

Results Worth Hearing

Company/ASX Code	Cochlear Limited / COH
AGM time and date	10am, Tuesday 17 October 2023
Location	Cochlear Global HQ, 1 University Ave, Macquarie University and online at https://meetnow.global/MXGG2VC
Registry	Computershare
Type of meeting	Hybrid
Monitor	Patricia Beal, assisted by Gareth Eastwood and John Price
Pre-AGM Meeting	Yes, with Chair Alison Deans

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have shareholdings in this company.

1. How we intend to vote

No.	Resolution description	
2.1	Remuneration Report	For
3.1	Re-election of Prof Bruce Robinson, AC	For
3.2	Re-election of Sir Michael Daniell, KNZM	For
4.1	Approval of LTI to CEO & President, Mr Dig Howitt	For
5.1	Renewal of Proportional takeover provisions	For

2. Summary of Issues and Voting Intentions for AGM

- ESG: This issue is gaining prominence yearly. Noted that it has the lowest number of directors (6 out of 10) skilled in assessing Sustainability matters compared to other skills on the board, as indicated in the board skills matrix.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	300.6	289.1	323.8	(238.3)	276.7
UPAT (\$m)	305.2	277.0	234.0	153.8	265.9
Share price (\$)	229.07	198.70	251.67	188.93	206.84
Dividend (cents)	330	300	255	160	330
Simple TSR (%)	16.9	(19.9)	33.8	(7)	4.75
EPS (cents)	457.0	439.6	493.0	(399.6)	480.0
CEO total remuneration, actual (\$m)	3.900	4.360	5.385	2.816	3.695

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Annual Results this year were well received by commentators, deservedly, with increasing sales, profits, and dividends noted.

Launch of the Cochlear Nucleus 8 drove strong sales growth. It is smaller, smarter and better connected than the previous model, and there's always a tendency to wait for the new model if its release is imminent. Also, the delays of COVID have mostly been now redressed. The Nucleus 8 was recognised with the Red Dot Award for Design in Medical Devices and Technology category.

Strong sales of new devices (up 19%), and updating of previously implanted devices (to >48,000 of previous recipients), resulted. Bimodal control in the Nucleus Smart App also improved performance for those with 2 implants.

Focus is on the continuing ageing of developed countries, with concomitant increasing deafness. Furthermore, evidence is building linking hearing loss with cognitive decline. So the company is informing both professionals (audiologists) and those ageing that Cochlear can help those who need more than hearing aids. In less developed countries, there is continuing focus on newborns with hearing loss, and sales there also increased.

Cochlear continues to invest in R & D (13% this FY); and targets 70% of underlying profit paid out as dividends.

Outlook is for 16 - 23% increase in underlying net profit in FY24.

Governance and culture

10 ongoing Directors (9 NED), 1 with tenure of >12 years, ie less than completely independent. 70% are strictly 'independent' - OK. 40% are now female. We note turnover of Board directors is not fast (continuity is also helpful). Some improvements in skills ratings have occurred, but there is still room for improvement. Lowest rating of Board skills category is now 60% for Sustainability.

We note that the current Auditor has now officiated for 5 years and are assured he will be replaced for next year's audit.

Key events

Buyback of <\$75m of shares announced on 15/2/23; ~\$30m (40%) bought by 30/6/23. After recovering from the needed capital raising during COVID, this buyback begins the process of reducing excess cash held by the company to around \$200m, thus improving some statistics. The method of reduction of excess capital was extensively discussed by the Board. Having the process long-running gradually increases EPS and DPS, advantaging long term investors. Since the company did not have excess franking credits, a special dividend was not considered an efficient way to return cash to shareholders.

Manufacturing begun in China; approvals expected in 18 months.

Oticon Medical cochlear plants business approved to be transferred to COH, with ongoing support of their recipients. However, acquisition of the Demant acoustics business from Oticon was prohibited by UK takeovers body.

Key board or senior management changes

No changes in Board or Executive KMP during the financial year.

Prof Andrew Denver (on Board since 2007) has tendered his resignation to occur immediately after the AGM.

Sustainability/ESG

Women in senior management (2 levels below CEO & President) are now at 43% of total numbers.

The Sustainability Report (pp 154 - 166 of Annual Report) lists targets and statistics related to the UN Global Initiative.

4. Rationale for Voting Intentions

Resolution 2.1 - Remuneration (for)

Good results for the year are consistent with the rewards shown. LTI are measured and awarded over 4 years.

Resolution 3.1 - Re-election of Prof Bruce Robinson, AC (for)

His qualifications and experience are suitable, and he owns shares aligning his interests with those of shareholders.

Resolution 3.2 - Re-election of Sir Michael Daniell, KNZM (for)

His qualifications and experience are suitable, and he owns shares aligning his interests with those of shareholders.

Resolution 4.1 - Approval of LTI to CEO & President, Mr Dig Howitt (for)

The package is described in detail in the Notice of Meeting.

Resolution 5.1 - Renewal of Proportional takeover provisions (for)

These provisions prevent proportional takeover of the firm (ie an offer for only part of each shareholder's holdings) without a majority of shareholders voting in favour.

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Appendix 1 Remuneration framework detail

CEO rem. Framework for FY23	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.03	36%	2.03	25%
STI - Cash	1.35	24%	2.44	30%
STI - Equity	0.68	12%	1.22	15%
LTI	1.58	28%	2.44	30%
Total	5.64	100%	8.1	100%

*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration framework set a maximum opportunity amount, but not all.

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan (p 91 of Annual Report).

Actual outcomes are shown on p. 89 of the Annual Report. STI were awarded for FY23; STI and LTI from several previous years were not. Note that the CEO's salary shown in Table 1 has possible contributions from several years' outcomes for STI and LTI, held for different lengths of time.

STI: there is a gateway of minimum Underlying Net Profit. Then 60% of possible STI depend on sales revenue (set by Board depending on budgets and global conditions) and 40% by strategic measures. Then each KMP's individual performance is assessed to determine the value awarded. Paid as 67% as cash; 33% deferred for 2 years and awarded as service rights.

LTI: Performance is measured over 4 years, with 50% each depending on TSR relative to ASX100 and CAGR in basic EPS. Delivered as 50% options and 50% performance rights.

Sliding scales (described in the rem, pp are used to determine actual values versus performance. [p92,93]

Values are calculated using Black-Scholes-Merton pricing model. [P 92 re STI and p 93 re LTI]

"Face values to be used for FY24 LTI performance rights"