

Hear now. And always



HY21 Result Presentation

19 February 2021

Dig Howitt

CEO & President

Stu Sayers

CFO



Cochlear at a glance



Key products

Cochlear implants¹
61%



Cochlear™ Nucleus® Profile™ Plus with Slim Modiolar Electrode (CI632)

Services¹
29%



Cochlear™ Nucleus® 7 Sound Processor (CP1000)



Cochlear™ Nucleus® Kanso® 2 Sound Processor (CP950)

Acoustics¹
10%



Cochlear™ Baha® 5, Baha 5 Power and Baha 5 SuperPower



Cochlear™ Osia® 2 System

Global sales

~\$1.4b
in sales revenue¹

49%
Americas

35%
EMEA

16%
Asia Pacific

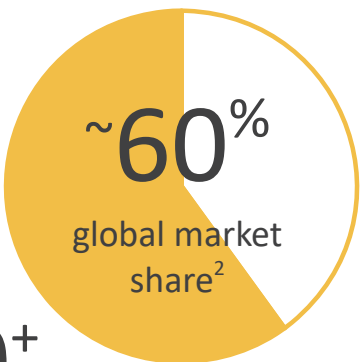


~80%
Developed markets

~20%
Emerging markets

Market leader

\$180m⁺
in annual R&D



600,000⁺
implants sold³

Growing scale

4,000⁺
employees

100⁺
collaborative research programs

30⁺
countries with direct operations

6
key manufacturing sites

1. % of sales revenue (FY20) 2. based on Cochlear estimates for cochlear implants 3. includes cochlear and acoustic implants

Cochlear's 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.





Hear now.
And always

Inspired by you
for 40 years



HY21 – Result review



Underlying net profit¹ ↓ 4% in CC² with improving momentum across the half

- Cochlear implant (CI) units ↓ 8% – developed markets recovering more quickly than emerging markets
- Sales revenue ↓ 1% in CC – Q1 ↓ 8% and Q2 ↑ 7%
- Opex tracking below historic run rates – material COVID-related savings including travel and conference expenses

Statutory profit includes \$111m in one-off gains after-tax

- \$59m in patent litigation-related tax & other benefits – ATO ruling allowing deductibility of certain patent litigation expenses
- \$35m in innovation fund gains – revaluation of Nyxoah and EpiMinder
- \$17m in COVID government assistance, primarily JobKeeper – classified as one-off due to decision to repay in H2

Strong financial position leads to re-introduction of dividends

- Improved trading and cash flow generation supports a \$1.15 per share dividend – 60% payout of underlying net profit¹
- Strong cash flow generation drives \$45m ↑ in net cash position
- FY21 guidance provided for underlying net profit¹ of \$225-245m, ↑ 46-59% on FY20

¹ Excluding one-off and non-recurring items

² Constant currency

HY21 – Operational review



Stronger Q2 with the pace of recovery differing across countries

- CI units ↓ 8% – Q1 ↓ 14% and Q2 ↓ 1%
- US, Korea, Japan and China delivered strong CI unit growth
- Western Europe experienced improving run rates with some slowing again from November as a result of new COVID shutdowns
- Emerging markets improving at a slower rate than developed markets
- New candidate pipeline rebuilding quickly across all age groups

Strengthening competitive position

- Comprehensive portfolio of products and services driving market share gains
- 7 new product approvals in the last two years across all segments of the portfolio
- Strong customer presence during COVID lockdowns ensured service and support levels remained high
- Growing investment across all major R&D projects and market growth activities

Cochlear implants – 61% of revenue



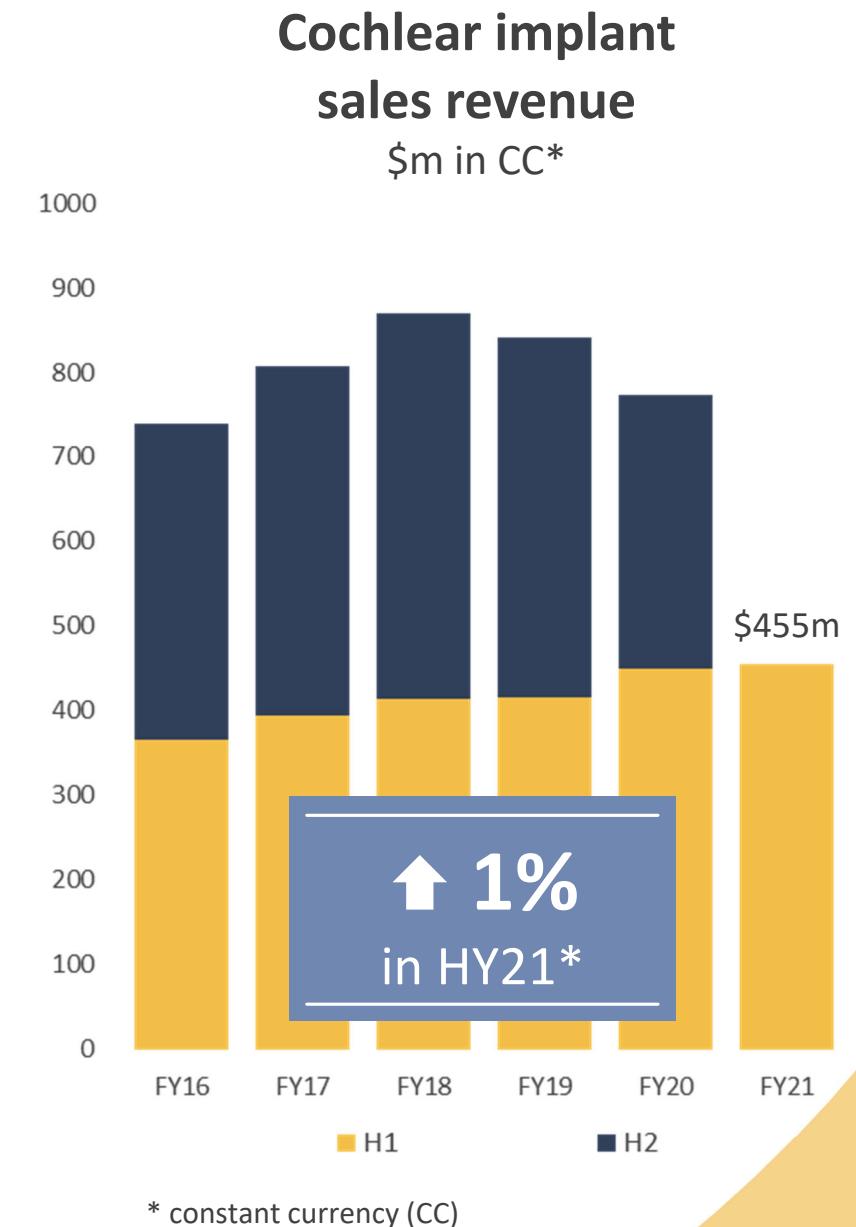
Improving momentum across the half with the pace of recovery varying across countries

Developed markets

- Units $\uparrow$ 5% ($\uparrow$ 9% in Q2) with surgery mix back to pre-COVID levels as patients progress to surgery across all age groups
- New candidate pipeline is rebuilding quickly supported by direct-to-consumer activities
- US, Japan and Korea delivered strong unit growth with clinics back to pre-COVID capacity. Growth driven by rescheduled surgeries, market growth and market share gains following successful new product launches and connected care services
- A small decline in Western European units with good momentum until November when new lock downs resulted in slowing surgeries in a few countries

Emerging markets

- Units $\downarrow$ ~30% with improving surgery momentum across the half
- China back to growth, parts of Latin America and Eastern Europe recovering, with volumes still well down in India and Brazil

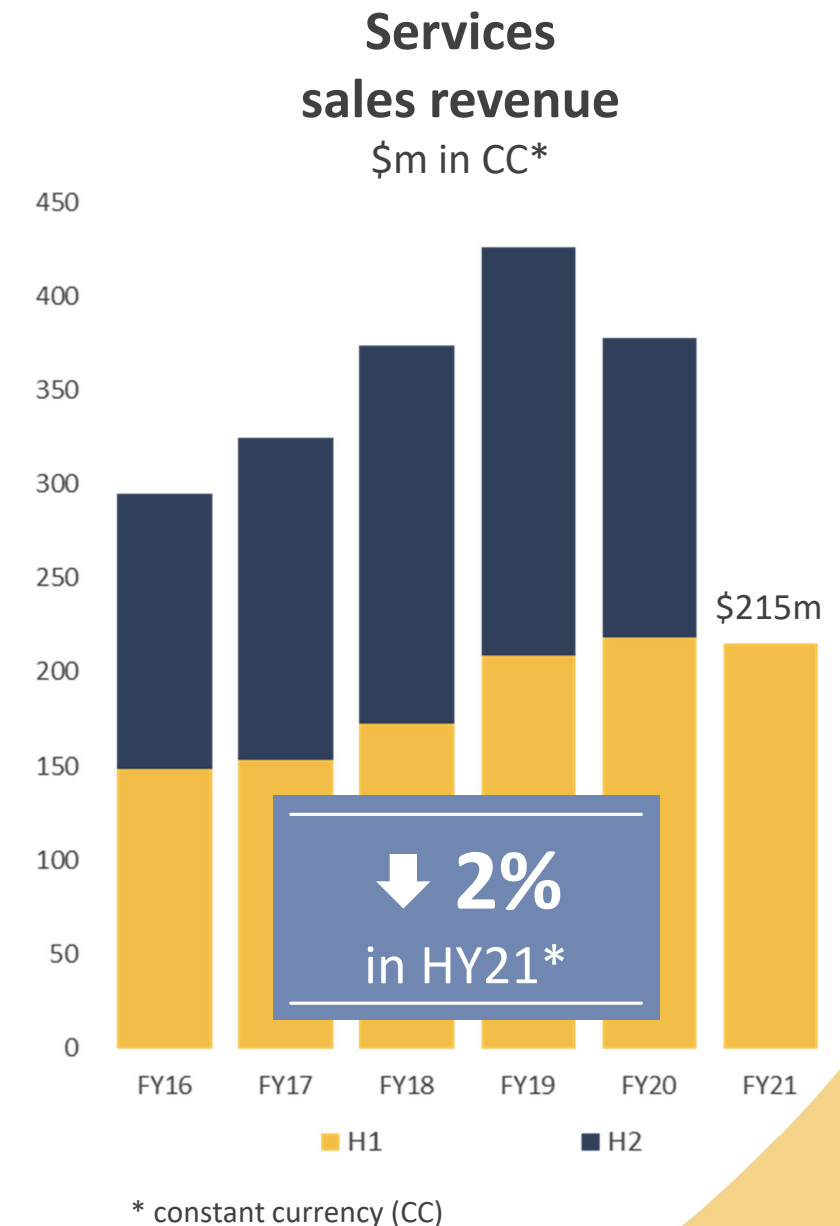


Services – 29% of revenue



Stronger Q2 as clinic capacity improves and Cochlear™ Nucleus® Kanso® 2 Sound Processor is launched

- Q1 impacted by lower clinical capacity for sound processor upgrades
- Q2 revenue $\uparrow$ 11% in CC, with improved clinical capacity and benefits from the successful launch of the Cochlear™ Nucleus® Kanso® 2 Sound Processor in October across the US and Europe
- Growing direct relationship with recipients with Cochlear Family exceeding 200,000 members

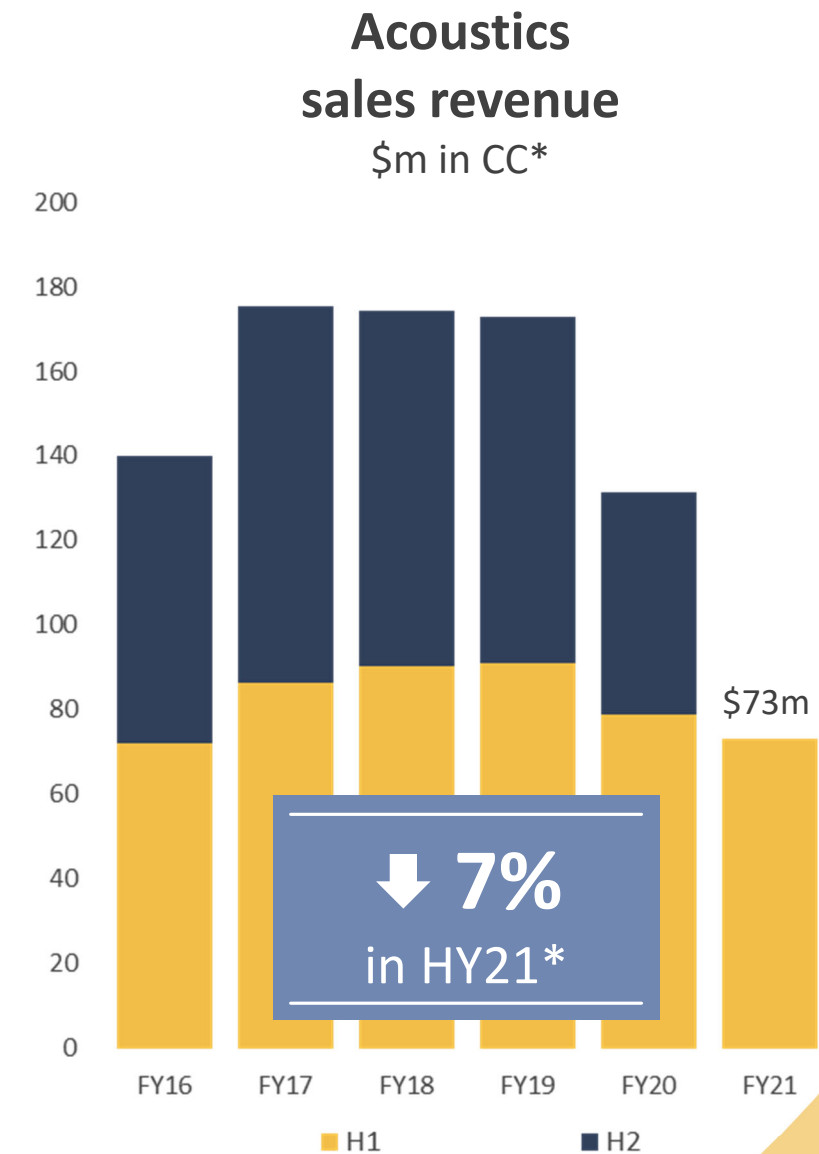


Acoustics – 10% of revenue



Improving momentum and a rapid shift to the Cochlear™ Osia® 2 System in the US

- The majority of Acoustics revenue is generated from the US and UK
- Surgery volumes have been recovering in the US since May with strong demand for the Cochlear™ Osia® 2 System which has been established as the primary acoustic implant for clinics that use it – ~70% of volumes in those clinics
- Acoustic implant surgeries recommenced in the UK during Q1 with a slower rate of recovery the result of COVID
- Expanded reimbursement for Baha sound processors boosted acoustics upgrade revenue in France



* constant currency (CC)

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Profit & loss



\$m	HY21	HY20	Change (reported)	Change (CC)
Sales revenue	742.8	777.6	(4%)	(1%)
Gross margin %	72%	75%	(3) pts	(3) pts
Selling, marketing and general expenses	209.8	243.5	(14%)	(11%)
R&D expenses	88.4	93.9	(6%)	(6%)
<i>% of sales revenue</i>	<i>12%</i>	<i>12%</i>	<i>0 pts</i>	<i>(1) pt</i>
Administration expenses	54.2	47.9	13%	14%
Operating expenses	352.4	385.3	(9%)	(7%)
Other income / (expenses)	(6.0)	6.0		
FX contract gains / (losses)	0.4	(21.9)		
EBIT (underlying)*	175.6	183.7	(4%)	(3%)
<i>% EBIT margin*</i>	<i>24%</i>	<i>24%</i>		
Net finance costs	(4.5)	(4.8)	(6%)	
Effective tax rate %*	27%	26%		
Underlying net profit*	125.3	132.7	(6%)	(4%)
<i>% underlying net profit margin*</i>	<i>17%</i>	<i>17%</i>		
Patent litigation-related tax & other benefits after-tax	59.0	-		
Innovation fund gains after-tax	34.7	25.0		
COVID government assistance after-tax	17.2	-		
Statutory net profit	236.2	157.7	50%	52%

Key points:

- ▶ Stronger Q2 with sales revenue up 7% in CC
Decline driven by one-off launch-related production costs associated with new products, write-down in obsolete componentry and COVID-related manufacturing inefficiencies
- ▶ Includes significant increase in insurance costs
- ▶ Overall opex still tracking below historic run rates due to COVID-related savings including travel and conference expenses
- ▶ Negligible impact in HY21 reflects the low level of hedging
- ▶ Primarily reflects ATO ruling which clarified deductibility of elements of the patent litigation expense treated as non-deductible in Jun20
- ▶ Non-cash revaluation of Nyxoah and EpiMinder shareholdings
- ▶ One-off due to decision to repay COVID government assistance in H2

* Excluding one-off and non-recurring items

Cash flow

\$m	HY21	HY20	\$ change
EBIT (underlying)	175.6	183.7	(8.1)
Depreciation and amortisation	37.2	34.2	3.0
Changes in working capital and other	1.9	(28.0)	29.9
Cash impact of final AMF-related payments (pre-tax)	(104.4)	-	(104.4)
Cash impact of COVID government assistance (pre-tax)	24.6	-	24.6
Net interest paid	(4.5)	(4.8)	0.3
Income taxes paid	(42.9)	(58.3)	15.4
Operating cash flow	87.5	126.8	(39.3)
Capital expenditure	(35.3)	(60.6)	25.3
Other net investments	(15.6)	-	(15.6)
Free cash flow	36.6	66.2	(29.6)
Proceeds from issue of shares	2.0	6.3	(4.3)
Dividends paid	-	(101.2)	101.2
Other	6.3	(12.6)	18.9
Change in net debt – decrease / (increase)	44.9	(41.3)	86.2

Key points:

- ▶ Final AMF-related payment of US\$75 million in prejudgment interest and attorneys' fees
- ▶ Primarily JobKeeper receipts
- ▶ \$55m tax refund is expected during H2 as a result of an overpayment of tax instalments in FY20
- ▶ Expected to be ~\$70m for FY21

Net debt & financial position



\$m	HY21	FY20	\$ change
Loans & borrowings:			
Current	29.8	393.1	(363.3)
Non-current	81.0	79.9	1.1
Total loans and borrowings	110.8	473.0	(362.2)
Less: Cash, cash equivalents and term deposits	(612.7)	(930.0)	317.3
Net debt / (cash)	(501.9)	(457.0)	(44.9)

Key points:

► Net cash increased \$45m

Capital employed



\$m	HY21	FY20	\$ change
Trade receivables	218.0	211.4	6.6
Inventories	196.8	223.8	(27.0)
Less: Trade payables	(143.5)	(155.3)	11.8
Working capital	271.3	279.9	(8.6)
<i>Working capital / sales revenue</i>	<i>18%</i>	<i>21%</i>	
Property, plant and equipment	228.6	230.5	(1.9)
Intangible assets	407.3	410.3	(3.0)
Investments & other financial assets	156.3	99.9	56.4
Other net assets / (liabilities)	76.0	(76.1)	152.1
Capital employed	1,139.5	944.5	195.0

Key points:

- ▶ Reflects improved trading and the write-down of obsolete stock
- ▶ Increase driven by non-cash revaluation of Nyxoah and EpiMinder investments
- ▶ Includes reduced provisions following AMF payments; increased net tax assets reflecting the ATO judgment enabling the tax deductibility of part of the AMF damages award; and an increase in net FX contracts as a result of the mark-to-market of all FX hedging contracts

Dividends



	HY21	HY20	% change
Interim ordinary dividend (per share)	\$1.15	\$1.60	(28%)
% payout ratio (based on underlying net profit)	60%	70%	
% franking	0%	100%	

Key points:

- ▶ Dividend re-introduced following improved trading conditions and cash flow generation
- ▶ 70% payout policy intact with a return to 70% expected as markets continue to improve
- ▶ Franking balance depleted as a result of FY20 losses

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Strategic priorities



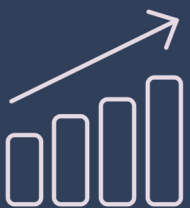
Retain market leadership

Market-leading technology | World-class customer experience



Grow the hearing implant market

Awareness | Market access | Clinical evidence



Deliver consistent revenue and earnings growth

Invest to grow | Operational improvement | Strong financial position

Market-leading product and services portfolio



Cochlear implants

Benchmark in size, implant reliability and neural interface

..with proven perimodiolar advantage



Slim Modiolar Electrode



Cochlear™ Nucleus® Profile™ Plus implant

Sound processors

Benchmark in size, smartphone connectivity and hearing performance



Cochlear™ Nucleus® 7 Sound Processor



Cochlear™ Nucleus® Kanso® 2 Sound Processor

Next generation bone conduction hearing solutions

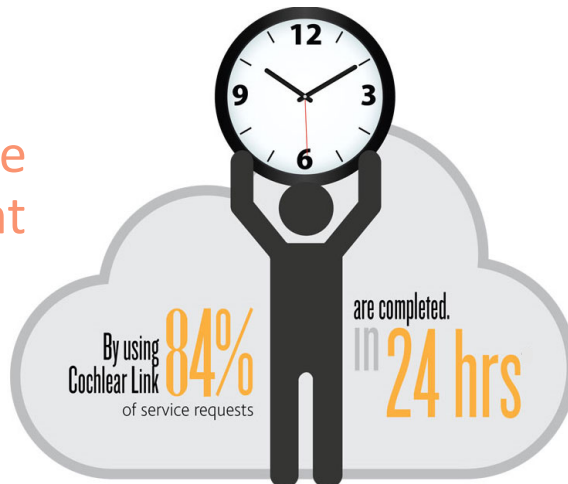
Benchmark in performance and aesthetics



Cochlear™ Osia® 2 System

Responsive service

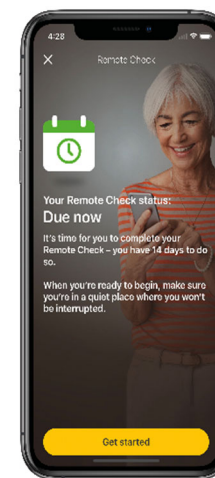
Cloud-based service reducing time spent 'off air' when recipients need a replacement processor



Cochlear™ link

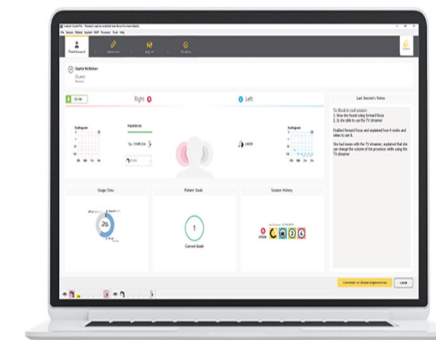
Telehealth solutions

Convenient, at-home testing for routine cochlear implant checks outside the hearing clinic



Remote Check solution for cochlear implants

Clinical & surgical support tools



Custom Sound® Pro fitting software



Nucleus® SmartNav System

FY21 outlook



Increasingly confident of the resilience of our hearing implant business but risk remains

- Developed markets expected to deliver H2 CI units in line with H1
- Current trading indicates recent lock down activity has affected a few Western European countries and in a few regions in the US
- Emerging markets expected to continue to improve but at a slower rate than developed markets, with many countries still well down on last year

Investing to drive market growth

- Investment priorities continue to be focused on market growth activities and strengthening our competitive position
- Opex to increase on H1 with the acceleration a number of growth projects

FY21 underlying net profit¹ guidance of \$225-245 million, ↑46-59% on FY20

- Earnings guidance factors in slower January/February trading as result of recent COVID surgery slowdowns
- Stronger AUD expected to have a material impact on H2 net profit due to FX translation
- Committed to maintaining 70% dividend payout policy over time as trading conditions improve

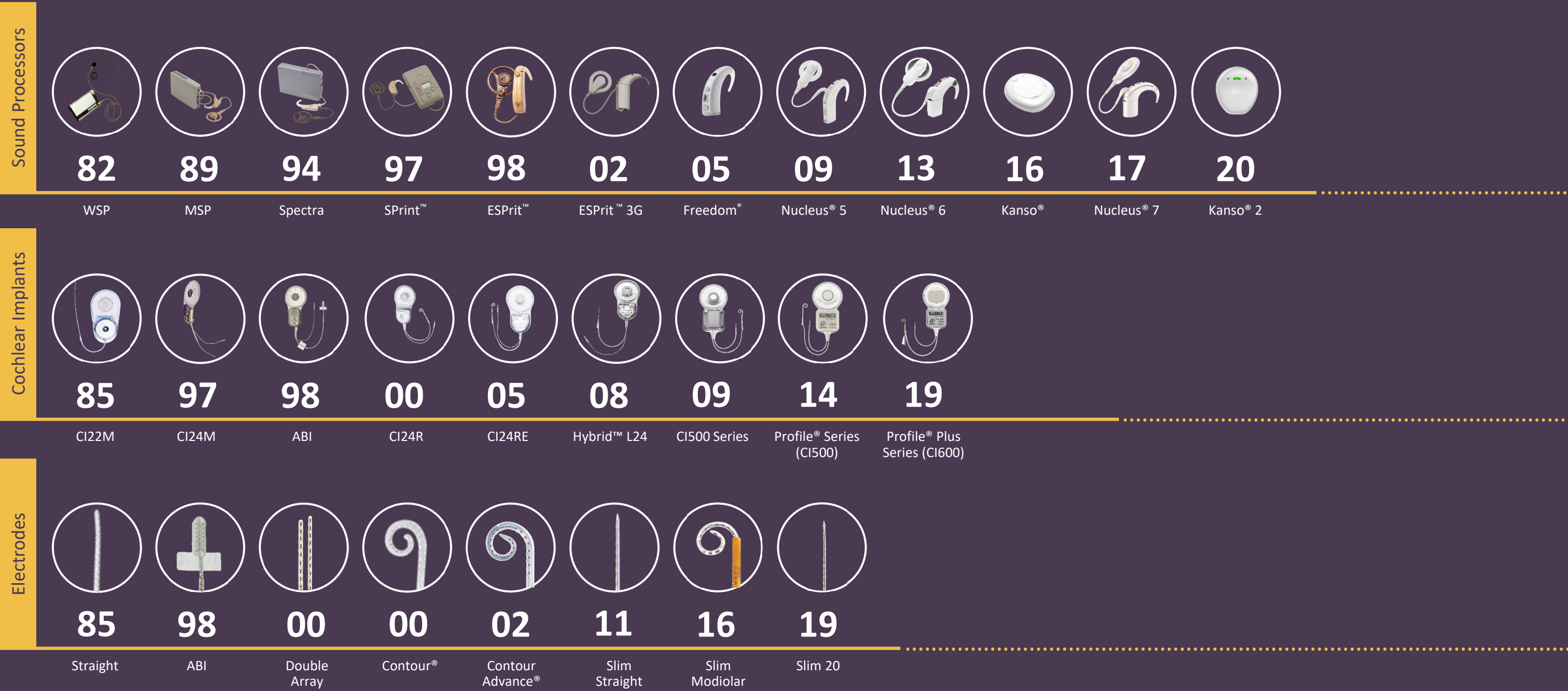
¹ Excluding one-off and non-recurring items

Appendix

Cochlear's history of innovation &
Summary financials since listing



Cochlear™ hearing implants – a history of innovation



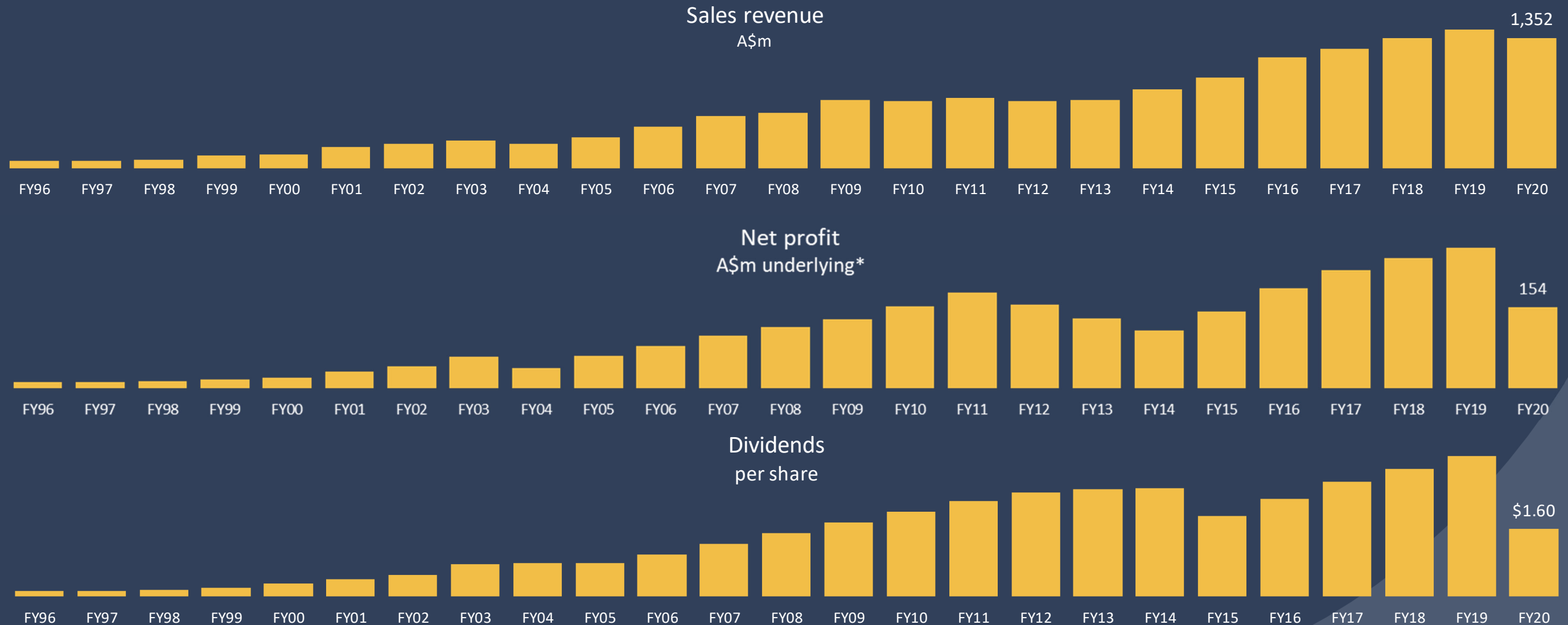
Cochlear, 科利耳, コクレア, 코클리어, Hear now. And always, Nucleus, Kanso, Advance Off-Stylet, AutoNRT, Contour Advance, Custom Sound, Freedom, NRT, SmartSound, the elliptical logo, and marks bearing an ® or ™ symbol, are either trademarks or registered trademarks of Cochlear Limited (unless otherwise noted). © Cochlear Limited 2021.

Years refer to global product release dates from Cochlear Limited. Commercially available products shown. Not all products are available in all countries. Please contact your local Cochlear representative for product information.

Financial history



Cochlear has a long track record of delivering growing sales revenue, profits* and dividends, disrupted in FY20 by the impact of COVID



* Excluding one-off and non-recurring items

Investing to grow

Cochlear takes a long term approach to investing and has invested in growing the market for implantable solutions since listing in 1995

Consistent investment in sales and marketing

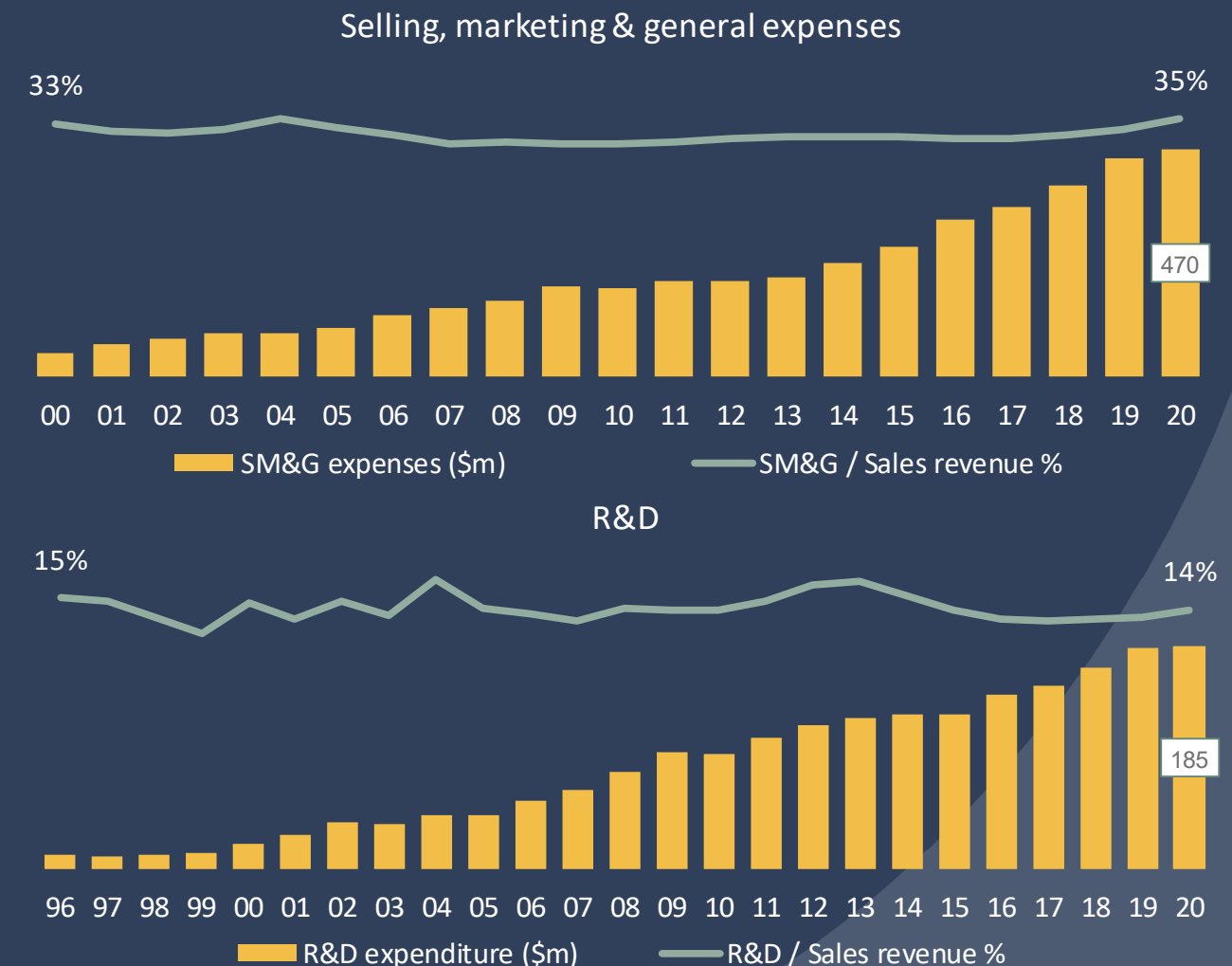
Our investment in sales and marketing activities is building awareness of and access to implantable solutions and driving market growth.

The increase in investment in selling, marketing & general expenses (SM&G) over many years has supported sales force expansion and investment in awareness building activities, particularly direct-to-consumer marketing initiatives, across a growing number of markets.

Growing research & development capability

The investment in R&D continues to strengthen our leadership position through the development of market-leading technology.

Cochlear has a wide range of fully-featured products and a broad patent portfolio that protects the Company's intellectual property in key markets. Over \$2bn has been invested in R&D since listing with 14% of sales revenue invested in R&D in FY20.



Operational improvement



Disciplined capital investment and optimising cost of production strengthens our competitive position

Stable gross margin

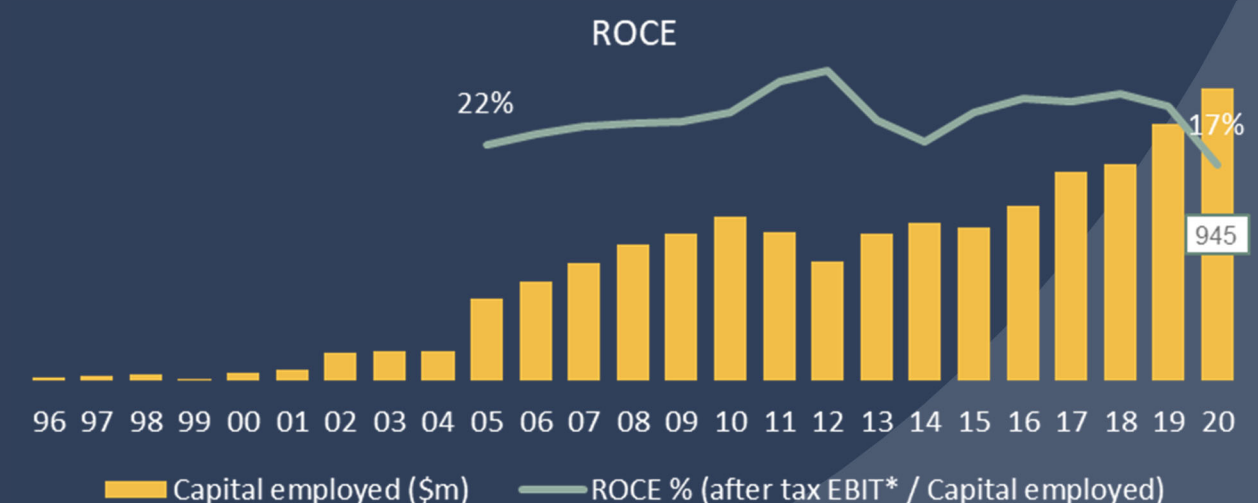
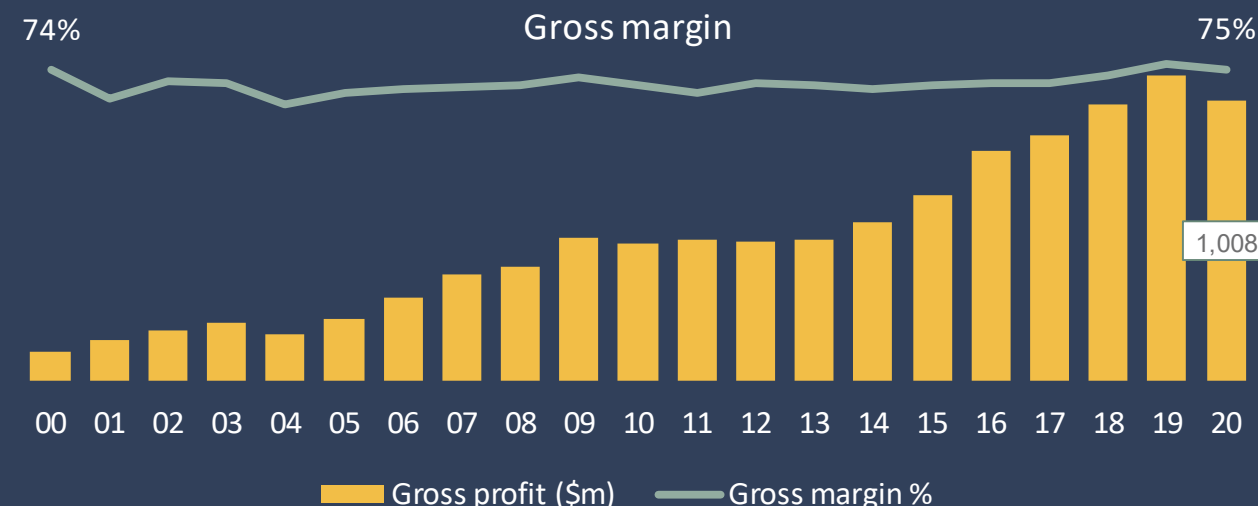
Cochlear's gross margin has been relatively stable since listing.

We use our scale to generate efficiency gains to reinvest back into market growth activities.

High return on capital employed (ROCE)

ROCE measures the cash return for each dollar invested in the business. Cochlear generates a high ROCE* reflecting its competitive position in the market and the high barriers to entry to the cochlear implant industry which have proven to be robust over many decades.

The high ROCE* is also a function of the relatively low level of tangible assets employed by the business. Cochlear's competitive advantage is driven by its strong product and patent portfolio, a result of investment in R&D over many years. As R&D investment is expensed through the income statement, no value for this important asset is captured on the balance sheet.



* Excluding one-off and non-recurring items

Strong financial position

Strong free cash flow generation provides funding for market growth activities and R&D as well as the ability to reward shareholders with a growing dividend stream

Quality operating cash flows

One of the highlights of Cochlear's financial history has been the conversion of reported profits to cash. There is a strong and consistent correlation between reported net profit and the operating cash flows generated by the business.

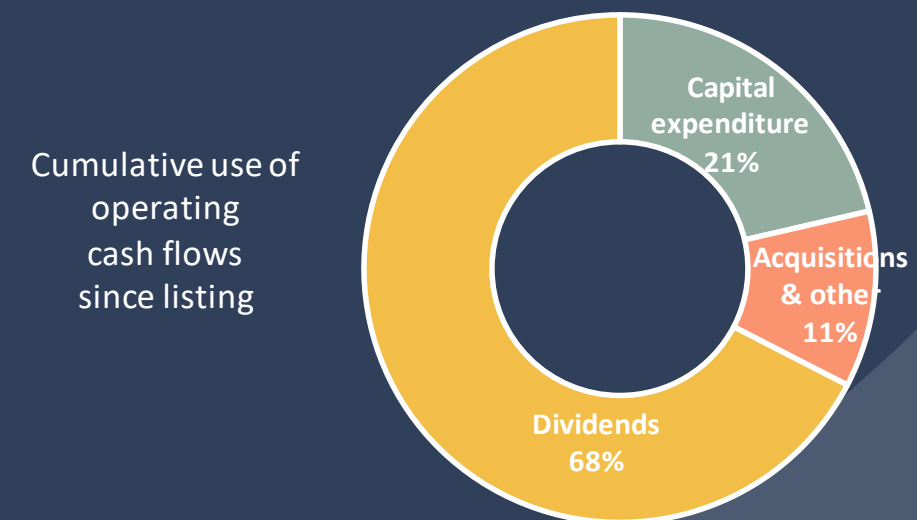
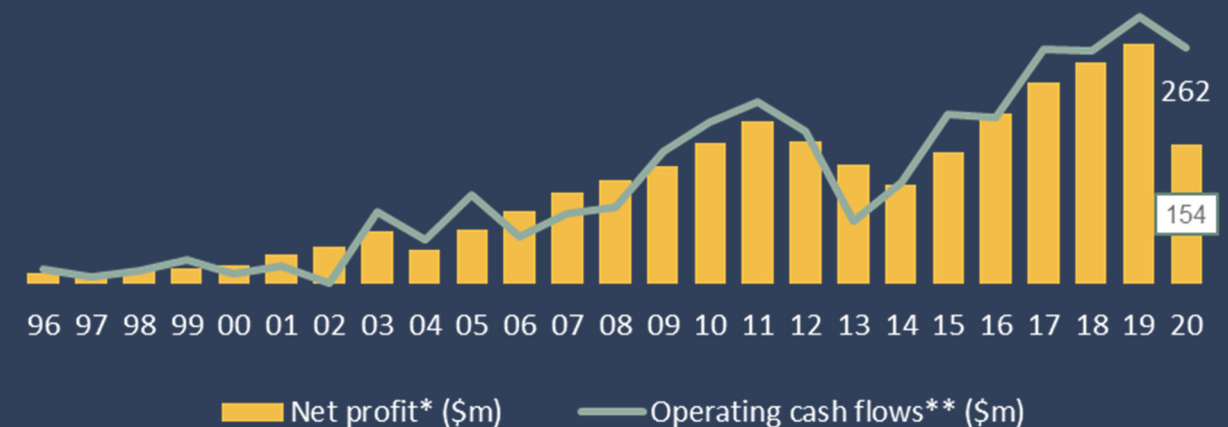
Disciplined use of capital

Operating cash flows have been primarily used to fund dividends, capital expenditure and acquisitions. The dividend policy has been to payout 70% of net profit* as dividends to shareholders since FY00***. Since listing, Cochlear has cumulatively paid out around 70% of operating cash flows as dividends.

Key acquisitions have been focused on building the core implant business:

- Sycle – hearing aid practice management software business (FY17)
- Otologics – implantable microphone technology (FY10)
- Brisbane manufacturing facility (FY07)
- Entific – bone conduction implant business (FY05)

Operating cash flow v net profit



* Excluding one-off and non-recurring items ** Operating cash flow in FY20 excludes the cash impact of patent litigation expense

*** Disrupted in FY20 by the impact of an adverse litigation outcome and COVID. Dividends were suspended in March 2020 and re-introduced in February 2021

Strong financial position



Strong free cash flow generation provides funding for market growth activities and R&D as well as the ability to reward shareholders with a growing dividend stream

Conservative gearing levels

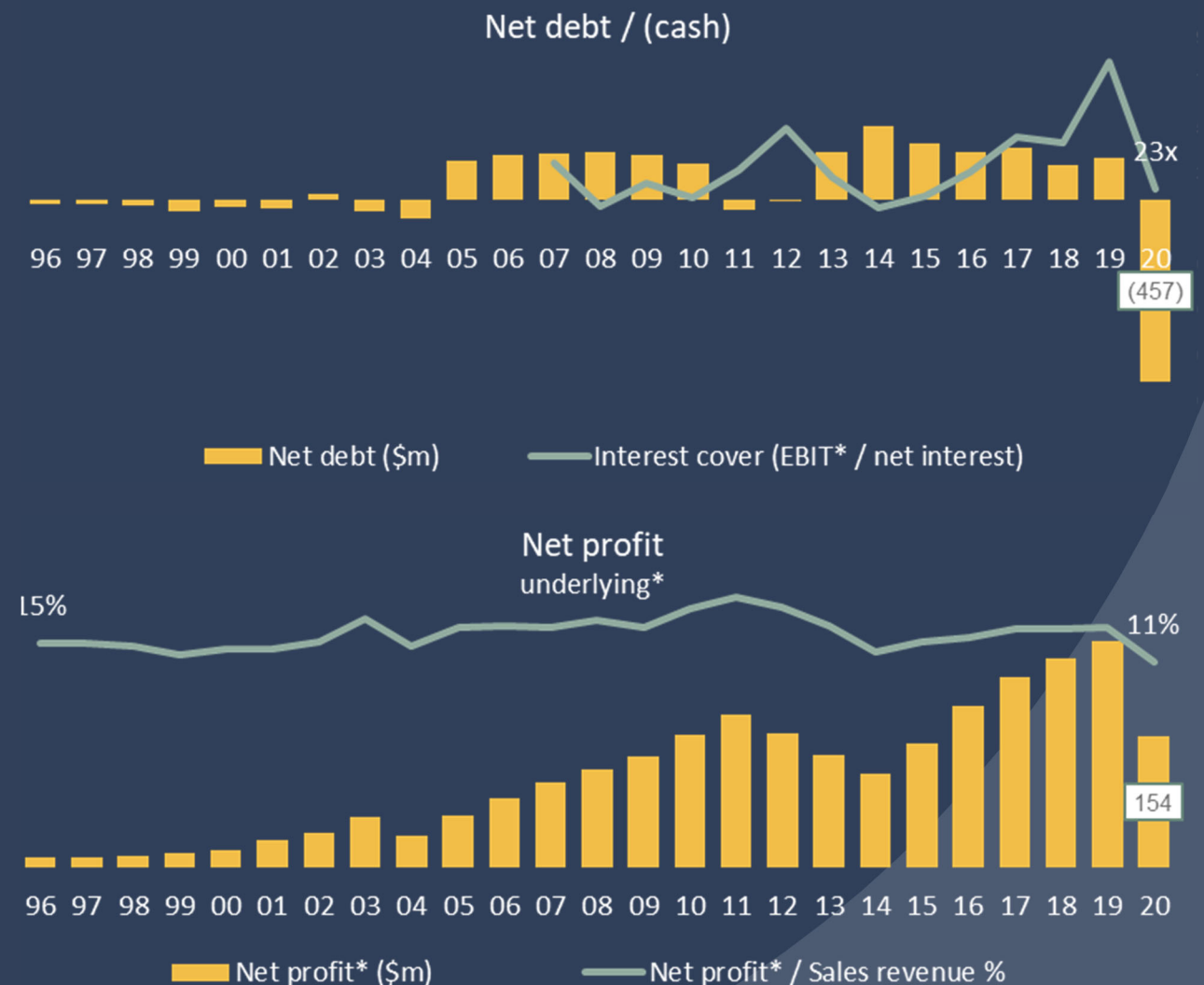
Cochlear has a strong balance sheet. It is a growth company that has been able to fund investing activities, dividends, capital expenditure and acquisitions whilst maintaining conservative gearing levels.

The exception to this was in FY20 when a capital raising was made to enhance liquidity in response to the significant impact of an adverse litigation judgement combined with the impact of COVID on sales revenue.

Delivering stable net profit margins

Cochlear will continue to invest operating cash flows in market growth activities with the objective of delivering consistent revenue and earnings growth over the long term.

Through disciplined investment, we are targeting to maintain the net profit margin, reinvesting any efficiency gains, currency or tax benefits into market growth activities.



Notes



Forward looking statements

Cochlear advises that this document contains 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 it is cautioned that undue reliance is not placed on any forward-looking statement.

Non-International Financial Reporting Standards (IFRS) financial measures

Cochlear uses non-IFRS financial measures to assist readers in better understanding Cochlear's financial performance. Cochlear uses three non-IFRS measures in this document: Sales revenue, Underlying net profit and Constant currency. The directors believe the presentation of these non-IFRS financial measures are useful for the users of this document as it reflects the underlying financial performance of the business. Each of these measures is described below in further detail including reasons why Cochlear believes these measures are of benefit to the reader.

These non-IFRS financial measures have not been subject to review or audit. However, Cochlear's external auditor has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

Sales revenue

Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange contract losses on hedged sales.

Underlying net profit

Underlying net profit allows for comparability of the underlying financial performance by removing one-off and non-recurring items. The determination of items that are considered one-off or non-recurring are made after consideration of their nature and materiality and is applied consistently from period to period. Underlying net profit is used as the basis on which the dividend payout policy is applied. The Financial Review section includes a reconciliation of Underlying net profit (non-IFRS) to Statutory net profit (IFRS) which details each item excluded from Underlying net profit.

Constant currency

Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of the translation currency effect and foreign currency effect is the amount by which EBIT and net profit is adjusted to calculate the result at constant currency.

Authorised for lodgement to the ASX by the Board of directors of Cochlear Limited



Cochlear[®]

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