ASX Announcement
22 February 2022

Cochlear Limited Financial Results

For the half year ended December 2021

Sales revenue increased 12% in constant currency (CC)* to $815 million driven by strong demand for sound processor upgrades and new acoustic implant products. Cochlear implant revenue continued to experience variability in performance across countries with intermittent COVID-related restrictions reducing overall operating theatre capacity. Developed market volumes were ahead of pre-COVID levels despite a modest decline in the half, and our market share position remains strong.

- Sales revenue increased 10% (12% in CC) to $815m.
- Cochlear implant units increased 7% to 18,598.
- Statutory net profit of $169m includes $12m in innovation fund gains after-tax.
- Underlying net profit** increased 26% to $158m, driven by the combination of strong sales growth and improved gross margin, with some benefit from lower-than-expected operating expenses.
- The interim dividend increased 35% to $1.55 per share, representing a payout of 65% of underlying net profit. We expect the dividend payout to be around 70% for the full year, in line with our target payout.
- FY22 underlying net profit guidance range maintained at $265-285m, a 13-22% increase on underlying net profit for FY21***. Guidance now incorporates cloud computing expenses and anticipates continuing COVID impacts for the balance of the year. A more material disruption from COVID than experienced in the first half remains a risk factor that does not form part of guidance.

	HY22	HY21	Change % (reported)	Change % (CC)*
Cochlear implant units	18,598	17,377	⬆ 7%	
Sales revenue ($m)	815.3	742.8	⬆ 10%	⬆ 12%
Underlying net profit ($m)**	**157.5**	**124.8**	**⬆ 26%**	**⬆ 20%**
% underlying net profit margin**	19%	17%		
One-off and non-recurring items after-tax ($m)	11.8	110.9		
Statutory net profit ($m)	**169.3**	**235.7**	**⬇ 28%**	
Underlying earnings per share**	$2.40	$1.90	⬆ 26%	
Interim dividend per share	$1.55	$1.15	⬆ 35%	
% payout ratio**	65%	61%		

*Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance (refer p8). **Excluding one-off and non-recurring items (refer p8). Prior year net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex. ***Based on FY21 net profit (underlying) of $234.0m, which includes a $2.7m adjustment for cloud-related expenses.

Operational review

$m	HY22	HY21	Change % (reported)	Change % (CC)	Sales Mix
Cochlear implants (units)	18,598	17,377	⬆ 7%		
Sales revenue					
Cochlear implants	457.9	454.7	⬆ 1%	⬆ 2%	56%
Services (sound processor upgrades and other)	256.5	214.9	⬆ 19%	⬆ 21%	32%
Acoustics	100.9	73.2	⬆ 38%	⬆ 40%	12%
Total sales revenue	**815.3**	**742.8**	⬆ 10%	⬆ 12%	**100%**

Cochlear implants

Cochlear implant units increased 7% to 18,598 units, with a decline in developed markets and strong growth in emerging markets. Sales revenue increased 2% in CC to $457.9 million, with a mix shift to the emerging markets.

For **developed markets**, unit volumes declined by 2%. Volumes overall are tracking ahead of pre-COVID levels with continuing variability in performance across countries in response to COVID.

The volume declines were most notable in the US. In HY21 the US achieved record volumes as hospitals recovered quickly from the initial COVID shutdowns, operating at full capacity for implant surgeries. By contrast, HY22 was characterised by many operating theatres running below capacity throughout the half, initially due to the impact of Delta variant hospitalisations, with hospital staffing shortages and the response to the Omicron variant impacting the second quarter. While market growth was constrained, volumes in the US continue to be well ahead of pre-COVID levels. Our strong market share position was retained over the half supported by our market-leading product portfolio and growing suite of service offerings.

Western Europe experienced a solid recovery across the half following a COVID-affected HY21. The rate of recovery however continues to vary by country with intermittent COVID-related restrictions reducing overall operating theatre capacity. Surgery rates are recovering well in the UK, although volumes are still below pre-COVID levels, with Continental Europe volumes exceeding pre-COVID levels for the half. In the Asia Pacific region, Australian volumes were impacted by COVID-driven elective surgery deferrals.

For the **emerging markets**, unit volumes overall increased around 30% with a strong recovery from COVID-related surgery deferrals experienced across most countries. Surgeries in a few countries, including China, are trading above pre-COVID levels. India and Brazil are recovering well although volumes are still materially below pre-COVID levels.

Services

Services revenue increased 21% in CC to $256.5 million, supported by the growing recipient base. Sound processor upgrade revenue experienced a strong lift in demand following the restricted access to clinics during COVID lockdowns. In many cases, clinics allocated greater resources to Services where access to surgeries was limited by COVID.

Acoustics

Acoustics revenue increased by 40% in CC to a record $100.9 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 the half. Demand for the Osia 2 System continues to be strong in the US. The Cochlear™ Baha® 6 Max Sound Processor was launched in the fourth quarter of FY21 and is driving strong demand for sound processor upgrades across all regions.

Cochlear®
Hear now. And always

Progress against strategic priorities

Retain market leadership

Grow the hearing implant market

Deliver consistent revenue and earnings growth

Retain market leadership

The investment in R&D aims to strengthen our leadership position through the development of market-leading technology with many new products and services achieving regulatory approval over the past few years across all parts of the portfolio. For HY22, we invested $99 million in R&D, representing 12% of sales revenue.

Cochlear™ Remote Assist solution: in October we achieved FDA approval for Remote Assist for the Nucleus® and Baha® Systems. Remote Assist allows for remote programming, processor setting adjustments and counselling via a live video session. It forms part of Cochlear's investment in Connected Care technology, enabling consistent, convenient and personalised care across care settings to optimise patient outcomes. Remote Assist will be launched in the US during the second half.

Grow the hearing implant market

Cochlear is focused on driving long-term market growth by transforming the way people understand and treat moderately severe to profound hearing loss through awareness and access activities. During the half we continued to invest in expanding our programs for driving growth of the adults and seniors segment through direct-to-consumer marketing activities and building referrals from hearing aid and ENT (ear, nose and throat) clinics.

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 body of evidence that good hearing is an essential part of healthy ageing and of the cost-effectiveness of treating age-related hearing loss.

Building on the World Health Organization's (WHO) first World Report on Hearing, the WHO has now provided guidance for establishing evidence-based programs for hearing screening in different target age-groups, including adults, to facilitate early interventions for ear diseases and hearing loss.[1] This guidance, alongside the International Consensus Paper that provided a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant, is aimed at improving the identification and treatment of adult hearing loss.

Over the coming years an international taskforce of leading cochlear implant professionals, academics and cochlear implant users, will deliver clinical guidelines to enable early identification and referral for patients. These guidelines are expected to raise awareness of treatment pathways for both candidates and hearing professionals.

Single-sided deafness indication in the US: 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.[2]

Deliver consistent revenue and 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 while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions.

Underlying net profit increases 26% to $158 million

For HY22, underlying net profit increased 26% to $158 million, driven by the combination of strong sales growth and improved gross margin, with some benefit from lower-than-expected operating expenses. As a result, the underlying net profit margin of 19% was ahead of our 18% longer-term target. The strong recovery in trading delivered record

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

[2] 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

interim sales revenue of $815 million, an increase of 12% in CC, driven by strong demand for sound processor upgrades and new acoustic implant products.

Gross margin increased from 72% to 75% and is back in line with the longer-term target. Operating expenses increased by 13%, 14% in CC, from COVID-affected lows, with continued investment made in R&D, market growth activities, standard of care and market access initiatives. Spending in some areas, including on travel and conferences, continues to be well below pre-COVID levels.

Statutory net profit of $169 million benefits from $12 million in one-off gains

Over the past few years, the innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage our intellectual property. The innovation fund includes investments in Saluda, Nyxoah, EpiMinder, Precisis and Seer Medical. The $12 million after-tax gain primarily reflects the increase in value of our EpiMinder shareholding following a financing round which saw Cochlear invest a further $8 million.

Strong financial position

The balance sheet remains strong with net cash of $506 million and operating cash flows sufficient to fund investing activities and capital expenditure.

An interim dividend of $1.55 per share has been determined, an increase of 35% on last year and representing a payout of 65% of underlying net profit. The dividend is unfranked with the franking balance depleted as a result of the losses incurred by the business in FY20.

Impact to profit & loss from change in recognition of cloud computing investment

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 (capex) to operating expenses (opex), effective from FY21. It is important to note that there is no impact to free cash flow from this change.

For HY22, $5.2 million before tax ($3.6 million after tax) of cloud computing-related investment was recognised as opex (previously reported as capex). HY21 financials have been restated to reflect the change with opex increasing by $0.7 million ($0.5 million after tax).

For FY22, we expect around $18-20 million before tax (around $13 million after tax) of cloud computing-related investment to be re-classified from capex to opex. FY21 financials will be restated to reflect the change with opex increasing $3.9 million ($2.7 million after tax).

The lift in the FY22 expense reflects the commencement of a major process transformation and IT systems upgrade, with $100-150 million before tax to be invested over the next four to five years.

FY22 outlook

For FY22, the underlying net profit guidance range has been maintained at $265-285 million, a 13-22% increase on underlying net profit for FY21[3]. Guidance now incorporates cloud computing expenses and anticipates continuing COVID impacts for the balance of the year.

Second half trading to date is tracking in line with the first half, with continuing intermittent COVID-related hospital or region-specific elective surgery restrictions. Operating theatre capacity is also being affected by hospital staffing shortages, an issue that emerged during the second quarter, and which may impact capacity for the balance of the half. As a result, we expect a lower rate of growth for Cochlear implants for the year than originally forecast with growth weighted to Services and Acoustics.

Operating expenses are expected to be weighted to the second half. We will continue our investment in R&D and market growth activities to support long-term market growth, with some acceleration in growth investment and increases in travel-related costs as global mobility increases. In addition, guidance now factors in $18-20 million of cloud investment (pre tax) as a result of the change in accounting treatment from capex to opex. Capex expectations have reduced to factor in this change, declining to around $70 million for FY22. As a result, we expect the net profit margin (inclusive of cloud costs) to remain a little below our longer-term target of 18% for FY22 and FY23.

A more material disruption from COVID that significantly impacts sales remains a risk factor that does not form part of guidance. Despite the ongoing disruption to surgeries caused by COVID, we continue to be confident of the resilience of our hearing implant business over the longer term.

---

[3] Based on FY21 net profit (underlying) of $234.0m, which includes a $2.7m adjustment for cloud-related expenses.

Financial review

Profit & loss

$m	HY22	HY21**	Change % (reported)	Change % (CC)
Sales revenue	**815.3**	**742.8**	**10%**	**12%**
Cost of sales	**207.7**	**209.2**	**(1%)**	**0%**
% gross margin	*75%*	*72%*	*3 pts*	*3 pts*
Selling, marketing and general expenses	231.6	209.8	10%	12%
Research and development expenses	98.6	88.4	12%	12%
% of sales revenue	*12%*	*12%*	*0 pts*	*0 pts*
Administration expenses (excluding cloud investment)	65.1	54.2	20%	18%
Administration expenses (cloud investment)	5.2	0.7	643%	643%
Operating expenses	**400.5**	**353.1**	**13%**	**14%**
Other income / (expenses)	5.1	(6.0)		
FX contract gains / (losses)	5.4	0.4		
EBIT (underlying)*	**217.6**	**174.9**	**24%**	**20%**
*% EBIT margin**	*27%*	*24%*		
Net finance expense	3.5	4.5	(22%)	
Income tax expense*	56.6	45.6	24%	
% effective tax rate	*26%*	*27%*		
Underlying net profit*	**157.5**	**124.8**	**26%**	**20%**
*% underlying net profit margin**	*19%*	*17%*		
One-off and non-recurring items (after-tax):				
Innovation fund gains	11.8	34.7		
Patent litigation-related tax & other	-	59.0		
COVID government assistance	-	17.2		
Statutory net profit	**169.3**	**235.7**	**(28%)**	**(30%)**

* Excluding one-off and non-recurring items (refer p8). ** HY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

Sales revenue increased 10% (12% in CC) to $815.3 million and underlying net profit increased 26% to $157.5 million. The underlying net profit margin of 19% was above the longer-term target of 18%. Statutory net profit of $169.3 million includes $11.8 million in innovation fund gains after-tax.

Key points of note:

- Cost of sales declined 1% (0% in CC) to $207.7 million with the gross margin increasing three percentage points to 75%, back in line with the longer-term target gross margin;
- Selling, marketing and general expenses increased 10% (up 12% in CC) to $231.6 million reflecting continued investment in market growth activities, standard of care and market access initiatives. Spending in some areas, including on travel and conferences, continues to be well-below pre-COVID levels;
- Investment in R&D increased 12% (12% in CC) to $98.6 million with continued investment made in key R&D projects and development of the product and services pipeline;
- Administration expenses (excluding cloud investment) increased 20% (18% in CC) to $65.1 million and includes increases in IT expenses and higher insurance costs;
- Net finance expenses declined 22% to $3.5 million and includes $3.3 million in lease expenses; and
- The effective tax rate for underlying net profit was 26% and includes a benefit from recent changes to the R&D tax concession.

Cash flow

$m	HY22	HY21**	Change
EBIT (underlying)	217.6	174.9	42.7
Depreciation and amortisation	35.8	35.8	-
Changes in working capital and other	(79.0)	3.3	(82.3)
Cash impact of US$75m AMF payment (pre-tax)	-	(104.4)	104.4
Cash impact of COVID government assistance (pre-tax)	-	24.6	(24.6)
Net interest paid	(3.5)	(4.5)	1.0
Income taxes paid	(45.9)	(42.9)	(3.0)
Operating cash flow	**125.0**	**86.8**	**38.2**
Capital expenditure	(38.1)	(34.6)	(3.5)
Other net investments	(42.3)	(15.6)	(26.7)
Free cash flow	**44.6**	**36.6**	**8.0**
(Outlay) / proceeds from issue of shares	(1.2)	2.0	(3.2)
Dividends paid	(92.1)	-	(92.1)
Other	(10.3)	6.3	(16.6)
Change in net cash – increase / (decrease)	**(59.0)**	**44.9**	**(103.9)**

** HY21 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 $38.2 million to $125.0 million.

Key points of note:

- Strong sales growth and improved gross margin resulted in a $42.7 million improvement in underlying EBIT;
- The $82.3 million increase in working capital and other reflects a $77.7 million increase in working capital to fund business growth (details in capital employed section);
- Capital expenditure (capex) increased by $3.5 million to $38.1 million, reflecting stay-in-business capex; and
- Other net investments of $42.3 million comprises additional investment in innovation fund investments – Nyxoah and Precisis.

Net cash

$m	Dec21	Jun21	Change
Cash, cash equivalents and term deposits	**553.1**	**609.6**	**(56.5)**
Less: Loans and borrowings			
Current	(2.4)	-	(2.4)
Non-current	(45.1)	(45.0)	(0.1)
Total loans and borrowings	**(47.5)**	**(45.0)**	**(2.5)**
Net cash	**505.6**	**564.6**	**(59.0)**

Net cash decreased by $59.0 million to $505.6 million.

Capital employed

$m	Dec21	Jun21**	Change
Trade receivables	284.8	262.1	22.7
Inventories	238.0	216.1	21.9
Less: Trade payables	(169.8)	(202.9)	33.1
Working capital	**353.0**	**275.3**	**77.7**
*Working capital / sales revenue**	*22%*	*18%*	
Property, plant and equipment	248.0	239.5	8.5
Intangible assets	388.3	385.5	2.8
Investments & other financial assets	239.9	226.8	13.1
Other net liabilities	(5.0)	(2.1)	(2.9)
Capital employed	**1,224.2**	**1,125.0**	**99.2**

* Dec21 calculation based on doubling HY22 sales revenue. ** Jun21 capital employed has been restated to reflect the impact of changes to recognition of cloud computing investments.

Capital employed increased by $99.2 million to $1,224.2 million since June 2021 primarily reflecting the increase in working capital.

Key points of note:

- The $77.7 million increase in working capital comprises a $22.7 million increase in trade receivables resulting from increased sales revenue; a $21.9 million increase in inventory reflecting the building of safety stocks of both finished goods and some componentry; and a $33.1 million reduction in trade payables due primarily to timing of payments; and
- The $13.1 million increase in investments & other financial assets includes cash investments and net revaluation losses for innovation fund investments including Nyxoah, Precisis and EpiMinder.

Dividends

	HY22	HY21	Change %
Interim ordinary dividend (per share)	$1.55	$1.15	35%
% payout ratio (based on underlying net profit)	65%	61%	
% franking	0%	0%	

An interim dividend of $1.55 per share has been determined, an increase of 35% and representing a payout of 65% of underlying net profit. The interim dividend is unfranked. The franking balance was depleted due to losses incurred by the business in FY20.

The ex-dividend date is 28 March 2022. The record date for calculating dividend entitlements is 29 March 2022 with the interim dividend expected to be paid on 21 April 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	HY22	HY21**	Change %
Underlying net profit	**157.5**	**124.8**	**26%**
FX contract movement		5.0	
Spot exchange rate effect to sales revenue and expenses*		(7.4)	
Balance sheet revaluation*		8.8	
Underlying net profit (CC)	**157.5**	**131.2**	**20%**
One-off net gains	11.8	110.9	
Statutory net profit (CC)	**169.3**	**242.1**	**(30%)**

* HY22 actual v HY21 at HY22 rates. ** HY21 net profit has been restated to reflect the reclassification of cloud-related investment from capex to opex.

For further information, please contact:

Analysts

Kristina Devon
Vice President Investor Relations
Email: kdevon@cochlear.com
Ph: + 61 2 9611 6691

Media

Jennifer Stevenson
Vice President Corporate Communications
Email: jstevenson@cochlear.com
Ph: +61 2 9611 6959

Authorised for lodgement by the Board of directors of Cochlear Limited