



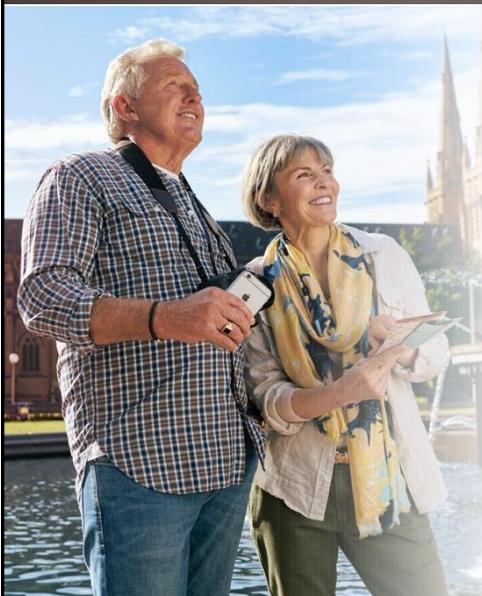
## Cochlear Limited

### Corporate overview – August 2018

*Hear now. And always*



## Our mission



We help people hear and be heard.

We **empower** people to connect with others and live a full life.

We **transform** the way people understand and treat hearing loss.

We **innovate** and bring to market a range of implantable hearing solutions that deliver a lifetime of hearing outcomes.

## Overview



- Cochlear Limited (ASX:COH) is the global leader in implantable hearing solutions with >550,000 devices sold spanning:
  - Cochlear implants
  - Bone conduction implants
  - Acoustic implants
- Sales revenue > \$1.3bn
- R&D investment > \$160m pa
- Products sold in 100+ countries
- 3,500+ employees
- Top 50 ASX listed company with a market cap >A\$10bn



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## Global footprint



**550,000+** implants sold  
**A\$160m+** in annual R&D investments  
**A\$1.3b+** in annual sales revenue  
**3,500+** employees around the world  
**100+** countries with direct operations  
**100+** collaborative research programs worldwide  
**5** key manufacturing sites

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## Financial history



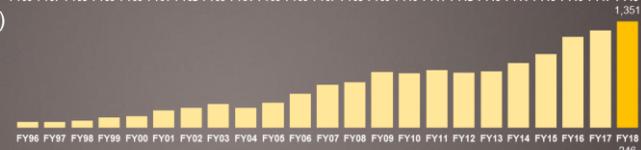
### Cochlear implants (units)

↑8%  
in FY18



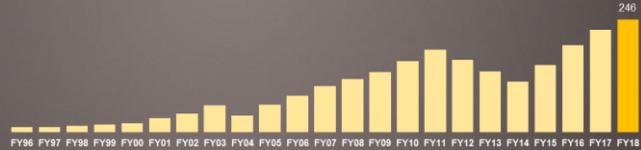
### Sales revenue (\$m)

↑9% in  
FY18



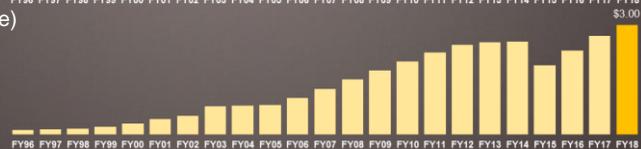
### Net profit\* (\$m)

↑10%  
in FY18



### Dividends (per share)

↑11%  
in FY18



\* FY12 excludes product recall costs of \$101 million after tax and FY14 excludes patent dispute provision of \$16 million after tax.

## Cochlear's investment proposition



- ✓ **Global leader** in implantable hearing devices with more than 550,000 implants sold, supporting the majority of the global base of hearing implant recipients
- ✓ **Long-term market growth opportunity** with a significant, unmet and addressable clinical need for implantable hearing solutions and less than 5% market penetration
- ✓ Unrivalled **commitment to product innovation**, bringing innovative new products to market as well as upgrades for all generations of Cochlear's recipient base
- ✓ **Growing annuity income stream** from servicing of the expanding recipient base
- ✓ **Strong free cash flow generation** provides funding for market growth activities and R&D as well as the ability to reward shareholders with a growing dividend stream



# Hearing loss is prevalent and under-treated



**>460 million**

people globally with a disabling hearing loss<sup>1</sup>



**1 in 3**

people over the age of 65 affected by disabling hearing loss<sup>2</sup>



**>15,000,000**

people could benefit from a cochlear or bone conduction implant<sup>3</sup>



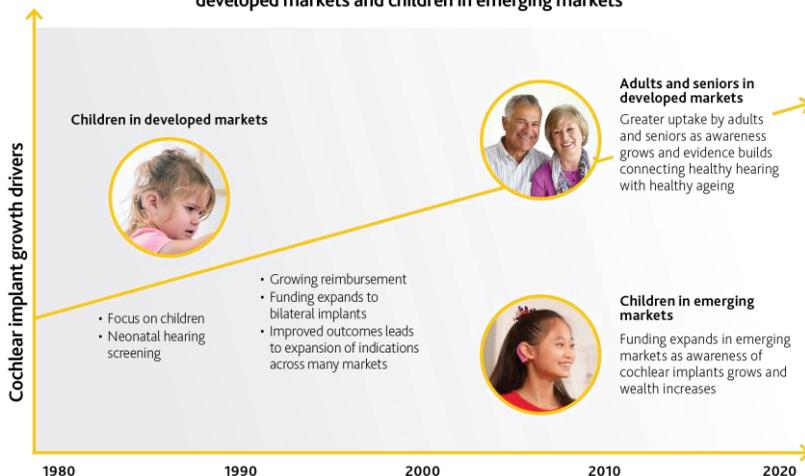
**<5%**

market penetration of implantable hearing solutions<sup>4</sup>

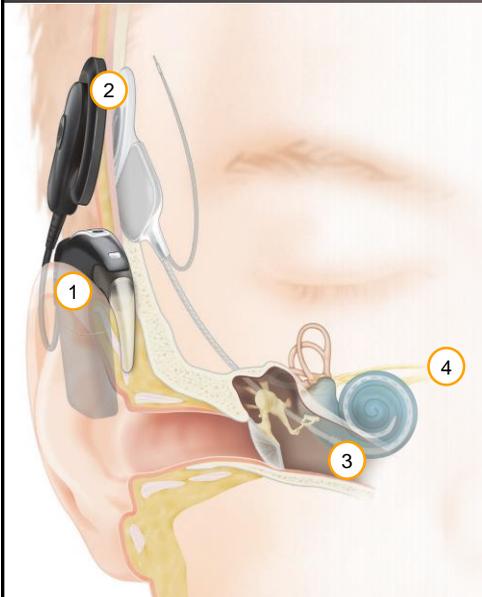
# Growing demand for cochlear implants



Growth has expanded to adults and seniors in developed markets and children in emerging markets



## How a cochlear implant works



Unlike hearing aids, cochlear implants do not amplify sound. Instead, they channel sound to bypass the damaged parts of the cochlea and directly stimulate the auditory nerve. The implant generates signals that it sends to the auditory nerve, which then passes it onto the brain where they are recognised as sounds.

There are two parts to a cochlear implant system – the internal component which is surgically implanted and the external sound processor.

1. Microphones on the sound processor pick up sounds and the processor converts them into digital information
2. This information is transferred through the coil to the implant just under the skin
3. The implant sends electrical signals down the electrode into the cochlea
4. The hearing nerve fibres in the cochlea pick up the signals and send them to the brain, giving the sensation of sound

## Cochlear's implantable hearing solutions



### Cochlear implants (88% of revenue)



Cochlear™ Nucleus® Profile with Slim Modiolar Electrode (CIS32)



Cochlear™ Nucleus® Kanso® Sound Processor (CP950)



Cochlear™ Nucleus® 7 Sound Processor (CP1000)



Cochlear™ Nucleus® Smart App

### Acoustic implants (12% of revenue)

#### Bone conduction implants



Cochlear™ Baha® 5, Baha 5 Power and Baha 5 SuperPower



Cochlear™ Baha® SoundArc

#### Acoustic implants



Cochlear™ Baha® Smart App



Cochlear™ Carina® System

## Strategic priorities



### Retain market leadership

Market-leading technology | World-class customer experience



### Grow the hearing implant market

Awareness | Market access | Clinical evidence



### Deliver consistent revenue and earnings growth

Invest to grow | Operational improvement | Strong financial position

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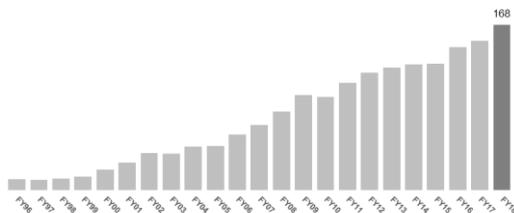
## Retain market leadership



### R&D investment strengthens our market-leading technology position

- Continued R&D investment at ~12% of revenue
- Product and service R&D spans:
  - Implants & sound processors
  - Sound coding
  - Clinical & surgical tools
- Future focus:
  - Hearing indications
  - Hearing outcomes
  - Lifestyle
  - Connected care

>\$1.7bn investment in R&D since listing



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## Retain market leadership



Providing a **world-class customer experience** empowers people to connect with others and live a full life and creates a brand halo for candidates

### Convenience and confidence

- Wireless connectivity
- Easy to use products and services
- Ease of access for support
- Rehabilitation tools



### Engagement

- Cochlear Family connecting recipients with Cochlear
- Growing volunteer network building awareness and increasing candidate confidence
- Recipient engagement improves upgrade penetration



### Market-leading products and services

- Improving technology with each generation of sound processor
- Backward compatibility of sound processors with prior generation implants



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## Grow the hearing implant market



Strategies to improve awareness and access vary by segment

### Adults and seniors developed markets



Biggest market potential and the most challenging to penetrate

Current penetration<sup>5</sup>: ~3%

### Children developed markets



Cochlear implants have been established as the standard of care for newborns<sup>5</sup> across many developed markets

Current penetration<sup>5</sup>: ~60%

### Children emerging markets



Long term growth potential as wealth increases

Current penetration<sup>5</sup>: ~10%

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## Adults and seniors – developed markets



**Biggest market potential and the most challenging to penetrate**



Current penetration  
**~3%**

### **Key priorities: building awareness and access for adults and seniors**

- Support cochlear implants becoming the standard of care for adults and seniors with severe to profound hearing loss by demonstrating
  - Hearing is an essential part of healthy ageing
  - Effectiveness of implantable solutions relative to hearing aids
  - Treating age related hearing loss creates economic value
- Increase referrals via direct-to-consumer marketing activities and through the hearing aid channel
- Expand indications and reimbursement in some markets

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## Children – developed markets



**Cochlear implants have been established as the standard of care for newborns across many developed markets**



Current penetration  
**~60%**

### **Key priorities: maintaining leadership position**

- Deeper penetration in some markets – US and Japan
- Increased rate of bilateral implantation – variability across Top 10 markets
- Strengthen the treatment pathway for acquired or progressive hearing loss in older children – intervention is materially lower for children who lose hearing after birth

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## Children – emerging markets



Long term growth potential as wealth increases



Current penetration  
**~10%**

### Key priorities: market expansion

- Building awareness – public education campaigns, direct-to-consumer marketing and hearing screening
- Expanding funding – driven by the compelling health economics of implantation in children
- Expanding our presence – distributor relationships combined with an expanding direct presence
- Developing professional capability – surgeon training and audiology education
- Maximising penetration through a tiered product offering

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## Clinical evidence



Build on the **clinical evidence** that demonstrates the effectiveness of our products, particularly for seniors

- Growing understanding of the link between healthy hearing and healthy ageing
- Growing evidence of the superior outcomes of cochlear implants over hearing aids for many people with a severe hearing loss (>70dB)<sup>7</sup>
- Increasing our investment in research, health economics and collaborative partnerships to better confirm and communicate the impacts
- Building stronger awareness and access for those affected

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## Clinical evidence



### Growing understanding of the link between healthy hearing and healthy ageing

#### Cognitive decline

Hearing loss associated with accelerated cognitive decline and dementia in older adults<sup>9</sup>



#### Social isolation

Hearing loss linked to withdrawal from social interactions, which can have a significant impact on psychological well-being and physical health<sup>13-14</sup>



#### Depression

Significant association between hearing impairment and moderate to severe depression<sup>10-12</sup>



#### Ability to work

Hearing loss can affect the ability to work or stay in the workforce<sup>15-17</sup>



#### Falls

Higher risk of dizziness causing falling<sup>11</sup>



#### Loss of independence

Seniors with hearing loss less likely to be able to self-care<sup>12</sup>



## Deliver consistent revenue and earnings growth



### Revenue growth drivers...

#### Cochlear implants

- DTC and sales force expansion driving awareness and uptake by adults and seniors
- New products driving market growth and market share
- Emerging market expansion

#### Services

- Growing recipient base
- Greater connectivity and engagement with recipients
- Nucleus<sup>®</sup> 7 Sound Processor and Nucleus Kanso<sup>®</sup> Sound Processor upgrades

#### Acoustics

- Baha<sup>®</sup> 5, Power and SuperPower Sound Processor and Baha SoundArc launches
- Market expansion

Sales revenue  
\$ million





## Deliver consistent revenue and earnings growth



Cochlear is investing operating cash flows to drive growth

### Invest to grow

- Building awareness and access to our products requires multi-year investment in sales, marketing and R&D activities
- Through disciplined investment, we will aim to maintain the net profit margin

### Operational improvement

- Optimising cost of production strengthens our competitive position
- Using scale to generate efficiency gains to reinvest in market growth activities

### Strong financial position

- Strong cash flow generation funds growth
- We aim to maintain the strong balance sheet position and continue to target a dividend payout of around 70% of net profit

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## FY19 outlook



**FY19 net profit guidance of \$265-275m, up 8-12% on FY18**

### Key guidance considerations:

- Developed market growth expected to continue
- Emerging market growth rates over time continue to be strong, however, annual growth rates can be variable
- Continued investment to retain market leadership and drive long-term market growth with the target of maintaining the net profit margin
- Forecasting a weighted average AUD/USD exchange rate of 75 cents for FY19 (77 cents in FY18) and AUD/EUR of 0.63 EUR (0.65 EUR in FY18)

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### 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 not be placed on any forward looking statement.

### Non-IFRS financial measures

Given the significance of exchange rate movements, the directors believe the presentation of the non-IFRS financial measure, constant currency, is useful for the users of this document as it reflects the underlying financial performance of the business. This non-IFRS financial measure has not been subject to review or audit. However, KPMG has separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the group.

### 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 reported EBIT and net profit is adjusted to calculate the result at constant currency.

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5. Year 2007 position statement: Principles and guidelines for early hearing detection and intervention programs. Pediatrics 2007;120:898-921; World Health Organization. Newborn and infant hearing screening: current issues and guiding principles for action 2009. Available from: [http://www.who.int/blindness/publications/Newborn\\_and\\_Infant\\_Hearing\\_Screening\\_Report.pdf](http://www.who.int/blindness/publications/Newborn_and_Infant_Hearing_Screening_Report.pdf)
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