



# Half year report 2017

Cochlear Limited

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Dear shareholder,

The positive momentum we have experienced over the past few years has continued into FY17 with strong and consistent growth in units delivered across all regions.

Cochlear implant unit growth was 10%, an increase of 16% when excluding the impact of Chinese Central Government tender units. Developed market units grew around 10% with highlights including continued strong performances from the United States (US) and Western Europe. Emerging market units also grew around 10% with continuing strong growth in India and China Other with solid improvements in Latin America and Central & Eastern Europe.

We have strengthened our market position by continuing to expand our portfolio with market-leading products. During the half Cochlear™ Kanso™, our first off-the-ear sound processor and the Nucleus® Profile™ Slim Modiolar electrode, the world's slimmest electrode, were launched across Europe and the US. We are experiencing strong uptake of both products, with a notable uptick in unit growth during the second quarter in those markets.

Cochlear continues to demonstrate its commitment to being the technology leader in our industry with ongoing investment in research and development (R&D). During the half we invested \$72.2 million, 12% of sales revenue, with a pipeline of new products expected to be launched over the coming years.

The Services business, which includes sound processor upgrades and accessories, delivered constant currency

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revenue growth of 3%. The Americas and EMEA both grew revenue by around 6% in constant currency driven by continuing demand for the Nucleus 6 Sound Processor.

The Acoustics business had a strong half with sales growth of 20% in constant currency, driven by the uptake of Baha® 5 Power and SuperPower sound processors across all regions.

### **Strong financial position**

Cochlear has delivered a strong profit result with net profit of \$111 million, up 19%. Free cash flow increased by 50% to \$85 million and has supported the 18% increase in the interim dividend and a \$24 million reduction in net debt since June 2016.

### **Solid progress made against business priorities**

Cochlear's priorities are focused on the customer with initiatives aimed at accelerating market growth through global expansion of awareness and increased market access initiatives. With a growing recipient base, now numbering over 450,000, we are actively strengthening our servicing capability to provide products, programs and digital services to support the lifetime relationship with our recipients.

We made progress against our business priorities in the half. These remain focused on growing the core; building a service business; shaping the organisation and value creation. The key areas of focus have been on continuing to expand the sales force across major developed and emerging markets, expanding our direct-to-consumer programs in the US, Australia, Germany and the UK and building greater engagement with our recipient base.

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## Financial highlights

- Sales revenue of \$604.4 million, up 4% in Australian dollars (8% in constant currency);
- Net profit of \$111.4 million, up 19%;
- Basic earnings per share of \$1.94 per share, up 18%; and
- Interim dividend of \$1.30 share, up 18%, franked at 100%, representing a payout of 67% of first half net profit.

Six months ended December A\$m	Dec16	Dec15	Chg %
Sales revenue	604.4	581.7	↑ 4%
FX contracts gain / (loss)	4.8	(23.6)	
<b>Total revenue</b>	<b>609.2</b>	<b>558.1</b>	<b>↑ 9%</b>
<b>Earnings before interest &amp; tax (EBIT)</b>	<b>156.4</b>	<b>131.0</b>	<b>↑ 19%</b>
Net finance costs	(3.4)	(4.7)	↓ 28%
Taxation expense	(41.6)	(32.3)	↑ 29%
<b>Net profit</b>	<b>111.4</b>	<b>94.0</b>	<b>↑ 19%</b>
Basic earnings per share	\$1.94	\$1.65	↑ 18%
Interim dividend per share	\$1.30	\$1.10	↑ 18%
Franking %	100%	100%	

## 2017 Financial outlook

For FY17, Cochlear continues to expect net profit to be within a range of \$210-225 million, an increase of around 10-20% on FY16. We continue to experience positive momentum across the business with investments made in product development and market growth initiatives expected to underpin growth in the second half. The balance sheet position and free cash flow generation remain strong and we continue to target a dividend payout ratio of around 70% of net profit.

Key guidance considerations for the second half of FY17:

- continued strong momentum in unit growth;
- Chinese Central Government tender units now expected to be below FY16 levels with the next tender expected during the third quarter;
- expect R&D expenditure for FY17 to be similar to FY16;
- an approximate \$1.5 million full year net profit impact from the reduction in R&D tax concession rate from 40% to 38.5%, announced in September 2016 by the Australian Federal Government and effective from 30 June 2016; and
- forecasting a weighted average AUD/USD FX rate of 75 cents for FY17 versus 73 cents in FY16.



Chris Smith  
Chief Executive Officer & President  
14 February 2017

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## Shareholder information

### Share registry

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Investor enquiries online: [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

Website: [www.investorcentre.com](http://www.investorcentre.com)

**Shareholders with enquiries** should go online to [www.investorcentre.com/contact](http://www.investorcentre.com/contact) where most questions can be answered, or telephone or write to the Share Registry using the contact details above.

### Cochlear Limited

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*For further details, please refer to the ASX announcement for the interim result lodged on 14 February 2017 at [www.cochlear.com](http://www.cochlear.com)*

*Constant currency removes the impact of exchange rate movements to facilitate comparability.*

*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 not be placed on any forward looking statement.*