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## Australian Champions (series 2)

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*"Lieutenant Dan got me invested in some kind of fruit company [Apple Inc ]. So then I got a call from him, saying we don't have to worry about money no more."*

----- *Forrest Gump*

*"Hear now. And always"*

----- *Cochlear*

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***"Dear Clients,***

"Life is like a box of chocolates. You never know what you're gonna get". In 6 July 1994, when the Forrest Gump movie was released, if you followed Forrest Gump and invested into Apple Inc on that date you would have turned \$10,000 into well over \$1million.



Apple Inc, a famous world champion innovative company, has created so many wonderful stylish products that people love. It has also created so many employment opportunities around the world, and has generated tremendous wealth for many of its long term shareholders.

When we talk about a champion we think about those characteristics. Has it made a contribution to its country and inspired people? Does management run the business efficiently and successfully? Has it created great value for shareholders?

In the last series I selected three examples: CCL, CPU & CSL. CCL was an innovator, caring its employees during the GFC and had delivered strong shareholders' return under the former CEO Terry

Davis. CPU under its founder Chris Morris grew the company from a small local outfit in Melbourne to the largest share registry company in the world, and brought home lots of bacon for its home country. CSL has continued to develop new products in the life science space for benefit the world and has delivered one of the greatest returns in the country for its original shareholders.

### **Coca-Cola Amatil (CCL)**

	Share Price*	EBIT** \$million	Tax** \$million
May 2012	\$10.6	\$869	\$206
August 2017	\$8.05	\$683	\$181
Change	-24%	-21%	-12%

### **CSL Limited (CSL)**

	Share Price*	EBIT \$billion	Tax \$million
August 2012	\$44.43	\$1.48	\$251
August 2017	\$128.52	\$1.77	\$353
Change	189%	20%	41%

### **Computershare (CPU)**

	Share Price*	EBIT \$million	Tax \$million
March 2013	\$10.2	\$510	\$32
August 2017	\$14.05	\$541	\$125
Change	38%	6%	291%

Note: \*Estimated Price at time of writing \*\*Calendar year results

Warning: Past returns are not a reliable indicator of future returns. Future performance may be affected by economic and market influences.

In this second series we look for more inspirational stories.

The US has great technology companies, German has great car companies, and China has many great “factory of world” companies. In Australia, if you ask, of course, the answer tends to be that we have many “great” mining companies. Pretty true, and we will talk about some of those champions in the next issue. But here we want to praise one of the best AI (artificial intelligence) companies in the world, the Aussie ***Cochlear***.

### ***Earlier History of Cochlear***

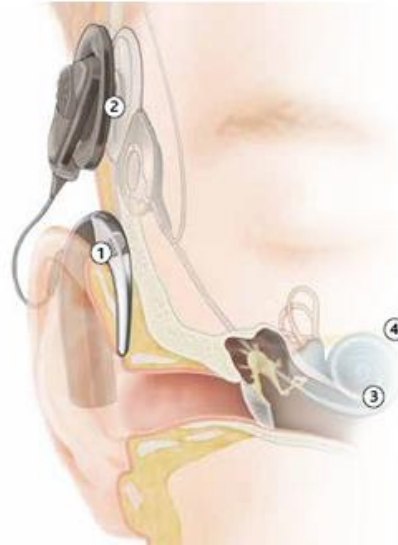
In 1967, inspired by his deaf father, Australian Graeme Clark began researching the possibilities of an electric implantable device. In 1997, the first patient received a bone conduction hearing implant. In

1981, Nucleus group (part of the industry conglomerate Pacific Dunlop Group) started commercial development of the multichannel cochlear implant. Cochlear listed on the ASX in 1995 for \$2.50 a share.

### ***How does Cochlear implant works?***

#### **Hearing with a cochlear implant**

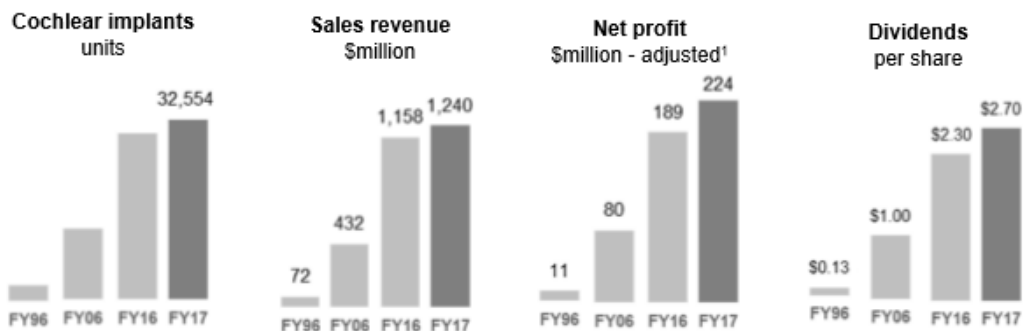
1. Microphones on the sound processor pick up sounds and the processor converts them into digital information.
2. This information is transferred through the coil to the implant just under the skin.
3. The implant sends electrical signals down the electrode into the cochlea.
4. The hearing nerve fibres in the cochlea pick up the signals and send them to the brain, giving the sensation of sound.



Source: <http://www.cochlear.com>

Cochlear also provides Bone Conduction and Acoustic Implants.

### ***Achievements***

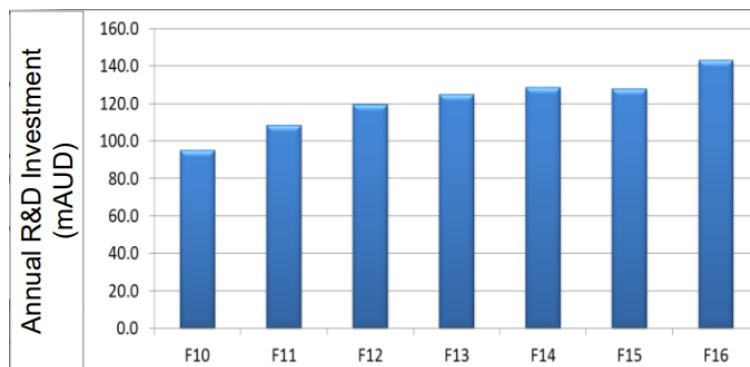


Source: 2017 Cochlear Limited Annual Report

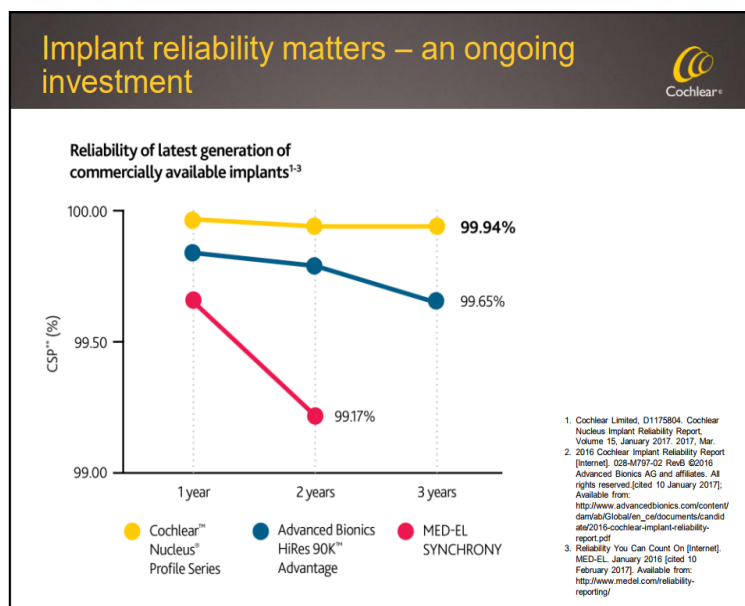
The company sold 2,756 Cochlear implants units in FY1996, and in FY2017 it sold 32,554 units

The dividend was \$0.13 per share in FY96, it has been increased to \$2.70 in FY17.

### ***Increase R & D = Improve Quality***



Source: 2017 Investor Day Presentation



Source: FY17 Results Presentation

### ***Who is in charge?***

Mr Rick Holliday-Smith has been chairman since 2005.  
 CEO Chris Smith has been with the company for thirteen years and he will retire at the end of this year.  
 The new CEO, Dig Howitt was the COO from 2016 and has been with the company since 2000.

## *Outlook, challenges and future*



Source: FY17 Results Presentation



Source: 2017 Investor Day Presentation

The challenge is continue to deliver different level of products to more people at a reasonable cost but still make a good profit margin so more money can be invested in R & D and reward shareholders. We hope Cochlear's CEO transition would be as smooth as CSL's, which CEO Paul Perreault has done a great job to continue improve the company and contribute to the world.

We think Cochlear is a real example that represents the future of advanced AI. Humans and technology combining to benefit humans.

***“You have to do the best with what God gave you.” – Mrs. Gump***

**Go Aussie**

**Charley Wang**

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***Disclosure:***

*123 IGF owns a small amount of COH share at time of writing*

123 Investment Management Pty Ltd is the Investment Manager for **123 Investment and Growth Fund (123 IGF)**. Charley Wang (Master of Finance, Melbourne University) is the CIO of 123 IGF, he has been working in the financial industry for over 20 years, including 15 years with Morgan Stanley Wealth Management (formerly Smith Barney Citigroup).

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