

## ASX Announcement

19 February 2021

# Cochlear Limited Financial Results

For the six months ended December 2020

Cochlear experienced improving momentum across the half as surgeries recovered following COVID shutdowns. The pace of recovery has varied across countries with strong growth recorded in the US, Japan, Korea and China, improving momentum in Western Europe and a slower recovery across most emerging markets. Statutory net profit of \$236.2m benefited from a number of one-off gains. Underlying net profit<sup>1</sup> of \$125.3m declined 6% (4% in constant currency<sup>2</sup>) on last year's record – and COVID-free – first half result.

- Sales revenue declined 4% (1% in CC) to \$742.8m, with the first quarter down 8% and the second quarter up 7% (in CC)
- Cochlear implant units declined 8% to 17,377 with developed markets up 5% and emerging markets down around 30%
- Statutory net profit increased 50% to \$236.2m and includes \$59.0m in patent litigation-related tax & other benefits, \$34.7m in innovation fund gains and \$17.2m in COVID government assistance (after-tax)
- Underlying net profit<sup>1</sup> declined 6% to \$125.3m (4% in CC), driven by a solid recovery in sales revenue and lower operating expenses due to material COVID-related savings
- The dividend has been re-introduced as a result of improved trading conditions and cash flow generation with an interim dividend of \$1.15 per share, a payout of 60% of underlying net profit<sup>1</sup>
- FY21 underlying net profit guidance<sup>1</sup> of \$225-245m factors in the continued recovery in surgery rates, albeit with some near-term impact from current COVID shutdowns, and a material impact to second half profits from the strengthening Australian dollar

	HY21	HY20	Change % Reported	Change % CC <sup>2</sup>
Cochlear implant units	17,377	18,894	↓ 8%	
<b>Sales revenue (\$m)</b>	<b>742.8</b>	<b>777.6</b>	↓ 4%	↓ 1%
Earnings before interest & tax (EBIT - \$m) <sup>1</sup>	175.6	183.7	↓ 4%	↓ 3%
<b>Underlying net profit (\$m)<sup>1</sup></b>	<b>125.3</b>	<b>132.7</b>	↓ 6%	↓ 4%
% underlying net profit margin <sup>1</sup>	17%	17%		
<u>One-off and non-recurring items after-tax (\$m):</u>				
Patent litigation-related tax & other benefits	59.0	-		
Innovation fund gains <sup>3</sup>	34.7	25.0		
COVID government assistance	17.2	-		
<b>Statutory net profit (\$m)</b>	<b>236.2</b>	<b>157.7</b>	↑ 50%	↑ 52%
Basic earnings per share	\$3.59	\$2.73	↑ 32%	
Underlying earnings per share	\$1.91	\$2.30	↓ 17%	
Interim dividend per share	\$1.15	\$1.60	↓ 28%	
% payout ratio <sup>1</sup>	60%	70%		

<sup>1</sup>Excluding one-off and non-recurring items (refer p10). <sup>2</sup>Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance (refer p11) <sup>3</sup>Includes revaluation of investments and equity accounted losses.

## Operational review

\$m	HY21	HY20	Change % (reported)	H1 chg % (CC)	Q2 chg % (CC)	Sales Mix
Cochlear implants (units)	17,377	18,894	↓ 8%		↓ 1%	
<b>Sales revenue</b>						
Cochlear implants	454.7	469.9	↓ 3%	↑ 1%	↑ 7%	61%
Services (sound processor upgrades and other)	214.9	225.5	↓ 5%	↓ 2%	↑ 11%	29%
Acoustics	73.2	82.2	↓ 11%	↓ 7%	↓ 4%	10%
<b>Total sales revenue</b>	<b>742.8</b>	<b>777.6</b>	<b>↓ 4%</b>	<b>↓ 1%</b>	<b>↑ 7%</b>	<b>100%</b>

### Cochlear implants

Cochlear implant units declined 8% with improving momentum in both developed and emerging markets across the half. Sales revenue increased by 1% in CC, benefitting from a mix shift to the developed markets and a higher rate of private pay surgeries across the emerging markets.

For **developed markets**, the pace of recovery has varied across countries with strong growth in the US, Japan and Korea and improving momentum in Western Europe. Overall developed market unit volumes grew 5% for the half, up 9% in Q2. While there had been some concern that candidates would hesitate in progressing to surgery during the pandemic, we have been pleased to see surgeries progress across all age groups, with the mix of seniors' surgeries back to pre-COVID levels across most countries. The majority of clinics have re-opened, and the new candidate pipeline is rebuilding quickly supported by our direct-to-consumer activities.

The US, Japan and Korea delivered strong unit growth with clinics generally operating at pre-COVID capacity for much of the half. Growth was driven by the combination of rescheduled surgeries from the March/April shutdowns, market growth and market share gains following successful new product launches and connected care services.

The US in particular is benefitting from the successful integration of a comprehensive suite of products and services for customers over the last few years, from the leading implant portfolio to clinical support tools like Cochlear Link and Remote Check, supported by the sales team. The investment has strengthened our capability, broadened our reach and is reducing workload for clinics.

Western Europe experienced a small decline in units for the half. Momentum grew rapidly until the end of October with a pullback again in November/December in response to increasing COVID infections and new government lock downs across many countries. Elective surgeries in the UK continued to recover albeit at a slower pace than the rest of Western Europe given the relatively higher strain on hospitals from COVID infections.

Australia delivered cochlear implant volumes in line with last year, a great result given the material impact to surgeries from shutdowns in Victoria for most of the half.

For the **emerging markets**, unit volumes overall were down around 30%. Emerging markets experienced an improving rate of surgeries across the half albeit at a slower pace than the developed markets. Surgeries in China are higher than last year and are growing quickly due to strong private pay demand. In other markets, parts of Latin America and Eastern Europe are recovering, with volumes still well down in India and Brazil.

### Services

Services revenue declined 5% (2% in CC) with improving momentum across the half. Q1 revenue was impacted by lower clinical capacity for sound processor upgrades, with new patients prioritised as COVID concerns limited clinic capacity. Q2 revenue grew 11% in CC, with improved clinical capacity and Services also benefitting from the successful launch of the Cochlear™ Nucleus® Kanso® 2 Sound Processor in October across the US and Europe.

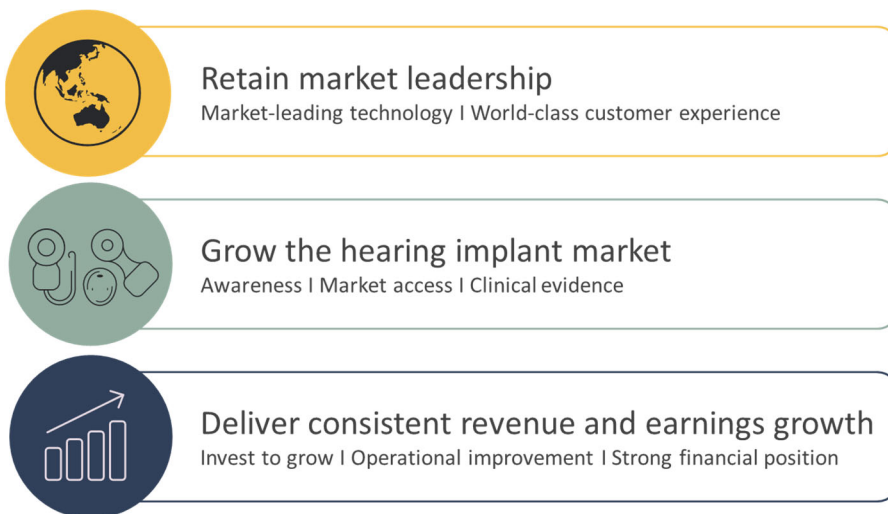
We continue to strengthen the direct relationship with our growing recipient base with the recipient membership program, Cochlear Family, now exceeding 200,000 members. Cochlear Family enables us to provide a better customer experience by connecting directly with recipients to provide service and support.

## Acoustics

Acoustics revenue declined by 11% (7% in CC). Acoustics revenue is largely generated from the US and the UK. Surgery volumes have been recovering in the US since May with strong demand for the Cochlear™ Osia® 2 System. Acoustic implant surgeries recommenced in the UK during the first quarter with a slower rate of recovery as a result of COVID.

## Cochlear's strategic priorities

We have been focused on ensuring we emerge from the pandemic in a stronger competitive position, with our strategic priorities continuing to guide our investments. Over the past 12 months, new products have been successfully launched across all product categories, with market share gains realised in many markets. Our focus on growth has continued with increasing levels of investment across major R&D projects and market growth activities.



## Retaining market leadership

2021 marks Cochlear's 40th anniversary and four decades serving as the global leader in implantable hearing solutions. The investment in R&D aims to strengthen our leadership position through the development of market-leading technology with seven product launches over the past 12 months across all parts of the portfolio. For HY21, we invested \$88.4 million in R&D, representing 12% of sales revenue. An update on the progress of key new products in market is as follows:

**Cochlear™ Osia® 2 System:** The Osia 2 System represents a significant improvement in performance, aesthetics and quality of life for bone conduction patients<sup>1</sup> and has received an enthusiastic response from surgeons and patients in the US since launch in February 2020. It has quickly been established as the primary implant for clinics that have started implanting it, representing around 70% of acoustic implants in those clinics. We continue to be excited about the potential for the Osia 2 System with the opportunity for both increased penetration of bone conduction implants as well as geographic expansion in the coming years. We are aiming to get regulatory approval in Europe by mid-2021.

**Cochlear™ Nucleus® Kanso® 2 Sound Processor:** The Kanso 2 Sound Processor commenced its rollout in the US and Europe during the half, bringing the features of the Cochlear™ Nucleus® 7 Sound Processor into an off-the-ear form factor. The launch of the Kanso 2 Sound Processor during October contributed to a strong uplift in Services revenue during the second quarter.

The rollout of Remote Check, Custom Sound® Pro fitting software and the Nucleus® SmartNav System are all progressing to plan, with positive engagement and feedback from customers.

<sup>1</sup> ClinicalTrials.gov [Internet]. Bethesda (MD): National Library of Medicine (US); 2017 March 22. Identifier NCT03086135. Clinical Performance of a New Implant System for Bone Conduction Hearing; 2019 January 31 [cited 2019 June 20]; [4 screens]. Available from: <https://clinicaltrials.gov/ct2/show/NCT03086135>

## **Growing 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. In HY21, we continued to invest in expanding our programs for driving growth of the adults and seniors segment which include direct-to-consumer marketing activities, building referrals from the hearing aid and ENT channels, and standard of care initiatives aimed at building a consistent treatment pathway for adults with severe to profound hearing loss.

August saw the publication of a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant. The publication is an important step forward, providing the foundation for the development of formal clinical practice guidelines in the coming years. It is anticipated that these guidelines for hearing loss professionals will be important in building a clear and consistent referral path for adults from hearing aids to cochlear implants.

Market access activities have been focused on expanding indications and reimbursement for Cochlear's products, contributing to growth in many markets. Belgium experienced a lift in demand following the expansion of reimbursement criteria for cochlear implants to include candidates with a severe hearing loss while expanded reimbursement for Baha sound processors boosted acoustics upgrade revenue in France.

## **Targeting the delivery of consistent revenue and earnings growth**

Underlying net profit declined 6% (4% in CC) to \$125.3 million. Improving trading conditions have driven a significant improvement in earnings since the second half of FY20. Earnings however were below last year's record – and COVID-free – first half result.

There are a number of factors contributing to the underlying net profit result. While the recovery in trading has been faster than expected, sales revenue declined 4% (1% in CC) on HY20. On the cost side, operational expenses are tracking below historic run rates. While continued investment was made in R&D, market growth activities, standard of care and market access initiatives, there were material COVID-related savings including travel and conference expenses which saw total operating expenses decline 9% (7% in CC). The gross margin declined three points to 72%, partly offsetting the benefit of lower operating expenses.

The dividend has been re-introduced as a result of improved trading conditions and cash flow generation. An interim dividend of \$1.15 per share has been determined, representing a payout of 60% 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.

## **Statutory profits benefit from \$110.9m in one-off gains**

### **Patent litigation-related tax & other benefits**

Cochlear recorded \$59.0 million in patent litigation-related tax & other benefits after-tax primarily relating to the receipt of a private ruling from the Australian Tax Office in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020.

### **Innovation fund gains**

Cochlear's innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage Cochlear's core technology. The innovation fund includes investments in Saluda, Nyxoah and EpiMinder, with \$34.7 million in non-cash gains realised in the half from investments in Nyxoah and EpiMinder.

Nyxoah listed in September with a \$23.5 million after-tax gain realised based on the value of Cochlear's shareholding in Nyxoah on listing. Cochlear invested a further EUR 5.0 million (\$8.1 million) in the initial public offering.

The \$12.4 million after-tax gain in EpiMinder represents the increase in value of Cochlear's shareholding following a financing round which saw Cochlear invest a further \$1.5 million.

## Decision to return FY21 COVID government assistance

Cochlear notes its decision to repay \$24.6 million in pre-tax COVID government assistance received in the first half as trading conditions have improved. Most of the assistance, \$23.1 million, was received from the Australian Federal Government's JobKeeper program.

Cochlear met the eligibility requirements to participate in these programs which were designed to support jobs during COVID, providing an important safety net at a time of great disruption and uncertainty. Trading conditions since July have improved, and while there is still uncertainty ahead, we consider returning the COVID government assistance payments the appropriate thing to do.

COVID government assistance of \$24.6 million (\$17.2 million after-tax) has been classified as a one-off item with funds expected to be repaid during the second half.

## FY21 outlook

For FY21, Cochlear expects to deliver underlying net profit of \$225-245 million, a 46-59% increase on underlying net profit for FY20. While there continues to be uncertainty about the trajectory of COVID, we are increasingly confident of the resilience of our hearing implant business. We experienced consistent improvements in surgery rates across most markets since May as hospitals adapted to managing cochlear implant surgeries during COVID. Momentum since November has slowed across a few countries as a result of the current surge in COVID infection rates. The deployment of COVID vaccines, and the rapid return to surgeries that followed the March/April shutdowns, gives us some confidence that any further surgery deferrals could also recover quickly.

In the second half, we expect developed markets to deliver similar CI units to the first half. Earnings guidance factors in slower January/February trading as a result of recent COVID surgery slowdowns. In the first six weeks of 2021, CI units were down modestly on last year driven by a slowdown in a few Western European countries and a few regions in the US. The UK continues to be the most affected with the majority of clinics now limited to emergency procedures only.

Emerging markets are expected to continue to improve but at a slower rate than developed markets, with many countries still well down on last year.

Our investment priorities continue to be focused on market growth activities and strengthening our competitive position. Operating expenses are expected to increase on the first half following the decision to accelerate a number of growth projects.

The strengthening Australian dollar is expected to have a material impact on second half net profit with over 95% of revenue derived from overseas while only around 50% of expenses are denominated in foreign currencies. The forecast assumes a spot FX rate of AUD/USD 77 cents for the second half and FX contract gains of \$0-5 million, with a negative impact to net profit expected from FX translation. The level of hedging in place for FY21 is lower than normal due to COVID-related uncertainty of cashflows.

With a number of major projects now complete, capital expenditure is expected to be around \$70 million for FY21 and in the range of \$60-80 million for FY22.

The Board is committed to maintaining the dividend policy which targets a 70% payout of underlying net profit and would anticipate returning to the 70% payout as markets continue to improve.

## Financial review

### Profit & loss

\$m	HY21	HY20	Change % (reported)	Change % (CC)
<b>Sales revenue</b>	<b>742.8</b>	<b>777.6</b>	<b>(4%)</b>	<b>(1%)</b>
<b>Cost of sales</b>	<b>209.2</b>	<b>192.7</b>	<b>9%</b>	<b>11%</b>
<i>% gross margin</i>	<i>72%</i>	<i>75%</i>	<i>(3) pts</i>	<i>(3) pts</i>
Selling, marketing and general expenses	209.8	243.5	(14%)	(11%)
Research and development expenses	88.4	93.9	(6%)	(6%)
<i>% of sales revenue</i>	<i>12%</i>	<i>12%</i>	<i>0 pt</i>	<i>(1) pt</i>
Administration expenses	54.2	47.9	13%	14%
<b>Operating expenses</b>	<b>352.4</b>	<b>385.3</b>	<b>(9%)</b>	<b>(7%)</b>
Other income / (expenses)	(6.0)	6.0		
FX contract gains / (losses)	0.4	(21.9)		
<b>EBIT (underlying)*</b>	<b>175.6</b>	<b>183.7</b>	<b>(4%)</b>	<b>(3%)</b>
<i>% EBIT margin*</i>	<i>24%</i>	<i>24%</i>		
Net finance expense	4.5	4.8	(6%)	
Income tax expense*	45.8	46.2	(1%)	
<i>% effective tax rate</i>	<i>27%</i>	<i>26%</i>		
<b>Underlying net profit *</b>	<b>125.3</b>	<b>132.7</b>	<b>(6%)</b>	<b>(4%)</b>
<i>% underlying net profit margin*</i>	<i>17%</i>	<i>17%</i>		
<u>One-off and non-recurring items (after-tax):</u>				
Patent litigation-related tax & other benefits	59.0	-		
Innovation fund gains	34.7	25.0		
COVID government assistance	17.2	-		
<b>Statutory net profit</b>	<b>236.2</b>	<b>157.7</b>	<b>50%</b>	<b>52%</b>

\* Excluding one-off and non-recurring items (refer p11)

Sales revenue declined 4% (1% in CC) to \$742.8 million. Underlying net profit declined 6% (4% in CC) to \$125.3 million. Statutory net profit increased 50% to \$236.2 million and includes \$59.0 million in patent litigation-related tax & other benefits, \$34.7 million in innovation fund gains and \$17.2 million in COVID government assistance (after-tax).

Key points of note:

- Cost of sales increased 9% (11% in CC) to \$209.2 million with the gross margin declining by three percentage points to 72%. The decline was driven by one-off launch-related production costs associated with new products, write-down in obsolete componentry and COVID-related manufacturing inefficiencies;
- Selling, marketing and general expenses declined 14% (11% in CC) to \$209.8 million. Continued investment was made in market growth activities including direct-to-consumer marketing, standard of care and market access initiatives with material COVID-related savings including a decline in travel and conference expenses;
- Investment in R&D declined 6% (6% in CC) to \$88.4 million, driven by COVID-related savings including travel and conference expenses. Continued investment was made in key R&D projects and development of the pipeline;
- Administration expenses increased 13% (14% in CC) to \$54.2 million with significant increases in insurance costs as well as increased depreciation and IT expenses;



- FX contract gains of \$0.4 million represent an increase of \$22.3 million on last year reflecting the low level of hedging in the first half; and
- Net finance expenses declined 6% to \$4.5 million and include \$3.4 million in expenses relating to leasing accounting standard AASB16. Net finance expense (excluding the lease-related expense) reduced by 45% to \$1.1 million with the business benefitting from lower interest rates on debt and interest income on cash deposits from the March 2020 capital raising.

### One-off and non-recurring items

\$m	Pre-tax	Tax impact	Post-tax
Patent litigation-related tax & other benefits:			
<i>ATO ruling on tax deductibility of litigation expenses</i>	-	63.5	63.5
<i>Withholding tax associated with ATO ruling</i>	(29.6)	8.9	(20.7)
<i>FX gains associated with balance sheet items</i>	23.2	(7.0)	16.2
Patent litigation-related tax & other benefits (total)	(6.4)	65.4	59.0
Innovation fund gains	49.6	(14.9)	34.7
COVID government assistance	24.6	(7.4)	17.2
<b>Total</b>	<b>67.8</b>	<b>43.1</b>	<b>110.9</b>

\$110.9 million in one-off gains after-tax have been recognised in the HY21 result including:

- \$59.0 million in patent litigation-related tax & other benefits after-tax which includes a \$63.5 million tax benefit following the receipt of a private ruling from the Australian Tax Office (ATO) in December 2020 which clarified the deductibility of elements of the patent litigation expense treated as non-deductible at 30 June 2020; \$20.7 million in withholding tax payable as a consequence of the ATO ruling; and \$16.2 million in FX gains on balance sheet items related to the patent litigation since 30 June 2020;
- \$34.7 million in innovation fund gains after-tax includes a \$23.5 million gain from the revaluation of Nyxoah following its listing in September, a \$12.4 million gain from the revaluation of the EpiMinder shareholding following a financing round and \$1.2 million in equity accounted losses relating to Nyxoah; and
- \$17.2 million in COVID government assistance after-tax which has been classified as a one-off item following the decision to repay funds received during the second half.

## Cash flow

\$m	HY21	HY20	Change
EBIT (underlying)	175.6	183.7	(8.1)
Depreciation and amortisation	37.2	34.2	3.0
Changes in working capital and other	1.9	(28.0)	29.9
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	(4.5)	(4.8)	0.3
Income taxes paid	(42.9)	(58.3)	15.4
<b>Operating cash flow</b>	<b>87.5</b>	<b>126.8</b>	<b>(39.3)</b>
Capital expenditure	(35.3)	(60.6)	25.3
Other net investments	(15.6)	-	(15.6)
<b>Free cash flow</b>	<b>36.6</b>	<b>66.2</b>	<b>(29.6)</b>
Proceeds from issue of shares	2.0	6.3	(4.3)
Dividends paid	-	(101.2)	101.2
Other	6.3	(12.6)	18.9
<b>Change in net debt – decrease / (increase)</b>	<b>44.9</b>	<b>(41.3)</b>	<b>86.2</b>

Free cash flow declined by \$29.6 million to \$36.6 million.

Key points of note:

- The \$104.4 million cash outflow is US\$75 million in prejudgment interest and attorneys' fees resulting from the AMF judgment;
- Capital expenditure (capex) decreased by \$25.3 million to \$35.3 million, reflecting stay-in-business capex. The decline in capex also reflects the completion of major projects in FY20 including the development of the new China manufacturing facility and fit out of the new Denver office; and
- A \$55.0 million tax refund is expected during the second half due to an overpayment of tax instalments in FY20.



## Capital employed

\$m	Dec20	Jun20	Change
Trade receivables	218.0	211.4	6.6
Inventories	196.8	223.8	(27.0)
Less: Trade payables	(143.5)	(155.3)	11.8
<b>Working capital</b>	<b>271.3</b>	<b>279.9</b>	<b>(8.6)</b>
<i>Working capital / sales revenue *</i>	<i>18%</i>	<i>21%</i>	
Property, plant and equipment	228.6	230.5	(1.9)
Intangible assets	407.3	410.3	(3.0)
Investments & other financial assets	156.3	99.9	56.4
Other net assets / (liabilities)	76.0	(76.1)	152.1
<b>Capital employed</b>	<b>1,139.5</b>	<b>944.5</b>	<b>195.0</b>

\* Dec20 calculation based on doubling HY21 sales revenue

Capital employed increased by \$195.0 million to \$1,139.5 million since June 2020 reflecting an increase in investments and other net assets and a fall in liabilities.

Key points of note:

- Inventories reduced by \$27.0 million, a result of improved trading, and the impact of an \$8.0 million write-down in obsolete componentry;
- The increase in investments reflects the increase in the fair value of EpiMinder and Nyxoah; and
- Other net assets increased \$152.1 million reflecting movements across a number of other assets and liabilities. The \$88.7 million reduction in current provisions reflects the payment of US\$75 million in prejudgment interest and attorneys' fees provided for in FY20 and paid during the half. Net tax assets increased by \$48.2 million reflecting the ATO judgment enabling the tax deductibility of part of the AMF damages award. The \$25.5 million increase in net FX contract assets represents the change in mark-to-market value of all FX hedging contracts as at 31 December 2020.

## Net debt

\$m	Dec20	Jun20	Change
<b>Loans and borrowings:</b>			
Current	29.8	393.1	(363.3)
Non-current	81.0	79.9	1.1
<b>Total loans and borrowings</b>	<b>110.8</b>	<b>473.0</b>	<b>(362.2)</b>
Less: Cash, cash equivalents and term deposits	(612.7)	(930.0)	317.3
<b>Net debt / (cash)</b>	<b>(501.9)</b>	<b>(457.0)</b>	<b>(44.9)</b>

Net cash increased by \$44.9 million to \$501.9 million.

## Dividends

	HY21	HY20	Change %
Interim ordinary dividend (per share)	\$1.15	\$1.60	(28%)
% payout ratio (based on underlying net profit)	60%	70%	
% franking	0%	100%	

An interim dividend of \$1.15 per share has been determined, representing a payout of 60% of underlying net profit. Dividend payments had been suspended in March 2020 until trading conditions improve as a result of the impact of COVID on the business.

The interim dividend is unfranked. The franking balance was depleted due to losses incurred by the business in FY20.

The ex-dividend date is the 25 March 2021. The record date for calculating dividend entitlements is 26 March 2021 with the interim dividend expected to be paid on 20 April 2021.

## 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 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	HY21	HY20	Change %
<b>Underlying net profit</b>	<b>125.3</b>	<b>132.7</b>	<b>(6%)</b>
FX contract movement		22.3	
Spot exchange rate effect to sales revenue and expenses*		(19.2)	
Balance sheet revaluation*		(5.3)	
<b>Underlying net profit (CC)</b>	<b>125.3</b>	<b>130.5</b>	<b>(4%)</b>
One-off net gains	110.9	25.0	
<b>Statutory net profit (CC)</b>	<b>236.2</b>	<b>155.5</b>	<b>52%</b>

\* HY21 actual v HY20 at HY21 rates

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