

Cochlear Limited

Results for the half year ended 31 December 2012 (H1 F13)



Chris Roberts CEO

Neville Mitchell CFO



Cochlear Overview

- Cochlear Limited (ASX:COH) - global leader in implantable devices for the hearing impaired
- ~ 2,600 employees / direct operations in 20+ countries / products sold in 100+ countries
- Fundamentals of the business remain positive
 - Large unmet clinical need
 - Excellent clinical outcomes
 - Established reimbursement
 - Strong competitive position
 - Opportunities for sustainable growth



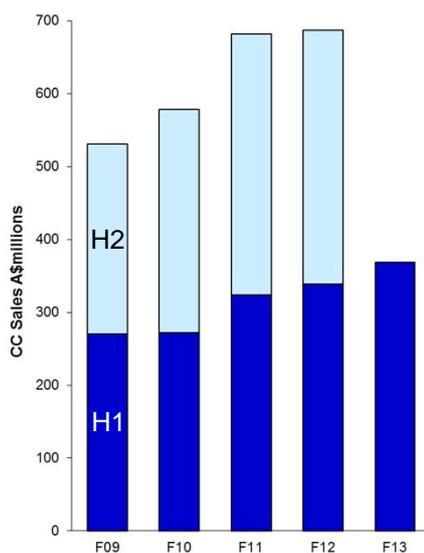
Cochlear: Financial Results for H1 F13

	H1 F13 \$m	H1 F12 \$m	% Change
Cochlear Implant Sales	329.7	311.5	↑ 6%
Bone Anchored Solutions (Baha) Sales	38.5	39.7	↓ 3%
FX Contracts Gains	23.5	36.3	↓ 35%
Total Revenue	391.7	387.5	↑ 1%
EBIT *	108.3	108.7*	flat
Net Profit after Tax *	77.7	80.1*	↓ 3%
Product Recall Costs, net of tax	-	100.5	
Net profit/(loss) attributable to members	77.7	(20.4)	

* These H1 F12 items exclude product recall expenses of \$138.8 million before tax and \$100.5 million after tax



Cochlear: Sales in Constant Currency (CC)

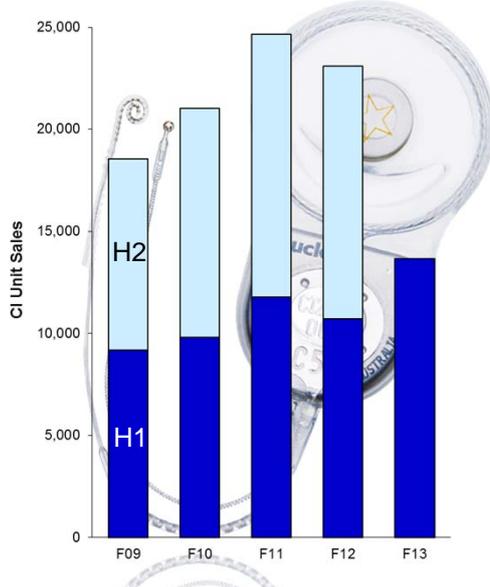


- Total revenues of \$391.7 million, up 1%
- Sales up 9% in constant currency (prior periods restated at F13 rates)
- AUD appreciation of 9% against the € in H1 F13 v H1 F12

* CC means sales restated at F13 FX rates



Cochlear: Cochlear Implant (CI) Unit Sales

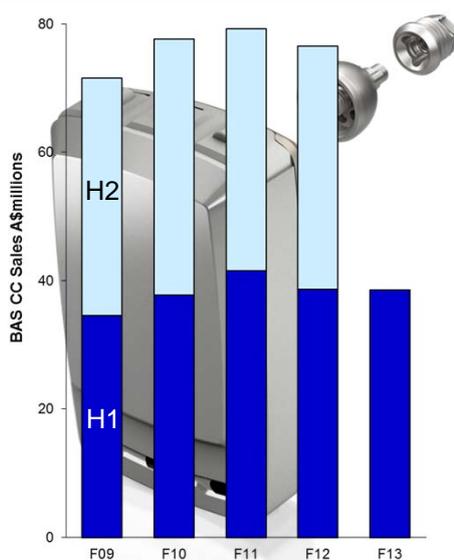


- H1 F13 CI unit sales up 27% to 13,672 units
- H1 F13 CI unit sales up 11% on H2 F12
- CI422 (Slim Straight) launch continues, eg Korea, Japan, India

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Cochlear: Sales of Bone Anchored Solutions (BAS) in Constant Currency

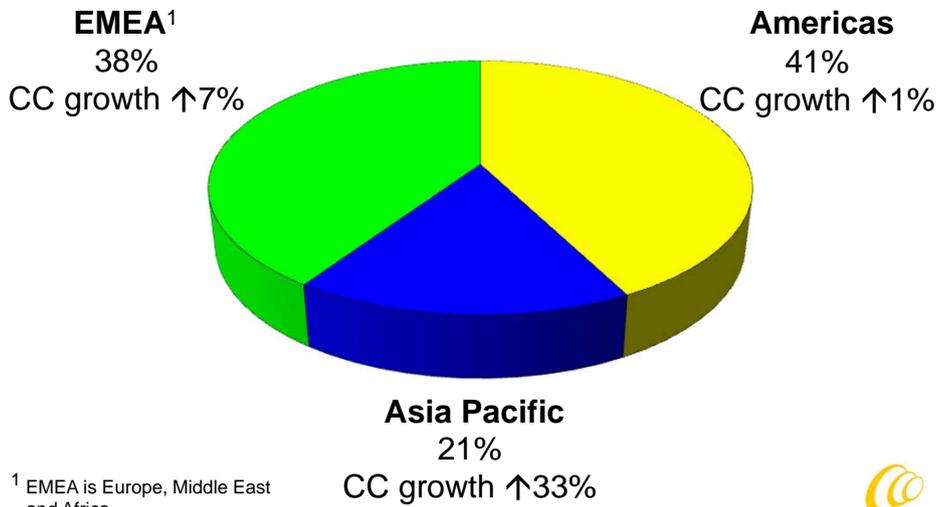


- BAS sales (including Baha implants) \$38.5 million for H1 F13, flat in constant currency
- Controlled market release of BA400 abutment – reduction of surgical time
- Approval and reimbursement for Baha obtained in Japan

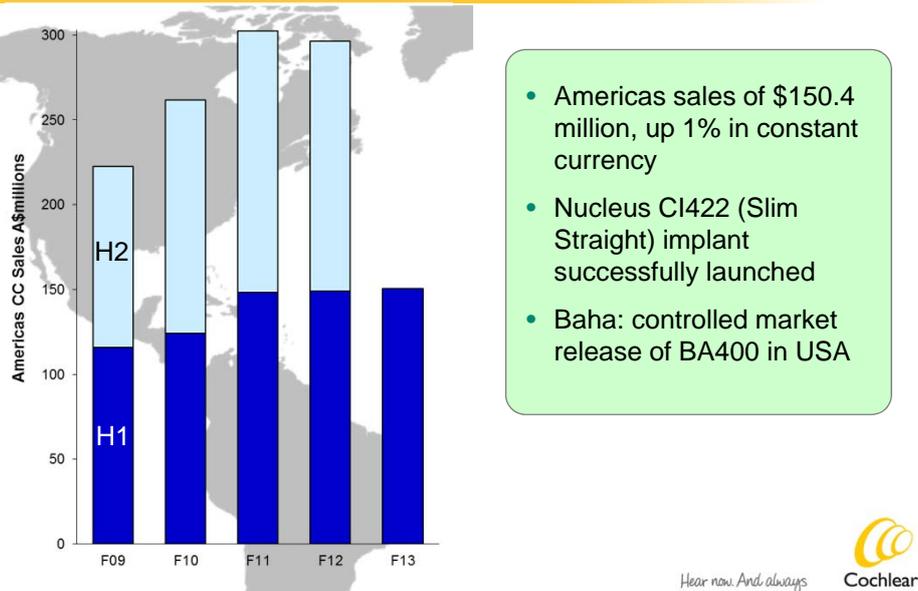
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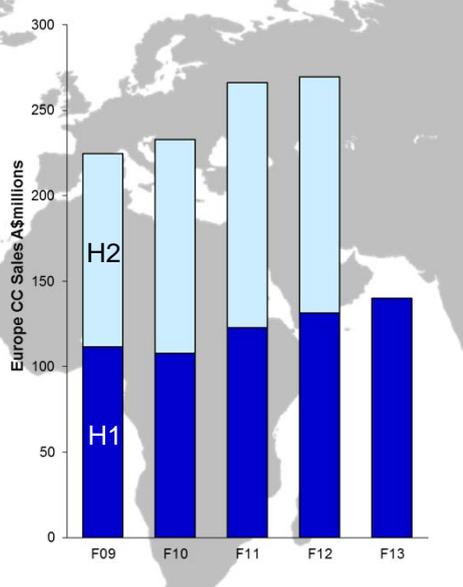
Cochlear: H1 F13 Regional Split of Sales



Cochlear Americas: Sales in Constant Currency



Cochlear EMEA: Sales in Constant Currency

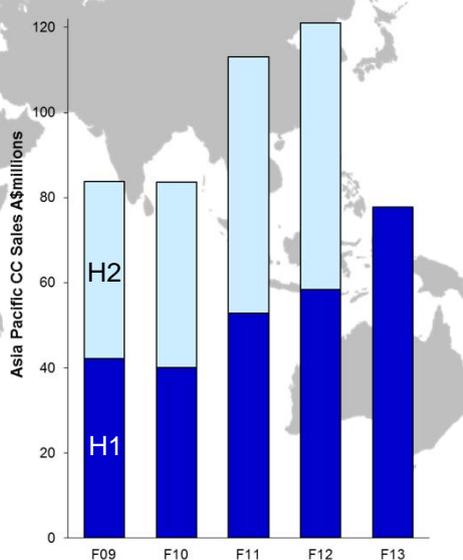


- EMEA (Europe, Middle East and Africa) sales of \$140.1 million, up 7% in constant currency
- Portfolio effect of product and geography
- Codacs clinical trial (Phase 1b) enrolment completed – results very positive

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Cochlear Asia Pac: Sales in Constant Currency

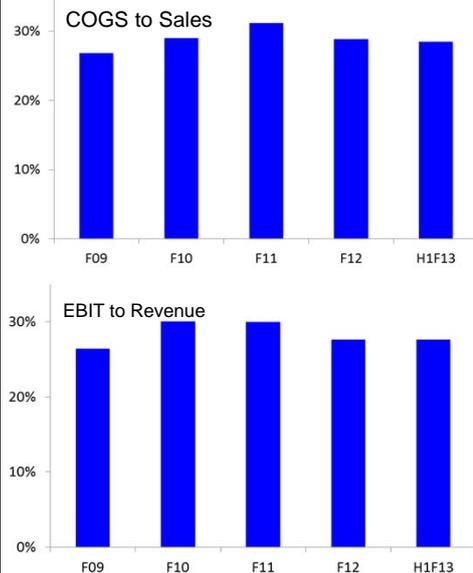


- Asia Pacific sales of \$77.7 million, up 33% in constant currency
- CI422 (Slim Straight) implant roll out – Korea, Japan India
- China Government tender delivery spread over F13
- CP802 launched in India

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Margins Maintained



- COGS to Sales of 28.5% (28.8% in F12)
- EBIT to Revenue (Sales + FX contracts) of 27.6% (27.6% in F12)
- Margin maintained even with:
 - Appreciating AUD
 - Hedge book roll off
 - Sales mix (China tender)
 - R&D increasing



Ongoing Product Innovation



Nucleus CI422 Implant



CP810 / CP802 Sound Processors



Baha BA400 Hydroxyapatite coating



CR120 Intraoperative Remote Assistant



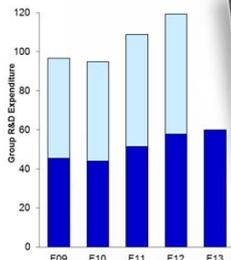
Acoustic implants (Codacs)



Aqua Accessory

Maintaining Market Leadership

- Ongoing investment in R&D
- Development of hearing precinct at Macquarie University
- Ongoing investments in online (digital) strategy
- Technology partnerships e.g. GN Resound
- NEOS chipset to drive next generation products



Clinical Trends Supporting Market Growth



Hearing loss & cognitive decline



Binaural hearing



Preserving auditory structure & function



Directed neuroplasticity



Geographic depth & spread



An intervention for all ages

Cochlear H1 F13 Overview

- CI unit sales of 13,672 units up 27%
- Revenues of \$391.7 million, up 1% (sales in constant currency up 9%)
- Operating margins maintained, eg EBIT to revenue of 27.6%
- NPAT of \$77.7 million (H1F12 \$20.4 million loss)
- Dividend up 4% to \$1.25
- Building blocks in place for long term sustainable growth



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Neville Mitchell CFO

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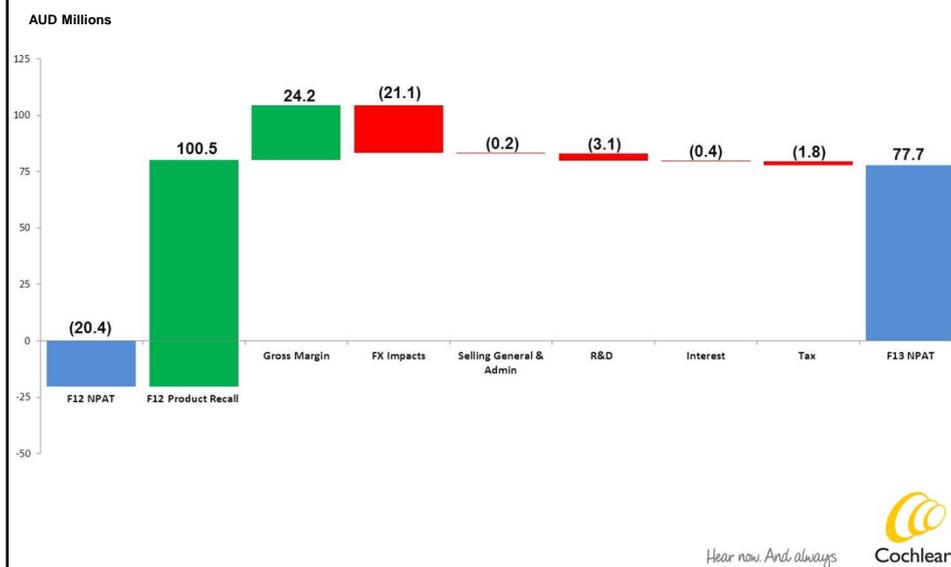
Cochlear H1 F13 Financial Performance

	H1 F13 \$m	H1 F12 \$m	% Change
Total Revenue	391.7	387.5	↑ 1%
EBIT *	108.3	108.7	-
Net Profit after Tax *	77.7	80.1	↓ 3%
Product Recall Costs, net of tax	-	100.5	
Net profit/(loss) attributable to members	77.7	(20.4)	
Dividends			
Interim Dividend	125c	120c	↑ 4%
Record Date 27 th February 2013 Payable Date 12 th March 2013			
Franking %	40%	60%	
Conduit Foreign Income %	30%	40%	
*Comparative H1 F12 excludes product recall expenses of \$138.8 million before tax and \$100.5 million after tax			

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Cochlear H1 F12 – H1 F13 NPAT Reconciliation



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Impact of Appreciating AUD on H1 F13 NPAT

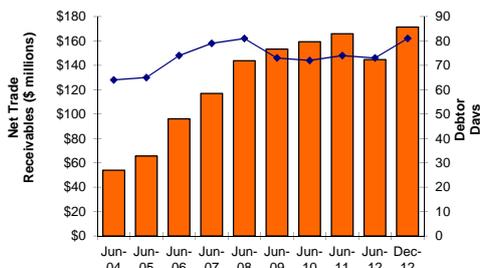
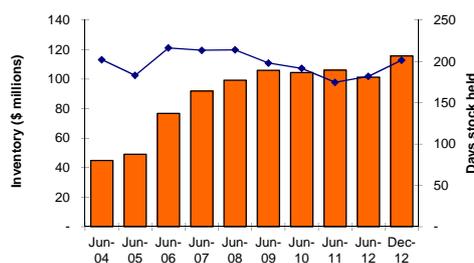
	A\$m	
	F/(U)	
Income Statement Translation Impact		
Sales Revenue	(12.5)	} Difference H1 F13 actual vs H1 F13 at H1 F12 rates
Total Expenses including tax	4.3	
	<u>(8.2)</u>	
Transaction Impact		
- Decrease from H1 F12 of FX gain on hedged sales	(12.8)	← Net difference actuals H1 F13 vs H1 F12
Translation Impact		
- Decrease over H1 F12 of FX gain on asset translation	<u>(0.1)</u>	← Net difference actuals H1 F13 vs H1 F12
Impact on H1 F13 NPAT of appreciating AUD	<u>(21.1)</u>	

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Cochlear H1 F13 Working Capital

Inventory (Days Stock Held) / Trade Receivable (Debtors Days)



- H1 F13 Inventory days increased to 201 (182 days in June F12)
- Debtor days 81 (73 days in June F12)
- Trade receivables at \$171.4 million (\$144.7 million in June F12)

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Cochlear H1 F13 (Debt) / Cash

	31 Dec 2012	30 Jun 2012
	\$m	\$m
Operations		
Loans and Borrowings		
Current	(78.4)	(45.7)
Non-current	(63.9)	(19.9)
Total Debt	(142.3)	(65.6)
Cash	69.8	68.5
Net (Debt)/Cash	(72.5)	2.9
<i>Gearing ratio (net debt/net debt + equity)</i>	15.6%	(1%)
Total Loan Facilities	200.0	200.0
Unused Portion of Facility	60.3	128.0

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Thank you
Any questions?



FX Contract Cover and Rates as at 31 December 2012

Total FX hedges at 31 Dec 2012 expressed in Foreign Currency (millions)	USD 230.5m	EUR 159.1m	JPY 998.5m	
FX Hedges Expressed in AUD millions	242.5m	223.8m	13.2m	Total 479.5m
% of total cover (in AUD)	50%	47%	3%	100%
3 yr weighted average rates FX contracts at 31 Dec 2012	0.95	0.72	75.6	
FX contracts at 31 Dec 2011	0.88	0.66	74.2	
H2 F13 weighted average rates FX contracts at 31 Dec 2012	0.94	0.71	77.1	
Cover for H2 F13 (in AUD m)	76.6m	80.3m	3.9m	160.8m

Foreign Exchange

Rates applied H1 F13 vs. H1 F12	H1 F13	H1 F12	% Change
Average rates (used for translating P&L)			
USD	1.03	1.03	-
Euro	0.81	0.74	9%
JPY	82.9	80.0	4%
GBP	0.65	0.65	-
Contract rates (used to bring FX to Aust)			
USD	0.90	0.85	6%
Euro	0.69	0.63	10%
JPY	78.5	76.4	3%

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Foreign Exchange

Period end rates applied F13 vs. F12

	31 Dec 2012	30 June 2012	% change
Period end rates (used for translating Bal Sheet)			
USD	1.04	1.01	3%
Euro	0.78	0.81	(4%)
JPY	89.0	80.1	11%

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Property, Plant & Equipment & Leasehold Improvements

	31 Dec 2012
\$m	
Gross value 31 December 2012	167.8
Accumulated depreciation	(105.5)
Net book value at 31 December 2012	<u>62.3</u>
H1 F'13 movements	
Additions	9.7
Depreciation	(7.2)
FX Impacts	0.2

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Corporate & Other Net Expenses

	H1 F13	H1 F12
	\$m	\$m
FX Contracts	(23.5)	(36.3)
Research and Development	59.3	57.4
Corporate Administration & Marketing	31.4	31.3
Corporate Other Income	(1.0)	(0.7)
Corporate and other net expense (note 7)	<u>66.2</u>	<u>51.7</u>

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Cochlear H1 F12 Product Recall Expense

Composition of Product Recall Expense	H1 F13 \$m	H1 F12 \$m
Write down of Inventory	-	34.9
Impairment of Property, Plant and Equipment	-	14.0
Impairment of Intangibles	-	13.8
Warranty and other expenses	-	76.1
Cost of Sales – Product recall before interest and tax	-	138.8
Income tax benefit	-	(38.3)
Total Product Recall Cost After Tax	NIL	100.5

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Non-IFRS Financial Measures

Non-IFRS financial measures

Given the significance of the product recall 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 recall costs: IFRS measures adjusted for the costs of the product recall
- Constant currency: restatement of IFRS financial measures in comparative years using F13 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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