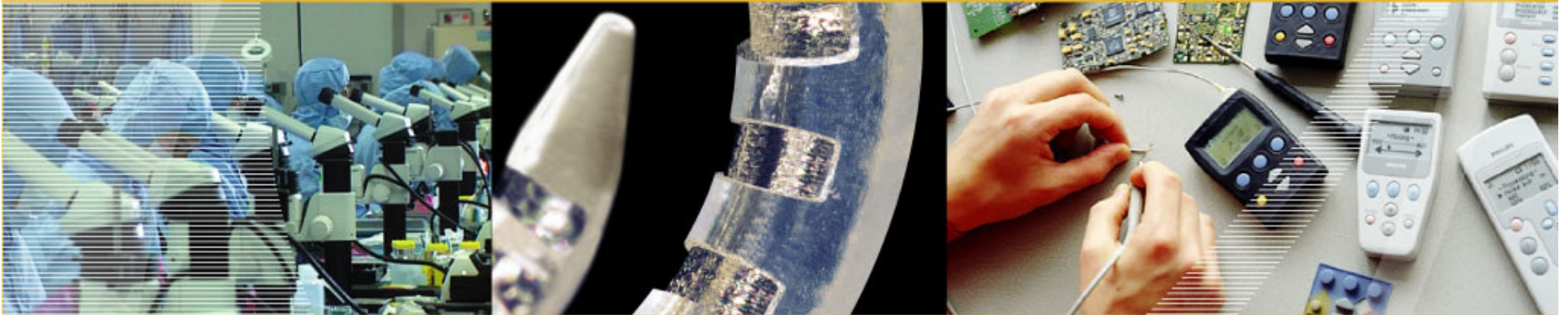


The world leader.



# **Cochlear Limited Results for the half year ended 31 December 2004**



# **Cochlear Limited**

**Briefing – February 15<sup>th</sup> 2005**

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Chris Roberts  
Neville Mitchell

# Background

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- Medical device company (24yr) with dominant global position (60+% share) in cochlear implants (bionic ear)
- Cochlear implants directly stimulate the auditory nerve providing speech understanding for profound and severely hearing impaired
- The patients include infants (~ 1 year) through to the elderly (80+ years)
- Cochlear implantation is now a routine procedure performed in over 1000 clinics globally (65,000+ recipients)
- Implant rate is << incidence (~ 10%)



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# Record Financial Results for H1 F05

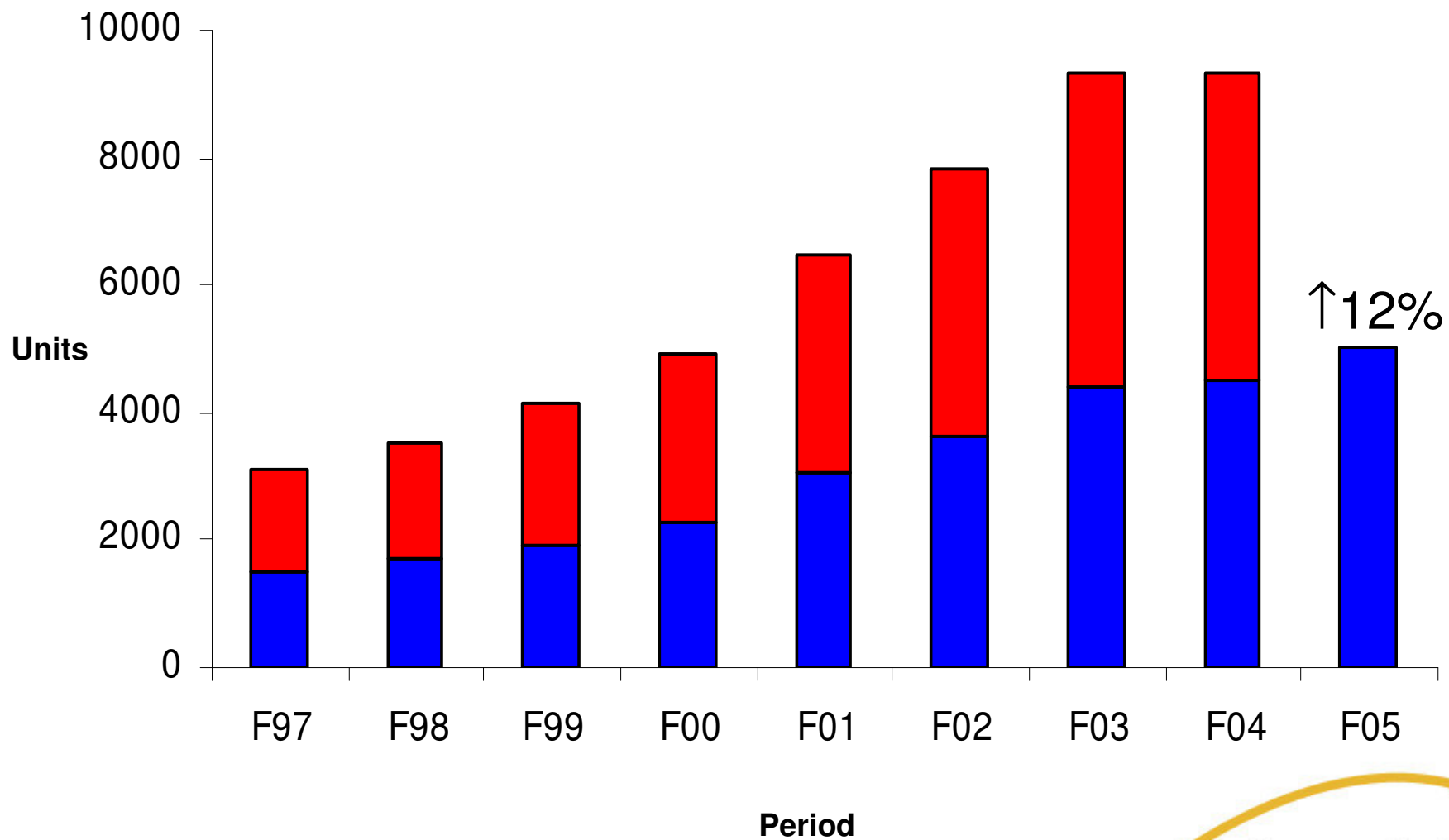
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- Total Revenue \$163.6 million ↑ 18%
- Sales (pre-FX) \$148.5 million ↑ 21%
- Unit Sales 5014 units ↑ 12%
- EBITDA \$44.8 million ↑ 12%
- PAT \$29.5 million ↑ 10%
- Dividend maintained at 35c (fully franked)



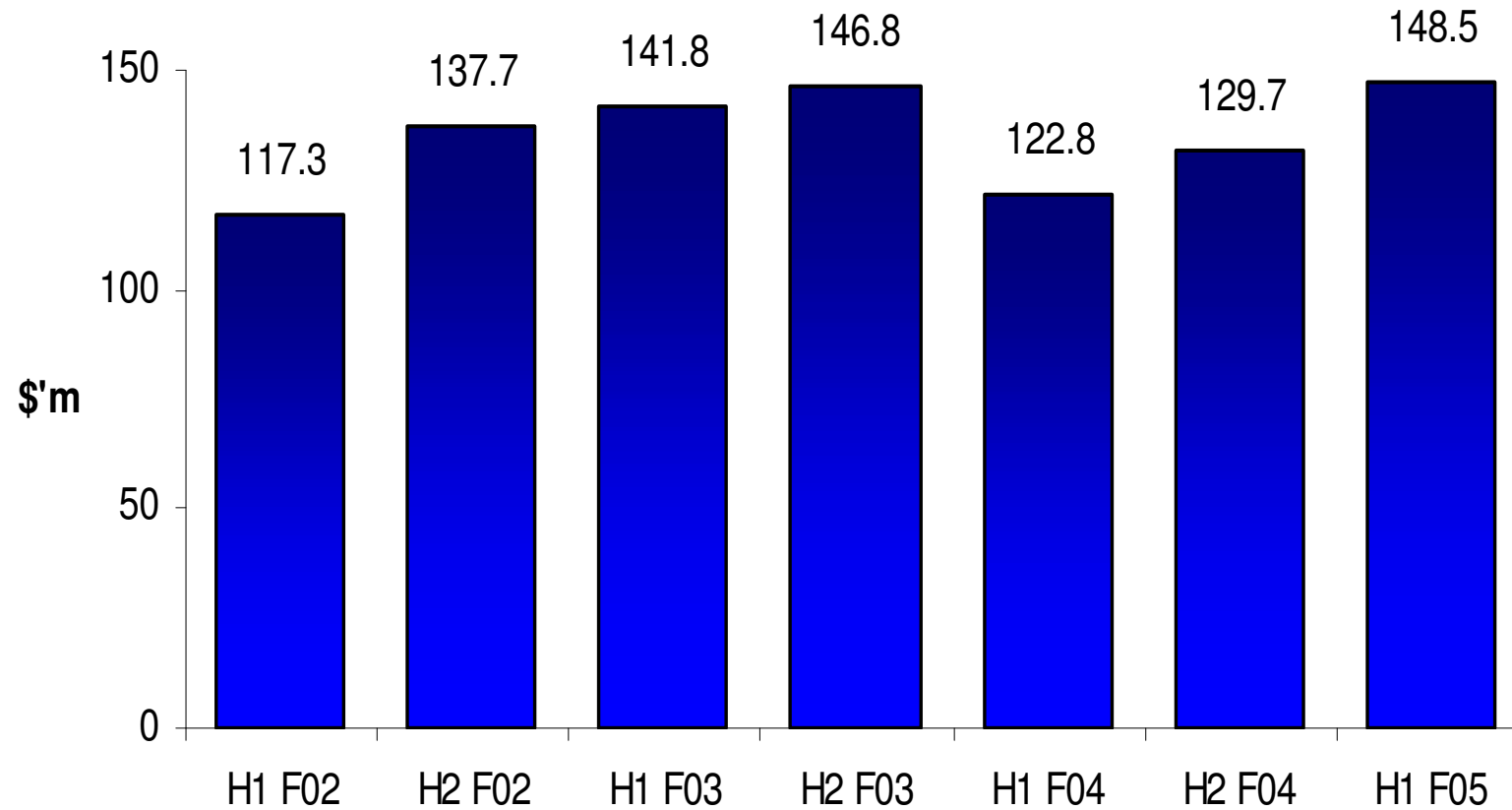
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# Unit Sales: H1/H2 Split



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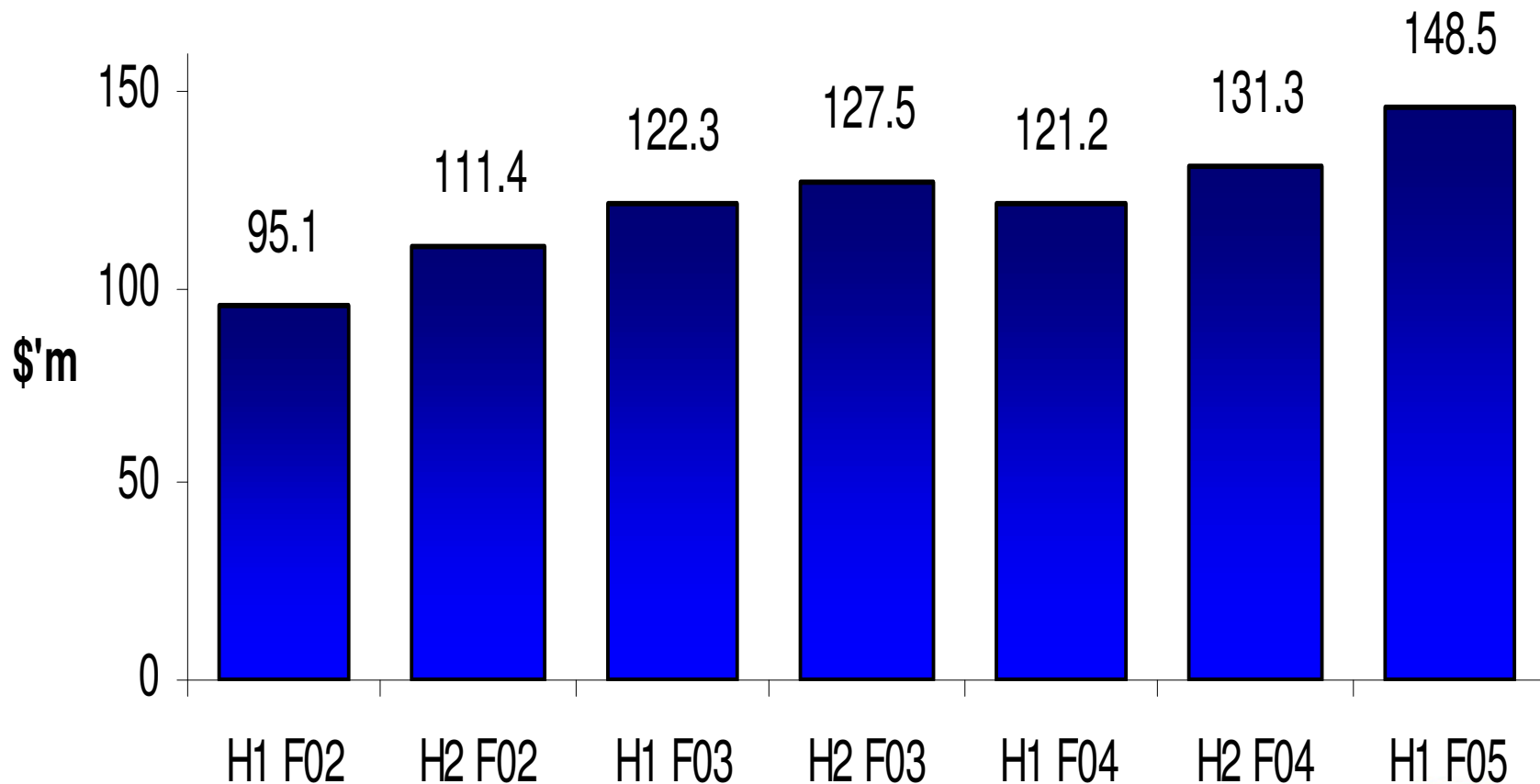
# Group Sales Revenue A\$m



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# Group Sales Revenue A\$m

## Constant Currency (at F05 rates)



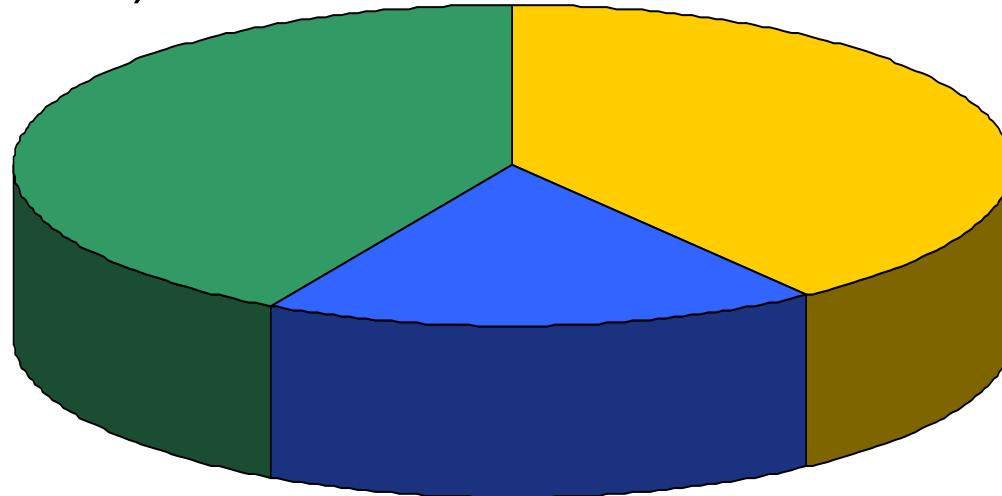
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# Sales Revenue (AUD) by Geographic Region H1 F05

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Americas  
42% (↑16%)

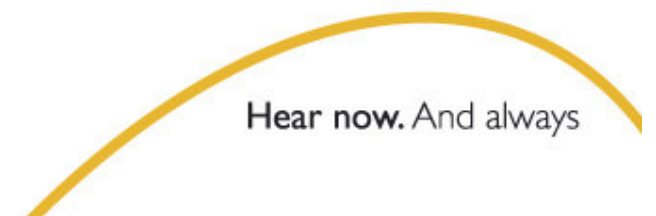
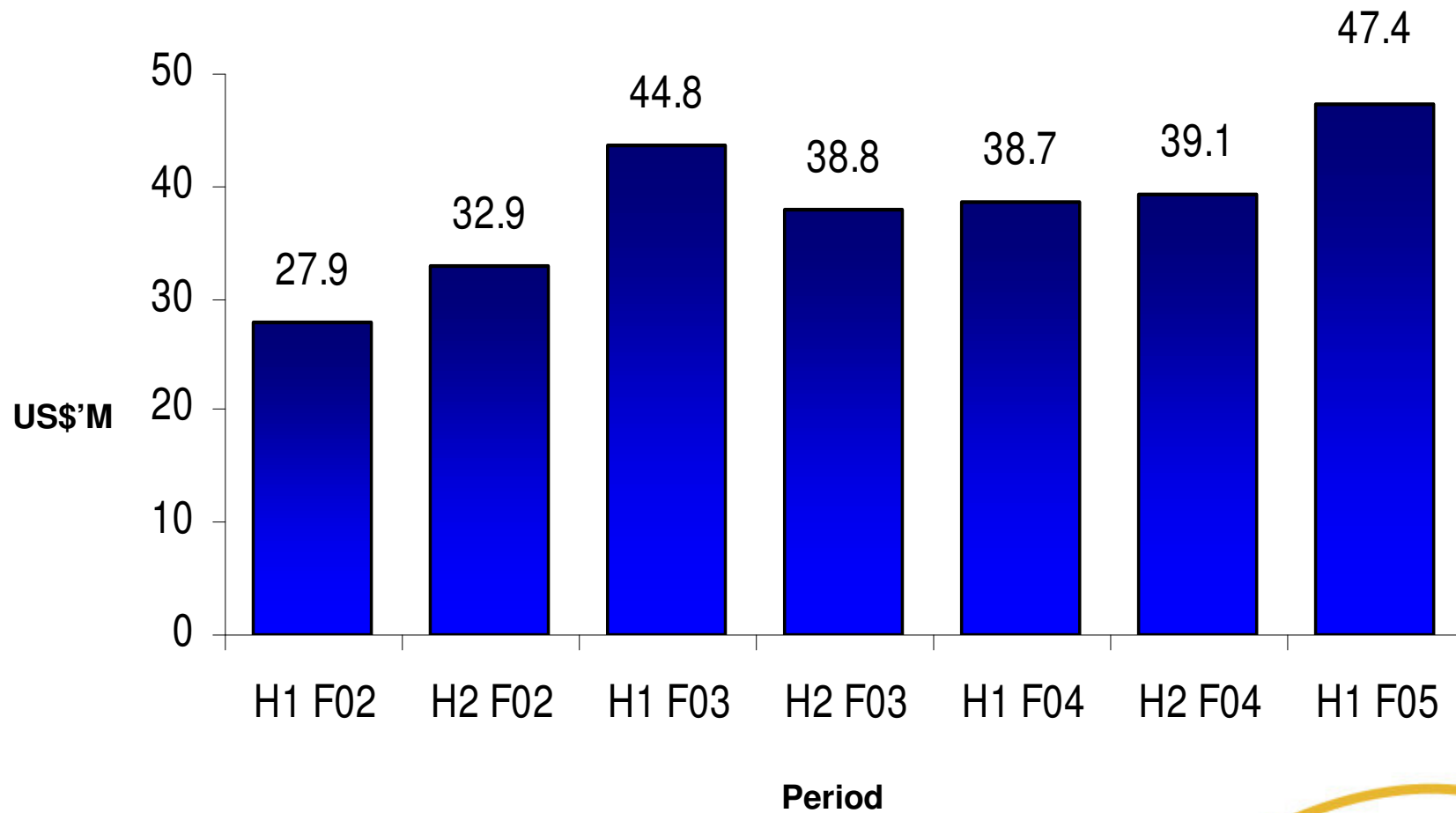
Europe  
40% (↑44%)



Asia-Pacific  
18% (↑2%)

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# Americas Sales Revenue - USD



# Regional Profile - Americas

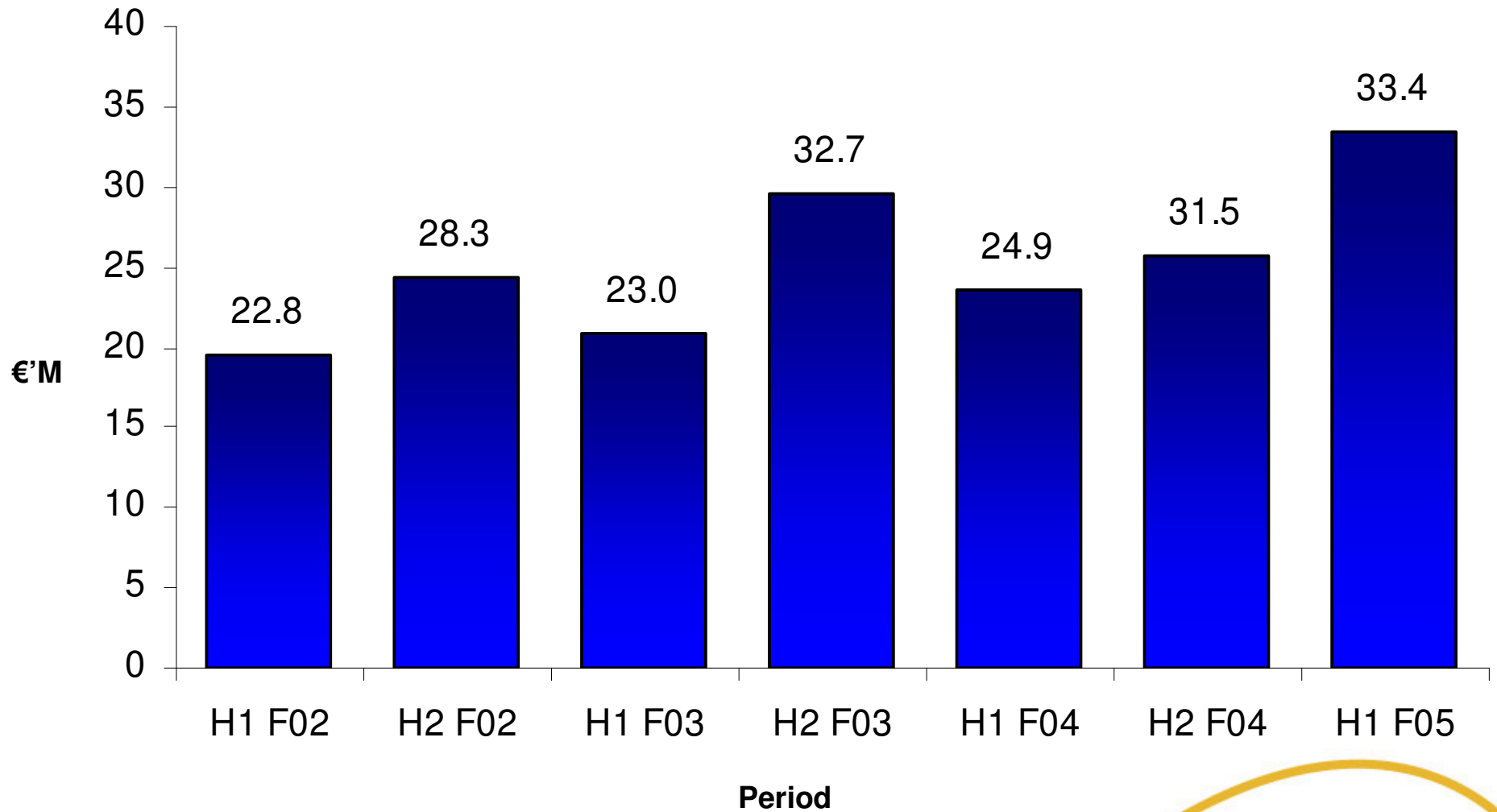
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- New President – Chris Smith started 8/04
- 22% sales increase in local currency (USD)
- USA reimbursement: positive changes
  - CMS supports candidature eligibility criterion increasing from 30% 40% sentence score
  - CMS increase in Medicare funding
- DOJ – status unchanged
- A major competitor had a recall (~6 weeks) during the half



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# Europe Sales Revenue - Euros



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# Regional Profile - Europe

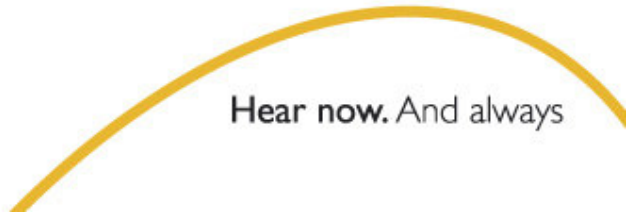
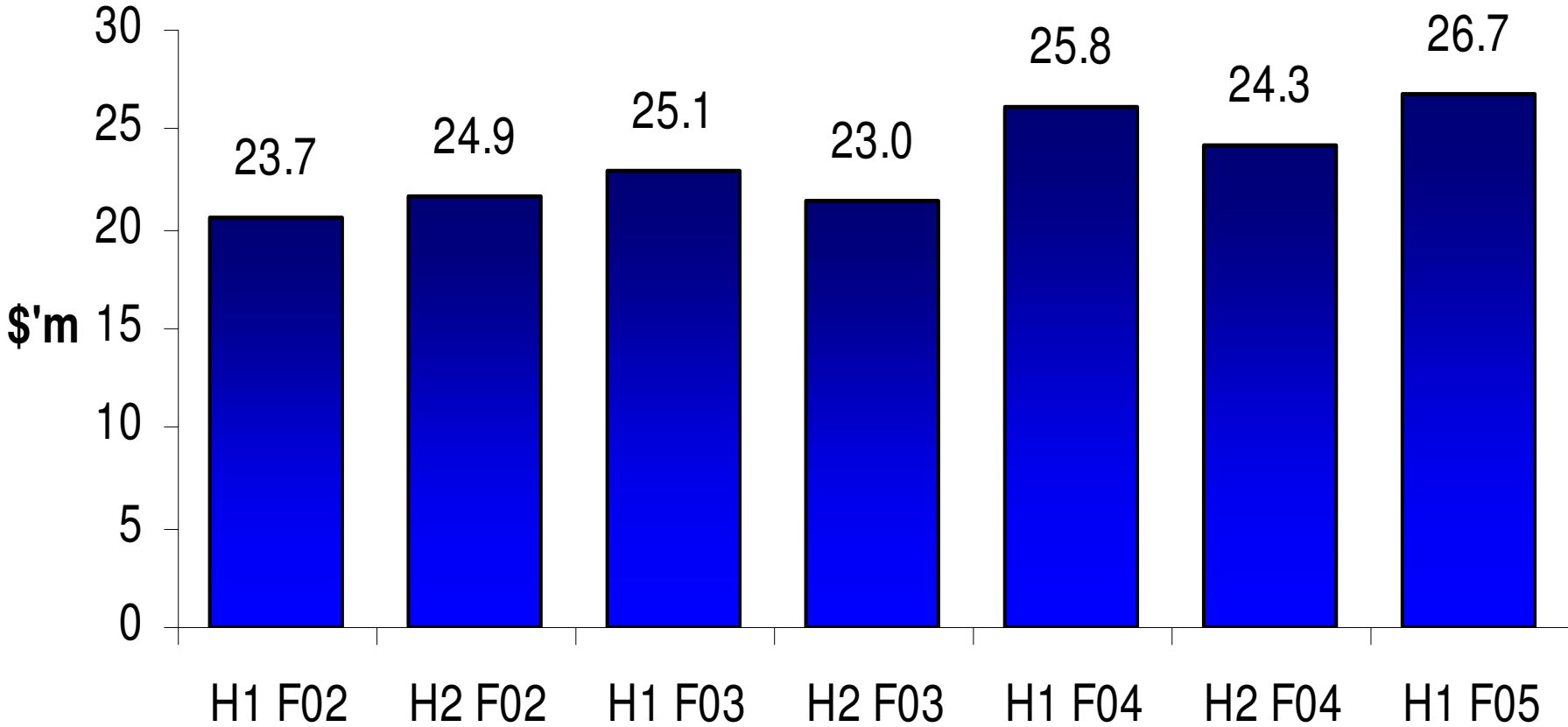
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- 34% sales increase in local currency (euros)
- Sales growth across European markets
- Belgium and The Netherlands – acquired distributor effective July 04
- France – acquired distributor effective Nov 04
- Integration gone well for Benelux and France
- Italy – direct from May 05



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# Asia Pacific Sales Revenue - AUD



# Regional Profile - Asia Pacific

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- New President – Mark Salmon joined 7/04
- Revenue increased by 3%
- Sales in China below expectations due to Customs review (relating to CI tax exempt status)
  - COH's relationships in China are excellent (CRRCDC, CDPF etc)
  - Investigation has caused uncertainty and slowdown in surgeries
- Japan – integration of distributor as per plan
- Korea - government reimbursement for CI



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# Competitive Dynamics

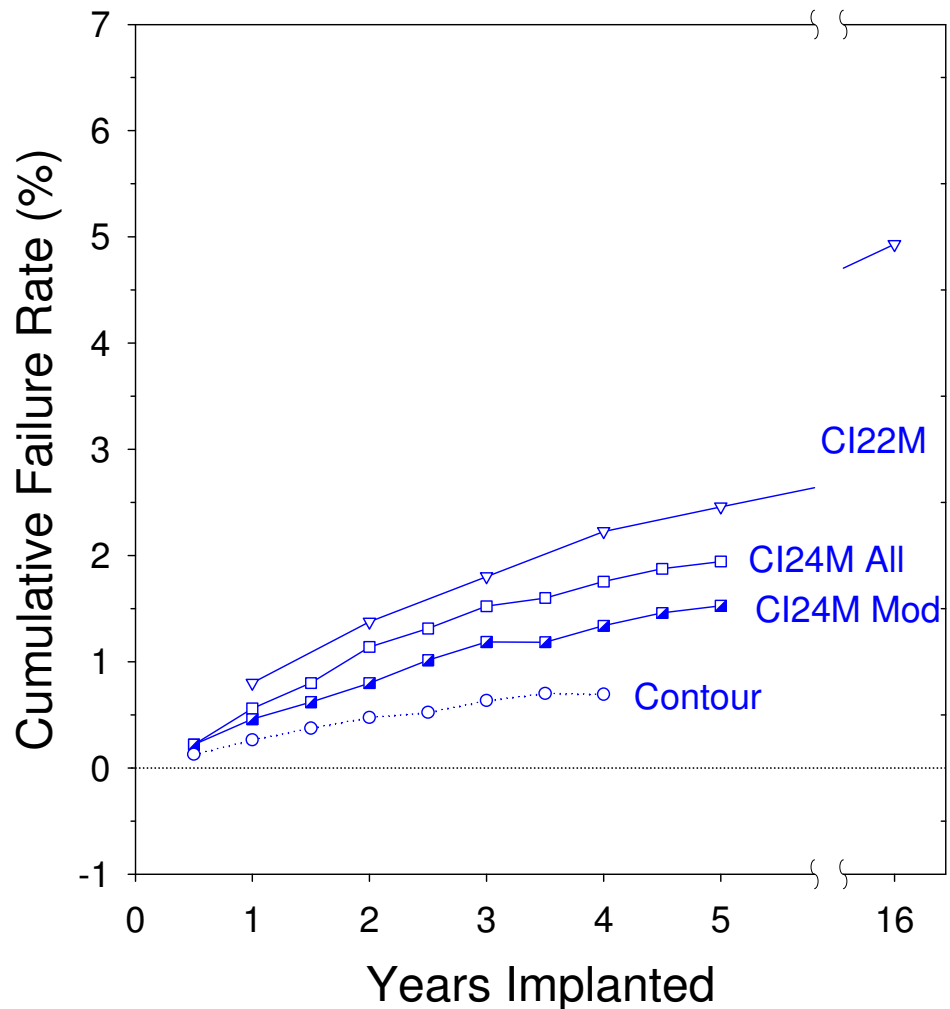
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- Two main competitors
- Advanced Bionics (BSX)
  - Product recall from late Sep 04 (~ 6 weeks)
  - COH's extra unit sales of ~ A\$2.5M (~ 100 units) mostly in the USA
- Med-EI
  - Med-EI received FDA warning letter and importation ban (into the USA) (~ Dec 04)
- COH gained market share in H1 F05



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# COH's implant reliability is a differentiator



Data published by competitors show COH implant is up to 4 times less likely to fail than competitors' implant

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# Cochlear's current technology is ahead of the competition

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Compared to the competition, System 3 with Nucleus<sup>®</sup> 24 Contour<sup>™</sup> has ...

- Higher spatial resolution (electrodes)
- Higher spectral resolution (bandwidth filtering)
- Higher temporal resolution (time interval)
- Capability to represent **fine time structure**
- The flexibility needed to implement future Asynchronous Stimulation strategies



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# Technologic Innovation

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- Excellent progress of “System 4” during H1 F05
- “System 4” launch starts H2 F05
- Significant platform for current and future innovation
- Timing dependent on regulatory approvals
- Early clinical feedback very positive



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# Outlook: H2 F05

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## System 4

- Launch on schedule, however, limited revenue impact for F05
- H2 F05: invest ~\$4 million extra “System 4”

## Financial Guidance

- Increase F05 PAT guidance from \$50 - 51 million to \$53 – 55 million



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# Cochlear: H1 F05 Summary

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- Record H1 financial results
  - Revenue \$163.6 million (↑18%)
  - PAT \$29.5 (↑10%)
- Particularly strong growth in Europe and Americas (market share gains)
- Implant reliability a differentiator (regulatory actions against competitors)
- Next generation technology on track for H2 F05 release



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# Financial Results – F'04

Neville Mitchell  
Chief Financial Officer

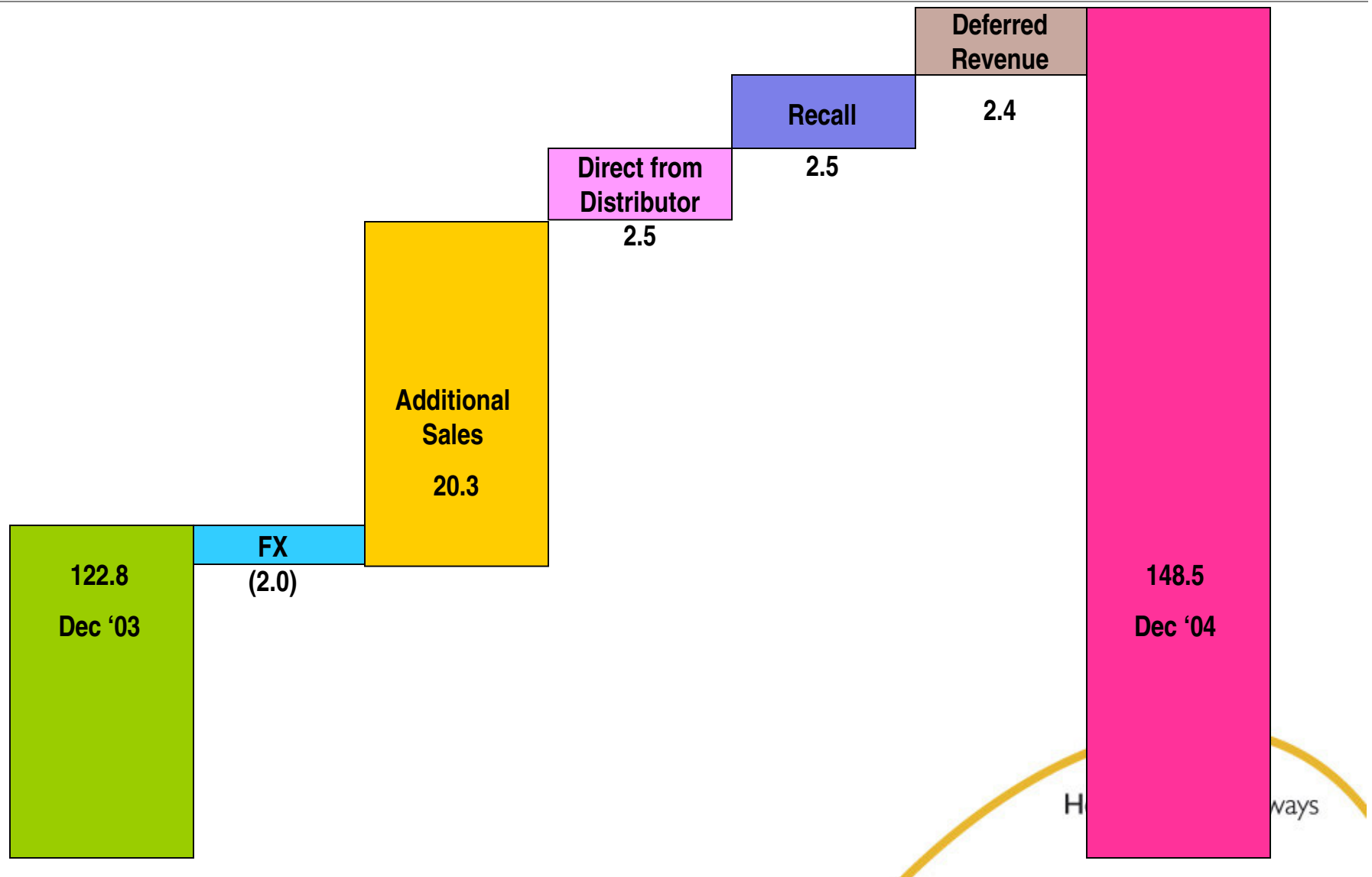
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# H1 F05 Financial Performance

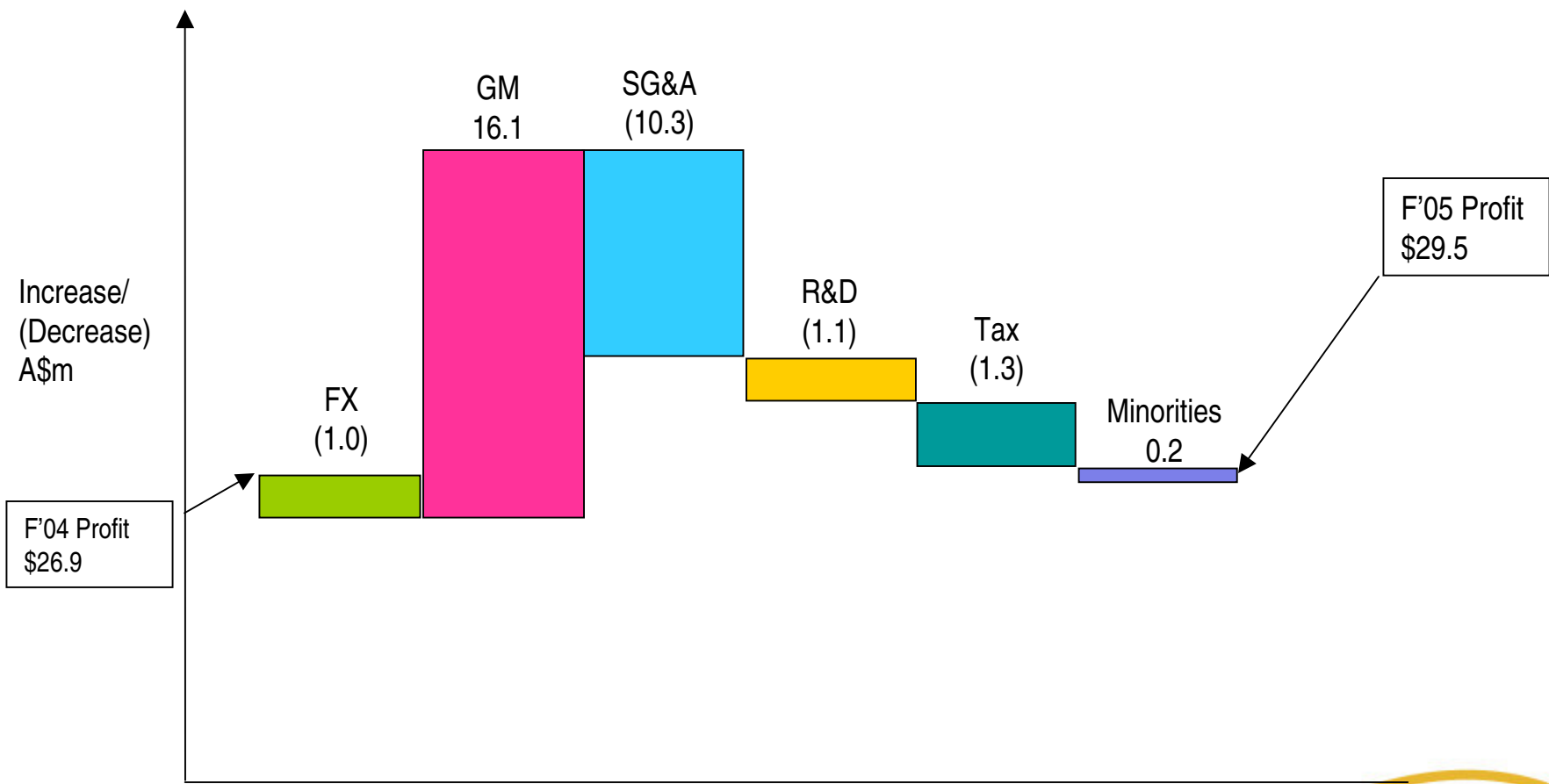
	F'05 Dec	F'04 Dec	% Change
<b>System Sales</b>	<b>5,014</b>	<b>4,482</b>	<b>↑ 12%</b>
		<b>A\$m</b>	
<b>Total Revenue</b>	<b>163.6</b>	<b>139.2</b>	<b>↑ 17.5%</b>
<b>Operating Profit before tax</b>	<b>40.0</b>	<b>36.4</b>	<b>↑ 10%</b>
<b>PAT</b>	<b>29.5</b>	<b>26.9</b>	<b>↑ 10%</b>
<b>EPS</b>	<b>54.3</b>	<b>50.1</b>	<b>↑ 8%</b>
<b>Half year dividend</b>	<b>35c</b>	<b>35c</b>	
<b>Franking</b>	<b>100%</b>	<b>100%</b>	

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# Sales Revenue Reconciliation F'05 – F'04



# PAT Reconciliation F'05 – F'04



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# Foreign Exchange

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## Rates applied F'05 vs F'04

	<b>F'05</b>	<b>F'04</b>
Average rates (used for translating P&L)		
USD	0.74	0.69
GBP	0.40	0.42
JPY	80	79
Contract rates (used to bring FX to Australia)		
USD	0.62	0.53
GBP	0.38	0.35
JPY	56	56



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# Foreign Exchange Rates Going Forward

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<b>Average Contract Rates</b>	<b>USD</b>	<b>GBP</b>	<b>JPY</b>
6 months ending June '05	0.60	0.37	52
12 months ending June '06	0.63	0.36	52

- **Total mark to market FX gain at 31 December 2004  
A\$31.9m**
- **Hedge book profit rolling off**



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# Working Capital H1 F05

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	<b>Dec '04</b>	<b>June '04</b>
	<b>A\$m</b>	<b>A\$m</b>
<b>Current assets</b>		
Cash (net)	43.0	50.0
Receivables	55.5	54.0
Inventory	40.7	44.8
<b>Current liabilities</b>		
Payables	37.5	31.7
Provisions	20.0	22.4
<b>Intangibles</b>	<b>21.7</b>	<b>7.2</b>



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# Purchase of Distributors

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- Total net cash outlay (Japan, France, Benelux) \$16.7m
- Goodwill component \$14.2m
- Goodwill being written off over 20 years
- \$0.3m write-off in H1 F'05
- IFRS – No goodwill write-off



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# IFRS Update (F06 start)

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## FX

- Existing FX hedging qualifies => no change to existing disclosure
- FCTR no change

## R&D

- Need to capitalise all development
- ~ 50% of spend per annum
- write off period - 3 years after commercialisation

## Stock Options

- Expense - already disclosed in notes

## Defined benefits

- Negligible impact

## Goodwill

- Impairment test



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# Key Highlights

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- Revenue, unit sales and profit are all record first half results
- Implant reliability a differentiator (regulatory actions against competitors)
- Rollout of new products on track
- Regional highlights:
  - Europe up 44%
  - Positive developments in the USA
  - Growth in Australia and Northern Asia remains robust



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**Cochlear**