

2020 Cochlear AGM Transcript of debate

Firstly, click [here](#) to see the formal addresses before our transcript commences.

Chairman, Rick Holliday-Smith

We've received questions and comments on the capital raising, mostly demonstrating support, and for that we are grateful. We've been asked about the timing and why we needed to raise equity at what has been shown with hindsight to be one of the most volatile times in the market for many years. There is no doubt that the market conditions at the time Cochlear raised equity were far from ideal and extremely dangerous.

In more normal conditions the company would have time to prepare for such a large capital raising, which would provide a range of options in terms of what style of raising you could consider, the due diligence requirements and the discount issues that would go with each alternative. In our case, we were witnessing the initial effects of COVID-19 in our key markets with surgeries dropping around 80% in a matter of weeks. We then had the adverse decision in the US court case, which involved a material patent settlement to be paid in the near future.

This double whammy occurred at a time when global capital markets were collapsing, the ASX 200 had dropped over 30% in the month before we raised the capital. As a board we determined we needed to take a conservative approach and to act decisively to shore up the long-term future of the company. We determined we needed to raise equity quickly. We contemplated various options, including an accelerated entitlement offer but as we felt we needed an underwritten process to ensure success we opted for the private placement and SPP route.

We note it could be structured to approximate an entitlement of a pro-rata offer. It was also a process that could be underwritten, had manageable due diligence requirements and could allow fast execution that we thought was better suited to volatile markets. We also hoped it might allow for a lower discount, given the shorter offer period. We were pleased for the final outcome, which we believe was balanced and fair. Shares were only allocated to current shareholders. All shareholders who chose to participate, whether they were institutional or retail were allocated their pro-rata allocation at a minimum, subject of course to any legal caps as was the case with the \$30,000 cap that affected some retail shareholders. And most importantly, the mix of institutional and retail shareholders remained around the same post the raising. And for retail shareholders they had the added advantage of being able to participate on the same terms as the private placement and with full visibility of the equity market response to the private placement, and with the knowledge that Cochlear had already raised \$880 million, so liquidity risk, the main reason for the raising, was no longer a concern for Cochlear.

So did we raise too much? A few pundits have suggested we have, I think it's just too early to say. But if we did, we protected the company and all its stakeholders. We took a long-term view at a very dangerous time, and we did all we could to ensure a clear and decisive outcome, and then ensured the shareholder groups as a whole were treated as fairly as possible. There were different fairness issues and the outcome was not perfect, but we tried hard to be balanced and fair. In the review process we adopted a funding review that spans

several years. It considered a conservative forward outlook, and we sought to ensure we would survive on that basis.

It seems once the long-term future risk was taken away, the equity markets strongly supported us. That is good for all stakeholders and for all our shareholders. Unlike many other companies, we have a responsibility to be here for the next 100 years to support the children being implanted today. We cannot put the financial security of our business at risk. As a board we err on the side of conservatism when it comes to the balance sheet. We have also been asked by shareholder questions about why we allocated a large number of shares to one institutional shareholder. The board required the placement to be underwritten to give Cochlear certainty that when publicly announced the quantum of funds to be raised and the price were both known. Otherwise there was risk the raising might fail, which would have a big negative impact on the stock price. It would also be highly unusual for a top 100 company to not underwrite a major raising.

When in the process, we talked to a number of Australian institutions the day before the raising, which is a process of seeing what level of support there was you may be surprised to hear that there was little to no interest in the placement at \$140. Many of the Australian fund managers approached were very clear, they would only consider participating at a price well below \$140. In terms of the allocation made to one institution, it was a fund we know very well. They had previously been substantial shareholders and had been buying Cochlear shares in the year leading up to the raising. Their decision to support a large position at \$140 provided the confidence needed for JP Morgan to underwrite the deal and for the board to proceed with the placement.

Once the underwriter had agreed, then many more wanted to participate and the market became positive. From that point institutions with interest and who gave support received at least their prorated participation. We've also received some questions from a shareholder who is an Australian Cochlear implant recipient, wanting to know why Cochlear did not advise consumers and audiologists that the Bluetooth connection of the COVID-19 safe app can interfere with medical devices. They would also like to know why Cochlear does not use a transport company that will deliver the spare parts for speech processes to post office boxes. Given the operational nature of these questions, I'm going to hand these over to Dig for comment.

Dig Howitt

Thanks, Rick. And before I answer the question, firstly I'd like to say thank you for raising these questions with us. We do set ourselves a very high standard for the service that we want to deliver to our customers right around the world. And one of the ways that we can measure and improve that service is by getting feedback and getting questions such as these. So let me deal with each of these in turn, first with the COVIDSafe app. So when we did receive a query on the potential of the COVIDSafe app to interfere with communication between iPhone and our sound processor, we did as you would expect investigate. We do have a very formal investigation process around any customer queries with respect to our product. In that investigation we seek to do two things. The first is we seek to determine if this were to happen, is it a safety issue? And we were able to determine that it wasn't a safety issue. The second thing we seek to do is try to replicate the issue.

Can we recreate the circumstances that lead to this interference? Now in this instance we weren't able to do that. However, subsequent to our investigation, the Australian government did notify that there was potential for the COVIDSafe app to disrupt some Bluetooth communication with other apps. And they also advised, as you say in your question, that if that disruption interfered with the performance of a medical device then you

should stop using the COVIDSafe app. So with that advice we did incorporate it into our troubleshooting and we use that troubleshooting with our customers. And that can mean with our customers asking them when they have communication connectivity problems to look at apps that have recently been installed. We also took that advice and incorporated it into our clinical troubleshooting as well. So we do understand that connectivity issues can be frustrating and certainly disruptive. And we work hard to build stability into our system to minimise those instances. So I hope that helps clarify the issue with respect to the COVIDSafe app in Australia.

On the second issue regarding our transport company and deliveries to post office boxes. We first start by just talking about our transport companies. Obviously, we select transport companies in many, many countries around the world. And we select those companies based on their ability to deliver our products in a timely manner with clear tracking, based on their reputation and the breadth of their distribution and a range of other factors to again ensure that we provide the service that we aspire to. We then work with those transport providers to provide the best service we can in a whole range of different circumstances. Now with respect to the specifics of your question, our transport company in Australia can deliver most of our spare parts to a post office box. Now there is an exception to that and that exception is a rechargeable lithium ion battery, which is shipped separately. And shipped separately means not shipped as part of an integrated product or a system like a phone or an iPad.

Now the reason that they can't ship a rechargeable lithium-ion battery separately to a PO box is because that rechargeable battery is regarded as a dangerous good, and that's both an international and an Australian regulation and obviously our transport companies must comply with those regulations. It's one of the reasons we choose transport companies is on the basis they do comply with regulation. So it's really a regulatory issue here, and it's a bit of a quirk, but it's only separately distributed rechargeable batteries where this becomes an issue. Now we do understand that that can be inconvenient for some people and certainly for you in this case. And in those cases, we do try to provide alternative solutions, whether that's shipping direct to a clinic, they can ship as you know directly to a physical address. But we do understand there are times when shipping to a PO box would be more convenient, but also there are restrictions as I've said on our carriers in some instances. So I hope that helps clarify those two questions. Back to you Rick.

Rick Holliday-Smith

Okay, thank you. I'll now check whether we've received any additional questions.

Operator

Yes, Chairman. The Australian Shareholders' Association has asked the following question.

"We note that the board should attain 30% female once foreshadowed changes take effect. While this is certainly a significant proportion, it doesn't reflect the overall proportion of staff, nor is it the only valid indication of diversity in general. Likewise, the 40% target for senior managers is currently not reflected by the proportion of females with their pictures in the annual report as part of the executive team, which is only one out of 13. Do you really expect to attain your target of 40% females as senior managers within three years as stated in your corporate guidance statement? And if not, when?"

Rick Holliday-Smith

I think I might ask, are you happy to answer that Dig?

Dig Howitt

I am. Let me make just a comment I'll talk about the senior management part, to comment on the board of our target for the board is, as Rick said, for senior management, it's 40% for senior managers of men, 40% women and 20% open i.e. between 40 and 60% of both genders. For the board it's between 30 and 70% of both genders on the same basis. Now, with respect to senior managers, we do aim to achieve this target of 40% of senior managers being female in the next three years. We are currently at 36%. Now senior managers represents senior leaders in the organisation. It's a group of about 350 people. So it's obviously a broader group than just the executive team. And as Rick said in his speech, we have been working very hard on diversity and inclusion over a long time, particularly over the last two years. And the key to increasing the female representation in our senior management groups is several of the programmes that we are working on.

They include being very focused in our talent and succession planning, on developing women and ensuring that we are assessing on the basis of potential. They include making sure that we have flexible work practises to suit people from a whole range of different backgrounds and experience. They also include making sure that we focus on gender pay equity and remove inequities where we see them. But very importantly, it's about inclusive leadership and making sure that we develop inclusive leadership across the organisation and particularly raising the awareness of unconscious bias and removing unconscious bias. We've seen over the last few years of implementing those sorts of procedures that we have already increased the proportion of women to 36% in our senior leadership roles. We expect to get that to 40% over the next three years.

You noted that we only have one woman on our senior executive team. Clearly over time, we aim to get more diversity into that team. But the key to doing that is working on diversity right across the organisation and particularly across the senior management group so that each time we have an opening on the executive team, we have a diverse group of very well-qualified candidates to be able to choose from. It's doing that over a sustained period that will enable us to reach 40% and go beyond for the organisation. Thank you. Rick.

Rick Holliday-Smith

Okay. Thank you. Are there any other questions?

Operator

The Australian Shareholders Association has contributed the following comments as well.

"We noted the prompt actions of the board in the initial reactions to COVID-19. Indeed, the number of additional board meetings showed that the board was very active at that stage. We commend the prompt actions to ensure the financial stability of the company in the light of stoppages of private surgery and thus cochlear implant surgery for an unknown period. While all shareholder allocations in the SPP were cut back to some extent, it was good that there was a decision to enlarge the offer to retail shareholders so very significantly and allocate them proportionally to current shareholdings. Would it be possible for you to ensure more shareholders were reminded in good time of any such offers in future, presuming the offer is at a discount to then current prices?"

Rick Holliday-Smith

Okay. Thank you. Look, thank you for those positive comments and it is good, I think, you do understand the seriousness of the situation that we were dealing with. I think it was always

intended, as we had always said, that the SPP could be increased and that we would be looking carefully at proportionate type issues as we did that. That's in fact what we did. About reminding, I'm happy for us to do whatever we can on that front. We will look at it, but this was in the public domain. It was in the press. It was well explained, but if we can do better, we will, and we will take that on board and consider it. So thank you very much. Are there any other questions?

Operator

The following question has been asked by Stephen Mayne, who is offering himself for election as a director of Cochlear.

"Of the 16,651 shareholders who participated in the Share Purchase Plan, how many shared in the \$197 million scale back? Alternatively, how many received the full amount they applied for?"

Rick Holliday-Smith

Yeah. Okay. We're getting down into the weeds of this and I don't intend to actually go there. Clearly, Stephen will be giving us his thoughts in a little while, and his platform is around the capital raise, but I am happy to confirm, which I've already said, that we tried very hard to make sure that the mix between the institutional shareholders and the retail shareholders was the same before and after the capital raise. We did try to ensure small shareholders were disproportionately and positively treated with the smallest shareholder getting at least 10 shares and 41% of those applicants received an average increase in their shareholding.

So I think this was something that was fair to all and the outcome for us was good, and if I look at this whole thing in the context of the hundred year journey of Cochlear and protecting the company, particularly for our key stakeholders who are the children that rely on us every day as we implant them, the medical professionals and our staff, and I look at the full explanation of the process the board went through and the judgments we made, then it is transparent in terms of what we did.

It doesn't mean that others can't have different views and different judgments, but we have been clear in what we've done. I've explained it in full several times through this meeting, and I think that is the extent to which we will be dealing with that particular issue because we're not going to go down into micros on it. So, thank you. Any other questions?

Operator

We have another question from Stephen Mayne.

"London-based fund Veritas was allocated 300 million shares at the \$140 in the placement, which was more than the 220 million allocation to all 16,651 applicants in the scaled back SPP. What is Cochlear's history with Veritas and why were they given such a large disproportionate allocation?"

Rick Holliday-Smith

Two things. Over many years, Veritas has been a large shareholder in Cochlear, but like most of the investors, they come and go. Why did they get a large placement? They got a large placement because, as we sought to get support that would enable the underwriter to be comfortable to underwrite the issue, there was no support coming out of Australia and they came forward and saw an opportunity and they took it and good luck to them. It allowed

us to then have a fully underwritten offer, and once we had that fully underwritten offer, all the positive things then flowed from that. So they took a unique position and they were rewarded for that.

We then made sure that all institutional shareholders beyond them that wanted to participate got at least their pro rata share, which is why we increased the placement, and then we made sure beyond that, that once we knew what the institutional portion was, we made sure there was enough money allocated to the retail portion to create the same balance in terms of before and after raise percentages. So Veritas was in an unusual position and they took an unusually strong position and they were rewarded for that. But the outcome from that was very positive for the company in our view, the capital raise and all stakeholders. Are there any other questions?

Operator

The following question was submitted ahead of the commencement of the meeting and is as follows.

"Can we have a summary and update on one, the US patent infringement case; two, FY21 and outlook for EPS and DPS; three, COVID-19 impact permanent and temporary; and four, dividend update?"

Rick Holliday-Smith

Okay. Well look, I note that that has come in before this meeting. I think we've given a reasonably fulsome response to the patent. Dig has talked at some length to FY21, which is still unclear. COVID is clearly still unclear, and there are second and third waves that none of us understand yet. We've been clear in terms of our view about dividend, which we support subject to some caveats we clearly spelled out in the address I gave. Are there any other questions?

Operator

Yes. And the next question.

"Mr. Chairman, my name is Dan Steiner. With regard to the new Cochlear constitution. If you consulted with regulators and/or major shareholders, were there any issues or concerns raised? What were these and how did Cochlear respond?"

Rick Holliday-Smith

I'm not sure we consulted with regulators, but we certainly consulted with our legal advisors. The clear goal was to make the new constitution contemporary. As you will see shortly, the support of all our shareholders is resounding, and to my knowledge, there were no issues. Are there any other questions?

Operator

Yes.

"With regard to the planned expansion of the board, will there be any need to increase the director's fee pool?"

Rick Holliday-Smith

At the moment, the first thing we've got is the option to have more directors to allow a more orderly changeover as we rotate people in and out. There has been no proper consideration of what that might look like, and whether there might be a fee adjustment required. If it is, it'll be not material because the intention is not to increase the size of the board, but to allow for orderly transitions. Any other questions?

Operator

"What steps are being taken to ensure Cochlear as a company has sufficient business diversity and skills for an ongoing sustainable future in a highly competitive technology-driven world?"

Rick Holliday-Smith

Well, firstly, I'd refer back to the comments that the Chief Executive has made. I might ask him to add a few extra comments after this, if he wants to. I mean, Cochlear is the world leading company in terms of the most innovative hearing solutions in the world. We're committed to substantial R&D spend in the long-term, and we're committed to be around for a hundred years based on that R&D and a commitment to leading edge technology, so I'm not sure what more I can add. We have a leading product portfolio. We have a leading pipeline. We spend a lot of time looking at adjacent technologies that may be coming forward and what they may do to us. But I don't think there's much more we could do. But I might ask the chief executive to make comment, if he'd like to.

Dig Howitt

Thanks, Rick. I think, just to add one thing to that, and that is that we do have close to 100 research partnerships around the world with universities, and we have an extensive process of scanning changes in technology, technology trends, and ensuring that we're across those trends as well as we can be in incorporating that into our development and our long run technology plans.

Rick Holliday-Smith

Okay. Are there any other questions?

Operator

We've received a question about the current low interest rate environment.

"How has this impacted Cochlear and what are the advantages and disadvantages of Cochlear operating in a low interest rate environment? For example, the impact on borrowing costs, assessing goodwill and other aspects of Cochlear's business operations."

Rick Holliday-Smith

Okay. Well, I mean, obviously a low interest rate environment, to the extent that you have debt, lowers the cost of debt, but we try to have very modest amounts of debt. A low interest rate environment, particularly where the risk-free interest rate is low, tends to lower the cost of capital, and for a long-term company like Cochlear, that tends to have a very positive impact on the estimated terminal value, which is the long-term present value of the business. So it has some valuation positive impacts. Lowering the cost of money obviously

allows governments to borrow more, and that can be a double-edged sword because they can obtain more money to support initiatives that they want to support, which could include healthcare, but at the same time as they do that, they've still got to be able to pay back, at some point in the future, whatever it is they borrow.

So there are a number of very long-term issues there. I would say the biggest impact for Cochlear is the valuation impact as lower interest rates tend to be driving the value of our forward cash flows up in terms of net present value terms. Any other questions?

Operator

Yes.

"With regard to COVID-19, if a vaccine is found or not found, can you tell me what adjustments Cochlear would make in the operations of the business, like more use of cloud technology, and also what advantages and disadvantages did COVID-19 present to Cochlear."

Rick Holliday-Smith

Do you want to have a go at that? I'm happy to, but you're living in it.

Dig Howitt

Thanks, Rick. So I think just a few comments on that question. First, with respect to a vaccine, we're running the business on the basis, obviously, now without a vaccine, and as we look forward, continue to run it on that basis. Clearly a vaccine would help free up society and health care systems, depending on the effectiveness of that vaccine. So if or when, perhaps, one becomes available, it will be positive in taking us back to how the world used to work to some degree. But I think it's still some way off and we continue to work now. In terms of cloud and virtual work, that is how we've been working since March, is working virtually both internally and very importantly, connecting with professionals, with candidates and with our recipients. That has worked exceptionally well. Obviously, we can continue that on for as long as we need to and even after. If a vaccine does come, we will continue to communicate more virtually than we did in the past, because there's a range of circumstances where that is very effective, particularly for a global company.

Rick Holliday-Smith

Yeah, and I would comment that what we would call connected care, we've been committed to for many years and we've been investing heavily in those activities. They are largely digitally based and obviously the things that we're seeing at the moment, that they are having a bigger impact quickly and being adopted faster, and probably this will lead to an acceleration in the modernisation of the healthcare models. We're well positioned for that. Any other questions?

Operator

Yes.

"Will the board commit to holding future AGMS with a face-to-face component when it is safe to do so?"

Rick Holliday-Smith

Well, personally, I have no problem with us making every effort to have meetings face to face. I think they're far more productive, but obviously it's going to depend on a lot of things that we don't know the answer to as to when that might happen and what other things could be happening in the norm. But our intent is to go back to face-to-face AGMs as soon as we can. Any other questions?

Operator

This is the final question in the queue, and is a follow-up to a prior question on gender diversity and the number of senior managers.

“Are you suggesting that one in 12 of Cochlear staff are senior leaders? Isn't this top heavy?”

Dig Howitt

I'll answer that one. So yes, 340 out of 4,000 are senior leaders and I don't think that is at all top heavy. Actually, one in 12. We have customers in over 130 countries around the world. We have our people, our own people, in 40 countries around the world. We are a very diverse company in terms of the range of functions and operations that we need to perform in places right around the world. We're obviously a very technology heavy company. I think it's very important that we have a significant number of senior people who are both generalists in areas and specialists across a broad range of geographies and functions. So, no, I don't think at all that we are top heavy and actually I would expect that as the organisation grows over time, that the number of senior leaders will continue to grow approximately in line with the total organisation.

Rick Holliday-Smith

Okay. Thank you, Dig. Are there any other questions?

Operator

Chairman, there are no further questions.

Rick Holliday-Smith

Okay, thank you. Thank you for those questions. Please cast your votes now on this item. The next item of business is to vote on the adoption of the Remuneration Report set out on pages 40 to 57 of the 2020 Annual Report, which is available on our dedicated AGM website. The motion is now displayed on screen, and this is a non-binding resolution. Voting exclusions apply to this resolution as set out in the notice of meeting. I now ask that the direct and proxy votes be displayed on the screen and I intend to vote all available proxies in favour of the resolution. Are there any shareholder questions?

Operator

There are no questions on this resolution.

Rick Holliday-Smith

Okay. Thank you for that. Can you please cast your vote now on this item. The next item of business is the re-election of directors. As I mentioned earlier, in accordance with our constitution, Andy Denver, Professor Bruce Robinson, and Michael Daniell are retiring at this AGM and standing for re-election. The board considers that all directors are independent non-executive directors and the board recommends them to you. Andy Denver is the first director standing for re-election. His background has been set out in the notice of meeting and I now move the motion for the re-election of Andy Denver. The motion appears on the screen and we will now hear a prerecording from him to his re-election.

Andrew Denver

Good morning. My name is Andrew Denver. I'm a current director and first elected in 2007. For most of my time on the board, I've been chairman of the Technology and Innovation Committee, during which time we have faced a number of challenges, key of which was the recall of the CI 500, the root cause determination and resolution and successful relaunch of that particular product. We've also expanded significantly our electrode product offering, and we introduced our first wireless streaming product with the iPhone. The enhancement of ability of clinics and recipients to interact with each other and the company through such innovations such as Remote Check and myCochlear were also highlights during this period of time. Significant new product developments were made in the Baha product range and for short periods of time, I served as a Chairman of the Audit Committee during the last Chairman of the Board transition. I continue to serve on the Audit Committee.

In addition to these two board committees, I'm a long-term member of the Medical Committee and Nominations Committee. By way of my background, I spent most of my career in new product development, manufacturing, and the building of businesses in the healthcare market derived from these activities. I worked in the US for Baxter Healthcare, where my last position was President of Medical Devices. I have extensive experience in international business, having worked in Europe, the United States, and was responsible for all business activities in Asia Pacific for Pall Corporation, where the largest business was in Japan, but the fastest growing was in China. I believe my experience and background allow me to contribute positively to the board and to represent you our shareholders as Cochlear continues to grow and develop. It's a company I'm very proud to serve and believe with your support we can continue to bring life-changing medical devices to a greater number of hearing impaired. I thank you for your support.

Rick Holliday-Smith

Okay. Thank you. I now ask that the direct and proxy votes be displayed on the screen and I intend to vote all available proxies in favour of the resolution. Are there any questions on the motion? Are there any questions?

Operator (A question from Stephen Mayne)

Yes. Thank you for disclosing the proxies early, and could you please explain why there was a 13% vote against Andrew's re-election? Which of the proxy advisors recommended against, and was this due to tenure concerns? After 13 years of service, why didn't Andrew retire?

Rick Holliday-Smith

The first part to that question I believe is correct. I believe it is a function of tenure, and there are some places where they are recommended. Not all shareholders follow those recommendations, but obviously some do. The second issue is why doesn't Andrew retire. I guess the question is orderly transfer of seniority, and also the expert knowledge that is acquired over many years on this board that is not normal in terms of the global role it plays and the things that does. So I think as everybody is aware, we're transitioning a number of people off the board at the moment, and this is part of an orderly transition process and has the full support of the board.

Any other questions?

Operator

There are no more questions.

Rick Holliday-Smith

Okay. I'd asked you to please cast your vote on this item.

Professor Bruce Robinson, AC, is the next director standing for re-election. His background has been set out in the notice of meeting and I now move the motion for the re-election of Professor Robinson and the motion appears on the screen. We will now hear a pre-recording of Bruce speaking to his re-election.

Bruce Robinson

Ladies and gentlemen, thank you very much for your time today. It has been my great honour to represent Cochlear shareholders over the past four years, and I hope to be able to do so again. As a researcher and a clinician myself, and in my role as chair of the medical committee, I have focused on three main areas during my tenure. The first has been to ensure that our products are safe and effective and that they meet the needs of people with hearing impairment. The second has been to support management to develop the important standard of care document, which was published in the journal of the American Medical Association this year.

This document will lead to broader acceptance of cochlear implantation in the elderly population and establish a global standard of care for people with hearing impairment. Thirdly, I've wanted to apply my basic scientific knowledge to support management to stay abreast of the biological and drug approaches to hearing loss, which are being developed to ensure that cochlear implantation technology is not gazumped by something that we were not aware of. I believe that my experience and expertise complements that of others on the board and I remain very committed to Cochlear's goals and mission. Thank you.

Rick Holliday-Smith

Thank you, Bruce. I now ask that the direct and proxy votes be displayed on the screen and I intend to vote all available proxies in favour of the resolution. Are there any shareholder questions?

Operator

There are no shareholder questions.

Rick Holliday-Smith

Okay. Thank you. I'd ask that you please cast your vote on this item. Michael Daniell is the next director standing for re-election. His background has been set out in the notice of meeting and I now move the motion for re-election of Michael Daniell. The motion appears on screen, and we'll now hear a prerecording from Michael speaking to his re-election.

Michael Daniell

Good morning. Thank you for the opportunity to address you today. I look forward to meeting in person in the future. Late last year, I was honoured and privileged to be invited to join the board of this great Australian company, and now offer myself to shareholders for re-election. I've been involved in the medical technology field for more than 40 years, and I very much enjoyed being able to contribute in some way to the care and outcomes of millions of people around the world. Over much of that time, I followed the development of Cochlear and they've consistently been impressed by the company's purpose, culture and innovative technology. Being able to help so many people to hear and be heard is a wonderful achievement and a great responsibility. I led Fisher and Paykel Healthcare for 25 years, a New Zealand based medical device company, with sales in more than 130 countries.

I believe I have a breadth and depth of skills and experience to contribute to the ongoing strategic development and growth of Cochlear. My experience spans the full range of research and development, clinical, regulatory, quality, manufacturing, marketing, international sales, and customer and shareholder engagement. More recently, I've extended that experience as a board member of the Melbourne based Medical Research Commercialisation Fund, and as chair of the New Zealand Medical Technology Centre of Research Excellence.

I'm also a member of the council of the University of Auckland and a non-executive director of Fisher and Paykel Healthcare, as well as Tate International, a mobile radio communications company. Of course, the ongoing COVID pandemic presents unique challenges, which none of us have previously experienced. However, over the course of my career, I've been through some difficult economic cycles and complex events and believe that I am well equipped, as are my fellow board members, to support the very capable Cochlear team as we navigate through this. Integrity, excellent governance and innovation to support our mission are fundamental to our ongoing success. With your support, I look forward to being able to contribute to the achievements of this exceptional company and to creating value for you, our shareholders. Thank you.

Rick Holliday-Smith

Okay. Thank you, Michael. I now ask that the direct and proxy votes be displayed on the screen and I intend to vote all available proxies in favour of the resolution. Are there any shareholder questions?

Operator

There are no shareholder questions.

Rick Holliday-Smith

I note there are no shareholder questions. Thank you very much. I'd ask that you please cast your vote now on this item. The next item of business is to vote on the election of a

non-board endorsed external nominee, Stephen Mayne, as a director. His background has been set out in the notice of meeting. I now move the motion for the election of Stephen Mayne. The motion appears on screen, and we will now hear a pre-recording of Stephen speaking to his election.

Stephen Mayne

Thanks for the opportunity to address the shareholders, Chair. I'm a 51 year old Walkley award winning business journalist and shareholder advocate who spent much of the past 20 years pushing hard to improve governance of public companies, whilst also advocating for the fair treatment of retail shareholders, particularly in capital raisings. What Cochlear did with its \$1.1 billion capital raising this year, was one of the worst examples I've seen of directors using their board discretion to needlessly dilute retail shareholders as a class. The added \$880 million placement at \$140 in March was unnecessarily large and overly discounted by 16.7% to the previous close of \$168. Shareholders didn't need to waste almost 20 million having it underwritten by JP Morgan when the board could have simply launched a competitive auction through a book-build and sold the stock to the highest bidders.

The Institutional Placement was bad, but then the Share Purchase Plan which followed was even worse because the board discouraged participation by unfairly capping the amount to be raised at just \$50 million, equivalent to only 5.6% of the \$880 million placement. If all 36,724 of Cochlear's eligible retail shareholders had taken up the full \$30,000 SPP offer, they would have raised \$1.1 billion, but the directors only set aside 4.5% of this amount. Knowing that it was inevitable, there would be a massive oversubscription, I formally asked the board to lift the \$50 million SPP cap after the placement announcement, but before the SPP documentation was distributed, they ignored this request, thereby suppressing demand.

In the end, only 16,651 shareholders applied for a collective \$417 million worth of shares. The board could have used their discretion to uncap the SPP and accept all applications. Instead, whilst lifting the ridiculous \$50 million cap to \$230 million, they still imposed a heavy \$197 million scale back and the funds raised represented less than 2% of the current market capitalisation of more than \$13 billion. Being generous to retail shareholders and fully uncapping the SPP was immaterial to Cochlear's balance sheet and many other companies in this situation have uncapped their SPPs completely when receiving over subscriptions. In alphabetical order, this includes the likes of ANZ in 2009 and 2015, Bendigo Bank in 2014, six different Charter Hall entities over the past three years, Dexus in 2015 and 2019, Transurban in 2019, Westpac in 2019 and WiseTech in 2019.

The decision to scale back SPP applications by 47% was particularly egregious because one London based shareholder, Veritas Asset Management was allocated an astonishing 34% of the institutional placement or some \$300 million worth of stock at \$140. Why should a single foreign shareholder, which owned negligible Cochlear shares at the start of 2020, be selectively allocated more shares than all of the 16,651 retail shareholders who attempted to participate in the SPP? The board has never properly explained this. When Cochlear announced the outcome of the SPP, the board expressed concern about the small number of high net worth retail shareholders, which includes some of the directors, who received the full \$30,000 SPP allocation, but were still diluted by the \$880 million placement. There was no mention or concern expressed for the 20,073 retail shareholders, 55% of the total who didn't bother applying at all for the SPP. Presumably in part, because they feared getting scaled back or weren't properly advised by their broker, super fund or financial intermediary who handles their affairs.

Retail shareholders who don't participate in the money capital raisings are the biggest losers in Australia's anything goes capital raising system. Their interests and property rights can only be properly protected by a renounceable entitlement offer, with a competitive book build at the end to compensate for their lapsed rights. This is what the board should have done. I'm seeking your support today to emphasise that point because once Cochlear, which is chaired by ASX Chair, Rick Holliday-Smith, set the tone in early April with a poorly structured placement and SPP capital raising. We saw a flood of other companies follow their lead, causing more than \$1 billion of retail shareholder dilution across the market over the past six months, we need to stop the practise, and contesting board positions is the path I've chosen to effect change. Thanks for listening, and I'd be happy to answer any questions.

Rick Holliday-Smith

I now ask that the direct and proxy votes be displayed on the screen, and I intend to vote all available proxies against the resolution. Are there any relevant shareholder questions on the motion?

Operator

The question about adding long term value for shareholders. Stephen says he owns 500 companies in his portfolio. Is it \$40,000 in total or \$40,000 in each company? He participated in more than 300 capital raisings. Do you sell your current holdings and purchase or just purchase if you have say less than \$1,000 worth of shares in each company, how are you adding value to shareholders in the long term?

Rick Holliday-Smith

Look, I think given where we are on this matter, that that conversation is irrelevant. I do understand from a comment that Stephen Mayne has made that he owns one share only in the 500 companies, but he may own a few more, but that's the intent. I don't intend to discuss this anymore at this time. Are there are any other questions?

Operator

There are no further questions.

Rick Holliday-Smith

Okay. Look, I'd ask you to cast your vote on this item. Okay. We now move to agenda item five. Approval of securities to be granted to the Chief Executive and President under the Cochlear Executive Incentive Plan. The motion appears on screen. As noted in the notice of meeting all the terms of the plan mean that any exemption to ASX Listing Rule 10.14 applies, the company is seeking approval for the grant of the CEIP long term incentive awards to the Chief Executive and President as it is the company's practise to do so, and for good corporate governance. Voting exclusions apply to this resolution as set out in the notice of meeting. I now ask that the direct and proxy votes be displayed on the screen and I intend to vote all available proxies in favour of the resolution. Are there any shareholder questions?

Operator

There are no shareholder questions.

Rick Holliday-Smith

Okay. Thank you. There are no shareholder questions. So please cast your vote now on this item. The next item is item six, which is the special resolution to replace the constitution of the company. The motion appears on the screen and I'm tabling a copy of the new constitution, which I have now signed for the purposes of identification. It is here in front of me. I intend to vote all available proxies in favour of the resolution. Are there any shareholder questions on the motion?

Operator

There are no shareholder questions.

Rick Holliday-Smith

Okay. Thank you. I would ask that you please cast your vote on this item. The next item of business is to vote on the special resolution to insert proportional takeover provisions in the proposed constitution. The motion appears on screen, and I now ask that the direct and proxy votes be displayed on the screen, and I intend to vote all available proxies in favour of the resolution. Are there any shareholder questions on this motion?

Operator

There are no shareholder questions.

Rick Holliday-Smith

Thank you. Okay, so please cast your vote now on this item. So ladies and gentlemen, that concludes our discussion on the items of business and I will shortly close the voting system. So please ensure that you have cast your vote on all items of business.

You know how much time you've got, I'm giving everyone two minutes. So there's another minute and a half, and if it seems slow, five minutes giving them... No? Five questions. Okay. So we've got some other questions. Okay. While we're waiting, are there any other questions?

Operator

Yes. We have four additional questions. As a comment, I like the online AGM format, as it allows for inclusion of out-of-state investors. Can we please continue to have an online option?

Rick Holliday-Smith

Okay. We note that and we will see if we can include that. I mean, with the technology changes that are coming through, there might be a possibility for that to happen.

Operator (a question from Stephen Mayne)

Next question is with regard to item 3.2, why wasn't the full notice of meeting sent to shareholders so that as many shareholders as possible could see the full CV of director candidates, such as Professor Bruce Robinson. I received a printed copy of the 114 page annual report, and don't understand why this wasn't accompanied by the notice of meeting with shareholders instead directed to read this online.

Rick Holliday-Smith

My understanding would be, the notice of meeting would have been sent to all shareholders. So is that correct or not?

Ray Jarman

Mr Chairman, maybe I can answer that.

Rick Holliday-Smith

Yes. Okay.

Ray Jarman

So there have been some COVID regulations that apply temporarily, which enabled the company to not send out the notice of meeting in hard copy, but distributed electronically, and the company decided to avail itself of that opportunity.

Rick Holliday-Smith

Okay. All right. So the answer there is, there was an exemption which didn't require a hard copy and we exercised that exemption. In future, we hope this will not apply. I'd also suggest that all shareholders, if we're still in a COVID environment, pay attention to that, and we should make sure that it is properly spelled out in a clear way in the annual report, if in fact that's the case next year. So I apologise for that.

Operator

Next question. My question, because of COVID-19, would Cochlear implement a free cash flow and net debt target, so it can focus on financial strength and prepare us for a pandemic.

Rick Holliday-Smith

I don't know exactly what that means. The liquidity of the company and the cashflow of the company are actually vital and are managed carefully at all times, and are maintained in an extremely conservative financial structure. Obviously, free cashflow is a key part of long-term ability to pay dividends. So, we monitor that and that will be one of the considerations as we look at our dividend policy. I don't know quite how to unpack that question, but we will take it away and think about it. But I think cashflow and free cashflow and long-term free cashflow are vital items that we track and manage very carefully too at all times. We think they are very important to our long-term value.

Operator

The following is a comment.

“Steve is right. I only applied for 10K because I would not receive any more with a \$50 million cap. As it turned out, I would have received full 30K if I knew the retail cap would have been raised.”

Rick Holliday-Smith

Okay, thank you for that question. The SPP documents did say, I believe that we could consider increasing the amount of the SPP. They did say clearly the words that we would be minded to look at the proportional pro-rata-ed aspects of that, which is exactly what we did. I apologise if that was to your disadvantage.

Operator (a question from Stephen Mayne)

The next one, could the Chair undertake that a transcript of today's AGM is published on the Cochlear website, the capital raising discussion, including the chair's prepared remarks was not included in the formal addresses lodged with the ASX.

Rick Holliday-Smith

What do we normally do, Ray?

Ray Jarman

Mr Chairman, the webcast will be displayed on the website. We don't normally provide a transcript because it can be viewed in real time on the website.

Rick Holliday-Smith

Okay. So at the moment, our practise is for the full webcast to be available on the website. So anyone can listen to all the comments made, but as practise, we do not provide a transcript. Are there any other questions?

Operator

There's one final comment. The Chairman will not promote online meetings. He does not like shareholder participation as is evident by the way he answers the questions.

Rick Holliday-Smith

Sorry could you ask that again. Okay.

Operator

The final is just a comment.

Rick Holliday-Smith

Yes.

Operator

The Chairman will not promote online meetings. He does not like shareholder participation as is evident by the way he answers questions.

Rick Holliday-Smith

Okay. I note that comment. Thank you.

Operator

There are no further questions.

Rick Holliday-Smith

There are no further questions. Okay. I now advise that voting is now closed.

As I indicated previously, the poll results will be released to the ASX as soon as they are available. This brings us to the end of the 2020 AGM. I thank you for your participation. A webcast of the meeting will be made available on our dedicated AGM web page on the Cochlear website. I now declare the meeting closed. Thank you very much.

END OF TRANSCRIPT