

HY16 Result Presentation

11 February 2016

Chris Smith

CEO & President

Neville Mitchell

Chief Financial Officer

Hear now. And always



HY16 Result Highlights



Positive momentum continues

- Sales revenue up 32% (up 16% in constant currency) delivered across developed and emerging markets
- Recent product releases and continued investments in strategic growth initiatives driving market growth
- Sales revenue and earnings benefit from AUD depreciation
- Net profit up 32% to \$94.0m
- Interim dividend up 22% to 110.0 cents per share
- FY16 guidance up to \$180-190m, driven primarily by FX

Our 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.



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

<5%

Market penetration³

1. Who.int. WHO | Deafness and hearing loss [Internet]. 2015
2. Who.int. WHO | 10 facts on deafness [Internet]. 2015.

3. Market penetration. This figure is a global estimate based on Cochlear sourced data.

* 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.

Strategic Platforms



Focus on the Customer



Grow the Core



Build a Service Business



Shape the Organisation



Value Creation



1. Grow the Core

- Innovative technology
- Increased awareness
- Improved access
- Business model innovation

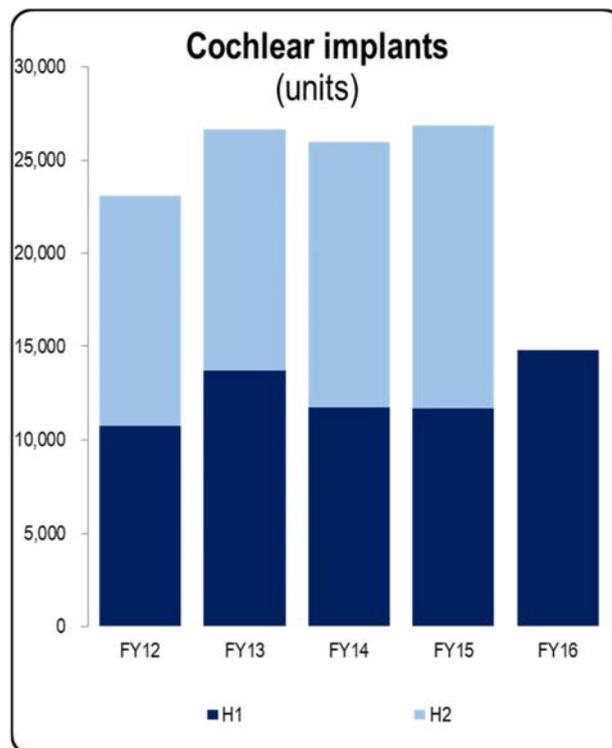


Cochlear implants



Recent product launches driving demand

- 26% unit growth (12% excl China tender)
- CI system revenue up 34% (17% in CC)
- Product innovation
 - Nucleus® Profile Series
 - Nucleus 6 with True Wireless™
- Market strategies to accelerate market growth
 - DTC
 - Field expansion
- Expanding indications
 - Hybrid

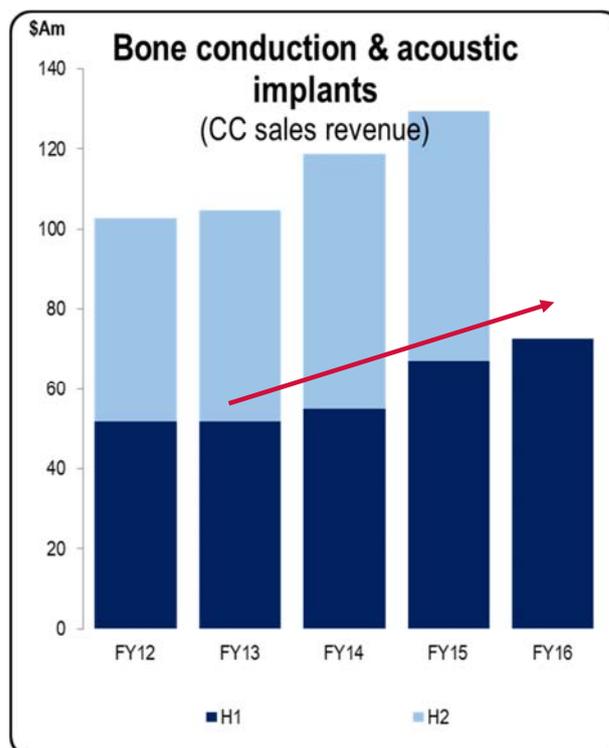


Bone conduction & acoustic implants



Baha growth across all regions

- Sales revenue up 26% (9% in CC)
- Product innovation driving demand and share gains
 - Baha® 5 System made for iPhone
 - Baha 5 SuperPower



CC = constant currency



2. Build a Service Business

- Recipient engagement
- Connectivity; both Recipient and Clinics
- Optimise upgrades
- Enhanced digital services



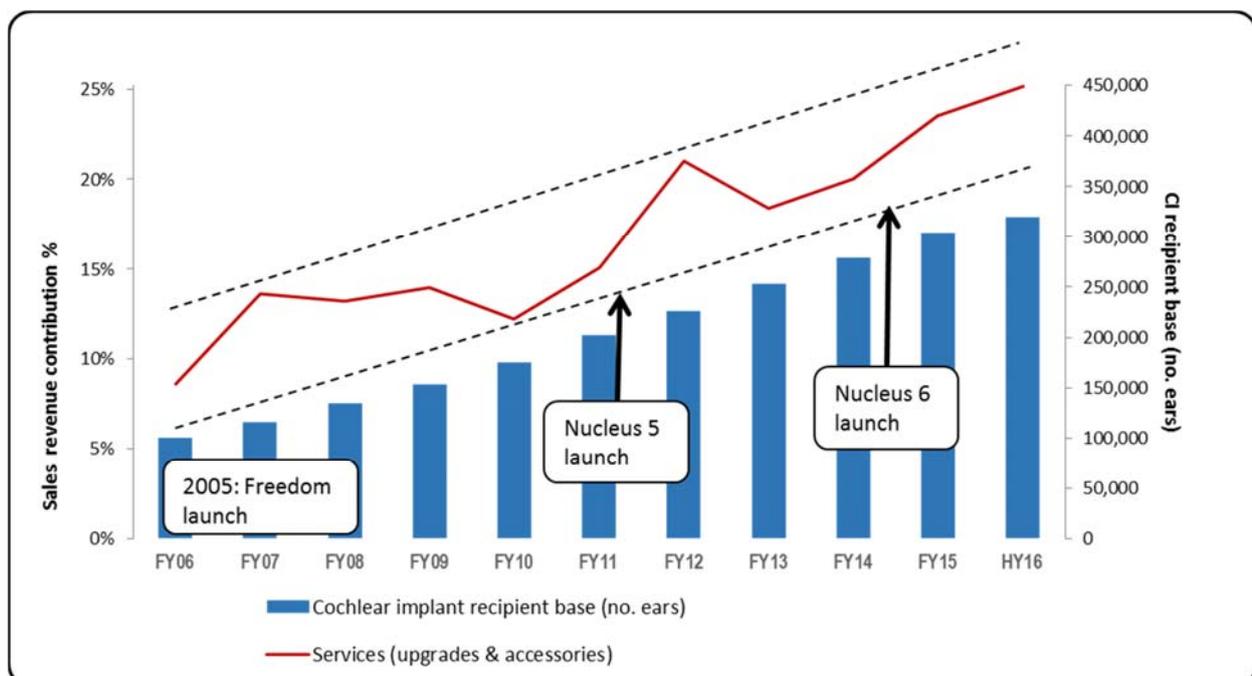
INTRODUCING COCHLEAR™ LINK

As a clinician, you deserve less paperwork and more time doing what you love - caring for patients. That's why we've introduced Cochlear™ Link - a secure service which delivers automatic device registration and enhanced service and support for your patients.

By using Cochlear Link 81% of service requests are completed in 24 hrs

Growing CI recipient base drives Services' revenue

- Engaged recipients spend **3-4 times more** with Cochlear than non-engaged recipients¹



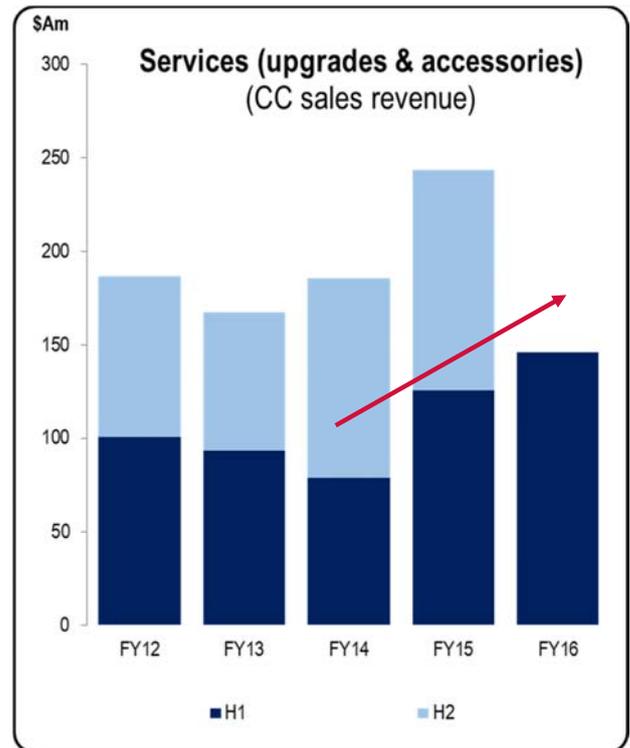
1. Based on US data

Services (upgrades & accessories)



Lifetime relationship with over 440,000 recipients

- Sales revenue up 31% (16% in CC)
- Product innovation
 - Nucleus 6 for N22
 - True Wireless
 - CochlearLink
- Strong Nucleus 6 upgrade cycle
- Cochlear Family



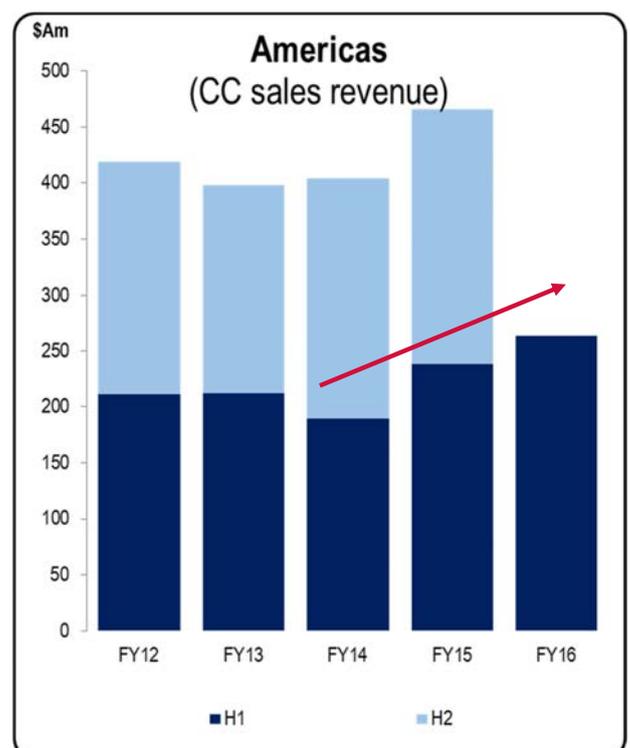
CC = constant currency

Americas



Market expansion activities and products driving growth

- Sales up 35% (11% in CC)
- US benefitting from
 - Recent product launches
 - Direct-to-consumer
 - Concierge and consumer sales
- Excluding Brazil, Latin America sales up double-digit



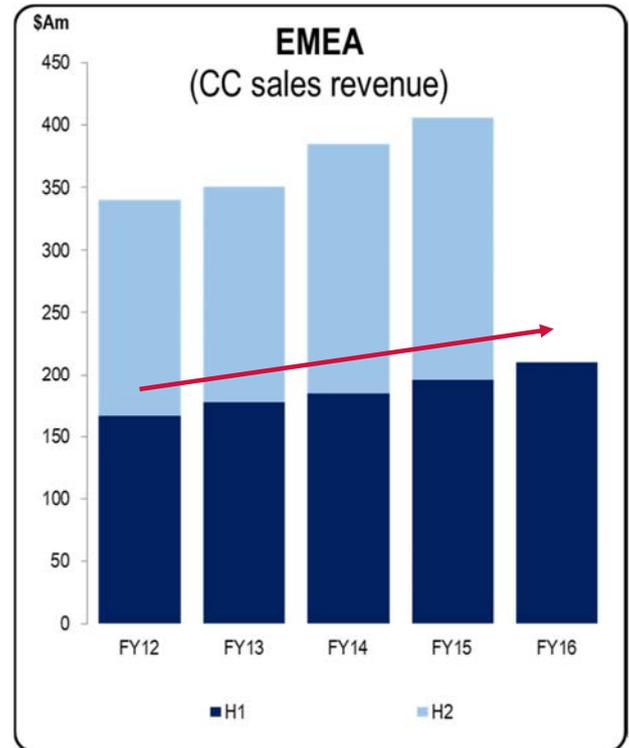
CC = constant currency

EMEA (Europe, Middle East & Africa)



Portfolio affect driving consistent growth

- Sales up 16% (8% in CC)
- Solid performances across Western Europe
- German market growth activities delivering results
- Enhanced Middle East presence



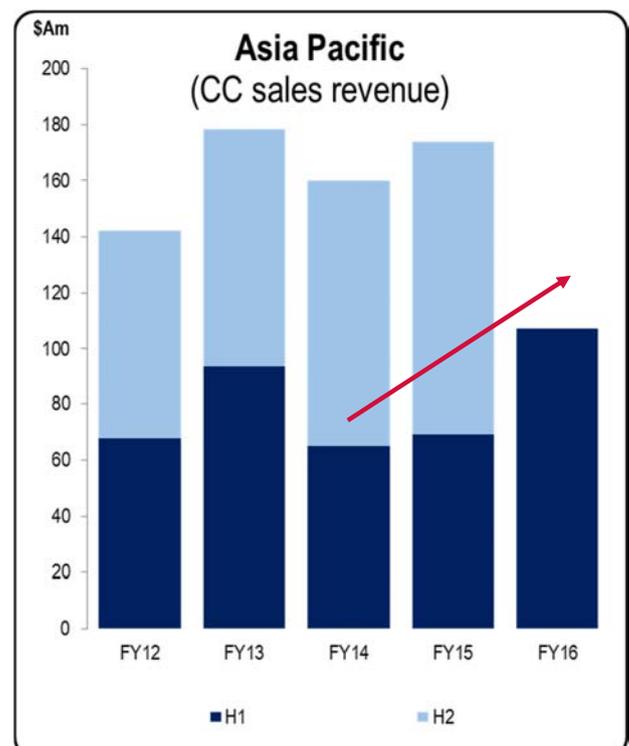
CC = constant currency

Asia Pacific



All markets delivering growth

- Sales up 69% (55% in CC)
- Australia benefiting from field sales expansion and Melbourne clinic
- China performed strongly in both the private pay and tender markets



CC = constant currency



3. Shape the Organisation

- Globally integrate enabling activities
- Targeted field expansion
- Deep market penetration
 - China and emerging markets
- Building capabilities



Malaysia Operations



4. Value Creation

- Partnerships/Alliances
- Drive global efficiency and effectiveness
- Focus



ReSound
rediscover hearing

Cochlear
Hear now. Act always.

MEDIA RELEASE
October 15, 2015

ReSound and Cochlear Limited Establish Smart Hearing Alliance to Develop and Commercialise Bimodal Solutions
Industry Leaders Expand Collaboration to jointly promote New Hearing Solutions for Better Hearing

Cochlear and ReSound have had a successful history of collaborating on technology and product development, which started in 2011. The collaboration has brought to market the remarkable hearing solution for bimodal hearing called "Smart Hearing™", which (ReSound) leading 2.4 GHz wireless technology, equipped with ReSound's "i" and ReSound "i" implants can stream sound directly to their own wireless device for better hearing performance.

To develop and commercialise the world's earliest bimodal solutions, the Smart Hearing Alliance will significantly expand the existing collaboration. It will extend the market reach and offering of both organisations, and leverage our technology leading positions in sustainable hearing, hearing aids and wireless solutions.

The Smart Hearing Alliance will deliver bimodal solutions combining ReSound's bone conduction technology, ReSound's cochlear implants, wireless accessories, ReSound and ReSound Smart Hearing™ units, the ReSound for iPhone hearing aids, Smart Hearing solutions and ReSound Hearing accessories and experiences, and simplify implant management for hearing health professionals.

This greatly expanded partnership creates immediate value in helping patients effectively hearing to meet consumers with the most smart system of hearing aids. We are excited to have this opportunity to

ReSound
rediscover hearing

Profit & loss



EBIT increased 30% with ongoing investment in market growth initiatives and R&D

A\$m	HY16	HY15	\$ chg
Cost of goods sold	171.3	127.3	44.0
<i>% of sales</i>	29.4%	28.9%	
Research & development	70.2	61.4	8.8
Selling & general expenses	158.8	122.6	36.2
Corporate administration	34.7	28.6	6.1
Other income	(7.9)	(2.1)	(5.8)
EBIT	131.0	100.5	30.5
<i>% of total revenue</i>	23.5%	22.9%	

Impact of foreign currency



Net A\$16.3m FX benefit to net profit from depreciation of AUD

A\$m	\$Am
Sales & expenses (translation impact) ¹	
- Sales revenue	62.6
- Total expenses including tax	<u>(30.1)</u>
	32.5
FX contract losses on hedged sales (transaction impact)	
- FX losses – HY15	(2.2)
- FX losses – HY16	<u>(23.6)</u>
	(21.4)
Asset translation (translation impact)	
- FX gain on asset translation – HY15	0.6
- FX gain on asset translation – HY16	<u>5.8</u>
	5.2
Total benefit to net profit from changing FX rates	16.3

1. HY16 actual v HY16 at HY15 rates

Working capital



Improvement in working capital ratios driven by a reduction in inventory days and debtor days and higher sales revenue

A\$m	HY16	FY15	\$ chg
Trade receivables	258.4	236.7	21.7
Inventories	150.8	145.9	4.9
Less: Trade payables	(107.3)	(99.9)	(7.4)
Working capital	301.9	282.7	19.2
<i>Debtor days</i>	81	83	(2)
<i>Inventory days</i>	161	193	(32)

Cash flow



Timing of tax payments and net investment in working capital to fund business growth impacting cash flow

A\$m	HY16	HY15	\$ chg
EBIT	131.0	100.5	30.5
Depreciation & amortisation	16.3	14.3	2.0
Change in working capital & other	(19.4)	1.3	(20.7)
Net finance costs	(6.3)	(5.3)	(1.0)
Taxation paid	(48.1)	(20.9)	(27.2)
Operating cash flow	73.5	89.9	(16.4)
Capital expenditure	(13.4)	(7.8)	(5.6)
Other	(3.3)	(2.7)	(0.6)
Free cash flow	56.8	79.4	(22.6)

Net Debt



Reduction in net debt to \$132.9m

A\$m	HY16	FY15	\$ chg
Loans & borrowings			
Current	168.5	168.1	0.4
Non-current	44.7	44.6	0.1
Total debt	213.2	212.7	0.5
Cash	(80.3)	(72.2)	(8.1)
Net debt	132.9	140.5	(7.6)
Total loan facilities	350.0	350.0	
Unused Portion of Debt Facilities	135.0	135.0	

Dividends



Interim dividend up 22% and continue to target a dividend payout ratio of around 70% of net profit

A\$m	HY16	HY15	% chg
Interim ordinary dividend	110.0c	90.0c	22%
Payout ratio %	67%	72%	
Franking %	100%	35%	
Conduit foreign income	0%	40%	

Full year net profit guidance range adjusted to \$180-190 million, up 23-30% on FY15

H2 impacts

- Upgrades biased to H1 due to US seasonality
- China tender – similar units to FY15 with majority delivered in H1
- Investments in market expansion activities biased to H2
- Full year forecast of 72c USD/AUD FX rate (previously 75c)

Disclaimer

Non-IFRS financial measures

Given the significance of 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:

- Constant currency: restatement of IFRS financial measures in comparative years using FY16 FX rates

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.

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.