



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



Cochlear

Business Description

Cochlear Limited (COH) is a manufacturer and marketer of cochlear implants which are used to stimulate impaired hearing. The COH implantable device is the gold standard for enabling profoundly hearing impaired patients to hear. Growth stems from further penetration of existing markets and entry into undeveloped markets such as South America, Eastern Europe and China.

Strategy Analysis

COH strategy is to maintain its market position as the clear leader in implantable hearing technology. COH reputation of delivering the most reliable and safest implantable device provides strong brand awareness with hearing specialists. Management will build on this credibility and its international distribution base to develop product awareness about the Baha device to the larger hearing impaired market. Less than 10% of the profoundly deaf have an implantable hearing device, management expect they can exploit the immaturity of the global market. COH is investing in research to redesign its devices to enable manufacturing to be scaled up from a craft base industry to a production line. Management is also building the business to handle more revenue by investing in marketing and sales resources. Cochlear reported NPAT up 16% to \$180.11m for the year ended 30 June 2011. Revenues from ordinary activities were \$809.65m, up 10% from last year. Diluted EPS was 316.1 cents compared to 274.2 cents last year. Net operating cash flow was \$201.28m compared to \$179.55m last year. The final dividend declared was 120 cents, taking the full year dividend to 225 cents compared with 200 cents last year. Looking ahead, the Company reported there is a significant unmet clinical need for Cochlear's products, leading to ongoing demand from the emerging and developed markets. Continued investments in capacity, resources and capabilities together with a new product pipeline will underpin and drive the long term growth.

27 January 2012

Recommendation

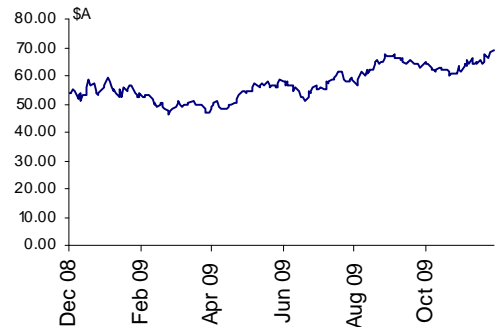
Recommendation: Outperform
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: COH
Stock price: \$60.23
Market cap: \$3,427m

	Y/E 30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	18.1	191.2	195.8	185.1
Adjusted e	\$m	120.1	191.2	195.8	185.1
EPS adjusted	¢	211.0	336.0	344.0	325.2
EPS growth	%	-33.7	59.3	2.4	-5.5
PE	x	28.5	17.9	17.5	18.5
PE relative	x	2.4	1.8	1.9	2.0
DPS	¢	250.0	270.0	295.0	325.0
Yield	%	4.2	4.5	4.9	5.4
Franking	%	70.0	70.0	70.0	70.0

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	3 year
Cochlear implants	88.5	0.0	0.0	-19.0%	3.0%
Bone anchored hearing aids (Baha)	11.5	0.0	0.0	4.0%	6.0%
Total	100.0	0.0	0.0	Dividend Reinvestment Plan	No
Results by Geography				Shareholder Discounts	No
Americas	43.3	181.8	47.6		
Europe	40.1	84.1	45.8		
Asia Pacific	16.7	72.0	30.7		
Total	100.1				

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