

ASX Announcement

20 October 2020

First quarter trading update

Key points:

- **First quarter (Q1) cochlear implant constant currency (CC) revenue was 94% of Q1 last year. Unit volumes declined by 14% with developed markets growing low single-digits while emerging markets were down around 40%**
- **Services revenue continues to recover with Q1 CC revenue at around 86% of Q1 last year**
- **Acoustics CC revenue for Q1 was around 89% of Q1 last year with strong uptake of the Cochlear™ Osia® 2 System in the US and the resumption of acoustic surgeries in the UK**

Cochlear Limited today provides an update to first quarter (Q1) trading compared to Q1 last year.

For the developed markets, cochlear implant unit volumes for Q1 experienced low single-digit growth which we believe reflects a return to surgery, including new and rescheduled surgeries, and market share gains. Trading activity continues to be mixed with the US, Germany and Korea showing good growth on last year, while many European markets, including the UK, Italy and Spain, have been regaining momentum more recently as clinics re-open and surgical throughput grows.

The new candidate pipeline is rebuilding quickly with clinical assessments close to pre-COVID-19 levels in many markets and solid lead generation from Cochlear's direct-to-consumer activities.

While current developed market surgery momentum is positive, we caution that there is still risk, noting that second waves of COVID-19 cases are likely to remain a reality for some time and may result in new restrictions to elective surgery, complicating recovery plans and timing.

For the emerging markets, unit volumes for Q1 were down around 40% on Q1 last year. Surgeries in China are growing but most other countries remain well behind last year. There continues to be uncertainty over the time it will take for some emerging markets to recover.

Services revenue continues to recover with Q1 CC revenue at around 86% of Q1 last year. The launch of the Cochlear™ Nucleus® Kanso® 2 Sound Processor, the growing recipient base and the adoption of remote care tools are expected to underpin demand for upgrades.

Acoustic revenue run rates have also been improving since May with Q1 CC revenue at around 89% of Q1 last year. Acoustics revenue is largely generated from the US and the UK. Surgery volumes have been recovering in the US since May with strong demand for the Osia 2 System, while acoustic implant surgeries only recommenced in the UK during the quarter.

Cochlear's CEO & President Dig Howitt said, "We continue to be pleased with the pace of recovery across our developed markets. We have a suite of new products that are just starting to be launched and are generating excitement and great feedback. Our investment priorities this year will be focused on strengthening our competitive position and continuing to invest in many of our growth programs to set ourselves up for FY22."

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Cochlear is expected to benefit from the recently announced changes to the R&D tax concession. The combination of the lifting of the \$100 million cap and the increase in the concession rate would have increased the FY20 deductible amount from \$8.5 million to \$16.2 million after tax. The change will be effective from 1 Jul 2021.

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This announcement is authorised by the Board of Directors.