

**ASX / MEDIA RELEASE**

**10 February 2015**

**COCHLEAR FINANCIAL RESULTS FOR THE HALF YEAR ENDED  
31 DECEMBER 2014 (H1 F15)**

- Record first half year total revenue of \$438.3 million, up 18%
- Cochlear implant unit sales of 11,689, in line with H1 F14
- Net profit after tax of \$71.4 million, up 240% (up 94% excluding H1 F14 patent dispute provision)
- Interim dividend of \$0.90 per share (35% franked), in line with guidance

	H1 F15 \$ million	H1 F14 \$ million	Change	
<b>Cochlear implant sales</b>	<b>383.0</b>	<b>331.1</b>	<b>↑</b>	<b>16%</b>
<b>Bone Anchored Solutions/Acoustics sales</b>	<b>57.5</b>	<b>45.9</b>	<b>↑</b>	<b>25%</b>
<b>FX contracts (loss)</b>	<b>(2.2)</b>	<b>(5.9)</b>		
<b>Total revenue</b>	<b>438.3</b>	<b>371.1</b>	<b>↑</b>	<b>18%</b>
<b>EBIT *</b>	<b>100.5</b>	<b>49.4*</b>	<b>↑</b>	<b>103%</b>
<b>Net profit after tax *</b>	<b>71.4</b>	<b>36.8*</b>	<b>↑</b>	<b>94%</b>
<b>Patent dispute provision, net of tax</b>	<b>-</b>	<b>15.8</b>		
<b>Net profit attributable to members</b>	<b>71.4</b>	<b>21.0</b>	<b>↑</b>	<b>240%</b>
<b>Basic earnings per share</b>	<b>125.3c</b>	<b>37.0c</b>	<b>↑</b>	<b>239%</b>
<b>Interim dividend (payable 26 March 2015)</b>	<b>90c</b>	<b>127c</b>	<b>↓</b>	<b>29%</b>
<b>Franking</b>	<b>35%</b>	<b>0%</b>		
<b>Conduit foreign income</b>	<b>40%</b>	<b>24%</b>		

\*For F14 these items exclude patent dispute provision of \$22.5 million before tax and \$15.8 million after tax.

Dr Roberts, CEO and President commented:

“A focus for H1 F15 was continuing the sales momentum for products launched in F14. Feedback on these products throughout the half was extremely positive. In particular, the doubling of revenue from sound processor upgrades reflected strong market enthusiasm for Nucleus® 6.

“We are very proud of these products which continue improving the lives of the hearing impaired.”

## HALF YEAR RESULTS REVIEW

### Total Revenue

Total revenue for H1 F15 was \$438.3 million, up 18% on H1 F14. Sales, excluding FX contracts, were \$440.5 million, up 17%. In constant currency (that is restating H1 F14 at H1 F15 FX rates) H1 F15 sales were up 15%.

Cochlear implant sales revenue, which included sound processor upgrades, was \$383.0 million, up 16% on the prior year and up 14% in constant currency.

Sales of sound processor upgrades of \$82.2 million were up 98%.

Cochlear implant (CI) unit sales were 11,689, in line with H1 F14. CI unit growth was stronger in developed countries, for example Western Europe up 8% and North America up 17%. This was offset by weaker CI unit tender sales in developing countries.

Bone Anchored Solutions, (including acoustic implant sales) of \$57.5 million were up 25% and up 22% in constant currency.

The Australian dollar (AUD) depreciated against the US dollar during the half which benefits foreign sales when translated into AUD. From a translation perspective, sales benefited by net \$7.3 million. Offsetting this was a loss from FX contracts. FX contract losses were \$2.2 million for H1 F15 compared to a loss of \$5.9 million in H1 F14.

Regional performance:

- Americas sales of \$195.3 million were up 30% on H1 F14, (up 26% in constant currency).
- EMEA (Europe, Middle East and Africa) sales of \$181.6 million were up 7% (up 7% in constant currency).
- Asia Pacific sales of \$63.6 million were up 10% (up 8% in constant currency).

There was no China Central Government tender sale booked in this half or in H1 F14. Approximately 1,900 units are expected to be delivered in H2 F15 as part of a China Central Government tender. This is similar to the number supplied in H2 F14.

## Gross Margin

Cost of goods sold (COGS) of \$127.4 million gives a COGS/sales margin of 28.9%. This is an improvement compared to 32.8% for H1 F14 and similar to 28.1% for H2 F14.

## Operating Margin

Expenses of \$210.5 million were up 6% on H1 F14, excluding the H1 F14 patent dispute provision of \$22.5 million.

Investment in research and development of \$61.4 million was down 6%. R&D for the half was 14.0% of total revenue compared to 17.5% of total revenue for H1 F14.

EBIT was \$100.5 million, more than double H1 F14. The operating margin (EBIT to total revenue) was 22.9% compared to 13.3% in H1 F14 (excluding the patent dispute provision) and compared with 23.1% in H2 F14.

## Working Capital and Debt

Trade receivables were \$208.3 million with debtors days of 85 (June 2014, 74 days). Inventory was \$138.5 million (June 2014, \$128.6 million).

Net debt was \$171.6 million at 31<sup>st</sup> December 2014, down \$9.7 million (June 2014, \$181.3 million). At 31<sup>st</sup> December 2014, the unused portion of the bank facility was \$117.0 million.

## Dividends

The Board has declared a dividend of \$0.90 per share (35% franked) which will be paid on 26<sup>th</sup> March 2015 based on a record date of 5<sup>th</sup> March 2015. This is consistent with the August and October 2014 payout guidance of approximately 70% of NPAT.

## Outlook

Cochlear expects ongoing steady progress including in H2 F15.

Regulatory approval has been obtained for products releasing in H2 F15 including:

- Nucleus Profile with Slim Straight electrode in Europe
- Nucleus Profile with Contour Advance® electrode in the USA
- Wireless Accessories for Nucleus 6 in all regions
- SmartSound® iQ for Nucleus 6 Hybrid in the USA
- Aqua+ Accessory for Nucleus 6 in Europe

Cochlear will continue investing in SG&A to support these product launches.

Cochlear continues to invest in long-term market growth initiatives and an extensive R&D program to improve patient outcomes, broaden indications and improve patient access.

Ends

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#### **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 F15 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.