

Cochlear Limited

2023 Annual General Meeting

Chair and CEO & President's Address

17 October 2023

Alison Deans – Chair

Ladies and gentlemen...

At Cochlear, we are strongly connected to our mission to help people hear and be heard. It's the passion that drives the organisation and focuses the strategy. With every hearing implant, we begin a lifelong journey with our recipients. We have a responsibility to be here to support that lifetime of hearing which means we need to deliver sustainable growth, benefiting all our stakeholders.

Over the past year, we have made great progress, delivering record sales revenue and growing profits. At the same time, we continued to invest to drive growth over the short, medium and long term and – importantly – we made excellent progress in creating value for all of our key stakeholders.

We achieve these outcomes by building on our key strengths: our market-leading innovation capabilities which work in conjunction with a global network of experts and collaborators; the strong and trusted relationships we have built with our candidates, recipients, professional customers and payers; and our employees who are central to how we deliver our strategy and create value.

I will now touch on some of the highlights of the year.

At our core, we create value by contributing to **a healthier and more productive society**. We do this by building societal awareness of the importance of hearing health, advocating for improved access to implantable hearing solutions and providing implantable solutions that deliver a lifetime of hearing.

This year we helped over 44,000 people hear with one, or two, of our cochlear or acoustic implants. In doing so, we provide an estimated net societal benefit of more than \$7 billion over the lifetime of this year's new recipients. This value comes from improved health outcomes, educational cost savings and productivity gains.¹

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

The evidence linking hearing loss to cognitive decline continues to build. A multi-year study in the US has been investigating whether treatment of hearing loss could delay cognitive decline and dementia in older adults. In July, the study reported that for a group of older adults with

mild to moderate hearing loss, and who were at a higher risk of cognitive decline, wearing hearing aids for three years slowed cognitive decline by 48%.²

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

Moving now to our people. Building a strong organisation with **thriving people** is essential to our long-term success. We have an engaged, capable and high-performing team. It is a diverse workforce with around 4,800 people across the globe. Their knowledge, expertise, passion and focus on excellence is key to achieving future success.

We are pleased to report overall engagement remained strong this year at 80%, which is well above the global engagement benchmark of 68%. We are particularly pleased to see that 94% of our people understand how they personally contribute to the satisfaction of our customers and over 93% understand their contribution to our strategy.

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. This year we focused on strengthening our enterprise mindset with a focus on inclusive leadership training, building critical skills and capabilities at both an individual and organisational level.

We also continued to take steps to invest in our talent and made strong progress towards building the strategic capabilities which will provide us with a sustainable competitive advantage over the longer-term.

A diverse, equitable and inclusive organisation improves employee engagement and performance, as well as improving 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.

Finally, I would like to highlight changes to the Board. Over recent years we have continued our process of **Board renewal**, adding new directors with diverse perspectives and relevant experience, while maintaining continuity and corporate knowledge.

As part of that renewal process, long serving director Andy Denver will retire from the Board at the end of this meeting. Over his 16 years of service to the Cochlear Board, Andy has provided invaluable counsel. His extensive experience in the medical device and healthcare industries, along with his significant management experience in these industries, have contributed greatly to Cochlear's strategic direction, and assisted in the delivery of long-term value to shareholders. His tenure has enabled time for an orderly renewal and transition of critical Board skills and experience. The Board and management team sincerely thank Andy for his significant contribution to Cochlear and wish him well for the future.

I will now hand over to our CEO & President, Dig Howitt who will talk to progress on our other value drivers.

Dig Howitt – CEO & President

Thank you Alison and good morning...

We create value for our recipients by building a market-leading portfolio of high-quality products and services that supports **a lifetime of hearing outcomes 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.

We have achieved this through a multi-decade philosophy of investing to grow and an unwavering commitment to innovation. Our commitment to innovation stems from Professor Graeme Clarke's work to develop the first multi-channel cochlear implant in the 1970s. Our market-leading technology underpins our global market share of over 60%³, and in FY23 we invested over \$240 million in R&D, representing 13% of sales revenue.

I'll touch now on a few of our new products...

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 smaller and smarter than its predecessor, 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.⁴

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.

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. Recipients can access commonly used features such as volume adjustment and program selection to help achieve their best possible hearing experience.

In August we introduced our **next generation Cochlear™ Osia® System**, the first and only active bone conduction system that allows patients to undergo MRI scans at both 1.5 and 3.0 tesla without the need for surgery.⁵ It has been launched in the US and will roll out to other markets as regulatory approvals are attained.

Looking to the coming years, we are excited about the development pipeline. We have a full suite of new products and services being developed that aim to improve hearing outcomes even further and integrate even more seamlessly into the lives of our recipients.

We create value by being **environmentally responsible**, implementing initiatives to promote the sustainable use of natural resources and reducing our environmental footprint.

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.

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 hope that other regulators will also take a pragmatic approach to reducing the need for paper manuals, reducing usage of paper and emissions from freight.

And finally, we aim to deliver **sustained value**, through financial discipline and commitment to high standards of corporate governance and transparency.

We **delivered strong financial results for FY23**. Sales revenue increased 16% in constant currency to a record \$1.96 billion, driven by strong growth across all business units. Underlying net profit⁶ increased 14% in constant currency to \$305 million, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

We commenced a progressive on-market share buyback program in March with the aim of reducing the cash balance to around \$200 million over a number of years. This 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 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.

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 we expect 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.

We provided earnings guidance for FY24 at the release of our results in August, outlining our expectations of an increase in underlying net profit of between 16 and 23%. We continue to expect this level of increase based on the foreign currency spot rates prevailing at the time of the result.

We note also that guidance does not factor in any impact from the proposed acquisition of Oticon Medical cochlear implant business.

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.

And finally, the Board maintains a dividend policy that targets a 70% payout of underlying net profit.

Thank you, and I will pass back to the Chair.

References

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