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ASX Announcement

20 August 2021

Cochlear Limited Financial Results

For the year ended June 2021

We achieved record sales revenue of $1,493 million driven by a combination of market share gains, market growth and rescheduled surgeries from COVID shutdowns.

- Sales revenue increased 10% (19% in constant currency (CC)*) to $1,493m. Sales revenue increased 6% in CC on FY19, the last financial year unaffected by COVID.
- Cochlear implant units increased 15% to 36,456, with developed markets up around 20% and emerging markets up around 10%. Compared to FY19, cochlear implant units increased 7%.
- Statutory net profit of $327m includes $59m in patent litigation-related tax and other benefits and $31m in innovation fund gains after-tax.
- Underlying net profit** increased 54% to $237m.
- Underlying net profit margin of 16% was well above last year but below our 18% longer-term target.
- A final dividend of $1.40 brings full year dividends to $2.55 per share, an increase of 59% and representing a payout of 71% of underlying net profit, in line with our 70% target payout.
- FY22 net profit guidance of $265-285m, a 12-20% increase on underlying net profit for FY21, factors in market growth, a continuing recovery in surgery rates, investment in market growth activities with some near-term COVID impact. A more material disruption from COVID remains a risk factor that does not form part of guidance.

	FY21	FY20	Change % Reported	Change % CC*
Cochlear implant units	36,456	31,662	⬆ 15%	
Sales revenue ($m)	**1,493.3**	**1,352.3**	**⬆ 10%**	**⬆ 19%**
Underlying net profit ($m)**	**236.7**	**153.8**	**⬆ 54%**	**⬆ 51%**
% underlying net profit margin**	16%	11%		
One-off and non-recurring items after-tax ($m)	89.8	(392.1)		
Statutory net profit ($m)	**326.5**	**(238.3)**		
Underlying earnings per share**	$3.60	$2.58	⬆ 40%	
Final dividend per share	$1.40	-		
Full year dividends per share	$2.55	$1.60	⬆ 59%	
% payout ratio**	71%	60%		

*Constant currency (CC) removes the impact of foreign exchange (FX) rate movements to facilitate comparability of operational performance (refer p12). **Excluding one-off and non-recurring items (refer p12).

Operational review

$m	FY21	FY20	Chg v FY20 (reported)	Chg v FY20 (CC)	*Chg v FY19* (CC)*	Sales Mix
Cochlear implants (units)	36,456	31,662	⬆ 15%	⬆ 15%	⬆ *7%*	
Sales revenue						
Cochlear implants	898.6	817.9	⬆ 10%	⬆ 19%	⬆ *9%*	61%
Services (sound processor upgrades and other)	438.5	395.5	⬆ 11%	⬆ 19%	⬆ *5%*	29%
Acoustics	156.2	138.9	⬆ 12%	⬆ 22%	⬇ *8%*	10%
Total sales revenue	**1,493.3**	**1,352.3**	⬆ **10%**	⬆ **19%**	⬆ ***6%***	**100%**

* FY19 has been included for comparative purposes as it represents the last financial year unaffected by COVID.

During FY21 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, we have maintained our people and market presence, ensuring the health and safety of our employees while providing ongoing support to our recipients, clinics and professional customers.

Our focus on long-term growth has continued with increasing levels of investment across R&D projects and market growth activities. Despite the challenging trading conditions, new products have been successfully launched across all product categories, with market share gains realised in many markets.

Cochlear implants

Cochlear implant units increased 15% to 36,456 units and sales revenue increased 19% in CC to $898.6 million, driven by a combination of market share gains, market growth and rescheduled surgeries from COVID shutdowns. Compared to FY19, the last financial year unaffected by COVID, units increased by 7% with sales revenue up 9% in CC.

While hospitals and clinics have adapted to operating during the pandemic, we experienced variability in surgery rates across countries as infection waves continued.

For **developed markets**, the pace of recovery varied across countries with strong growth in the US, Japan and Korea and improving momentum in Western Europe. Overall developed market unit volumes grew around 20%, an increase of around 10% on FY19.

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 has rebuilt quickly supported by our direct-to-consumer activities.

The US, Japan and Korea delivered strong growth in sales revenue on last year, as well as on FY19. Growth was driven by the combination of market share, market growth and rescheduled surgeries from the March/April 2020 shutdowns. Strong momentum follows successful new product launches and the introduction of a range of connected care services, providing greater convenience and confidence to both professional customers and recipients.

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 workloads for clinics.

Our market position in Western Europe remains strong but surgery rates have recovered more slowly than the US. Cochlear implant units grew on FY20 but remained below FY19 levels, with periods of disruption caused by COVID waves affecting both surgery rates and the candidate assessments across many Western European countries.

For the **emerging markets**, unit volumes overall increased around 10% on FY20 and were just above FY19 levels. Emerging markets experienced an improving rate of surgeries albeit at a slower pace than the developed markets. Surgeries in China are growing quickly due to strong private pay demand. In other markets, parts of Eastern Europe and the Middle East are recovering well, with volumes still materially lower in several markets including India and Brazil.

Services

Services revenue increased 19% in CC to $438.5 million, up 5% in CC on FY19, with improving momentum across the year. First and third quarter revenue was impacted by lower clinical capacity for sound processor upgrades, with new patients prioritised as COVID concerns limited clinic capacity.

The Cochlear™ Nucleus® Kanso® 2 Sound Processor was launched in October across the US and Europe, driving demand for upgrades, representing around 30% of the sound processor mix in the US by June.

We invest to provide our recipients with a world-class customer experience with increased connectivity and engagement. Cochlear Family, the recipient membership program, provides us with the opportunity to connect directly with recipients to provide service and support. Over the last 12 months we have provided special edition newsletters and webinar virtual events about COVID safety, with special considerations for those living with a hearing device.

Membership continues to grow rapidly, increasing by 19% over the last 12 months, to now exceed 217,000 members with a 60% join rate for new Cochlear™ Nucleus® implant recipients. An acceleration in recruitment in recent years has been driven by a combination of direct outreach programs and improvements in customer onboarding.

Acoustics

Acoustics revenue increased by 22% in CC to $156.2 million. Acoustics revenue is largely generated from the US and the UK with the US recovering quickly while the UK return to surgeries has been slower. As a result, sales revenue continues to be below FY19 levels, down 8% in CC, with improving momentum in the second half as new products were launched.

Surgery volumes in the US have recovered quickly with strong demand for the Cochlear™ Osia® 2 System. The Cochlear™ Baha® 6 Max Sound Processor was launched in the fourth quarter and is driving strong demand for sound processor upgrades.

Acoustic implant surgeries recommenced in the UK during the first quarter with a slower rate of recovery as a result of COVID, with disruption again during the third quarter as a result of rising COVID-related hospitalisations.

The Osia 2 System achieved CE Mark accreditation during the second half, with the rollout commencing in a few Western European countries by June.

Progress against strategic priorities

Retain market leadership

Grow the hearing implant market

Deliver consistent revenue and earnings growth

Retain market leadership

The investment in R&D aims to strengthen our leadership position through the development of market-leading technology with eight new products and services achieving FDA approval over the last 18 months across all parts of the portfolio. For FY21, we invested $195 million in R&D, representing 13% of sales revenue. An update on the progress of key new products in market is as follows:

Cochlear™ Osia® 2 System: Our new implantable product offering, the Cochlear™ Osia® 2 System, represents a significant improvement in performance, aesthetics and quality of life for bone conduction patients 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 are 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 received regulatory approval in Europe during the second half with the rollout commencing in a few Western European countries by June.

Cochlear™ Nucleus® Kanso® 2 Sound Processor: The Cochlear™ Nucleus® Kanso® 2 Sound Processor commenced its rollout in the US and Europe during the first half, bringing the features of the Cochlear™ Nucleus® 7 Sound Processor into an off-the-ear form factor. The rollout is progressing well, with the Kanso 2 Sound Processor contributing to growth since its launch.

Cochlear™ Baha® 6 Max Sound Processor: We received FDA clearance and CE Mark certification for the Baha 6 Max Sound Processor with the launch in the US and Europe during the second half. The launch is progressing well with strong demand experienced for the new sound processor. The Baha 6 Max provides a fitting range of up to 55 dB sensorineural hearing loss in the same small size as current 45 dB devices, with longer battery life and direct streaming from both Android and Apple devices.

Cochlear™ CoPilot: In May, we launched Cochlear™ CoPilot, a new mobile app designed to improve hearing techniques. The iPhone® app provides cochlear implant recipients with information, personalised support and practical tips for hearing, listening and communication. It features articles by clinical experts and cochlear implant recipients with tips on a range of topics, from listening in noise and managing listening fatigue to reconnecting to music and communicating in the workplace. Developed using the latest clinical evidence and proven rehabilitation practices, Cochlear CoPilot also features interactive skill builders designed to help improve listening and communication skills.

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.

Grow 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 FY21, we continued to invest in expanding our programs for driving growth of the adults and seniors segment through direct-to-consumer marketing activities and building referrals from hearing aid and ENT (ear, nose and throat) clinics.

An important long-term goal for us is to contribute to the development of a consistent treatment pathway to a cochlear implant for adults with severe or higher hearing loss, with a number of important developments made during FY21 including:

- Publication of the World Health Organization's (WHO) first 'World Report on Hearing' calling on governments and societies to prioritise hearing health, with the report recognising the effectiveness of cochlear implants;
- Publication of a global consensus on a minimum standard of care for treating adult hearing loss with a cochlear implant in JAMA Otolaryngology;
- Amplification of the consumer advocacy voice with the launch of the Cochlear Implant International Community of Action (CIICA), the first global cochlear implant advocacy network; and
- Studies in Sweden and the Netherlands demonstrating the cost-effectiveness of cochlear implants in adults with the Netherlands study detailing the significant cost, health and societal benefits from cochlear implantation across all age groups.

Benefits from expanded product indications

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

Cochlear implant versus hearing aid head-to-head trial

A challenge for professionals and consumers is understanding the potential improvement in hearing outcomes that can be attained from a cochlear implant. There is a growing body of evidence of the superior outcomes of cochlear implants over hearing aids for many people with a severe or higher hearing loss (>70dB). In 2018, a Cochlear study of recipient experiences[1] found that the number of participants reporting satisfaction with their hearing performance increased significantly after receiving a cochlear implant, rising from 9% when using hearing aids only to 95% after receiving a cochlear implant.

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[1] Lupo JE, Biever A, Kelsall DC. Comprehensive hearing aid assessment in adults with bilateral severe-profound sensorineural hearing loss who present for Cochlear implant evaluation. Am J Otolaryngol. 2020;41(2):102300. doi:10.1016/j.amjoto.2019.102300.

To build on the evidence, we have provided funding to the University of Nottingham for an independent, randomised control trial to compare communication and quality of life outcomes of cochlear implants for adults compared to hearing aids that will commence shortly in the UK. The trial aims to provide gold standard clinical evidence of the relative efficacy of cochlear implants for this patient group with results expected in the next several years. These studies are important in helping to educate hearing aid professionals and cochlear implant candidates on the benefits of cochlear implants when compared to hearing aids.

Deliver consistent revenue and earnings growth

To deliver consistent revenue and earnings growth over time, we balance maximising spending to grow the market with investment to maintain our competitive position while ensuring we have agile, efficient and environmentally responsible business processes to support our growth ambitions.

Underlying net profit increases 54% to $237 million

For FY21, underlying net profit increased 54% to $237 million, within the guidance range of $225-245 million. The underlying net profit margin of 16% was well above last year and a little below our longer-term target of 18%.

There were a number of factors contributing to the underlying net profit result. The recovery in trading was solid with the business delivering record sales revenue of $1,493 million, an increase of 19% in CC, driven by a combination of market share gains, market growth and rescheduled surgeries from FY20. Sales revenue was 6% ahead of FY19 in CC, the last financial year unaffected by COVID.

Gross margin declined from 75% to 73% with around half of the decline currency related, the result of the strengthening of the Australian dollar.

Operating expenses were maintained in line with last year (up 5% in CC). Continued investment was made in R&D, market growth activities, standard of care and market access initiatives. The increase in growth investment and re-establishment of the short-term incentive provision was partially offset by COVID-related savings including travel and conference expenses.

Statutory net profit of $327m benefits from $90m in one-off gains

We recorded $59 million in patent litigation-related tax and 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 as of 30 June 2020.

Over the past few years, the innovation fund has made several small investments in companies with novel technologies that may, over the longer term, enhance or leverage our intellectual property. The innovation fund includes investments in Saluda, Nyxoah, EpiMinder and Seer Medical, with $31 million in non-cash net gains after-tax realised from investments including Nyxoah and EpiMinder.

Nyxoah listed in September with a $24 million after-tax gain realised based on the value of our shareholding in Nyxoah at listing. We invested a further €5 million (A$8 million) in the initial public offering and a further US$23 million (A$30 million) in the July 2021 capital raising.

The $13 million after-tax gain in EpiMinder represents the increase in value of our shareholding following a financing round which saw Cochlear invest a further $3 million.

Strong financial position

The balance sheet remains strong with operating cash flows sufficient to fund investing activities and capital expenditure whilst delivering dividends to shareholders.

Net cash increased $108 million to $565 million, driven by strong free cash flow generation, with operating cash flows increasing by $429 million to $271 million and free cash flow of $180 million.

The dividend was re-introduced at the half as a result of improved trading conditions and cash flow generation. A final dividend of $1.40 per share has been determined, with full year dividends declared of $2.55, an increase of 59% on last year and representing a payout of 71% 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.

Taking action on carbon emissions

We have a relatively low level of carbon emissions as a business, with around 50% of total FY19 reported carbon emissions generated from Scope 3 – or indirect – emissions. For Cochlear, business travel is our single biggest source of carbon emissions.

COVID has driven changes in the way our customers and our people operate. The rapid adoption of technology to enable effective remote collaboration has been an important contributor to continuing to work with customers and an enabler to continued investment in R&D and market growth activities.

Many of the new ways of doing business remotely, both internally and with our customers, have been incredibly successful and will continue to be a part of how we do business going forward and this will enable us to reduce the amount of business travel. As a result, we are committing to a 50% absolute reduction in business flight-related carbon emissions by FY25, equivalent to around 25% in overall reported carbon emissions compared to our FY19 baseline. We will achieve this through a combination of reductions in business flights, with a targeted 20% reduction in business flights per full-time employee, and investment in carbon offsets.

This initiative forms part of the development of a more comprehensive approach to understanding, reporting and reducing our carbon emissions and environmental impact.

Decision to return FY21 COVID government assistance

We note our decision to repay $25 million in pre-tax COVID government assistance received in FY21 as a result of improved trading conditions. Most of the assistance, $23 million, was received from the Australian Federal Government's JobKeeper program, with JobKeeper repaid in February.

We met the eligibility requirements to participate in these programs, which were designed to support jobs during the first wave of COVID infections, 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.

Australian government announces patent box tax concession

We welcome the Australian Government's announcement of a tax incentive to encourage companies to commercialise home grown medical and health ideas in Australia. Subject to the final design and successful passage of legislation through parliament, the patent box tax regime for medical technology and biotechnology should encourage the development of innovation in Australia by taxing corporate income derived from patents at a concessional effective corporate tax rate of 17%, with the concession applying from income years starting on or after 1 July 2022.

A globally competitive Australian patent box regime will support local manufacturing of medical products and help reverse the trend of Australian research being commercialised offshore. It should result in more highly skilled, well-paid jobs and more investment in the commercialisation of Australia's world-leading medical research. It also enables Australia to compete with other advanced economies for investment in critical medical product research and manufacturing capability.

We are actively involved in current consultations on the detailed design of the patent box to ensure it delivers on the stated policy objectives of government – encouraging companies to base their medical and biotechnology R&D operations, and commercialise innovation, in Australia; and to retain ownership of eligible patented inventions in Australia.

To achieve these objectives the Australian patent box must:

- be competitive with similar incentives offered in peer nations;
- strike an appropriate balance between administrative integrity and being workable and practical for those using the regime; and
- reflect the nature of the sector that it is seeking to target and attract.

Subject to the final design of the patent box, we would expect to benefit from a reduced tax rate in the medium term.

Change in recognition of cloud computing investment

In April 2021, the International Financial Reporting Standards Interpretations Committee handed down an accounting interpretation on the treatment of cloud computing arrangements which is expected to limit our ability to capitalise customisation and configuration costs related to cloud computing products. As a result, investments in cloud computing may need to be reclassified from capital expenditure (capex) to operating expenses (opex), effective from FY21. The interpretation has not been adopted in FY21 due to the timing of the decision and the complexity of the cloud arrangements.

We have commenced a major process transformation and IT systems upgrade which will invest across many of our IT platforms to improve the agility of our processes and systems and provide an even better customer experience. We expect to invest $100-120 million (before tax) over the next four to five years. It is not yet clear how much of that investment will be capitalised versus expensed as a result of the change in accounting interpretation. While there would be no impact to cash flow from the change, there would be an impact to reported net profit from any expensing of this investment, with a longer-term benefit to net profit from lower depreciation levels.

We expect to finalise the quantum of the impact by December 2021 and adopt the change in the HY22 result.

FY22 outlook

As we look to the future, we remain confident of the opportunity to grow our markets. 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. Our clear growth opportunity and strategy, combined with a strong balance sheet, mean we are well placed to create value for our stakeholders now, and over the long term.

For FY22, we expect to deliver net profit of $265-285 million, a 12-20% increase on underlying net profit for FY21, based on a 74 cent AUD/USD. Sales revenue is expected to benefit from market growth, with a continuing recovery in surgery rates across many countries more affected by COVID. We will continue our investment in market growth activities, with the net profit margin expected to remain a little below our longer-term target of 18%.

Developed markets are expected to continue to grow in FY22. While hospitals and clinics have adapted to operating during the pandemic, surgery rates continue to be variable across many countries. The US has adapted quickly to COVID with the market growing well. Western Europe and parts of Asia Pacific have not recovered to the same extent due to impact from more recent COVID disruptions. We expect the rate of recovery to be protracted in a few markets as a result of waiting lists affecting all elective surgery procedures, potentially restricting the pace of growth.

The rate of recovery in emerging markets has varied and we expect continued improvement but at a slower rate than developed markets, with some countries still well down on FY19 levels and not likely to recover fully in FY22.

Guidance factors in some continuing near-term COVID impact. A more material disruption from COVID that significantly impacts sales or the supply chain remains a risk factor that does not form part of guidance. We are confident of the resilience of our hearing implant business given the improvements in surgery rates experienced across FY21. While we did see a moderation in demand at times of high hospitalisation rates for COVID patients, the deployment of COVID vaccines and the recovery of surgeries that followed COVID surges gives us some confidence that any further surgery deferrals could also recover quickly.

Our investment priorities continue to be focused on market growth activities and strengthening our competitive position. Operating expenses are expected to increase with the acceleration of a number of growth projects and some uplift in travel and conference expenses following constrained spending as a result of COVID. The commissioning of our China manufacturing facility will have a small negative gross margin impact over the coming years as we commission and then scale up production.

Capex is expected to be around $70-90 million for FY22 and includes around $20 million related to a major process transformation and IT systems upgrade, a program that is expected to be a $100-120 million investment over the next four to five years. It is not yet clear how much of this investment will be capitalised versus expensed as a result of the change in the accounting interpretation for cloud computing investment. We have not factored any expensing resulting from this accounting change into the net profit guidance. We expect to finalise the quantum of the impact by December 2021 and adopt the change in the HY22 result.

The effective tax rate is expected to decline to around 25% as a result of the introduction of changes to the R&D tax concession by the Australian government, with legislated changes to take effect from 1 July 2021. The changes include an increase in the $100 million R&D expenditure threshold and an increase in the deduction rate.

The Board is committed to maintaining the dividend policy which targets a 70% payout of underlying net profit.

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Financial review

Profit & loss

$m	FY21	FY20	Change % (reported)	Change % (CC)
Sales revenue	**1,493.3**	**1,352.3**	**10%**	**19%**
Cost of sales	**410.2**	**344.4**	**19%**	**25%**
% gross margin	*73%*	*75%*	*(2) pts*	*(1) pt*
Selling, marketing and general expenses	444.1	470.0	(6%)	1%
Research and development expenses	195.0	185.1	5%	6%
% of sales revenue	*13%*	*14%*	*(1) pt*	*(2) pts*
Administration expenses	112.2	93.8	20%	21%
Operating expenses	**751.3**	**748.9**	**0%**	**5%**
Other income / (expenses)	(5.9)	(20.4)		
FX contract gains / (losses)	4.3	(31.7)		
EBIT (underlying)*	**330.2**	**206.9**	**60%**	**57%**
*% EBIT margin**	*22%*	*15%*		
Net finance expense	8.4	8.9	(6%)	
Income tax expense*	85.1	44.2	93%	
% effective tax rate	*26%*	*22%*		
Underlying net profit*	**236.7**	**153.8**	**54%**	**51%**
*% underlying net profit margin**	*16%*	*11%*		
One-off and non-recurring items (after-tax):				
Patent litigation-related tax & other	59.0	(416.3)		
Innovation fund gains	30.8	24.2		
Statutory net profit	**326.5**	**(238.3)**		

* Excluding one-off and non-recurring items (refer p12).

Sales revenue increased 10% (19% in CC) to $1,493.3 million and underlying net profit increased 54% to $236.7 million. The underlying net profit margin of 16% was well above last year and a little below the longer-term target of 18%. Statutory net profit of $326.5 million includes $59.0 million in patent litigation-related tax and other benefits and $30.8 million in innovation fund gains after-tax.

Key points of note:

- Cost of sales increased 19% (25% in CC) to $410.2 million with the gross margin declining by two percentage points to 73% with around half of the decline currency related, the result of the strengthening of the Australian dollar;
- Selling, marketing and general expenses declined 6% (up 1% in CC) to $444.1 million with continued investment made in market growth activities, standard of care and market access initiatives. The re-establishment of the short-term incentive provision was largely offset by COVID-related savings including travel and conference expenses;
- Investment in R&D increased 5% (6% in CC) to $195.0 million with continued investment made in key R&D projects and development of the pipeline;
- Administration expenses increased 20% (21% in CC) to $112.2 million and includes the re-establishment of the short-term incentive provision, significant increases in insurance costs and increased depreciation and IT expenses;
- Net finance expenses declined 6% to $8.4 million and includes $6.6 million in expenses relating to leasing accounting standard AASB16. Net finance expense (excluding the lease-related expense) declined 36% to $1.8 million with the

business benefitting from lower debt, lower interest rates on debt and interest income on cash deposits from the March 2020 capital raising; and

- The effective tax rate for underlying net profit was 26%.

One-off and non-recurring items

$m	Pre-tax	Tax impact	Post-tax
Patent litigation-related tax & other benefits:			
ATO ruling on tax deductibility of litigation expenses	*-*	*63.5*	*63.5*
Withholding tax associated with ATO ruling	*(29.6)*	*8.9*	*(20.7)*
FX gains associated with balance sheet items	*23.2*	*(7.0)*	*16.2*
Patent litigation-related tax & other benefits (total)	(6.4)	65.4	59.0
Innovation fund gains	50.3	(19.5)	30.8
Total	**43.9**	**45.9**	**89.8**

$89.8 million in one-off gains after-tax includes:

- $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; and
- Innovation fund gains after-tax includes a $23.5 million gain from the revaluation of Nyxoah following its listing in September, and a $12.9 million gain from the revaluation of the EpiMinder shareholding following a financing round and $1.2 million in equity accounted losses relating to Nyxoah.

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Cash flow

$m	FY21	FY20	Change
EBIT (underlying)	330.2	206.9	123.3
Depreciation and amortisation	79.5	77.5	2.0
Changes in working capital and other	(11.2)	66.9	(78.1)
Cash impact of patent litigation expense	(104.4)	(420.1)	315.7
Net interest paid	(8.4)	(8.9)	0.5
Income taxes paid	(14.4)	(80.1)	65.7
Operating cash flow	**271.3**	**(157.8)**	**429.1**
Capital expenditure	(72.6)	(130.5)	57.9
Other net investments	(18.4)	(14.2)	(4.2)
Free cash flow	**180.3**	**(302.5)**	**482.8**
Proceeds from issue of shares	2.4	1,081.9	(1,079.5)
Dividends paid	(75.6)	(193.7)	118.1
Other	0.5	(25.7)	26.2
Change in net cash – increase / (decrease)	**107.6**	**560.0**	**(452.4)**

Free cash flow increased $482.8 million to $180.3 million.

Key points of note:

- Improved trading conditions following COVID shutdowns resulted in a $123.3 million improvement in underlying EBIT;
- The $104.4 million cash outflow is the US$75 million in prejudgment interest and attorneys' fees resulting from the AMF judgment;
- Income taxes paid of $14.4 million includes the benefit of a $55.0 million tax refund resulting from an overpayment of tax instalments paid in FY20; and
- Capital expenditure (capex) decreased by $57.9 million to $72.6 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.

Net cash

$m	Jun21	Jun20	Change
Cash, cash equivalents and term deposits	**609.6**	**930.0**	**(320.4)**
Less: Loans and borrowings			
Current	-	(393.1)	393.1
Non-current	(45.0)	(79.9)	34.9
Total loans and borrowings	**(45.0)**	**(473.0)**	**428.0**
Net cash	**564.6**	**457.0**	**107.6**

Net cash increased by $107.6 million to $564.6 million.

Capital employed

$m	Jun21	Jun20	Change
Trade receivables	262.1	211.4	50.7
Inventories	216.1	223.8	(7.7)
Less: Trade payables	(202.9)	(155.3)	(47.6)
Working capital	**275.3**	**279.9**	**(4.6)**
Working capital / sales revenue	*18%*	*21%*	
Property, plant and equipment	239.5	230.5	9.0
Intangible assets	402.8	410.3	(7.5)
Investments & other financial assets	226.8	99.9	126.9
Other net liabilities	(7.3)	(76.1)	68.8
Capital employed	**1,137.1**	**944.5**	**192.6**

Capital employed increased by $192.6 million to $1,137.1 million since June 2020 reflecting an increase in investments and reduction in other net liabilities.

Key points of note:

- The $126.9 million increase in investments reflects the $18.4 million increase in investment in the innovation fund as well as the $101.8 million increase in the fair value of EpiMinder and Nyxoah; and
- Other net liabilities decreased $68.8 million reflecting movements across a number of other assets and liabilities. The $107.0 million reduction in provisions reflects the payment of US$75 million in prejudgment interest and attorneys' fees provided for in FY20 and paid in the first half. Net tax liabilities increased by $42.7 million reflecting deferred tax liabilities of gains made in innovation fund investments.

Dividends

	FY21	FY20	Change %
Interim ordinary dividend (per share)	$1.15	$1.60	(28%)
Final ordinary dividend (per share)	$1.40	-	
Total ordinary dividends (per share)	**$2.55**	**$1.60**	**59%**
% payout ratio (based on underlying net profit)	71%	60%	
% franking	0%	100%	

A final dividend of $1.40 per share has been determined, taking full year dividends to $2.55, an increase of 59% and representing a payout of 71% of underlying net profit.

The interim and full year dividends are unfranked. The franking balance was depleted due to losses incurred by the business in FY20.

The ex-dividend date is 23 September 2021. The record date for calculating dividend entitlements is 24 September 2021 with the final dividend expected to be paid on 18 October 2021.

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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 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 gains/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	FY21	FY20	Change %
Underlying net profit	**236.7**	**153.8**	**54%**
FX contract movement		36.0	
Spot exchange rate effect to sales revenue and expenses*		(23.8)	
Balance sheet revaluation*		(9.0)	
Underlying net profit (CC)	**236.7**	**157.0**	**51%**
One-off net gains / (losses)	89.8	(392.1)	
Statutory net profit / (loss) (CC)	**326.5**	**(235.1)**	

* FY21 actual v FY20 at FY21 rates

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