

Cochlear Limited

2022 Annual General Meeting

Chair and CEO & President’s Address

18 October 2022

Alison Deans – Chair

Ladies and gentlemen...



Over the past year we continued to make great progress towards our goal of helping more people to hear. We delivered record sales revenue and growing profits. We continued to invest to drive growth over the short, medium and long term with our focus centred on three areas: investing in research and development, building awareness and access to hearing solutions, and developing our people. Importantly, we made excellent progress across all aspects of our value creation model.

As you know, **our mission** drives the organisation and focuses the strategy. In everything we do, we aim to support and **empower** our customers to connect with others and live a full life. We invest in building awareness of implantable hearing solutions and **transforming** the way people understand and treat hearing loss. And we **innovate** to create products and services that deliver a lifetime of hearing outcomes.

We achieve these outcomes by building on our key strategic strengths: 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 many highlights of the year.

FY22 Value creation



A healthier & more productive society

Key achievements:

- Helping more people hear
- Developing a treatment pathway for adults
- Broadening indications and reimbursement
- Improving access to education

We helped over 40,000 people hear with one – or two – of our cochlear or acoustic implants, providing an estimated net societal benefit of more than \$6 billion over the lifetime of the recipients from improved health outcomes, educational cost savings and productivity gains*



Mahvish is a bilateral cochlear implant recipient and works as an obstetrics and gynaecology doctor in Delhi

* Cochlear estimates based on the published economic model findings of Nave et al. 2021.

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 and advocating for improved access to implantable hearing solutions.

This year we helped over 40,000 people hear with one of our cochlear or acoustic implants. We have been able – for the first time – to attribute a value to the societal benefit this creates. Independent economic research published in 2021 estimated the cost-benefit of cochlear implants from improved health outcomes, educational cost savings and productivity gains. From this research we were able to determine that for recipients implanted this year alone our business provided an estimated net societal benefit of more than \$6 billion over the lifetime of these recipients.¹ We are incredibly proud of the contribution we have made. We also recognise the importance of quantifying this benefit in convincing payers to expand funding for implants.

Over recent years we have talked about our long-term goal to support the development of a consistent process for diagnosing, referring and treating adults who are 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 economically valuable.

Over the past few years there have been some important developments made towards this goal. In 2020, a global consensus statement² was published defining the minimum standard of care for treating adult hearing loss with a cochlear implant.

In 2021, the World Health Organization built on this, providing guidance for establishing evidence-based programs for hearing screening³ aimed at improving the identification and treatment of hearing loss.

And in 2022, we were excited to see establishment of the ‘Living Guidelines’ initiative, an international taskforce of over 50 leading cochlear implant professionals, academics and cochlear implant users tasked with delivering clinical guidelines. These guidelines should enable early identification and referral for cochlear implant candidates.

In September this year, the US public payer – the Center for Medicare & Medicaid Services – expanded its payment coverage to fund cochlear implants for people with severe hearing loss. As a result this funding will now be better aligned to the FDA indication criteria.

These steps are individually small but important, and combined, these initiatives continue to improve awareness and access for adult candidates over the coming years.

FY22 Value creation


Thriving people

Key achievements:

- Shaping our culture
- Broadening incentives to benefit more employees
- Gender equality
- Support and flexibility
- Board renewal
- Reconciliation Action Plan

Our people are our most valuable asset and are an engaged, capable, high-performing and diverse team.

80%
Employee engagement



Melinda believes that rotating through different departments is a fantastic way to get a glimpse of the career possibilities ahead

Moving now to our people. Building a strong organisation with **thriving people is essential to our value creation model**. We have an engaged, capable and high-performing team. It is a diverse workforce with close to 4,500 people in over 30 countries. 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 Cochlear's customers and over 90% feel proud to tell people they work at Cochlear.

During the past 12 months, we have implemented our first global share purchase plan, and we are pleased to report that it had an uptake of 51% from eligible employees.

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. By the end of June, all senior leaders and culture champions had participated in our Culture Conversations Learning Series. This Series is designed to support our leaders in achieving our desired culture and the program is now being cascaded through the organisation.

Achieving gender equality is an important element of our Diversity and Inclusion strategy. By year end we achieved 41% female representation amongst our senior leaders, and at Board level, we reached 33% female directors by year end. These improvements in female representation have been supported by focused activities in the areas of recruitment, personal development and succession planning, with the aim of strengthening our pipeline of female leaders.

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.

Michael del Prado joined the Board in January and brings valuable perspectives from 30 years' experience in leadership roles in the medical devices industry. And, as a purpose led individual, he is a strong cultural fit with Cochlear.

Yasmin Allen is standing for re-election today for what will be her final term on Cochlear's Board, having been an invaluable director for over 12 years. Karen Penrose, who joined the Board in July, will be working closely with Yasmin over the coming months to transition into the role of Audit Committee Chair. Karen is a highly respected company director and an

experienced Audit and Risk Committee Chair, having served on the boards of a number of ASX100 companies. She brings valuable financial expertise to the Board.


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...

FY22 Value creation




A lifetime of hearing solutions


Key achievements:

- Market-leading technology underpins over 60% global market share
- Providing the latest technology to our existing customers
- Australian cochlear implant pioneer, Professor Jim Patrick, Cochlear's Chief Scientist- Emeritus, honoured as 2021 NSW Scientist of the Year

We innovate to build a market-leading portfolio of products and services that supports a lifetime of hearing outcomes for recipients

Introducing the Nucleus® 8 Sound Processor

Smaller. Smarter. Better Connected.



We create value for our recipients by innovating to build a market-leading portfolio of products and services that supports **a lifetime of hearing outcomes for recipients**. We have achieved this through a multi-decade philosophy of investing to grow and an unwavering commitment to innovation. Our market-leading technology underpins our global market share of over 60%, and in FY22 we invested over \$200 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 CE Mark approval in August 2022. It is an exciting new offering, building on the market-leading features of the Nucleus® 7 Sound Processor. We aim to make our devices smaller, smarter and better connected. The Nucleus 8 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's better connected - ready for the next-generation Bluetooth® LE Audio technology, so recipients will be able to experience the proven benefits of streaming audio directly to their sound processor from more places and devices than ever before.

The Cochlear™ Baha® 6 Max Sound Processor has experienced strong demand since it was launched. It provides a fitting range of up to 55 dB sensorineural hearing loss in the same small size as current 45 dB devices, with longer battery life and direct streaming from both Android™ and Apple devices.

And in late 2021 we launched the Cochlear™ Nucleus® 7 S and Nucleus® 7 SE Sound Processors across the emerging markets, providing many of the benefits of the Nucleus® 7 technology platform to more people around the world.

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.



FY22 Value creation 

Empowered customers

Key achievements:

- Providing convenience and confidence to customers
- Growing connectivity and engagement with recipients

We aim to improve the wellbeing of our recipients by providing them with the latest sound processor technology as well as easy-to-use after-care to support a lifetime of hearing outcomes

With the new Cochlear™ Remote Check, it's now able to do a hearing health check from home

We also create value by **empowering our customers**. We aim to improve the wellbeing of our recipients by providing them with the latest sound processor technology and easy-to-use after-care to support a lifetime of hearing outcomes. 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 are the first company to offer app-based Remote Care solutions to both acoustic and cochlear implant recipients.

For example, with Cochlear™ Remote Check, cochlear implant recipients can complete a hearing health check through the Nucleus® Smart App without visiting the clinic, and Cochlear™ Remote Assist enables live video appointments for recipients.

When we look at the future of care, we believe app-based Remote Care solutions have the potential to make care more convenient for recipients, while improving clinic efficiency for our professional customers. These products will however take time to rollout as they need to be incorporated in to clinical workflows.

FY22 Value creation 

Sustained value

Key achievements:

- Pathway to net-zero carbon emissions
- Underlying* net profit increases 18% to \$277 million
- Strong financial position
- Investing to improve efficiency and agility
- Proposed Oticon Medical acquisition

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions



We are taking practical action to meet our targets of reducing Scope 2 carbon emissions and moving our manufacturing to 100% renewable energy

*excluding one-off and nonrecurring items

And finally, we aim to deliver **sustained value**. To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position. We must also ensure we have agile, efficient and environmentally responsible business processes.

This year we outlined our **net-zero emissions targets**, targeting net-zero emissions in our operations by FY30 and across our value chain by FY50. We have already transitioned all of our manufacturing facilities to 100% renewable energy.

We **delivered strong financial results for FY22**. Sales revenue increased 10% to a record \$1.6 billion, driven by strong demand for acoustic implants and sound processor upgrades with all regions and product segments tracking above pre-COVID levels.

Our financial position continues to be strong. Underlying net profit increased 18%, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

In April we agreed to acquire Oticon Medical for an Australian dollar equivalent of around \$170 million. This followed Demant's decision to exit its hearing implants business. As part of the transaction, we have committed to providing ongoing support for Oticon Medical's base of approximately 75,000 hearing implant recipients, which includes both cochlear and acoustic implants.

The acquisition will provide us with greater scale and will enable us to increase our investments in R&D and market growth activities. It is subject to regulatory approvals and we are targeting completion at the end of this calendar year.

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 FY23 at the release of our results in August**, outlining how we expect to increase underlying net profit by between 5 and 10% – an increase of 8-13% when adjusted for the increase in cloud computing-related expenses – and this continues to be the case.

We expect to deliver strong growth in sales revenue and around 18% underlying net profit margin before cloud computing-related expenses.

Net profit is expected to be weighted to the second half. We expect trading conditions to progressively improve across the year, with intermittent COVID-related hospital or region-specific elective surgery restrictions likely to continue. The release of the Cochlear™ Nucleus® 8 Sound Processor is expected to contribute from the second quarter as commercial availability commences in Australia and European countries. The new sound processor is expected to be launched across other markets by the end of December, subject to the timing of regulatory approvals. Launch costs are expected to be primarily incurred during the first half, with sales revenue weighted to the second half. We will continue our investment in R&D and market growth activities to support long-term market growth.

As has been the case for the past few years, a more material disruption from COVID or hospital capacity restrictions that significantly impacts sales remains a risk factor that does not form part of guidance. The proposed acquisition of Oticon Medical also does not form part of guidance.

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

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 FY22 across the developed markets.
2. Unilateral Cochlear Implants for Severe, Profound, or Moderate Sloping to Profound Bilateral Sensorineural Hearing Loss. A Systematic Review and Consensus Statements, JAMA Otolaryngol Head Neck Surg. doi:10.1001/jamaoto.2020
3. Hearing Screening: considerations for implementation. <https://www.who.int/publications/i/item/9789240032767>