



## FY17 Result Presentation

17 August 2017

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## FY17 – Result highlights



### Strong momentum across the business

- CC sales revenue  $\uparrow$  12% with strong H2 momentum,  $\uparrow$  15% in CC
- CC Services revenue  $\uparrow$  10% and CC Acoustics revenue  $\uparrow$  26%
- Cochlear implant units  $\uparrow$  8% (14% excl China tender) with developed markets up 12%

### Market leadership position strengthened

- New products broadening the portfolio and driving share gains – Kanso, CI532, Baha 5
- Ongoing investment in DTC and sales force expansion driving market growth

### Strong financial position

- Net profit  $\uparrow$  18% to \$224m
- Solid operating leverage
- Operating cash flow up 40% supports increased dividend and funding of acquisitions with minimal change to net debt

CC = constant currency

## Hearing loss market opportunity



**360,000,000**

Over 5% of the world's population - 360 million people - has disabling hearing loss (328 million adults and 32 million children).<sup>1</sup>



**1 in 3**

Nearly 1 out of every 3 people over the age of 65 are affected by hearing loss. It affects communication and can contribute to social isolation, anxiety, depression and cognitive decline.<sup>2</sup>



**37,000,000**

people who could benefit from a cochlear implant to treat severe to profound hearing loss.<sup>3,4</sup>



**<5%**

Market penetration.<sup>5</sup>

## 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.



## Strategic platforms – solid progress made



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## Investments to Grow the Core



### Sycle

- Largest provider of audiology practice management software in the US with an estimated ~70% market share
- Opportunity to improve the continuum of care for patients in the hearing aid channel

### FOX / Otoconsult

- Exclusive licensing and development agreement with Otoconsult NV for its artificial intelligence fitting assistant FOX (Fitting to Outcomes eXpert)
- Enable a faster and more consistent fitting of cochlear implants to drive clinic efficiencies and deliver the best possible patient outcomes

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## Investments to Shape the Organisation



### China manufacturing

- \$50 million state-of-the-art manufacturing facility in Chengdu, the capital of Sichuan province, for the manufacturing of cochlear implants and sound processors
- Production in China for China and Emerging markets
- Strengthens our presence in a fast-growing, Top 5 market
- Capacity to increase our global cochlear implant production by around 50%

### Lane Cove property acquisition

- Secures our Australian manufacturing footprint

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## Nucleus® 7 Sound Processor



Made for iPhone allows users to stream sound directly to their sound processor, offering greater accessibility, connectivity and wireless solutions



Made for  
iPod iPhone iPad



### Nucleus 7 Smart App

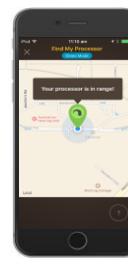
Control



Hearing  
tracker



Find My  
Processor



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## Nucleus® 7 Sound Processor



- 25% smaller<sup>1</sup>
- 24% lighter<sup>1</sup>
- up to 50% longer battery life<sup>1</sup>
- Bimodal solution with compatible ReSound™ hearing aid
- New ultra-compact one-piece coil & cable
- Launch in US and Europe in Sep17

1. compared to the Nucleus 6 Sound Processor



## Cochlear implants



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

**Cochlear implant sales revenue ↑ 10% in CC and unit growth ↑ 8%**

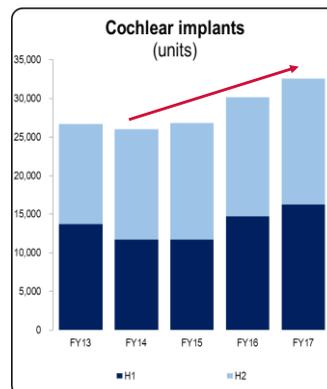
- Unit growth up 14% (ex China tender)
- Developed market units up 12% – continuing strong growth in the US & Western Europe
- Emerging market units up ~20% (excl China tender) – India, Latin America and Central & Eastern Europe

#### Successful new products

- Kanso Sound Processor & Slim Modiolar electrode

#### Strong market growth

- DTC expansion to Australia, Germany, UK and India
- Sales force expansion – >100 additional reps



CC = constant currency

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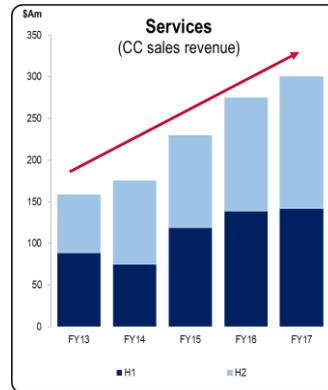
## Services



### Lifetime relationship with > 450,000 recipients

#### Sales revenue ↑ 10% in CC

- Strong H2 momentum with CC sales up 17%
- Nucleus 6 Sound Processor upgrade penetration has reached ~40% across developed markets
- Expanded global focus on recipient engagement
- Cochlear Family membership up >150% to ~60,000 recipients



CC = constant currency

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## Acoustics



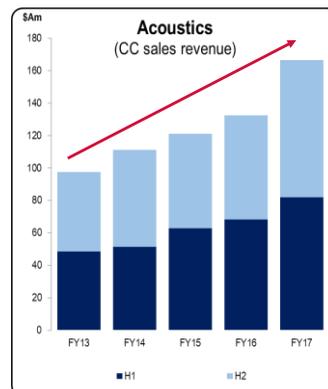
### Baha product innovation driving demand and share gains

#### Sales revenue ↑ 26% in CC

- Solid performances across all regions

#### New products drive market growth and upgrades

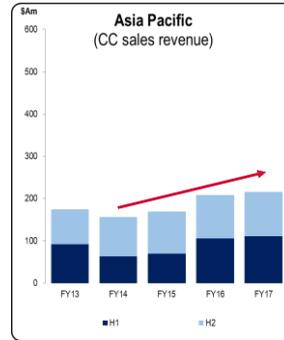
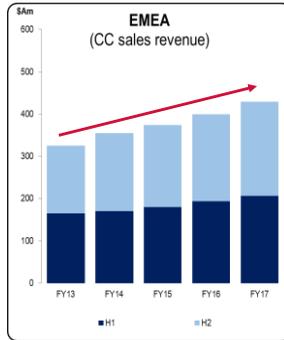
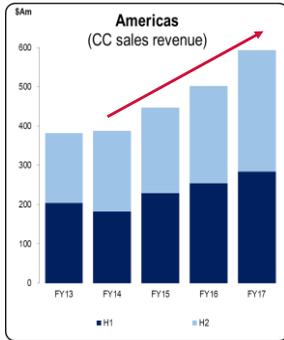
- Baha® 5 System – smallest on the market and made for iPhone
- Baha Power and SuperPower expand the fitting range to 65dB



CC = constant currency

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# Strong performances across regions



## Americas – sales ↑ 18%<sup>1</sup>

- US cochlear implant units up >15%
- Strong growth in Services revenue
- H2 momentum with sales growth >20%

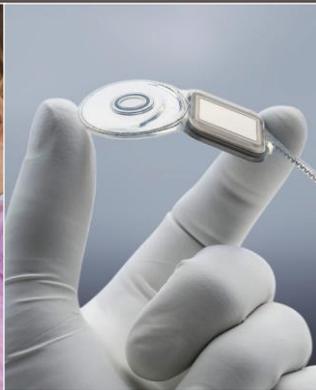
## EMEA – sales ↑ 7%<sup>1</sup>

- Western Europe unit growth of >10%
- Central & Eastern Europe performing well

## APAC – sales ↑ 4%<sup>1</sup>

- Solid growth across markets including India, Korea and South East Asia
- China tender units declined YoY

1. constant currency (CC)



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## Financial highlights



- **Continued investment to drive growth** – Strong sales uplift supported by up-weighted sales and marketing activities and R&D investment
- **Solid operating leverage** – 12% increase in CC sales revenue generating 15% increase in CC EBIT
- **Strong balance sheet and cash flows able to fund acquisitions and dividends** – 40% increase in operating cash flow funding acquisitions and dividend payments with only a minimal increase in net debt

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## Solid operating leverage driven by top line growth



A\$m	FY17	FY16	Chg % (reported)	Chg % (CC)
<b>Sales revenue</b>	<b>1,239.7</b>	<b>1,158.1</b>	<b>7%</b>	<b>12%</b>
Cost of goods sold	358.4	333.6	7%	10%
<i>% of sales revenue</i>	<i>29%</i>	<i>29%</i>		
Selling, marketing and general expenses	348.9	324.1	8%	13%
Administration expenses	83.5	79.3	5%	6%
R&D expenses	151.9	145.1	5%	7%
<i>% of sales revenue</i>	<i>12%</i>	<i>13%</i>		
<b>Total expenses</b>	<b>942.7</b>	<b>882.1</b>	<b>7%</b>	<b>10%</b>
Other income	4.5	14.1		
FX contract gains / (losses)	14.1	(27.5)		
<b>EBIT</b>	<b>315.6</b>	<b>262.6</b>	<b>20%</b>	<b>15%</b>
<i>% of sales revenue</i>	<i>25%</i>	<i>23%</i>		
Net finance costs	6.8	8.3	(19%)	
Taxation expense	85.2	65.4	30%	
<i>% effective tax rate</i>	<i>28%</i>	<i>26%</i>		
<b>Net profit</b>	<b>223.6</b>	<b>188.9</b>	<b>18%</b>	<b>11%</b>

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## Strong AUD impacts CC net profit growth



FX contract gains driven by AUD appreciation against most major currencies, largely offset by P&L translation impacts and balance sheet revaluations (primarily mark-to-market of working capital)

A\$m	FY17	FY16	Chg %
Net profit (reported)	223.6	188.9	18%
FX contract gains/(losses)		41.6	
Spot exchange rate effect to sales and operating expenses <sup>1</sup>		(20.0)	
Balance sheet revaluation <sup>1</sup>		(8.3)	
<b>Net profit (constant currency<sup>2</sup>)</b>	<b>223.6</b>	<b>202.2</b>	<b>11%</b>

<sup>1</sup> FY17 actual v FY16 at FY17 rates

<sup>2</sup> Constant currency removes the impact of exchange rate movements and FX contract gains/(losses) to facilitate comparability

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## Strong cash flows fund investments



Earnings growth drives 40% uplift in operating cash flow. ~\$90m investment made in Sycle and Lane Cove manufacturing

A\$m	FY17	FY16	\$ chg
EBIT	315.6	262.6	53.0
Depreciation and amortisation	31.2	33.5	(2.3)
Change in working capital and other	(0.6)	(20.0)	19.4
Net interest paid	(7.9)	(10.3)	2.4
Income taxes paid	(78.5)	(80.7)	2.2
<b>Operating cash flow</b>	<b>259.8</b>	<b>185.1</b>	<b>74.7</b>
Capital expenditure	(26.0)	(28.9)	2.9
Acquisition of Lane Cove property	(27.6)	-	(27.6)
Acquisition of subsidiary (Sycle)	(63.7)	-	(63.7)
Other investments	(18.3)	(21.2)	2.9
<b>Free cash flow</b>	<b>124.2</b>	<b>135.0</b>	<b>(10.8)</b>

## Capital employed increase driven by acquisitions



Capital employed increase driven by acquisition of Sycle and Lane Cove property

A\$m	Jun17	Jun16	\$ chg
Trade receivables	275.4	268.5	6.9
Inventories	160.0	154.1	5.9
Less: Trade payables	(130.9)	(110.3)	(20.6)
<b>Working capital</b>	<b>304.5</b>	<b>312.3</b>	<b>(7.8)</b>
<i>Debtor days</i>	79	85	(6)
<i>Inventory days</i>	164	169	(5)
Property, plant and equipment	120.1	86.9	33.2
Intangible assets	340.0	224.3	115.7
Other net liabilities	(91.6)	(57.1)	(34.5)
<b>Capital employed</b>	<b>673.0</b>	<b>566.4</b>	<b>106.6</b>

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## Modest increase in net debt



Increase in net debt of \$12m since Jun16 with strong operating cash flows largely funding acquisitions and dividend payments and reduction in finance costs with more focused Treasury controls

A\$m	Jun17	Jun16	\$ chg
Loans and borrowings			
Current	84.7	4.0	80.7
Non-current	134.2	189.3	(55.1)
Total debt	218.9	193.3	25.6
Cash	(89.5)	(75.4)	(14.1)
<b>Net debt</b>	<b>129.4</b>	<b>117.9</b>	<b>11.5</b>
Net finance costs	6.8	8.3	(1.5) <sup>1</sup>

<sup>1</sup> Net finance costs reduction driven by lower average net debt in FY17, additional interest income and improved facility terms

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## Dividends



Full year dividends up 17%, fully franked, and on target at ~70% payout of net profit

A\$m	FY17	FY16	% chg
Interim ordinary dividend	\$1.30	\$1.10	18%
Final ordinary dividend	\$1.40	\$1.20	17%
Total ordinary dividends	\$2.70	\$2.30	17%
<i>Payout ratio %</i>	69%	70%	
<i>Franking %</i>	100%	100%	

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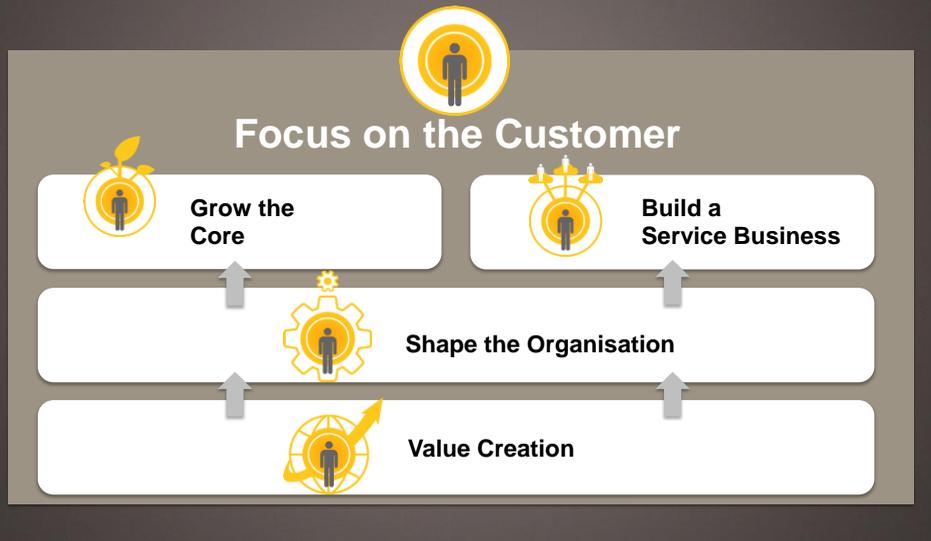
President

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## Strategic platforms

Cochlear aims to make implantable hearing solutions the **standard of care**



## FY18 outlook



**Expect FY18 reported net profit of \$240-250m, with currency headwinds expected to moderate strong underlying business growth**

### Key guidance considerations

- expect solid momentum in unit growth to continue, supported by further investment in market access and market growth activities
- expect Nucleus 7 Sound Processor to contribute to both implant growth and upgrade demand over the coming years
- net profit weighted to H2 due to timing of Nucleus 7 Sound Processor launch
- expect R&D to be \$160-170m
- forecasting a weighted average AUD/USD exchange rate of 80 cents for FY18 versus 75 cents in FY17
- target dividend payout ratio of ~70% of net profit

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## Notes



### 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.

### Non-IFRS financial measures

Given the significance of foreign exchange 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 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 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.

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## References



### Slide 3

- \* Disabling hearing loss refers to hearing loss greater than 40 decibels (dB) in the better hearing ear in adults and a hearing loss greater than 30 dB in the better hearing ear in children.
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- 3. Hearing Loss Prevalence in the United States [Internet]. Lin, Niparko, Ferrucci [cited 26 April 2016].
- 4. The Severely to Profoundly Hearing-Impaired Population in the United States [Internet]. Blanchfield, Feldman, Dunbar, Gardner [cited 26 April 2016].
- 5. Market penetration - global estimate based on Cochlear sourced data.

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