

ASX / MEDIA RELEASE

11 MAY 2020

Confirmation of COVID-19 pandemic impact on trading

Key points:

- **Significant decline in surgeries across major markets has materialised as expected**
- **Cost reductions implemented**
- **Capital raising and expanded debt facilities provides liquidity buffer to navigate the current market uncertainties**
- **Implant surgeries are restarting in some major markets, although the rate of recovery is unclear at this early stage**
- **Continue to expect many of the delayed surgeries to progress once hospitals resume normal operations**

Cochlear Limited today provides an update to current trading conditions, following its announcement on 16 March where the business foreshadowed a substantial, temporary negative impact on cochlear implant surgeries. Since then, surgeries have been deferred as expected across the US and Western Europe as hospitals prioritise their COVID-19 responses.

Sales revenue across the business declined by ~60% in April (compared to April 2019) with cochlear and acoustic implants most severely affected. Cochlear implant unit sales declined by ~80% across developed markets, with most elective surgeries postponed across the US and Western Europe. To the extent there were surgeries, they were largely for children. In many countries ENT surgeons, as well as personal protective equipment (gowns and masks), have been diverted to help treat COVID-19 patients.

Elective surgeries have continued in South Korea and, until recently, Japan. Surgeries in Japan slowed in late April following a growing number of COVID-19 infections.

In China, surgeries recommenced in late February and continued to recover throughout April. Surgeries are now running close to pre-virus run rates despite Beijing, the largest surgery centre, remaining largely closed to elective surgery. The majority of cochlear implants in China are for children.

Cochlear's Services business, which represents around 30% of business-as-usual revenue, has also been impacted with April sales declining by ~30%. While many recipients have been able to access sound processor upgrades remotely, clinic closures have delayed access to sound processor upgrades.

Cochlear's remote servicing capability, with tools including Cochlear Link and Remote Check, are assisting clinicians and recipients with performance and troubleshooting in markets where they are approved. Many countries and clinics have been rapidly adapting, enabling greater levels of remote access and programming to assist recipients unable to visit clinics as a result of COVID-

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19. In recognition of the importance of providing support, the US FDA fast-tracked approval of Remote Check in April.

Cochlear has significantly reduced non-essential spending and capital expenditure until there is a sustained increase in surgeries. The business has also implemented a hiring freeze, with temporary pay reductions for the Board and senior management across the business. Cochlear expects to be able to participate in various government subsidies, including JobKeeper in Australia, with similar subsidies available in a number of Western European countries.

Cochlear's supply chain continues to be largely intact with no supply shortages expected for components over the coming months. The business continues to carry adequate levels of inventory for most components and is managing distribution in line with customer demand to enable continued supply of products to customers.

Customer servicing has been largely unaffected with the Global Repair Centre fully operational. Cochlear's manufacturing and service and repair centres have been deemed as essential services and continue to operate. Manufacturing output of cochlear and acoustic implant systems has been reduced to manage inventory levels.

Cochlear has continued to invest in the R&D pipeline with the majority of projects progressing to schedule, including products currently in the regulatory approval process.

Cochlear's liquidity position has been strengthened through the \$1.1 billion capital raising and \$225 million increase in debt facilities. A separate facility is in place to cover damages relating to the AMF litigation case. The business is currently cash flow negative, with expectations that this will continue in the coming months.

Outlook

On a positive note, implant surgeries are restarting in some major developed markets including the US, Germany and Australia. It is too early at this stage to understand the rate of recovery with the recommencement of surgery expected to differ by country, hospital and surgeon.

CEO & President, Dig Howitt said, "Since the outbreak of COVID-19, we have taken steps to ensure the health and safety of our employees, provide ongoing support to our recipients, clinics and professional partners while ensuring the financial health of the Company is maintained.

"Cochlear's teams remain focused on providing support to recipients, while continuing their outreach programs with candidates through the Company's direct-to-consumer efforts. The rapid adoption of online tools across the business, and with Cochlear's professional partners, candidates and recipients, is to be commended and has ensured that we can continue to provide valuable education and support throughout the pandemic.

"We continue to expect that many of the delayed surgeries will progress once hospitals resume normal operations, although the pace of the recovery is unclear. At this early stage, we are expecting a gradual recovery with expectations that hospitals will proceed cautiously with the resumption of elective surgery, while prioritising the case load. Based on current feedback from surgeons, cochlear implants for children are expected to be prioritised given the long-term impacts on developmental outcomes from delaying surgery.

"While the resumption of elective surgeries is positive, commencing ahead of our expectations, we caution that there is still risk, noting that Japan and Singapore have recently restricted elective

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surgery following an increase in the COVID-19 infection rate. We need to be careful in assessing progress as second waves of infections and restrictions may occur in more markets, complicating recovery plans and timing.

“Longer-term, there remains a significant, unmet and addressable clinical need for cochlear and acoustic implants that is expected to continue to underpin the long-term sustainable growth of the business. Following the capital raising and expansion of debt facilities, we have strengthened our balance sheet and liquidity position, which enables the business to weather the expected temporary decline in demand caused by COVID-19, while continuing to progress the R&D pipeline.”

Conference call

Management will host a conference call at 11am today to discuss the announcement. Dial in details are as follows:

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