

ASX / MEDIA RELEASE

5 August 2014

COCHLEAR FINANCIAL RESULTS FOR THE SECOND HALF AND FISCAL YEAR ENDED 30 JUNE 2014 (F14)

- F14 sales revenue up 15% on F13 to a record \$820.9 million
- Sales revenue momentum, driven by new products, continued into second half (H2):
 - H2 sales revenue of \$443.9 million up 18% on H1 F14 and up 28% on H2 F13
 - H2 cochlear implant unit sales of 14,285 up 22% on H1 F14 and up 10% on H2 F13
 - H2 Baha/acoustic implant sales of \$54.2 million up 18% on H1 F14 and up 35% on H2 F13
- H2 NPAT of \$72.7 million in line with guidance provided in February 2014
- Final dividend of \$1.27 (20% franked)

	F14	F14	F14	F13
	H1	H2	Full	Full
	\$m	\$m	Year	Year
			\$m	\$m
Cochlear implant sales	331.1	389.7	720.8	636.4
Bone Anchored Solutions/Acoustics sales	45.9	54.2	100.1	78.6
Sales revenue	377.0	443.9	820.9	715.0
FX contracts (loss) / gain	(5.9)	(10.1)	(16.0)	37.7
Total revenue	371.1	433.8	804.9	752.7
EBIT *	49.4*	100.2	149.6*	178.9
Net profit after tax *	36.8*	72.7	109.5*	132.6
Patent dispute provision, net of tax	15.8	-	15.8	-
Net profit attributable to members	21.0	72.7	93.7	132.6
Earnings per share	37.0c	127.6c	164.6c	233.0c
Dividend	127c	127c	254c	252c
Franking	0%	20%	10%	35%
Conduit foreign income	24%	80%	52%	30%

*For F14 these items exclude H1 patent dispute provision of \$22.5 million before tax and \$15.8 million after tax.

Dr Chris Roberts, CEO and President commented:

“For fiscal year 2014, Cochlear delivered on its commitment to introduce a range of new products to the market and drive growth.

To understand the full year results, you need to look at the launch of major products in the first half and their impact on sales momentum in the second half. Further products were launched in the second half. By the end of F14, new products had been launched in all product categories.

While it is still early in the product release cycle, record sales in the second half gives us confidence as we go into F15.”

INTRODUCTION

F14 was an important year for new product launches. They have been well received by the market. Products launched in F14 include:

Nucleus® 6 Sound Processor

- The industry’s smallest sound processor offering improvements in hearing performance and cosmetics, wireless connectivity, data logging and water proofing with the Aqua+ accessory

Nucleus Profile Implant Series

- The thinnest implant body available, offering significant surgical advantages which was released in Europe (June) and several countries in Asia Pacific from May.

Baha® 4 Sound Processor

- The new processor on the Ardium™ platform – three times faster and with eight times the on-board memory power of previous generations, which improves performance. Its true wireless connectivity enhancing independence and connectivity in the real world

Baha 4 Attract System

- The new transcutaneous system with magnetic connection for improved cosmetics fully compatible with the Baha 4 Sound Processor.

Hybrid™ Hearing

- An integrated electro-acoustic stimulation solution enabling recipients to take advantage of their residual hearing. This system was launched in the United States of America in April after the FDA granted regulatory approval.

These products have a range of accessories and other features that will be released during their life cycle.

Also released in F14 were various clinical support tools and software upgrades designed to support our professional healthcare partners and improve the long term hearing performance of our recipients.

The successful launch of these products in H1 is reflected in the sales growth momentum achieved in H2.

FULL YEAR RESULTS REVIEW

Operating result F14

Sales Revenue

Second half F14 sales revenue of \$443.9 million was up 18% on H1 F14 and up 28% on H2 F13. In constant currency (ie restating F13 at F14 foreign exchange rates), H2 F14 sales revenue was up 16% on H2 F13. Full year sales revenue was up 15% to \$820.9 million. In constant currency terms, sales revenue was up 3% for the year.

Second half F14 cochlear implant unit sales of 14,285 was up 22% on H1 F14 and up 10% on H2 F13. Sales of cochlear implant units for the year was 25,997, down 3%.

In F14, cochlear implant sound processor upgrade sales was up 27% to \$108.0 million on the prior year and up 14% in constant currency.

Second half Baha and Acoustics sales revenue of \$54.2 million was up 18% on H1 F14 and up 35% (up 21% in constant currency) on H2 F13. Full year sales of Baha and Acoustics products of \$100.1 million was up 27% from last year and up 13% in constant currency terms.

Regional sales

Americas

- The launch of Nucleus 6, Aqua+, the Hybrid system and new Baha products meant that H2 F14 sales revenue was up 14% on H1 F14 and up 27% (up 16% in constant currency) on H2 F13. Full year Americas sales revenue of \$320.8 million increased 13% (up 2% in constant currency).

EMEA

- The launch of Nucleus 6, Baha 4 and Baha Attract in H1 F14 positively impacted sales and H2 F14 sales revenue was up 12% on H1 F14 and up 32% (up 17% in constant currency) on H2 F13. Full year sales revenue of \$358.5 million increased 27% (increased 10% in constant currency). EMEA revenue growth continues to reflect the portfolio of geographies in the region, with varying growth rates in different countries.

Asia Pacific

- Second half F14 sales of \$83.7 million was up 45% on H1 F14 and 20% on H2 F13 (up 13% in constant currency). Full year sales revenue of \$141.6 million decreased 4% (decreased 9% in constant currency).

A Chinese Central Government tender of approximately 1,800 cochlear implant systems was won and then delivered and recognised in the second half of F14 (down from 2,800 units over F13).

Gross Margin

Second half F14 COGS to sales revenue of 28.1% improved over H1 F14 COGS to sales revenue of 32.8%. For the full year, Cochlear's COGS to sales revenue of 30.2% was above that of last year of 29.1%.

Profit

Operating expenses of \$207.6 million in the second half increased 4% from H1 F14 versus sales revenue growth of 18%.

F14 SG&A expenses of \$278.8 million were up 16% on the previous corresponding period (6% in constant currency).

F14 Research and development (R&D) expenses of \$127.6 million increased 2%, but decreased 2% in constant currency.

Second half Earnings Before Interest and Tax (EBIT)/sales revenue improved to 22.6% (H1 F14 was 7.1%) from 20.4% in H2 F13. Full year EBIT of \$127.1 million was 29% below last year and includes a charge for the AMF patent dispute provision of \$22.5 million made in H1 F14.

Net profit after tax (NPAT) for H2 F14 was \$72.7 million up 32% on H2 F13. This was in line with guidance provided in February 2014 for the second half NPAT of F14. Full year NPAT for F14 was \$93.7 million.

Dividends

The final dividend of \$1.27 per share brought the full year dividend to \$2.54 per share, up 1%. This is in line with guidance provided at the Annual General Meeting, held in October 2013.

The record date for the final dividend is 4th September 2014 and the payment date is 25th September 2014.

The Board anticipates that the F15 dividend will return to a more historic payout ratio of approximately 70% of NPAT.

Financial position

Inventories of \$128.6 million at 30 June 2014 were down 2% from 30 June 2013 (\$131.6 million). Inventory days decreased to 189 days (30 June 2013: 231 days).

Trade receivables of \$201.3 million were up 7% from 30 June 2013 (\$187.6 million), reflecting the sales bias to H2 F14. In constant currency, trade receivables were up 6%. Debtor days decreased to 74 days (30 June 2013: 80 days).

Cash

Free cash flow of \$79.5 million for the year was up from \$20.2 million in F13. The free cash flow for F14 was heavily biased to the second half with \$65.1 million being generated in H2 F14.

At 30 June 2014, debt facilities of \$350 million were in place with remaining terms of two and four years. At 30 June 2014, the unused portion of the facilities was \$110.0 million. All bank covenants were met at year end.

OUTLOOK

Cochlear's comprehensive product releases in all categories in the last 12 months gives the company a strong sales platform for F15. Cochlear is looking forward to further regulatory approvals for its new products including wireless accessories on Nucleus 6 Sound Processors and electrodes on Nucleus Profile implants.

Cochlear remains focused on long term growth initiatives and building capacity with our professional partners to increase implant surgeries. As an innovation company, we are proud of our position at the Australian Hearing Hub at Macquarie University, a world-leading centre of excellence. Cochlear remains committed to R&D and continuing to develop and release to market the technology solutions of the future and help the millions of people worldwide who suffer from severe to profound hearing loss.

-ends-

Company contacts:

Dr Chris Roberts, CEO/President
p: + 61 2 9428 6555

Neville Mitchell, CFO
p: + 61 2 9428 6555

Media contact:

Piers Shervington,
Corporate Communications
P: +61 2 9425 5416

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.