

Cochlear Limited

Results for the full year ended 30 June 2010 (F10)



Chris Roberts, CEO

Neville Mitchell, CFO

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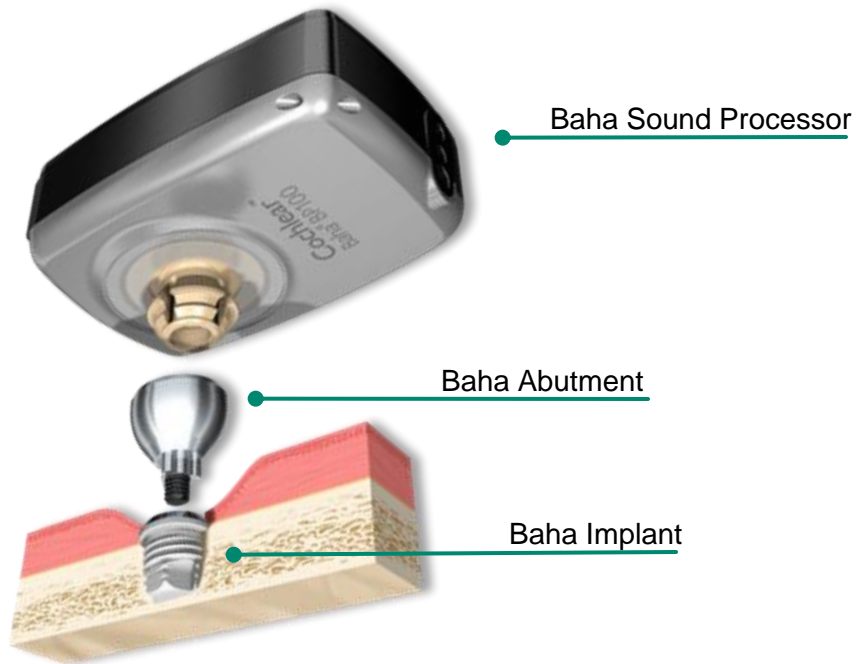
Cochlear Overview

- Cochlear Limited (ASX:COH) is the global leader in implantable devices for the hearing impaired (cochlear implants, auditory brainstem implants, hybrid implants, DACS and bone conduction implants)
- ~ 2,200 employees
- Direct operations in 20+ countries, and products sold in 100+ countries
- ~ 13% of revenue spent on R&D
- Fundamentals of the business remain positive
 - Large unmet clinical need
 - Excellent clinical outcomes
 - Established reimbursement
 - Strong competitive position
 - Opportunities for sustainable growth

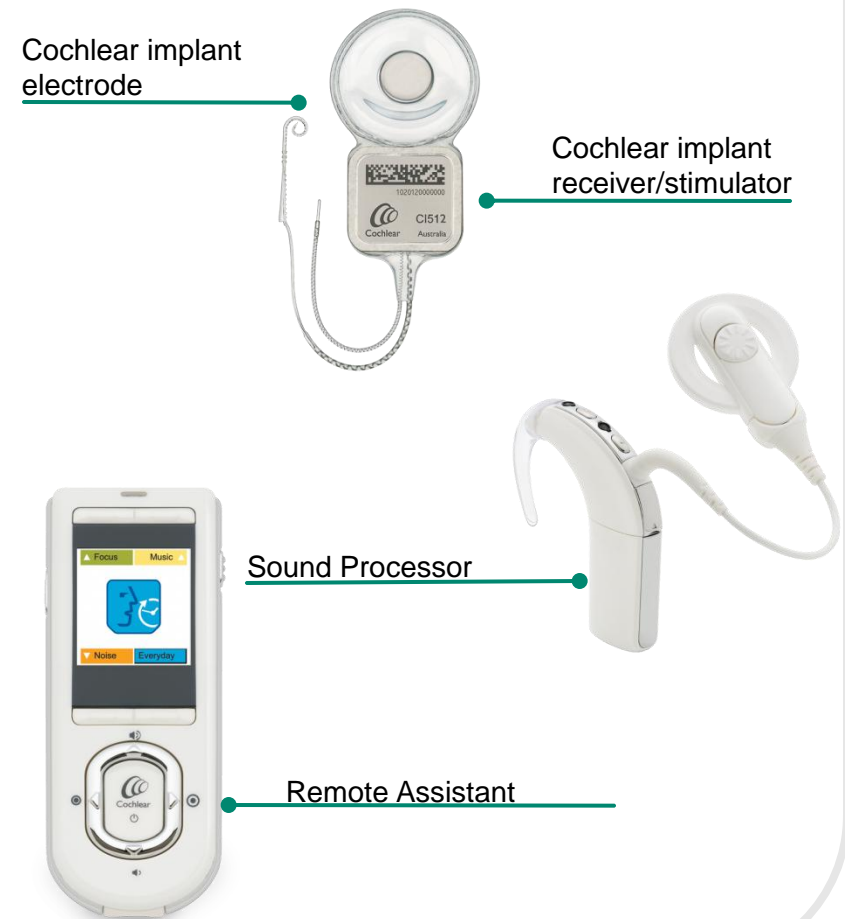


Cochlear's implant systems include:

Cochlear Baha 3



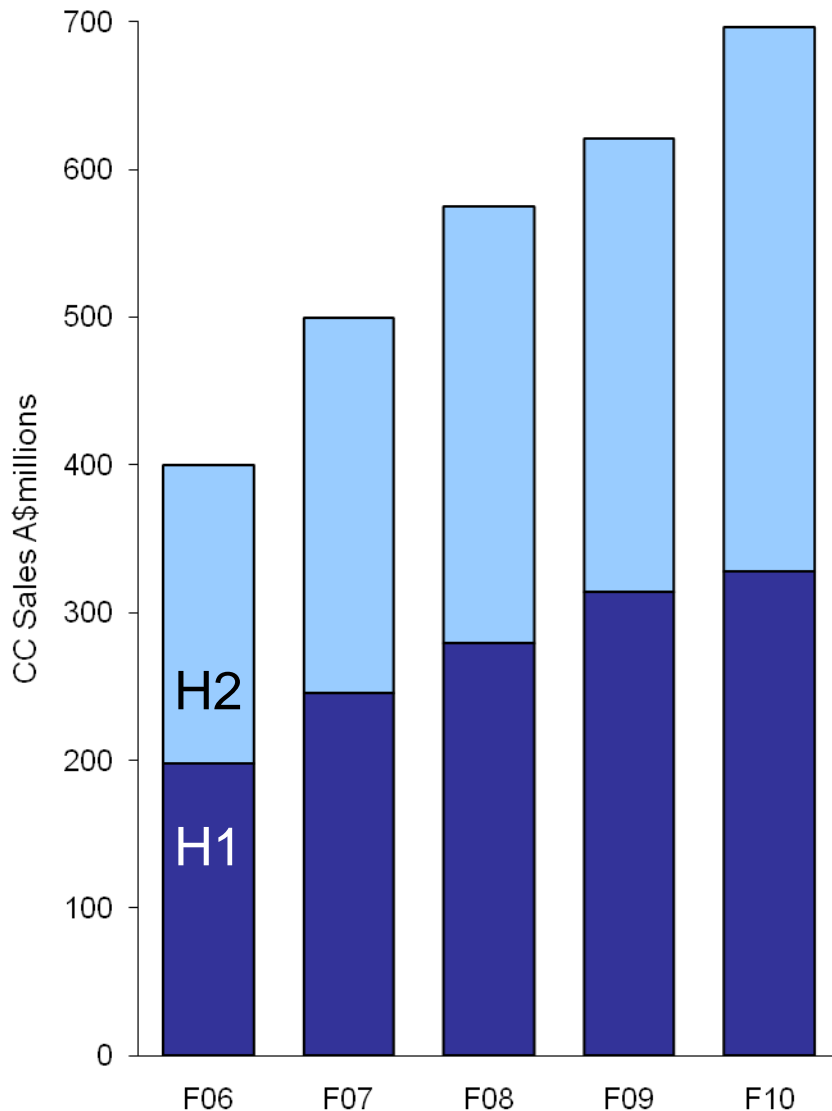
Cochlear Nucleus 5



Cochlear: Financial Results for F10

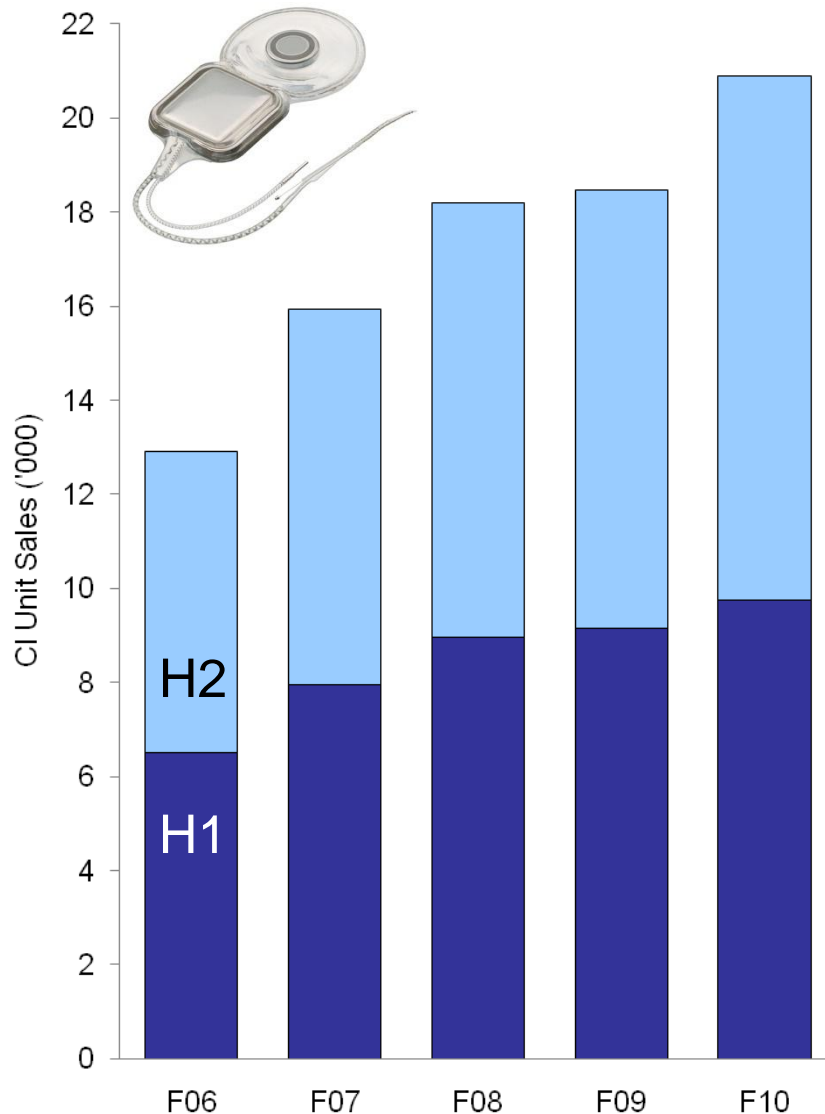
	F10	F09	
	\$ millions	\$ millions	+ %
Cochlear Implants	603.7	614.0	↓ 2
Bone Anchored (Baha)	92.5	97.8	↓ 5
FX Contracts	38.6	(17.1)	
Revenue	734.8	694.7	↑ 6
EBIT	220.5	183.3	↑20
Net Profit After Tax	155.2	130.5	↑19
EPS	275.7 cps	233.7 cps	↑18
Final Dividend (60% Franked)	105c	95c	↑11
Full Year Dividend (79% Franked)	200c	175c	↑14

Cochlear: Sales in Constant Currency (CC)



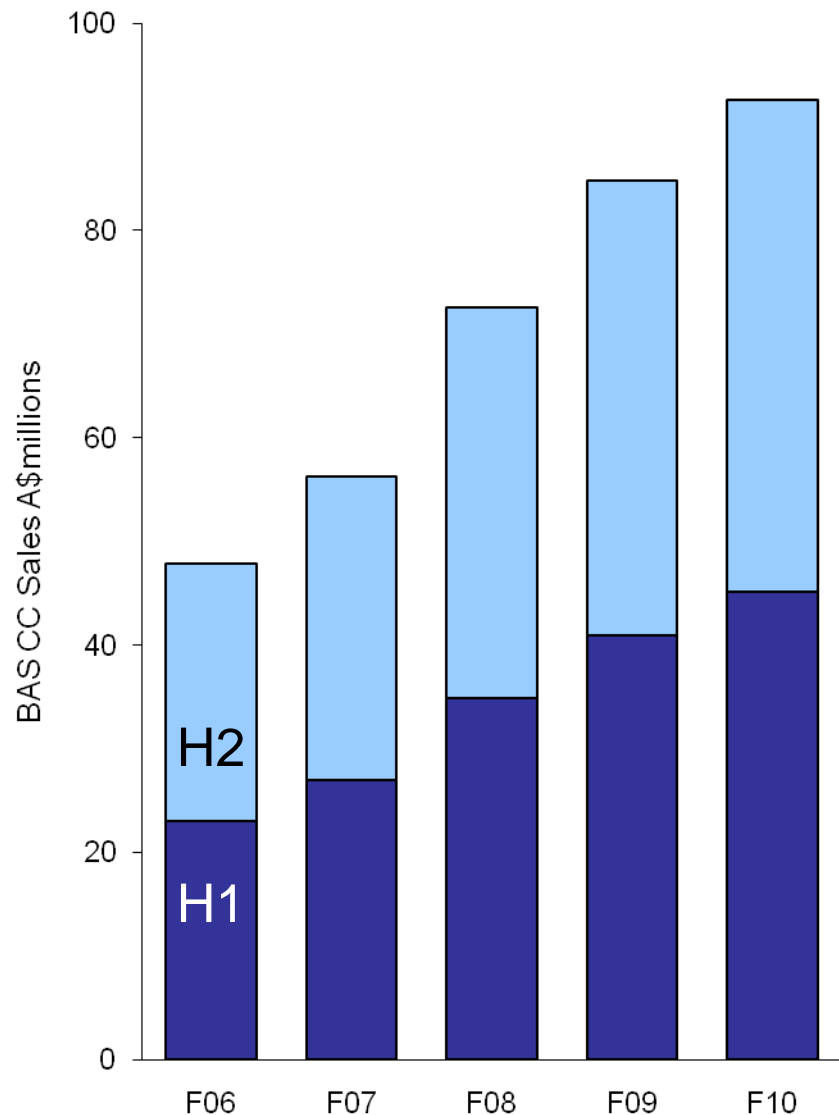
- Total revenues \$734.8 million, up 6%
- Sales in constant currency (prior periods restated at F10 rates) up 12%
- Sales in constant currency for H2 F10 up 20% demonstrating momentum from Cochlear Nucleus 5

Cochlear: Cochlear Implant (CI) Unit Sales



- F10 cochlear implant (CI) unit sales up 13% to 21,023 units
- H2 F10 CI unit sales up 20%
- Successful launch of Cochlear Nucleus 5, which represented the majority of CI sales in H2

Cochlear: Sales of Bone Anchored Solutions (BAS) in Constant Currency

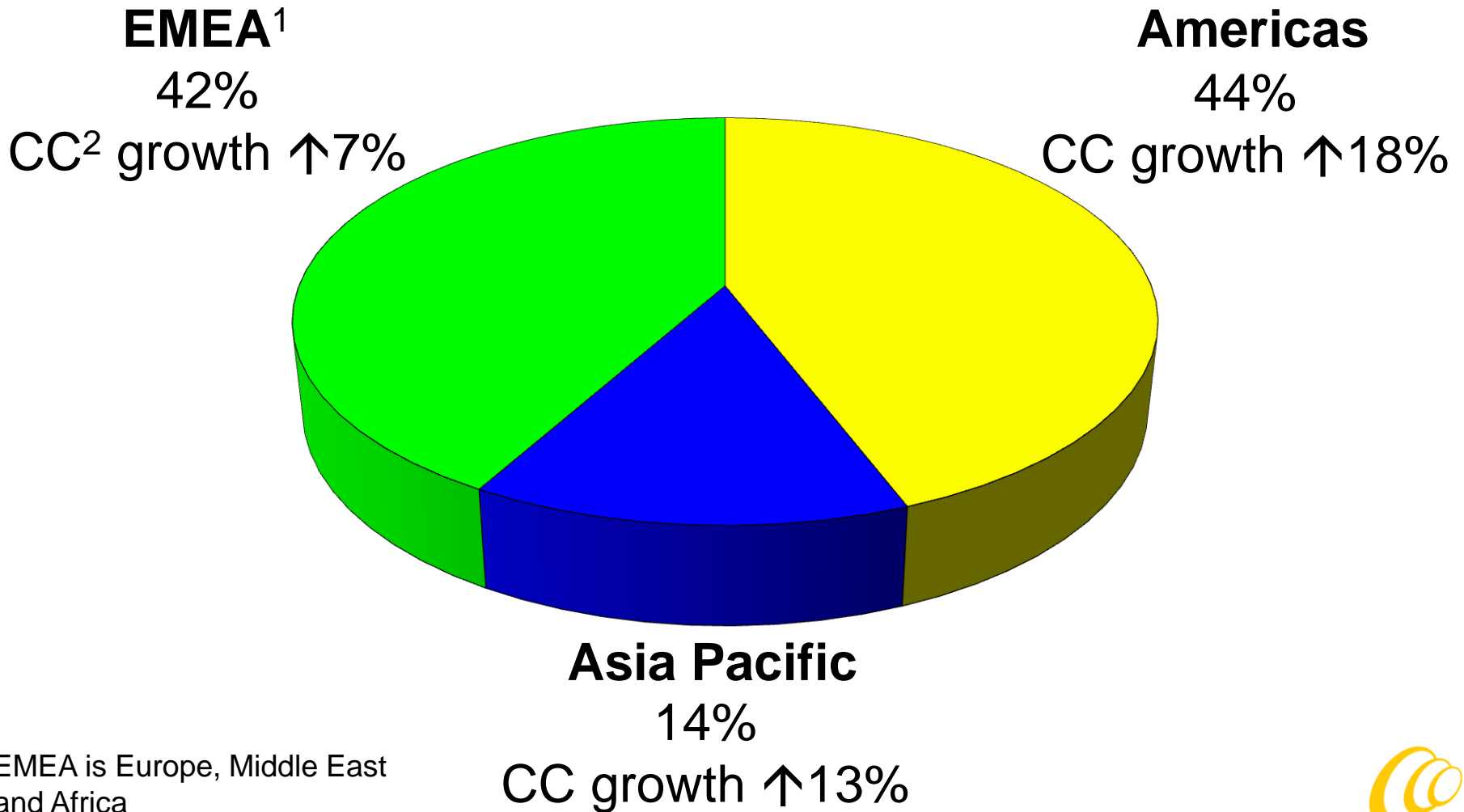


- BAS sales (including Baha implants) \$92.5 million for F10, up 9% in constant currency
- Successful launch of Cochlear Baha BP100 & new implant BI300



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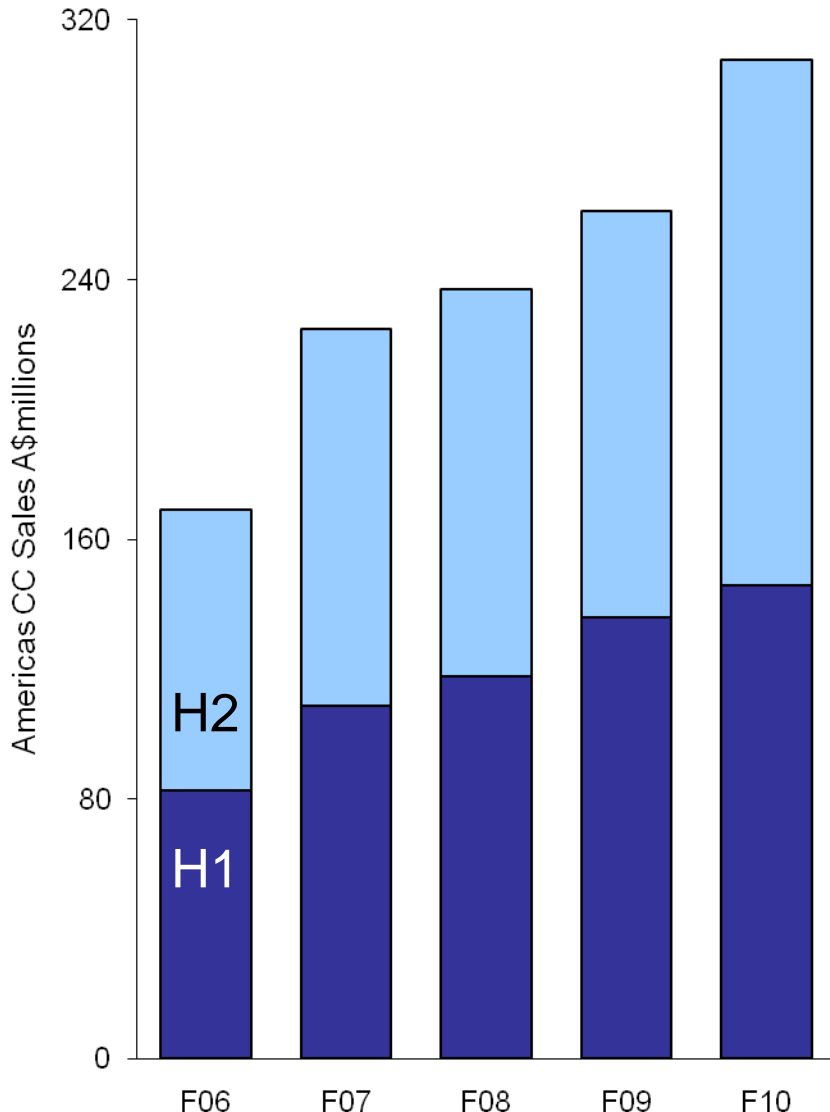
Cochlear: F10 Regional Split of Sales



¹ EMEA is Europe, Middle East and Africa

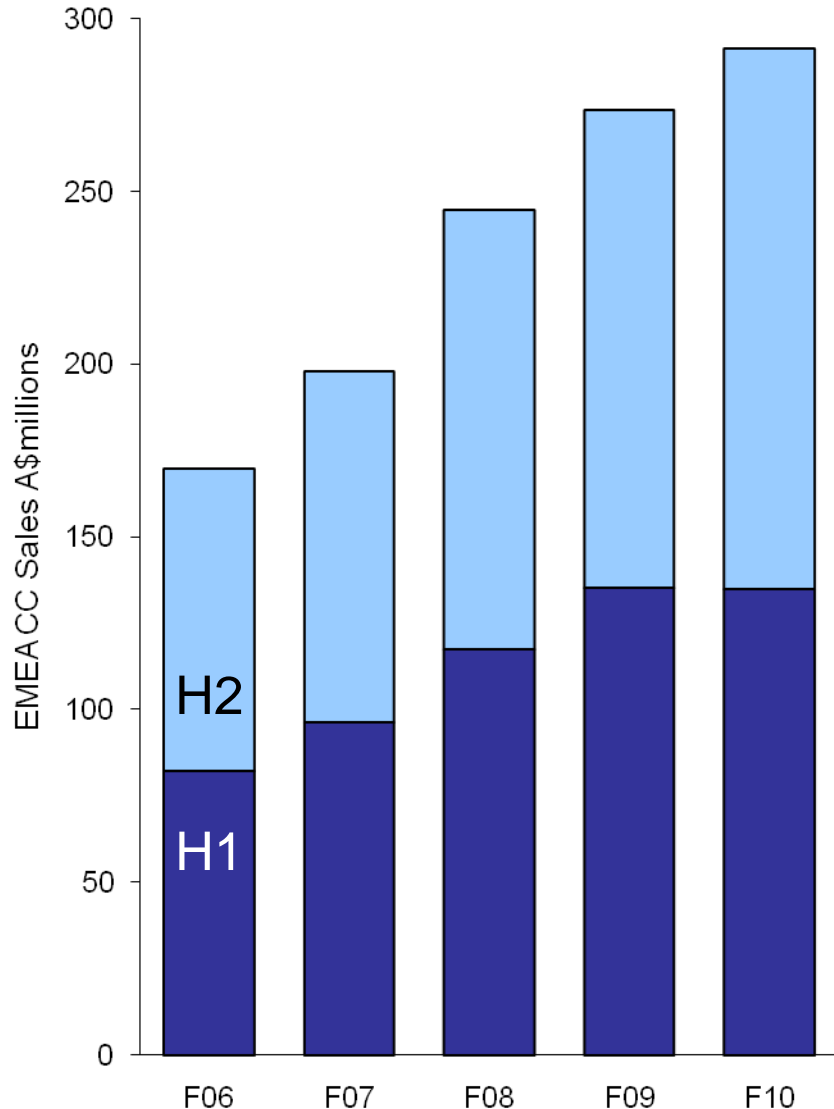
² CC is Constant Currency

Cochlear Americas: Sales in Constant Currency



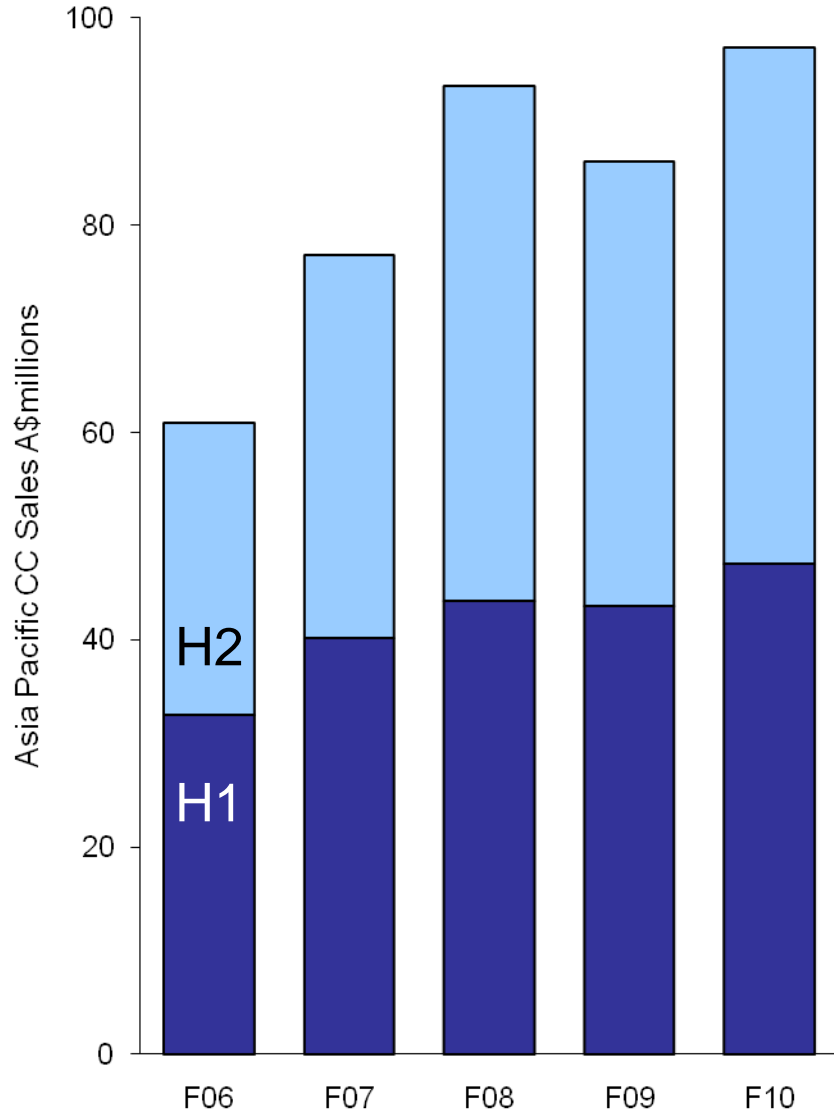
- Americas sales of \$307.6 million, up 18% in constant currency
- USA: FDA approval for Nucleus 5 submission (implant and externals) in H1, and rechargeable batteries in H2
- H2 F10 CC sales growth of 29% demonstrating Cochlear Nucleus 5 momentum

Cochlear EMEA: Sales in Constant Currency



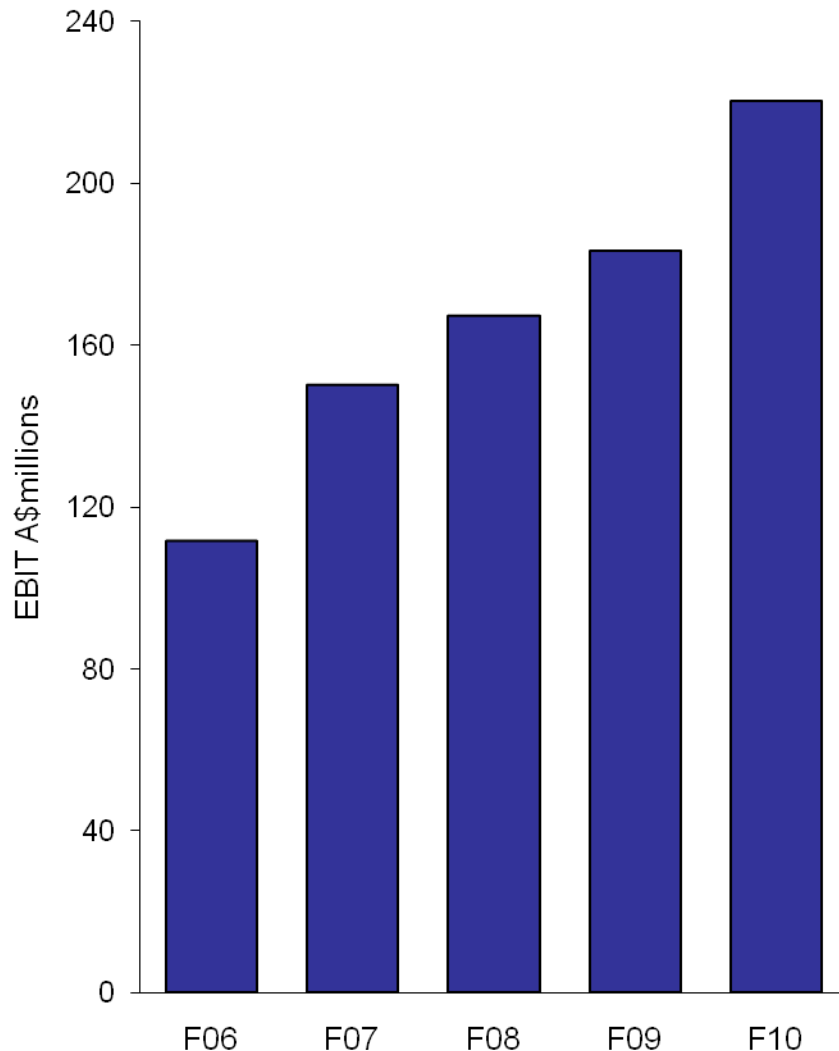
- EMEA (Europe, Middle East and Africa) sales of \$291.5 million, up 7% in constant currency
- Tender sales (primarily Middle East and Central/Eastern Europe) which were down in H1 remained weak in H2
- Successful launch of Cochlear Nucleus 5

Cochlear Asia Pac: Sales in Constant Currency



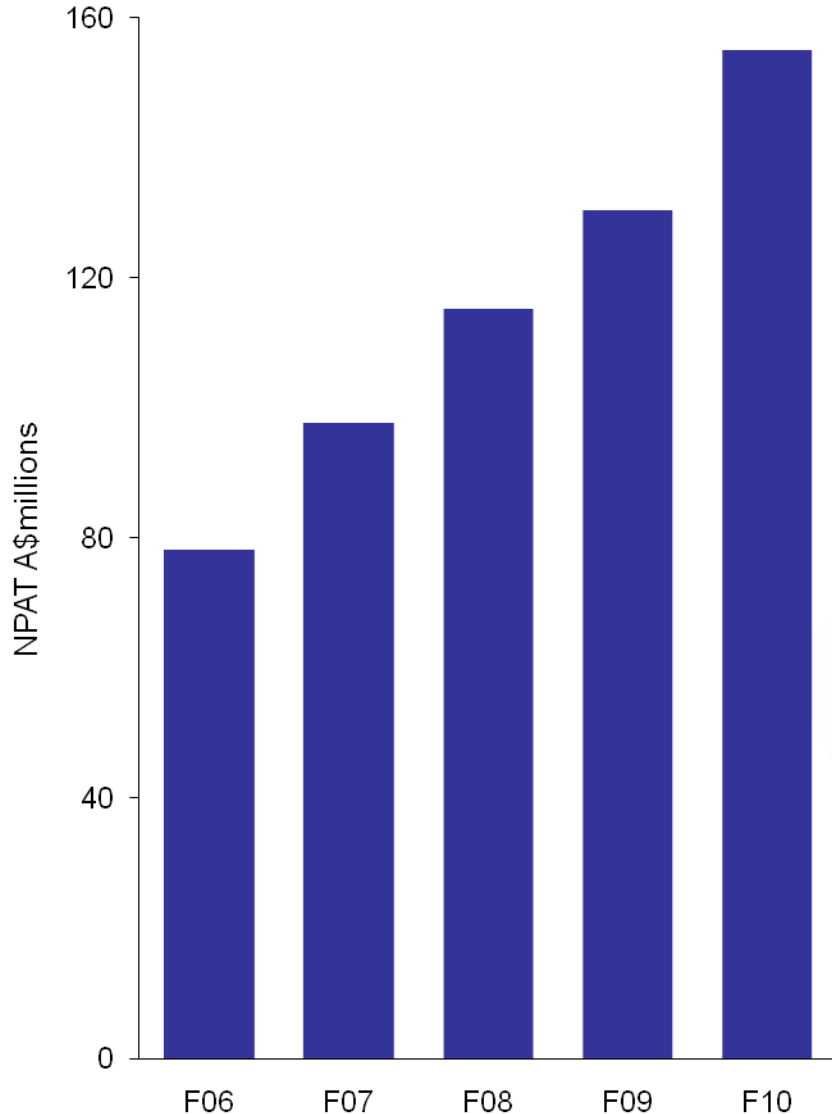
- Asia Pacific sales of \$97.1 million, up 13% in constant currency
- 500 CI units sold into China donation program
- Restructured distribution in India (Cochlear now direct)
- WOFE established in China

Cochlear: Earnings Before Interest & Tax (EBIT)



- Gross margin increased to 72.5% (from 71.8% in F09)
- SGA reduced to 31.0% of revenue (33.1% in F09), and R&D to 12.9% of revenue (13.9% in F09)
- Operating margin expansion: EBIT increased to 30% of revenues (26.4% in F09)
- EBIT up 20% to \$220.5 million

Cochlear: Net Profit After Tax (NPAT)

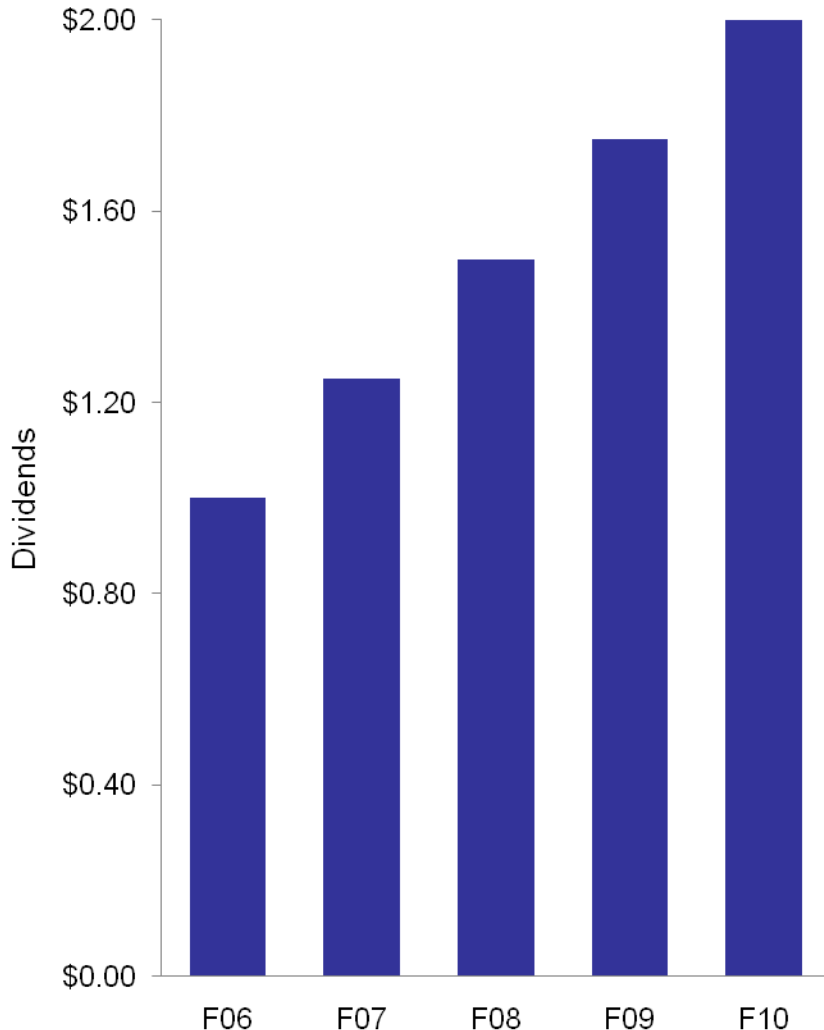


- NPAT of \$155.2 million, up 19% on F09
- EPS of \$2.76, up 18%



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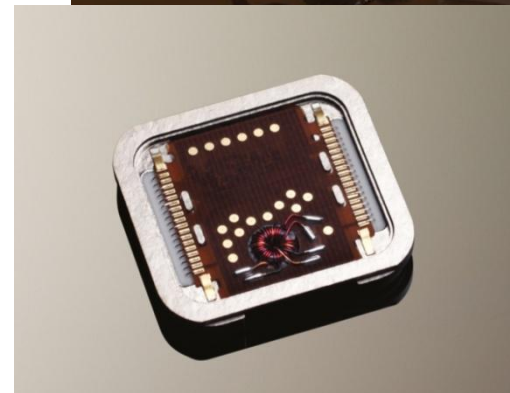
Cochlear: Free Cash Flow and Dividends



- Free cash flow up 50% to \$166 million
 - Inventory down 1%
 - Debtors up 4%
- Final dividend of \$1.05 per share 60% franked, 40% conduit foreign income
- Full year dividend \$2.00 up 14%

Cochlear Nucleus 5 System

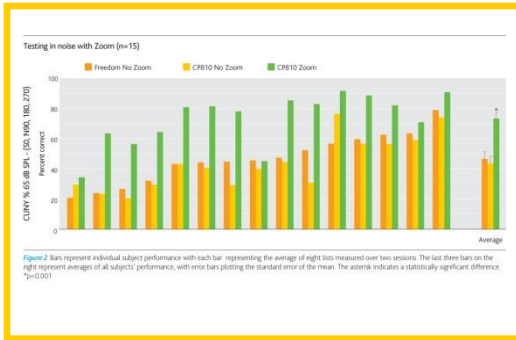
- Cochlear Nucleus 5 launched in ~ 50 countries in F10, including USA
- The majority of Cochlear implant sales now Nucleus 5
- Customer feedback (recipients and clinicians) has been extremely positive
- Nucleus 5 launch benefited from substantial investments in processes such as manufacturing and global supply chain management



Nucleus 5 – Setting new benchmarks across many dimensions

The introduction of Nucleus 5 has truly set new benchmarks across many important dimensions

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Hearing Performance



Ease of Use



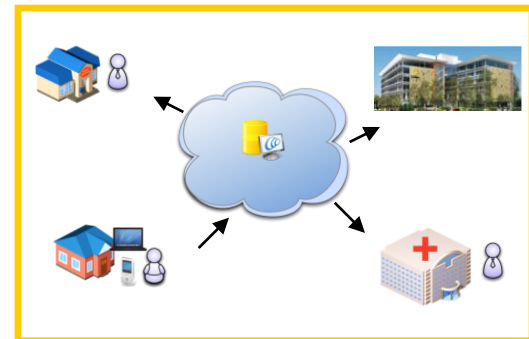
Cosmetics / Ergonomics



Miniaturisation / Reliability



Manufacturing / Supply Chain



Building blocks to scale clinical pathway

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Cochlear Baha 3 – Combined Performance

- BP100: new build standard released with enhanced features
- BI300: new implant released with improved implant stability, and surgical tools to simplify the surgery
- Baha 3: all components of the system (sound processor, implant, abutment, surgical tools, and fitting software) have been optimised as a complete system

Baha Implant (BI300)



Global HQ Nearing Completion

- Excellent progress on new 24,000m² head office facility housing specialist research and manufacturing functions on campus at Macquarie University
- Completion late 2010
- Macquarie University's "Hearing Hub" building is also at the advanced stage of planning
- Vision is to create a world leading hearing precinct



Cochlear F10 Summary



- Net Profit After Tax (NPAT) of \$155.2 million up 19%, with free cash flow up 50% to \$166 million
- Successful launch of Cochlear Nucleus 5 in ~ 50 countries, and majority of cochlear implant sales now Nucleus 5
- Customer feedback on Nucleus 5 is extremely positive underpinning continued growth
- Ongoing focus on innovation (across a platform of implantable devices for the hearing impaired)

F10 Financial Results

Neville Mitchell



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F10 Financial Performance

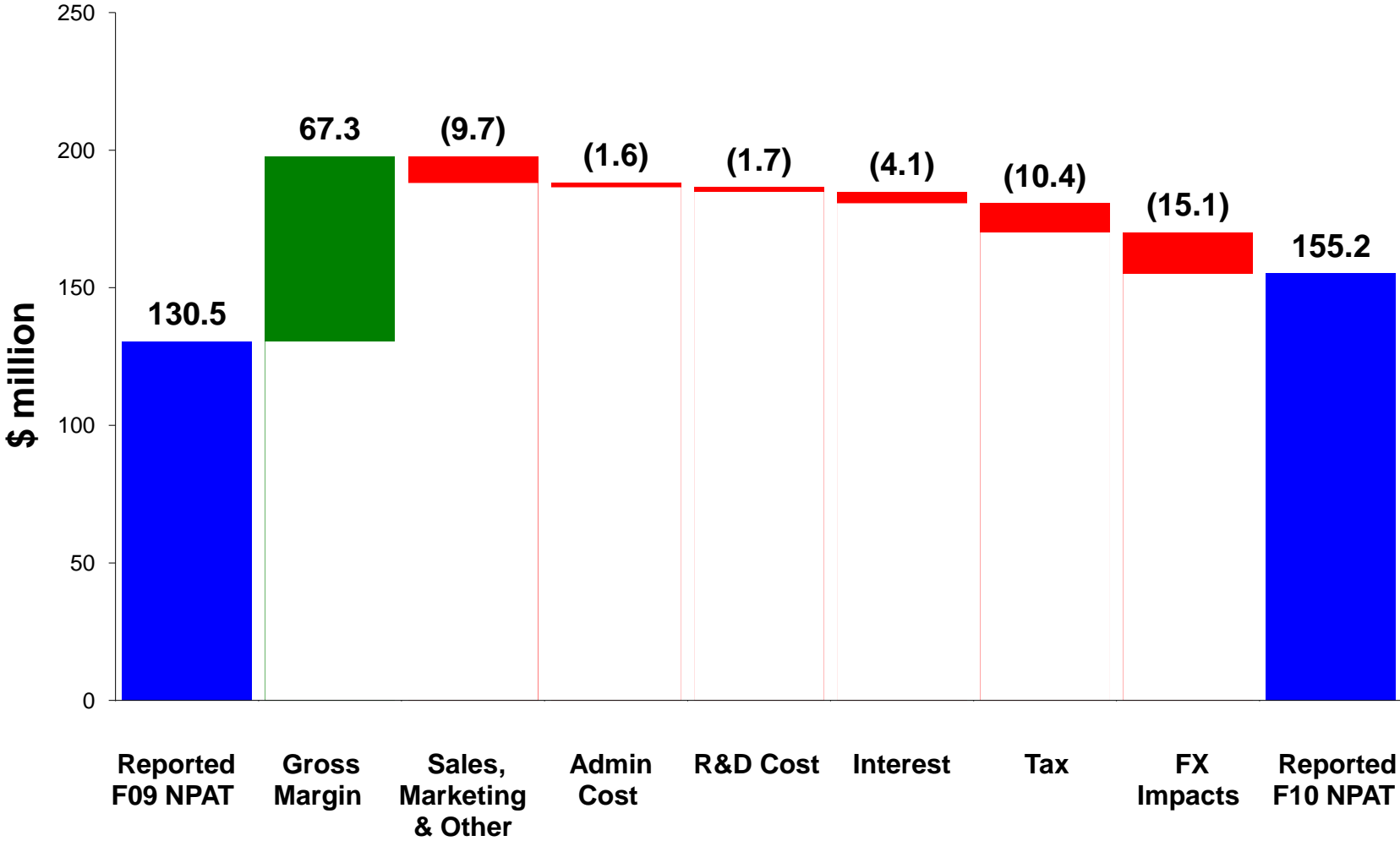
	F10	F09	%
	\$m	\$m	Change
Total Revenue	734.8	694.7	↑ 6%
EBIT	220.5	183.3	↑ 20%
NPAT	155.2	130.5	↑ 19%
Dividends			
Final Dividend	105c	95c	↑ 11%
Record Date 2 nd September 2010			
Payable Date 23 rd September 2010			
Full Year (Interim and final)	200c	175c	↑ 14%
Franking*	60%	100%	

*CFI for unfranked portion

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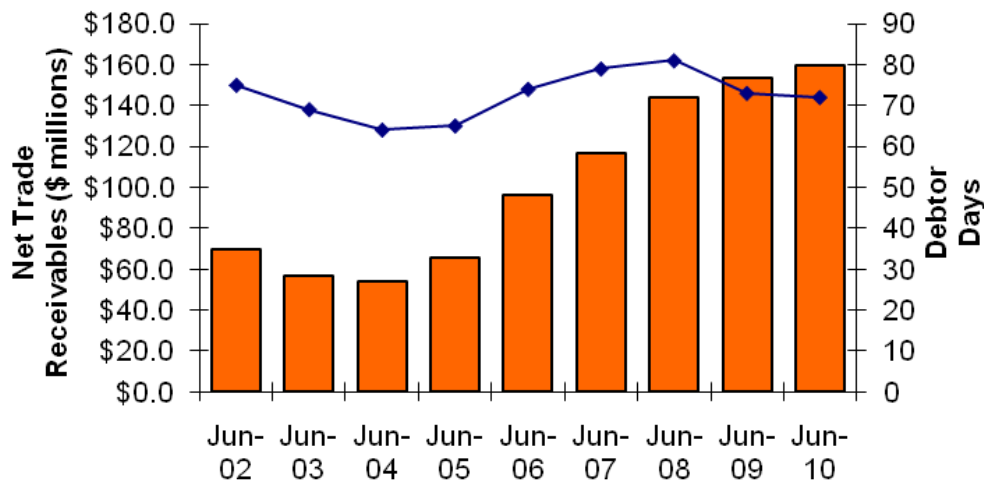
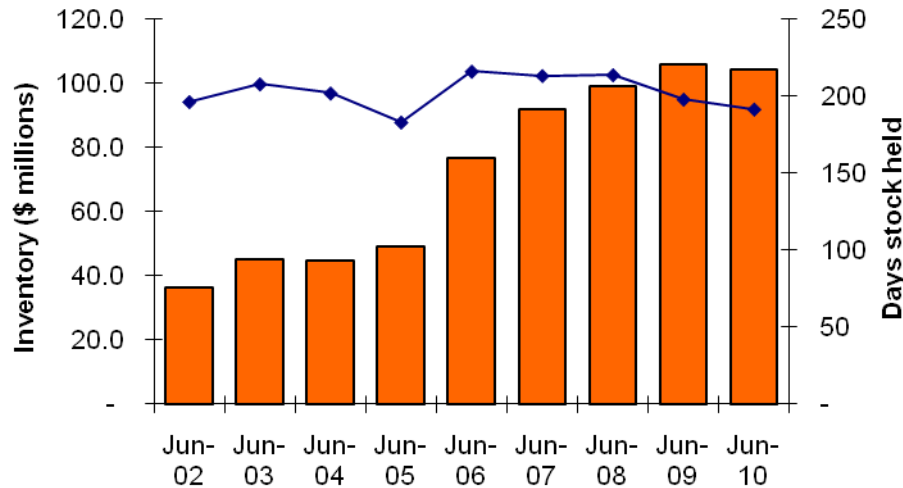


F09 - F10 NPAT Reconciliation



F10 Working Capital

Inventory (Days Stock Held) / Debtors Days Outstanding



- F10 Inventory at 192 days (F09 198 days) \$104.4m (F09 \$105.9m)
- Further decrease in debtor days to 72 (F09: 73, F08: 81)
- F10 debtors at \$159.5m (F09 \$153.3m)

Impact of Appreciating AUD on F10 NPAT

	A\$m	
	F/(U)	
Income Statement Translation Impact		
Sales Revenue	(95.0)	} Difference F10 actual vs F10 at F09 rates
Total Expenses including tax	31.7	
	(63.3)	
Transaction Impact		
- Increase from F09 of FX gain on FX Contracts	55.7	← Difference between actual F10 vs F09
Translation Impact		
- Decrease over F09 of FX gain on asset translation	(7.5)	← Difference between actual F10 vs F09
Negative impact on F10 NPAT of appreciating AUD	<u>(15.1)</u>	

(i.e. Profit in F10 would have been \$15.1m greater if F09 average rates had applied to F10)

Cochlear F10 Debt

	30 June 2010	30 June 2009
Operations	\$m	\$m
Loans and Borrowings		
Current	-	-
Non-current	82.9	176.6
Total Debt – operations	<u>82.9</u>	<u>176.6</u>
Cash	41.8	77.9
Net Debt – operations	41.1	98.7
<i>Gearing ratio - operations (net debt/net debt + equity)</i>	9%	21%
Net Debt for new building*	72.8	9.9
Total Net Debt	113.9	108.6

* Scheduled for repayment H1 F11

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Foreign Exchange

Rates applied F10 vs F09

Average rates (used for translating P&L)

	F10	F09	%
USD	0.88	0.76	16%
Euro	0.63	0.55	15%
JPY	80.5	75.9	6%
GBP	0.55	0.47	17%

Contract rates (used to bring FX to Aust)

USD	0.80	0.81	(1%)
Euro	0.56	0.51	10%
JPY	84.7	103.0	(18%)

Foreign Exchange

Period end rates applied F10 vs F09

	30 June 2010	30 June 2009	% change
Period end rates (for translating Balance Sheet)			
USD	0.87	0.81	7%
Euro	0.71	0.57	25%
JPY	78.1	76.9	2%

FX Contract Cover and Rates as at 30 June 2010

Total FX cover at 30 June 10	USD 326.2m	Euro 182.7m	JPY 1,062m	Total AUD 644.9m
% of total cover (in AUD)	58%	40%	2%	100%
3 yr weighted average rates FX contracts at 30 June 10	0.78	0.57	76.7	
FX contracts at 30 June 09	0.75	0.53	83.2	
F11 weighted average rates FX contracts at 30 June 10	0.79	0.56	79.2	
Cover for F11	165.2m	104.8m	657m	

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Thank you

Any questions?

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