

Disrupted, but LT strategy intact

Company/ASX Code	Cochlear / COH
AGM date	Tuesday 20 October 2020
Time and location	10am AEDT online
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, Kristina Devon (Investor Relations)

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

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

Summary of ASA Position

Governance and culture

The Corporate Governance Statement has been reviewed, and extensively re-written. The level of governance by the board increased very significantly, with 13 extra board meetings being scheduled, presumably largely to deal with the placement and SPP offer. The board skills matrix was enlarged, but did not attribute particular skills to specific board members.

The rationale behind the company's long term strategy was also discussed. This is aimed at seniors as well as children; both are very large markets. While cochlear implants are the major part of cochlear's business, bone implants are a useful alternative. Both require long term service after implant, with updates as improvements occur. More emphasis is being placed on remote check-ups, and upgrades to allow this are being developed more rapidly with the pandemic.

Financial performance

First half performance was strong, with 13% increase in implants, after the launch of a new model. However necessarily that was interrupted in every market as the coronavirus struck, and elective surgeries were deferred. Resumption varied in developed markets, but the problems were of longer duration in emerging markets, plus the worst affected countries of Europe. An adverse ruling in a patent litigation dispute increased the woes, and an overall loss of \$238m was recorded for the year.

The highly skilled workforce was considered vital to the ongoing business, as was the long term research and development budget. These were not cut. The second half dividend was not paid. There were reductions in both board and executive remuneration for 3 months from mid April. The CEO and President's base salary was reduced by 30%, that of other executives dropped 20%. The board also had a reduction of 30% for the same period.

Short term incentives were not paid. Assessment of LTI is based on 3 year averages of performance by two measures, and this was also reduced by more than 50%.

Key events

A capital raising was undertaken, initially of \$800m (raised to \$880m) plus a Share Purchase Plan of \$50m. With large shareholder demand (but from only ~45% of eligible shareholders, despite the very substantial discount), the SPP was raised by \$170m to \$220m, with allocated number of shares proportional to the number held. The shareholders most disadvantaged were those who held the most shares, but still could not receive more than \$30k worth of shares; this would include most KMP and board. The final ownership proportion between institutional and private shareholders remained constant.

Key Board and senior management changes

Michael Daniell joined the board in Jan 2020, and will be standing for formal re-election at this AGM.

Donal O'Dwyer, a director since 2005, will retire after the AGM.

Christine McLoughlin will join the board in Nov.

When completed, these changes will bring the proportion of females on the board to 30%.

Brent Cubis, Chief Financial Officer, will be leaving Cochlear at the end of calendar year 2020. Currently the proportion of females as "senior leaders" is targeted as at least 40%; of the 13 "Executive Team" shown in the Annual Report, only 1 is female at this stage.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(238.3)	276.7	245.8	223.6	189.0
UPAT (\$m)	153.8				
Share price (\$)	188.93	206.84	200.17	155.45	121.25
Dividend (cents)	335	315	300	270	230
TSR (%)	(7)	4.75	157	30.55	50.5
EPS (cents)	(115.2)	479.6	427.3	390	331
CEO total remuneration, actual (\$m)	2.816	3.695	3.936	4.885*	3.385*

*refers to the previous CEO

For FY 2020, the CEO's total actual remuneration was **30.6 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

During 2019, the remuneration scheme which had been in operation for 15 years was reviewed and altered to be more in conformity with current practice and ASA recommendations. This is the first year of the new scheme, which was also strengthened during 2020 by the introduction of a minimum NPAT gateway, in addition to revenue growth targets and achievement of company strategic objectives. Due to the effects of COVID-19, it was not a good year for achieving targets.

Basically, the plan for KMPs is designed to align their performance with both the strategy of the company and with the interests of shareholders, for the short, medium and long term. The plan is

clearly set out in the annual report, with diagrams and tables. For the CEO, rem is divided into 3 equal parts: fixed, STI and LTI. Fixed and 2/3 of STI is cash; 1/3 of STI is deferred for 2 years, into service rights. LTI is measured over 4 years, and awarded half as options and half as performance rights, after 4 years.

Half the LTI is dependent on Relative TSR ranking compared to the ASX 100: between 40th percentile (lower cutoff) and 75th percentile getting 100% of that portion of the LTI).

Half the LTI is dependent on the CAGR of the EPS: above 12.5% all awarded; down to 7.5% (lower cutoff) receiving only half the allocation for this criterion.

CEO Rem framework 2020	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.744	33.3	1.744	33.3
STI - Cash	1.163	22.2	2.093	22.2
STI - Equity	0.581	11.1	1.046	11.1
LTI	1.744	33.3	1.744	33.3
Total	5.232	100	6.63	100

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *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.

Effect of COVID-19: For this year, there were no STI awarded, and in fact the CEO's fixed salary was cut by 30% for a 3 month period starting in mid-April (ie mostly in this FY, a couple of weeks in FY 21).

LTI (over the period FY 18-20, ie before the change to 4 year assessment): The proportion of LTI dependent on CAGR was below target, so not awarded. The proportion dependent on TSR was 92.8% awarded.

Item 3.1	Re-election of Andrew Denver as a Director
ASA Vote	For

Summary of ASA Position

Andrew Denver was appointed to the board in 2007; he serves on the Audit & Risk, Medical Science, Technology & Innovation and Nomination Committees. While his length of service might raise questions about his independence, there is certainly a sufficiency of more recent appointments to preserve overall board independence. His long life sciences experience, and also within the company are of value.

He holds over 4,000 shares in the company.

Item 3.2	Re-election of Prof Bruce Robinson as a Director
ASA Vote	For

Summary of ASA Position

Prof Robinson was appointed in Dec 2016; he chairs the Medical Science Committee and serves on the Nomination, People & Culture and Technology & Innovation Committees.

He holds 1083 shares in the company.

Item 3.3	Re-election of Michael Daniell as a Director
ASA Vote	For

Summary of ASA Position

Appointed to the Board 1 January 2020; Michael Daniell is a member of the Nomination, Medical Science and Technology & Innovation Committees. He has over 40 years' experience in the medical device industry. A former CEO of Fisher & Paykel Healthcare, he is now a director of that company.

He already holds over 1000 shares in the company.

Item 4	Election of Stephen Mayne as a Director (not board endorsed)
ASA Vote	Against

Summary of ASA Position

ASA basically feels the board has done well over many years to guide the company and preserve value for the shareholders. With a company of the size and complexity of COH, this requires a very sophisticated understanding of many aspects of the business. Regarding the capital raising, the board judged the need for funds was urgent, hence the need for a capital raising. And the offer to shareholders ended with shareholders owning the same proportion of shares as before the raising.

Item 5	Approval of LTI grant to CEO/Managing Director Dig Howitt
ASA Vote	For

Summary of ASA Position

This approval is for the FY21 grant of options and performance rights, if earned, to the value of \$0.602m (STI) plus \$1.806m (LTI), granted as 50% of each, as described in full in the Notice of Meeting.

Item 6	Adoption of new or amended constitution
ASA Vote	For

Summary of ASA Position

Changes mainly reflect changes in legislation over a number of years.

One significant change allows the use of technology to conduct meetings (as has been done for this AGM under a special ruling).

Another allows the number of directors to be increased to a maximum of 12. This would have allowed the new nominee to have joined the board before the departure of Donal O'Dwyer.

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