

## **ASX / MEDIA RELEASE**

**11 August 2009**

### **COCHLEAR ANNOUNCES RECORD REVENUE AND EARNINGS FOR THE YEAR ENDING 30 JUNE 2009**

- Revenue up 15% to \$694.7 million
- Earnings before Interest and Tax (EBIT) up 10% to \$183.3 million
- Net Profit after Tax (NPAT) up 13% to \$130.5 million (Core Earnings up 12% to \$138.0 million)
- Final dividend up 19% to 95 cents per share
- Gearing reduced to 23% and new three year facility established
- Poised for growth: development of new products Cochlear Nucleus 5 and Cochlear Baha BP100 completed and available for market release

Cochlear Limited, the global leader in implantable hearing solutions, today announced record Net Profit after Tax of \$130.5 million for the year ended 30 June 2009, up 13% on the previous year.

Cochlear will pay a fully franked final dividend of 95 cents per share on 24<sup>th</sup> September 2009 representing a 19% increase on the previous corresponding period.

“This result confirms the strength of Cochlear’s business in a complex and difficult global economic environment,” said Cochlear CEO Dr Chris Roberts.

“Profit growth has been achieved together with the critical task of developing new products for market release. The new and innovative Cochlear Nucleus 5 system and the new Cochlear Baha sound processor BP100 were available at 30 June 2009. These new products will underpin the growth once they achieve final regulatory and reimbursement sign-off in the remaining jurisdictions.

“Net cash provided by operating activities grew 73% to \$147 million, allowing the payment of nearly \$90 million of dividends and a reduction of net debt by \$25 million to \$108.6 million by year end. A new, three year global debt facility of \$300 million was also established.”

## Financial Summary

Results summary	F09 \$ million	F08 \$ million	Change
Cochlear implant sales	614.0	504.8	↑ 22%
Bone Anchored Solutions (Baha)	97.8	75.6	↑ 29%
FX Contracts	(17.1)	21.3	
<b>Total revenue</b>	<b>694.7</b>	<b>601.7</b>	<b>↑ 15%</b>
<b>EBITDA</b>	<b>205.5</b>	<b>188.6</b>	<b>↑ 9%</b>
<b>EBIT</b>	<b>183.3</b>	<b>167.3</b>	<b>↑ 10%</b>
<b>Net Profit After Tax</b>	<b>130.5</b>	<b>115.2</b>	<b>↑ 13%</b>
<b>Basic EPS (cents)</b>	<b>233.7</b>	<b>208.1</b>	<b>↑ 12%</b>
<b>Core Earnings</b>	<b>138.0</b>	<b>123.7</b>	<b>↑ 12%</b>
<b>Final dividend (payable 24/09/2009)</b>	<b>95c</b>	<b>80c</b>	<b>↑ 19%</b>
<b>Full year dividend (interim and final)</b>	<b>175c</b>	<b>150c</b>	<b>↑ 17%</b>
<b>Franking</b>	<b>100%</b>	<b>100%</b>	

- Product sales were up 23% to \$711.8 million. In constant currency (that is restating F08 at F09 FX rates), sales were up 10%. Revenue, which included losses on FX contracts of \$17.1 million, was up 15% to \$694.7 million.
- Cochlear implant (CI) systems and accessories sales revenue grew 22% (7% in constant currency). CI unit sales of 18,553 grew 2%. There were no CI sales into the China donation market in F09 (F08, 700 units).
- Baha sales again grew strongly up 29% to \$97.8 million (17% in constant currency).
- Regional sales growth;
  - Europe sales of \$318.9 million were up 14% in constant currency (up 24% in reported AUD);
  - Americas sales of \$300.4 million were up 10% in constant currency (up 29% in reported AUD), and
  - Asia Pacific sales of \$92.5 million were down 5% in constant currency (up 2% in reported AUD).
- Improved cash generation was a feature of the result. Cash from operating activities was up 73% to a record \$147 million. Free cash flow of \$111 million was up 61%.
- The cash flow enabled a further reduction in debt by \$25 million. Net debt was \$108.6 million by 30 June 2009 and this represented a further reduction in the net gearing ratio to 23% (F08, 30%) defined as (net debt / net debt + equity).

- A new long term debt facility of \$300 million was in place by year end with a termination date of June 2012.
- As a result of the strong cash flow and confidence in the long term growth potential of Cochlear, a final fully franked dividend of 95 cents per share was declared and will be paid on 24<sup>th</sup> September 2009. The final dividend is up 19% and the full year dividend of 175 cents per share is up 17% on the prior year.

### **Global Financial Crisis**

Cochlear's continued growth in the difficult economic environment experienced in F09 indicates the resilience of the business, but not immunity from the unprecedented global economic turmoil.

Importantly, the business strategy of focusing on technologic innovation across the four key product platforms in the implantable hearing space has not altered. These areas remain cochlear implants, Electro-acoustic stimulation (Hybrid), direct acoustic cochlear stimulator (DACS) and bone conduction hearing (Baha).

The other area of strategic focus remained improvements in internal and external capability to underpin the growth through scale including service and customer support.

### **New Products Released**

Progress was made across the four implantable product platforms during the year, with innovative new releases in three categories and good progress with the long term DACS project.

R&D expenditure grew 21% to \$96.7 million.

#### **Cochlear Nucleus 5 system**

The Cochlear Nucleus 5 system is the next generation implant and sound processor and includes a remote assistant for ease of patient use.

CE Mark approval has been obtained in Europe, with reimbursement registration approvals still outstanding in certain European markets.

Cochlear is awaiting FDA approval in the USA. The Cochlear Nucleus 5 system will be launched over the next year as the regulatory and reimbursement approvals are obtained. In some countries this may not be for at least 12 months.

The new Nucleus 5 system sets a new benchmark in cochlear implant technology and is designed to deliver superior hearing performance outcomes. The new generation implant is 40% thinner and two and a half times stronger than the existing implant and is manufactured using revolutionary new processes which support growth and scale. The feature-rich and smaller speech processor and the remote assistant have been

enthusiastically received by the over 100 recipients who have been involved in user acceptance tests to date.

### **Cochlear Hybrid implant system released**

The Hybrid system addresses the niche market for people with low frequency residual hearing by combining electrical stimulation for higher frequencies with acoustic amplification for lower frequencies.

The Hybrid system was launched in Europe in F09 as a controlled market release and some 80 surgeons have now been trained with the Hybrid system.

Feedback by recipients indicates significant performance improvements, particularly in difficult hearing situations.

### **Cochlear Baha BP100 released**

The next generation Baha sound processor (BP100) was commercially released in the last week of June following regulatory approvals in Europe and the USA.

The BP100's state-of-the-art automated digital sound processing, optimised for bone conduction, further improves hearing performance while retaining simplicity of use.

### **The direct acoustic cochlear stimulator (DACS) and future products**

The DACS system is designed to provide mechanical (acoustic) stimulation direct to the cochlea for recipients with severe mixed hearing losses.

Significant progress has been made in developing DACS to a commercial level with the first human implant now expected in F10.

There was continued investment in the technology building blocks necessary for future generations of product, for example, Integrated Circuit chipsets. These are critical to the long term technology leadership which Cochlear commands.

### **New global headquarters**

Construction on the new global headquarters at Macquarie University started in June 2009. The 24,000m<sup>2</sup> building will house the corporate, manufacturing, R&D and Asia Pacific functions. The building will be funded by Cochlear, but Macquarie University will purchase the building on completion with Cochlear as tenant.

A \$110 million borrowing facility (separate to the \$300 million Global Facility mentioned earlier) has been established and at year end, some \$12 million of this facility had been drawn. A completion date of December 2010 is expected.

## **Outlook**

F10 results will be influenced by the roll out of new products which includes the timing of FDA approval for Cochlear Nucleus 5 in the USA. These timings are not transparent.

The clinical outcomes from Cochlear's products continue improving as technology advances and medical knowledge expands. The health economics of restoring hearing remain favourable and will continue to influence reimbursement, which supports growth.

Cochlear's strong balance sheet and the strong business fundamentals of this market provide flexibility in the current economic environment for sustainable growth.

At Cochlear's Annual General Meeting in October 2009, further information on the outlook for the year will be given. We anticipate growth will be biased to the second half of F10.

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