ASX Announcement

19 August 2022

Cochlear Limited Financial Results

For the year ended June 2022

Sales revenue increased 10% (9% in constant currency*) to a record $1,641 million, driven by strong demand for acoustic implants and sound processor upgrades with all regions and product segments tracking above pre-COVID levels. While cochlear implant revenue growth rates improved across the year, we continued to experience variability in performance across countries with COVID and hospital staffing shortages impacting operating theatre capacity.

- Sales revenue increased 10% (9% in CC) to $1,641m
- Statutory net profit of $289m includes $12m in one-off gains after-tax
- Underlying net profit** increased 18% (10% in CC) to $277m, within the guidance range of $265-285m
- Underlying net profit margin was 17%. Excluding the impact of cloud computing-related expenses, underlying net profit margin was 18%, in line with our long-term target
- Strong cash flow generation supports the 18% increase in full year dividends. The dividend payout of 71% of underlying net profit is aligned to our 70% target payout
- FY23 underlying net profit guidance range is $290-305m, a 5-10% increase on FY22 underlying net profit, an increase of 8-13% when adjusted for the increase in cloud computing-related expenses. Guidance anticipates strong growth in sales revenue and an underlying net profit margin of ~18% before cloud computing-related expenses. We expect trading conditions to progressively improve across the year, with intermittent COVID-related hospital or region-specific elective surgery restrictions likely to continue. A more material disruption from COVID or hospital capacity restrictions that significantly impacts sales remains a risk factor that does not form part of guidance.

	FY22	FY21	Change % (reported)	Change % (CC)*
Sales revenue ($m)	1,641.1	1,493.3	⬆ 10%	⬆ 9%
Underlying net profit ($m)**	**277.0**	**234.0**	**⬆ 18%**	**⬆ 10%**
% Underlying net profit margin**	17%	16%		
% Underlying net profit margin (pre cloud investment)**	18%	16%		
One-off and non-recurring items after-tax ($m)	12.1	89.8		
Statutory net profit ($m)	**289.1**	**323.8**	**⬇ 11%**	
Underlying earnings per share**	$4.21	$3.56	⬆ 18%	
Final dividend per share	$1.45	$1.40	⬆ 4%	
Total dividends per share	$3.00	$2.55	⬆ 18%	

*Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance (refer p13). **Excluding one-off and non-recurring items (refer p13). Prior year net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

Operational review

$m	FY22	FY21	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	38,182	36,456	⬆ 5%		
Sales revenue					
Cochlear implants	935.2	898.6	⬆ 4%	⬆ 3%	57%
Services (sound processor upgrades and other)	503.9	438.5	⬆ 15%	⬆ 15%	31%
Acoustics	202.0	156.2	⬆ 29%	⬆ 28%	12%
Total sales revenue	**1,641.1**	**1,493.3**	**⬆ 10%**	**⬆ 9%**	**100%**

Cochlear implants

Cochlear implant units increased 5% to 38,182 units, with emerging markets growing ahead of developed markets. Sales revenue increased 3% in CC to $935.2 million.

Developed market units grew low single-digits for FY22 with second half volumes growing following a decline in the first half. Units overall were around 10% above pre-COVID levels.

US volumes were around 20% above pre-COVID levels with a swift and strong recovery in FY21 following COVID shutdowns partly offset by a small volume decline in FY22. While our professional partners reported strong patient pipelines and growing waiting lists, access to operating theatres was constrained throughout the year as a result of hospital staffing shortages. Our strong market share position continued to be supported by our market-leading product portfolio and growing suite of service offerings.

Performance in Western Europe was strong throughout the year following a COVID-affected FY21. The rate of recovery however continued to vary by country. Continental Europe volumes exceeded pre-COVID levels while volumes in the UK were still below pre-COVID levels.

In the Asia Pacific region, Australian volumes were impacted by COVID-driven elective surgery deferrals with units still below pre-COVID levels.

The **emerging markets** experienced a strong recovery following COVID-related shutdowns with many countries trading above pre-COVID levels, including China and the Middle East. India and Brazil recovered well although volumes were still below pre-COVID levels.

Services

Services revenue increased 15% in CC to $503.9 million with the growing recipient base underpinning growing demand. Sound processor upgrade revenue experienced strong growth, particularly in the first half, following the restricted access to clinics during COVID lockdowns.

Acoustics

Acoustics revenue increased by 28% in CC to a record $202.0 million, representing strong demand for new products and a recovery from COVID-related surgery delays. The Cochlear™ Osia® 2 System achieved CE Mark accreditation during the second half of FY21, with the rollout commencing across Western Europe during FY22. Demand for the Osia 2 System continued to be strong in the US. The Cochlear™ Baha® 6 Max Sound Processor was launched in the fourth quarter of FY21 and drove strong demand for sound processor upgrades across all regions.

Our strategy

Our goal is to deliver value by helping more people to hear, which contributes to building a healthier and more productive society.

We have a responsibility to be here to support a lifetime of hearing for the children, and adults, being implanted with our devices, which means we need to deliver sustainable financial growth, benefiting all our stakeholders. We achieve this through market-leading innovation capabilities in conjunction with a global network of experts and collaborators; the strong and trusted relationships we build with our candidates, recipients, professional customers and payers; and our employees who are central to how we deliver our strategy and create value.

We have a long track record of delivering growing sales revenue, profits and dividends which stems from maintaining focus on our core strength, implantable hearing solutions, a multi-decade philosophy of investing to grow, combined with disciplined management of capital. This focus continues to drive us into the future.

Our mission

The passion that drives the organisation and focuses the strategy

- Empower
- Transform
- Innovate

Our strategy

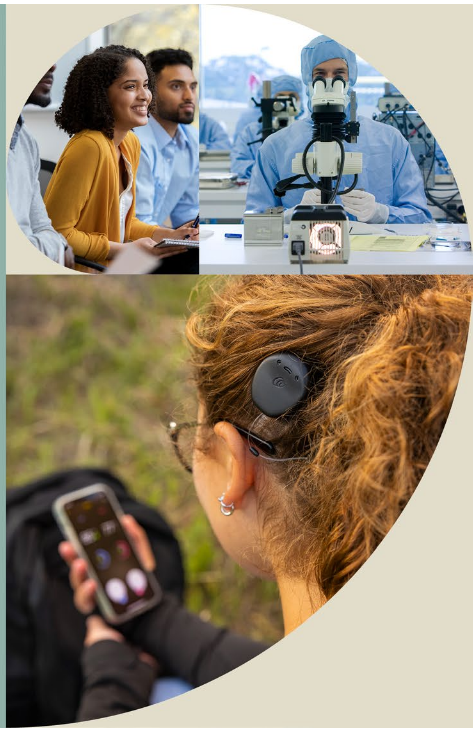
Where we focus our time and resources to create value

- Growth opportunity
- Strategic priorities
- A stronger organisation

Value creation

How the outcomes of our activities impact all key stakeholders - our customers, our people, our shareholders and society more broadly

- A healthier & more productive society
- Empowered customers
- A lifetime of hearing solutions
- Thriving people
- Sustained value



How we create value

Growth opportunity

Our growth opportunity is compelling and has remained unchanged for many years. Hearing loss is a prevalent and under-treated condition and implantable hearing solutions provide life-changing outcomes for recipients. Importantly, they provide a cost-effective solution for all age groups, delivering significant returns on the investment made by the healthcare system. The factors driving industry growth include:

- Hearing loss is prevalent and under-treated
- Cochlear implants are a cost-effective solution for all age groups
- Product indications are broadening and funding is expanding
- Cochlear implants can deliver superior outcomes to hearing aids for indicated patients
- Good hearing is essential for healthy ageing

Strategic priorities

Our strategic priorities outline how we focus our time and resources to create value.

Retain market leadership

We are committed to retaining our market leadership position in the industry by continuing to make substantial investments in R&D that enable us to bring to market implantable hearing solutions that deliver a lifetime of hearing outcomes.

Grow the hearing implant market

We grow the hearing implant market by transforming the way people understand and treat hearing loss. Our efforts are targeted at improving awareness, expanding access and building on the clinical evidence that demonstrates the effectiveness of our products.

Deliver consistent revenue & earnings growth

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position.

A stronger organisation

To be successful over the long term, our organisation needs to be strong, agile and sustainable to enable us to execute our strategy, support our customers and deliver on our growth ambitions. Our key priorities in strengthening our organisation are centred around shaping our culture, creating value sustainably and being agile and efficient.

Shaping our culture

Our people are our most valuable asset and are an engaged, capable, high-performing and diverse team. The way our people work together is a critical determinant of our success.

Creating value sustainably

We have a responsibility to be here to support a lifetime of hearing for the children, and adults, being implanted with our devices, which means we need to deliver sustainable financial growth. Sustainable business practices contribute to the creation of long-term value for all our stakeholders.

Being agile and efficient

We are investing in strengthening our business processes and IT platforms to improve efficiency and agility. Successfully executing this transformation program will enable us to scale more effectively and provide even better solutions for our customers.

For a detailed review of our strategy, please refer to the 2022 Annual Report at https://www.cochlear.com/au/en/corporate/investors.

FY22 value creation

Value creation describes the impact we have on all our key stakeholders – our customers, our people, our shareholders as well as society more broadly. For us, success will be defined by building a healthier and more productive society, having empowered customers, providing a lifetime of hearing solutions for our recipients and having thriving employees. Doing these things well should enable us to achieve sustainable financial returns over time.

In FY22 we continued to invest in research and development (R&D) and awareness and access activities with good progress made across the key value drivers.

A healthier & more productive society

We are focused on building a healthier and more productive society, delivering societal benefit through improved health outcomes, educational cost savings and productivity gains. We do this by transforming the way people understand and treat hearing loss through awareness and access activities.

Helping more people hear

In FY22, we helped over 40,000 people hear with one – or two – of our cochlear or acoustic implants, providing an estimated net societal benefit of more than $6 billion over the lifetime of the recipients from improved health outcomes, educational cost savings and productivity gains[1].

Over the past few years, we have been expanding our programs for driving growth of the adults and seniors segment through direct-to-consumer (DTC) marketing activities and building referrals from hearing aid and ENT (ear, nose and throat) clinics. We have expanded our DTC activities to over 20 countries and increased the sophistication of targeting and nurturing candidates from awareness through to surgery. As a result, we are attracting more high-quality candidates and seeing reductions in the time to surgery.

The Cochlear Provider Network and Sycle business in the US help educate hearing aid audiologists of the indications and benefits of cochlear implants and continues to provide a growing number of referrals. We are taking the learnings from the US and developing referral networks in other countries, with a focus on helping our partners in the hearing aid channel identify and refer potential patients.

Developing a treatment pathway for adults

An important long-term goal for us is to support the development of a consistent process by which all healthcare professionals diagnose, refer and treat adults eligible for cochlear implants. This goal is supported by the growing recognition that hearing is an essential part of healthy ageing and treating age-related hearing loss is cost-effective.

In 2021, the World Health Organization (WHO) provided guidance for establishing evidence-based programs for hearing screening[2] aimed at improving the identification and treatment of hearing loss in target age-groups, including adults.

And in 2022, the 'Living Guidelines' initiative was established, an international taskforce of over 50 leading cochlear implant professionals, academics and cochlear implant users tasked with delivering clinical guidelines to enable early identification and referral for cochlear implant candidates. The initiative aims to create guidelines that can be adapted and adopted in country to optimise the care for adults eligible for cochlear implants.

Broadening indications and reimbursement

Market access activities have been focused on expanding indications and reimbursement for our products. In January, Cochlear obtained FDA approval for the treatment of unilateral hearing loss and single-sided deafness (SSD) with a Cochlear™ Nucleus® implant in the US. This approval expands the addressable market with around 60,000 people in the US acquiring SSD every year.[3] We also achieved reimbursement for the Cochlear™ Osia® 2 System in a number of countries, including the US, Germany and UK.

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[1] Cochlear estimates based on the published economic model findings of Neve et al 2021. Dollar amount relates to all recipients implanted with a cochlear implant in FY22 across the developed markets.

[2] Hearing Screening: considerations for implementation. https://www.who.int/publications/i/item/9789240032767

[3] Weaver, J. "Single-Sided Deafness: Causes, and Solutions, Take Many Forms." Hearing Journal 68.3 (2015): 20-24. Web. 28 Apr. 2017. http://journals.lww.com/thehearingjournal/Fulltext/2015/03000/Single_Sided_Deafness___Causes,_and_Solutions,.1.aspx

In Australia, following advocacy from a coalition of cochlear implant recipients, surgeons, audiologists and service providers, the Australian Government introduced reimbursement for remote programming of auditory implants including cochlear and bone conduction implants under the Medical Benefits Schedule. This change will empower both implant recipients and clinicians by improving the availability of programming options that are not face to face and creating flexibility in how care can be accessed and provided.

Improving access to education

The emerging markets is an important segment, with a primary focus on children. While this segment has been growing rapidly, penetration rates remain very low. We know that if children with hearing loss do not receive support early in life, they often experience lower performance at school and ultimately this can impact economic outcomes over their lifetime.

We are focused on building awareness in these markets of the importance of addressing hearing health through public education campaigns, and on improving the rates of hearing screening for children.

In September, we announced a partnership[4] between Cochlear Foundation and Malala Fund with the joint aim of removing hearing loss as a barrier to education. We hope this partnership will raise awareness of the need for governments and societies to prioritise hearing health in children. In doing so, children with hearing loss will be empowered to connect with life's opportunities on a more even playing field.

Empowered customers

We aim to improve the wellbeing of our recipients by providing them with the latest sound processor technology as well as easy-to-use after-care to support a lifetime of hearing outcomes. And we invest in education and clinical support tools to ensure our professional customers have convenience and confidence in caring for implant candidates and recipients.

Providing convenience and confidence to customers

Continuing our history of meaningful innovations that make a difference in people's lives, we are the first company to offer app-based Remote Care solutions to both acoustic and cochlear implant recipients. This means that recipients can conveniently access care from their clinician without a clinic visit – from home, at work, or when travelling. Remote Care is available through two solutions, Cochlear™ Remote Check and Cochlear™ Remote Assist, which achieved FDA approval in October.

With **Cochlear™ Remote Check**, cochlear implant recipients can complete a hearing health check through the Nucleus® Smart App without visiting the clinic. Their clinician can then review the results at a convenient time to determine if they are performing as expected or need follow-up.

Cochlear™ Remote Assist enables live video appointments for both cochlear implant and Baha® Implant recipients. The clinician can assess how the recipient is progressing and discuss any issues they are experiencing. The clinician can also connect remotely to the recipient's sound processor to make adjustments or enable features in real-time.

COVID has accelerated use of smartphone technology by adults and seniors, including video calling. It has also changed the way recipients think about care delivery with most adults with hearing loss, when surveyed, saying they would use remote care if it was offered by their clinician.[5]

By offering app-based Remote Care solutions, we are meeting a recipient need and making care more convenient. We are also assisting our professional partners to increase clinic efficiency, providing greater flexibility and allowing clinicians to see more patients, including new candidates.

Growing connectivity and engagement with recipients

We invest to provide our recipients with a world-class customer experience with increased connectivity and engagement. Cochlear Family, the recipient membership program, provides us with the opportunity to connect directly with recipients to provide service and support.

[4] The relationship between Malala Fund and Cochlear Foundation is described as a "partnership" for convenience and does not constitute a legal partnership, joint venture, agency, employment or any other relationship by which either party may become liable for the acts or omissions of the other.

[5] Cochlear Limited. D1926565. PSB Insights LLC. Cochlear Telehealth Study - December 2020

Membership continues to grow rapidly, increasing by 20% over the last 12 months, to 260,000 members with a 60% join rate for new Cochlear™ Nucleus® implant recipients. An acceleration in recruitment in recent years has been driven by a combination of direct outreach programs and improvements in customer onboarding.

A lifetime of hearing solutions

We innovate to build a market-leading portfolio of products and services that supports a lifetime of hearing outcomes for recipients. We have achieved this through a multi-decade philosophy of investing to grow and an unwavering commitment to innovation. Our market-leading technology underpins our global market share of over 60%, and in FY22 we invested over $200 million in R&D, representing 13% of sales revenue.

Providing the latest technology to our existing customers

The **Cochlear™ Nucleus® 8 Sound Processor** achieved CE Mark approval in August 2022. Commercial availability commences in European countries over the coming months and is expected to be launched across other markets by the end of 2022, subject to the timing of regulatory approvals.

The **Cochlear™ Baha® 6 Max Sound Processor** was launched in the second half of FY21 with strong demand experienced for the new sound processor. The Baha 6 Max Sound Processor provides a fitting range of up to 55 dB sensorineural hearing loss in the same small size as current 45 dB devices, with longer battery life and direct streaming from both Android™ and Apple devices.

In late 2021 we launched the **Cochlear™ Nucleus® 7 S and Nucleus® 7 SE Sound Processors** across the emerging markets, providing many of the benefits of our latest technology platform to more people around the world.

Thriving people

Our people are our most valuable asset and are an engaged, capable and high-performing team that delivers on our strategy and supports the creation of sustained value. We have a diverse workforce with close to 4,500 people across the globe. Their knowledge, expertise, passion and focus on delivering excellence is key to achieving future success.

Shaping our culture

We have an inclusive organisation and a healthy corporate culture that is strongly connected to our mission and puts the customer at the centre of everything we do. As our workforce continues to expand, we work hard to intentionally shape the culture that will enable us to grow and deliver for our customers in the future. We are pleased to report that overall employee engagement continues to remain strong at 80%, with 91% of employees reporting that they feel proud to tell people they work at Cochlear and 94% understanding how they contribute to the satisfaction of our customers.

Broadening incentives to benefit more employees

Our total reward framework is an important part of building a strong and cohesive culture. In FY22, we introduced changes to our reward offering to achieve greater alignment and consistency of how we reward employees across the business. The key highlights include aligning employees to the global short term incentive plan, ensuring more of our employees have some form of performance-based reward, and introducing a new global employee share plan.

Gender equality

Achieving gender equality is one important element of our Diversity and Inclusion strategy. We strive for a gender balance of 40:40:20, which means that 40-60% of either gender is represented (40% women, 40% men, 20% open). By year end we achieved 41% female representation amongst our senior leaders, exceeding our 40% target 18 months ahead of expectations. And at Board level, the target of at least 30% female representation on the Board was achieved in FY21, with 33% female directors by year end.

Sustained value

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions.

Pathway to net-zero carbon emissions

We are committed to taking an active role in the global effort to tackle climate change, targeting net-zero emissions in our operations (Scope 1 and 2) by FY30 and across our value chain (Scope 1, 2 and 3) by FY50. Our carbon reduction strategy is aligned with the Science Based Target Initiative (SBTi) and is consistent with efforts to limit warming to 1.5 degrees above pre-industrial levels.

We have a relatively low level of carbon emissions as a business, with around 50% of total FY19 reported carbon emissions generated from Scope 3 – or indirect – emissions, with business flights our single biggest source of reported carbon emissions. For these Scope 3 emissions, we have a target of 50% reduction in business flight-related emissions by FY25. We are in the process of developing a complete Scope 3 inventory and will define our broader Scope 3 SBTi-aligned target by FY25.

Our targets reflect our strategy of transitioning to renewable energy as well as the broader global transition toward a net-zero economy. By the end of FY22, manufacturing at five of our six facilities had transitioned to 100% renewable energy, with the sixth transitioning in July 2022.

Underlying net profit increases 18% to $277 million

Underlying net profit increased 18% (10% in CC) to $277 million, within the guidance range of $265-285 million, and with an underlying net profit margin of 17%. Excluding the impact of cloud computing-related expenses, the underlying net profit margin was 18%, in line with our long-term target. Statutory net profit of $289 million benefited from $12 million in one-off gains, primarily relating to the revaluation of Epiminder.

Record sales revenue of $1,641 million, an increase of 10% (9% in CC), was driven by strong demand for acoustic implants and sound processor upgrades with all regions and product segments tracking above pre-COVID levels.

Gross margin increased from 73% to 75%, aligned to the 75% longer-term target.

Operating expenses increased by 15% (15% in CC), reflecting growing investment in R&D and market growth activities with a material increase in cloud computing-related investment. Excluding cloud investment, operating expenses increased 13%.

Strong financial position

The balance sheet remains strong, with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

Net cash increased $22 million to $587 million, driven by strong free cash flow generation, with operating cash flows increasing by $111 million to $377 million and free cash flow increasing $57 million to $238 million.

A final dividend of $1.45 per share has been determined, with full year dividends declared of $3.00 per share, an increase of 18% on last year and representing a payout of 71% of underlying net profit.

Investing to improve efficiency and agility

We are strengthening our business processes and IT platforms to improve efficiency and agility with an investment of $100-150 million in cloud-based technology solutions over four to five years. Successfully executing this transformation program will enable us to scale more effectively and provide even better solutions for our customers.

In April 2021, the International Financial Reporting Standards Interpretations Committee handed down an accounting interpretation on the treatment of cloud computing arrangements, which limits the ability to capitalise customisation and configuration costs related to cloud computing products. As a result, investment in cloud computing has been reclassified from capital expenditure to operating expenses, effective from FY21. This change has no impact on cash flow but reduces reported profits.

As the change in accounting treatment has coincided with the commencement of a major investment in cloud-based technology, we expect it to impact our ability to deliver our net margin target of 18% over the next few years.

For FY22, $22 million before tax ($15 million after tax) of cloud computing-related investment was recognised as an operating expense (previously would have been reported as capital expenditure). FY21 financials have been restated to reflect the change with operating expenses increasing by $4 million ($3 million after tax).

Proposed Oticon Medical acquisition

In April we agreed to acquire Oticon Medical for DKK850 million (approx. $170 million) following Demant's decision to exit its hearing implants business activities. As part of the transaction, we have committed to providing ongoing support for Oticon Medical's base of approximately 75,000 hearing implant recipients, which includes cochlear and acoustic implants.

Oticon Medical is expected to add $75-80 million to annual revenue. The business is currently loss making. Our priority post-closing of the transaction will be to determine and implement a plan that returns the business to profitability as quickly as possible. Integration costs, which include the development of compatible next generation sound processors, are yet to be determined and could range from $30-60 million.

Completion of the transaction is conditional upon satisfaction of customary closing conditions and receipt of competition approvals in jurisdictions where the transaction meets relevant notification thresholds.

FY23 outlook

As we look to the future, we remain confident of the opportunity to grow our markets. There remains a significant, unmet and addressable clinical need for cochlear and acoustic implants that is expected to continue to underpin the long-term sustainable growth of the business. Our clear growth opportunity and strategy, combined with a strong balance sheet, mean we are well placed to create value for our stakeholders now, and over the long term.

For FY23, we expect to deliver underlying net profit of $290-305 million, a 5-10% increase on FY22 underlying net profit, an increase of 8-13% when adjusted for the increase in cloud computing-related expenses. We expect to deliver strong growth in sales revenue and around 18% underlying net profit margin before cloud computing-related expenses.

FY23 net profit is expected to be weighted to the second half. We expect trading conditions to progressively improve across the year, with intermittent COVID-related hospital or region-specific elective surgery restrictions likely to continue. The release of the Cochlear™ Nucleus® 8 Sound Processor is expected to contribute from the second quarter as commercial availability commences in European countries. The new sound processor is expected to be launched across other markets by the end of December, subject to the timing of regulatory approvals. Launch costs are expected to be primarily incurred during the first half, with sales revenue weighted to the second half.

We will continue our investment in R&D and market growth activities to support long-term market growth.

Cloud computing-related investment is expected to lift in FY23 to around $36 million ($25 million after tax), a $14 million increase ($10 million after tax) on FY22.

Guidance is based on a 70 cent AUD/USD and 68 cent AUD/EUR.

Capital expenditure is expected to be around $80 million.

The Board maintains a dividend policy that targets a 70% payout of underlying net profit.

Guidance does not factor in earnings from the proposed acquisition of Oticon Medical, which is expected to complete by end CY22.

A more material disruption from COVID or hospital capacity restrictions that significantly impacts sales remains a risk factor that does not form part of guidance.

Financial review

Profit & loss

$m	FY22	FY21**	Change % (reported)	Change % (CC)
Sales revenue	**1,641.1**	**1,493.3**	**10%**	**9%**
Cost of sales	**411.0**	**410.2**	**0%**	**0%**
% Gross margin	*75%*	*73%*	*2 pts*	*2 pts*
Selling, marketing and general expenses	498.7	444.1	12%	12%
Research and development expenses	210.7	195.0	8%	9%
% of sales revenue	*13%*	*13%*	*0 pts*	*0 pts*
Administration expenses (excluding cloud investment)	137.4	112.2	22%	22%
Administration expenses (cloud investment)	21.6	3.9	454%	454%
Operating expenses	**868.4**	**755.2**	**15%**	**15%**
Other income / (expenses)	13.8	(5.9)		
FX contract gains / (losses)	7.2	4.3		
EBIT (underlying)*	**382.7**	**326.3**	**17%**	**11%**
*% EBIT margin**	*23%*	*22%*		
Net finance expense	6.2	8.4	(26%)	
Income tax expense*	99.5	83.9	19%	
% Effective tax rate	*26%*	*26%*		
Underlying net profit*	**277.0**	**234.0**	**18%**	**10%**
*% Underlying net profit margin**	*17%*	*16%*		
*% Underlying net profit margin (pre cloud investment)**	*18%*	*16%*		
One-off and non-recurring items (after-tax):				
Innovation fund gains	12.1	30.8		
Patent litigation-related tax & other	-	59.0		
Statutory net profit	**289.1**	**323.8**	**(11%)**	**(15%)**

* Excluding one-off and non-recurring items (refer p13). ** FY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

Sales revenue increased 10% (9% in CC) to $1,641.1 million and underlying net profit increased 18% (10% in CC) to $277.0 million, within the guidance range of $265-285m, and with an underlying net profit margin of 17%. Excluding the impact of cloud computing-related expenses, the underlying net profit margin was 18%, in line with our long-term target. Statutory net profit of $289.1 million includes $12.1 million in one-off gains after-tax.

Key points of note:

- Cost of sales of $411.0 million was in line with last year (in both reported and CC) with the gross margin increasing two percentage points to 75%, back in line with the longer-term target gross margin;
- Selling, marketing and general expenses increased 12% (12% in CC) to $498.7 million reflecting continued investment in market growth activities, standard of care and market access initiatives;
- Investment in R&D increased 8% (9% in CC) to $210.7 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased 22% (22% in CC) to $137.4 million driven primarily by increases in IT expenses, and also includes increases in insurance and costs associated with the Oticon Medical transaction; and
- Other income increased $19.7 million to $13.8 million primarily reflecting $15.8 million in balance sheet FX revaluation losses in FY21.

Cash flow

$m	FY22	FY21**	Change
EBIT (underlying)	382.7	326.3	56.4
Depreciation and amortisation	73.0	76.4	(3.4)
Changes in working capital and other	(46.9)	(10.1)	(36.8)
Cash impact of US$75m AMF payment (pre-tax)	-	(104.4)	104.4
Net interest paid	(6.2)	(8.4)	2.2
Income taxes paid	(26.1)	(14.4)	(11.7)
Operating cash flow	**376.5**	**265.4**	**111.1**
Capital expenditure	(77.2)	(66.7)	(10.5)
Other net investments	(61.7)	(18.4)	(43.3)
Free cash flow	**237.6**	**180.3**	**57.3**
(Outlay) / proceeds from issue of shares	(1.1)	2.4	(3.5)
Dividends paid	(194.0)	(75.6)	(118.4)
Other	(20.4)	0.5	(20.9)
Change in net cash – increase / (decrease)	**22.1**	**107.6**	**(85.5)**

** FY21 cash flow items have been restated to reflect the reclassification of cloud-related investment from capex to operating cash flows. Free cash flow remains unchanged.

Operating cash flow increased $111.1 million to $376.5 million.

Key points of note:

- Strong sales growth and improved gross margin resulted in a $56.4 million improvement in underlying EBIT;
- The $36.8 million increase in working capital and other primarily reflects an increase in inventories;
- Income taxes paid of $26.1 million includes the benefit of a $61.5 million tax refund resulting from an overpayment of tax instalments paid in FY21;
- Capital expenditure (capex) increased by $10.5 million to $77.2 million, reflecting stay-in-business capex;
- Other net investments of $61.7 million comprises additional investment in the innovation fund – Nyxoah, Precisis and Epiminder; and
- Dividends paid increased $118.4 million reflecting the return to full dividend payments following COVID-related suspension.

Capital employed

$m	Jun22	Jun21*	Change
Trade receivables	308.4	262.1	46.3
Inventories	270.2	216.1	54.1
Less: Trade payables	(232.4)	(202.9)	(29.5)
Working capital	**346.2**	**275.3**	**70.9**
Working capital / sales revenue	*21%*	*18%*	
Property, plant and equipment	260.2	239.5	20.7
Intangible assets	392.5	385.5	7.0
Investments & other financial assets	187.9	226.8	(38.9)
Other net liabilities	(87.8)	(2.1)	(85.7)
Capital employed	**1,099.0**	**1,125.0**	**(26.0)**
Funding sources:			
Equity	1,685.7	1,689.6	(3.9)
Less: Net cash	(586.7)	(564.6)	(22.1)
Capital employed	**1,099.0**	**1,125.0**	**(26.0)**

* Jun21 capital employed has been restated to reflect the impact of changes to recognition of cloud computing investments.

Capital employed declined by $26.0 million to $1,099.0 million since June 2021.

Key points of note:

- The increase in working capital was primarily driven by a $54.1 million increase in inventory, reflecting the building of safety stocks of both finished goods and some componentry in anticipation of potential global supply chain shortages;
- The $38.9 million decrease in investments & other financial assets includes cash investments in Precisis and Epiminder and net revaluation losses for publicly listed innovation fund investments Nyxoah and Sensorion;
- The $85.7 million reduction in other net liabilities primarily reflects the utilisation of tax losses from prior years; and
- Net cash increased $22.1 million to $586.7 million.

Dividends

	FY22	FY21	Change %
Interim ordinary dividend (per share)	$1.55	$1.15	35%
Final ordinary dividend (per share)	$1.45	$1.40	4%
Total ordinary dividends (per share)	**$3.00**	**$2.55**	**18%**
% Payout ratio (based on underlying net profit)	71%	72%	
% Franking (final dividend)	40%	0%	

A final dividend of $1.45 per share has been determined, taking full year dividends to $3.00, an increase of 18% and representing a payout of 71% of underlying net profit.

The interim dividend was unfranked, and the final dividend is 40% franked. The franking balance had been depleted by losses incurred in FY20.

The ex-dividend date is 22 September 2022. The record date for calculating dividend entitlements is 23 September 2022 with the final dividend expected to be paid on 17 October 2022.

Notes

Forward-looking statements

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 is not placed on any forward-looking statement.

Non-International Financial Reporting Standards (IFRS) financial measures

Cochlear uses non-IFRS financial measures to assist readers in better understanding Cochlear's financial performance. Cochlear uses three non-IFRS measures in this document: Sales revenue, Underlying net profit and Constant currency. The directors believe the presentation of these non-IFRS financial measures are useful for the users of this document as it reflects the underlying financial performance of the business. Each of these measures is described below in further detail including reasons why Cochlear believes these measures are of benefit to the reader.

These non-IFRS financial measures have not been subject to review or audit. However, Cochlear's external auditor has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

Sales revenue

Sales revenue is the primary revenue reporting measure used by Cochlear for the purpose of assessing revenue performance of the Consolidated Entity. It represents total revenue excluding foreign exchange contract gains/losses on hedged sales.

Underlying net profit

Underlying net profit allows for comparability of the underlying financial performance by removing one-off and non-recurring items. The determination of items that are considered one-off or non-recurring are made after consideration of their nature and materiality and is applied consistently from period to period. Underlying net profit is used as the basis on which the dividend payout policy is applied. The Financial Review section includes a reconciliation of Underlying net profit (non-IFRS) to Statutory net profit (IFRS) which details each item excluded from Underlying net profit.

Constant currency

Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Cochlear. This is done by converting the prior comparable period net profit of entities in the group that use currencies other than Australian dollars at the rates that were applicable to the current period (translation currency effect) and by adjusting for current year foreign currency gains and losses (foreign currency effect). The sum of the translation currency effect and foreign currency effect is the amount by which EBIT and net profit is adjusted to calculate the result at constant currency.

Reconciliation of constant currency net profit

$m	FY22	FY21**	Change %
Underlying net profit	**277.0**	**234.0**	**18%**
FX contract movement		2.9	
Spot exchange rate effect to sales revenue and expenses*		(1.5)	
Balance sheet revaluation*		15.9	
Underlying net profit (CC)	**277.0**	**251.3**	**10%**
One-off net gains	12.1	89.8	
Statutory net profit (CC)	**289.1**	**341.1**	**(15%)**

* FY22 actual v FY21 at FY22 rates. ** FY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

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