HY20 Result Presentation

18 February 2020

Dig Howitt CEO & President

Brent Cubis CFO

Hear now. And always

Cochlear®

HY20 highlights

HY20 result

Strong growth in cochlear implants with units up 13%

- Market share gains from the launch of the Nucleus Profile™ Plus Series cochlear implant
- Emerging markets benefitting from investment in capability over many years

Services revenue up 5% in CC

- Penetration rates reaching high levels with strong revenue growth in HY19 (up 21% in CC)

Acoustics decline ahead of Osia launch

- Loss of market share combined with market slow down in anticipation of the launch of the Cochlear™ Osia® 2 System

Investing to grow on track

- Growing investment in R&D to advance the long-term technology development pipeline
- Expansion of direct-to-consumer marketing and hearing aid channel referral programs
- Investment in activities to support cochlear implants becoming the standard of care for adults and seniors

Strong financial position

- Underlying net profit in line with HY19, with operating profit growth offset by foreign currency contract losses
- Cash flow generation sufficient to fund market growth activities, increased capex and increased dividends whilst maintaining conservative gearing levels

* constant currency (CC)

Strong growth in cochlear implants with units up 13%

Cochlear implants

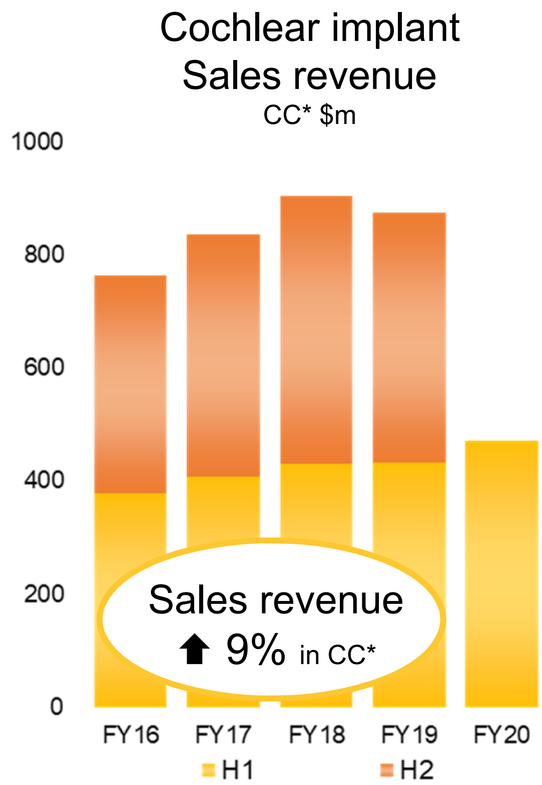
60% of sales revenue

Developed market units ⬆ 7%

- US up >10% driven by market share gains and market growth
- Western Europe up 5% with growth weighted to Q2 as availability expanded across the half
- Western Europe market growth continues to be challenging with many countries limited by funding caps or restrictive indications, with some recent wins – UK (Mar19) and Belgium (Aug19)
- Japan momentum continues following the expansion of indications in Oct17

Emerging market units ⬆ >20%

- Strong growth across the Middle East and China
- Benefits from investment in expanded presence



* constant currency (CC)

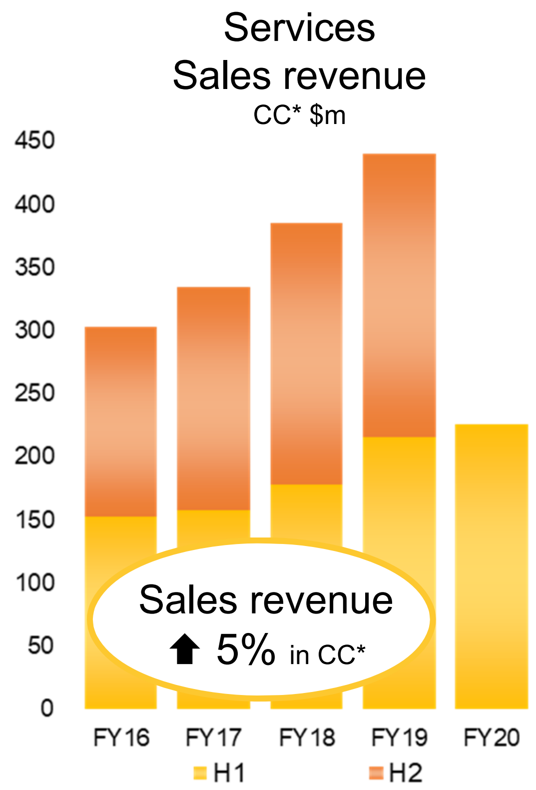
Services revenue up 5% in CC

Services

29% of sales revenue

Sales revenue ⬆ 5% in CC*

- Penetration rates high for Nucleus® 7 Sound Processor at this point in the upgrade cycle
- Strong revenue growth in HY19 (up 21% in CC)
- Continued focus on recipient engagement with Cochlear Family membership up >30% over the past 12 months to exceed 160,000 members



* constant currency (CC)

Acoustics decline ahead of Osia launch

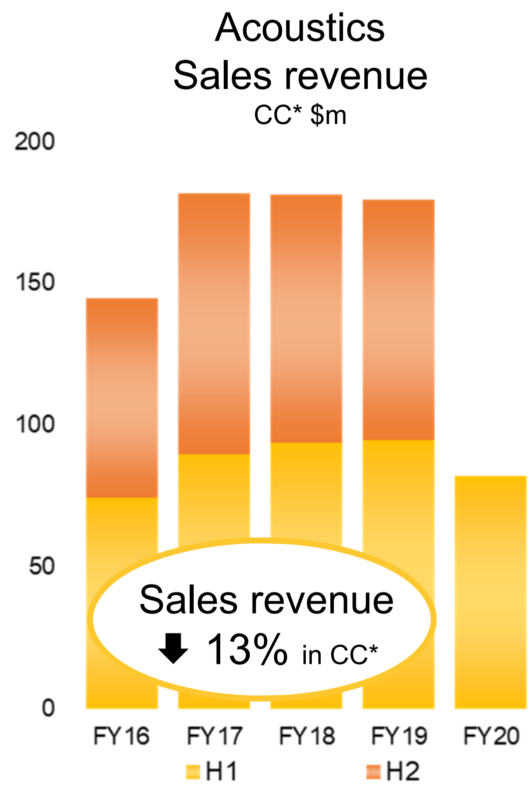
Cochlear

Acoustics

11% of sales revenue

Sales revenue ⬇ 13% in CC*

- Some share loss from competitor product launch as well as market slow down in anticipation of the launch of the Osia 2 System which received FDA clearance in November
- OSIA is the next generation of bone conduction implant with excellent results from pre-market studies and significant aesthetic appeal which was flagged at conferences ahead of FDA approval
- CE mark to take longer than expected – to be assessed under the new EU MDR



* constant currency (CC)

Cochlear™ Osia® 2 System
A hearing implant reimagined

Cochlear®

High power, high gain & advanced signal processing.
For hearing performance in noise & quiet

Slim, connected & off-the-ear.
To help patients hear without getting in their way

Designed to implant. Made to last.
For minimally invasive surgery and reliability over time

Cochlear's market leading portfolio of electrodes

Cochlear®

Slim Modiolar Electrode

Slim Modiolar (CI632)

Slim Modiolar Electrode: An electrode designed to fit the natural shape of the inner ear

- World's thinnest and most advanced true perimodiolar electrode
- Reliable placement preserving cochlea structures
- Precise and effective stimulation of the auditory nerve
- Delivering optimal hearing outcomes
- Designed for the majority of CI candidates

Slim Straight Electrodes: World's thinnest and most advanced lateral wall electrodes

- Simplicity and ease of surgical use
- Soft, flexible to minimise trauma to preserve structure
- Introducing the Cochlear™ Nucleus® Profile™ Plus with Slim 20 Electrode (CI624), built on the proven Slim Straight platform, designed for surgeons preferring insertion depth to 20mm

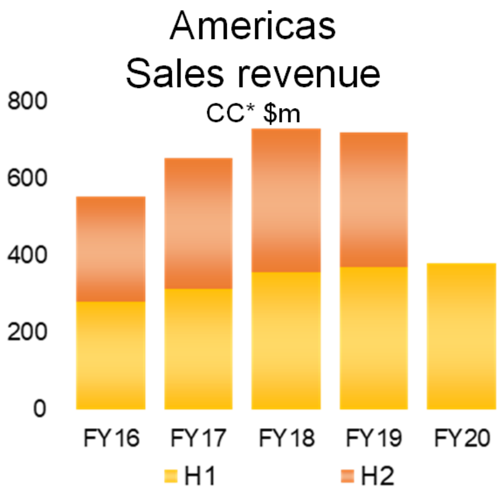
Slim Straight Electrodes

Slim Straight Electrode (CI622)

Slim 20 Electrode (CI624)

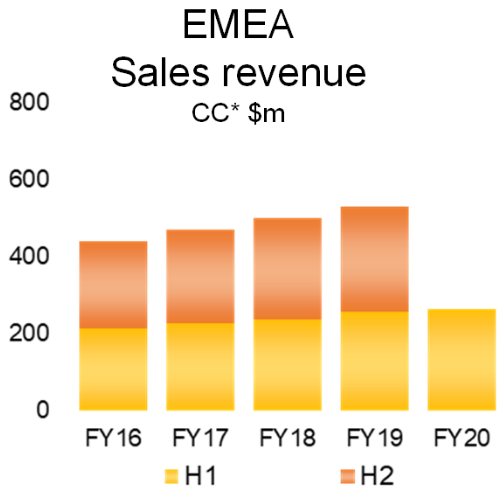
Regional review

HY20 result



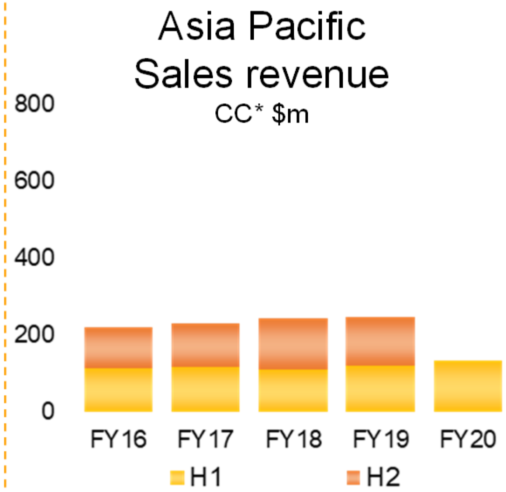
Sales revenue ⬆ 3% in CC

- Strong CI growth with low growth in Services and a decline in Acoustics
- CI units up >10% in the US
- Growth in Latin American Services



Sales revenue ⬆ 3% in CC

- Strong CI growth with low growth in Services and a decline in Acoustics
- Growing momentum in W Eur as availability expands for new CI across the half
- Strong growth in Middle East



Sales revenue ⬆ 13% in CC

- Strong CI growth in Japan and Korea
- Strong growth in China

* constant currency (CC)

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Financial highlights

HY20 result

Targeting consistent revenue and earnings growth

Continued investment to drive market growth

- Growing R&D and sales & marketing investment
- Continued investment in longer-term initiatives – market access, standard of care, CPN, clinical trials

Strong balance sheet and cash flow generation fund investment

- Cash flow generation sufficient to fund market growth activities, increased capex and increased dividends whilst maintaining conservative gearing levels

Targeting the delivery of consistent earnings growth

- FY20 net profit guidance of $270-290m, a 2-9% increase on underlying net profit
- Targeting to maintain the net profit margin at ~18%

Revaluation of innovation fund

- Reported net profit includes $25m in non-cash gains after-tax from the revaluation of Nyxoah

Profit & loss

Cochlear®

HY20 result

Re-investing gains from operating efficiencies into market growth activities

Continued investment in market growth activities and technology leadership

$m	HY20	HY19	Change (reported)	Change (CC)
Sales revenue	**777.6**	**711.9**	**9%**	**5%**
% GM	*75%*	*75%*	*0 pts*	*0 pts*
Selling, marketing and general expenses	243.5	216.1	13%	9%
R&D expenses	94.4	88.2	7%	6%
% of sales revenue	*12%*	*12%*		
Administration expenses	47.9	47.5	1%	0%
Other income	6.0	8.0		
FX contract losses	(21.9)	(8.1)		
EBIT*	**183.7**	**180.5**	**2%**	**2%**
EBIT / sales revenue	*24%*	*25%*		
Net finance costs	4.8	2.7	78%	
Taxation expense	46.2	45.7	1%	
% effective tax rate	*26%*	*26%*		
Net profit (underlying)*	**132.7**	**132.1**	**0%**	**0%**
% net profit margin (underlying)	*17%*	*19%*		
Revaluation of innovation fund (after-tax)	25.0	(3.5)		
Net profit (reported)	157.7	128.6	23%	22%

* Excluding revaluation of innovation fund

Cash flow

HY20 result

Targeting to fund growth activities from operating cash flows

Cash flow declines driven by increases in working capital and capex (China manufacturing facility, Denver office fitout and IT platform development)

$m	HY20	HY19	$ change
EBIT (excluding revaluation of innovation fund)	183.7	180.5	3.2
Depreciation and amortisation (excl AASB 16 impact)*	21.3	17.5	3.8
Change in working capital and other	(15.1)	15.5	(30.6)
Net interest paid	(4.8)	(2.7)	(2.1)
Income taxes paid	(58.3)	(46.7)	(11.6)
Operating cash flow	**126.8**	**164.1**	**(37.3)**
Capital expenditure	(49.8)	(36.0)	(13.8)
Acquisition of other intangible assets	(10.8)	(8.7)	(2.1)
Other net investments	-	(20.9)	20.9
Free cash flow	**66.2**	**98.5**	**(32.3)**

* Depreciation and amortisation excludes the impact of the adoption of AASB 16 to provide a like for like comparison to HY19

Capital employed

Cochlear

HY20 result

Investing activity drives growth in capital employed

Increase driven by working capital, investments in China manufacturing facility and Denver office fitout and revaluation of investment in Nyxoah

$m	**Dec19**	**Jun19**	**$ change**
Trade receivables	295.6	299.5	(3.9)
Inventories	204.0	195.4	8.6
Less: Trade payables	(147.4)	(160.8)	13.4
Working capital	352.2	334.1	18.1
*Working capital / sales revenue**	*23%*	*23%*	
Property, plant and equipment	190.9	166.5	24.4
Intangible assets	428.2	424.4	3.8
Investments	83.0	47.8	35.2
Other net liabilities	(104.0)	(143.9)	39.9
Capital employed	**950.3**	**828.9**	**121.4**

* Based on doubling HY20 sales revenue

Dividends

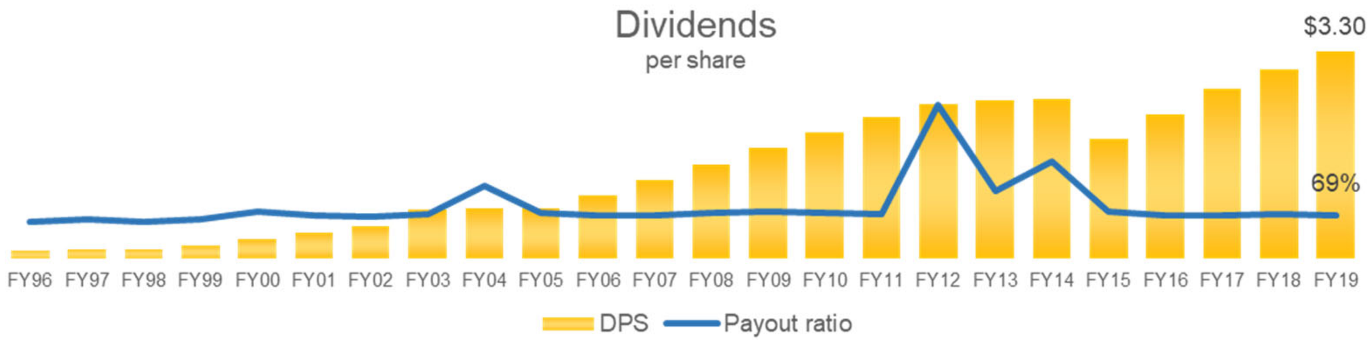
Cochlear®

HY20 result

Growing dividends with a payout of ~70% (or above) of net profit since FY00

Interim dividend increased by 3%, fully franked, with the payout* on target at ~70%

$m	HY20	HY19	% change
Interim ordinary dividend (per share)	$1.60	$1.55	3%
Payout ratio* %	70%	68%	
Franking %	100%	100%	



* Excluding after-tax gains or losses from innovation fund investments

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Strategic priorities

Cochlear

Retain market leadership

Market-leading technology I World-class customer experience

Grow the hearing implant market

Awareness I Market access I Clinical evidence

Deliver consistent revenue and earnings growth

Invest to grow I Operational improvement I Strong financial position

Strategies to improve awareness and access vary by segment

Cochlear®

Grow the hearing implant market

Adults & seniors
Developed markets

Current penetration*: **3%**

→ Increase penetration

Children
Developed markets

Current penetration*: **60%**

→ Grow share

Children
Emerging markets

Current penetration*: **10%**

→ Increase penetration, funding and affordability

* Estimate based on information available to Cochlear

Cochlear is investing operating cash flows to drive growth

Cochlear®

Deliver consistent revenue and earnings growth

Investment priorities

Investing to grow

- Building awareness and access requires multi-year investment in sales, marketing and R&D activities
- Aim: invest to grow, maintaining the net profit margin

Delivering operational improvements

- Optimising cost of production strengthens our competitive position
- Aim: reinvest efficiency gains from growing scale in to market growth activities

Maintaining a strong financial position

- Strong cash flow generation funds investment in growth
- Aim: maintain the strong balance sheet position and continue to target a dividend payout of around 70% of underlying net profit

Revenue growth drivers

Deliver consistent revenue and earnings growth

Cochlear implants

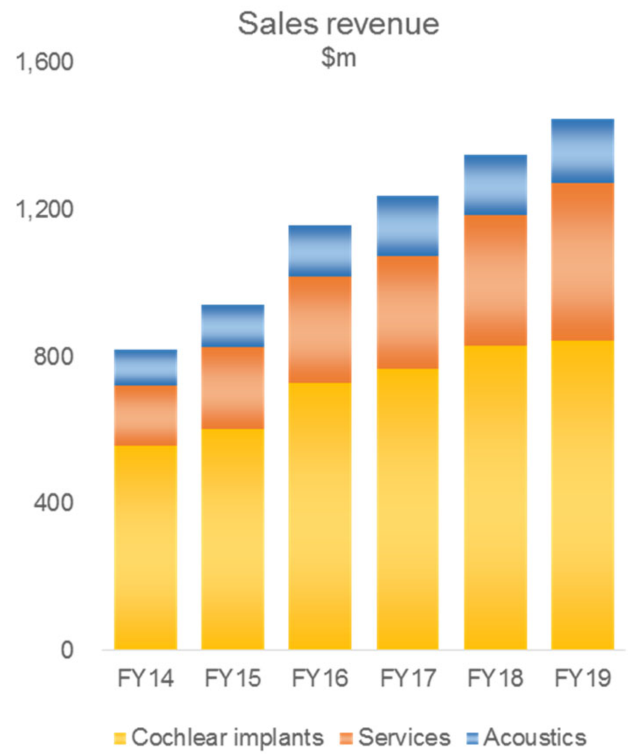
- Growing awareness and uptake by adults and seniors
- Emerging market expansion
- New products driving market growth and market share

Services

- Growing recipient base
- Greater connectivity and engagement with recipients
- Next generation sound processor upgrades

Acoustics

- New products
- Market expansion



FY20 outlook

Cochlear®

Deliver consistent revenue and earnings growth

FY20 net profit guidance* of $270-290m, up 2-9% on underlying net profit

Key guidance considerations:

- Expect strong H2 growth in cochlear implant units in developed markets
- Services revenue expected to grow although at a lower rate than previous years
- Acoustics revenue expected to decline for the full year driven following H1 declines, with H2 to benefit from US Osia launch
- Coronavirus impact: factoring in a significant decline in sales for Greater China in H2 due to hospitals deferring surgeries, including cochlear implants
- ~$10m reduction in FX contract losses expected in H2 v H1
- Includes an estimated $1.0-1.5m decline in net profit from the introduction of AASB16
- Capex and investments of ~$180m in FY20 and ~$100m in FY21
- Excludes after-tax gains or losses from innovation fund investments
- Forecasting a weighted average AUD/USD exchange rate of 68c for FY20 (72c in FY19) and AUD/EUR of 0.62 EUR (0.63 EUR in FY19)

* Excluding innovation fund investments

Appendix

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Cochlear®

Cochlear at a glance

Key products

Cochlear implants[1]
60%

Cochlear™ Nucleus® Profile™ Plus with Slim Modiolar Electrode (CI632)

Services[1]
29%

Cochlear™ Nucleus® 7 Sound Processor (CP1000)

Cochlear™ Nucleus® Kanso® Sound Processor (CP950)

Acoustics[1]
11%

Made for iPhone | iPad | iPod

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

Cochlear™ Osia® 2 System

Global sales

$1.4b+
in sales revenue

49% Americas

34% EMEA

17% Asia Pacific

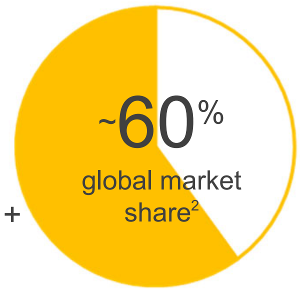
~80% Developed markets

~20% Emerging markets

Market leader

$180m+
in annual R&D

550,000+
implants sold[3]



Growing scale

4,000+ employees

100+ collaborative research programs

30+ countries with direct operations

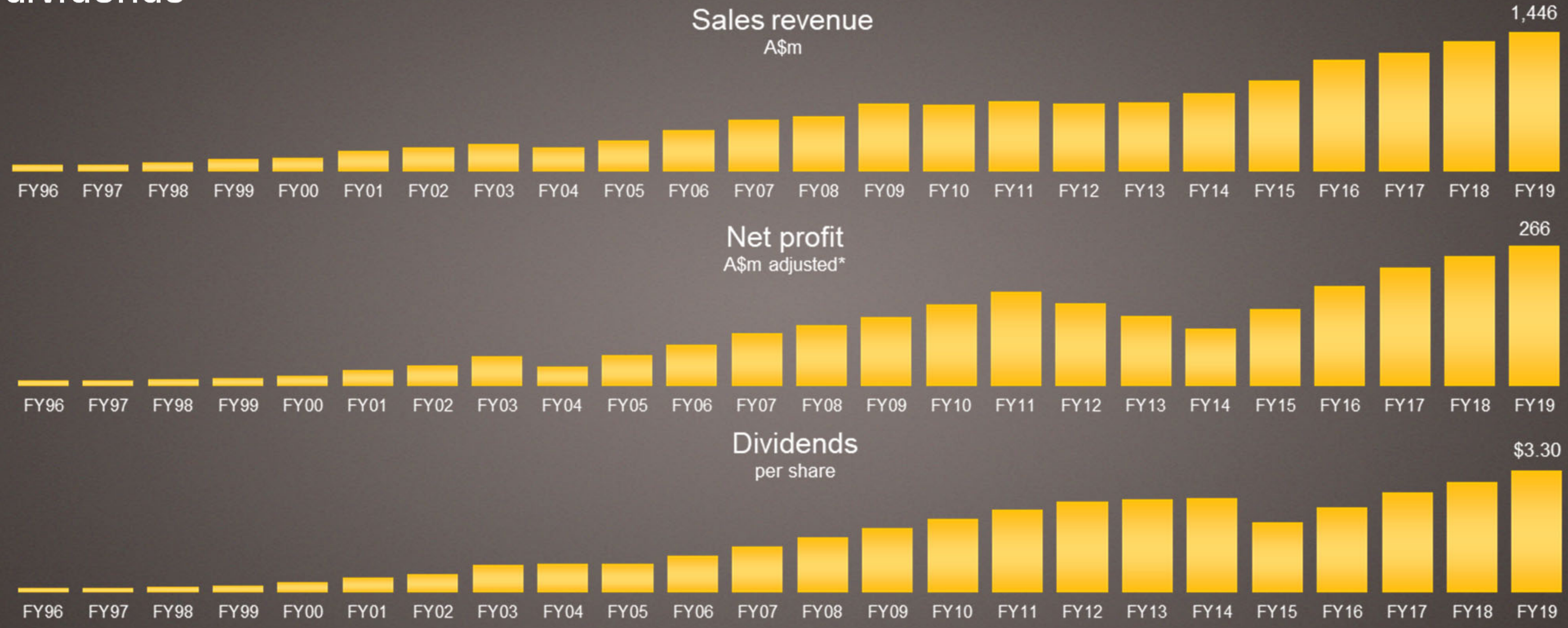
6 key manufacturing sites

1. % of sales revenue 2. based on Cochlear estimates for cochlear implants 3. includes cochlear and acoustic implants

Financial history

Cochlear®

Cochlear has a long track record of delivering growing sales revenue, profits and dividends



* FY12 excludes product recall costs of $101 million after tax, FY14 excludes patent dispute provision of $16 million after tax and FY19 excludes a net $11 million gain after tax from the revaluation of innovation fund investments.

Investing to grow

Cochlear®

Cochlear takes a long term approach to investing and has invested in growing the market for implantable solutions since listing in 1995

Consistent investment in sales and marketing

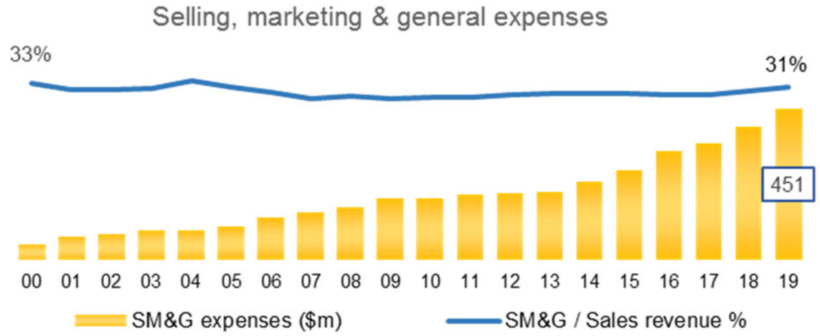
Our investment in sales and marketing activities is building awareness of and access to implantable solutions and driving market growth.

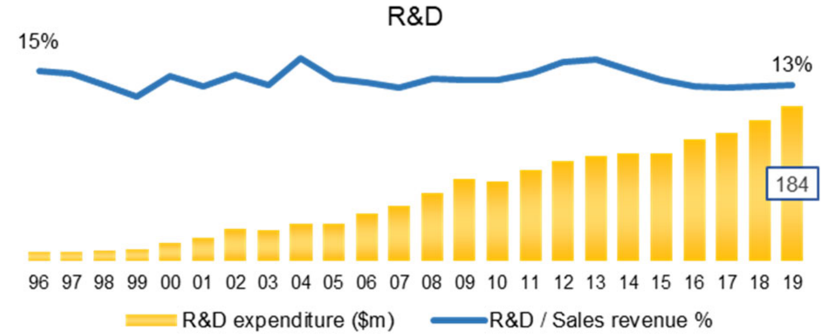
The increase in investment in Selling, marketing & general expenses (SM&G) over the last six years has supported sales force expansion and investment in awareness building activities, particularly direct-to-consumer marketing initiatives, across a growing number of markets.

Growing research & development capability

The investment in R&D continues to strengthen our leadership position through the development of market-leading technology.

Cochlear has a wide range of fully-featured products and a broad patent portfolio that protects the Company's intellectual property. Over $1.9bn has been invested in R&D since listing with 13% of sales revenue invested in R&D in FY19.





Operational improvement

Cochlear®

Disciplined capital investment and optimising cost of production strengthens our competitive position

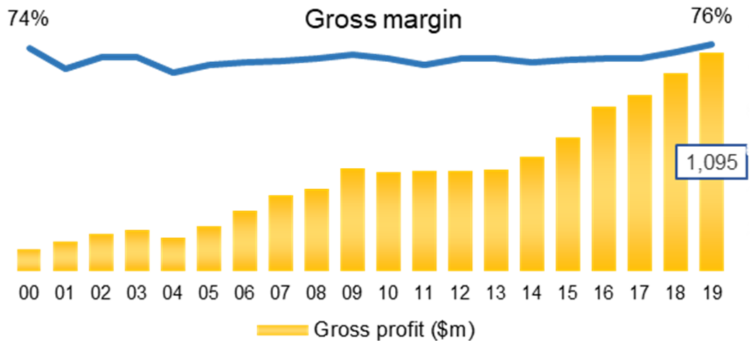
Stable gross margin

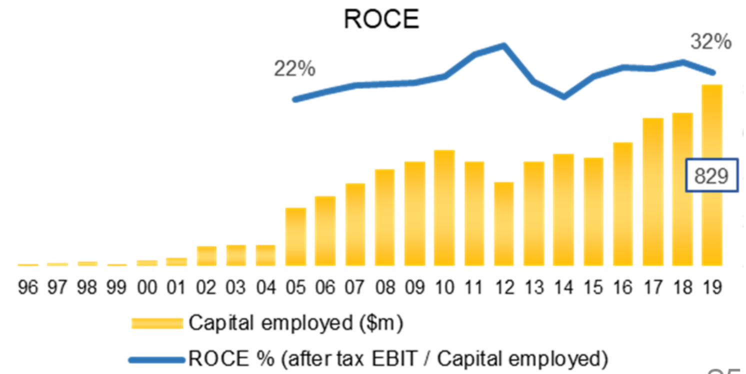
Cochlear's gross margin has been relatively stable since listing. We use our scale to generate efficiency gains to reinvest back into market growth activities.

High return on capital employed (ROCE)

ROCE measures the cash return for each dollar invested in the business. Cochlear generates a high ROCE reflecting its competitive position in the market and the high barriers to entry to the cochlear implant industry which have proven to be robust over many decades.

The high ROCE is also a function of the low level of tangible assets employed by the business. Cochlear's competitive advantage is driven by its strong product and patent portfolio, a result of investment in R&D over many years. As R&D investment is expensed through the income statement, no value for this important asset is captured on the balance sheet.





Strong financial position

Cochlear®

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

Quality operating cash flows

One of the highlights of Cochlear's financial history has been the conversion of reported profits to cash. There is a strong and consistent correlation between reported net profit and the operating cash flows generated by the business.

Disciplined use of capital

Operating cash flows have been primarily used to fund dividends, capital expenditure and acquisitions.

The dividend policy has been to payout 70% of net profit as dividends to shareholders since FY00. Since listing, Cochlear has cumulatively paid out around 70% of operating cash flows as dividends.

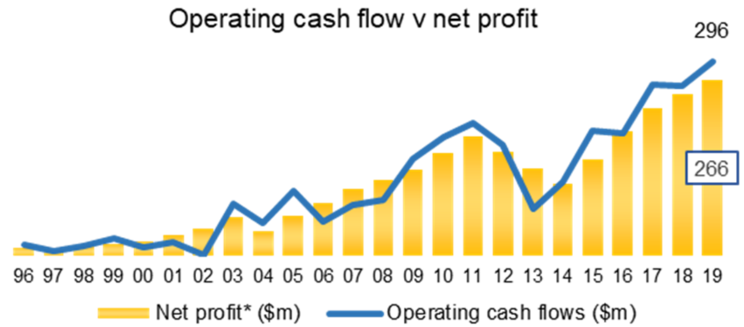
Key acquisitions have been focused on building the core implant business:

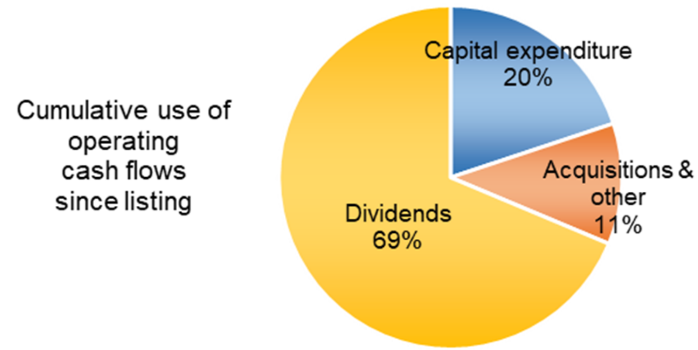
• Sycle – hearing aid practice management software business (FY17)

• Otologics – implantable microphone technology (FY10)

• Brisbane manufacturing facility (FY07)

• Entific – bone conduction implant business (FY05)





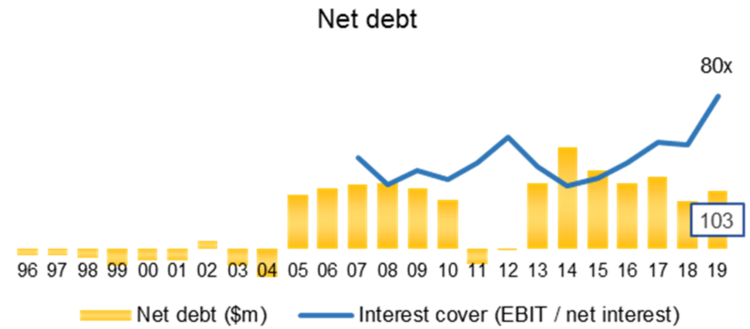
Strong financial position

Cochlear®

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

Conservative gearing levels

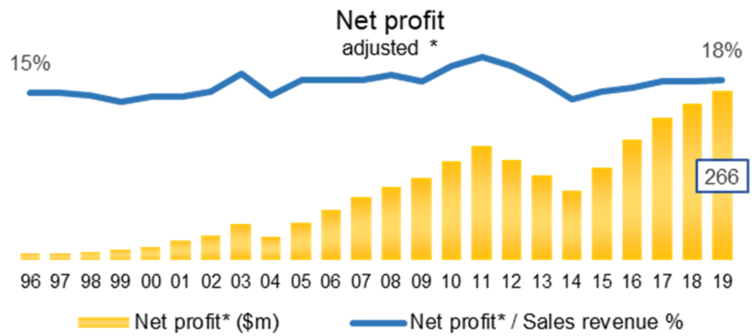
Cochlear has a strong balance sheet. It is a growth company that, since listing, has been able to fund investing activities, dividends, capital expenditure and acquisitions whilst maintaining conservative gearing levels.



Delivering stable net profit margins

Cochlear will continue to invest operating cash flows in market growth activities with the objective of delivering consistent revenue and earnings growth over the long term.

Through disciplined investment, we are targeting to maintain the net profit margin, reinvesting any efficiency gains, currency or tax benefits into market growth activities.



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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 not be placed on any forward looking statement.

Non-IFRS financial measures

Given the significance of foreign 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.

Authorised for lodgement to the ASX by the Board of directors of Cochlear Limited