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Back on long term tracks to value creation

Company/ASX Code	Cochlear Ltd / COH
AGM date	Tuesday 18 October 2022
Time and location	10am AEDT COH Global HQ, Macquarie University / hybrid https://meetnow.global/MC2X4UG
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Patricia Beal, assisted by Gareth Eastwood
Pre AGM Meeting?	Yes with Chair Alison Deans and Kristina Devon (Investor Relations)

Monitor Shareholding: The individuals involved in the preparation of this voting intention have shareholdings in this company.

Summary of issues for meeting

Res 3.1, Re-election of Ms Yasmin Allen as a Director

Ms Allen has served on the Board for 12 years, so it is unlikely we would consider her truly independent. Also, she seems to have a heavy workload, with 3 other Directorships of ASX companies plus at least 3 other Boards / advisory bodies.

There has been renewal on the Board of recent years, but there seems room for further renewal.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	For
3.1	Re-election of Ms Yasmin Allen as a Director	Undecided
3.2	Election of Mr Michael del Prado as a Director	For
3.3	Election of Ms Karen Penrose as a Director	For
4	Approval of equity grant to CEO/President Mr Dig Howitt	For
5	Approval to increase maximum aggregate remuneration of Non-executive Directors	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Cochlear had a recovery year, with sales revenue and UPAT up, and dividends announced also up. The share price is, however, still below its highs, so our TSR is still negative. Long term incentives for executives have this as one of the criteria, so payments for that were not granted.

In several places through the Annual Report, there are graphs emphasising the very long term growth the company has achieved, guided by their culture and philosophy of continuing to care for implant recipients throughout their lifetime.

<u>Governance and culture</u>

The Board has a very adequate mixture of expertise in most of the criteria published in the Corporate Governance Report. The lowest were Medical Device Industry experience (5/10) and Research & Development (6/10). Perhaps these are areas to increase in future appointments.

With a female Chair and 33% females on the Board, the gender mix is good. Only 2 directors have served 11 years and over, so the Board is definitely independent, but hopefully further refreshment will occur. There are 5 sub-committees of the Board, with responsibilities clearly defined.

The Senior Managers are 41% female; for all employees the proportion is 52%.

<u>Financial performance</u>

The UPAT (underlying profit) was up, though the audited profit was down. Operating expenses were up. Hospital staff shortages lowered the number of operations to implant the devices, though actual sales of devices was up in H2. With the latest model, Nucleus 8, now approved in Europe, updating of devices is expected to increase sales this FY. The Osia (bone implanted) devices also had an upgrade approved for Europe recently.

The share price finished the financial year (FY) significantly lower than its start, so the Simple total shareholder return (TSR) for the year was negative.

Key events

Oticon, a small firm in Denmark, was purchased for around $170m in order to give recipients of its implanted devices continuing servicing and updating. Currently loss-making, it is expected to give positive returns of $75-80m per annum.

Key Board or senior management changes

Michael del Prado was appointed in January 2022; Karen Penrose was appointed to start her term in July 2022.
Tony Manna, President North America, retired in March 2022.

ASA focus issues (not discussed under remuneration report or re-election of directors)

A Reconciliation Plan was formalised, including a commitment to working more closely with First Nations communities.

ESG: Having signed up to the Science Based Targets Initiative, COH is targeting net-zero emissions to limit warming to 1.5 Degrees above pre-industrial levels (Scope 1 and 2) by 2030, and across the value chain (including scope 3) by 2050. The company transitioned manufacturing to 100% renewable energy at 5 of their 6 sites; the remaining one achieved this in July 22. No air travel was undertaken during COVID-19, but it has started again, but at much lower levels. Executive flights is their main source of Scope 3 emissions. With factories and implants in many countries, the company does need some air travel, and is aiming to halve flights (from pre-COVID-19 levels) by 2025.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	289.1	323.8	(238.3)	276.7	245.8
UPAT ($m)	277	234	153.8		
Share price ($)	198.70	251.67	188.93	206.84	200.17
Dividend (cents)	300	255	160	330	300
Simple TSR (%)	(19.9)	33.8	(7)	4.75	157
EPS (cents)	439.6	493	(399.6)	480	427.3
CEO total remuneration, actual ($m)	4.36	5.385	2.816	3.695	3.936

Slight changes in values for profits and earnings per share (EPS) in 2021 from last year's results, and our 2021 Voting Intentions, are due to changes in accounting treatment standards of costs relating to investments in cloud computing.

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.

UPAT this FY removes the effects of non-recurring items - (innovation fund gains; litigation etc losses).

Consideration of accounts and reports - No vote required

Res 2 – Remuneration Report

Minor changes were made to rem structures, to improve alignment between policy and rem, and aligned Base salary "to market". For STI, the gateway is NPAT. Financial targets are then pre-determined by the Board depending on market conditions, not disclosed in advance. These depend 60% on sales revenue, 40% on achieving strategic initiatives, assessed individually. LTI are assessed by measurements, over rolling 4 year periods, half on TSR and half on CAGR of EPS. Maximum LTI for CEO increased to 125% of FR (90% for other KMP).

See Appendix 1 for details of the Rem package for the CEO/President.

Election or re-election of directors

As noted under the heading of Governance and culture on page 2 of this report, the board is diverse and majority independent.

Res 3.1

Ms Allen has served on the Board for 12 years, so it is unlikely we would consider her truly independent. There is a sufficiency of other independent Directors, without the two who have served longest. Also, secondly, she seems to have a heavy workload, with 3 other Directorships of ASX companies plus at least 3 other Boards / advisory bodies. On the COH Board, Ms Allen chairs the Audit and Risk Committee and sits on 3 other Committees. A question to her at the AGM will decide how open proxies are voted.

Res 3.2, 3.3

This is the first vote for these 2 Directors, who joined the Board after last year's AGM. Mr del Prado provides global experience in the medical device and pharmaceutical industries, and Ms Penrose provides strong financial skills and experience.

Res 4 approval of equity grants to Managing Director/CEO/President

This is a formality, in preparation for the results for the FY, and determined by the remuneration plan (see Appendix 1). The proposal is described in detail on pp 5-8 of the NOM.

Res 5 Approval to increase maximum aggregate remuneration of Non-executive Directors

It is 2017 since this cap was raised (to $3m), and there is no intention to utilise it immediately.

The increase ($500,000) is designed to give flexibility of extra Director(s) for overlap during board renewal. Also, it will allow any increase in fees to maintain market competitiveness.

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Appendix 1
Remuneration framework detail

The framework is shown diagrammatically in the Annual Report, p73, and described pp74-75. Compared to FY21, LTI has been increased to 125% of FR for the CEO; and base salary re-aligned "to market".

CEO rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.928	31%	1.928	25%
STI - Cash	0.405	21%	2.29	29.5%
STI - Equity	0.193	10%	1.145	14.5%
LTI	2.41	38%	2.41	31%
Total	4.936	100.0%	7.773	100%

The amounts in the table above are the 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.

Actual outcomes are shown on page 72 of the Annual Report. STI were awarded for FY22; LTI were not, this year. Note that the CEO's salary shown in Table 1 has contributions from several years' outcomes for STI and LTI, held for different lengths of time.