

# Implant recall toned down profits

Will Glasgow

Cochlear is confident the launch of a new sound processor this year will give it a boost as it battles to recover from a product recall and struggles with currency issues.

A costly product recall and continuing industrial conflict dominated the hearing device maker's full-year financial results announcement yesterday when it posted a near 70 per cent fall in net profit to \$56.8 million.

Cochlear's net profit after tax was hit by a \$101.3 million recall of the Nucleus CI500 series implant. Revenue fell 4 per cent to \$779 million in the financial year ended June 30, 2012, as implant sales dropped 6 per cent.

Cochlear chief executive Chris Roberts said the profit result was disappointing. "You don't want to do \$56 million," Dr Roberts said. "But where the result is a very, very good result is what it says about the future."

He said trends for growth of hearing implants in developing markets and research showing the importance of hearing to healthy ageing in developed ones both promised long-term growth.

"From that point of view, I'm very optimistic," he said.

Cochlear's market share slipped in the last financial year by 5 percentage points to between 65 and 70 per cent because of the recall and analysts are concerned that the company could lose further share without the release of a new product to match rival Sonova.

He said Cochlear would update the market on the launch of a new product, a sound processor, in February.

However, he declined to comment on when the recalled implant would be back on sale.

UBS analyst Andrew Goodsall said that, according to feedback from clinics, the recall was well managed.



Cochlear chief Chris Roberts is encouraged by the outlook for growth in developing markets.

Photo: JIM RICE

## Cochlear

Full year	2012	2011
Sales (\$m)	779.0	809.6
Pretax (\$m)	215.3	242.7
Net (\$m)	158.1	180.1
EPS (cents)	100.0	318.2
Final div	\$1.25	\$1.20
*Payable	Sept 20	
	<b>Close</b>	<b>Change</b>
Shares (last)	\$63.00	-\$3.40

He said the unit sales results were slightly below market expectations.

Cochlear started a voluntary recall of the Nucleus CI500 series hearing implants on September 11, 2011, after it was found that micro-cracks in some devices allowed moisture in, causing some to shut down.

"Your life isn't defined by whether you have a problem. Your life is defined by how you deal with

problems," said Dr Roberts. "And I think this result shows the company as a whole was able to deal with this problem very professionally, very upfront and brought healthcare professionals along with it," he said.

Cochlear has a heavy exposure to overseas currencies, with less than 10 per cent of its revenue earned in Australian dollars.

Deutsche Bank analyst David Low flagged currency may be a bigger challenge this year.

"The CFO Neville Mitchell drew attention to the group's foreign currency hedge position, confirming the gain in financial year 2013 will likely be significantly smaller than the \$74 million reported in 2012," Mr Low said.

Cochlear announced a partly franked final dividend of \$1.25 a share, up 4 per cent on the prior year, payable on September 20.

Dr Roberts said that an industrial

relations dispute with the Australian Manufacturing Workers Union was costing the business.

"It's an expensive process," he said. "To be internationally competitive we must embrace innovation and we must be productive."

But he said it had not affected Cochlear's manufacturing because its workforce remained on individual contracts.

He said they had achieved excellent productivity gains.

While total revenue was down 4 per cent to \$779 million, sales were up 1 per cent stripping out currency volatility. Net profit after tax was \$158.1 million before the recall expenses of \$138.8 million before tax and \$101.3 million after tax.

Cochlear's share price fell more than 5 per cent, closing \$3.40 lower at \$63, compared with a rise of about half a per cent in the broader benchmark index.