




HY18 Result Presentation

13 February 2018

<p>Dig Howitt Brent Cubis</p>	<p>CEO & President CFO</p>	 <p><i>Hear now. And always.</i></p>
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HY18 – Result highlights



- Strong momentum across developed markets continues**
 - Developed market unit growth up 12%
 - Strengthening market leadership position with new products broadening the portfolio and driving share gains
 - Ongoing investment in DTC and sales force expansion driving market growth
 - Continuing strong performance from the Services business
- Emerging markets unit reduction due to timing of tenders**
 - Strong growth over time but can be inconsistent over the short-term
 - HY17 included 1,100 China tender units with shipment of 1,491 China tender units awarded in Oct17 to start shipping during H2
- Strong financial position**
 - Net profit of \$110.8m, down 1% (up 1% in CC) – includes \$5.5m one-time non-cash expense due to changes in US tax legislation (5% impact)
 - Solid cash flow generation supports an 8% increase in interim dividend

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).¹



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.²



37,000,000

people who could benefit from a cochlear implant to treat severe to profound hearing loss.^{3,4}



<5%

Market penetration.⁵

Refer slide 21 for detailed notes

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

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



Key priorities



Demand generation – turning clinical need into demand

- **Build awareness** – building greater awareness of cochlear implants and the importance of hearing to healthy ageing
- **Drive market access** – expansion of reimbursement and indications for cochlear implantation

Technology leadership

- Invest to strengthen our technology leadership position
- Expansion of research and trials to build clinical evidence

Build the Services platform

- Provide a world class customer experience with increased connectivity and engagement with customers

Emerging markets leadership

- Long term growth potential as wealth increases

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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

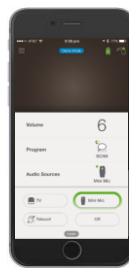


Made for

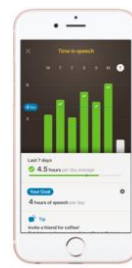


Nucleus 7 Smart App

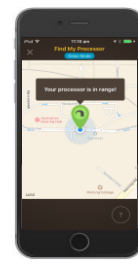
Control



Hearing tracker



Find My Processor



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Cochlear implants



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

Cochlear implant sales revenue ↑ 6% in CC

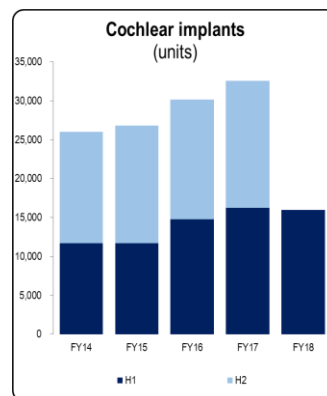
- Developed market units up 12% – continuing strong growth in the US & Western Europe
- Emerging market units down driven primarily by the timing of tenders, particularly China (1,100 tender units in HY17)

Successful new products drive share gains

- Nucleus 7 Sound processor, Kanso Sound Processor & Slim Modiolar electrode all generating strong demand

Investment in awareness is stimulating market growth in developed markets

- Expansion of sales force and DTC



CC = constant currency

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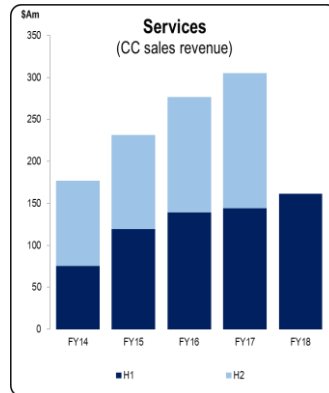
Services



Lifetime relationship with > 475,000 recipients

Sales revenue ↑ 12% in CC

- Upgrade revenue up 9% in CC driven by uptake of Nucleus 7 Sound Processor from Q2
- Expanded global focus on recipient engagement
- Cochlear Family membership up 27% to 76,000 recipients
- First time inclusion of Cycle revenue



CC = constant currency

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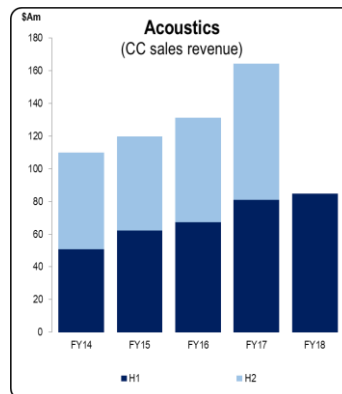
Acoustics



Baha product innovation driving demand

Sales revenue ↑ 5% in CC

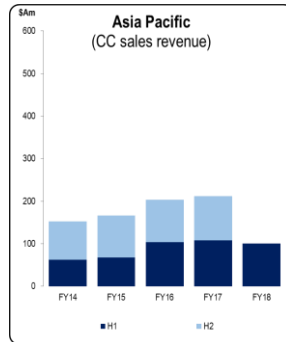
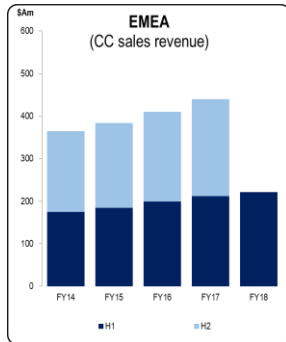
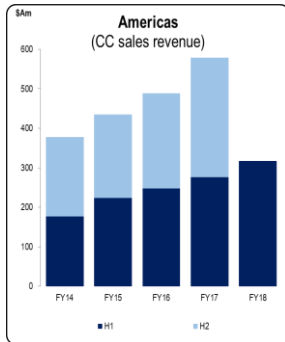
- Solid demand continuing for the Baha® 5 range of sound processors
- Follows 20% CC growth in HY17



CC = constant currency

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Regional review



Americas – sales ↑ 15%¹

- US cochlear implant units up 15%
- Strong market growth as well as market share gains
- Strong growth in Services revenue

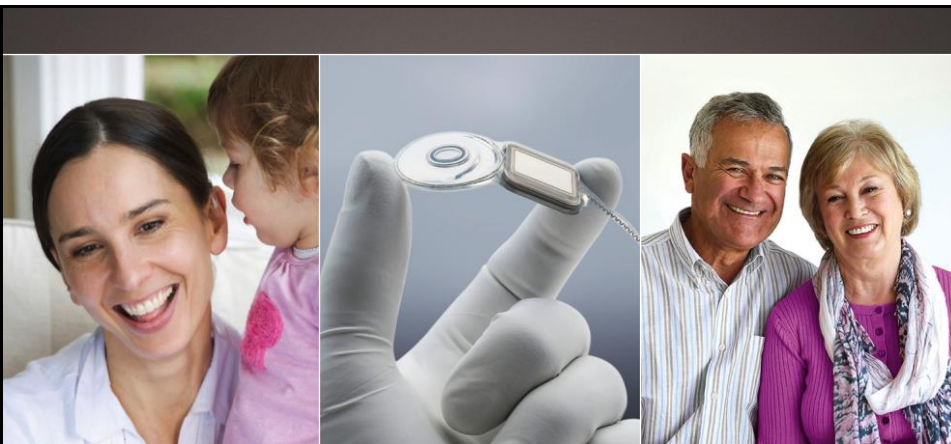
EMEA – sales ↑ 5%¹

- Western Europe unit growth of 9%
- Market growth and market share gains
- Reduction in EMEA emerging market units

APAC – sales ↓ 7%¹

- Solid unit growth in Australia, China private pay surgeries up and expanded indications in Japan
- HY17 included 1,100 China tender units

1. constant currency (CC)



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Profit & loss



A\$m	HY18	HY17	Chg % (reported)	Chg % (CC)
Sales revenue	639.6	604.4	6%	7%
Cost of goods sold <i>% of sales revenue</i>	176.4 28%	176.2 29%	0%	1%
Selling, marketing and general expenses	189.1	165.2	14%	16%
Administration expenses	44.2	44.3	0%	0%
R&D expenses <i>% of sales revenue</i>	80.6 13%	72.2 12%	12%	11%
Total expenses	490.3	457.9	7%	8%
Other income	1.1	5.1		
FX contract gains / (losses)	10.0	4.8		
EBIT <i>% of sales revenue</i>	160.4 25%	156.4 26%	3%	4%
Net finance costs	3.8	3.4	12%	
Taxation expense <i>% effective tax rate</i>	45.8 29%	41.6 27%	10%	
Net profit	110.8	111.4	(1%)	1%

Cash flow



Higher income taxes paid due to timing of cash tax payments

A\$m	HY18	HY17	\$ chg
EBIT	160.4	156.4	4.0
Depreciation and amortisation	15.4	15.9	(0.5)
Change in working capital and other	(24.2)	(29.0)	4.8
Net interest paid	(3.7)	(3.3)	(0.4)
Income taxes paid	(55.2)	(37.7)	(17.5)
Operating cash flow	92.7	102.3	(9.6)
Capital expenditure	(16.5)	(17.2)	0.7
Other investments	(3.4)	-	(3.4)
Free cash flow	72.8	85.1	(12.3)

Capital employed



Inventory increase to fund business growth and inventory build ahead of delivery of China tender units in H2

A\$m	Dec17	Jun17	\$ chg
Trade receivables	275.2	275.4	(0.2)
Inventories	177.3	160.0	17.3
Less: Trade payables	(116.7)	(130.9)	14.2
Working capital	335.8	304.5	31.3
<i>Debtor days</i>	71	74	(3)
<i>Inventory days</i>	182	164	18
Property, plant and equipment	121.0	120.1	0.9
Intangible assets	343.9	340.0	3.9
Other net liabilities	(88.8)	(91.6)	2.8
Capital employed	711.9	673.0	38.9

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Net debt



Net debt remains relatively flat

A\$m	Dec17	Jun17	\$ chg
Loans and borrowings			
Current	59.6	84.7	(25.1)
Non-current	184.4	134.2	50.2
Total debt	244.0	218.9	25.1
Cash	(106.9)	(89.5)	(17.4)
Net debt	137.1	129.4	7.7

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Dividends



Interim dividend up 8%, fully franked

A\$m	HY18	HY17	% chg
Interim ordinary dividend	\$1.40	\$1.30	8%
<i>Payout ratio %</i>	73%	67%	
<i>Franking %</i>	100%	100%	

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CEO & President

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Maintain FY18 guidance of net profit of \$240-250m

Key guidance considerations

- expect solid momentum in developed market unit growth to continue, which will be supported by investment in market access and market growth activities
- expect to start shipping the 1,491 China Central Government tender units awarded in October 2017
- expect full year R&D to be \$160-170m
- expect the full year net impact of the change in US tax legislation to reduce net profit by \$3-4 million
- forecasting a weighted average AUD/USD exchange rate of ~79 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.
- 1. Who.int. WHO | Deafness and hearing loss [Internet]. 2015
- 2. Who.int. WHO | 10 facts on deafness [Internet]. 2015.
- 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.