ASX Announcement

14 February 2025

Cochlear Limited Financial Results

For the half year ended December 2024

Sales revenue increased 5% (6% in constant currency*) to $1,170 million, building on the 20% CC growth achieved in the first half of 2024, with strong growth in cochlear and acoustic implants moderated by a decline in Services revenue

- Cochlear implant revenue increased 13% in CC
- Acoustics revenue increased 22% in CC
- Services revenue declined 12% in CC, following 29% CC growth in HY24
- Statutory net profit increased 7% (1% in CC) to $205m
- Underlying net profit** increased 7% (1% in CC) to $206m
- Underlying net profit margin was 18% (also 18% pre cloud investment)
- Strong balance sheet and cash flow generation supports the 8% increase in the interim dividend to $2.15 per share, representing a 68% payout of underlying net profit
- Cochlear is preparing for the release of a number of new products including its next generation cochlear implant and off-the-ear sound processor, which are expected to be commercially available from mid-2025 (subject to local regulatory approvals)
- For FY25, we expect underlying net profit to be at the lower end of the $410-430m guidance range provided in August 2024, incorporating a lower contribution from Services revenue and higher cloud-related investment

	HY25	HY24	Change % (reported)	Change % (CC)*
Sales revenue ($m)	1,169.9	1,113.4	⬆ 5%	⬆ 6%
Underlying net profit ($m)**	**205.5**	**191.8**	⬆ **7%**	⬆ **1%**
% Underlying net profit margin**	18%	17%		
% Underlying net profit margin (pre cloud investment)**	18%	18%		
One-off and non-recurring items after-tax ($m)	(0.4)	(0.4)		
Statutory net profit ($m)	**205.1**	**191.4**	⬆ **7%**	⬆ **1%**
Underlying earnings per share**	$3.14	$2.92	⬆ 7%	⬆ **1%**
Interim dividend per share	$2.15	$2.00	⬆ 8%	

*Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance (refer p7).
**Excluding one-off and non-recurring items (refer p7).

Operational review

$m	HY25	HY24	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	25,390	24,193	⬆ 5%		
Sales revenue					
Cochlear implants	724.5	648.5	⬆ 12%	⬆ 13%	62%
Services (sound processor upgrades and other)	305.0	348.9	⬇ 13%	⬇ 12%	26%
Acoustics	140.4	116.0	⬆ 21%	⬆ 22%	12%
Total sales revenue	**1,169.9**	**1,113.4**	⬆ **5%**	⬆ **6%**	**100%**

Cochlear implants

Cochlear implant revenue increased 12% (13% in CC) to $724.5 million and cochlear implant units increased 5% to 25,390. Sales revenue grew at a faster rate than unit growth as a result of product and country mix in the emerging markets, with a higher mix of higher-priced private pay units during the half. Underlying average selling price remained stable.

Developed market units grew 6%, building on ~15% growth in the first half of 2024, with solid growth across the US and Asia Pacific and lower rates of growth across a number of Western European countries. The adults and seniors segment continues to grow strongly, up around 10% for the half, while children declined modestly, as expected, following double-digit growth in HY24.

We continue to see strong growth in adult referral rates in a number of key markets, in part driven by initiatives to improve awareness and access for adult cochlear implant candidates. As demand for cochlear implants grows, we continue to see signs of growing waiting lists for audiological evaluation and/or surgery in some of our key countries. Audiological capacity constraints are being increasingly addressed by streamlining post-operative appointments and increasing the adoption of remote care tools, which can materially improve clinical capacity in many practices.

Emerging market units grew 3% with lower-than-expected tender volumes, positive country mix and strong growth in the smaller, but higher-priced, private pay segment in China and India.

Services

Services revenue declined 13% (12% in CC) to $305.0 million, cycling 29% CC growth in the first half of FY24. We experienced strong uptake of the Cochlear™ Nucleus®8 sound processor when it was launched in FY23, with the rate of uptake slowing over the past 12 months. Lower upgrade rates were experienced for a range of reasons including continuing high satisfaction with the Cochlear™ Nucleus®7 sound processor. In the US, cost of living pressures have been a factor delaying the replacement of ageing sound processing technology, as many recipients incur out-of-pocket expenses to fund their new sound processor.

Acoustics

Acoustics revenue increased 21% (22% in CC) to $140.4 million, with growth driven by the strong uptake of the Cochlear™ Osia® Implant across existing markets and expansion into new countries including France, Italy and a number of emerging market countries. Osia units grew over 50% in the US driven by the introduction of the new implant late in HY24, market share gains and the continuing shift to active implants.

Financial review

We delivered sales revenue of $1,170 million, an increase of 5% (6% in CC), driven by strong growth in cochlear and acoustic implants, moderated by a decline in Services revenue.

The gross margin was 75%, in line with our 75% longer-term target. Operating expenses increased 10% (10% in CC) reflecting growing investment in R&D and market growth activities.

Underlying net profit increased 7% (1% in CC) to $206 million. The underlying net profit margin was 18%, and was also 18% excluding the impact of cloud computing-related expenses.

The balance sheet remains strong with net cash of $383 million. An interim dividend of $2.15 per share has been determined, an increase of 8% on last year and representing a payout of 68% of underlying net profit, and $19 million worth of shares were bought back as part of the on-market share buyback program.

FY25 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 FY25, we aim to help over 50,000 people to hear with a cochlear or acoustic implant. We expect underlying net profit to be at the lower end of the $410-430m guidance range provided in August 2024, incorporating a lower contribution from Services revenue and higher cloud-related investment.

Cochlear implant trading conditions continue to be solid across most markets, with continuing strong growth in adult referral rates across the developed markets. We are preparing for the release of our next generation cochlear implant, which is expected to be commercially available from mid-2025 (subject to local regulatory approvals). We continue to expect solid market growth rates to drive cochlear implant unit growth of around 10% in FY25.

Services growth has slowed since launching the Nucleus® 8 Sound Processor in FY23. We had expected modest growth in revenue for FY25 and now expect a single-digit decline. We continue to work on initiatives to improve identification and connection with recipients who could benefit from the latest sound processing technology. The introduction of the new off-the-ear Nucleus® Kanso® 3 Sound Processor from mid-2025 is expected to contribute to Services revenue from FY26. Acoustics growth rates are expected to be strong with continuing geographic expansion of the Osia System.

The gross margin is expected to be around 74.5%, half a point below our longer-term target of 75%, due to lower overhead recoveries at the new facility in Chengdu.

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

We have been investing in operating model redesign and core business systems upgrades over the past four years to improve efficiency and agility. We expect to invest around $250 million overall, a $100 million increase on our previous estimate, as a result of the expansion of the scope of the program. The final phase of the program will be focussed on our core ERP, underlying data and manufacturing systems. We now expect our cloud-related investment to be around $40 million in FY25, an additional $6 million on prior guidance. The balance of approximately $120 million will be incurred in FY26 and FY27. Given the materiality of the investment, we will report it as a significant item from FY26.

Guidance is based on a 65 cent AUD/USD for FY25 (66 cent average in FY24) and a 61 cent AUD/EUR (61 cent average in FY24). Capital expenditure is expected to be $110-130 million, with capacity expansion across our Australian and Malaysian sites.

The Board approved an on-market share buyback of up to $75 million in shares in August 2024, and the dividend policy continues to target a payout of 70% of underlying net profit.

Detailed financial review

Profit and loss

$m	HY25	HY24	Change % (reported)	Change % (CC)
Sales revenue	**1,169.9**	**1,113.4**	**5%**	**6%**
Cost of sales	**297.5**	**285.8**	**4%**	**4%**
% Gross margin	*75%*	*74%*		
Selling, marketing and general expenses	367.2	330.5	11%	12%
Research and development expenses	144.4	127.3	13%	14%
% of sales revenue	*12%*	*11%*		
Administration expenses (excluding cloud investment)	91.1	84.6	8%	7%
Administration expenses (cloud investment)	11.7	16.9	(31%)	(31%)
Operating expenses	**614.4**	**559.3**	**10%**	**10%**
Other expenses / (income)	(15.1)	(1.9)		
FX contract losses / (gains)	(1.9)	14.9		
EBIT (underlying)*	**275.0**	**255.3**	**8%**	**1%**
*% EBIT margin**	*24%*	*23%*		
Net finance expense / (income)	(1.7)	(5.1)		
Income tax expense*	71.2	68.6		
% Effective tax rate	*26%*	*26%*		
Underlying net profit*	**205.5**	**191.8**	**7%**	**1%**
*% Underlying net profit margin**	*18%*	*17%*		
*% Underlying net profit margin (pre cloud investment)**	*18%*	*18%*		
One-off and non-recurring items (after-tax):				
Share of losses on equity-accounted investments	(0.4)	(0.4)		
Statutory net profit	**205.1**	**191.4**	**7%**	**1%**

* Excluding one-off and non-recurring items (refer p7).

Sales revenue increased 5% (6% in CC) to $1,169.9 million and underlying net profit increased 7% (1% in CC) to $205.5 million. Statutory net profit increased 7% to $205.1 million.

Key points of note:

- Selling, marketing and general expenses increased 11% (12% in CC) to $367.2 million reflecting continued investment in market growth activities, standard of care and market access initiatives;
- Investment in R&D increased 13% (14% in CC) to $144.4 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased 8% to $91.1 million primarily driven by increases in IT licensing and people costs; and
- Other income increased $13.2 million to $15.1 million and includes $6.8 million in foreign exchange gains.

Cochlear®
Hear now. And always

Cash flow

$m	HY25	HY24	Change
EBIT (underlying)	275.0	255.3	19.7
Depreciation and amortisation	43.8	43.1	0.7
Increase in working capital and other	(131.4)	(84.0)	(47.4)
Net interest received	1.7	5.1	(3.4)
Income taxes paid	(79.2)	(62.4)	(16.8)
Operating cash flow	**109.9**	**157.1**	**(47.2)**
Capital expenditure	(43.9)	(42.7)	(1.2)
Other net investments	(7.3)	(5.1)	(2.2)
Free cash flow	**58.7**	**109.3**	**(50.6)**
Outlay from exercise of share options and performance rights	(24.3)	(2.4)	(21.9)
Payments for share buyback	(19.3)	(43.0)	23.7
Dividends paid	(137.5)	(114.7)	(22.8)
Payment of lease liability and other	(8.1)	(19.5)	11.4
Decrease in net cash	**(130.5)**	**(70.3)**	**(60.2)**

Operating cash flow decreased $47.2 million to $109.9 million, with free cash flow decreasing $50.6 million to $58.7 million.

Key points of note:

- EBIT (underlying) increased $19.7 million as a result of solid business performance;
- The increase in working capital and other was driven by the building of inventory ahead of new product launches and higher safety stock levels for critical components;
- Capital expenditure (capex) of $43.9 million includes investment in the upgrade of the Lane Cove and Kuala Lumpur facilities and stay-in-business capex; and
- Payments for share buyback reflects the $19.3 million outlay for the repurchase of ordinary shares as part of the on-market share buyback.

Capital employed

$m	Dec24	Jun24	Change
Trade receivables	435.2	425.3	9.9
Inventories	461.1	391.6	69.5
Less: Trade and other payables	(285.5)	(303.2)	17.7
Working capital	**610.8**	**513.7**	**97.1**
*Working capital / sales revenue**	*26%*	*23%*	
Property, plant and equipment	323.4	304.8	18.6
Intangible assets	467.8	451.0	16.8
Investments and other financial assets	198.9	181.3	17.6
Other net liabilities	(116.4)	(123.9)	7.5
Capital employed	**1,484.5**	**1,326.9**	**157.6**
Funding sources:			
Equity	1,867.6	1,840.5	27.1
Less: Net cash	(383.1)	(513.6)	130.5
Capital employed	**1,484.5**	**1,326.9**	**157.6**

* Dec24 calculation based on doubling HY25 sales revenue.

Capital employed increased $157.6 million to $1,484.5 million since June 2024.

Key points of note:

- Working capital increased $97.1 million, increasing from 23% to 26% of sales revenue, driven by the building of inventory ahead of new product launches and higher safety stock levels for critical components;
- Property, plant and equipment increased $18.6 million primarily reflecting investment in capacity expansion at the Lane Cove and Kuala Lumpur manufacturing facilities; and
- Net cash decreased $130.5 million to $383.1 million.

Dividends

	HY25	HY24	Change %
Interim ordinary dividend (per share)	$2.15	$2.00	8%
% Payout ratio (based on underlying net profit)	68%	68%	
% Franking	80%	70%	

An interim dividend of $2.15 per share has been determined, an increase of 8% on last year and representing a payout of 68% of underlying net profit. The interim dividend is franked at 80%.

The ex-dividend date is 20 March 2025. The record date for calculating dividend entitlements is 21 March 2025 with the interim dividend expected to be paid on 14 April 2025.

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	HY25	HY24	Change %
Underlying net profit	**205.5**	**191.8**	**7%**
FX contract movement		16.8	
Spot exchange rate effect to sales revenue and expenses*		(11.7)	
Balance sheet revaluation*		6.8	
Underlying net profit (CC)	**205.5**	**203.7**	**1%**
One-off net gains / (losses)	(0.4)	(0.4)	
Statutory net profit (CC)	**205.1**	**203.3**	**1%**

* HY25 actual v HY24 at HY25 rates.

For further information, please contact:

Analysts

Kristina Devon

Vice President Corporate Strategy and Investor Relations

Email: kdevon@cochlear.com

Ph: + 61 2 9073 4194

Media

Jennifer Stewart

Vice President Digital Marketing, Communications and Brand

Email: jstewart@cochlear.com

Ph: +61 2 9073 4186

Authorised for lodgement by the Cochlear Board of Directors.