



## FY18 Result Presentation

14 August 2018

**Dig Howitt** CEO & President  
**Brent Cubis** CFO

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## FY18 – Result highlights



- Strong growth across both developed and emerging markets**
  - Sales revenue up 9% to \$1,354m
  - Developed market units up 9% & emerging market units up >15% (adjusted for China tender units)
- Strengthening market leadership position**
  - New products driving demand – Nucleus® 7 Sound Processor, Nucleus Smart App for Android™ smartphone users and Baha® SoundArc
  - Continuing growth of Nucleus® Profile Slim Modiolar (CI532) electrode and Kanso® Sound Processor
- Strong growth in upgrades**
  - Sound processor upgrade revenue up 12% in constant currency
  - Cochlear Family membership up ~70% to now exceed 100,000 members
- Investing to grow**
  - Ongoing investment in DTC and focus on sales force expansion and effectiveness
  - Increasing focus on medical affairs to build the evidence that will support broader funding and indications
  - Continuing to advance our long-term technology development pipeline with R&D at 12% of sales revenue
- Strong financial position**
  - Net profit of \$246m, up 10% (10% in CC)
  - Strong cash flow generation supports 14% increase in final dividend

2

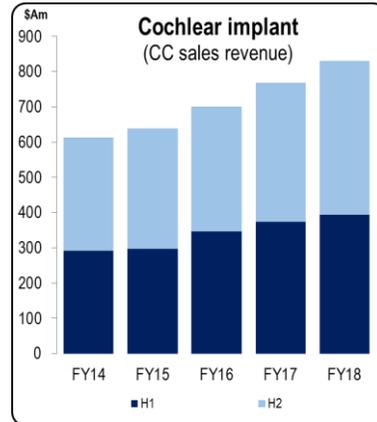
## Cochlear implants – 62% of sales revenue



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

#### Sales revenue ↑ 8% in CC\*

- Developed market units up 9% – US & UK the highlights with solid unit growth across much of Western Europe, Australia and Japan
- Emerging market units up >15% (adjusted for lower Chinese Central Government tender units) – strong growth in the Middle East and China private pay
- Growing awareness, indications and funding
- Expansion of DTC and focus on sales force expansion and effectiveness support growth
- Seniors segment continues to be the fastest growing segment in developed markets
- Growing volunteer network



\* constant currency (CC)

3

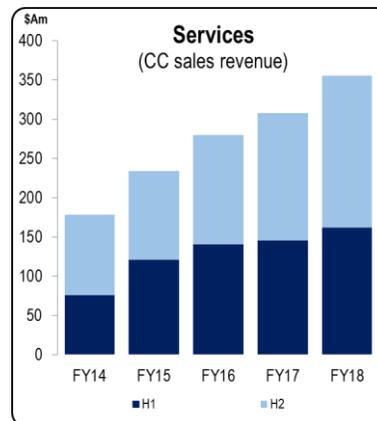
## Services – 26% of sales revenue



### Increasing engagement with growing recipient base

#### Sales revenue ↑ 15% in CC\*

- Upgrade revenue up 12% in CC driven by uptake of Nucleus 7 Sound Processor
- Expanded global focus on recipient engagement with Cochlear Family membership up 70% to 100,000 members
- First full year of Cycle revenue



\* constant currency (CC)

4

## Acoustics – 12% of sales revenue



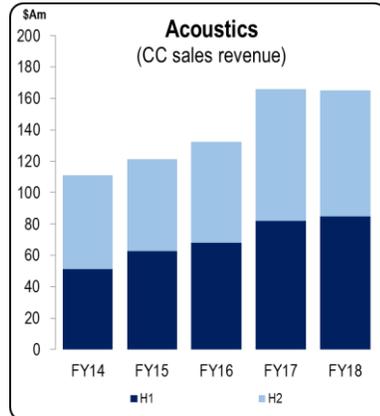
### Maintained strong market position for Baha products

#### Sales revenue in line with FY17 in CC\*

- Follows 26% CC growth last year, with demand continuing for the Baha 5 Sound Processor range
- Launch of Baha SoundArc, provides a non-surgical bone conduction solution that works with all of Cochlear's Baha 5 sound processors



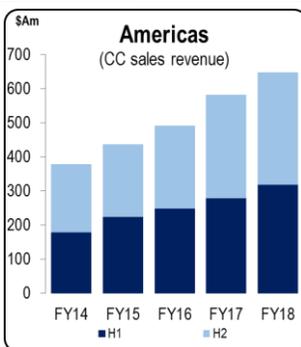
Baha® SoundArc



\* constant currency (CC)

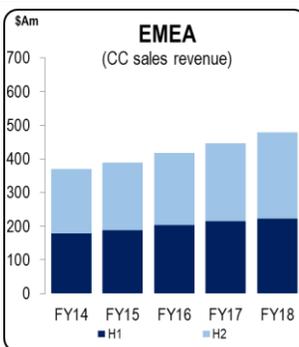
5

## Regional review



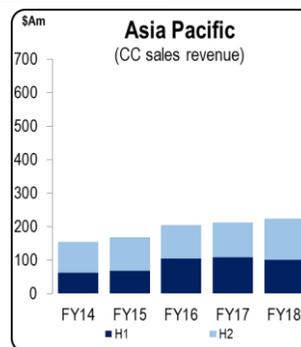
#### Sales revenue ↑ 11%\*

- US cochlear implant units up ~15%
- Market growth as well as market share gains



#### Sales revenue ↑ 7%\*

- Strong UK and solid growth across much of Western Europe with share gains
- Some ASP declines in Western Europe
- Strong H2 for EMEA emerging markets



#### Sales revenue ↑ 5%\*

- Solid unit growth in Australia, Japan with strong growth in Greater China (non-tender)
- FY18 included ~1,100 China tender units v ~1,900 in FY17

\* constant currency (CC)

6



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## FY18 – Financial highlights



**Net profit delivered in line with guidance**

- \$245.8m, up 10% in CC, within guidance of \$240-250m

**Continued investment to drive growth**

- Manufacturing efficiencies reinvested
- Sales growth supported by up-weighted sales and marketing activities and R&D
- Net profit margin maintained

**Strong balance sheet and cash flow generation**

- Operating cash flows > net profit
- Funds capex, debt reduction and increased dividends
- 33% reduction in net debt supported by initiatives to improve cash management

8

## Profit & loss



Net profit delivered within \$240-250m guidance. Manufacturing efficiencies reinvested into market growth initiatives with net profit margin maintained

A\$m	FY18	FY17	Chg % (reported)	Chg % (CC)
<b>Sales revenue</b>	<b>1,351.4</b>	<b>1,239.7</b>	<b>9%</b>	<b>9%</b>
Cost of goods sold	361.2	358.4	1%	1%
<i>% gross margin</i>	<b>73%</b>	71%		
Selling, marketing and general expenses	397.0	347.2	14%	14%
Administration expenses	97.4	85.2	14%	14%
R&D expenses	167.7	151.9	10%	9%
<i>% of sales revenue</i>	12%	12%		
<b>Total expenses</b>	<b>1,023.3</b>	<b>942.7</b>	<b>9%</b>	<b>8%</b>
Other income	8.0	4.5		
FX contract gains / (losses)	12.3	14.1		
<b>EBIT</b>	<b>348.4</b>	<b>315.6</b>	<b>10%</b>	<b>11%</b>
<i>% of sales revenue</i>	26%	25%		
Net finance costs	7.9	6.8	16%	
Taxation expense	94.7	85.2	11%	
<i>% effective tax rate</i>	28%	28%		
<b>Net profit</b>	<b>245.8</b>	<b>223.6</b>	<b>10%</b>	<b>10%</b>
<i>Net profit / sales revenue</i>	<b>18%</b>	18%		

9

## Cash flow



Strong cash realisation with operating cash flows > net profit. Enables the business to self-fund growth activities, reduce debt and increase dividends

A\$m	FY18	FY17	\$ chg
EBIT	348.4	315.6	32.8
Depreciation and amortisation	34.2	31.2	3.0
Change in working capital and other	(15.3)	(0.6)	(14.7)
Net interest paid	(7.9)	(7.9)	-
Income taxes paid	(101.3)	(78.5)	(22.8)
<b>Operating cash flow</b>	<b>258.1</b>	<b>259.8</b>	<b>(1.7)</b>
Capital expenditure	(42.0)	(35.3)	(6.7)
Acquisition of land & buildings	(2.6)	(27.5)	24.9
Acquisition of subsidiary (Cycle)	-	(63.7)	63.7
Other intangibles	(5.1)	(8.2)	3.1
Other net investments	(5.7)	(0.9)	(4.8)
<b>Free cash flow</b>	<b>202.7</b>	<b>124.2</b>	<b>78.5</b>

10

## Capital employed



Capital employed increase driven by investment in working capital to support business growth. Small improvements in working capital / sales revenue

A\$m	Jun18	Jun17	\$ chg
Trade receivables	299.1	275.4	23.7
Inventories	167.4	160.0	7.4
Less: Trade and other payables	(140.5)	(130.9)	(9.6)
<b>Working capital</b>	<b>326.0</b>	<b>304.5</b>	<b>21.5</b>
<i>Working capital / sales revenue</i>	<b>24%</b>	25%	
<i>Debtor days</i>	69	74	(5)
<i>Inventory days</i>	171	164	7
Property, plant and equipment	128.4	120.1	8.3
Intangible assets	345.3	340.0	5.3
Other net liabilities	(102.7)	(91.6)	(11.1)
<b>Capital employed</b>	<b>697.0</b>	<b>673.0</b>	<b>24.0</b>

11

## Net debt



\$43m net debt reduction driven by improved earnings and initiatives to improve cash management and despite almost \$200m in acquisitions and capex in the last 2 years

A\$m	Jun18	Jun17	\$ chg
Loans and borrowings			
Current	3.7	84.7	(81.0)
Non-current	144.0	134.2	9.8
Total debt	147.7	218.9	(71.2)
Cash	(61.5)	(89.5)	28.0
<b>Net debt</b>	<b>86.2</b>	<b>129.4</b>	<b>(43.2)</b>
Average debt maturity (years)	4	2	2

12

## Dividends



Dividends increase by 11% with payout on target at 70% of net profit

A\$m	FY18	FY17	% chg
Interim ordinary dividend	\$1.40	\$1.30	8%
Final ordinary dividend	\$1.60	\$1.40	14%
Total ordinary dividends (\$/share)	\$3.00	\$2.70	11%
<i>Payout ratio %</i>	70%	69%	
<i>Franking %</i>	100%	100%	

13



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## Strategic priorities



### Retain market leadership

Market-leading technology | World-class customer experience



### Grow the hearing implant market

Awareness | Market access | Clinical evidence



### Deliver consistent revenue and earnings growth

Invest to grow | Operational improvement | Strong financial position

15

## Cochlear in focused on generating consistent growth in units and sales over time



Cochlear implants, Baha & acoustics  
units



Sales revenue  
\$ million



16

## Expect to continue to grow revenue across all business units



### Revenue growth drivers:

#### Cochlear implants

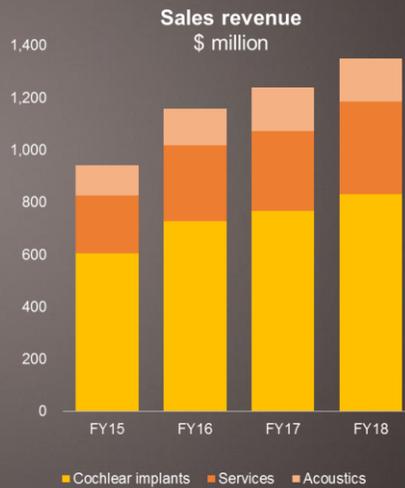
- DTC and sales force expansion driving awareness and uptake by adults and seniors
- New products driving market growth and market share
- Emerging market expansion

#### Services

- Growing recipient base
- Greater connectivity and engagement with recipients
- Nucleus® 7 Sound Processor and Nucleus Kanso® Sound Processor upgrades

#### Acoustics

- Baha® 5, Power and SuperPower Sound Processor and Baha SoundArc launches
- Market expansion



17

## Cochlear is investing operating cash flows to drive growth



#### Invest to grow

- Building awareness and access to our products requires multi-year investment in sales, marketing and R&D activities
- Through disciplined investment, we will aim to maintain the net profit margin

#### Operational improvement

- Optimising cost of production strengthens our competitive position
- Using scale to generate efficiency gains to reinvest in market growth activities

#### Strong financial position

- Strong cash flow generation funds growth
- We aim to maintain the strong balance sheet position and continue to target a dividend payout of around 70% of net profit

18

## FY19 outlook



### FY19 net profit guidance of \$265-275m, up 8-12% on FY18

#### Key guidance considerations:

- Developed market growth expected to continue
- Emerging market growth rates over time continue to be strong, however, annual growth rates can be variable
- Continued investment to retain market leadership and drive long-term market growth with the target of maintaining the net profit margin
- Forecasting a weighted average AUD/USD exchange rate of 75 cents for FY19 (77 cents in FY18) and AUD/EUR of 0.63 EUR (0.65 EUR in FY18)

19

## 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 not be placed on any forward looking statement.

#### Non-IFRS financial measures

Given the significance of exchange rate movements, the directors believe the presentation of the non-IFRS financial measure, constant currency, is useful for the users of this document as it reflects the underlying financial performance of the business. This non-IFRS financial measure has not been subject to review or audit. However, KPMG has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

#### 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 reported EBIT and net profit is adjusted to calculate the result at constant currency.

20