



Cochlear Ltd (COH)

Entry Date: Feb 2005

Exit Date: Still held as of 31 Dec 2017

Approximate Return: 762%

Background

COH is the current incarnation of the company that developed the world's first commercially available bionic ear, the Cochlear implant, 30 years ago. By being first to market and with thousands of filed patents COH has over 70% of the globally installed base of implantable hearing devices. Consistent investment in innovation and product quality has maintained their market share and growth rates.

Energy Argument

Despite its pedigree, COH estimates its market penetration to be 5%. As of 2017 it installs over 30,000 units per year and this stills falls short of new incidents of hearing loss. The size of the market compared to current penetration levels in combination with a drive for innovation allows the prospect of continued strong growth and the ability to sell upgrades to historical patients.

Entry Trigger

While Alleron has had a long history of investment in COH, there have been clear examples of recent events that have served to reinforce the strength and continued growth potential of the company. For example, in 2011 COH withdrew their implant due to a manufacturing fault, highlighting management capability in a crisis and returning to market with a stronger product. COH also recently established a new division that creates and markets products directly to their 450,000 installed customer base, thereby creating another growth driver on top of their underpenetrated market core.

Alleron still held COH as of 31 Dec 2017

Despite achieving compound annual growth of around 13.5% over the past 18 years, the extremely low penetration rate, return-on-equity of over 40% and constant reinvestment in R&D still place COH as one of the highest quality companies in the Australian market. With forecast earnings to grow at close to 50% over the next three years with only a marginal impact on penetration, the growth outlook is expected to remain consistently strong.

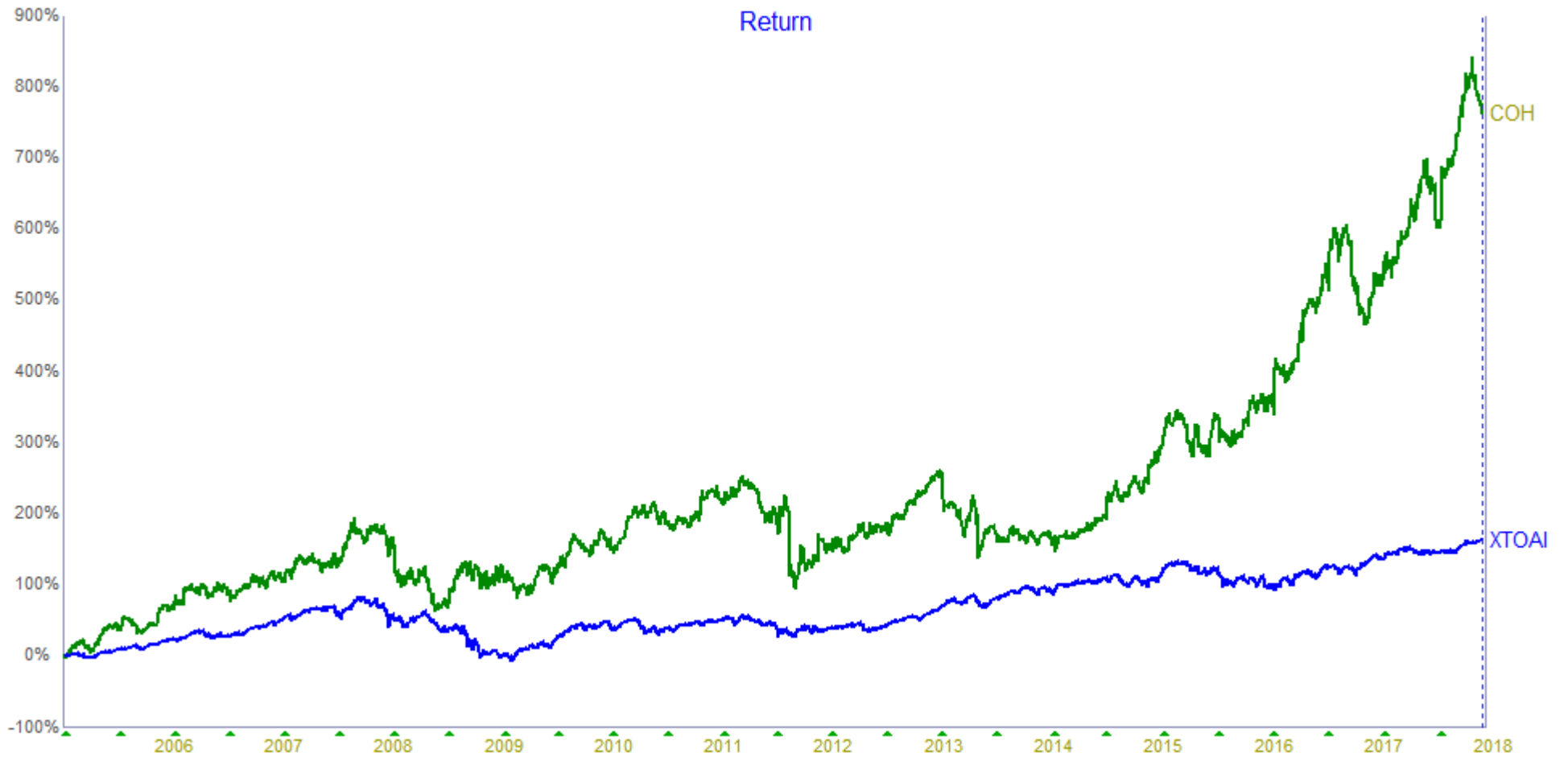


Figure 1: Alleron COH Investment (Feb 2005 – Dec 2017)



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