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Half-Year 2017/18 Results

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Agenda

- 1. Sonova Group**

- 2. Business review – Hearing instruments**

- 3. Business review – Cochlear implants**

- 4. Financial review 1H 2017/18**

- 5. Outlook FY 2017/18**

- 6. Questions & Answers**

- 7. Upcoming Events**

1. Sonova Group

Business summary 1H 2017/18

- **Sonova Group: Steady strong progress in H1 – Solid growth in CI**
 - Sales of CHF 1,253.0 million up 17.1% as reported in CHF and 16.9% in LC
 - EBITA of CHF 240.5 million – Margin of 19.2% (normalized for AudioNova one-time costs)
- **Hearing instruments: Strong growth and organic EBITA and margin expansion**
 - Sales of CHF 1,151.7 million up by 17.6% in LC – Driven by acquisitions and organic growth
 - EBITA (normalized) of CHF 241.3 million – Margin at 20.9%, stable despite Retail mix impact
- **Cochlear implants: Solid sales growth driven by upgrades**
 - Sales of 101.3 million, up 9.7% in LC
 - EBITA of CHF -0.8 million
- **Strong contribution from acquisitions**
 - Incremental net sales contribution of CHF 130.5 million
 - Mainly driven by AudioNova (included for 1 month in PY) and bolt-on acquisitions in Germany
 - CHF 6.8 million one-time costs for AudioNova integration – Progressing on plan
- **Good cash conversion – Expanding cash flow – Solid balance sheet**
 - Operating Cash Flow up 6.5% to CHF 203.7 million
 - Equity ratio of 54.9%

Major developments and initiatives in 1H 2017/18

Go-to-market	<ul style="list-style-type: none">– EU: Solid organic growth across the region – DE impacted by market stagnation– EU: AudioNova integration on track – Creating one of Europe’s largest retailers– US: Growing on the back of new product introductions– US/NL: Streamlining and strategic repositioning of retail presence– CN: Government tender in CI, strong development in HI
New products	<ul style="list-style-type: none">– HI: Phonak Audéo™ B-direct – Industry first and only MFA solution in the market– HI: Successful Unitron Tempus™ platform roll-out– CI: Launch of HiFocus™ SlimJ electrode and Naída™ Link CROS– CI: Roll-out of HiRes™ Ultra implant
e-Solutions	<ul style="list-style-type: none">– Distance support: Partnering with VA – Successful trials in 3 VA clinics– Continued investments: Developing complete solution and service offering

Continued strategic progress to ensure and drive sustainable profitable growth

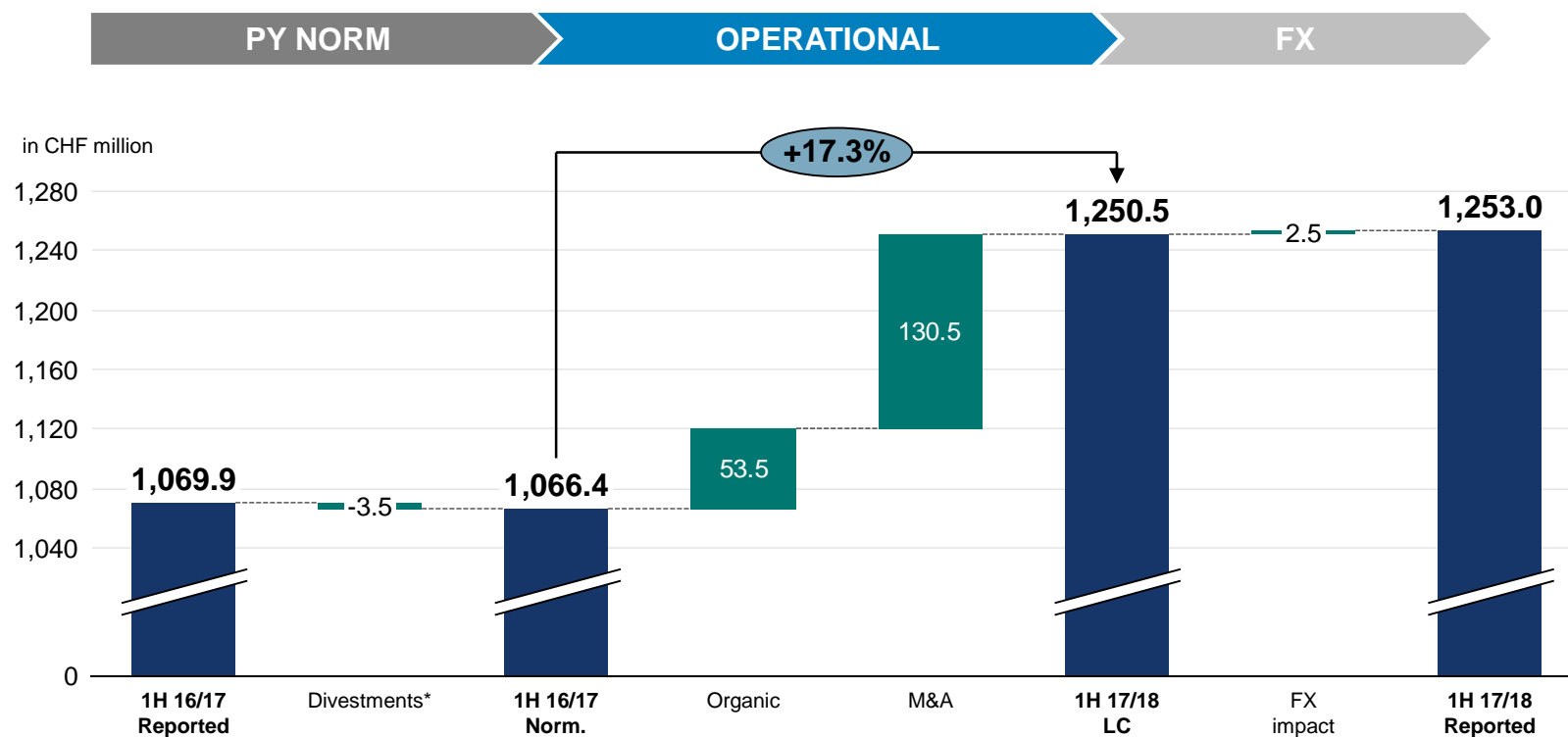
Key Financials – As reported and normalized

	Sep YTD AC 2016/17		Sep YTD AC 2017/18		Δ % in CHF	Δ % in LC
	CHF m	Margin	CHF m	Margin		
Sales	1,069.9		1,253.0		+17.1%	+16.9%
Gross profit	723.8	67.6%	883.3	70.5%	+22.0%	+21.8%
OPEX before one-time cost	-517.9	48.4%	642.8	51.3%	+24.1%	+23.8%
EBITA before one-time cost	205.9	19.2%	240.5	19.2%	+16.8%	+16.9%
One-time cost*	-10.1		-6.8			
EBITA reported	195.8	18.3%	233.7	18.6%	+19.3%	+19.4%
EPS (in CHF) before one-time cost	2.43		2.73		12.2%	
EPS (in CHF) reported	2.29		2.64		15.4%	
Operating Cash Flow	191.2		203.7		+6.5%	

* One-time transaction and integration costs related to AudioNova acquisition

Strong organic operating results & trend – Outweighing expected retail mix effects

Sales and components – YoY



* mainly AudioNova France and MiniSom Portugal

Growth components	-0.3%	-0.3%	+5.0%	+12.2%	+16.9%	+0.2%	+17.1%
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Sales increase of +16.9% in LC – Organic growth +5.0%

Sales by segment

in CHF million	1H 2016/17	1H 2017/18	Δ % in LC
HI segment	977.5	1,151.7	+17.6%
CI segment	92.4	101.3	+9.7%
Total SONOVA	1,069.9	1,253.0	+16.9%

HI Segment

- HI Business (WHS): Strong organic growth and margin expansion
- RET Business: Weaker 1Q – Solid acceleration in 2Q
- RET Business: Annualization of AudioNova (1 month in PY) – Fast move to Sonova products

CI Segment

- CI Systems: Modest sales growth (comp effect) – Affected by competition and lower ASP
- CI Upgrades: Strong growth and overall contribution

Solid growth and progress across both segments and all three businesses

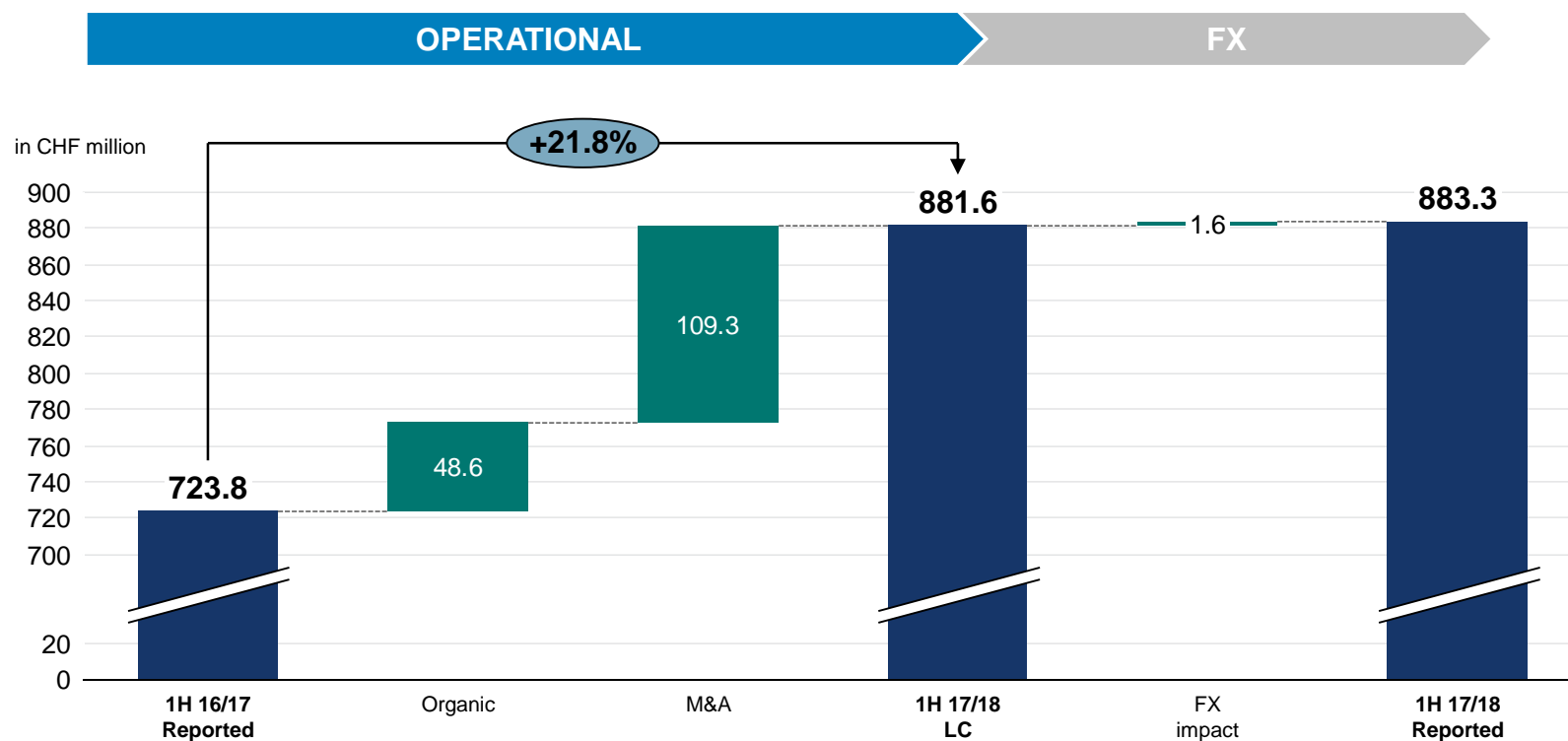
Sales by regions and key markets

in CHF million	1H 2016/17		1H 2017/18		Δ % in LC
	Sales	in %	Sales	in %	
EMEA	470.0	44%	633.1	50%	+34.6%
USA	383.0	36%	385.3	31%	+0.5%
Americas (excl. USA)	102.7	10%	109.5	9%	+5.0%
Asia / Pacific	114.2	10%	125.1	10%	+9.4%
Total SONOVA	1,069.9	100%	1,253.0	100%	+16.9%

EMEA	<ul style="list-style-type: none"> – HI Business (WHS): Continued strong growth with new products and favorable ASP trend – RET Business: Solid organic growth and AudioNova acquisition – Slow 1Q in DE – CI Business: Flat sales after strong PY
US	<ul style="list-style-type: none"> – HI Business (WHS): Solid growth with new products in PH and UH – Favorable ASP trend – RET Business: Strategic repositioning of US retail presence – Streamlining of store network – CI Business: Growth driven by strong upgrade business
APAC	<ul style="list-style-type: none"> – HI Business (WHS): Solid growth driven by CN and JP – RET Business: Continued good momentum in NZ, JP offset by competitive pressures in AU – CI Business: Solid growth in legacy channels and CN tender (CHF 4.5 million impact)

Solid LC growth driven by EMEA, organic growth and AudioNova acquisition

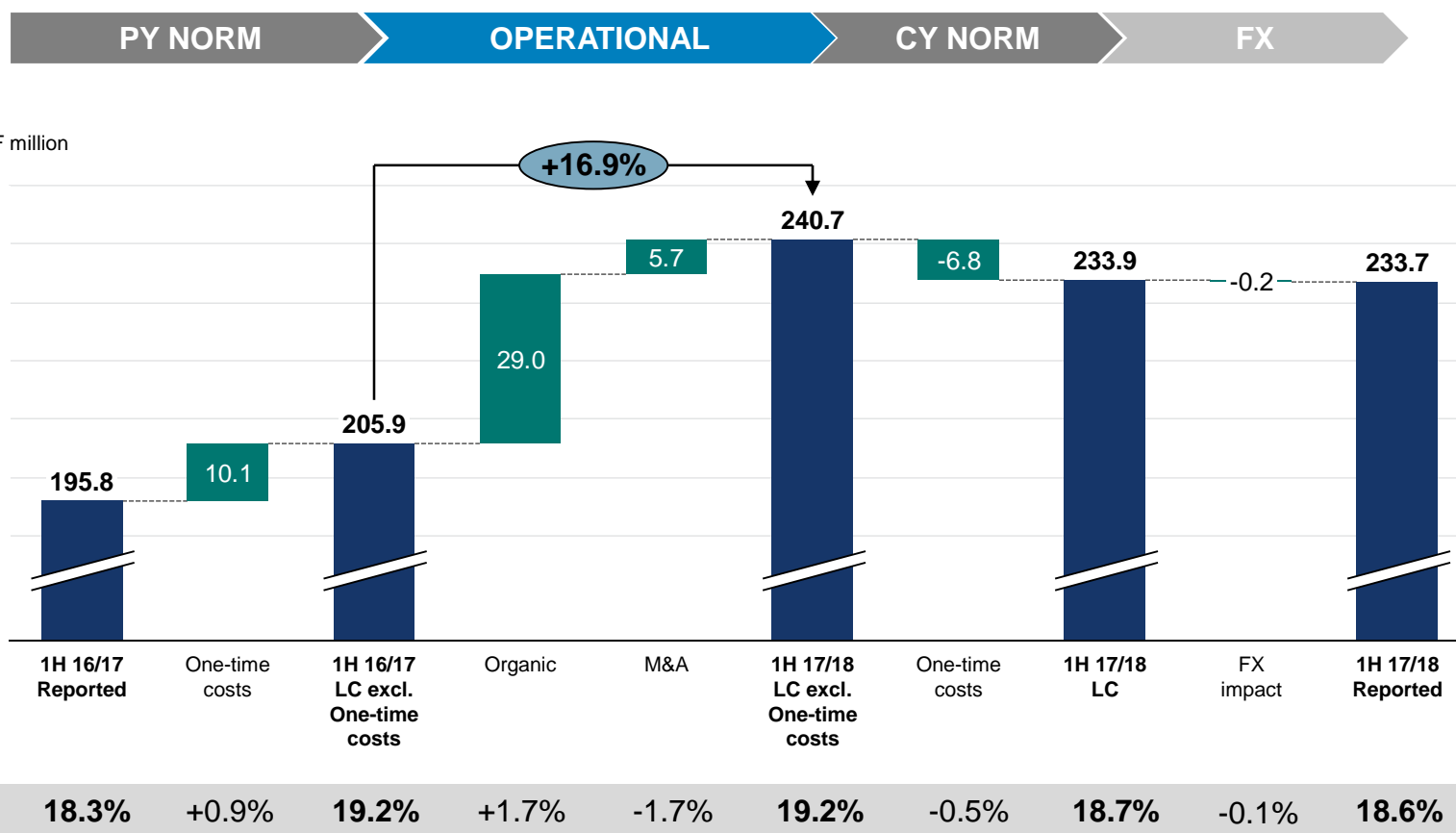
Gross profit and components – YoY



Margin	67.6%	+1.1%	+1.8%	70.5%	+0.0%	70.5%
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Gross profit up 21.8% in LC – Strong organic expansion and AudioNova effect

EBITA and components – YoY



Normalized EBITA up 16.9% in LC – Strong organic margin – Expected retail effect

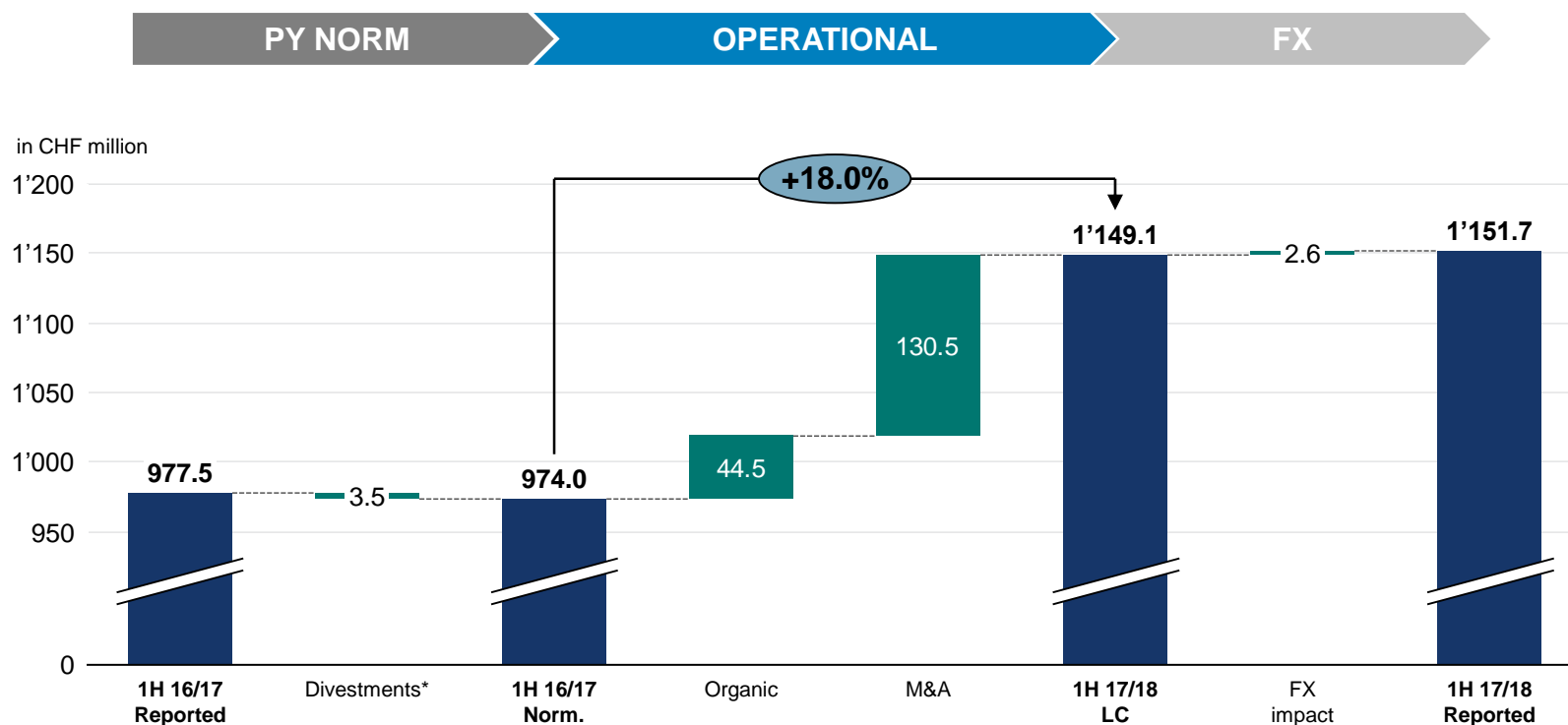
2. Business review – Hearing instruments

Business summary 1H 2017/18

- **Strong sales growth driven by WHS, attractive new product portfolio and RET acquisitions**
 - Sales of CHF 1,151.7 million up by 17.6% in LC – Driven by organic growth and acquisitions
 - HI Business (WHS): Solid organic growth driven by strong attractive product portfolio
 - Phonak Belong™: Rechargeable product continuing strongly – Successful MFA launch (2H impact)
 - Unitron Tempus: Broad based growth after successful AAA introduction of new platform
 - RET Business: Flat organic growth impacted by US, NL and weak 1Q in DE – Acceleration in 2Q
 - AudioNova: Integration on track – successful conversion of AudioNova product portfolio
- **Strong organic EBITA growth and margin expansion – Expected retail mix effect**
 - EBITA (normalized) of CHF 241.3 million – Margin of 20.9% (prior year: 21.2%)
 - Gross profit margin: Strong organic expansion and AudioNova effect
 - Solid ASP development and continued favorable product mix trend
 - Expected margin dilution from AudioNova acquisition fully compensated by operating improvement
 - R&D investment continued at high level – SWORD™ chip with industry first MFA™ features
 - Continued development and expansion of eSolutions

Strong sales growth and organic EBITA and margin expansion

Sales and components – YoY



* mainly AudioNova France and MiniSom Portugal

Growth components	-0.4%	-0.4%	+4.6%	+13.4%	+17.6%	+0.2%	+17.8%
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Sales increase of +17.6% in LC – Organic growth of 4.6%

Hearing instruments business

in CHF million	1H 2016/17	1H 2017/18	Δ Organic	Δ M&A	Δ in LC	Δ FX
HI Business (third party sales)	661.4	700.4	+44.3	-6.7	+37.6	+1.3
Growth contribution			+6.7%	-1.0%	+5.7%	+0.2%

Note: US insurance subcontracting business included in HI Business (shown in Retail Business in FY 2016/17 presentation)

- HI Business sales incl. sales to own retail up 9.5% in local currencies
- Driven by strong organic business and accelerating share of wallet conversion in own retail
- Continuing success of the Phonak Belong and Unitron Tempus platforms
- Performance supported by favorable ASP and product mix trend
- Successful launch of Audéo B-Direct – Sales impact in 2H
- M&A effect on 3rd party sales reflects re-classification of former UH sales to AudioNova to intercompany

Strong growth in HI Business (Wholesale) – Driven by successful new products

Hearing instruments

Retail business

in CHF million	1H 2016/17	1H 2017/18	Δ Organic	Δ M&A	Δ in LC	Δ FX
RET Business	316.1	451.3	0.3	133.7	134.0	1.3
Growth contribution			+0.1%	+42.3%	+42.4%	+0.4%

Note: US insurance subcontracting business included in HI Business (shown in Retail Business in FY 2016/17 presentation)

- Solid growth in the majority of markets
- AudioNova integration on track
- Successful conversion of Audio Nova product portfolio – higher than expected share of wallet
- US: Retail network impacted by strategic repositioning and streamlining of store network
- DE: Weak market environment, particularly in 1Q
- NL: Substantial business model redesign in progressed stage

Strong growth driven by AudioNova acquisition – Impacted by US, DE & NL effects

Hearing instruments

Sales by product groups

in CHF million	1H 2016/17	% Group sales	1H 2017/18	% Group sales	Δ % in LC
HI Premium	272.8	27.9%	322.1	28.0%	+18.4%
HI Advanced	207.8	21.3%	237.2	20.6%	+14.3%
HI Standard	318.6	32.6%	361.9	31.4%	+13.2%
Wireless communication	50.5	5.2%	56.7	4.9%	+12.3%
Miscellaneous	127.8	13.0%	173.8	15.1%	+34.8%
Total HI segment	977.5	100.0%	1,151.7	100.0%	+17.6%

Note: Compared to the disclosures made for 1H 2016/17, certain hearing instruments service and repair revenues have been reallocated from Miscellaneous to the respective hearing instrument category.

- Premium segment leading broad based growth – Supported by strong demand for rechargeable
- Wireless communication continuing double-digit expansion
- Miscellaneous growth driven by AudioNova annualization – Higher share of ancillary products and services

Broad double-digit growth – Strong favorable trend to premium products

Key Financials – As reported and normalized

	Sep YTD AC 2016/17		Sep YTD AC 2017/18		Δ % in CHF	Δ % in LC
	CHF m	Margin	CHF m	Margin		
Sales	977.5		1,151.7		+17.8%	+17.6%
EBITA before one-time costs	206.9	21.2%	241.3	20.9%	+16.6%	+16.7%
One-time costs*	-10.1		-6.8			
EBITA reported	196.8	20.1%	234.5	20.4%	+19.1%	+19.3%

* One-time transaction and integration costs related to AudioNova acquisition

Strong sales growth and organic EBITA and margin expansion

3. Business review – Cochlear implants

Business summary 1H 2017/18

- **Solid sales growth driven by upgrades**
 - Sales of 101.3 million – Growth of 9.7% in LC
 - Slower growth in Western markets after double-digit increase in PY 1H – Increased competition
 - Strong increase in upgrade sales driven by North America
 - New Systems sales lifted by government tender in China (effect CHF 4.5 million)
- **EBITA at CHF -0.8 million – Flat year-over-year**
 - Unfavorable ASP impact – Country mix and CN tender
 - Launch costs for new electrode (SlimJ) and externals (Naída Link CROS) as well as roll-out of new implant (HiRes Ultra)

Solid sales growth – Sales mix and launch costs weigh on bottom line

Cochlear implants

Sales by product groups

in CHF million	1H 2016/17	1H 2017/18	Δ % in LC
Cochlear implant systems	72.5	73.7	+1.6%
Upgrades and accessories	19.9	27.6	+39.3%
Total CI segment	92.4	101.3	+9.7%

Strong growth in upgrades – Systems affected by competition and lower ASP

Cochlear implants

Key Financials – As reported

	Sep YTD AC 2016/17		Sep YTD AC 2017/18		Δ % in CHF	Δ % in LC
	CHF m	Margin	CHF m	Margin		
Sales	92.4		101.3		+9.7%	+9.7%
EBITA	-1.0	-1.1%	-0.8	-0.8%	NM	NM

Solid sales growth – Geographic mix and launch costs weigh on bottom line

4. Financial Review

Financial highlights – 1H 2017/18

- **Sales** of CHF 1,253.0 million up 16.9% in LC – Driven by organic growth and acquisitions
- **Gross Profit** of CHF 883.3 million or 70.5% of sales up 290bps
 - Favorable product mix development – Driven by continued success of Phonak Belong and Unitron Tempus, specifically rechargeable variants
 - Acquisition based higher share of retail business
- **Reported EBITA margin** of 19.2%
 - Continued investment in innovation – R&D spending of CHF 70.8 million or 5.6% of sales
 - S&M and G&A ratio impacted by expected retail mix effect
 - CHF 6.8 million one-time costs consisting of integration related restructuring costs in connection with the acquisition of AudioNova
- **Normalized basic EPS** of CHF 2.73 – Up 12.0% vs. prior year
- **Operating Cash Flow** at 203.7 million – Up 6.5% vs. prior year
- **Net Cash outflow for acquisitions** gross of debt acquired at CHF 55.3 million
 - Solid balance sheet with equity ratio of 54.9% – Increase in capital employed to CHF 2.7 billion

Double digit growth in sales, EBITA and EPS

Key Financials – As reported and normalized

	Sep YTD AC 2016/17		Sep YTD AC 2017/18		Δ % in CHF	Δ % in LC
	CHF m	Margin	CHF m	Margin		
Sales	1,069.9		1,253.0		+17.1%	+16.9%
Gross profit	723.8	67.6%	883.3	70.5%	+22.0%	+21.8%
OPEX before one-time costs	-517.9	48.4%	642.8	51.3%	+24.1%	+23.8%
EBITA before one-time costs	205.9	19.2%	240.5	19.2%	+16.8%	+16.9%
One-time costs*	-10.1		-6.8			
EBITA reported	195.8	18.3%	233.7	18.6%	+19.3%	+19.4%
EPS (in CHF) before one-time costs	2.43		2.73		12.2%	
EPS (in CHF) reported	2.29		2.64		15.4%	
Operating Cash Flow	191.2		203.7		+6.5%	

* One-time transaction and integration costs related to AudioNova acquisition

Flat EBITA margin – Strong operating trend outweighing expected retail mix effects

Operating expenses

in CHF million	1H 2016/17	1H 2017/18	Δ % in CHF	Δ % in LC	Comments
Research & Development <i>- in % of sales</i>	-68.0 6.4%	-70.8 5.6%	+4.1%	+4.1%	– Investment in next generation platform and eServices
Sales & Marketing <i>- in % of sales</i>	-352.2 32.9%	-448.7 35.8%	+27.4%	+27.0%	– Increase mainly driven by Retail acquisitions – AudioNova one-time costs of CHF 1.8 million (PY zero)
General & Administration <i>- in % of sales</i>	-108.0 10.1%	-133.6 10.7%	+23.6%	+23.3%	– Growth driven by retail acquisitions – AudioNova one-time costs of CHF 5.0 million (PY 10.1 million)
Other expenses	0.2	3.4	NM	NM	– Gain on disposal of AudioNova Portugal
Total OPEX <i>- in % of sales</i>	-528.0 49.3%	-649.6 51.8%	+23.0%	+22.7%	
Total OPEX normalized* <i>- in % of sales</i>	-517.9 48.4%	-642.8 51.3%	+24.1%	+23.8%	
Number of employees	13,728	14,114			– Up 2.8% < organic sales growth of 5.0%

* Excludes one-time transaction and integration costs related to AudioNova acquisition

Continued investment in innovation and implementation of go-to-market strategy

Reported results and income taxes

in CHF million	1H 2016/17	1H 2017/18	Δ % in CHF
EBITA	195.8	233.7	+19.3%
Acquisition - related amortization	-15.3	-23.9	+56.3%
Operating profit (EBIT) <i>in % of sales</i>	180.5 16.9%	209.7 16.7%	+16.2%
Financial result	-4.8	-3.1	-34.3%
Income before taxes	175.8	206.6	+17.5%
Income taxes	-23.7	-30.4	+28.0%
- Income tax rate	13.5%	14.7%	+120bp
Income after taxes <i>- in % of sales</i>	152.1 14.2%	176.2 14.1%	+15.9%
EPS normalized* (in CHF)	2.43	2.73	+12.2%
EPS (in CHF)	2.29	2.64	+15.4%

* Excludes one-time transaction and integration costs related to AudioNova acquisition

Higher acquisition amortization and temporary higher income tax rate – As expected

Cash flow

in CHF million	1H 2016/17	1H 2017/18	Δ % in CHF
Cash flow before changes in NWC (incl. taxes paid)	208.0	234.4	+12.7%
Changes in net working capital	-16.9	-30.7	
Operating cash flow <i>in % of sales</i>	191.2 17.9%	203.7 16.3%	+6.5%
Cash flow from investing activities (excl. acquisitions)	-44.4	-50.7	
Operating free cash flow <i>in % of sales</i>	146.8 13.7%	153.0 12.2 %	+4.2%
Cash consideration for acquisitions, net of disposals	-657.5	-55.3	
Free cash flow	-510.7	97.7	NM
Cash flow from financing activities	366.9	-178.9	NM
Changes in cash and cash equivalents	-144.4	-78.2	

Operating cash flow up 6.5% – Impacted by increased working capital

Balance sheet

In CHF million	31 Mar 2017	30 Sep 2017	Δ % in CHF
Net working capital	169.7	225.5	+32.9%
Days sales outstanding (DSO)	61	65	
Days inventory outstanding (DIO)	127	150	
Capital employed	2,535.9	2,708.1	+6.8%
Net debt	404.6	488.4	+20.7%
Equity	2,131.3	2,219.6	+4.1%
Equity in % of total assets	54.2%	54.9%	+70bp

- Higher inventory driven by temporary supply chain changes
 - Seasonal fluctuations – Driven by new product launches
 - AudioNova product transition
 - Move of European distribution center
- Net cash considers dividend payment in 1H

Higher inventory – Seasonal fluctuation and temporary supply chain effects

5. Outlook

Factors impacting 1H performance and considerations for outlook into 2H

	Factor	1H 2017/18	2H 2017/18
Hearing instruments	New product benefits	Phonak Bolero™ B including rechargeable, Virto™ B-Titanium, Unitron Tempus	Phonak B-Direct and Virto B
	HI business (WHS) dynamic	Strong momentum across all regions	Ongoing benefit from strong portfolio, tougher PY comps
	AudioNova acquisition	5 months of annualization benefit, 2-3 months product conversion benefit	Full effect of product conversion
	Retail business dynamic	Slow start to the year, acceleration in 2Q	Improved momentum going in into 2H helped by weaker PY comps
Cochlear implants	New product benefits	HiRes Ultra implant and Naída Link	HiFocus SlimJ electrode and Naída Link CROS
	China tender	Effect: CHF 4.5 million	Expected effect: ca. CHF 4.0-5.0 million

Year to date achievements support FY guidance

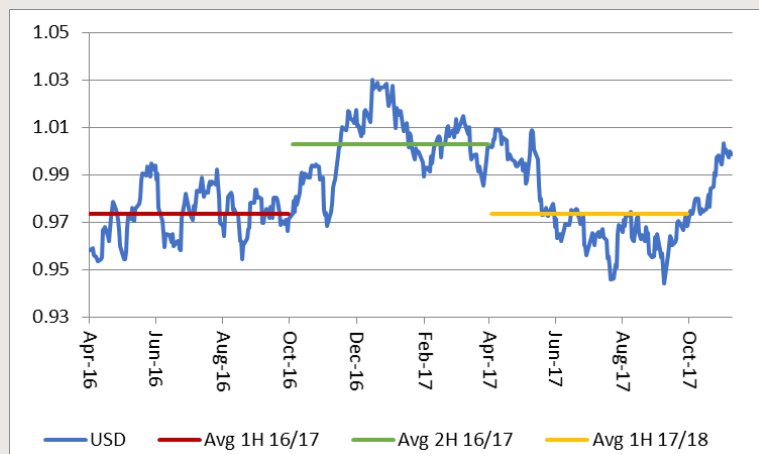
FY 2017/18 guidance and mid-term target

		Guidance* FY 2017/18	Mid-term Target
Sales	Sales growth in LC	10%-12%	+5%-7% p.a.
	thereof M&A	ca. +6.0%	ca. +1.0% p.a.
	FX-impact		
	Total sales growth in CHF		
EBITA	EBITA growth in LC	10%-14%	+7%-11% p.a.
	FX-impact		
	Total EBITA growth in CHF		

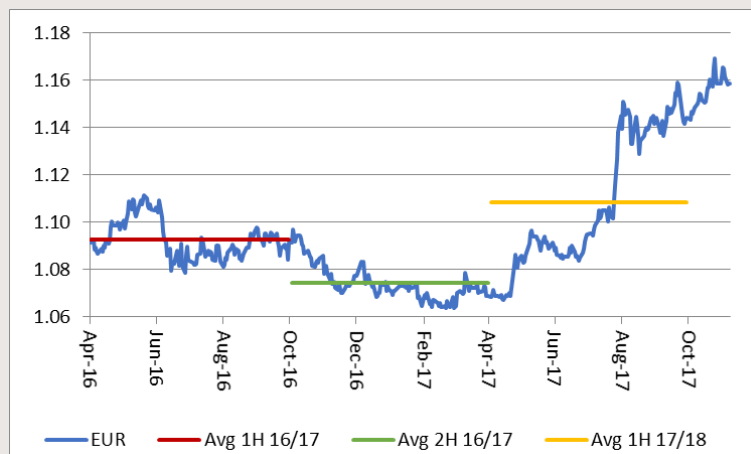
* EBITA FY 2016/17 and FY 2017/18 excluding one-time transaction and integration costs related to AudioNova acquisition

FX impact on sales and margins

USD/CHF



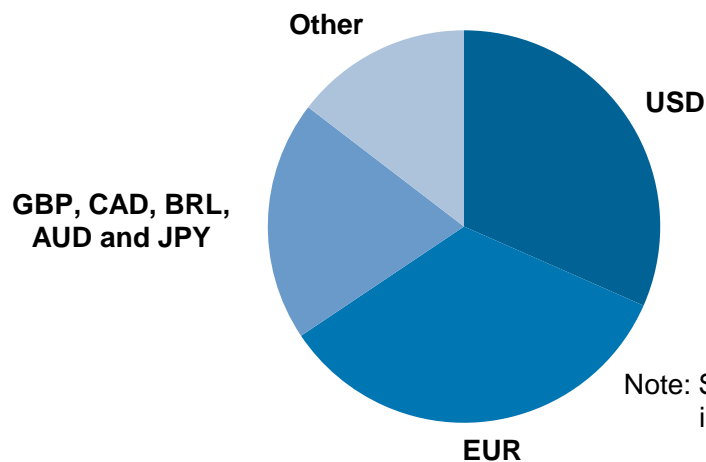
EUR/CHF



	Rate	Sales	EBITA
USD/CHF	+/- 5%	+/- CHF 43 million	+/- CHF 10 million
EUR/CHF	+/- 5%	+/- CHF 45 million	+/- CHF 18 million

USD and EUR account for roughly two thirds of the overall FX exposure

FX rates – Main currencies accounted for around 90% of Group sales



Note: Split based on pro-forma numbers, which include AudioNova for 12 months

	Avg 1H 2016/17	Avg 1H 2017/18	Effect	Avg FY 2016/17	Spot 8-Nov-17
USD	0.97	0.97	=	0.99	1.00
EUR	1.09	1.11	+	1.08	1.16
GBP	1.34	1.26	-	1.29	1.31
CAD	0.75	0.75	=	0.75	0.78
AUD	0.73	0.75	+	0.74	0.77
BRL	0.29	0.31	+	0.30	0.31
JPY 100	0.93	0.88	-	0.91	0.88

Positive impact from EUR strength – Partly offset by strong GBP decline

6. Questions & Answers

7. Upcoming Events

Upcoming events

Important dates

Nov 14-22, 2017	Roadshow Half-Year Results 2017/18
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April 2018	Investor Call AudiologyNow!
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22 May 2018	Publication Full-Year Results 2017/18
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23-31 May 2018	Roadshow Full-Year Results 2017/18
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12 Jun 2018	Annual General Meeting
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