

# Cochlear Limited

## Results for the half year ended 31 December 2007

**Chris Roberts**  
Chief Executive Officer

**Neville Mitchell**  
Chief Financial Officer



## Cochlear – Overview

- Medical device company (~26yr): global leader in implantable devices for the hearing impaired
- Huge unmet clinical need
- Cochlear advancing a range of devices: cochlear implants, electro-acoustic implants (Hybrids), direct acoustic cochlear stimulator (DACS) and bone conduction (Baha®)
- Internationalisation and innovation as drivers of growth
  - ~1800 people
  - Direct in 20+ countries & sales in 100 countries
  - ~ 12% of sales spent on R&D
  - Importance of consumer healthcare activities and services for recipients



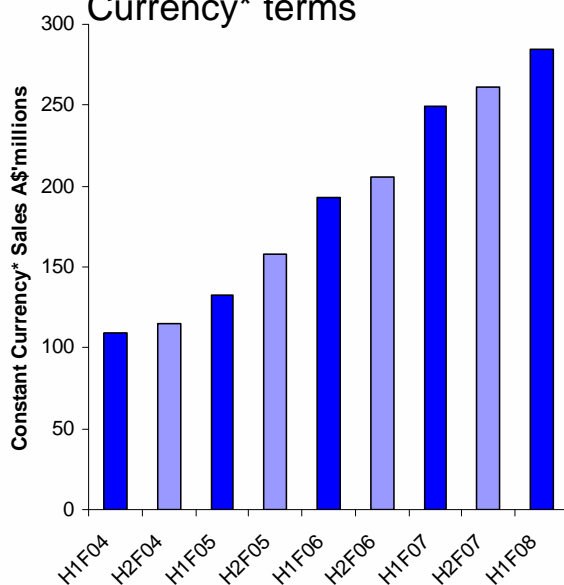
## Record Financial Results for H1 F08

	H1 F08	H1 F07	
	\$ millions	\$ millions	+ / (-) %
Cochlear implants	247.5	240.3	↑ 3%
Bone Anchored (Baha)	36.7	30.4	↑ 21%
FX Contracts	13.8	5.4	↑ 156%
<b>Revenue</b>	<b>298.0</b>	<b>276.1</b>	<b>↑ 8%</b>
EBIT	84.7	73.6	↑ 15%
Net Profit After Tax	57.1	48.8	↑ 17%
<b>Core Earnings*</b>	<b>61.9</b>	<b>52.8</b>	<b>↑ 17%</b>
Core Earnings per share	112.0 cps	96.5 cps	↑ 16%

\*Core Earnings assumes all R&D is expensed and excludes both amortisation of acquired intangibles and share based compensation expenses

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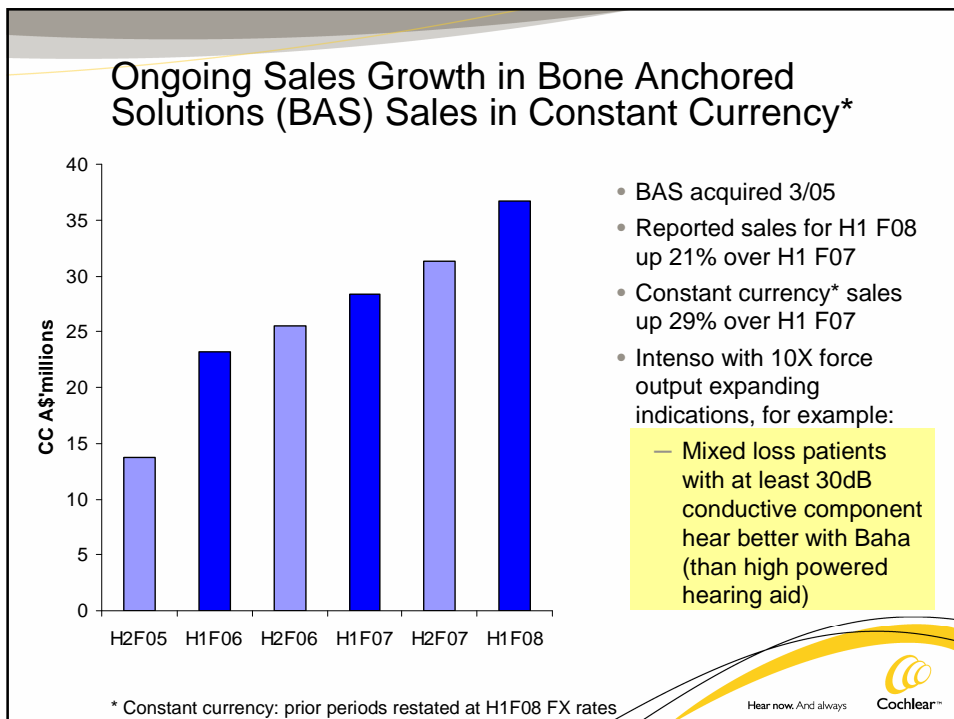
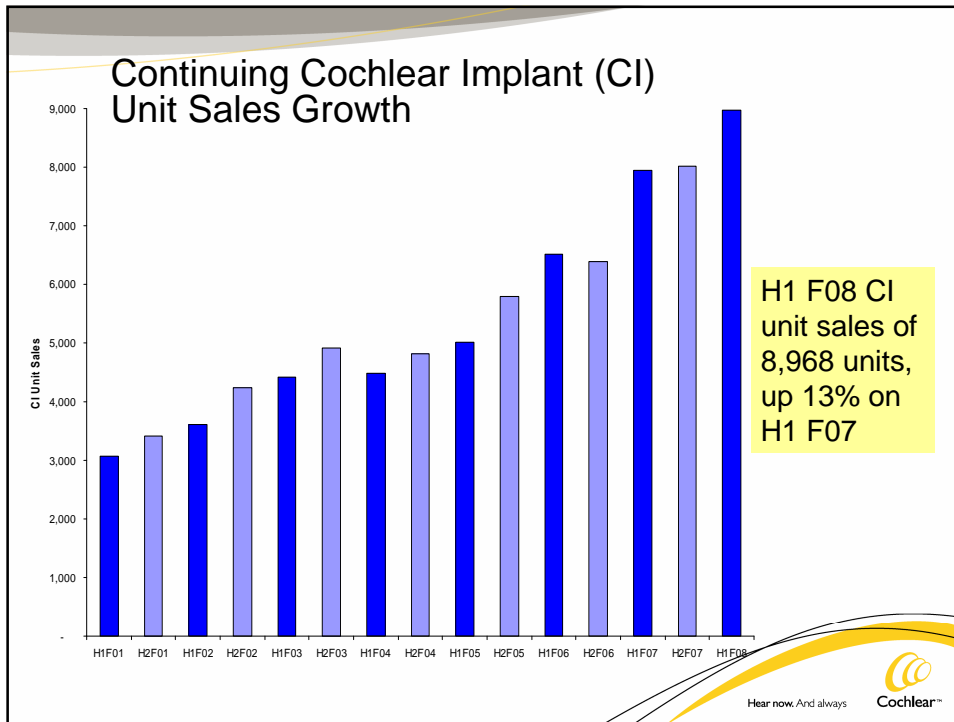
## Continuing Sales Growth in Constant Currency\* terms



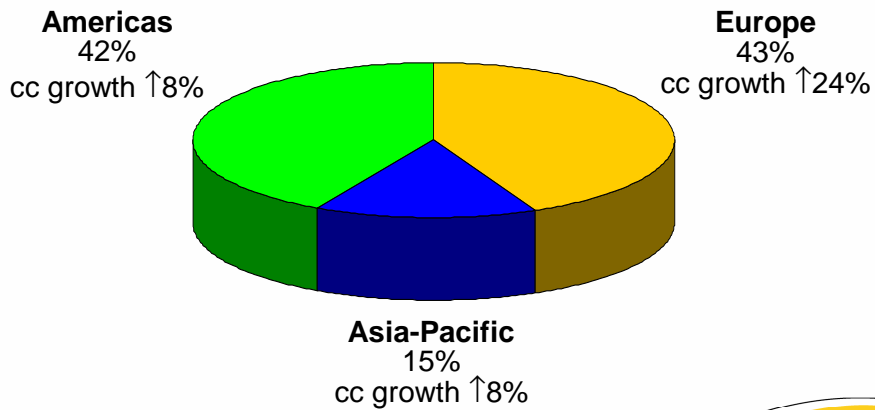
- Reported sales of \$284.2 million is 5% above H1F07 sales of \$270.7 million
- Restating H1F07 sales at H1F08 FX rates shows constant currency sales growth of 15%

\* Constant currency: prior periods restated at H1F08 FX rates


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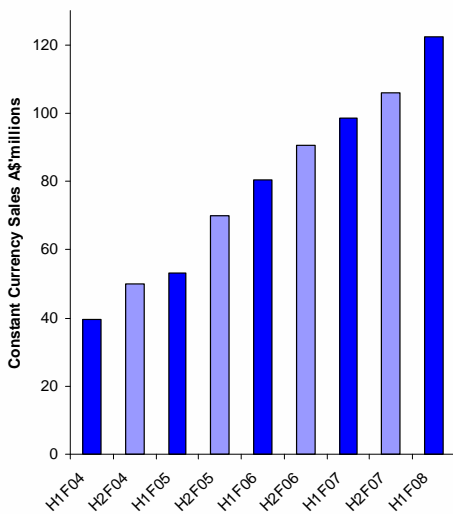
## H1 F08 Sales Revenue Regional Split (AUD) and Constant Currency (cc) Growth\*



\* Constant currency: prior periods restated at H1F08 FX rates

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## Europe: Half Yearly Sales in Constant Currency\* (at F08 FX Rates)

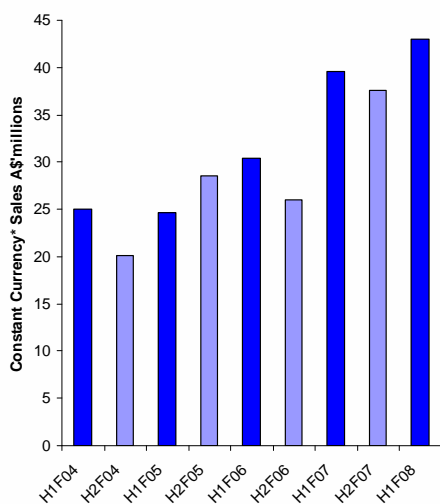


- Sales growth H1F08 over H1F07, in constant currency was 24%
- Over 70% of European sales through direct operations, with distributor markets also growing
- MP3<sup>000</sup> trial, 252 patients now recruited across 38 centres
- Hybrid L trial – expansion to an additional 10 centres (H2F08)
- Announcement to go direct in Turkey in H2 F08
- Implemented Oracle in Europe - Oct 07, which completes Cochlear's global conversion of its ERP system

\* Constant currency: prior periods restated at H1F08 FX rates

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## Asia Pacific: Half Yearly Sales in Constant Currency\* (at F08 FX Rates)

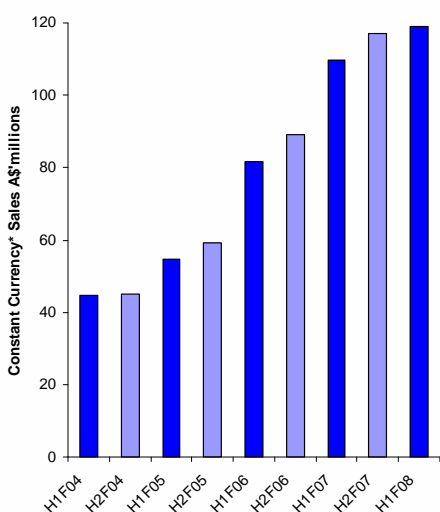


- Sales growth H1F08 over H1F07, in constant currency was 8%
- China donation - 574 units shipped since start of program
  - Cochlear partnering with various groups (e.g. RIDBC, Uni of Newcastle, CRRCDC), on training of speech therapists & audiologists
  - Finding, screening, assessing, MAPping, and habilitating candidates/recipients is the largest constraint to growth – surgical capacity is not an issue
- Announcement to go direct in Korea in H2 F08

\* Constant currency: prior periods restated at H1F08 FX rates

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## Americas: Half Yearly Sales in Constant Currency\* (at F08 FX Rates)



- Sales growth H1F08 over H1F07, in constant currency was 8%
- Q1 was flat, Q2 as per forecast
- Freedom™ for N24 sales down on H1F07 (~40% of USA recipients now upgraded)
- No Hybrid S implants (clinical trial enrolment complete H2F07)
- Conditional approval from FDA for Hybrid S and Hybrid L IDEs
- Continuing investments in growth initiatives

\* Constant currency: prior periods restated at H1F08 FX rates

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## Americas Growth Initiatives Include a Focus on Evolving the Business Model

- Expansion of **consumer advocacy network** (an extra ~200 volunteers during H1F08)
- Recruitment of Territory Outreach Specialists (n=12) **mobilising referral channel**
- Expansion of Sound Partnership program supporting clinics, e.g., **i-tech** training program addressing shortage of audiologists (3/08)
- Recipient services, eg “**Hear Always**” recipient support program freeing non-reimbursed clinic time
- Expansion of **reimbursement support** activities
- **myCochlear.com** (streamlining clinic processes)

Building awareness and a stronger direct channel to recipients

Freeing up clinic capacity

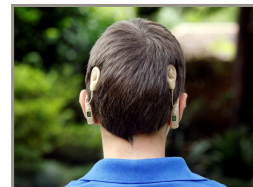
↑ ↑ services to customers

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## Bilateral Cochlear Implantation a Driver of Growth

- Bilateral cochlear implantation provides binaural hearing advantages (e.g. sound localisation)
- UK: NICE appraisal consultation documentation recommends simultaneous bilateral cochlear implantation for severe and profound deafness in pre-lingual children
- USA: 158 million covered by health insurance for bilateral cochlear implantation
- Products: Implant ID and bilateral programming enhancements in Custom Sound 2.0
- Less than 15% of global H1F08 CI unit sales were bilateral, and <5% of total recipients have two implants



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## Software Release: Custom Sound™ 2.0

Programming software Custom Sound 2.0 launching **now**, includes:

- **Hearing Mentor™**- expert guidance to fine tune maps with click of a button
- **Freedom for N22** recipients, honoring our lifetime commitment
- **Implant ID** which makes programming bilateral recipients faster and easier
- **SmartSound™ 2** combinations of input processing strategies



everyday



noise



focus



music

**SmartSound 2:** new generation algorithms allow the SmartSound technologies of ADRO™, BEAM™, Whisper™ and ASC™ to mix and match, to customise settings, creating the most natural hearing outcome for each recipient

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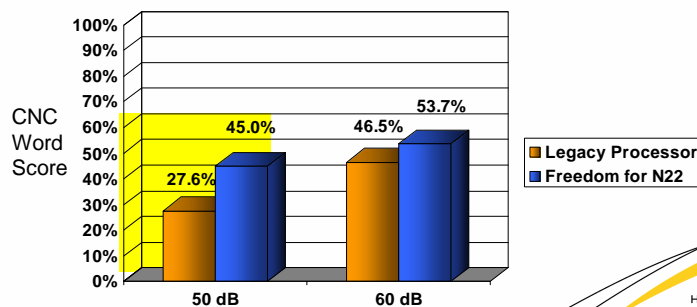


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## Freedom Speech Processor Upgrades

- ~35% of 36,000 N24 implant recipients upgraded to **Freedom for N24**
- **Freedom for N22** launching in H2F08 (18,000 potential recipients)
- Clinical data shows significant improvement in hearing performance, for example for the N22 recipients:

CNC Word Test in Quiet



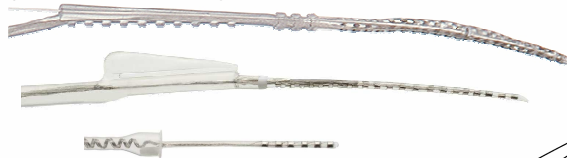
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## Electro-Acoustic Stimulation (EAS) for Patients with Residual Hearing (Hybrid S and Hybrid L)

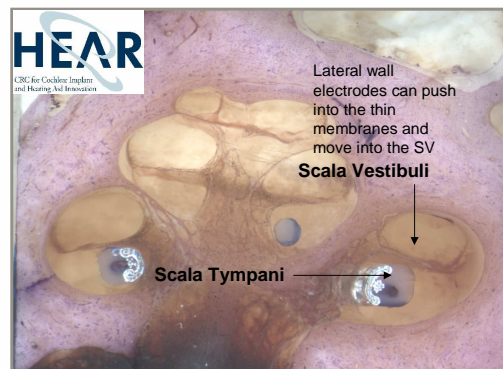
- **Hybrid S:** n= 87 pts in USA trial (enrolment completed H2 F07)
- **Hybrid L:** n=45 pts (Europe & Australia)
- EAS workshop in Hannover Dec 07
  - Hybrid S: 91% pts had hearing preserved post op (70%  $\leq$  30dB loss LT)
  - Loss of acoustic threshold did not predict hearing performance
  - Significant improvement in hearing in noise
  - Music and melody perception preserved
  - Predictors of poor performance: long duration of deafness (30 years) and poor pre-operative word score
- **USA:** Conditional approval of both Hybrid L and new Hybrid S (10/10 electrode) IDE



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## Maximising Hearing Performance Through Scala Tympani Electrode Insertion

- Recent publications, Aschendorf et al Uni Freiburg and Skinner et al (Wash U - St Louis) confirm importance of **scala tympani** insertion of electrode for maximising hearing performance. (Word scores negatively correlate with numbers of electrode contacts in scala vestibuli)
- **Contour Advance** with Advance Off-Stylet (AOS) technique is the best electrode and technique for optimising scala tympani insertion and hence speech understanding





## Cochlear Summary

- Record financial results for H1 F08
  - Revenues \$298 million ↑ 8%
  - Core Earnings \$61.9 million ↑ 17%
- Impact of strengthening AUD managed well, with constant currency sales up 15%, underpinning EBIT growth of 15%
- Ongoing progress in building internal capability, R&D and capabilities around consumer advocacy and expanded customer (clinic and recipient) services
- H2F08 milestones include release of Custom Sound 2.0, Freedom for N22, expansion of Hybrid L trial in Europe and USA IDEs for Hybrid L and S (10/10)
- Previous guidance on full year core earnings of 15-20% growth (depending on FX) confirmed



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## Financial Results

**Neville Mitchell**  
Chief Financial Officer

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## H1 F08 Financial Performance

	H1 F08	H1 F07	+/(-)%
	\$ millions	\$ millions	
Total Revenue	298.0	276.1	↑ 8%
Reported NPAT	57.1	48.8	↑ 17%
Core Earnings	61.9	52.8	↑ 17%
<b>Dividends</b>			
Interim Dividend	70c	55c	↑ 27%
Record Date 29 February 2008 Payable Date 18 March 2008			
Franking	100%	100%	

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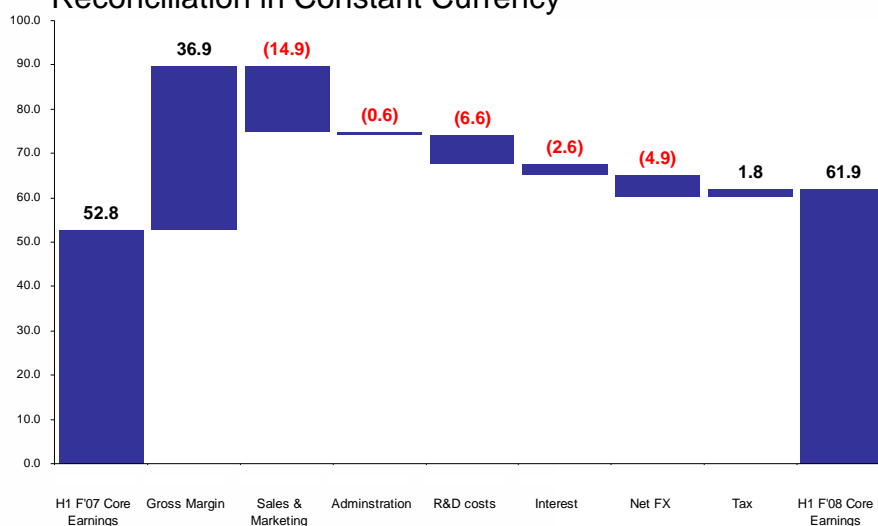
## H1 F08 Core Earnings Calculation

	H1 F08	H1 F07
	\$ millions	\$ millions
<b>NPAT</b>	<b>57.1</b>	<b>48.8</b>
Adjustment items (after tax)		
• R&D	0.6	0.6
• Acquired intangible amortisation	1.4	1.2
• Share based compensation	2.8	2.2
<b>Core earnings</b>	<b>61.9</b>	<b>52.8</b>

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## H1 F07 – H1 F08 Core Earnings Reconciliation in Constant Currency



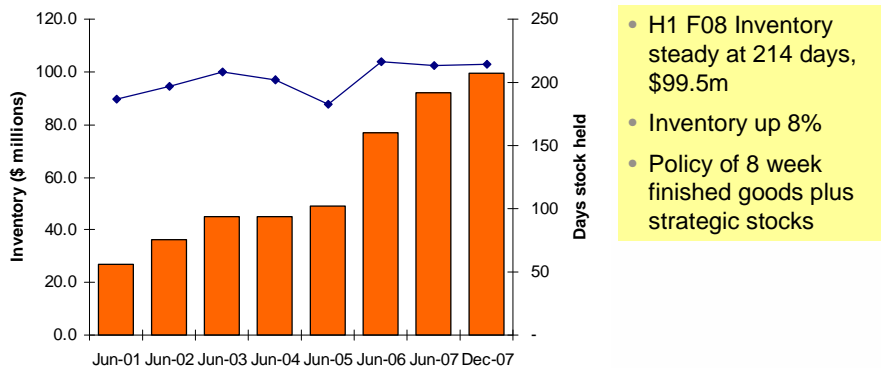
## Research & Development (R&D) Expense

	H1 F08 \$ millions	H1 F07 \$ millions
R&D Expense (Incl. Minority share)	39.0	34.7
Capitalised Development	-	(0.4)
Amortised Development	0.8	1.3
	<u>39.8</u>	<u>35.6</u>
R&D Expense (excluding minority interest) as % of total revenue	13.1%	11.8%

## Cash Generated

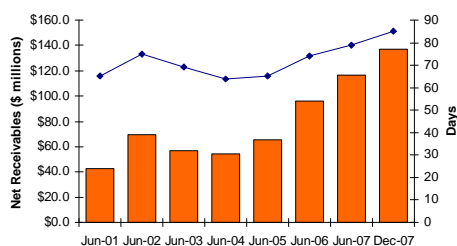
	H1 F08 \$ millions	H1 F07 \$ millions
<b>Net cash provided by operating activities before changes in assets and liabilities</b>	<b>70.1</b>	<b>57.5</b>
Changes in assets & liabilities		
(Increase) in trade debtors	(20.0)	(16.2)
(Increase) in inventory	(7.6)	(9.1)
(Increase) in net tax assets	(4.5)	(3.4)
Other	(8.0)	(10.9)
	(40.1)	(39.6)
<b>Net cash provided by operating activities</b>	<b>30.0</b>	<b>17.9</b>
Dividends paid	(38.9)	(30.2)
Investment and financing activities	(15.3)	(3.5)
<b>Net cash (usage)</b>	<b>(24.2)</b>	<b>(15.8)</b>

## H1 F08 Working Capital Inventory (Days Stock Held)



- H1 F08 Inventory steady at 214 days, \$99.5m
- Inventory up 8%
- Policy of 8 week finished goods plus strategic stocks

## H1 F08 Working Capital Debtors (Days Outstanding)



- Increase in debtor days to 85 (June 07, 79)
- Specific countries, e.g. Southern Mediterranean longer

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## Cochlear Gearing

	31 Dec 07 \$ millions	31 Dec 06 \$ millions
Short term debt	161.4	96.7
Long term debt	<u>39.0</u>	<u>104.5</u>
<b>Debt</b>	<b>200.4</b>	<b>201.2</b>
Cash	<u>62.0</u>	<u>69.5</u>
<b>Net debt</b>	<b><u>138.4</u></b>	<b><u>131.7</u></b>
Average interest rate	5.5%	3.8%
Net gearing ratio	32%	36%

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Thank you

Any questions?

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## Foreign Exchange

### Rates applied F08 vs F07

	<b>H1 F08</b>	<b>H1 F07</b>
Average rates (used for translating P&L)		
USD	0.87	0.76
Euro	0.62	0.60
JPY	101.2	90.3
Contract rates (used to bring FX to Aust)		
USD	0.78	0.74
Euro	0.59	0.57
JPY	83.0	65.9

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## Foreign Exchange Rates Going Forward

Average Contract Rates	<b>USD</b>	<b>Euro</b>	<b>JPY</b>	<b>SEK</b>
Weighted average – exchange rates going forward	0.80	0.59	83.84	5.29

- Total mark to market FX gain at 31 December 2007: \$13.1m

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## H1 F08 Core Earnings Reconciliation

	H1 F08 \$m	H1 F07 \$m
<b>Earnings before interest and tax</b>	<b>84.7</b>	<b>73.6</b>
<i>Core earnings adjustments pre-tax</i>		
• R&D	0.8	0.9
• Acquired intangible amortisation	1.4	1.2
• Share based compensation	2.9	2.2
<b>Core EBIT</b>	<b>89.8</b>	<b>77.9</b>
Net interest	(5.0)	(2.7)
Core tax expense	(22.9)	(23.9)
Core NPAT (incl. minority interest)	61.9	51.3
Minority interest	-	1.5
<b>Core earnings attributable to members</b>	<b>61.9</b>	<b>52.8</b>