve resource efficiency, reduce waste and drive greater circularity into our operations. In the US we worked with the regulator to achieve changes in our labelling, allowing us to implement electronic labelling for the Nucleus® 8 Sound Processor. As a result, we have saved over 9.4 million paper pages of manual labelling since November, as well as over 45,000 plastic sleeves. We are now exploring opportunities to collaborate with other regulators to see if we can implement these changes in other markets.

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Sustained value

Strategic focus: Consistent and sustainable growth

Financial discipline and commitment to high standards of corporate governance and transparency are central to the creation, maintenance and enhancement of long-term sustainable value.

Underlying net profit increases 14% in CC to $305 million

We delivered record sales revenue of $1,956 million, an increase of 19% (16% in CC), driven by strong growth across all business units. Second half growth was particularly strong following the launch of the Nucleus® 8 Sound Processor, increasing 29% (24% in CC).

The gross margin was maintained at 75% and was aligned to the longer-term target.

Operating expenses (pre cloud investment) increased 20% (18% in CC) reflecting growing investment in R&D and market growth activities. As second half sales momentum increased, we took the opportunity to further lift our investment in growth activities.

Cloud computing-related investment increased $17 million to $39 million, a little above the $36 million guidance.

Underlying net profit increased 10% (14% in CC) to $305 million, the top end of the guidance range. The underlying net profit margin, excluding the impact of cloud computing-related expenses, was 17%, a point below our 18% long-term target.

Final dividend increases 21% to $1.75 per share

The balance sheet remains strong with net cash of $556 million, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

A final dividend of $1.75 per share has been determined, an increase of 21% on last year, with full year dividends declared of $3.30 per share, an increase of 10% and representing a payout of 71% of underlying net profit.

On-market share buyback

A progressive on-market share buyback program commenced in March with the aim of reducing the cash balance to around $200 million over a number of years. This program complements the existing dividend policy which targets a 70% payout of underlying net profit. A progressive buyback program aligns with the interests of our shareholders by reducing shares on issue, providing gradual accretion in earnings per share and dividends per share over the long term.

In February the Board approved an initial 12 month buyback of up to $75 million in shares, with $30 million, or 40% of this amount, bought by 30 June.

Commencement of sound processor manufacturing in China

In February we achieved certification for the manufacture of our Nucleus® CP802 Sound Processor at the new Chengdu facility and have commenced supplying our Chinese operations. We expect to achieve implant approval within 18 months.

Creating value responsibly

We are supported by a large and complex supply chain of over 3,000 suppliers located in countries around the world. In FY23, we developed a Responsible Supply Chain Action Plan that aims to drive continuous improvement across the supply chain with a focus on human rights, labour practices, corporate governance, safety and well-being and environmental sustainability.

In FY23, we obtained ISO 27001 Information Security certification of our Connected Care products. This certification demonstrates that we manage information security according to global best practices and have invested in the people, processes and technology to protect our data. It provides customers with greater confidence that Cochlear can be a trusted partner for delivering innovative digital health solutions.

Proposed Oticon Medical acquisition

In June the UK Competition and Markets Authority (CMA) concluded that Cochlear's acquisition of Oticon Medical's cochlear implants business does not raise competition concerns and is permitted to proceed, subject to the CMA's approval of the related terms and conditions but prohibited Cochlear's acquisition of bone conduction implants business.

Cochlear and Demant will pursue a transfer of Oticon Medical's cochlear implant business to Cochlear at a zero headline purchase price, completion of which will ensure that Cochlear can provide ongoing support for Oticon Medical's current base of around 20,000 cochlear implant recipients.

As market leader, we will seek to ensure Oticon Medical's cochlear implant recipients can continue to access a lifetime of hearing solutions and look forward to welcoming them to the Cochlear family. We will work closely with Demant to ensure a seamless transition, with continued access to current Oticon Medical technology for customers in the coming years. We plan to develop and commercialise next generation sound processors and services that will enable customers to transition to and benefit from Cochlear's technology platform over time.

We were disappointed to be blocked from acquiring the acoustics business. We will still be able to offer Cochlear's technology to those customers into the future as our Baha sound processors are already compatible with Oticon Medical's Ponto acoustic implants.

Oticon Medical's cochlear implant business is expected to add around $10 million to annual revenue. The business is currently loss making. The priority post-closing of the transaction will be to determine a plan that returns the business to sustainable profitability as quickly as possible.

The transaction remains conditional on satisfaction of customary closing conditions and receipt of other competition approvals from the Australian Competition and Consumer Commission and the European Commission and is expected to close by December 2023. Cochlear will not be assuming any liability for issues that may arise from the voluntary field corrective action for Oticon Medical's Neuro Zti cochlear implant announced in October 2021.

FY24 outlook

As we look to the future, we remain confident of the opportunity to grow our markets. There remains a significant, unmet and addressable clinical need for cochlear and acoustic implants that is expected to continue to underpin the long-term sustainable growth of the business. Our clear growth opportunity and strategy, combined with a strong balance sheet, mean we are well placed to create value for our stakeholders now, and over the long term.

For FY24, we expect to deliver underlying net profit of $355-375 million, a 16-23% increase on FY23, which is expected to be driven by a combination of revenue growth and improved net profit margin.

Cochlear implant trading conditions continue to be strong across most markets, with an improving trend in adult referral rates in many developed countries. At this stage, we expect solid market growth rates to drive high single digit growth in our cochlear implant units for FY24. We expect market share gains from FY23 to stabilise and for there to be fewer COVID-related backlog surgeries.

The Services segment is expected to perform strongly with continuing strong demand for upgrades to the Nucleus® 8 Sound Processor.

Acoustics growth rates are expected to be lower than FY23, with continuing growth from the rollout of the Osia® 2 System to be moderated by a smaller contribution from upgrades to the Baha® 6 Max Sound Processor.

We will continue our investment in R&D and market growth activities to support long-term market growth, with an anticipated investment of around 12% of sales revenue in R&D.

Cloud computing-related investment is expected to be around $34 million ($24 million after tax) in FY24.

Guidance is based on a 67 cent AUD/USD (67.5 cent average in FY23) and 61 cent AUD/EUR (64.4 cent average in FY23).

Capital expenditure is expected to be $70-90 million.

The Board maintains a dividend policy that targets a 70% payout of underlying net profit.

Guidance does not factor in any impact from the proposed acquisition of Oticon Medical, which is targeted to complete by the end of December 2023. Integration costs, which would include the development of compatible next generation sound processors, are yet to be determined and are currently estimated to be $30-60 million.

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Detailed financial review

Profit and loss

$m	FY23	FY22	Change % (reported)	Change % (CC)
Sales revenue	**1,955.7**	**1,641.1**	**19%**	**16%**
Cost of sales	**488.0**	**411.0**	**19%**	**15%**
% Gross margin	*75%*	*75%*		
Selling, marketing and general expenses	606.5	498.7	22%	19%
Research and development expenses	244.9	210.7	16%	17%
% of sales revenue	*13%*	*13%*		
Administration expenses (excluding cloud investment)	165.4	137.4	20%	
Administration expenses (cloud investment)	38.5	21.6	78%	
Operating expenses	**1,055.3**	**868.4**	**22%**	**20%**
Other income	3.3	13.8		
FX contract gains / (losses)	(19.6)	7.2		
EBIT (underlying)*	**396.1**	**382.7**	**4%**	**7%**
*% EBIT margin**	*20%*	*23%*		
Net finance expense / (income)	(7.1)	6.2		
Income tax expense*	98.0	99.5		
% Effective tax rate	*24%*	*26%*		
Underlying net profit*	**305.2**	**277.0**	**10%**	**14%**
*% Underlying net profit margin**	*16%*	*17%*		
*% Underlying net profit margin (pre cloud investment)**	*17%*	*18%*		
<u>One-off and non-recurring items (after-tax)</u>:				
Innovation fund gains / (losses)	(4.6)	12.1		
Statutory net profit	**300.6**	**289.1**	**4%**	**7%**

* Excluding one-off and non-recurring items (refer p12).

Sales revenue increased 19% (16% in CC) to $1,955.7 million and underlying net profit increased 10% (14% in CC) to $305.2 million. Statutory net profit increased 4% to $300.6 million.

Key points of note:

- Cost of sales increased 19% (15% in CC) to $488.0 million, in line with the increase in sales revenue. The gross margin was maintained at 75% and was in line with the long-term target gross margin;
- Selling, marketing and general expenses increased 22% (19% in CC) to $606.5 million reflecting continued investment in market growth activities, standard of care and market access initiatives;
- Investment in R&D increased 16% (17% in CC) to $244.9 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased 20% to $165.4 million primarily driven by increases in short-term incentives, additional headcount, costs associated with the Oticon Medical transaction as well as restructuring expenses; and
- Cloud investment of $38.5 million forms part of the $100-150 million investment in cloud-based technology solutions which will be incurred over four to five years.

Cash flow

$m	FY23	FY22	Change
EBIT (underlying)	396.1	382.7	13.4
Depreciation and amortisation	80.9	73.0	7.9
Increase in working capital and other	(42.4)	(46.9)	4.5
Net interest received / (paid)	7.1	(6.2)	13.3
Income taxes paid	(79.3)	(26.1)	(53.2)
Operating cash flow	**362.4**	**376.5**	**(14.1)**
Capital expenditure	(95.9)	(77.2)	(18.7)
Other net investments	(29.8)	(61.7)	31.9
Free cash flow	**236.7**	**237.6**	**(0.9)**
Outlay from exercise of share options and performance rights	(10.7)	(1.1)	(9.6)
Payments for share buyback	(29.6)	-	(29.6)
Dividends paid	(197.4)	(194.0)	(3.4)
Payment of lease liability and other	(30.2)	(20.4)	(9.8)
Change in net cash – increase / (decrease)	**(31.2)**	**22.1**	**(53.3)**

Operating cash flow decreased $14.1 million to $362.4 million, with free cash flow declining $0.9 million to $236.7m.

Key points of note:

- The $42.4 million increase in working capital and other reflects investment in working capital as the business grows;
- Income taxes paid of $79.3 million is lower than the income tax expense in the income statement as a result of the timing of tax instalments and the receipt of a tax refund relating to prior year losses. Income taxes paid increased $53.2 million on FY22 primarily reflecting timing of tax payments and the larger tax refund received last year;
- Capital expenditure (capex) increased by $18.7 million to $95.9 million and includes the commencement of an upgrade to the Lane Cove facility and stay-in-business capex;
- Other net investments of $29.8 million comprises additional investment in the innovation fund for Precisis, Epiminder and Nyxoah; and
- Payments for share buyback reflects the $29.6 million outlay for the repurchase of ordinary shares as part of the on-market share buyback.

Capital employed

$m	Jun23	Jun22	Change
Trade receivables	388.4	308.4	80.0
Inventories	311.5	270.2	41.3
Less: Trade payables	(270.4)	(232.4)	(38.0)
Working capital	**429.5**	**346.2**	**83.3**
Working capital / sales revenue	*22%*	*21%*	
Property, plant and equipment	276.7	260.2	16.5
Intangible assets	444.1	392.5	51.6
Investments and other financial assets	188.1	187.9	0.2
Other net liabilities	(145.1)	(87.8)	(57.3)
Capital employed	**1,193.3**	**1,099.0**	**94.3**
Funding sources:			
Equity	1,748.8	1,685.7	63.1
Less: Net cash	(555.5)	(586.7)	31.2
Capital employed	**1,193.3**	**1,099.0**	**94.3**

Capital employed increased $94.3 million to $1,193.3 million since June 2022.

Key points of note:

- Working capital increased $83.3 million, lifting from 21% to 22% of sales revenue. The increase in trade receivables reflects the strong growth in sales revenue in the second half. Inventory levels remain higher than pre-COVID levels reflecting the building of safety stocks over the past few years in anticipation of potential ongoing global supply chain shortages;
- Intangible assets increased $51.6 million to $444.1 million, reflecting IT system costs and acquired and licenced technology;
- Other net liabilities increased $57.3 million to $145.1 million, primarily the result of the increase in employee incentives; and
- Net cash decreased $31.2 million to $555.5 million.

Dividends

	FY23	FY22	Change %
Interim ordinary dividend (per share)	$1.55	$1.55	0%
Final ordinary dividend (per share)	$1.75	$1.45	21%
Total ordinary dividends (per share)	**$3.30**	**$3.00**	**10%**
% Payout ratio (based on underlying net profit)	71%	71%	
% Franking (final dividend)	70%	40%	

A final dividend of $1.75 per share has been determined, taking full year dividends to $3.30, an increase of 10% and representing a payout of 71% of underlying net profit. The interim dividend was 35% franked and the final dividend is 70% franked. The franking balance had been depleted by losses incurred in FY20. The ex-dividend date is 18 September 2023. The record date for calculating dividend entitlements is 19 September 2023 with the final dividend expected to be paid on 11 October 2023.

Notes

Forward-looking statements

Cochlear advises that this document contains forward-looking statements which may be subject to significant uncertainties outside of Cochlear's control. 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 it is cautioned that undue reliance is not placed on any forward-looking statement.

Non-International Financial Reporting Standards (IFRS) financial measures

Cochlear uses non-IFRS financial measures to assist readers in better understanding Cochlear's financial performance. Cochlear uses three non-IFRS measures in this document: Sales revenue, Underlying net profit and Constant currency. The directors believe the presentation of these non-IFRS financial measures are useful for the users of this document as it reflects the underlying financial performance of the business. Each of these measures is described below in further detail including reasons why Cochlear believes these measures are of benefit to the reader.

These non-IFRS financial measures have not been subject to review or audit. However, Cochlear's external auditor has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

Sales revenue

Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange contract gains/losses on hedged sales.

Underlying net profit

Underlying net profit allows for comparability of the underlying financial performance by removing one-off and non-recurring items. The determination of items that are considered one-off or non-recurring are made after consideration of their nature and materiality and is applied consistently from period to period. Underlying net profit is used as the basis on which the dividend payout policy is applied. The Financial Review section includes a reconciliation of Underlying net profit (non-IFRS) to Statutory net profit (IFRS) which details each item excluded from Underlying net profit.

Constant currency

Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of the translation currency effect and foreign currency effect is the amount by which EBIT and net profit is adjusted to calculate the result at constant currency.

Reconciliation of constant currency net profit

$m	FY23	FY22	Change %
Underlying net profit	**305.2**	**277.0**	**10%**
FX contract movement		(26.8)	
Spot exchange rate effect to sales revenue and expenses*		27.8	
Balance sheet revaluation*		(10.2)	
Underlying net profit (CC)	**305.2**	**267.8**	**14%**
One-off net gains / (losses)	(4.6)	12.1	
Statutory net profit (CC)	**300.6**	**279.9**	**7%**

* FY23 actual v FY22 at FY23 rates.

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