

## Cochlear Limited

Results for the full year ended 30 June 2014 (F14)



**Chris Roberts CEO**

**Neville Mitchell CFO**

*Hear now. And always.*



## Cochlear Overview



- Cochlear Limited (ASX:COH) is the global leader in implantable hearing devices:
  - Cochlear/Hybrid implants
  - Bone conduction implants
  - Acoustic implants
- Large unmet clinical need for severe to profound hearing impairment
- ~ 2,700 employees
- Direct operations in 20+ countries, and products sold in 100+ countries



## F14 Overview



- Launches across all product categories
- F14 started without regulatory approvals in key markets for new products
- Sales growth started in late H1, as regulatory approvals were obtained and products launched
- Sales momentum continued into H2, shaping full year result




Baha 4 Sound Processor  
Baha® 4 Attract  
Nucleus® 6 Sound Processor  
Nucleus Profile Implant

## Cochlear: Financial Results for F14



	F14 \$m	F13 \$m	% Change
Cochlear implant sales	720.8	636.4	↑13 %
Bone Conduction/Acoustic sales	100.1	78.6	↑27 %
<b>Sales Revenue</b>	<b>820.9</b>	<b>715.0</b>	<b>↑15 %</b>
FX Contracts Gains	(16.0)	37.7	
<b>Total Revenue</b>	<b>804.9</b>	<b>752.7</b>	<b>↑7 %</b>
EBIT*	127.1*	178.9	↓29 %
<b>Net profit after tax*</b>	<b>93.7*</b>	<b>132.6</b>	<b>↓29 %</b>

\* Includes patent dispute provision of \$22.5m, \$15.8m net of tax in H1 of F14

## Cochlear: Financial Results for H2F14



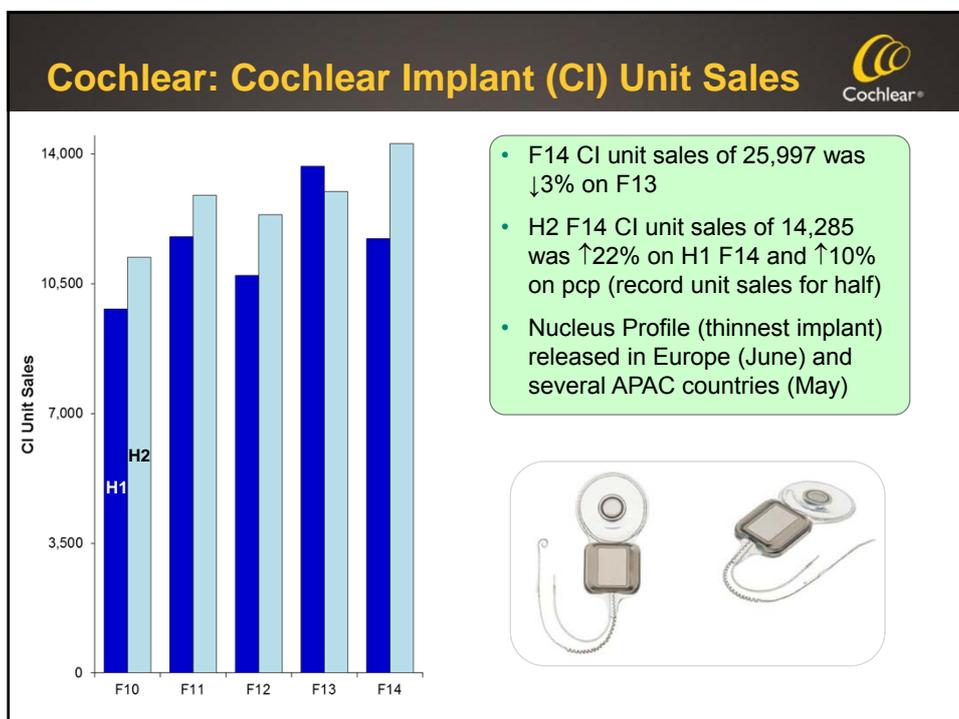
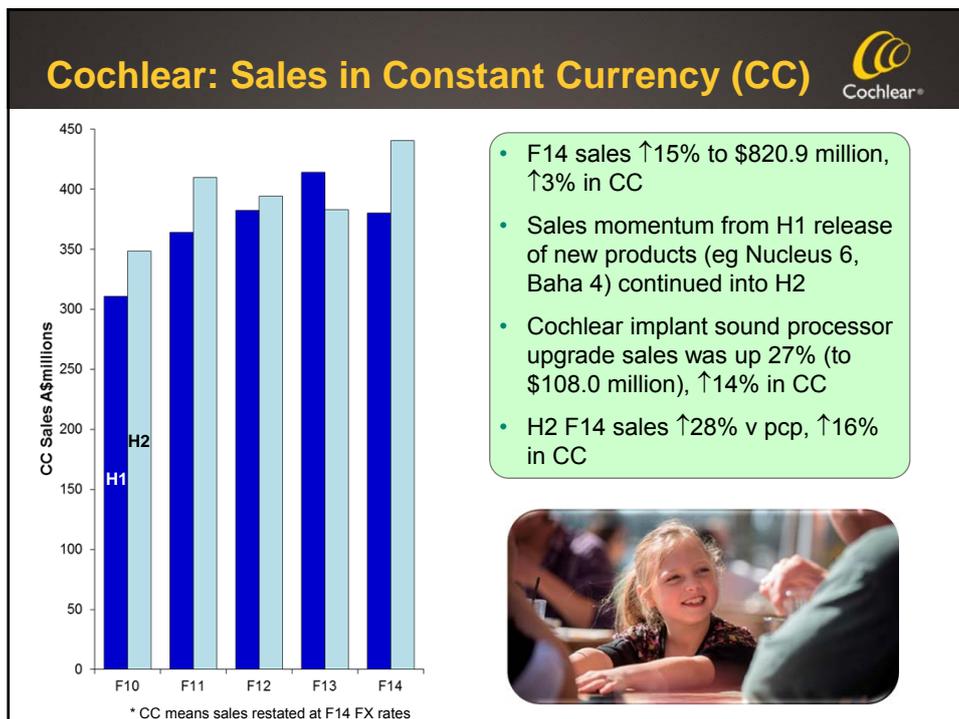
	H2F14 \$m	H2F13 \$m	% Change
Cochlear implant sales	389.7	306.7	↑27 %
Bone Conduction/Acoustic sales	54.2	40.1	↑35 %
<b>Sales Revenue</b>	<b>443.9</b>	<b>346.8</b>	<b>↑28 %</b>
FX Contracts Gains	(10.1)	14.2	
<b>Total Revenue</b>	<b>433.8</b>	<b>361.0</b>	<b>↑20 %</b>
EBIT	100.2	70.6	↑42 %
<b>Net profit after tax</b>	<b>72.7</b>	<b>54.9</b>	<b>↑32 %</b>

## Cochlear: Financial Results for F14

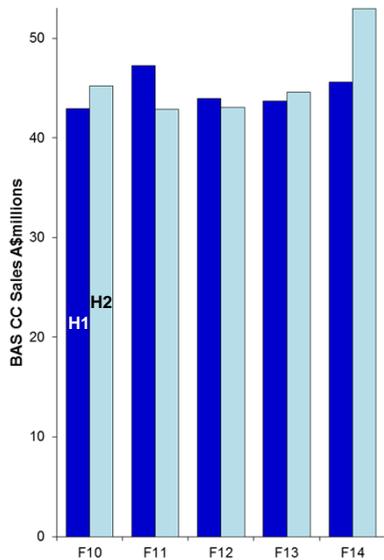


	H1F14 \$m	H2F14 \$m	F14 \$m
Cochlear implant sales	331.1	389.7	720.8
Bone Conduction/Acoustic sales	45.9	54.2	100.1
<b>Sales Revenue</b>	<b>377.0</b>	<b>443.9</b>	<b>820.9</b>
FX Contracts Gains	(5.9)	(10.1)	(16.0)
<b>Total Revenue</b>	<b>371.1</b>	<b>433.8</b>	<b>804.9</b>
EBIT*	26.9*	100.2	127.1
<b>Net profit after tax*</b>	<b>21.0*</b>	<b>72.7</b>	<b>93.7</b>

\* Includes patent dispute provision of \$22.5m, \$15.8m net of tax in H1 of F14



## Cochlear: Sales of Bone Conduction/Acoustic Implants in Constant Currency (CC)

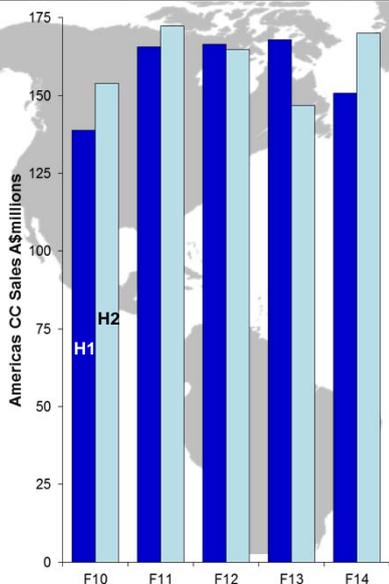


\* CC means sales restated at F14 FX rates

- F14 bone conduction/acoustic implant sales of \$100.1 million, ↑27% (↑13% in CC)
- Baha 4 sound processor, and Baha Attract products were released in late H1, with sales growth through H2
- H2 F14 sales of \$54.2 million was up 35% on pcp (↑21% in CC)



## Cochlear Americas: Sales in Constant Currency

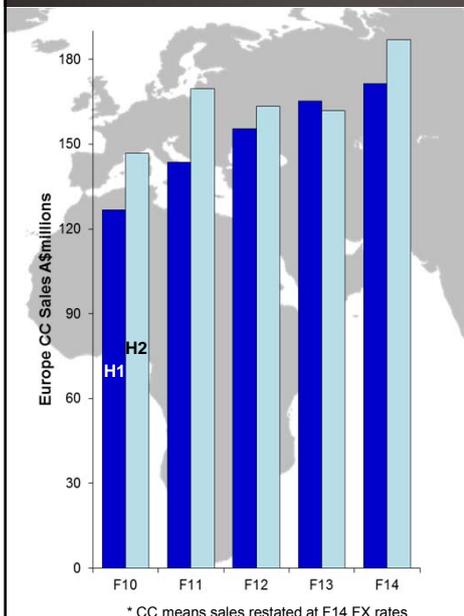


\* CC means sales restated at F14 FX rates

- F14 Americas sales of \$320.8 million, ↑13%, ↑2% in CC
- FDA approval of original PMA for Hybrid CI system in March, launched in April
- Aqua+ water accessory for Nucleus 6 approved and launched in May
- H2 F14 Americas sales of \$170.8 million ↑27% on pcp, ↑16% in CC



## Cochlear EMEA: Sales in Constant Currency

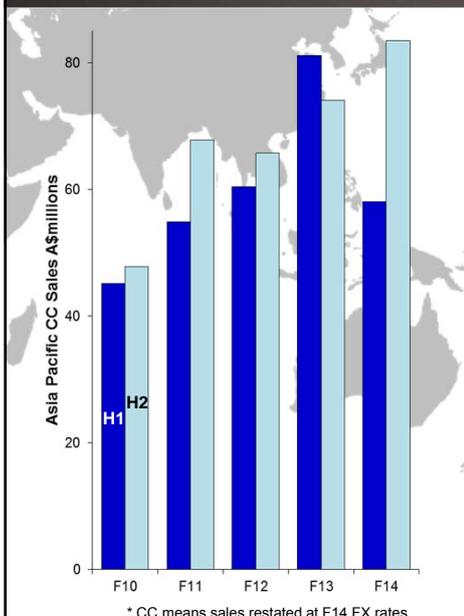


- F14 EMEA (Europe, Middle East and Africa) sales of \$358.5 million, ↑27% (↑10% in CC)
- H2 F14 EMEA sales of \$189.4 million ↑32% on pcp (↑17% in CC)
- Nucleus Profile with Contour Advance electrode released in June
- Dubai office opened in May



\* CC means sales restated at F14 FX rates

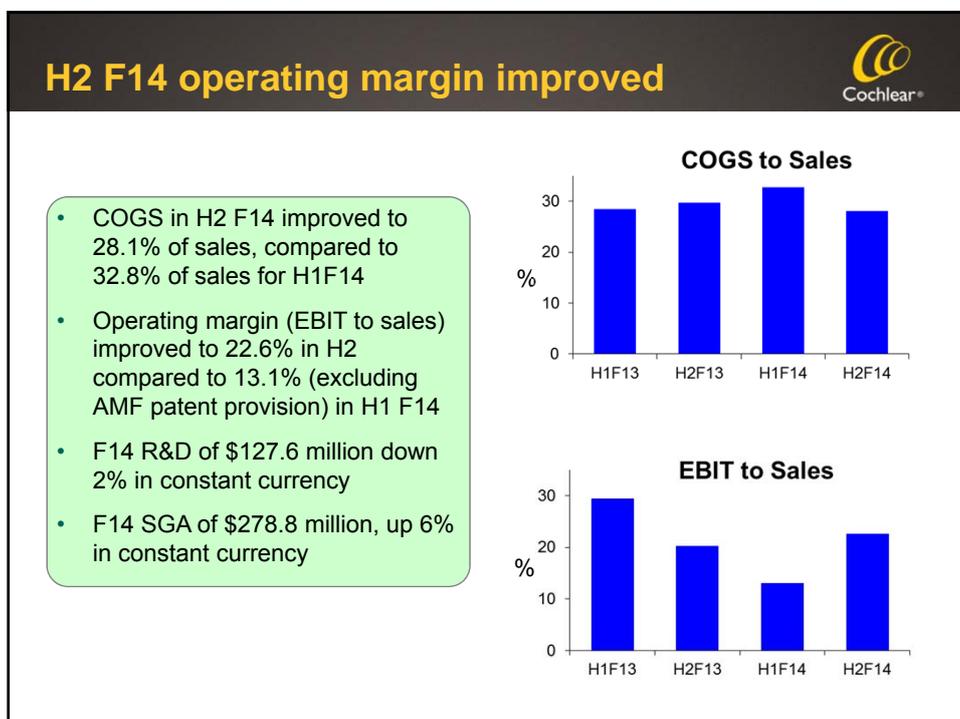
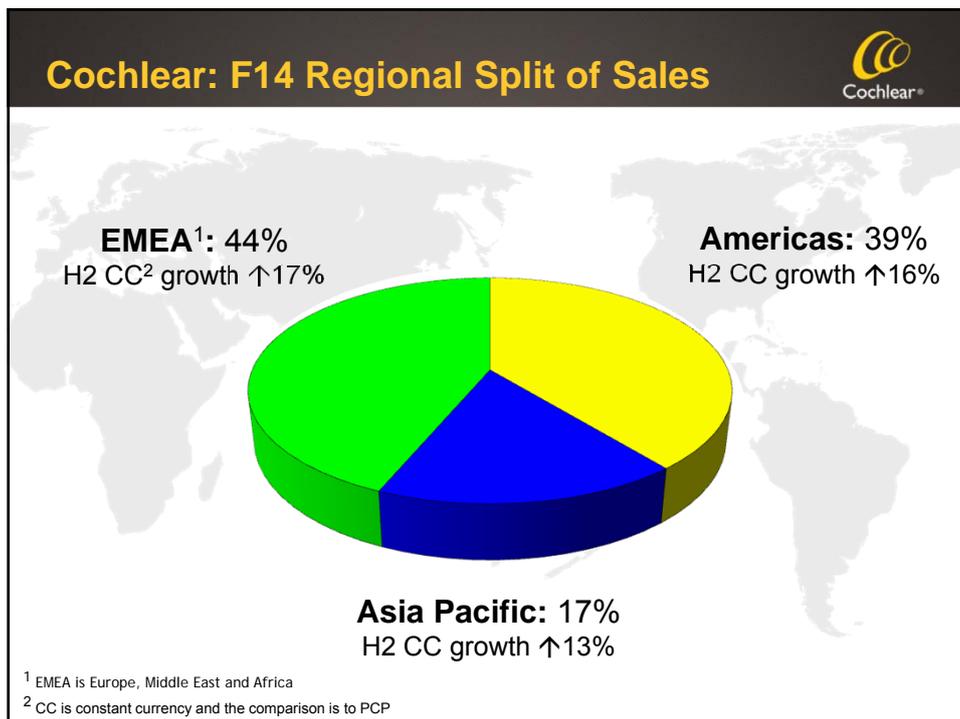
## Cochlear Asia Pacific: Sales in Constant Currency



- F14 Asia Pacific sales of \$141.6 million, ↓4%, ↓9% in CC
- China tender delivery of ~1,800 CI units in H2 F14 compared with 2,800 units in F13
- H2 F14 sales of \$83.7 million, ↑20% on pcp, ↑13% in CC
- Opening of Cochlear Care Centre, Melbourne, in May



\* CC means sales restated at F14 FX rates



## Cochlear Nucleus 6



- SmartSound® iQ
- Smallest processor
- Data logging
- Waterproof with Aqua+ accessory
- Hybrid hearing
- Wireless ready



## Bone Conduction and Acoustic Implants



- Baha 4 Sound Processor: automatic scanning and true wireless connectivity
- Baha 4 Attract: magnetic coupling for improved cosmetics
- Acoustic implants: Carina®, MET® and Codacs™



## F14 Summary

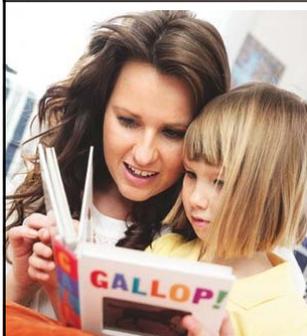


- New products released in all categories
- These were well received by health care professionals and recipients
- Sales up 15% to \$821 million, with H2 sales of \$444 million, up 18% on H1 and 28% on H2F13
- H2 NPAT of \$72.7 million, met NPAT guidance
- F14 sales momentum plus further F15 approvals gives us confidence for continued growth



## Cochlear Limited

Results for the full year ended 30 June 2014 (F14)

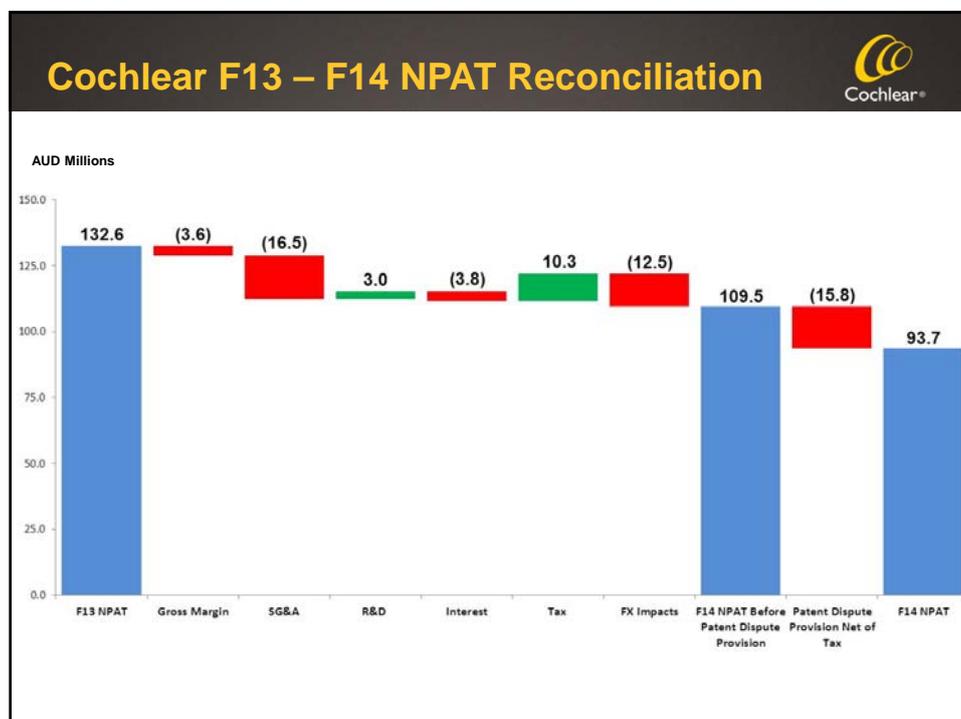


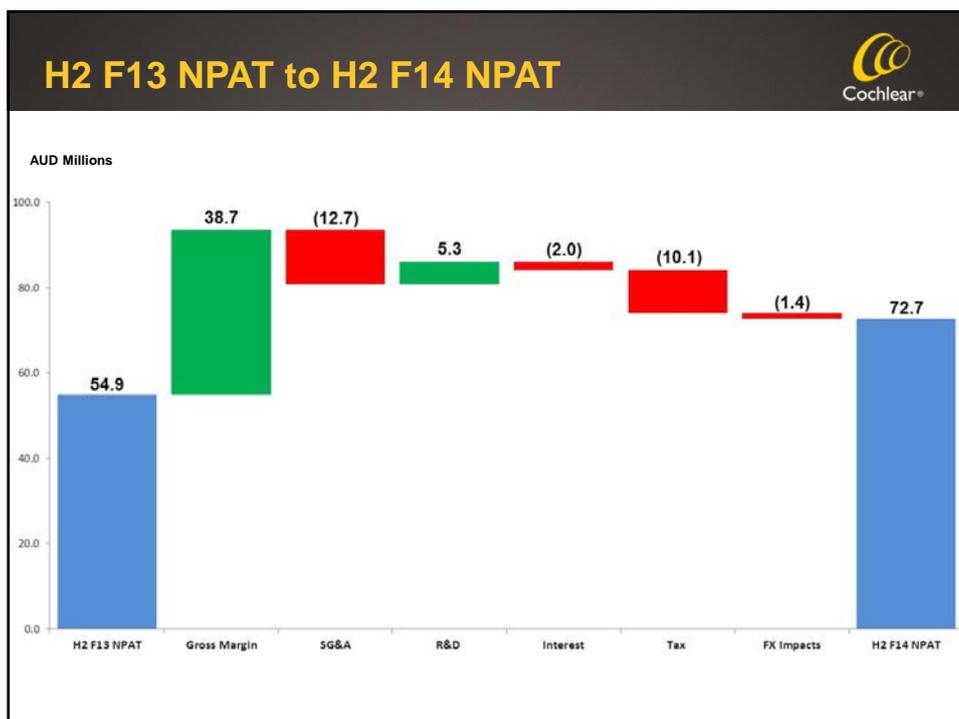
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Cochlear F14 Financial Performance					
					
\$m	F14 H1	F14 H2	F14	F13	% Change
Sales Revenue	377.0	443.9	820.9	715.0	↑ 15%
FX Contracts	(5.9)	(10.1)	(16.0)	37.7	
<b>Total Revenue</b>	<b>371.1</b>	<b>433.8</b>	<b>804.9</b>	<b>752.7</b>	<b>↑ 7%</b>
EBIT *	49.4*	100.2	149.6*	178.9	↓ 16%
Net Profit after Tax*	36.8*	72.7	109.5*	132.6	↓ 17%
Patent dispute provision net of tax	15.8	-	15.8	-	
<b>Net profit attributable to members</b>	<b>21.0</b>	<b>72.7</b>	<b>93.7</b>	<b>132.6</b>	<b>↓ 29%</b>
<b>Dividends</b>					
Full Year Dividend	127c	127c	254c	252c	↑ 1%
Final Dividend Record Date 4 <sup>th</sup> Sep 2014					
Final Dividend Payable Date 25 <sup>th</sup> Sep 2014					
Franking %	0%	20%	10%	35%	
Conduit Foreign Income %	24%	80%	52%	30%	
* These items exclude patent dispute provision of \$22.5 million before tax, \$15.8 million after tax					



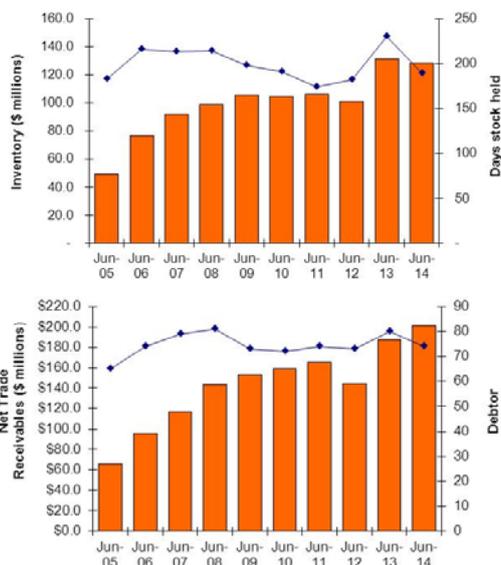


### Impact of Changing FX Rates on F14 NPAT

	A\$m	
Income Statement Translation Impact		
Sales Revenue	82.1	} Difference F14 actual vs F14 at F13 rates
Total Expenses including tax	(40.3)	
	41.8	
Transaction Impact		
- Decrease from F13 of FX gain on hedged sales	(53.7)	← Net difference actuals F14 vs F13
Translation Impact		
- Increase over F13 of FX loss on asset translation	(0.6)	← Net difference actuals F14 vs F13
	(12.5)	
Impact on F14 NPAT of changing FX rates		

## Cochlear F14 Working Capital

Inventory (Days Stock Held) / Debtors Days Outstanding



- F14 Inventory days decreased to 189 (F13 231 days)
- Debtor days 74 (F13 80 days)
- Trade receivables at \$201.3 million (F13 \$187.6 million)

## Cochlear F14 (Debt) / Cash



	30 June 2014	30 June 2013
	\$m	\$m
<b>Operations</b>		
Loans and Borrowings		
Current	(3.1)	(3.3)
Non-current	(234.3)	(167.2)
<b>Total Debt</b>	<b>(237.4)</b>	<b>(170.5)</b>
Cash	56.1	52.7
<b>Net Debt</b>	<b>(181.3)</b>	<b>(117.8)</b>
<b>Total Loan Facilities</b>	<b>350.0</b>	<b>300.0</b>
<b>Unused Portion of Debt Facility</b>	<b>110.0</b>	<b>127.0</b>

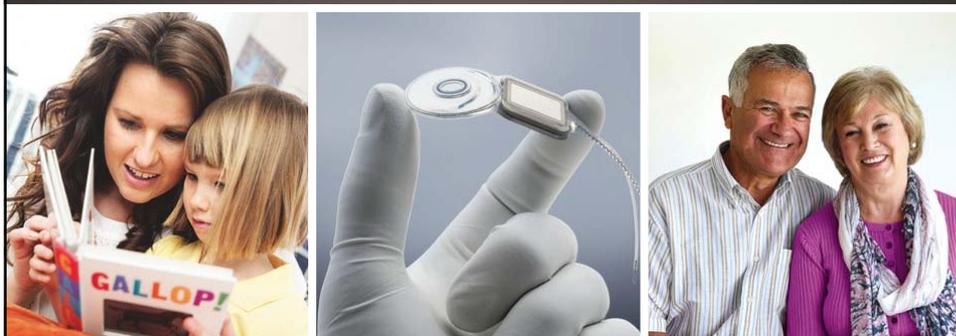
## F14 Summary



- New products released in all categories
- These were well received by health care professionals and recipients
- Sales up 15% to \$821 million, with H2 sales of \$444 million, up 18% on H1 and 28% on H2F13
- H2 NPAT of \$72.7 million, met NPAT guidance
- F14 sales momentum plus further F15 approvals gives us confidence for continued growth



Thank you – any questions?



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## FX Contract Cover and Rates as at 30 June 2014



<b>Total FX hedges at 30 June 2014 expressed in Foreign Currency (millions)</b>	<b>USD</b>	<b>EUR</b>	<b>JPY</b>	
	<b>207.5</b>	<b>128.3</b>	<b>1,350</b>	
<b>FX Hedges at 30 June 2014 Expressed in AUD millions</b>	<b>227.6</b>	<b>188.7</b>	<b>15.6</b>	<b>Total 431.9</b>
% of total cover (in AUD)	53%	43%	4%	100%
<b>3 yr weighted average rates FX contracts at 30 June 2014</b>	<b>0.91</b>	<b>0.68</b>	<b>87.27</b>	
FX contracts at 30 June 2013	0.97	0.72	83.72	
<b>F15 weighted average rates FX contracts at 30 June 2014</b>	<b>0.93</b>	<b>0.72</b>	<b>86.94</b>	
<b>Cover for F15 (in AUD millions)</b>	<b>137.5</b>	<b>102.7</b>	<b>9.7</b>	<b>249.9</b>

## Foreign Exchange



<b>Rates applied F14 vs. F13</b>	<b>F14</b>	<b>F13</b>	<b>% Change</b>
<b>Average rates (used for translating P&amp;L)</b>			
USD	0.92	1.02	↓ 10%
Euro	0.68	0.79	↓ 14%
JPY	92.9	89.3	↑ 4%
GBP	0.57	0.65	↓ 12%
<b>Contract rates (used to bring FX to Aust)</b>			
USD	0.96	0.93	↑ 3%
Euro	0.71	0.70	↑ 1%
JPY	83.6	81.1	↑ 3%

## Foreign Exchange



### Period end rates applied F14 vs. F13

	30 June 2014	30 June 2013	% change
<b>Period end rates</b> (used for translating Balance Sheet)			
USD	0.94	0.93	↑ 1%
Euro	0.69	0.71	↓ 3%
JPY	95.5	90.7	↑ 5%

## Property, Plant & Equipment & Leasehold Improvements



	30 June 2014
<b>\$m</b>	
Gross value 30 June 2014	207.2
Accumulated depreciation	(131.4)
Net book value at 30 June 2014	75.8
F14 movements	
Additions	23.5
Depreciation	(17.4)
Disposals	(2.6)
Impairment reversal (no P&L impact)	6.3
FX Impacts	0.1

## Corporate & Other Net Expenses



	F14 \$m	F13 \$m
Research and Development	126.2	123.5
Corporate Administration & Global Marketing	67.6	59.1
Corporate Other Income	(2.7)	(2.6)
FX losses	3.1	2.5
<b>Corporate and other net expense (note 3)</b>	<b>194.2</b>	<b>182.5</b>

## Journal Entries for Deferred Revenue Relating to FTEP Program



	F14 \$m	F13 \$m
	DR/(CR)	DR/(CR)
<b>Income Statement</b>		
Sales Revenue	(6.4)	6.4
Cost of Goods Sold	0.5	(0.5)
Tax Expense	2.4	(2.4)
Profit Impact	(3.5)	3.5
<b>Balance Sheet</b>		
Inventory	-	0.5
Deferred FTEP Revenue – Liability	-	(6.4)
Deferred Tax Asset	-	2.4
Net Liability	-	(3.5)

## Non-IFRS Financial Measures



### Non-IFRS financial measures

Given the significance of the patent dispute and FX movements the directors believe the presentation of non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial measures included in this document have been calculated on the following basis:

- Excluding patent dispute provision: IFRS measures adjusted for the expense of the patent dispute provision
- Constant currency: restatement of IFRS financial measures in comparative years using F14 FX rates
- Free cash flow: IFRS cash flow from operating and investing activities excluding interest and tax paid related to non-operating activities

The above non-IFRS financial measures have not been subject to review or audit. However, KPMG have separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the consolidated entity.



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