

# Cochlear Limited

Results for the full year ended 30 June 2011 (F11)



**Chris Roberts, CEO**

**Neville Mitchell, CFO**

*Hear now. And always*



# Cochlear Overview

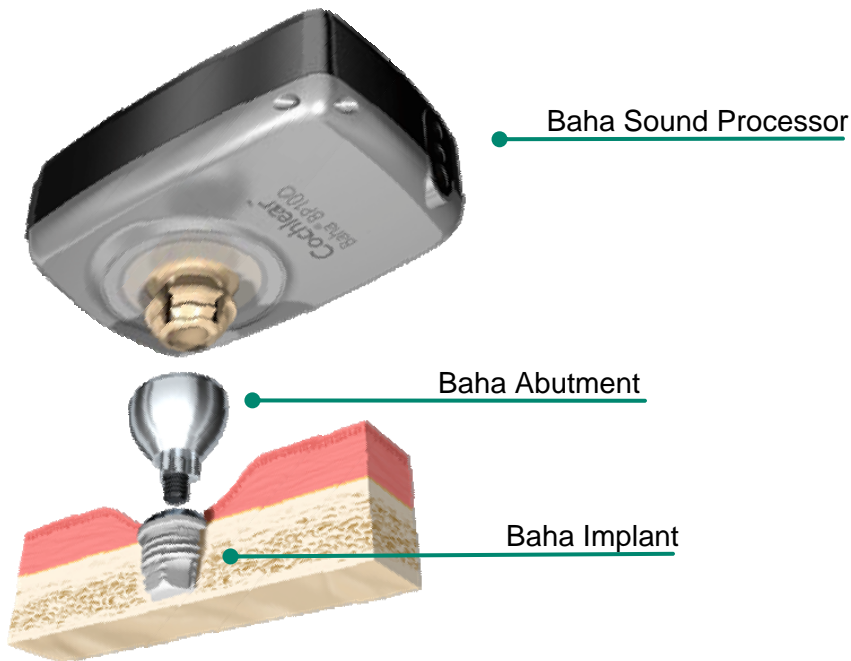
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- Cochlear Limited (ASX:COH) is the global leader in implantable devices for the hearing impaired (cochlear implants, auditory brainstem implants, hybrid implants, DACS and bone conduction implants)
- ~ 2,500 employees
- Direct operations in 20+ countries, and products sold in 100+ countries
- ~ 13% of revenue spent on R&D
- Fundamentals of the business remain positive
  - Large unmet clinical need
  - Excellent clinical outcomes
  - Established reimbursement
  - Strong competitive position
  - Opportunities for sustainable growth

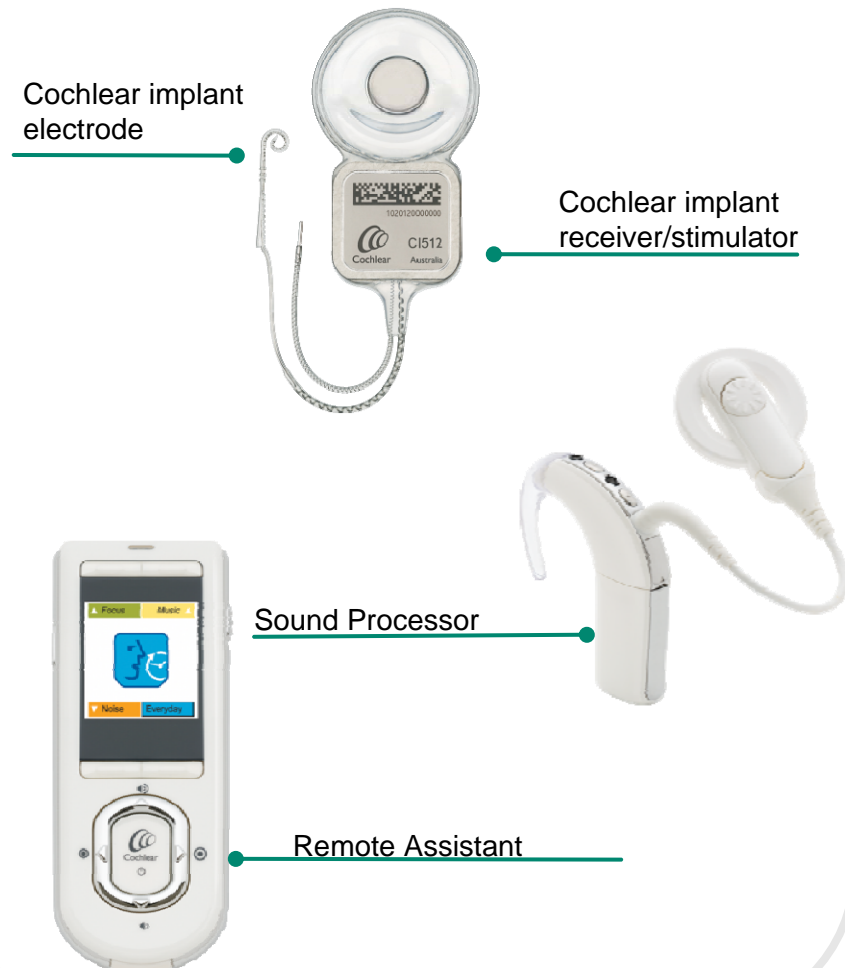


# Cochlear's implant systems include:

## Cochlear Baha 3



## Cochlear Nucleus 5



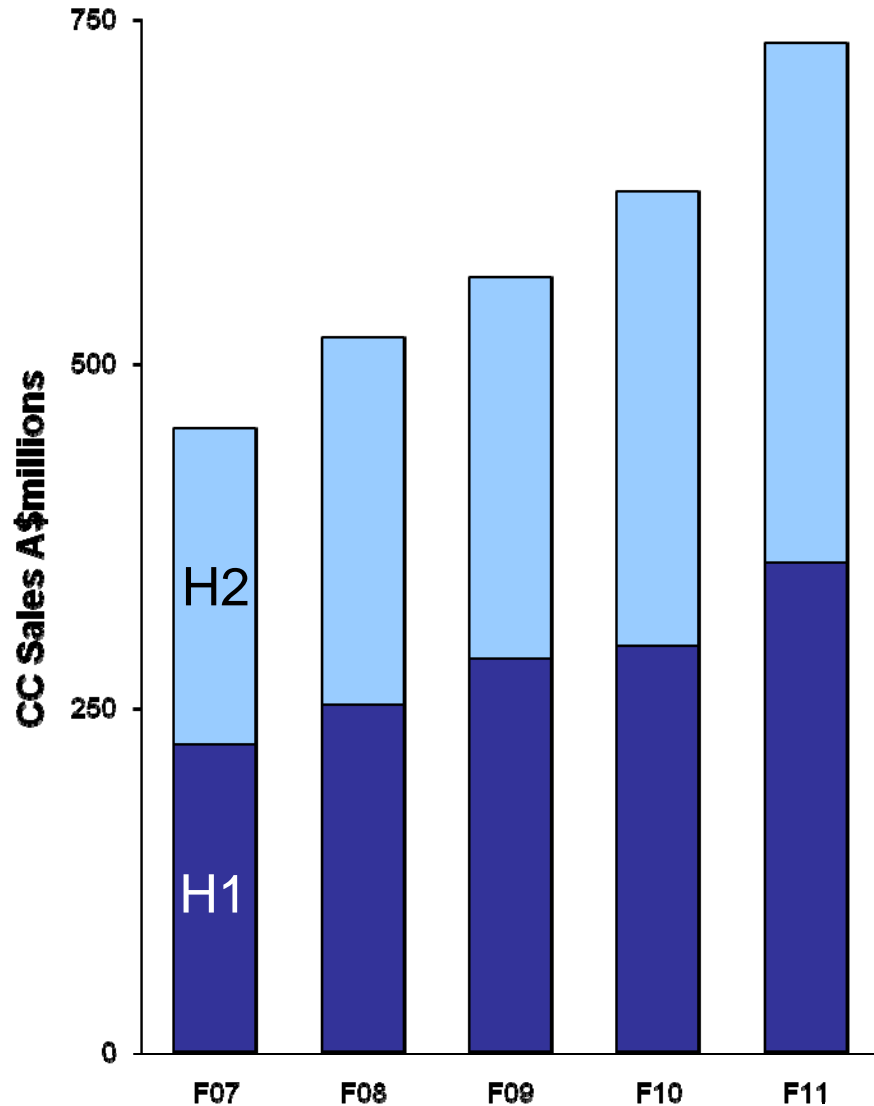
# Cochlear: Financial Results for F11

	F11 \$ millions	F10 \$ millions	± %
Cochlear Implants	648.0	603.7	↑7
Bone Anchored Solutions (Baha)	84.2	92.5	↓9
FX Contracts	77.4	38.6	↑101
<b>Revenue</b>	<b>809.6</b>	<b>734.8</b>	<b>↑10</b>
EBIT	242.7	220.5	↑10
<b>Net Profit After Tax</b>	<b>180.1</b>	<b>155.2</b>	<b>↑16</b>
Earnings per Share (EPS)	\$3.18	\$2.76	↑15
Final Dividend per share (70% Franked, 30% CFI)	\$1.20	\$1.05	↑14
<b>Full Year Dividend</b> per share (68% Franked, 32% CFI)	<b>\$2.25</b>	<b>\$2.00</b>	<b>↑13</b>

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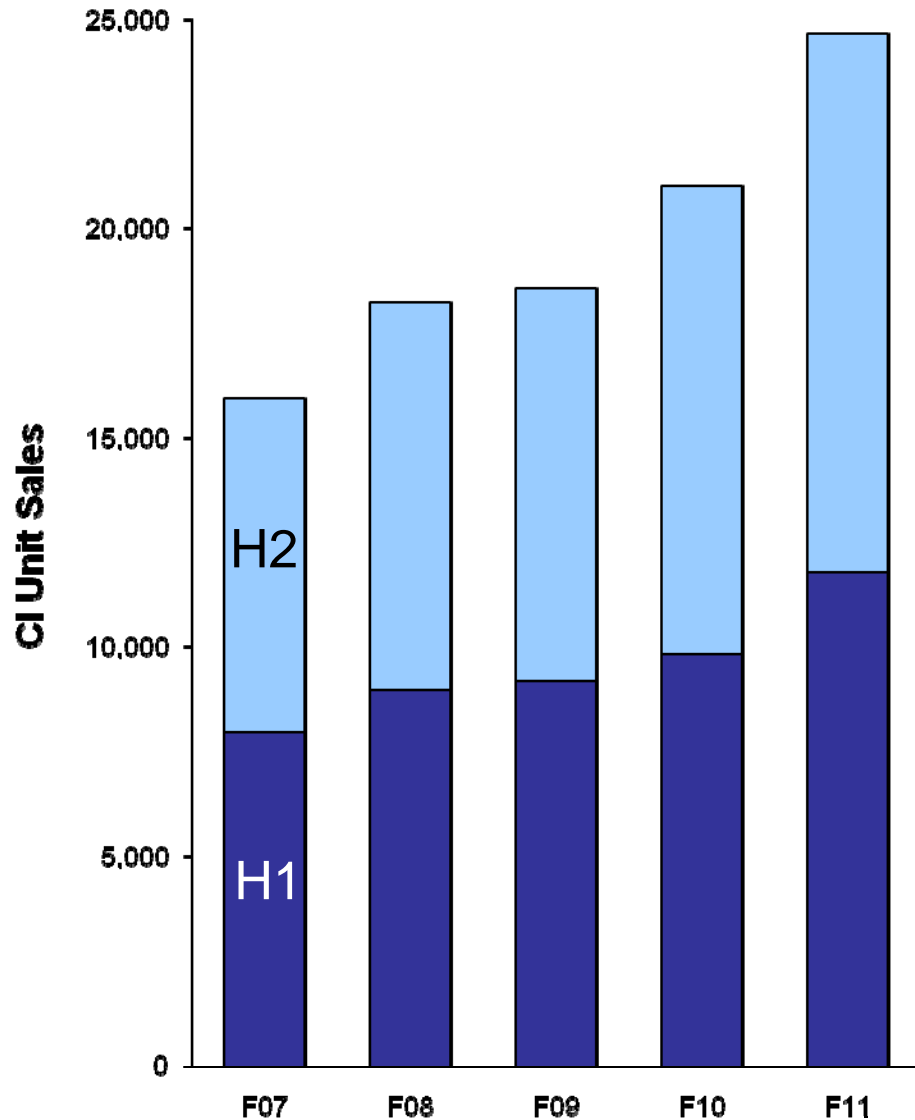


# Cochlear: Sales in Constant Currency (CC)



- Total revenues of \$809.6 million, up 10%
- Sales (excluding FX contracts) up 17.3% in constant currency (prior periods restated at F11 rates)
- H1 sales momentum of 17.2% CC growth continued through H2 (CC sales growth of 17.4%)

# Cochlear: Cochlear Implant (CI) Unit Sales



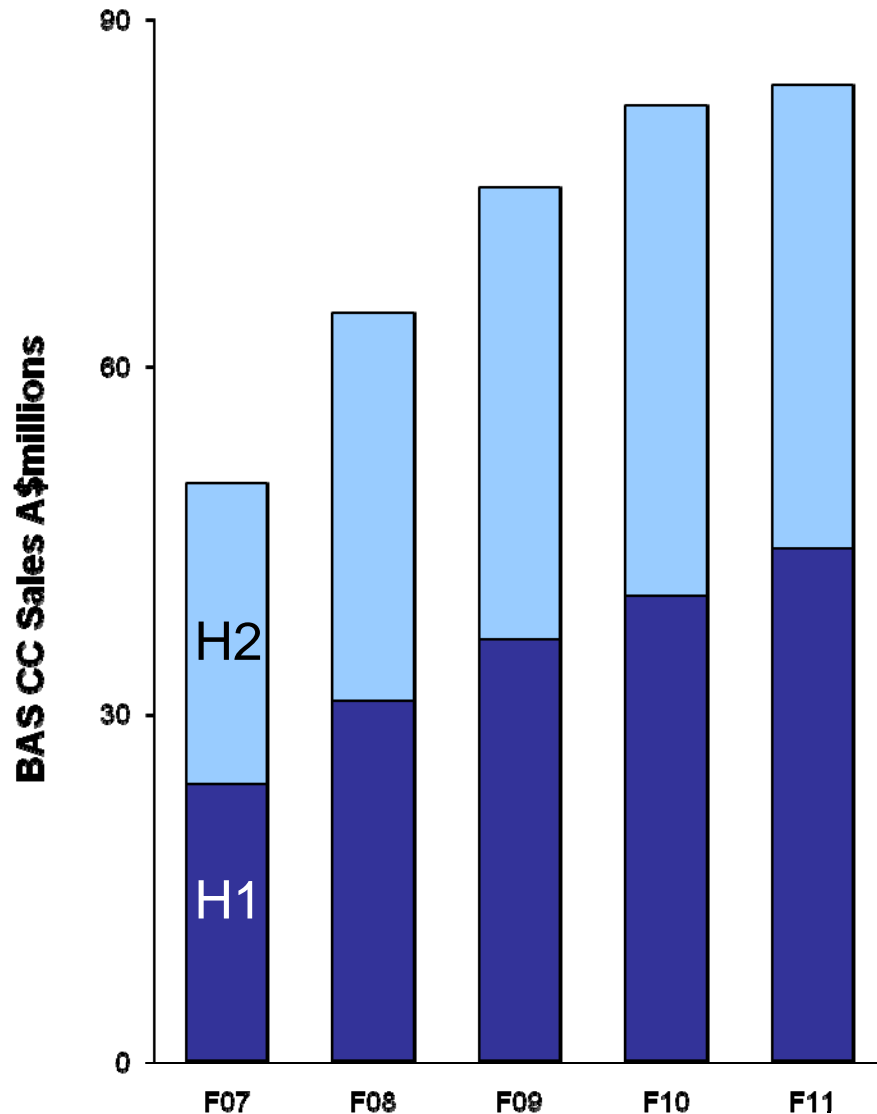
- F11 cochlear implant (CI) unit sales up 17% to 24,661 units
- F11: 70+% of implants were Nucleus 5 (N5)
- N5 release 3 successfully launched in H2



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



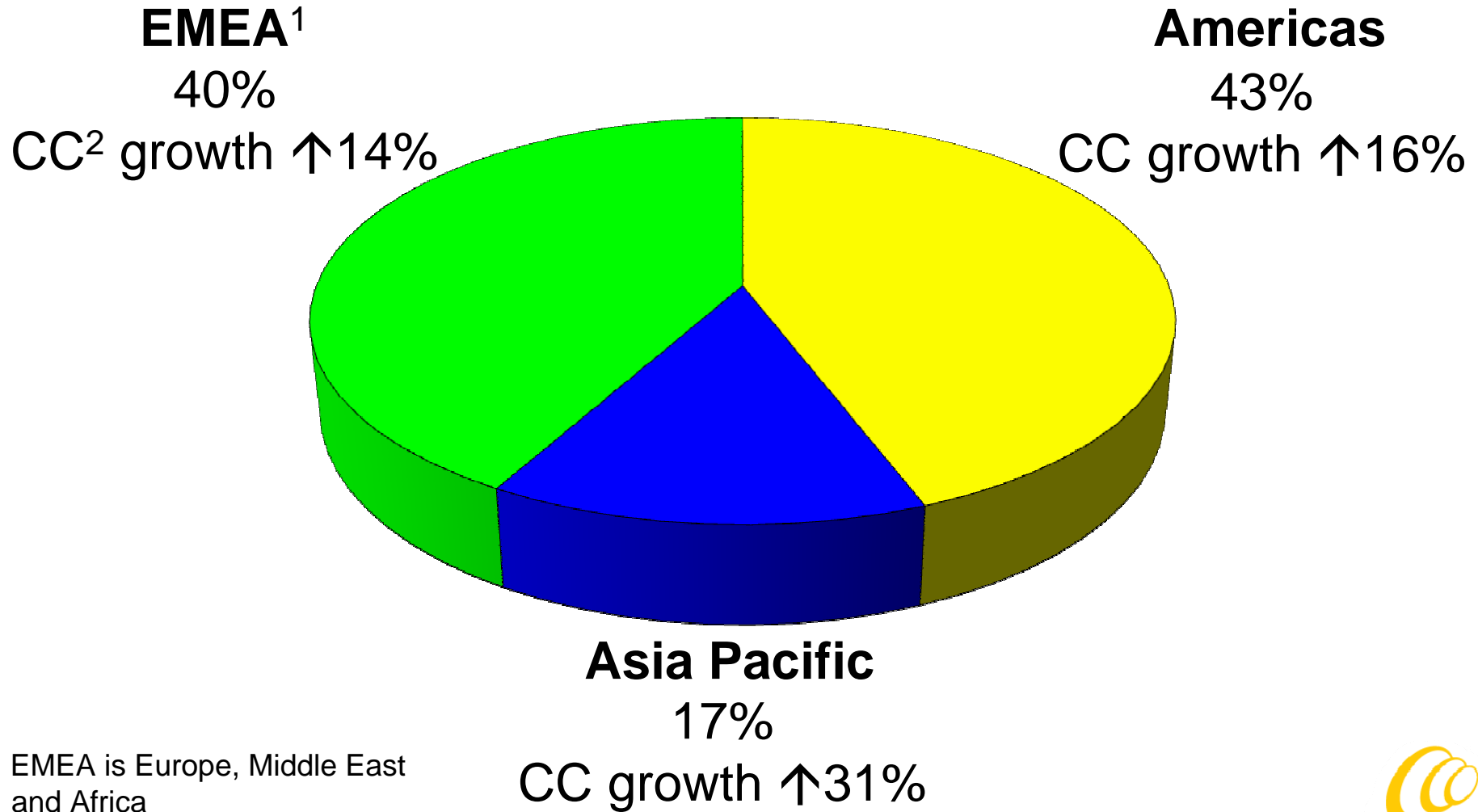
- BAS sales (including Baha implants) \$84.2 million for F11, up 2% in constant currency
- Baha 3 Power launched end of June 2011



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# Cochlear: F11 Regional Split of Sales

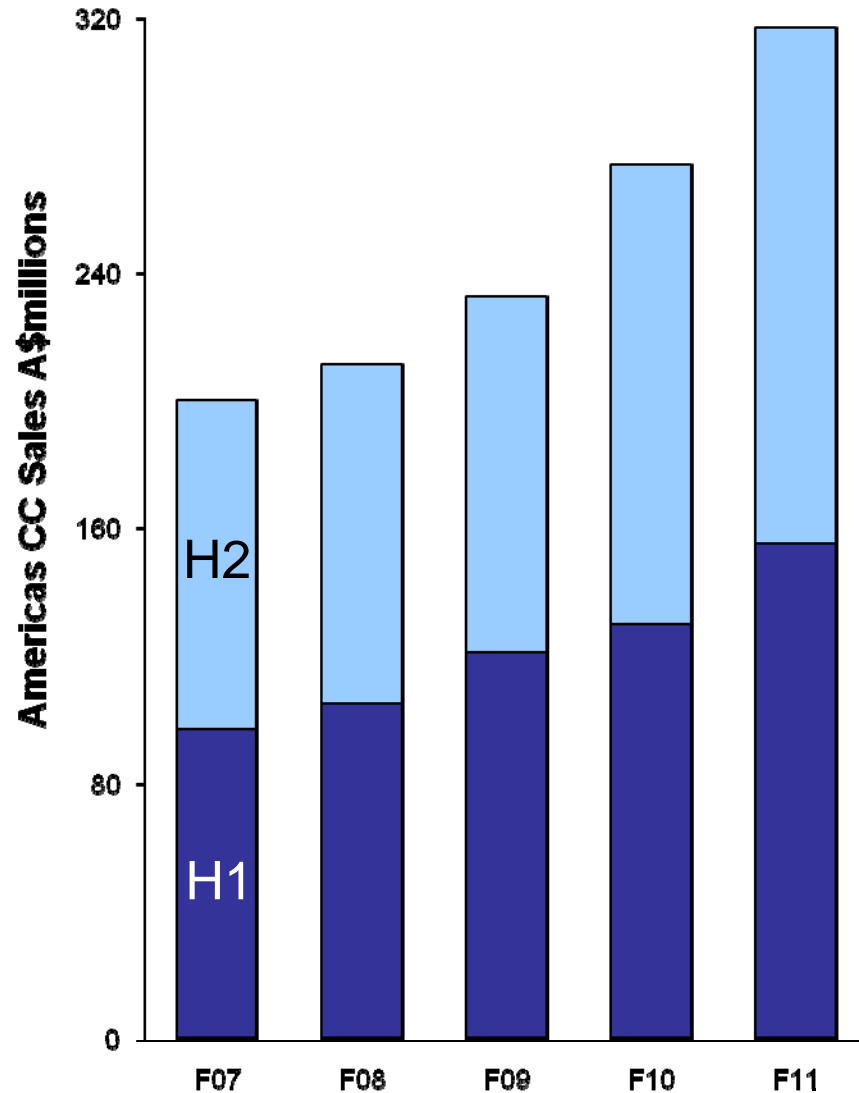


<sup>1</sup> EMEA is Europe, Middle East and Africa

<sup>2</sup> CC is Constant Currency



# Cochlear Americas: Sales in Constant Currency

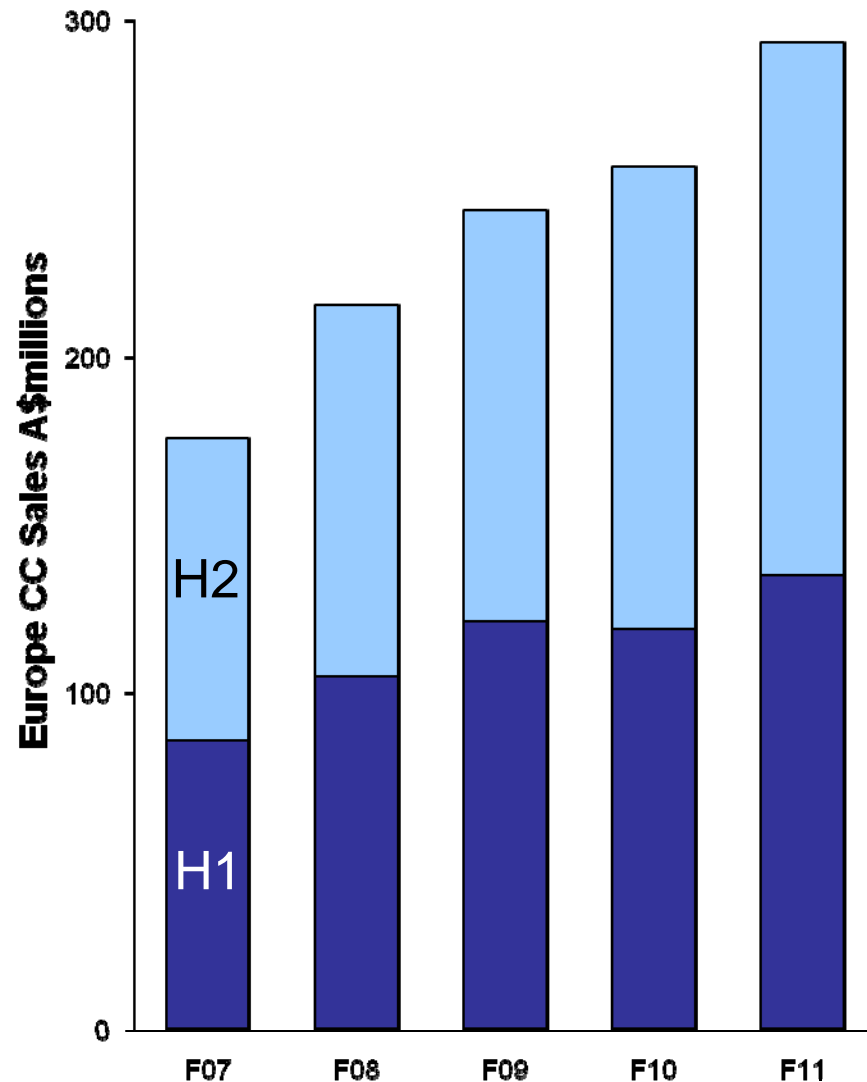


- Americas sales of \$317 million, up 16% in constant currency
- USA field expansion being implemented (from 20 territories to 29 territories)
- Further expansion in Latin America, including establishment of operations in Panama

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# Cochlear EMEA: Sales in Constant Currency

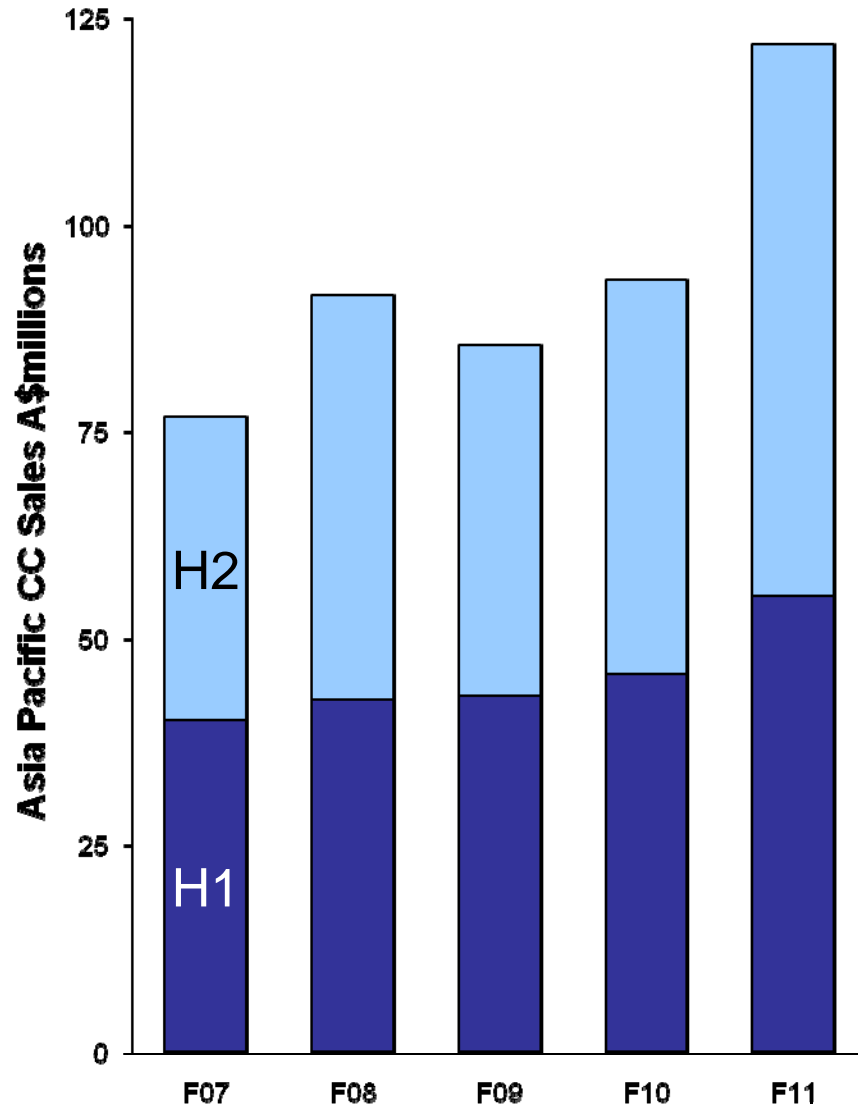


- EMEA (Europe, Middle East and Africa) sales of \$293.3 million, up 14% in constant currency
- Sales growth across developed and emerging economies
- Challenging Middle East/North Africa situation

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# Cochlear Asia Pac: Sales in Constant Currency

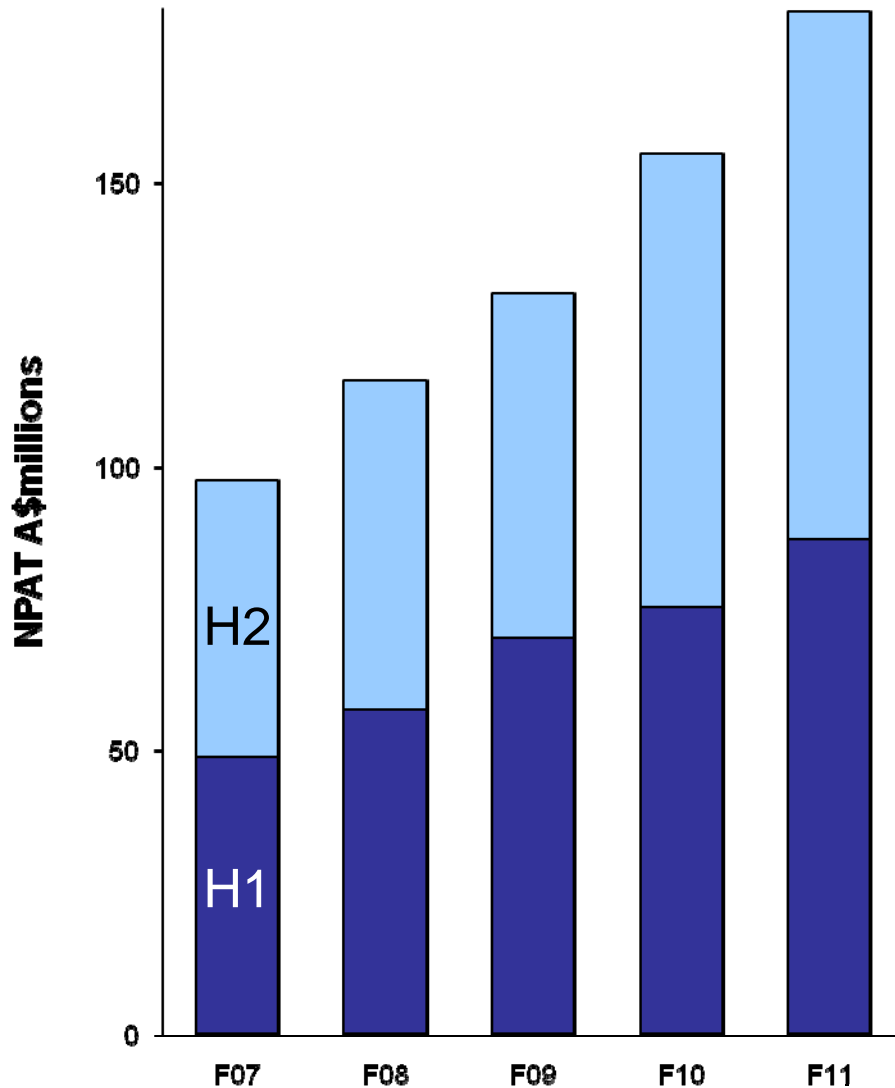


- Asia Pacific sales of \$121.9 million, up 31% in constant currency
- Australia (most penetrated adult market per capita) still double digit growth, reinforcing the importance of awareness/referral path
- Growth across Asia-Pacific region
- Established direct operations in India

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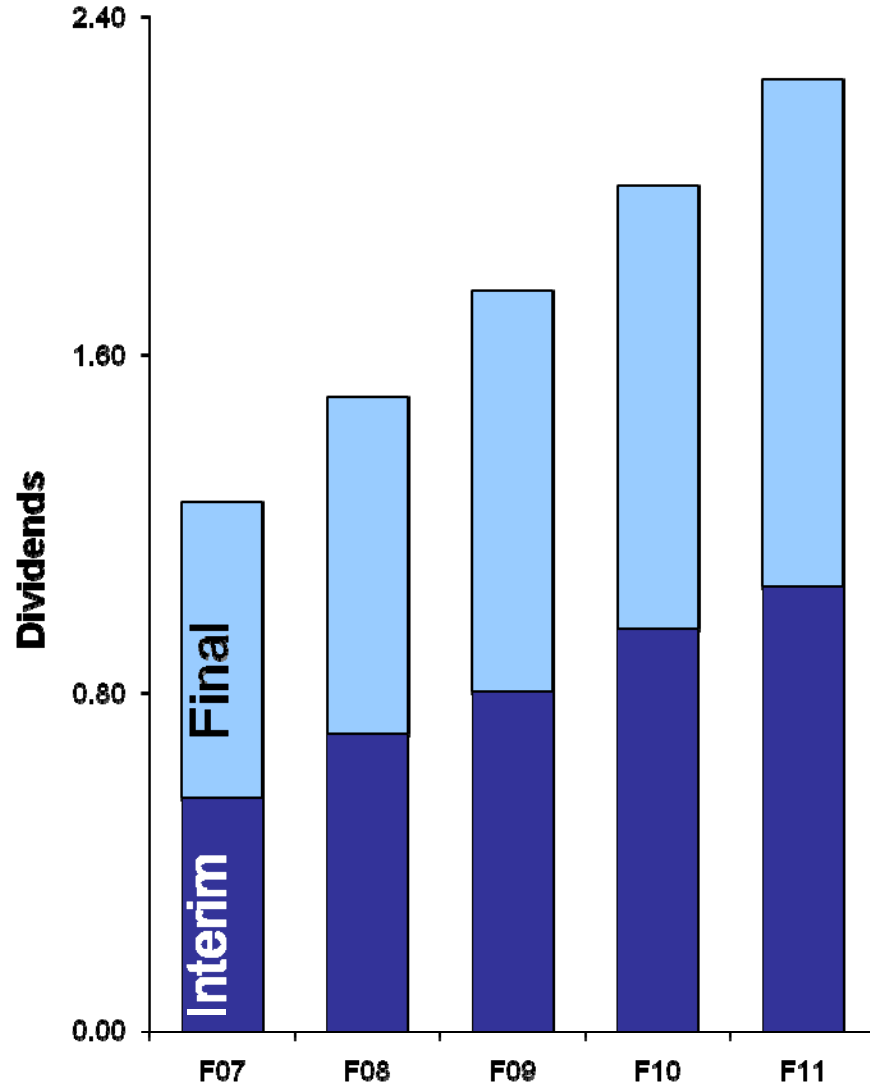
# Cochlear: Net Profit After Tax (NPAT)



- EBIT up 10% to \$242.7 million
- EBIT 30% of revenue, same as F10, (despite appreciation of the AUD)
- NPAT up 16% to \$180.1 million.
- EPS of \$3.18, up 15%

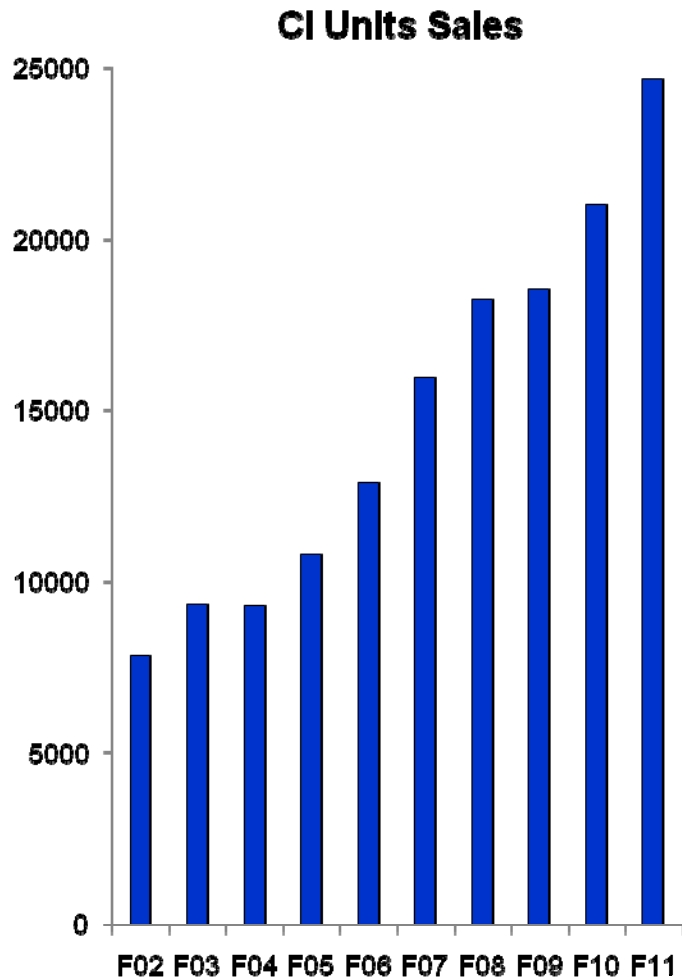


# Cochlear: Free Cash Flow and Dividends



- Free cash flow of \$166 million similar to F10, as capital expenditure increased for new facility
- Final dividend \$1.20 per share (70% franked, 30% CFI), up 14%
- Full year dividend (interim and final) \$2.25 up 13%

# Cochlear: Investing for Long Term Growth



- Ongoing commitment to technologic innovation (R&D ~ 13% of revenues)
- Significant ongoing investments in manufacturing and global supply chain
- New headquarters at Macquarie University (MU) completed –catalyst for local hearing precinct plus global collaboration
- Deepening and broadening global footprint
- Investments in scalability for healthcare professionals, covering products (eg scalability suite driving simplification, automaticity, remote connectivity), transactions (on-line transactional tools) and customer interactions

# Cochlear at Macquarie University

- 24,000m<sup>2</sup> head office facility housing specialist research and manufacturing functions on campus at Macquarie University
- Future expansion over next 25 years
- Part of a hearing precinct
- Vision is to create a world leading hearing precinct as a catalyst for global collaboration



# Technologic innovation

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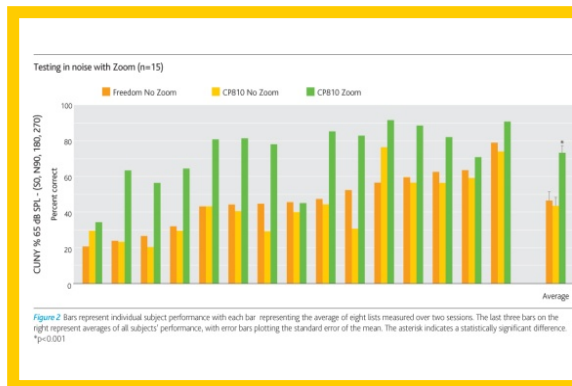
- R&D spend ~ 13 % of revenue
- Nucleus 5: release 3 has been very successful (eg improved remote assistant interface and N24 backwards compatibility)
- BAS: Baha 3 and Baha 3 Power
- Full pipeline of opportunities
- Technology development and license agreement with GN Resound enhancing certain capabilities, particularly wireless





# Technologic innovation

## Outcome driven innovation / new benchmarks



Hearing Performance



Ease of Use



Cosmetics / Ergonomics



Miniaturisation / Reliability



Manufacturing / Supply Chain



Building blocks to scale clinical pathway

# Cochlear H1 F11 Overview

- Record F11 financial results:
  - Revenue of \$810 million,  $\uparrow$ 10% with sales  $\uparrow$ 17% in constant currency (CI units  $\uparrow$ 17%)
  - NPAT  $\uparrow$ 16% to \$180.1 million
  - Net cash position of \$9.4 million
- Market trends remain favourable with opportunities in both developed and developing economies
- Ongoing investments in products and capabilities supporting sustainable long term growth



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# F11 Financial Results

## Neville Mitchell

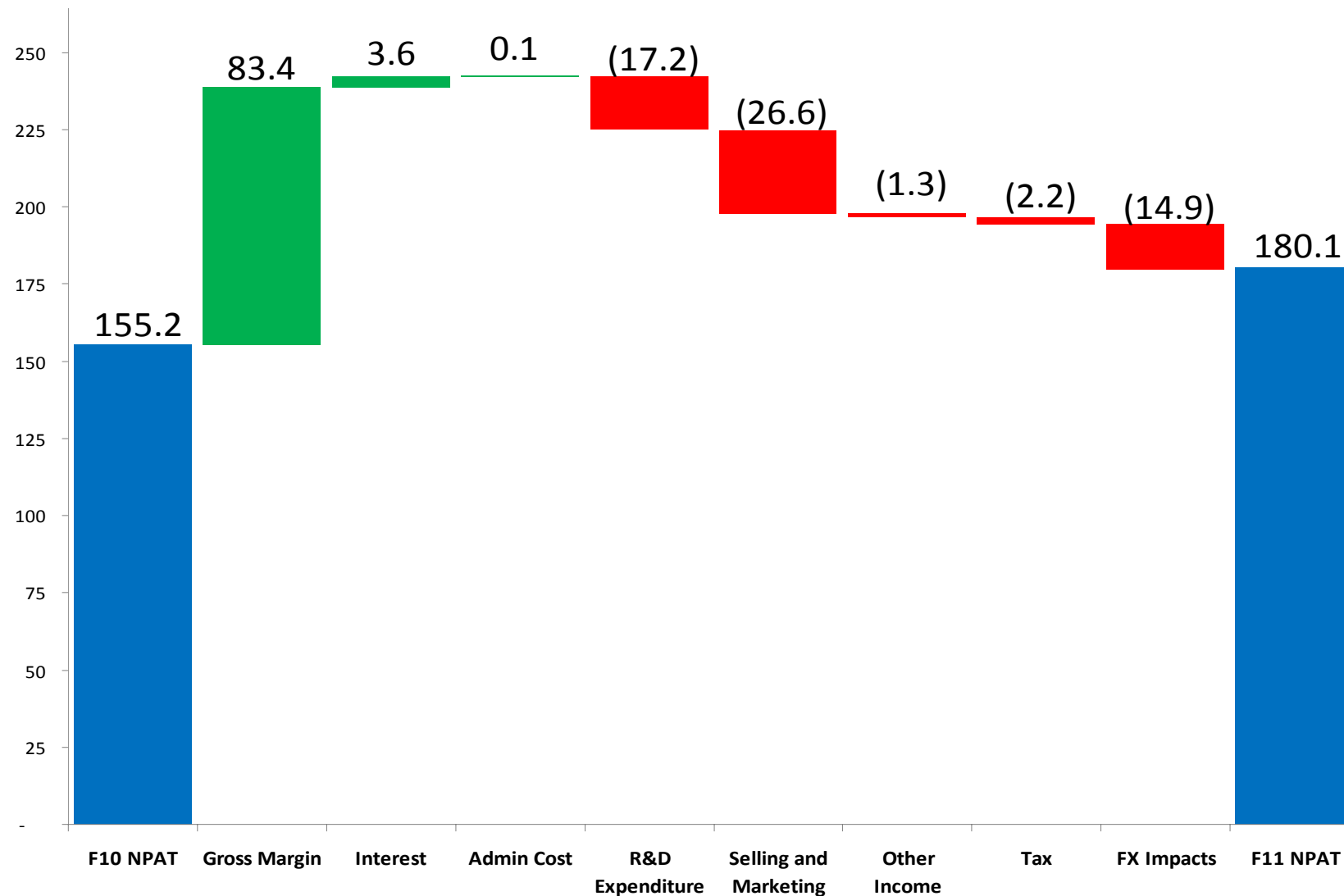


# F11 Financial Performance

	F11	F10	%
	\$m	\$m	Change
Total Revenue	809.6	734.8	↑ 10%
EBIT	242.7	220.5	↑ 10%
NPAT	180.1	155.2	↑ 16%
<b>Dividends</b>			
Full Year (interim and final)	225c	200c	↑ 13%
Final Dividend	120c	105c	↑ 14%
Franking %	70%	60%	
Conduit Foreign Income %	30%	40%	

Record Date 1st September 2011  
 Payable Date 22nd September 2011

# F10 - F11 NPAT Reconciliation

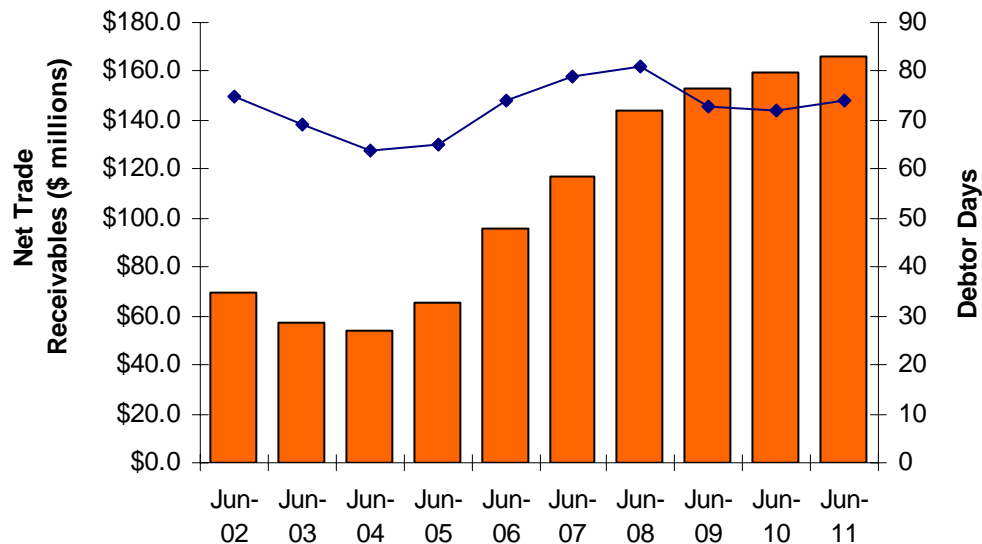
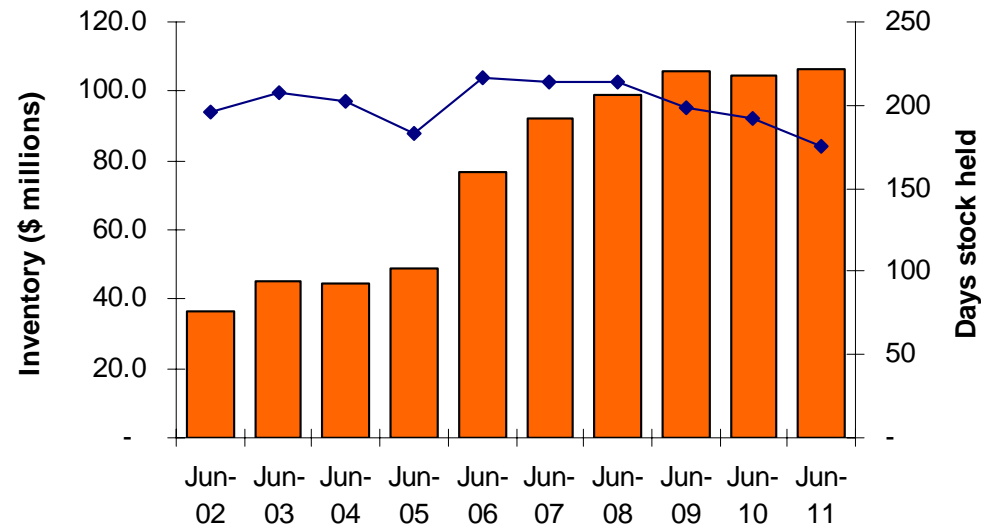


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# F11 Working Capital

## Inventory (Days Stock Held) / Debtors Days Outstanding



- F11 Inventory at 173 days (F10 192 days) \$106.1 (F10 \$104.4m)
- Debtor days to 74 (F10: 72, F09: 73)
- F11 debtors at \$165.9m (F10 \$159.5m)

# Impact of Appreciating AUD on F11 NPAT

	A\$m	
		F/(U)
Income Statement Translation Impact		
Sales Revenue	<b>(82.9)</b>	Difference F11 actual vs F11 at F10 rates
Total Expenses including tax	<b>27.9</b>	
	<b>(55.0)</b>	
Transaction Impact		
- Increase from F10 of gain on FX Contracts	<b>38.8</b>	Difference between actual F11 vs F10
Translation Impact		
- Increase from F10 of FX gain on asset translation	<b>1.3</b>	Difference between actual F11 vs F10
<b>Negative impact on F11 NPAT of appreciating AUD</b>	<b>(14.9)</b>	

(i.e. Profit in F11 would have been \$14.9m greater if F10 average rates had applied to F11)

# Cochlear F11 Cash /(Debt)

	30 June 2011	30 June 2010
	\$m	\$m
<b>Operations</b>		
Loans and Borrowings		
Current	(60.0)	-
Non-current	(3.0)	(82.9)
Total Debt – operations	(63.0)	(82.9)
Cash	72.4	41.8
<b>Net Cash/(Debt) – operations</b>	<b>9.4</b>	<b>(41.1)</b>
<i>Gearing ratio - operations (net debt/net debt + equity)</i>	(2%)	9%
Net Debt for new building	-	(72.8)
<b>Total Net Cash/(Debt)</b>	<b>9.4</b>	<b>(113.9)</b>

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# Cochlear H1 F11 Overview

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Thank you

Any questions?

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**Cochlear™**

# Completion of Global Headquarters

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	\$m
Proceeds from Macquarie University	130.3
Total cost	(118.7)
Onerous lease commitments at present value	(3.7)
Relocation expenses	(1.8)
<b>Construction profit net of relocation expenses</b>	<b>6.1</b>

**(Note 28)**

# Corporate & Other Expenses

	<b>F11</b>	<b>F10</b>
	<b>\$m</b>	<b>\$m</b>
FX Contracts	(77.4)	(38.6)
Research and Development	108.9	94.9
Corporate Administration & Marketing	58.4	55.0
Corporate Other Income	(7.6)	(9.3)
<b>Corporate and other net expense (note 10)</b>	<b>82.3</b>	<b>102.0</b>

# Foreign Exchange

## Rates applied F11 vs F10

	<b>F11</b>	<b>F10</b>	<b>%</b>
Average rates (used for translating P&L)			
USD	0.98	0.88	12%
Euro	0.72	0.63	14%
JPY	82.0	80.5	2%
GBP	0.62	0.55	13%
Contract rates (used to bring FX to Aust)			
USD	0.83	0.80	4%
Euro	0.58	0.56	4%
JPY	78.38	84.70	(7%)

# Foreign Exchange

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## Period end rates applied F11 vs F10

	<b>30 June 2011</b>	<b>30 June 2010</b>	<b>% change</b>
Period end rates (for translating Balance Sheet)			
USD	1.05	0.87	21%
Euro	0.73	0.71	3%
JPY	84.8	78.1	9%

# FX Contract Cover and Rates as at 30 June 2011

<b>Total FX cover at 30 June 11</b>	<b>USD 246.7m</b>	<b>Euro 216.7m</b>	<b>JPY 9.4m</b>	<b>Total AUD 472.8m</b>
% of total cover (in AUD)	52.2%	45.8%	2%	100%
<b>3 yr weighted average rates FX contracts at 30 June 11</b>	<b>0.82</b>	<b>0.64</b>	<b>75.4</b>	
FX contracts at 30 June 10	0.78	0.57	76.7	
<b>F12 weighted average rates FX contracts at 30 June 11</b>	<b>0.80</b>	<b>0.63</b>	<b>75.1</b>	
<b>Cover for F12</b>	<b>165.7m</b>	<b>146.8m</b>	<b>6.8m</b>	