

FY16 Result Presentation

9 August 2016

Chris Smith

Chief Executive Officer & President

Neville Mitchell

Chief Financial Officer

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FY16 – Result highlights



Sales revenue **↑ 23% (12% in CC) to \$1.2 billion**

- Growth across developed and emerging markets
- Cochlear implant unit growth **↑ 12%** and CI sales revenue **↑ 21%** (10% in CC)
- Services sales revenue **↑ 30%** (20% in CC)
- Acoustics sales revenue **↑ 21%** (9% in CC)

New products broadening the portfolio

- 5 new products across all product categories

Increased investment in market growth initiatives and R&D driving demand

- Focus on market growth, share and expanded indications
- Direct-to-consumer marketing and sales force expansion supporting current and future growth

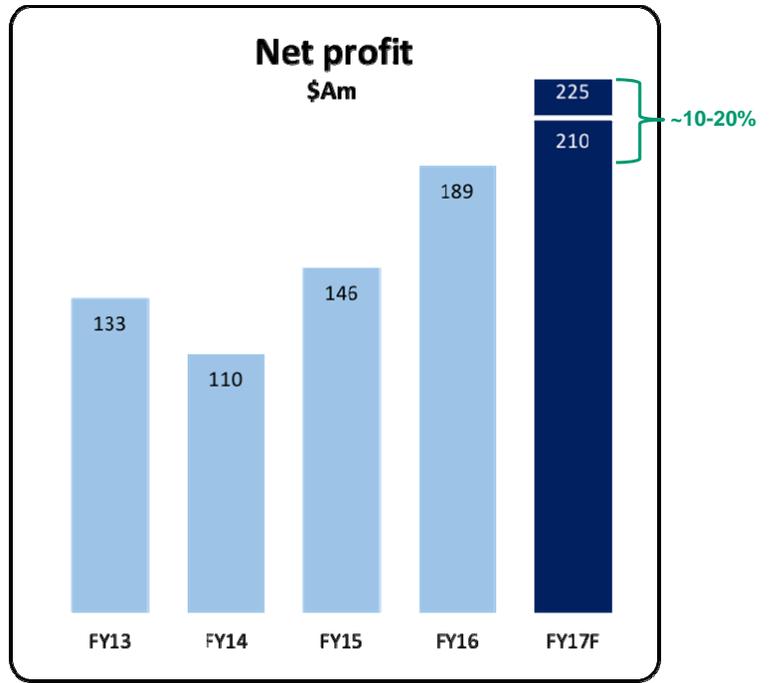
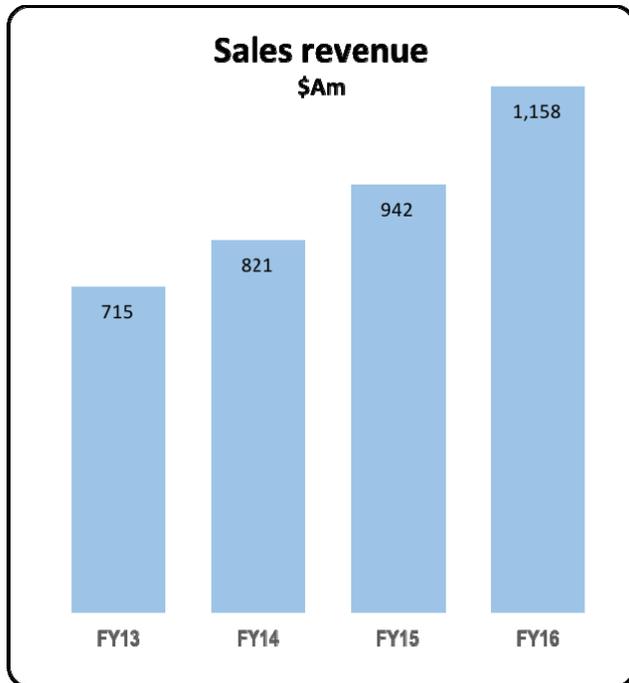
Strong financial position

- Net profit **↑ 30%** to \$189m
- Strong cash flow generation supports dividends **↑ 21%**

FY17 outlook – expect momentum to continue



FY17 net profit guidance of \$210-225m, up ~10-20% on FY16 at 75c AUD/USD



Adjusted net profit excludes patent dispute provision of \$15.8 million after tax in FY14

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Cochlear's mission



We help people hear and be heard.

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

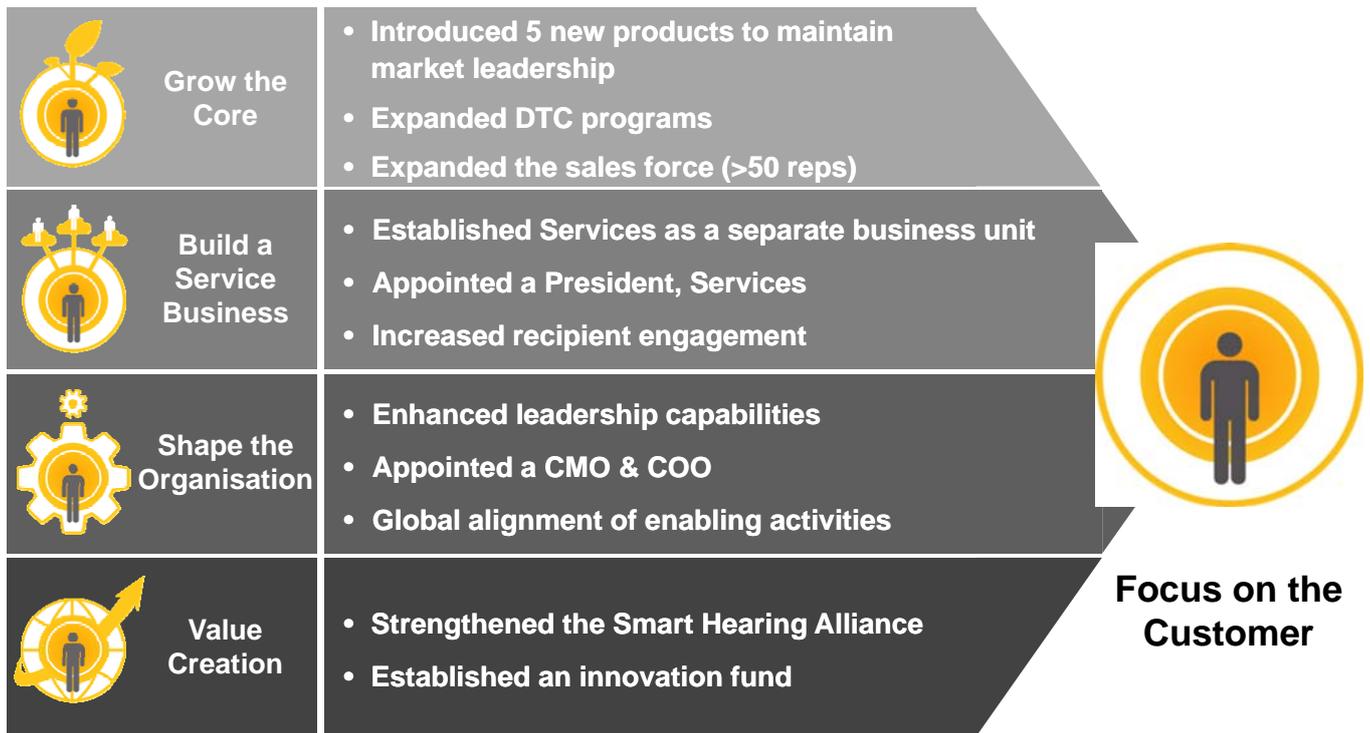
We **transform** the way people understand and treat hearing loss.

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 – solid progress made



Cochlear implants



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

CI unit growth ↑ 12%

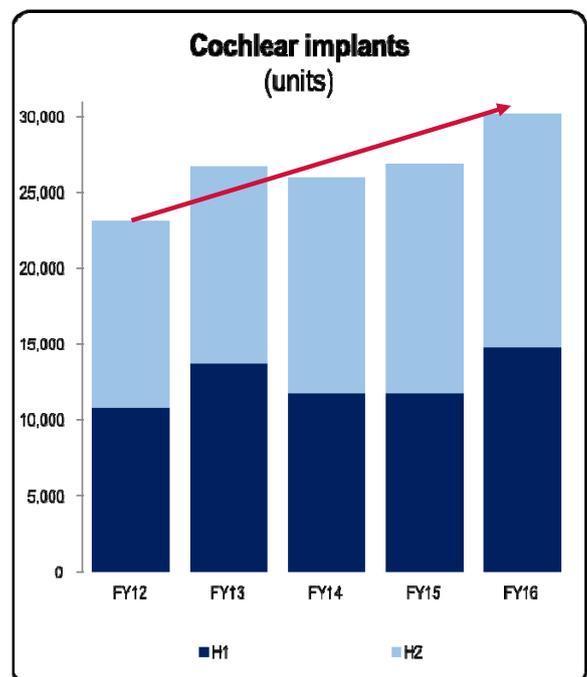
- Sales revenue up 21% (10% in CC)
- Leading developed markets all up ~10%
- Emerging markets momentum – China, India and Middle East

New products

- Slim Modiolar electrode (CI532)
- Cochlear™ Kanso™

Initiatives to accelerate market growth

- Direct-to-consumer marketing
- Field expansion



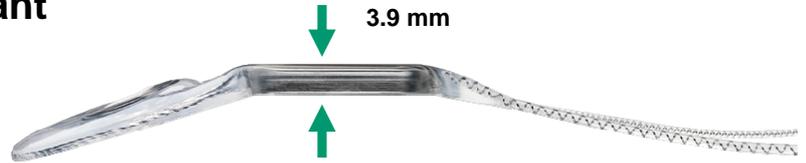
The industry's most reliable cochlear implant

World's thinnest cochlear implant

Approved for 3T MRI

NEW Slim Modiolar (CI532) electrode

- 60% volume reduction compared to Contour Advance[®]
- Closest positioning to the hearing nerve – designed to optimise hearing outcomes¹



1. Holden LK, Finley CC, Firszt JB, Holden TA, Brenner C, Potts LG, et al. Factors affecting open-set word recognition in adults with cochlear implants. Ear Hear.2013 May-Jun; 34(3):342-60

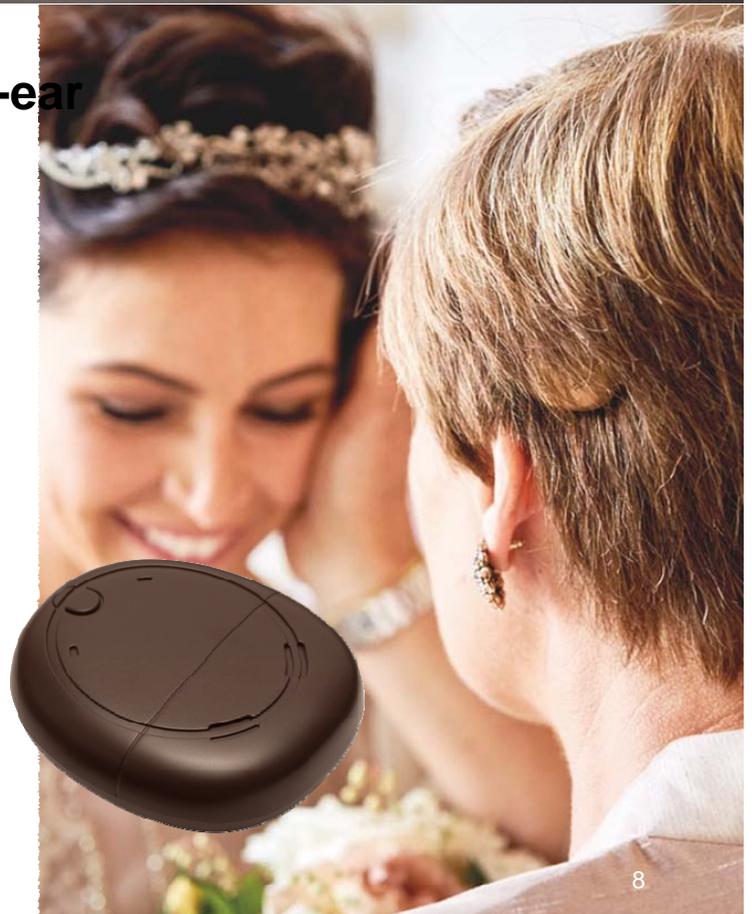
Smallest and lightest off-the-ear sound processor

Aesthetics

- Simple, discrete and comfortable

Hearing performance

- Equivalent to Nucleus 6
- True Wireless technology
- Features dual microphone



Acoustics

(bone conduction and acoustic implants)



Baha product innovation driving demand and share gains

Sales revenue ↑ 21% (9% in CC)

- Solid performances across all regions

New products

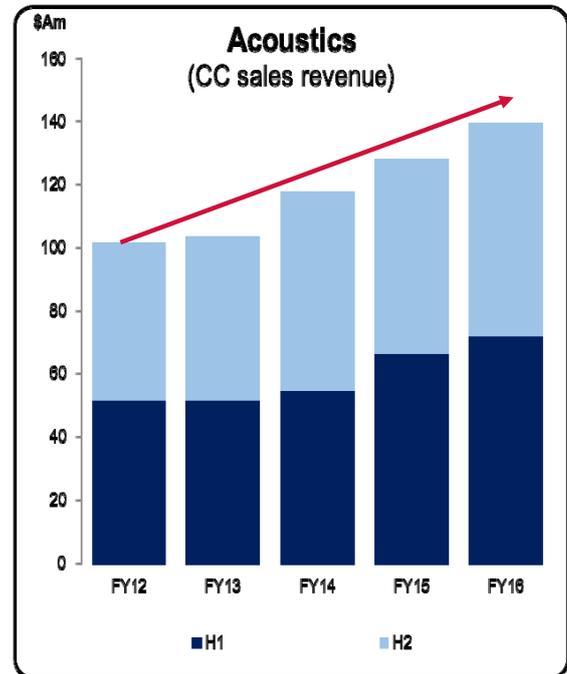
- Baha® 5 System made for iPhone
- Baha 5 Power and SuperPower
- Launched in H2



Baha 5 Power



Baha 5 SuperPower



CC = constant currency

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Services

(upgrades & accessories)



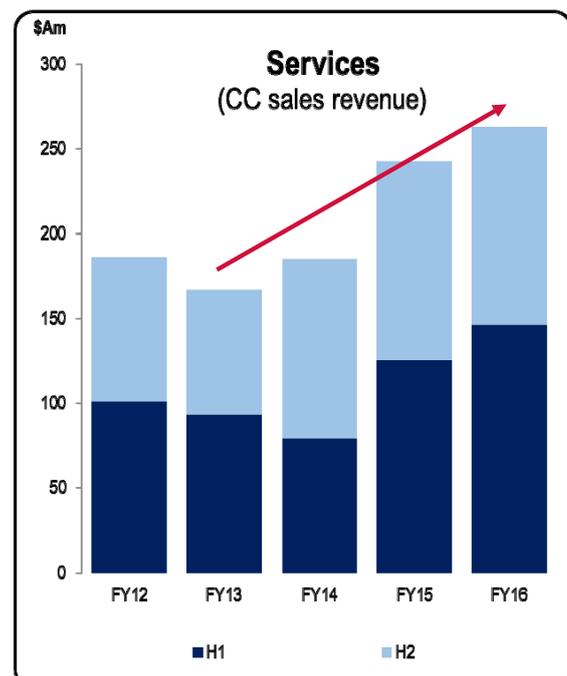
Lifetime relationship with over 450,000 recipients

Sales revenue ↑ 30% (20% in CC)

- Nucleus 6 upgrade cycle – penetration rate ~22%
- Expanded global focus on recipient engagement

New products

- Nucleus 6 for N22
- Wireless Mini Microphone 2+
- Expanded service offering – CochlearLink, Cochlear family, MyCochlear.com



CC = constant currency

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Market expansion initiatives driving growth

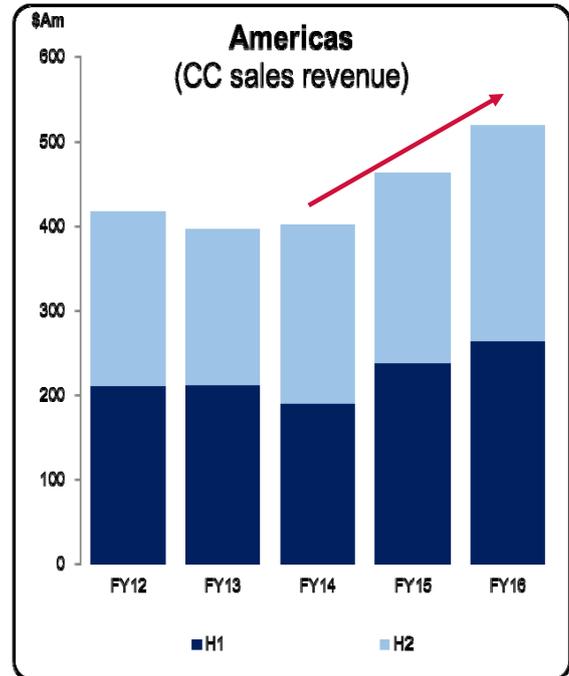
Sales revenue ↑ 29% (12% in CC)

- US CI units up ~10%
- Services revenue up >20% in CC
- Latin American revenue decline in CC

US revenue ↑ 16% in CC

- Recent product launches
- Accelerated market growth: 8-10%*
- Sales force expansion
- Services continues to experience robust growth

* Based on Guidepoint data



CC = constant currency

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EMEA

(Europe, Middle East & Africa)

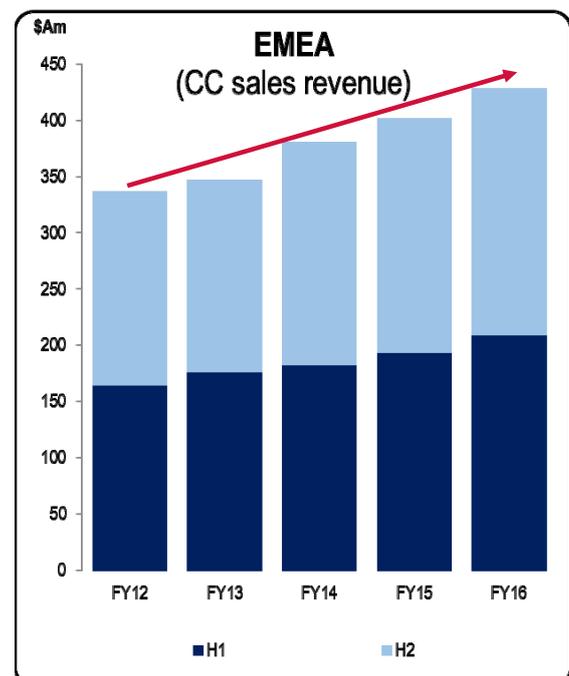
Portfolio affect driving consistent growth

Sales revenue ↑ 13% (7% in CC)

- Germany, UK, France units all up ~10%
- Middle East units up >30%

Growing market presence

- Increase in sales force across developed markets
- Expanded Middle East and Central & Eastern European presence
- Kanso and CI532 in controlled market release



CC = constant currency

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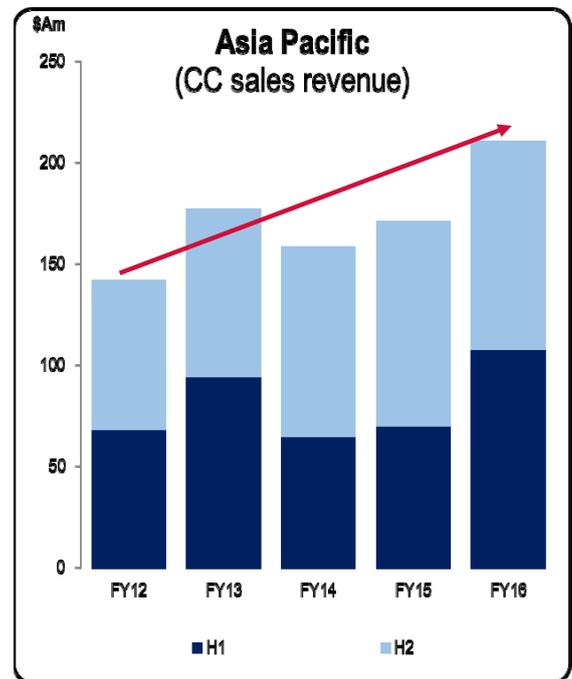
All markets delivering growth

Sales revenue **↑ 31% (23% in CC)**

- Solid growth across all markets

Market growth initiatives

- Asia Pacific benefiting from field sales expansion and growing awareness
- China performed strongly in both the private pay and tender markets
- India growing rapidly



CC = constant currency

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Financial highlights



- Sales revenue up 23% to \$1.2 bn
- Increased investment in market growth initiatives and R&D
- Net profit up 30% to \$189m
- Working capital management resulting in reduction in inventory days
- Strong cash realisation funding net debt reduction and 21% increase in dividends

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Profit & loss



Net profit of \$189m, up 30%, delivered at top end of guidance range

A\$m	FY16	FY15	% chg
Sales revenue	1,158.1	941.9	↑ 23%
FX contracts loss	(27.5)	(16.3)	
Total revenue	1,130.6	925.6	↑ 22%
EBIT	262.6	206.4	↑ 27%
<i>EBIT margin %</i>	23.2%	22.3%	0.9%
Net finance costs	(8.3)	(10.1)	↓ 18%
Taxation expense	(65.4)	(50.5)	↑ 30%
Net profit	188.9	145.8	↑ 30%

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Impact of foreign currency



A\$m	\$Am
Transaction impacts	
Reported FX contract losses on hedged sales	
- FX losses – FY16	(27.5)
- FX losses – FY15	<u>(16.3)</u>
	(11.2)
Translation impacts	
Sales & expenses ¹	
- Sales revenue	93.5
- Total expenses including tax	<u>(44.7)</u>
	48.8
Reported asset translation impacts	
- FX gain on asset translation – FY16	8.7
- FX gain on asset translation – FY15	<u>1.2</u>
	7.5

1. FY16 actual v FY15 at FY16 rates

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Working capital



Working capital management resulted in reduction in inventory days

A\$m	30 June 2016	30 June 2015	\$ chg
Trade receivables	268.5	236.7	31.8
Inventories	154.1	145.9	8.2
Less: Trade payables	(110.3)	(99.9)	(10.4)
Working capital	312.3	282.7	29.6
<i>Debtor days</i>	85	83	2
<i>Inventory days</i>	169	193	(24)

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Strong cash realisation

A\$m	FY16	FY15	\$ chg
EBIT	262.6	206.4	56.2
Depreciation and amortisation	33.5	30.3	3.2
Change in working capital and other	(20.0)	(8.5)	(11.5)
Net interest paid	(10.3)	(7.3)	(3.0)
Income taxes paid	(80.7)	(32.2)	(48.5)
Operating cash flow	185.1	188.7	(3.6)
Capital expenditure	(28.9)	(23.9)	(5.0)
Other investments	(21.2)	(4.5)	(16.7)
Free cash flow	135.0	160.3	(25.3)

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Net debt

Reduction in net debt to \$118m and renewal of \$250m debt facility at lower interest rates

A\$m	30 June 2016	30 June 2015	\$ chg
Loans and borrowings			
Current	4.0	168.1	(164.1)
Non-current	189.3	44.6	144.7
Total debt	193.3	212.7	(19.4)
Cash	(75.4)	(72.2)	(3.2)
Net debt	117.9	140.5	(22.6)
Total loan facilities	350.0	350.0	
Unused portion of debt facilities	155.0	135.0	

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Full year dividends up 21%, fully franked, and on target at 70% payout of net profit

A\$m	FY16	FY15	% chg
Interim ordinary dividend	\$1.10	\$0.90	22%
Payout ratio %	67%	72%	
Franking %	100%	35%	
Conduit foreign income	0%	40%	
Final ordinary dividend	\$1.20	\$1.00	20%
Franking %	100%	100%	
Total ordinary dividends	\$2.30	\$1.90	21%
Payout ratio %	70%	74%	
Franking %	100%	69%	

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FY17 outlook

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

Key considerations

- Continued momentum of Nucleus 6 and Kanso sound processors
- Chinese Government tender units similar to FY16 levels
- Europe, no immediate Brexit impact – alert to potential uncertainty
- Expect FY17 R&D expenditure to be similar to FY16
- AUD/USD FX rate of 75c for FY17 versus 73c in FY16
- Continue to target a 70% dividend payout ratio

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Non-IFRS financial measures

Given the significance of the patent dispute and 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:

- Excluding patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision
- Constant currency: restatement of IFRS financial measures in comparative years using FY16 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

Cochlear advises that these presentation slides contain 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 you are cautioned not to place undue reliance on any forward looking statement.