

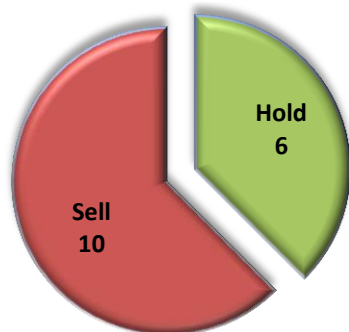


# COCHLEAR LTD. FULL-YEAR NUMBERS

Author: Evan Lucas  
Code: COH

## Where the market is positioned

What the brokers think of COH



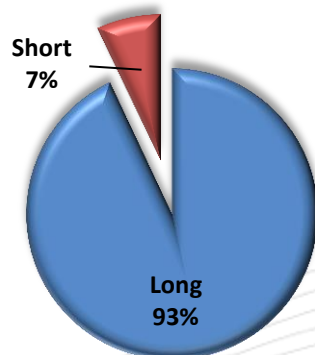
Source: Bloomberg

The market versus the brokers on COH's is worth

| Current Market Price | Consensus Price Target | Premium or Discount   |
|----------------------|------------------------|-----------------------|
| \$63.01              | \$52.78                | <b>19.38% Premium</b> |

Source: Bloomberg

What IG clients think of COH



## KEY FINDINGS

1. US and European sales improve
2. Product releases in all divisions give FY15 a strong sales platform to excel
3. Fundamentally: analysts upgrades expected – Technically: upside seen

**Matrix sees COH as NEUTRAL (slight long bias)**

### Matrix Impressions

Headline numbers look disappointing, however these are retrospective. Net profit fell 17.4% year-on-year, which is a steep decline. However, this had been previously forecasted by the company, as R&D, operating expenses, patent disputes and remnants of the N5 hit first-half numbers and diluted sales.

However, on an guidance basis, the numbers are in-line and more importantly substantial sales improvements have seen quite dramatic turnaround in the second-half as new product launches in the first half have translated into strong sales in the second half. Divisionally, Baha saw sales up +13% year-on-year, implants +1% as the sale of physical devices fell 3% rather than the forecasted 4%.

Full-year numbers in the US showed signs of stabilisation, with sales increasing +13% year-on-year, with the key markets of Europe and Middle East seeing a 27% increase on the sales line over the year.

Underlying the strong reads in sales, gross profit of \$556.7 million was a beat on estimates, while COH's tax rate was 78 basis points lower than expected at 21.6%.

Keep in mind that FY14 was heavily impacted by operating expenses, which rose to \$406 million as research and development ramped up. The release of the N6 and the new upgrades to the Baha range should see these R&D expenses fall, and the one-off cost of the patent dispute falls out of the numbers. Guidance wasn't given (typically COH waits till Q1 of the fiscal year), but its bullish outlook that FY15 has a 'strong platform for sales growth' is due to the product launches and is likely to see broker upgrades and should see positive guidance given later in the year.

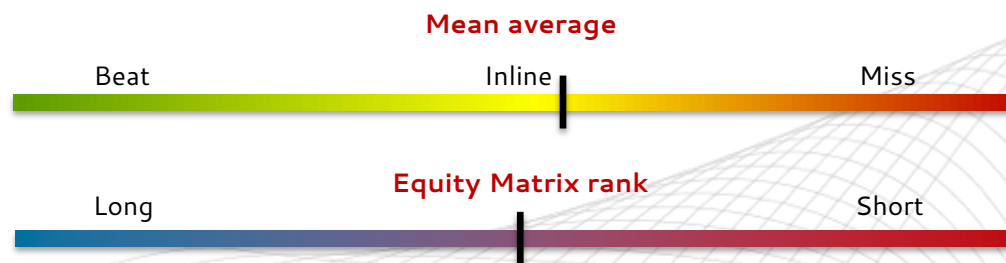
The matrix notes that several forecasts are over four months old and the figures are slightly stale. The misses in EPS and net profit lines were offset by revenue growth and the in-line read. The matrix gives a NEUTRAL read on the actuals. Considering the market is long COH and broker upgrades are coming, I see a long bias given the result compilation.

# COH FULL YEAR NUMBERS – KEY FIGURE COMPARISONS

| Actual Earnings | FY14 actuals | FY13 actuals | YoY Change | Comment  | I<br>G |
|-----------------|--------------|--------------|------------|--|--------|
| Revenue (M)     | \$820.9      | \$715.0      | 14.81%     | Better revenue growth in second half due to new product launches in first half sees revenue higher year-on-year. | B      |
| Net Profit (M)  | \$109.5      | \$132.6      | -17.42%    | Operating expenses, R&D and patent disputes all lead to lower NPAT as factored in by the company.                | M      |

| Actuals Vs Consensus | FY14 actuals | Consensus Estimates | Diff.   | Comment   | I<br>G |
|----------------------|--------------|---------------------|---------|---|--------|
| Revenue (M)          | \$820.9      | \$806.50            | 1.79%   | US and Europe revenue from Nucleus 6 and Baha range introduced in the first half have lead to beat. | I      |
| Earnings/Share       | \$1.646      | \$1.83              | -10.05% | Patent dispute and R&D charges slightly higher than expected causing further downside in earnings.  | M      |
| Net Profit (M)       | \$109.5      | \$113.00            | -3.10%  | Second half of the year numbers have brought the fall in profit back in-line with expectations      | M      |
| Final Dividend       | \$2.54       | \$2.54              | 0.00%   | Dividend in-line with expectations. See FY15 dividend ratio returning to 70%.                       | I      |

| Fwd. Guidance  | FY14 actuals | Consensus Estimates | Diff. | Comment   | I<br>G |
|----------------|--------------|---------------------|-------|---|--------|
| Revenue (M)    | Not provided | 874.64              | N/A   | Company outlook is certainly more positive than a year ago. It sees its new product releases as a strong platform for sales in FY15. Based on the results seen in the second half of 2014, these look to be realistic expectations and guidance will be released later in the year. | N      |
| Earnings/Share | Not provided | 2.450               | N/A   |   | N      |
| Net Profit (M) | Not provided | 184.71              | N/A   |   | N      |



# COH FULL YEAR NUMBERS – THE INVESTMENT CASE



## Technical View

Since reaching the all-time high of \$82.87 in February last year, COH has produced several poor results which lead to a fall to \$52.71 four months later. COH looks to be encountering some resistance in the \$64 region, which is the 38.2% retracement of the 2013 high to low levels; the results show that we could see COH breaking through this level.

## Sector View

COH is part of the healthcare space, which has benefited from the conservative nature of earnings and the positive dividend growth this provides. The subsector that has benefited the most from capital growth and income has been healthcare infrastructure, while bio-tech and pharmaceuticals have struggled due to global conditions and structural headwinds. However, I see COH is coming to the back-end of these headwinds and FY15 will see structural improvement.



#### **DEFINITIONS:**

**INLINE:** The author considers a result within +/-2% of estimates or comparable actuals as **INLINE** and are unlikely to be seen as materially different. That is not to say that under certain circumstances a beat or miss of 2% will would not be seen as a market sensitive, but it is likely to be less material than a result outside of these boundaries.

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