



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 proudly 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. COH is leveraging its customer base by offering a number of accessories. Coloured skins, Ipod attachments and different sized batteries to enable customers to personalise their devices and make them less clinical. Accessories help to lock in customer loyalty and further differentiate products from competitors. Cochlear reported NPAT up 22% to \$69.94m for the half-year ended 31 December 2008. Revenue from ordinary activities were \$355.23m, up 19% from the same period last year. Sales excluding FX contracts were up 22% to \$346.9m. In constant currency, that is restating 1H08 at 1H09 FX rates, sales were up 12%. Cochlear implant unit sales rose 2% to 9,178 with global market share remaining at around 70%. Cochlear implant sales revenue grew 22%, to \$301.1m for the half year. Diluted EPS was 125 cents compared to 102.6 cents last year. Net operating cash flow was \$57.41m compared to \$30.04m in the pcp. The interim dividend declared was 80 cents fully franked, compared with 70 cents last year.

28 July 2010

Recommendation

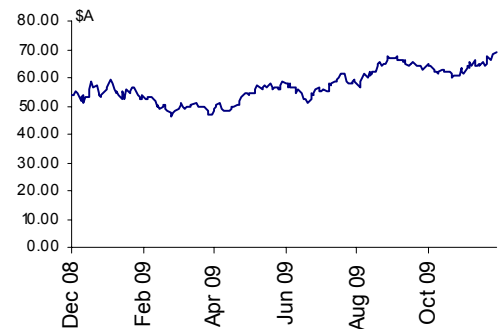
Recommendation: Neutral
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: COH
Stock price: \$72.45
Market cap: \$4,097m

| | Y/E 30/06/2010 | 2010e | 2011e | 2012e | 2013e |
|--------------|----------------|-------|-------|-------|-------|
| Reported e | \$m | 151.0 | 169.1 | 193.9 | 225.2 |
| Adjusted e | \$m | 151.0 | 169.1 | 193.9 | 225.2 |
| EPS adjusted | ¢ | 268.2 | 299.1 | 342.9 | 398.4 |
| EPS growth | % | 8.8 | 11.5 | 14.7 | 16.2 |
| PE | x | 27.0 | 24.2 | 21.1 | 18.2 |
| PE relative | x | 1.9 | 2.2 | 2.1 | 1.9 |
| DPS | ¢ | 194.0 | 216.0 | 247.0 | 287.0 |
| Yield | % | 2.7 | 3.0 | 3.4 | 4.0 |
| Franking | % | 100.0 | 90.0 | 80.0 | 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 |
| Implantable Hearing Device | 100.0 | 100.0 | 100.0 | 34.0% | 8.0% |
| Total | 100.0 | 100.0 | 100.0 | 15.0% | 12.0% |
| Results by Geography | | | | Dividend Reinvestment | |
| Europe | 44.8 | 44.6 | 35.3 | Plan | No |
| Americas | 42.2 | 59.1 | 34.5 | Shareholder | |
| Asia Pacific | 13.0 | 38.9 | 21.5 | Discounts | No |
| Total | 100.0 | | | | |

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If you have any queries regarding this Research information or with any aspect of your legalsuper account please call legalsuper on 1800 060 312 (freecall) or email mail@legalsuper.com.au

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