



Cochlear results are loud and clear!

Company/ASX Code	Cochlear Limited/COH
AGM date	Tuesday 22 October 2019
Time and location	10:00 AM Australian Securities Exchange, Exchange Square Auditorium, 20 Bridge Street Sydney NSW
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Patricia Beal, assisted by Chandra Agnihotri
Pre AGM Meeting?	Yes with Chair Rick Holliday-Smith

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

Cochlear's Corporate Governance Statement provides a clear summary of the responsibilities of each board member and executive. These include the standard responsibilities, whilst also expecting and valuing high standards of execution and culture. Protection and enhancement of the interests of other stakeholders, including those of shareholders, employees, customers, suppliers etc, are expected and clearly defined. Going through the Annual Report, the responsibilities of each separate category of Board and employees, and each type of policy which has been decided, and the behaviour expected, are clearly explained.

While only 22% of the directors are female and, the ASA would much rather prefer seeing a minimum of 30% of the board comprising of females, the company is taking positive steps to address imbalance. At least 31.5% of senior executives are female and there are increasing percentages being employed and promoted through the ranks after the organization set up policies to address these issues two years ago.

Financial performance

The company's performance in financial year 2019 (FY19) saw profits increase through a variety of factors. Positive changes came more from upgrades to already implanted devices, while overall number of new implants was slightly down. Partly, this was due to the release (late in the FY) of new models by Cochlear, while a new model was released earlier by a competitor. There were also differences by country or region, itemised clearly, partly depending on funding by respective governments.

Seniors are a growing population and market in developing countries which is likely to yield positive results with increased marketing. This strategy targets both hearing impaired individuals and as well as health professionals (audiologists and implant surgeons). Studies have demonstrated improvements in quality of life for deaf seniors after one (plus a hearing aid in the other ear) or two implants.

The company is focused on the long term, with consistent, continuing investment (13% of sales revenue, this year) in research. Research is also commencing towards a fully implantable device, not expected for years.

While the dividend was raised, the share price showed very little gain between values at the end of FY18 and FY19, which meant that total shareholder return (TSR) showed a much smaller gain than FY18, during which the share price had increased very significantly. The very long-term trends shown in the Financial History graphs on page 1 of the Annual Report remind us how well Cochlear has performed over a significantly long period.

The forecast for next year is for 9-13% increase in profits and an increase in sales for implanted units due to the new models released during this year. The company will invest in increased marketing to retain market leadership while continuing to support strong research and development.

Key Board or senior management changes

Prof Edward Byrne, AC retired as a Director in Oct 2018.

Abbas Hussain became a Director in Dec 2018.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	276.7	245.8	223.6	189.0	146.0
Share price (\$)	206.84	200.17	155.45	121.25	80.15
Dividend (cents)	330(45)	300	270	230	190
TSR (%)	4.75	157	30.55	50.5	27.7
EPS (cents)	479.6	427.3	390	331	256
CEO total remuneration, actual (\$m)	3.695	3.936	4.885*	3.385*	1.296*^

*refers to the previous CEO ^part year

For FY19, the CEO's total actual remuneration was **42 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was \$88,145 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The scheme for determining the remuneration for 2019 is the scheme approved last year by ASA, which has apparently been used for at least 15 years.

During FY19, there has been an extensive consultation and review process of the remuneration scheme. Proposed changes are expected to apply next year (with special transitional adjustment of rates) and thenceforward. There are clear tables in the Annual Report, pp 32 and 33, setting out the changes which are explained below.

The STI incentive scheme will be strengthened by the addition of a "gateway" of minimum net profits before any awards. The STI pool will then be determined by revenue growth (60% of total STI), plus achievement of specific (long term) objectives. These objectives are around retaining market leadership, growing the market and consistent revenue and earnings growth (40%). The change is designed to reduce STI awards for low-to-moderate performance but increase that for

“strong-to-exceptional” achievement. This STI scheme is for all eligible employees, not just executives.

After at least 15 years without alteration, the LTI scheme will change by extending the proposed performance period from 3 to 4 years. Also, the earnings per share (EPS) target range is to change from 10% to 20% compound, to 7.5% (50% awarded) to 12.5% compound annual growth rate over 4 years (in excess of 12.5% rewarded by 100% of the available amount; pro rata between these figures). It was noted that the earlier targets are more appropriate to the early growth stage than to the company’s current market conditions and strategies. The target range of TSR outcomes is unchanged. The other minor change involves setting the mixture of the incentives awarded as 50% share options and 50% performance rights, rather than this proportion being chosen by each executive. Valuation of these will continue to be calculated on 5 day VWAP (volume weighted average price) of shares following the results announcement.

These changes are designed to more closely align the interests of executives and shareholders, and to lengthen the period of LTI from 3 to 4 years, which is consistent with ASA recommendations. We shall currently support these relatively minor changes, while checking in future whether they achieve the desired aims.

The executives are required to have “skin in the game” and expected to hold a minimum shareholding over time. A table shows the holdings of all KMPs, and the percentage of base salary represented. All KMPs are compliant with ASA guidelines.

The Board also encourages employee ownership of Cochlear shares, with the proviso that employees’ interests in unvested equity cannot exceed 5% of share capital (currently 0.65%).

2019 Scheme	Target \$m	% of Total	Max. Opportunity* \$m	% of Total
Fixed Remuneration	1.73	33.45	1.73	26.35
STI - Cash	1.14	22.07	2.05	31.4*
STI - Equity	0.57	11.03	1.02	15.8*
LTI	1.73	33.45	1.73	26.35
Total	5.16	100.0%	6.55	100

* max. opportunity for CEO; other KMP’s have lower maxima.

Item 3	Election / Re-election of Directors
---------------	--

Summary of ASA Position

3.1 Ms Yasmin Allen **ASA Vote For**

Appointed in 2010, is Chair of the Audit Committee and a member of three other Board Committees (People & Culture, Nomination, Technology & Innovation). Ms Allen is also a Director of Santos and ASX. She has had an extensive career in investment banking. Her holdings in shares (more than twice her annual directorship fees) demonstrate her alignment with shareholders.

3.2 Mr Donal O’Dwyer **ASA Vote For**

Appointed in 2005, is a member of the Audit, Medical Science, Nomination and Technology & Innovation Committees of the Board. He is also a director of Mesoblast, Fisher & Paykel Healthcare and NIB Holdings. After his long Board service, ASA no longer considers him independent; however, there are sufficient independent Directors on the Board at this stage to provide a majority. He has extensive executive experience in healthcare and medical devices and owns more than 4 times his annual fees in company shares.

3.3 Mr Abbas Hussain **ASA Vote For**

This is the first AGM since Mr Hussain’s appointment to the Board, hence this nomination. He serves on the Medical Science, Nomination and Technology & Innovation Committees. Mr Hussain has over 30 years’ global experience in the pharmaceutical industry and is a Director of CSL.

3.4 Mr Rick Holliday-Smith **ASA Vote For**

Mr Holliday-Smith was first appointed to the Board in 2005 and is therefore not considered independent per the ASA guidelines. He has presented himself early for re-election and to serve as Chairman, with the declared intention of ensuring the best succession of another suitable Chairman and foreshadowed not returning for a full term.

Item 4	Approval of LTI grant to CEO & President Dig Howitt
ASA Vote	For

Summary of ASA Position

These options and performance rights will not vest till the full year results are announced in 2023 and provided the performance of the Company satisfies sufficiently the criteria as described. Performance rights are granted free, provided the LTI conditions are satisfied; options will have an exercise price of \$217.28. Both have vesting requirements as set out, and on which the number of each depends. They will not vest if he leaves before the relevant date (other than for a Board-approved reason).

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document; it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance on any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.