

Cochlear Limited

Results for the half year ended 31 December 2013 (H1 F14)



Chris Roberts CEO

Neville Mitchell CFO

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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

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Cochlear: Financial Results for H1 F14

	H1F14 \$m	H1F13 \$m	% Change
Cochlear implant sales	331.1	329.7	0 %
Bone Conduction/Acoustic sales	45.9	38.5	↑19 %
Sales Revenue	377.0	368.2	↑2 %
FX Contracts Gains	(5.9)	23.5	↓125 %
Total Revenue	371.1	391.7	↓5 %
EBIT*	26.9	108.3	↓75 %
Net profit after tax*	21.0	77.7	↓73 %
EPS (cents per share)	37.0	136.6	↓73 %
Interim Dividend (cents per share)	127c	125c	↑2 %

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

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Summary of H1 F14

H1

- Started F14 with no regulatory approvals for new products in key markets
- Slowing of sales ahead of Nucleus® 6 launch (reported in H2 F13) continued into H1 F14

Some loss of cochlear implant market share (predominantly in USA)

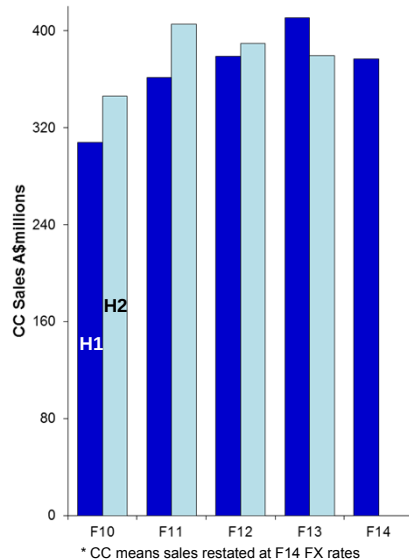
- Regulatory approval and product launch of Nucleus 6 in Europe and USA (USA approval was for a subset of Nucleus 6 features)
- FDA Advisory Panel approval for Hybrid™ cochlear implant system on 8 Nov (FDA approval expected H2 F14)
- Regulatory approval and product launch for Baha® Attract and Baha 4 sound processor (including wireless accessories)
- European regulatory approval (CE mark) for Codacs™, Carina® and MET®

Very positive feedback on these new products

Sales growth from Dec qtr. Sales momentum continuing through H2 F14 into F15

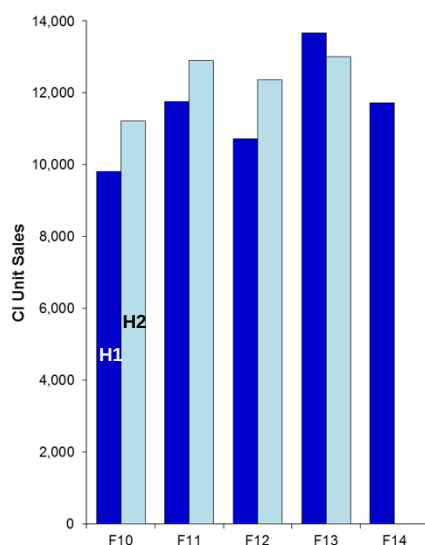


Cochlear: Sales in Constant Currency (CC)



- Sales revenue ↑2% to \$377 million (↓8% in CC compared to H1 F13, but ≈ H2 F13)
- CI sound processor upgrade sales ↓\$11.5 million (in CC) ahead of Nucleus 6 release
- Deferred revenue (31 Dec) of \$6.8 million relating to Future Technology Exchange Program (FTEP) in USA
- Q1 was sales nadir, Q2 sales 30+% higher than Q1

Cochlear: Cochlear Implant (CI) Unit Sales



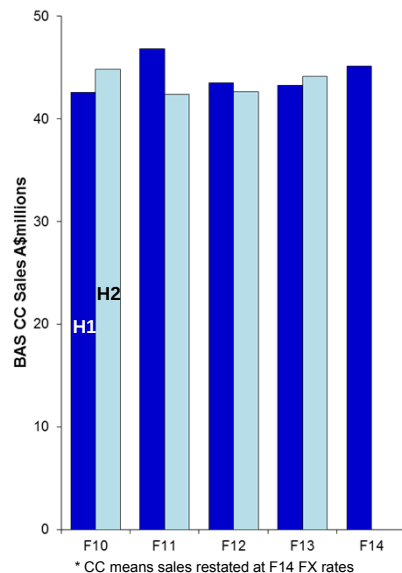
- H1 F14 CI unit sales ↓14% (1,960 units) to 11,734 units
 - H1 F13 included ~1,900 units for China tender (0 for H1 F14)
 - Won China tender for ~1,800 units for H2 F14



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

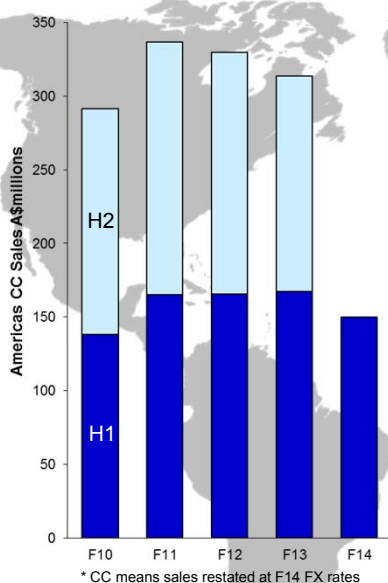


- Bone conduction/acoustic implant sales of \$45.9 million, up 6% in CC
- Regulatory approval and launch of Baha 4 sound processor in Europe/USA
- Regulatory approval and launch of Baha Attract (transcutaneous Baha system) in Europe/USA, 200+ Baha Attract surgeries in Q2

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Cochlear Americas: Sales in Constant Currency (CC)

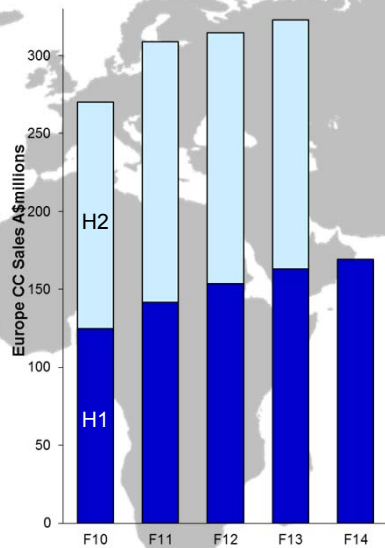


- Americas sales of \$150 million, down 10% in CC
 - CI sound processor upgrade sales ↓ ~\$4 million
 - Deferred revenue on FTEP increased \$2.2 million to \$6.8 million – should be released in H2 F14
 - Loss of CI market share in USA (now ~ 60%?)
- FDA approval of original PMA for Hybrid CI system imminent (panel approval Nov 8th 2013)

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Cochlear EMEA: Sales in Constant Currency (CC)



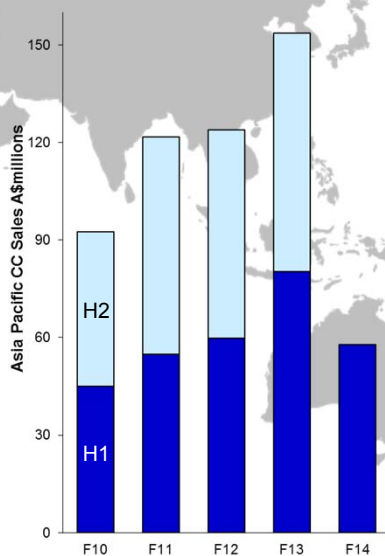
* CC means sales restated at F14 FX rates

- EMEA (Europe, Middle East and Africa) sales of \$169.1 million, ↑ 4% in CC
- CI sound processor upgrade sales ↓ \$1.6 million CC
- Nucleus 6 launched
- Baha 4 and Baha Attract launched
- Regulatory approval and first implants of Codacs, Carina and MET

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Cochlear Asia Pac: Sales in Constant Currency



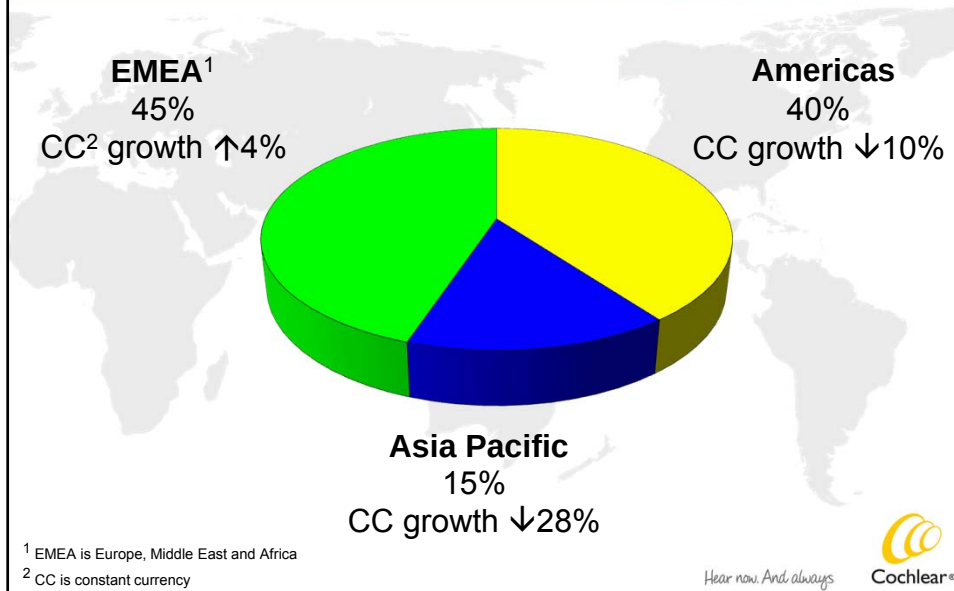
* CC means sales restated at F14 FX rates

- Asia Pacific sales of \$57.9 million, ↓ 28% in CC
- CI sound processor upgrade sales ↓ \$6.1 million in CC
- Nucleus 6 approval in Australia and Japan (with reimbursement approval in Japan expected 2/14)
- Signed China tender for delivery of ~1,800 CI units in H2 F14

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Cochlear: H1 F14 Regional Split of Sales

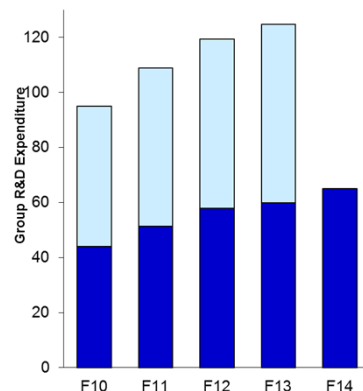


H1 F14 operating margin declined

EBIT to sales of 7.1% v 29.4%

- Lower manufacturing volumes impacted cost of goods sold to sales (32.8% v 28.5%)
- USA AMF patent dispute provision of US\$20 million (A\$22.5 million)
- Continued investment in SGA and R&D to support new products (up 4% in constant currency)

R&D investment (\$millions)



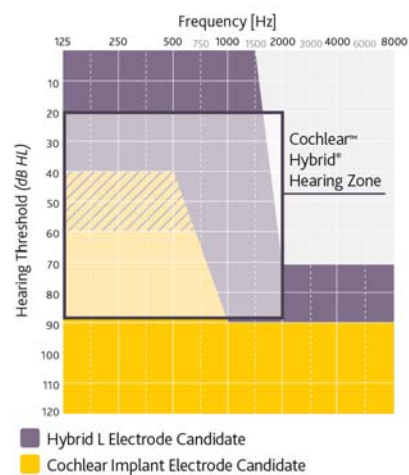
Cochlear Nucleus 6

- SmartSound® iQ
- Smallest processor
- Integrated Hybrid
- Wireless connectivity
- Water resistant BTE
- Data logging



Nucleus Hybrid

- On 8 Nov 13 FDA Advisory Panel voted for approval of Hybrid cochlear implant PMA
- Combines electrical stimulation for higher frequencies (speech intelligibility) and acoustic amplification for lower frequencies
- In USA, this expands cochlear implant indications allowing recipients to benefit from residual hearing
- FDA approval imminent



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Bone Conduction & Acoustic Implants

- Baha 4 Sound Processor and Baha Attract available in key markets (Europe/USA)
- Acoustic implants received CE mark



Summary/Outlook: Ongoing Sales Momentum

- Sales increased following product launches
 - Nucleus 6, Baha 4 and Baha Attract sales in major markets from Q2
 - Q2 sales up 30+% over Q1
- Outlook
 - Sales momentum continues through H2 F14 and into F15
 - Operating margin improves in H2 F14 with increased sales
 - H2 F14 NPAT: \$70-\$80 million



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H1 F14 Financial Results



Neville Mitchell, CFO

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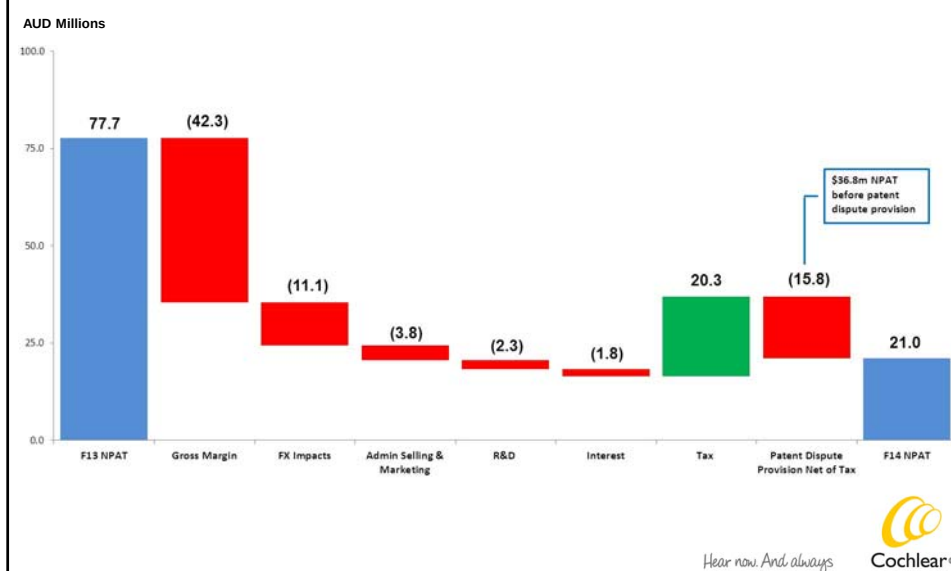
Cochlear H1 F14 Financial Performance

	H1 F14 \$m	H1 F13 \$m	% Change
Sales Revenue	377.0	368.2	↑ 2%
FX Contracts	(5.9)	23.5	↓ 125%
Total Revenue	371.1	391.7	↓ 5%
EBIT *	49.4	108.3	↓ 54%
Net Profit after Tax *	36.8	77.7	↓ 53%
Patent dispute provision net of tax	15.8	-	
Net profit attributable to members	21.0	77.7	↓ 73%
Dividends			
Interim Dividend	127c	125c	↑ 2%
Record Date 6 th March 2014			
Payable Date 27 th March 2014			
Franking %	-	40%	
Conduit Foreign Income %	24%	30%	

* These items exclude patent dispute provision of \$22.5 million before tax, \$15.8 million after tax

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Cochlear H1 F13 – H1 F14 NPAT Reconciliation

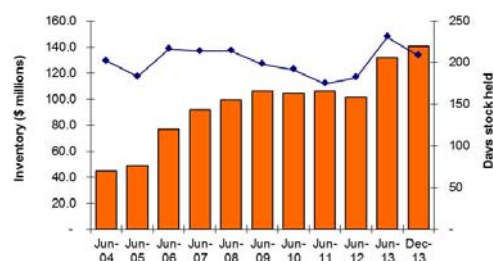


Impact of Changing FX Rates on H1 F14 NPAT

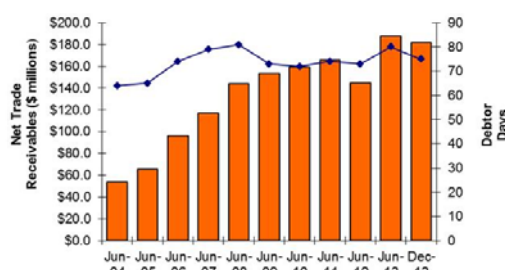
	A\$m	
	F/(U)	
Income Statement Translation Impact		
Sales Revenue	39.0	
Total Expenses including tax	(20.8)	
	18.2	Difference H1 F14 actual vs H1 F14 at H1 F13 rates
Transaction Impact		
- Decrease from H1 F13 of FX gain on hedged sales	(29.4)	Net difference actuals H1 F14 vs H1 F13
Translation Impact		
- Decrease over H1 F13 of FX loss on asset translation	0.1	Net difference actuals H1 F14 vs H1 F13
Negative impact on H1 F14 NPAT of changing FX rates	(11.1)	

Cochlear H1 F14 Working Capital

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



- H1 F14 Inventory days decreased to 208 (231 days in June F13)
- Debtor days 75 (80 days in June F13)
- Trade receivables at \$182.1 million (\$187.6 million in June F13)



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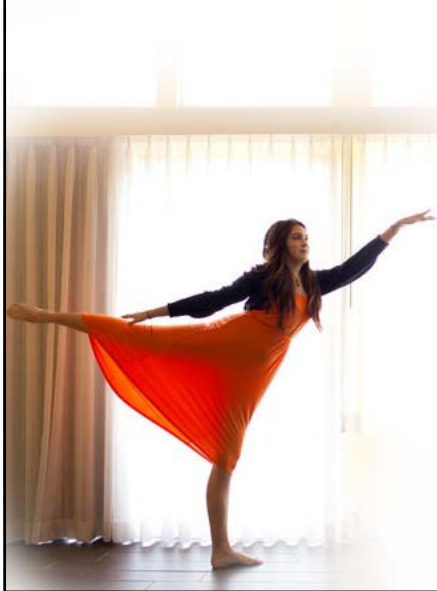
Cochlear H1 F14 (Debt) / Cash

	31 Dec 2013	30 Jun 2013
	\$m	\$m
Operations		
Loans and Borrowings		
Current	(3.2)	(3.3)
Non-current	(223.1)	(167.2)
Total Debt	(226.3)	(170.5)
Cash	60.0	52.7
Net Debt	(166.3)	(117.8)
Total Loan Facilities	350.0	300.0
Unused Portion of Debt Facilities	122.6	128.7

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Thank you
Any questions?

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FX Contract Cover and Rates as at 31 December 2013

Total FX hedges at 31 Dec 2013 expressed in Foreign Currency (millions)	USD 201.5	EUR 162.8	JPY 1,577.0	
FX Hedges at 31 December 2013 Expressed in AUD millions	213.5	232.2	18.5	Total
% of total cover (in AUD)	46%	50%	4%	100%
3 yr weighted average rates FX contracts at 31 Dec 2013	0.94	0.70	85.2	
FX contracts at 31 Dec 2012	0.95	0.72	75.6	
H2 F14 weighted average rates FX contracts at 31 Dec 2013	0.95	0.72	85.6	
Cover for H2 F14 (in AUD millions)	85.1	84.1	7.6	176.8

Foreign Exchange

Rates applied H1 F14 vs H1 F13	H1 F14	H1 F13	% Change
Average rates (used for translating P&L)			
USD	0.93	1.03	↓ 10%
Euro	0.69	0.81	↓ 15%
JPY	92.1	82.9	↑ 11%
GBP	0.58	0.65	↓ 11%
Contract rates (used to bring FX to Aust)			
USD	0.97	0.90	↑ 8%
Euro	0.71	0.69	↑ 3%
JPY	84.3	78.5	↑ 7%

Foreign Exchange

Period end rates applied F14 vs F13

	31 Dec 2013	30 June 2013	% change
Period end rates (used for translating Bal Sheet)			
USD	0.89	0.93	↓ 4%
Euro	0.65	0.71	↓ 8%
JPY	93.3	90.7	↑ 3%

Property, Plant & Equipment & Leasehold Improvements

	31 Dec 2013 \$m
Gross value 31 December 2013	191.1
Accumulated depreciation	(123.2)
Net book value at 31 December 2013	67.9
H1 F'14 movements	
Additions	10.1
Depreciation	(8.1)
Disposals	(1.6)
FX Impacts	1.5

Corporate & Other Net Expenses

	H1 F14	H1 F13
	\$m	\$m
FX Contracts	5.9	(23.5)
Research and Development	64.1	59.3
Corporate Administration & Marketing	30.5	30.7
Corporate Other Income	(1.4)	(1.0)
FX (gains) / losses	(0.9)	0.7
Corporate and other net expense (note 7)	98.2	66.2

Journal Entries for Deferred Revenue Release in H2 F14

	H2 F14
	\$m
Income Statement	
CR Sales Revenue	6.8
DR Cost of Goods Sold	(1.0)
DR Tax Expense	(2.3)
Profit Increase	3.5

Note: Net releases in H1 F14 was immaterial

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

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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