

# **Cochlear Limited**

**Results for the  
full year ended  
30 June 2003**



**Cochlear**

# Cochlear Limited

## Agenda

Overview

Jack O'Mahony

Results

Neville Mitchell

Technology

John Parker

Outlook

Jack O'Mahony



Cochlear

# Year in Review

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- Difficult year
  - Meningitis scare
  - Middle East war
  - SARS in Asia
  - Currency

**Difficult year – delivered growth and profit**



# Year in Review

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## Key Messages:

- Great year in adverse circumstances
- System Sales up 19%
  - Long term average growth trend of 20% maintained
- Behind the Ear Processor Sales up 30%
- Continued robust balance sheet
- Strong cash flow
- Dividend up 50%
- Leveraging Intellectual Property



# Financial Performance

	F'03 A\$m	F'02 A\$m	
<b>Units</b>	<b>9,328</b>	<b>7,845</b>	<b>↑19%</b>
Sales revenue	290.0	256.2	↑13%
Operating Profit before tax	80.0	51.0	↑57%
<b>PAT</b>	<b>58.2</b>	<b>40.1</b>	<b>↑45%</b>
Full year's dividend	77c	51c	↑51%
Franking	100%	100%	



# Characteristic of Result

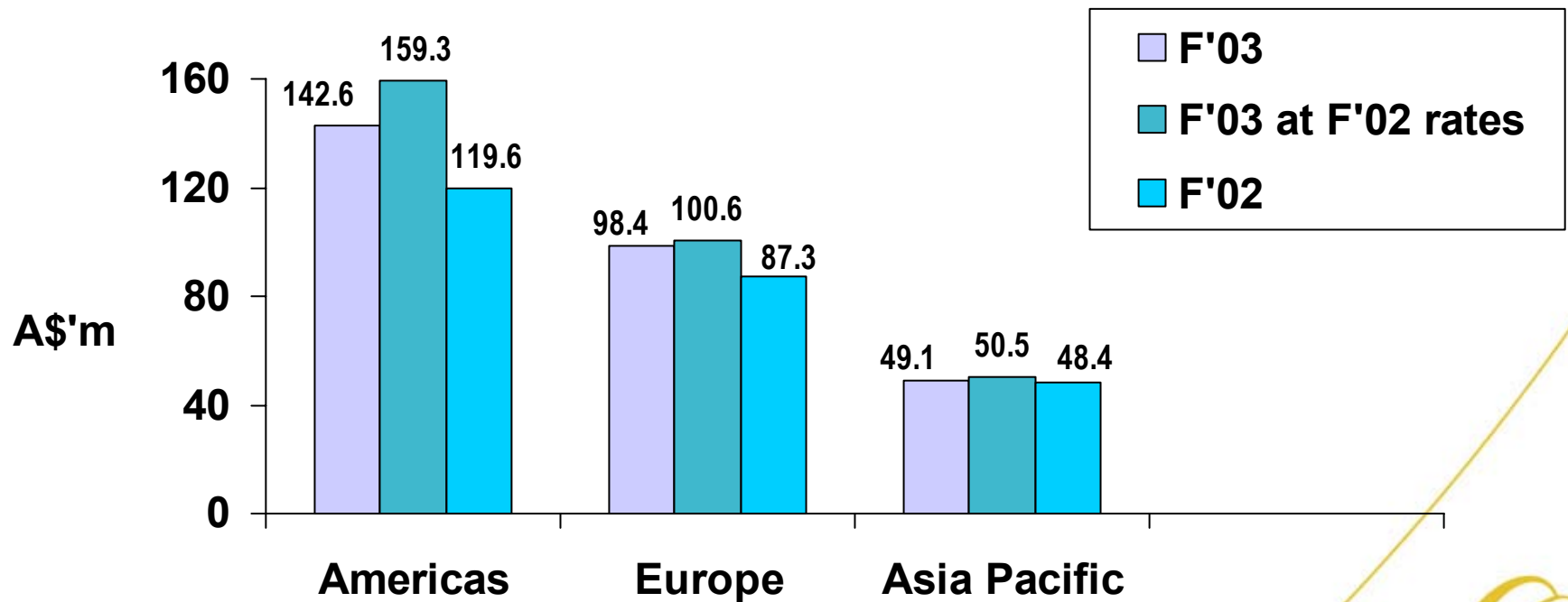
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- 20% long term average growth profile confirmed
- FX affects composition of result
  - Small net PAT impact
- Margin improvement
- Investment in market & systems development - \$19m
- Working capital control
- Strong cash flow



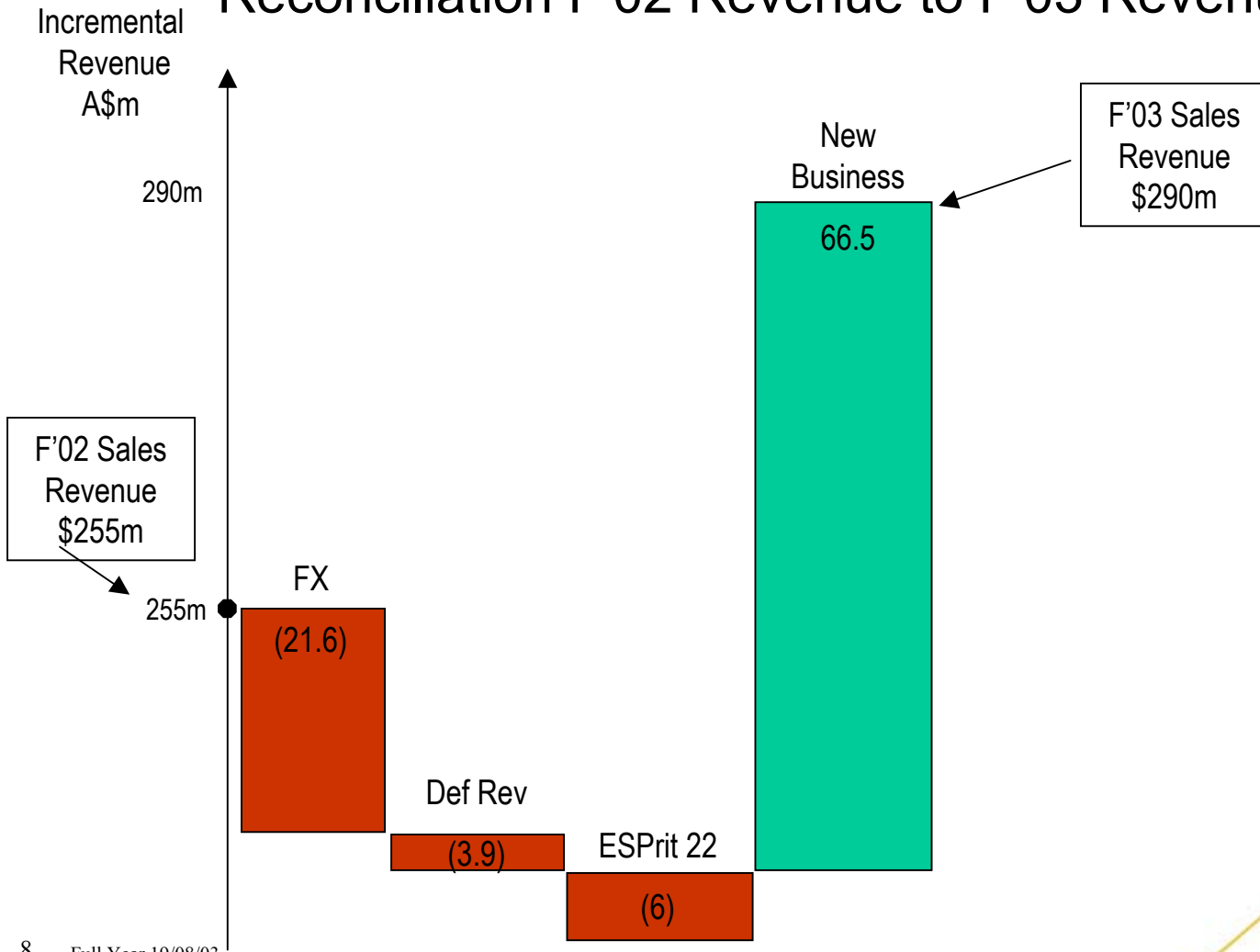
# Financial Performance

## Revenue by region



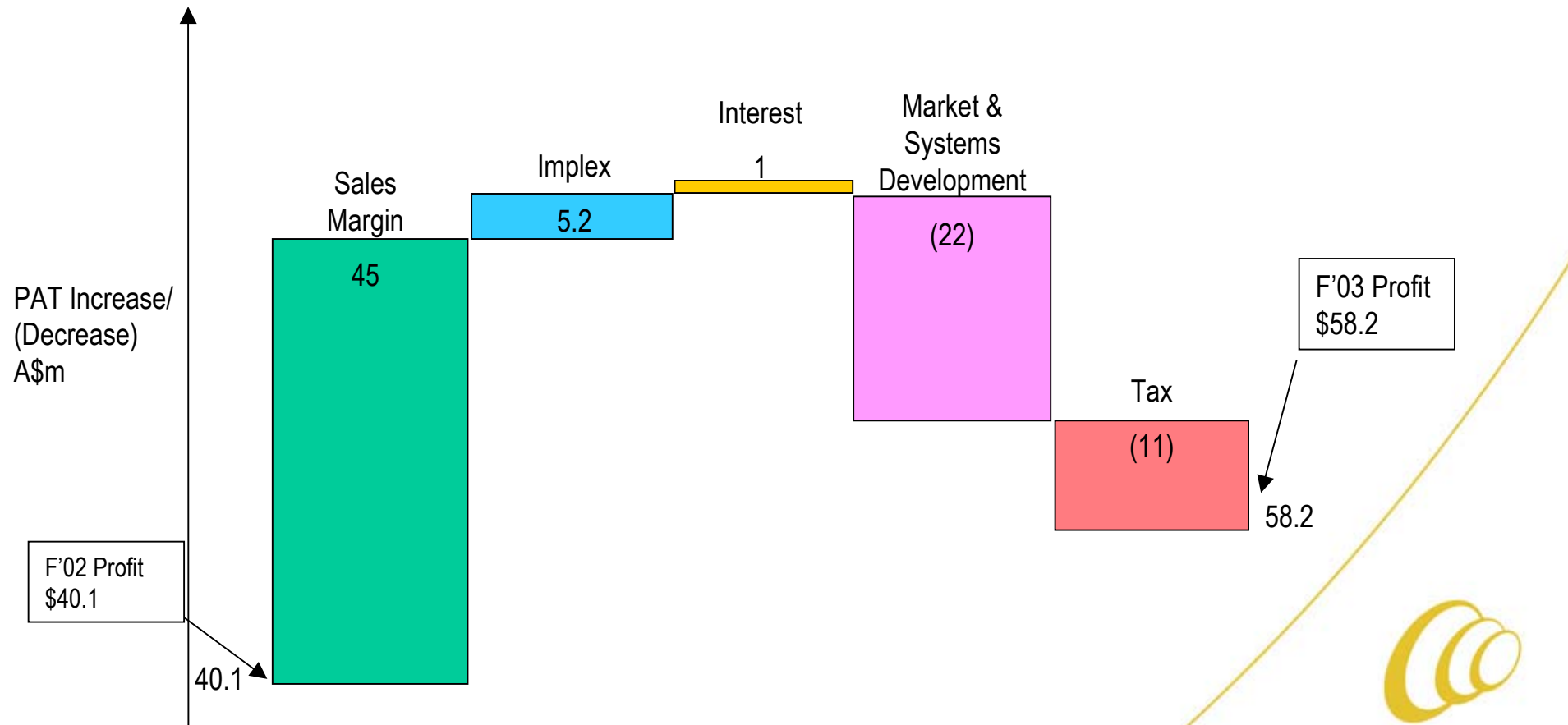
# Sales Revenue

## Reconciliation F'02 Revenue to F'03 Revenue



# PAT Reconciliation

## Reconciliation F'02 to F'03 PAT



# Financial Performance

## Foreign Exchange Benefit

- Portfolio of currencies – USD, EURO, JPY, HKD
- Policy maintained to hedge out 3 years on rolling basis

### Year on year impact

	<b>A\$m</b>
Sales revenue impact - negative	(21.6)
FX contracts & translation of foreign expenses	<u>21.9</u>
Net benefit year on year	<u>0.3</u>



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# Financial Position

	<b>F'03</b>	<b>F'02</b>
	<b>A\$m</b>	<b>A\$m</b>
<b>Current assets</b>		
Cash (net)	28.9	(13.7)
Receivables	56.9	69.3
Inventory	45.0	36.4
<b>Current liabilities</b>		
Provisions	18.8	34.1



# Financial Position

	<b>F'03</b>	<b>F'02</b>
	<b>A\$m</b>	<b>A\$m</b>
<b>Receivables</b>	56.9	69.3
Days outstanding	69	75

- Days outstanding within internal targets
- Provision \$3.5m
- Write-off South American debt \$1.0m



# Financial Position

	F'03	F'02
	A\$m	A\$m
<b>Provisions</b>	18.8	34.1

- Warranty provision
  - AASB 1044 - \$0.3m reduction opening balance
  - \$1m added current year
- Second half dividend  
AASB 1044 \$23.4m not included (F'02 - \$15.7m)



# Technology and Product Development

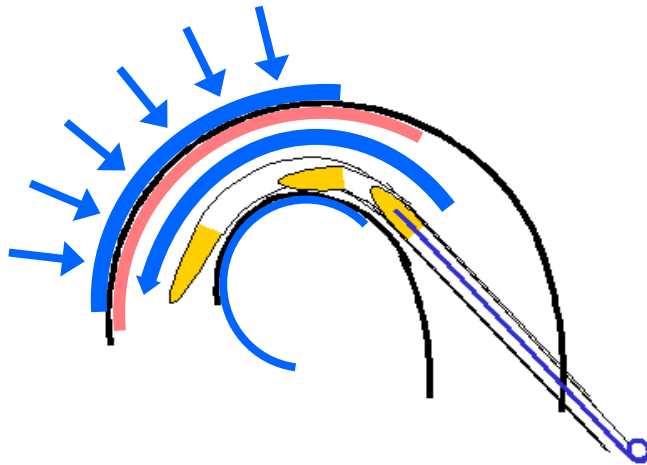
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- Nucleus System 3 updates
  - Contour Advance
  - More automated programming R126 V2
- New Implant system



# Contour Advance

- Change in the tip of the electrode and the insertion technique



- Long term goal to preserve residual hearing

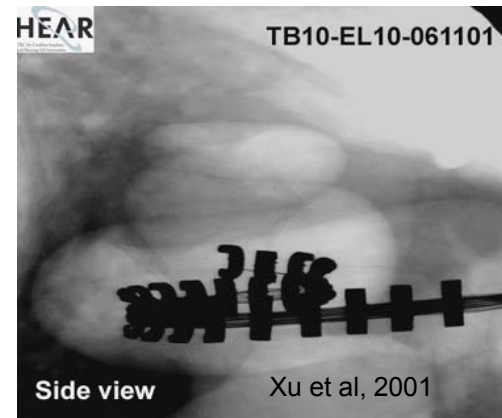
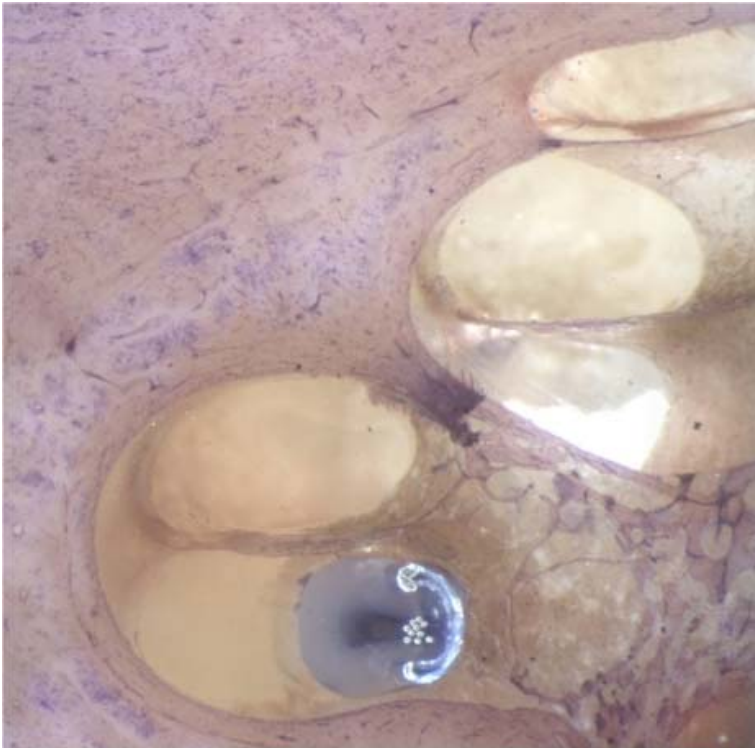


# Contour Advance update

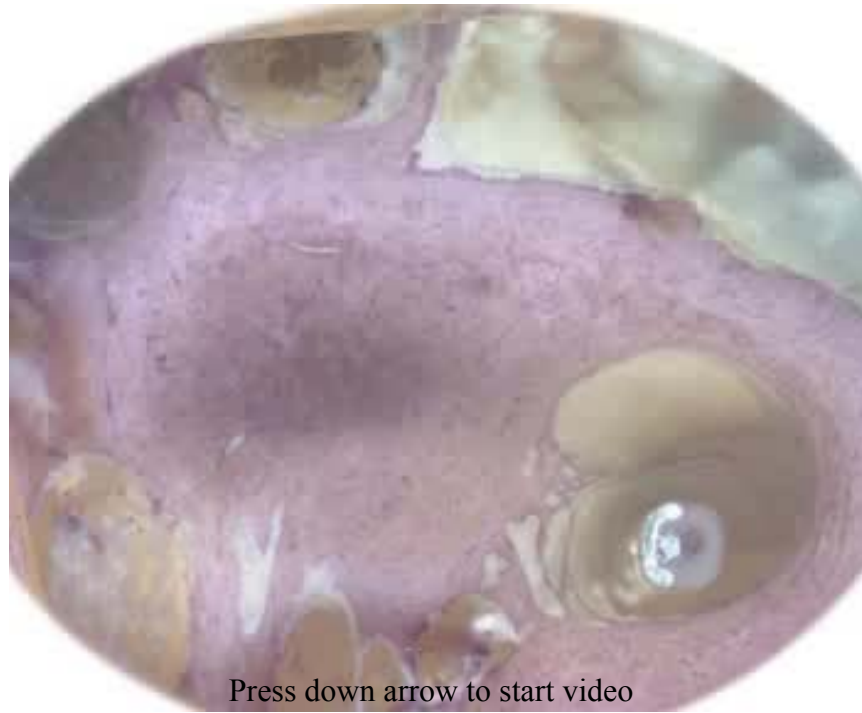
200 implants as at Aug03

Study at NYU found improved coiling

- Standard Contour  
62% achieve >385 degrees curl
- Contour Advance  
82% achieve >410 degrees curl  
& closer perimodiolar position



# Extensive Histological Studies



Press down arrow to start video

# Contour Advance Action in Bone

Contour Electrode with Softip  
Manual Advance Off-Stylet

10 Jul 2002

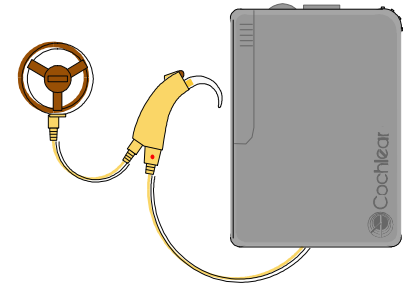
©2002 Dr. J. Thomas Roland Jr., NYU School of Medicine



# R126 V2 Programming Software Release

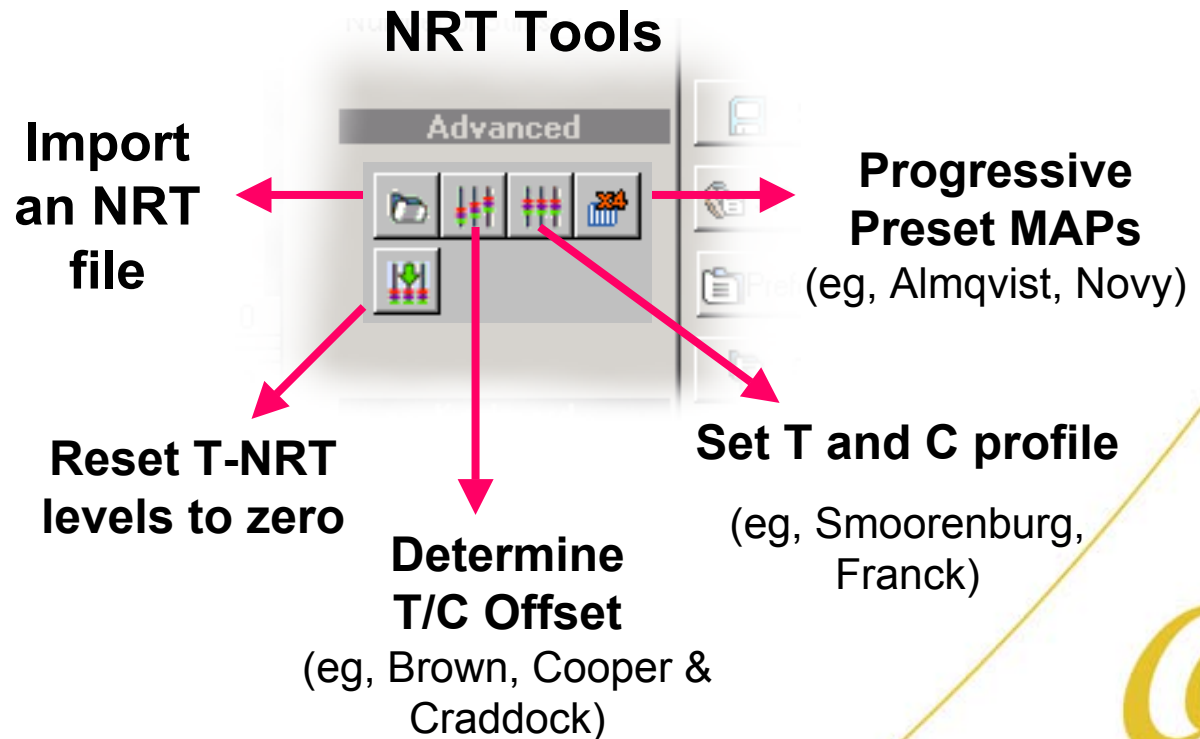
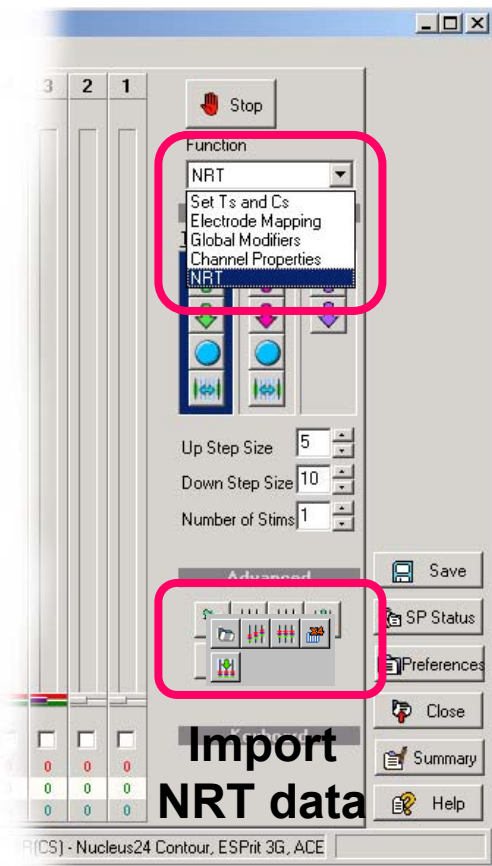
## A range of important new features

- Support for the Nucleus22
- NRT-based MAPping
- MAP Decompilation
- Bilateral MAP support
- Session History
- Easier SP Connection



# Steps Toward Automated Programming

- ProgNRT-based MAPping
- NRT 3.0 data can be imported and used to generate MAPs



# Predicting new T/C Levels with changes in ACE rates

**1.** In the 'MAP #29' window, channel 11 is selected and circled in red. The T level is 223 and the C level is 192.

**2.** In the 'Working With' panel, the 'I' and 'C' level controls are circled in red.

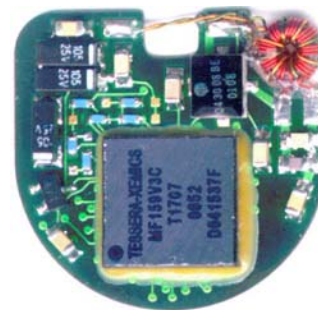
**3.** A 'Nucleus R126 Confirmation' dialog box is shown with the question: "Predict T and C levels for the MAP?". The text below states: "T and C levels will be predicted for the MAP at the new stimulation rate of 900Hz. The prediction method will use channel 11's behavioural T and C level and the levels of MAP 28 measured at stimulation rate 1200Hz. Press 'Yes' to predict the new levels for this MAP at the new stimulation rate. Levels may need to be verified after prediction. Otherwise press 'No' to cancel prediction." The 'Yes' button is highlighted with a red arrow.

**4.** In the 'MAP #29' window, a new horizontal line is drawn across the channels, indicating the predicted new T/C levels.

Creates new MAPs using previous T/C data



# Next Generation Implants



- High stimulation rates
- New stimulation modes
- Low power consumption
- Advanced voltage telemetry functions
- Improved NRT

New electronics in the implant package



# Clinical Results – Speech Coding

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- More than 25 implants to date
- Initial testing has been performed using current speech coding algorithms.
- Speech perception performance measured – as good or better than CI24R.
- New algorithms are currently being trialed



# Technology Outlook

- Work continues on our totally implanted technologies
- Further improvements in programming software
- Development of new generation Speech processors
- Development of Implantable device in collaboration with Phonak has begun
  - SHI market segments
  - Proof of concept in the next 12 months
  - Managed within current R&D expenditure



# Operational Review

## Building for the longer term

- Long term growth profile confirmed
- Achievement of strong financial results and cash flow
- Successful product launches with strong technology pipeline
- Investment in infrastructure
- Leveraging IP



# Market position

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- Main competitors - Med El, ABC
- ABC launches new products
  - FDA approval
  - High rates / titanium package



# Long Term Growth Profile

- Independent review by Accenture
- Filters applied to the natural rate of patient in flow
- Confirm annual inflow of patients of  $\cong 50,000$  pa in major markets
- Adult progressive market significantly larger than children
- Huge pool of patients not captured each year

**20% Growth dependent on awareness, reimbursement, channel**



# Market Size - USA

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- Approximately 28 million people in the USA with significant hearing impairment

Source: US Department of Health & Human Services, 2000

- Approximately 5% of this group (1.4 million) may be candidates for a cochlear implant

Source: Dr B Gantz, University of Iowa, USA, 2003



# Market Size - UK

- In the UK, Medical Research Council estimates 150 000 people with acquired deafness
- Acquired deafness affecting people who have grown up with normal hearing before becoming totally deaf in adulthood.
- In the UK, estimated 8 000 deafened adults from black and minority ethnic groups

Reference: ENT News, Vol 12, No. 1, May/June 2003



# Leverage of Intellectual Property

- Focus remains very much on cochlear implants
- Own valuable Intellectual Property in addition to Neopraxis
- Will leverage through alliances, licensing, etc
- No distraction of resources or financial impact
- No value in F'04



# F'04 Outlook

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- Unit sales growth in line with long term trend of 20%
- EPS growth in the order of 20%
- Leverage of IP – no financial impact
- SARS impact limited in F'04, but no patient backlog
- Portfolio effect will continue



**Hear now.** And always **Cochlear**

