

HY19 Result Presentation

19 February 2019

Dig Howitt CEO & President

Brent Cubis CFO

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Cochlear®

HY19 – Result highlights

Strong growth in upgrades

- Upgrade revenue increased by 26% in CC* with strong uptake of Nucleus® 7 Sound Processor
- Growing recipient base driving Services to ~30% of revenue

Cochlear implant units up 5%

- Developed markets flat on HY18 with increased competitor activity and health budget constraints in a few markets
- Strong growth in Japan following the expansion of indications and funding
- Emerging markets units up >15%

Investing to grow on track

- Ongoing investment in DTC and focus on sales force expansion and effectiveness
- Increasing focus on standard of care initiatives to strengthen the referral pathway for cochlear implants and support broader funding and indications
- Continuing to invest R&D to advance the long-term technology development pipeline

Strong financial position

- Net profit up 16% (16% in CC), up 11% in CC adjusted for HY18 deferred tax revaluation
- Strong cash flow generation supports 11% increase in interim dividend

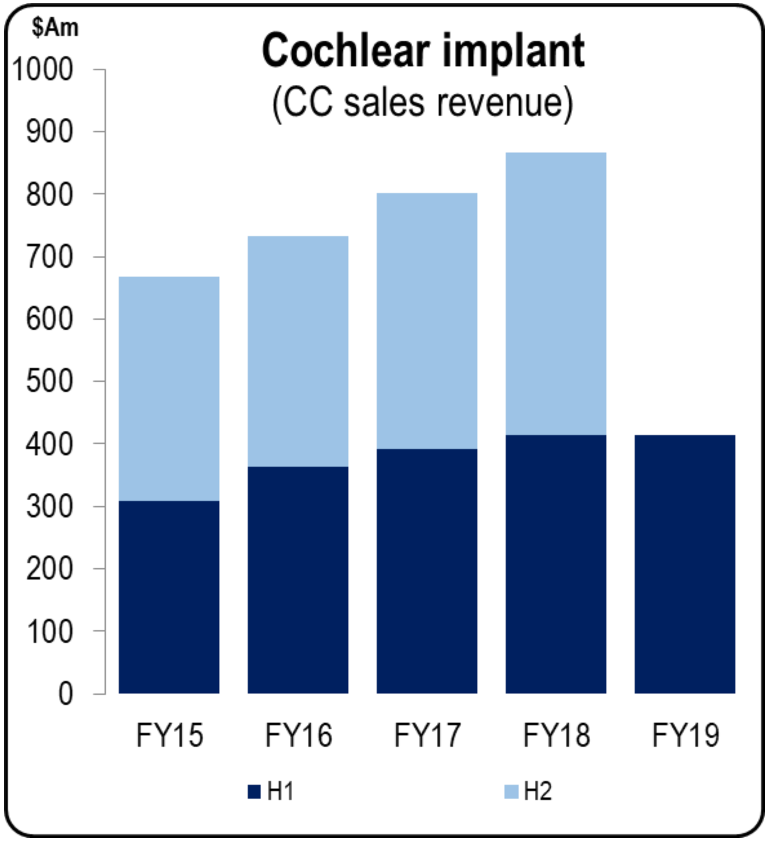
* constant currency (CC)

Cochlear implants – 58% of sales revenue

CI units in line for developed markets with strong emerging markets growth

Units up 5% and sales revenue in line in CC*

- Developed market units and revenue in line with HY18 – increased competitor activity and health budget constraints in a few markets. Strong Japan following the expansion of indications and funding
- Investing to drive long-term growth – standard of care initiatives, market access, building on clinical evidence, building awareness and education in the hearing aid channel
- Seniors segment continues to be the fastest growing segment across the developed markets
- Emerging market units up >15%



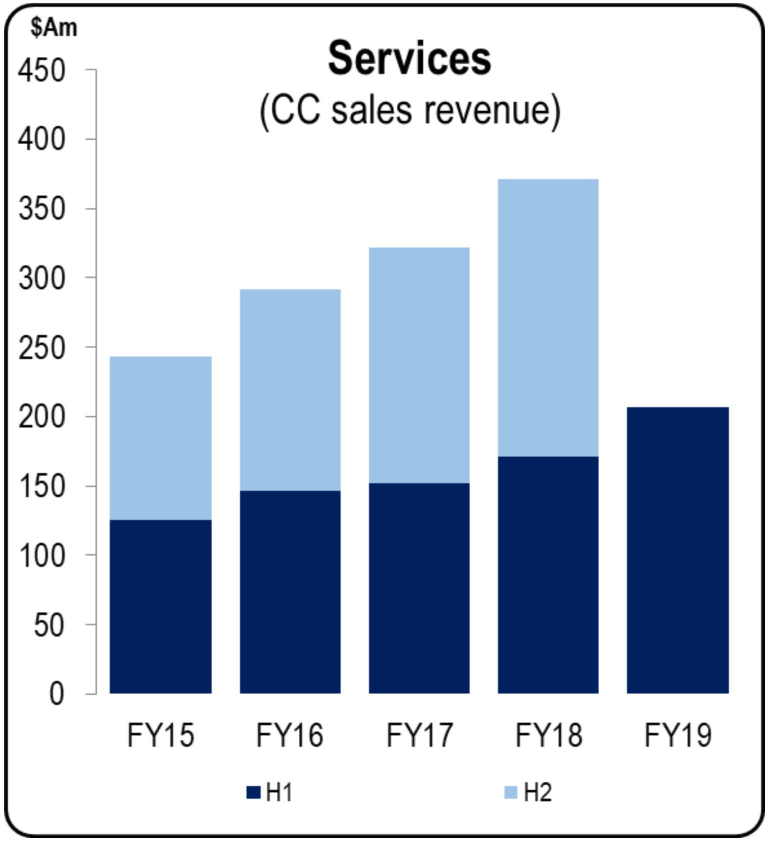
* constant currency (CC)

Services – 29% of sales revenue

Increasing engagement with growing recipient base

Sales revenue ⬆ 21% in CC*

- Importance of growing recipient base to revenue growth
- Upgrade revenue up 26% in CC with strong demand for the Nucleus 7 Sound Processor, launched in Oct17 with the addition of the Nucleus Smart App for Android™, released in Jun18
- Expanded global focus on recipient engagement with Cochlear Family membership up 20% since Jun18 to >120,000 members



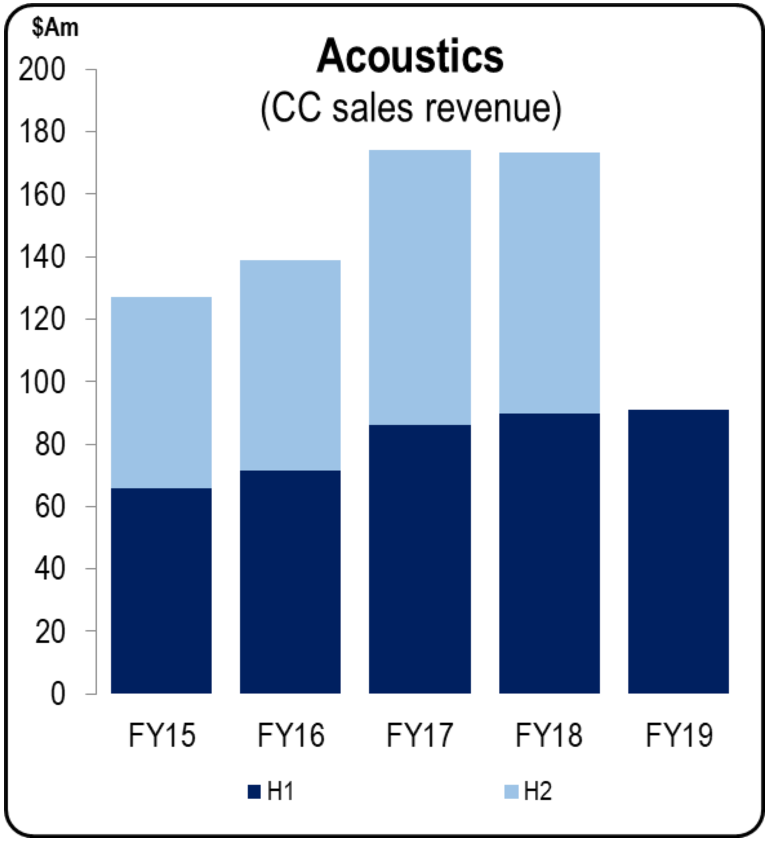
* constant currency (CC)

Acoustics – 13% of sales revenue

Maintained strong market position for Baha products

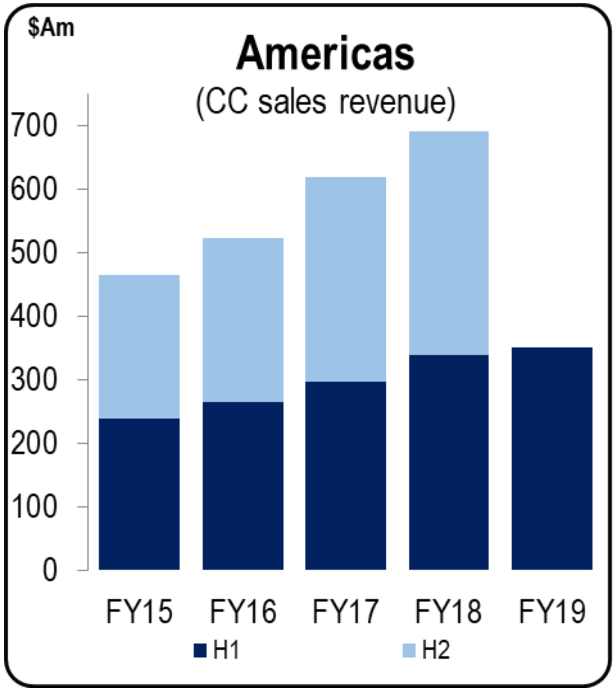
Sales revenue ⬆ 1% in CC*

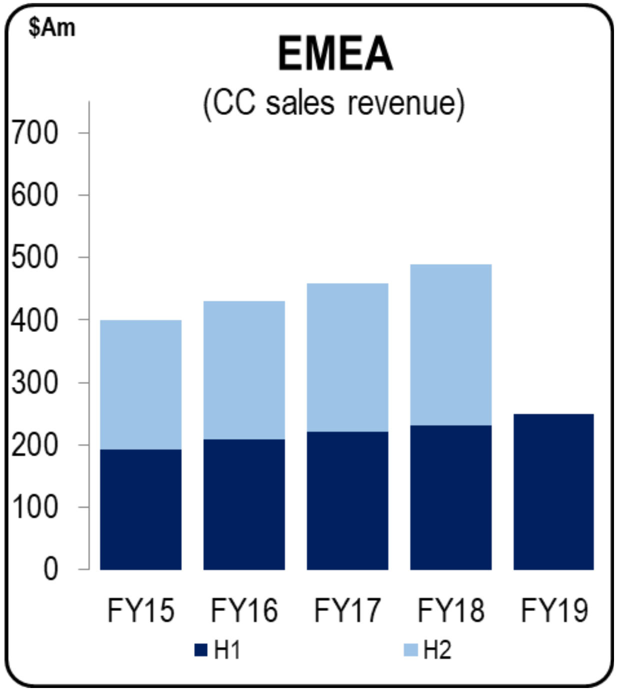
- Demand continuing for the Baha 5 system
- Longer-term opportunity for market expansion

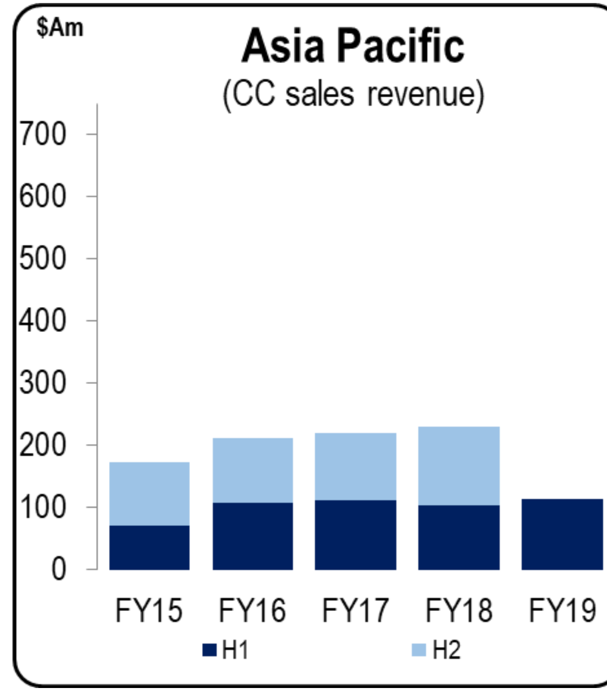


* constant currency (CC)

Regional review







Sales revenue ⬆ 3%*

- Lower rates of cochlear implant growth in the US following a competitor product launch

Sales revenue ⬆ 8%*

- Strong services revenue growth in Western Europe, partly offset by impacts of health budget constraints and increased competitor activity on cochlear implant revenue

Sales revenue ⬆ 8%*

- Japan experienced strong unit growth, with Australia delivering strong growth in sound processor upgrades

* constant currency (CC)

Commitment to product innovation and technology leadership

Cochlear®

Latest products - market-leading technology, improved hearing outcomes, connectivity and lifestyle solutions

reddot award 2018 winner

Made for iPod iPhone iPad

Nucleus® Profile with Slim Modiolar Electrode (CI532)

Nucleus® 7 Sound Processor

Nucleus® Smart App

Cochlear™ Baha® SoundArc

Strengthened collaboration with GN Hearing - ensuring bimodal recipients can access the latest in connectivity and wireless technology

Cochlear® | ReSound GN

Smart Hearing Alliance

Progressing the long-term innovation agenda - TICI

Cochlear to reveal next era of implants

EXCLUSIVE

user, such as breathing and chewing.

"Also, putting a battery in the head next to the brain requires a

Patent dispute update contingent liability

- In November 2018, US$268m in damages awarded against Cochlear in AMF patent dispute. Cochlear has appealed the decision
- AMF and AB have sought a further US$123 million in prejudgment interest which Cochlear has opposed
- The Board has since obtained independent legal advice and believes a successful appeal is probable. The Board is unable to reliably estimate the final damages award so the existing $21.3m provision has been released and a contingent liability disclosed
- Established a provision to cover estimated future costs for defending this matter, with $19.6m remaining at 31Dec18
- Current product portfolio not affected by this litigation as the patent at issue has expired
- Balance sheet is very strong with conservative gearing levels. In the event the appeal is unsuccessful, the Board is confident that Cochlear will be able to access debt facilities to fund the existing decision and any award of interest and costs



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HY19 – Financial highlights

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Continued investment to drive growth

- Strong upgrade cycle, improved GM and lower US tax rates fund investment in market growth activities
- Continued investment in longer-term initiatives – market access, standard of care, clinical trials

Strong balance sheet and cash flow generation funds growth

- Operating cash flows > net profit
- Cash flows fund market growth activities, increased capex and increased dividends while enabling debt reduction
- Net profit up 16% (16% in CC), up 11% (11% in CC) adjusted for impact of the deferred tax asset revaluation in HY18

Profit & loss

Cochlear®

Strong upgrade cycle, improved GM and lower US tax rates fund investment in market growth activities

A$m	HY19	HY18	Chg % (reported)	Chg % (CC)
Sales revenue	**711.9**	**639.6**	**11%**	**6%**
Cost of goods sold	179.5	176.4	2%	(2%)
% gross margin	*75%*	*72%*	3 pts	2 pts
Selling, marketing and general expenses	216.1	189.1	14%	10%
Administration expenses	47.5	44.2	7%	7%
R&D expenses	88.2	80.6	9%	8%
% of sales revenue	*12%*	*13%*		
Total expenses	**531.3**	**490.3**	**8%**	**5%**
Other income	4.5	1.1		
FX contract gains / (losses)	(8.1)	10.0		
EBIT	**177.0**	**160.4**	**10%**	**11%**
% of sales revenue	*25%*	*25%*		
Net finance costs	2.7	3.8	(29%)	
Taxation expense	45.7	45.8	0%	
% effective tax rate	*26%*	*29%*		
Net profit	**128.6**	**110.8**	**16%**	**16%**
Net profit / sales revenue	*18%*	*17%*		

Avg USD = 0.72 *Avg USD = 0.78*

Cash flow

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Strong cash realisation with operating cash flows > net profit. Enables the business to self-fund growth activities, increase dividends and reduce debt

A$m	HY19	HY18	$ chg
EBIT	177.0	160.4	16.6
Depreciation and amortisation	17.5	15.4	2.1
Change in working capital and other	19.0	(24.2)	43.2
Net interest paid	(2.7)	(3.7)	1.0
Income taxes paid	(46.7)	(55.2)	8.5
Operating cash flow	**164.1**	**92.7**	**71.4**
Capital expenditure	(36.0)	(15.1)	(20.9)
Acquisition of other intangible assets	(8.7)	(1.4)	(7.3)
Other net investments	(20.9)	(3.4)	(17.5)
Free cash flow	**98.5**	**72.8**	**25.7**

Capital employed

Increase in capital employed driven by investments in China manufacturing facility and IT platforms, partly offset by reductions in working capital

A$m	Dec18	Jun18	$ chg
Trade receivables	275.0	299.1	(24.1)
Inventories	176.5	167.4	9.1
Less: Trade and other payables	(144.1)	(140.5)	(3.6)
Working capital	307.4	326.0	(18.6)
*Working capital / sales revenue**	*22%*	*24%*	*(2%)*
Debtor days	*69*	*69*	*-*
Inventory days	*178*	*171*	*7*
Property, plant and equipment	140.9	128.4	12.5
Intangible assets	368.8	345.3	23.5
Other net liabilities	(90.9)	(102.7)	11.8
Capital employed	**726.2**	**697.0**	**29.2**

** Based on doubling HY19 sales revenue*

USD 70c @ 31/12/18 USD 74c @ 30/6/18

Net debt

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Lower net debt driven by improved earnings

A$m	Dec18	Jun18	$ chg
Loans and borrowings			
Current	3.5	3.7	(0.2)
Non-current	161.5	144.0	17.5
Total debt	165.0	147.7	17.3
Cash	(92.3)	(61.5)	(30.8)
Net debt	**72.7**	**86.2**	**(13.5)**
Weighted average debt maturity (based on facility limits)	3.3 years	3.8 years	(0.5) years
AUD debt	69%	98%	(29%)

Dividends

Interim dividend increased by 11%, fully franked, and at a payout of 70% of net profit

A$m	HY19	HY18	% chg
Interim ordinary dividend	$1.55	$1.40	11%
Payout ratio %	*70%*	*73%*	
Franking %	*100%*	*100%*	



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Strategic priorities

Retain market leadership

Market-leading technology | World-class customer experience

Grow the hearing implant market

Awareness | Market access | Clinical evidence

Deliver consistent revenue and earnings growth

Invest to grow | Operational improvement | Strong financial position

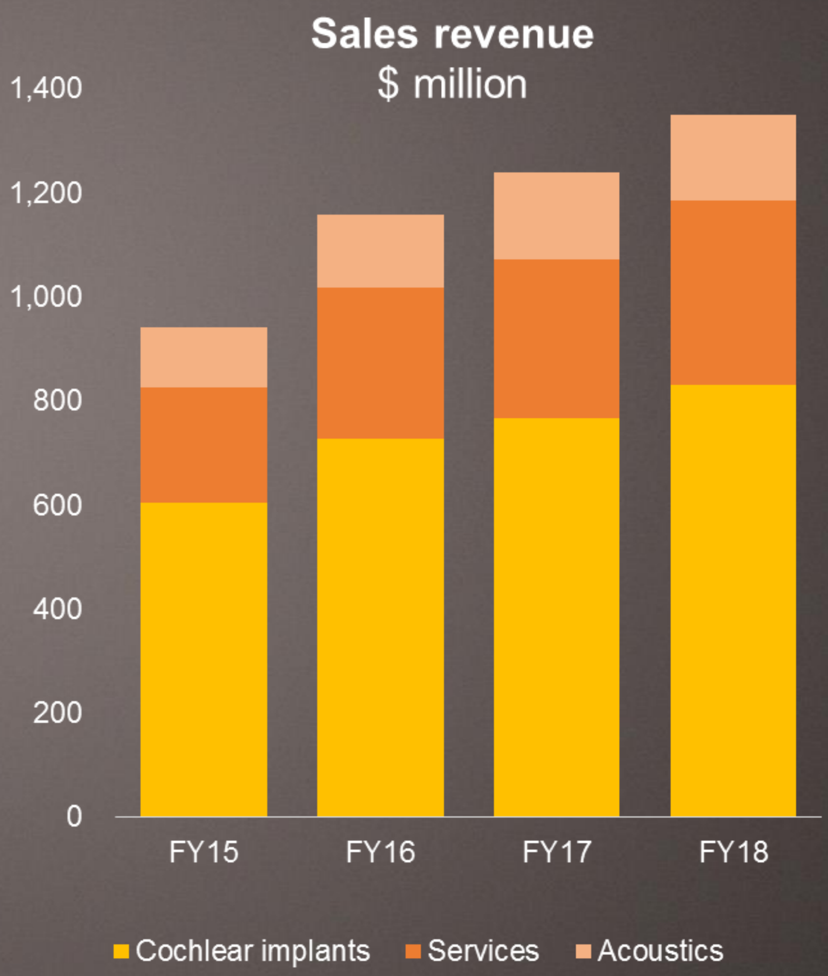
Expect to continue to grow revenue across all business units

Revenue growth drivers:

Cochlear implants
- DTC and sales force expansion
- Growing awareness and uptake by adults and seniors
- New products
- Emerging market expansion

Services
- Growing recipient base
- Greater connectivity and engagement with recipients
- Nucleus® 7 Sound Processor and Nucleus Kanso® Sound Processor upgrades

Acoustics
- Baha® 5, Power and SuperPower Sound Processor and Baha SoundArc launches
- Market expansion



Cochlear is investing operating cash flows to drive growth

Invest to grow

- Building awareness and access to our products requires multi-year investment in sales, marketing and R&D activities
- Through disciplined investment, we will aim to maintain the net profit margin

Operational improvement

- Optimising cost of production strengthens our competitive position
- Using scale to generate efficiency gains to reinvest in market growth activities

Strong financial position

- Strong cash flow generation funds growth
- We aim to maintain the strong balance sheet position and continue to target a dividend payout of around 70% of net profit

FY19 outlook

Maintaining FY19 net profit guidance of $265-275m, up 8-12%

Key guidance considerations:

- Revenue growth to be driven by the Services business, with strong uptake of the Nucleus 7 Sound Processor, particularly in the first half
- Expect a lower rate of cochlear implant growth across the developed markets for FY19
- Emerging market growth rates over time continue to be strong, however, annual growth rates can be variable driven by the timing of tender based activity and macro-economic conditions
- Continued investment to retain market leadership and drive long-term market growth with the target of maintaining the net profit margin
- Forecasting a weighted average AUD/USD exchange rate of 72 cents for FY19 (77 cents in FY18) and AUD/EUR of 0.63 EUR (0.65 EUR in FY18)

Notes

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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 not be placed on any forward looking statement.

Non-IFRS financial measures
Given the significance of exchange rate 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 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 reported EBIT and net profit is adjusted to calculate the result at constant currency.