

sonova

# HALF-YEAR 2011/12 RESULTS – *Investor & Analyst Conference*

Staeafa, 15 November 2011



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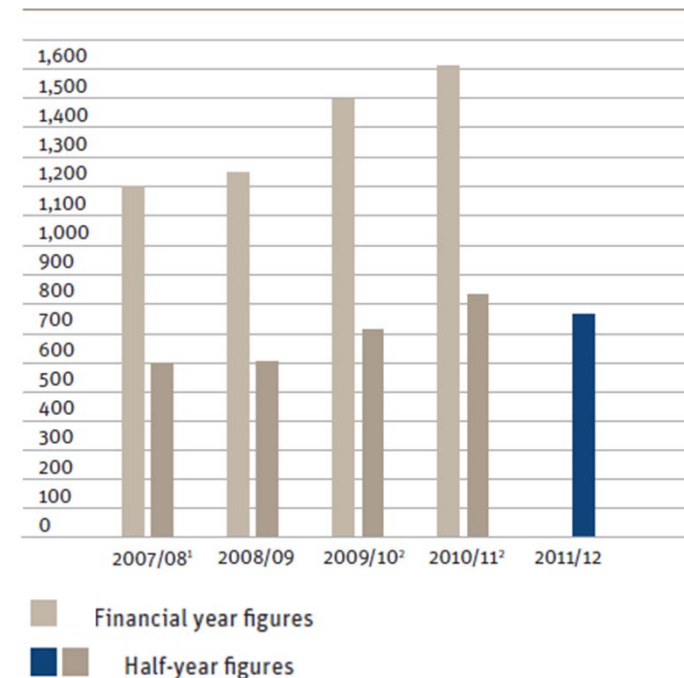
# BUSINESS REVIEW

# Half Year 2011/12

## Highlights

- **Sales of CHF 763.0 million**
  - Total sales growth of +8.3% in Ic
  - Negative currency effect of 16.5%
- **Group EBITA of CHF 138.4 million or 18.1% of sales**
  - Negative currency effect of CHF 53.2 million
- **Solid core business hearing instruments**
  - Growth of 11.4% in Ic
  - Organic growth of 7.0% in Ic
  - EBITA margin of 22.0%
  - On-going product innovation
- **Hearing implants sales of CHF 39.2 million**
  - Outside U.S. markets performed well after TÜV-approval
  - U.S. market re-entry effective September 13, 2011
  - Focus on cochlear implant market opportunities
  - EBITA of CHF -20.6 million (incl. restructuring charges of CHF 3.9 million related to the closure of Phonak Acoustic Implants)

SALES  
in CHF m



<sup>1</sup>) Excluding one-off costs for the prohibited acquisition of the GN ReSound Group  
<sup>2</sup>) Restated based on finalization of the acquisition accounting of Advanced Bionics

# Sonova

## Key topics for 2011/12

Topic	Initiatives	Status
<b>AB temporary recall</b>	Complete submission and receive FDA approval; resume selling in U.S.A.	✓
<b>AB Neptune product launch</b>	Complete launch of new off-the-ear, water-proof power supply	On track
<b>AB next generation product</b>	Continue development of next generation cochlear implant	On track
<b>Unitron ERA product launches</b>	Launch of product portfolio based on new platform technology according to existing product roadmap	✓
<b>Lyric</b>	Complete integration of Lyric into Phonak – expand U.S. market reach Next generation Lyric device in development	✓ On track
<b>Phonak product launches</b>	According to existing product roadmap	✓
<b>Next generation hardware platform</b>	Continued development of next generation chip platform for hearing instruments	On track
<b>Cost management</b>	Target operational leverage	On track

# EUHA 2011 - Highlights



Preliminary H1 2011/12 sales results

- Solid local currency sales growth
- Innovation leadership continues with Spice



More than ever the industry's leading brand

- Spice+, the next significant step forward
- Innovations in performance, miniaturization, water resistance, connectivity

Lyric

Next generation in clinical trial phase

- Integration into Phonak complete



Back in growth mode

- Continuous product innovation
- Sona joins Unitron

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Sona ready to go mainstream

- Transfer of distribution, service & product development into Unitron







Back in the market worldwide

- FDA-approval received
- New Neptune sound processor
- Strong commitment to next generation development

# Phonak

The best performing portfolio in the industry – now on Spice+

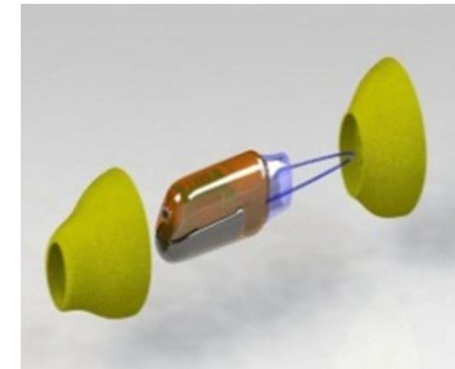
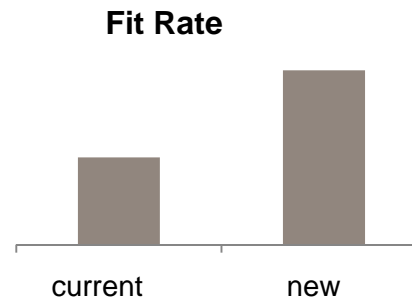
	Power			Standard				CRT			CROS/ BiCROS
Segment											
Premium			AVAILABLE NOW	AVAILABLE NOW Nano CIC	AVAILABLE NOW		AVAILABLE NOW				
Advanced	Naída S SP	Naída S UP	Naída S CRT		Power Custom		Water Resistant portfolio	Audéo S YES	Audéo S SMART	Audéo S MINI	CROS
Standard											
Accessories	Phonak TVLink			Phonak PilotOne				Phonak ComPilot			AVAILABLE NOW

# Phonak

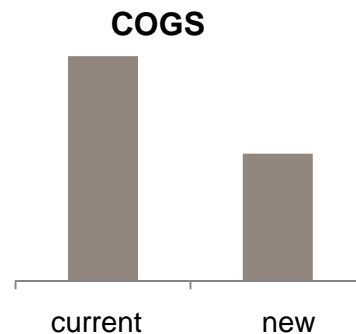
## Next generation Lyric (in clinical trial phase)

Next Generation Lyric will improve on following attributes:

- Smaller in size
- significantly improved fit rate



- Industrialized by Sonova
- Improved reliability
- Improved COGS








Launch planned in course of 2012



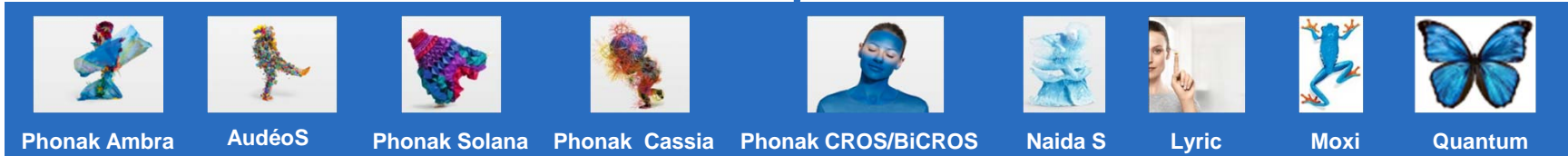
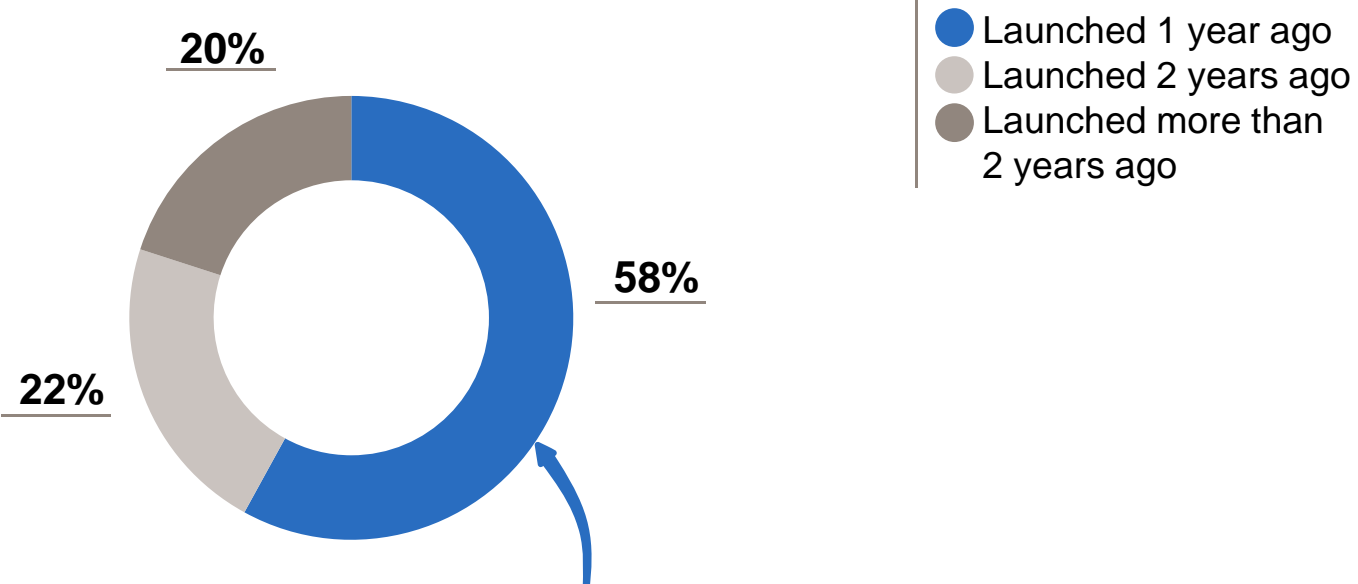
# Unitron

## Enhanced product portfolio

	Super Power	Traditional BTEs	CRT	ITEs (custom)	Sona:
Segment					
Premium		Passport	Passport	Passport	<p>Business is in the process of being transferred into Unitron Hearing</p> <p>vogue:ric vogue:micro vogue:intro</p>
Advanced	360	Quantum 20, 12, 6	Moxi 20, 12, 6	Quantum 20, 12, 6	
Standard Basic		Quantum micro 312 BTE <b>NEW</b>	Latitude 4	Latitude 4	
		Shine	Shine	Shine	
		Ziel			
Accessories	Unitron Remote Control <b>NEW</b>				

# Strongest product portfolio in the industry

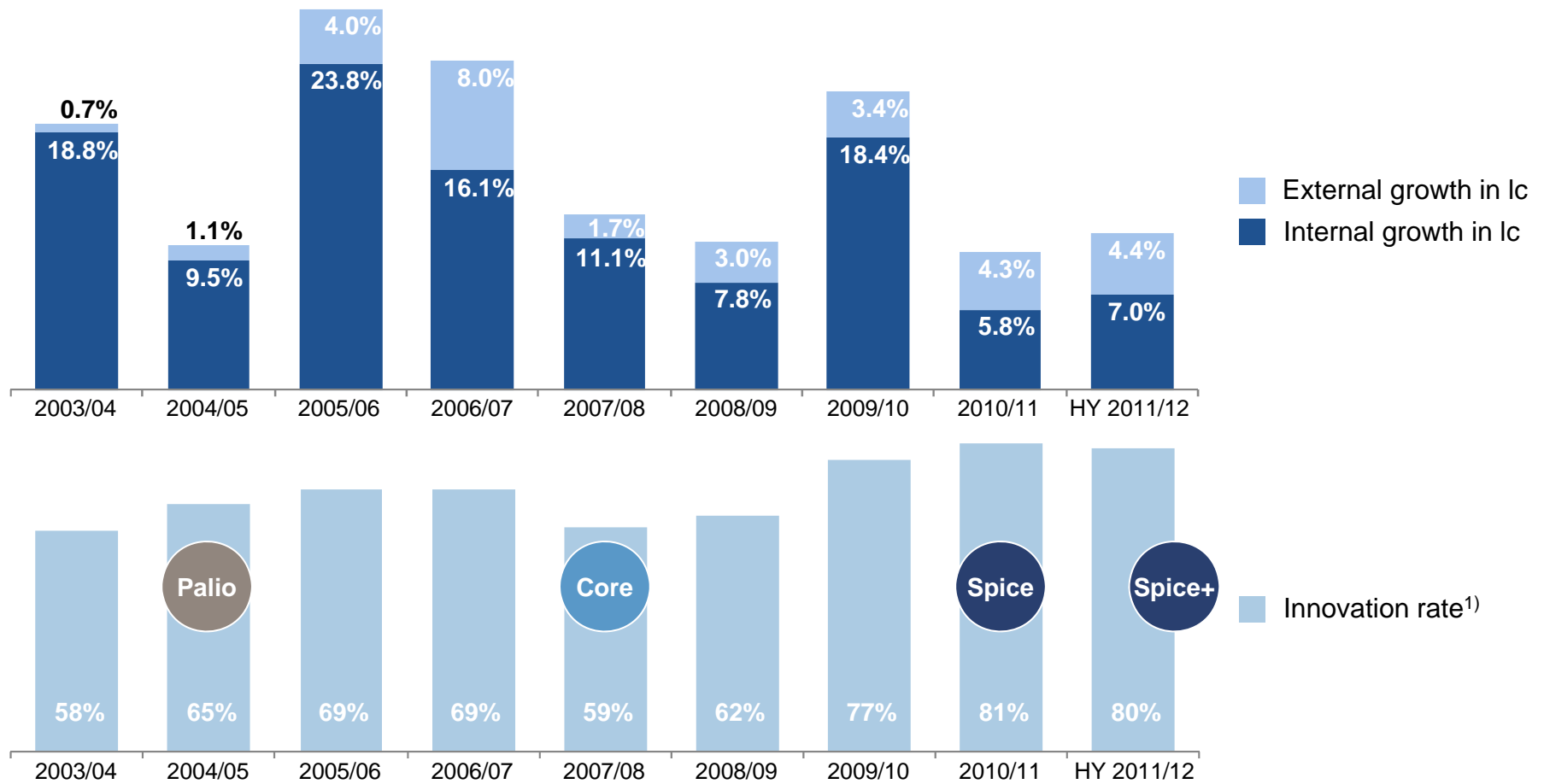
## High innovation rate of 80%



Continuously outperforming the market

# Sonova is the innovation leader

## Launch of new platforms drives organic growth in hearing instruments segment



<sup>1)</sup> Sales of products launched less than 2 years ago in % of total sales

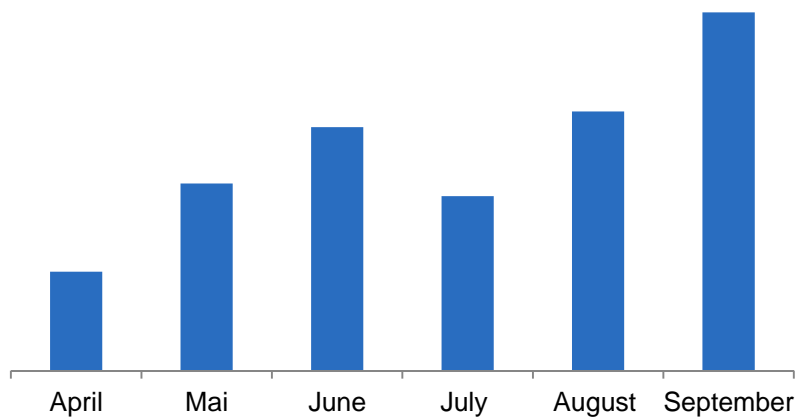
# Advanced Bionics

## Back on the market worldwide

On **September 13<sup>th</sup>, 2011** the Advanced Bionics HiRes 90K cochlear implant was **FDA approved** for market re-entry. Therefore Advanced Bionics has resumed distribution in the United States and **re-entered all markets worldwide**.

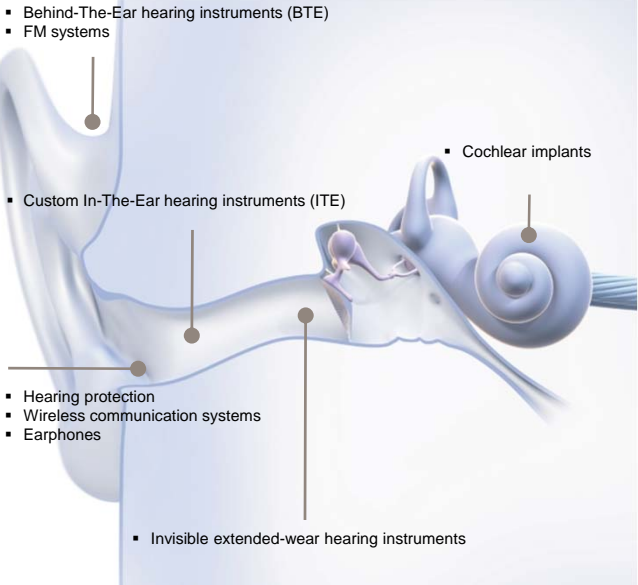
### Hearing implants sales H1 2011/12

■ in CHF million



# Sonova – The Hearing Care Company

## Hearing instruments 95% of revenue

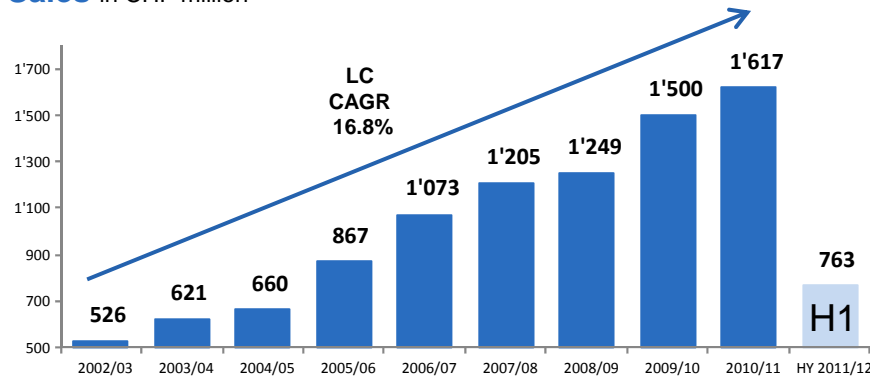


## Hearing implants 5% of revenue

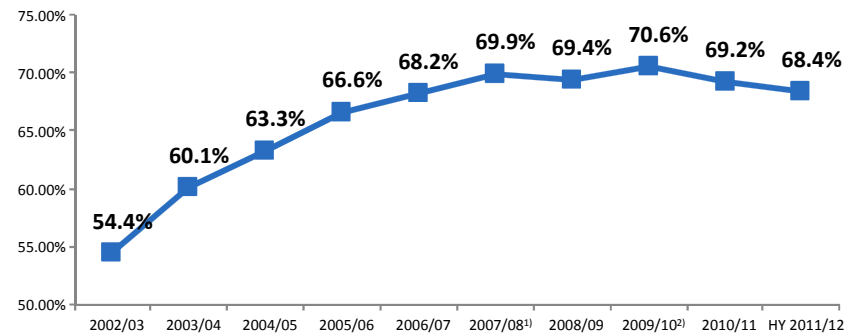


# Financial Track Record

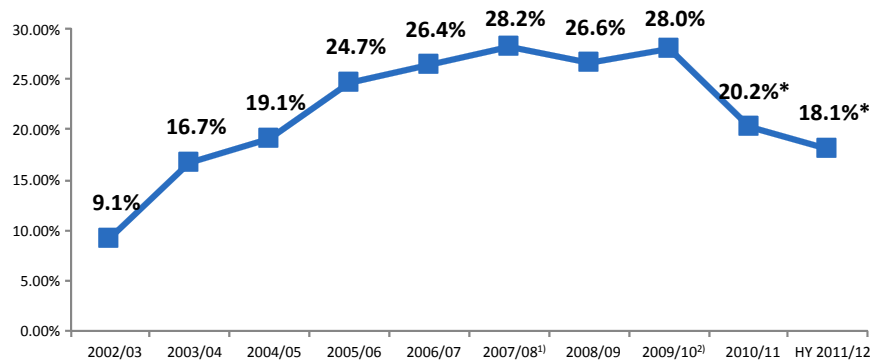
Sales in CHF million



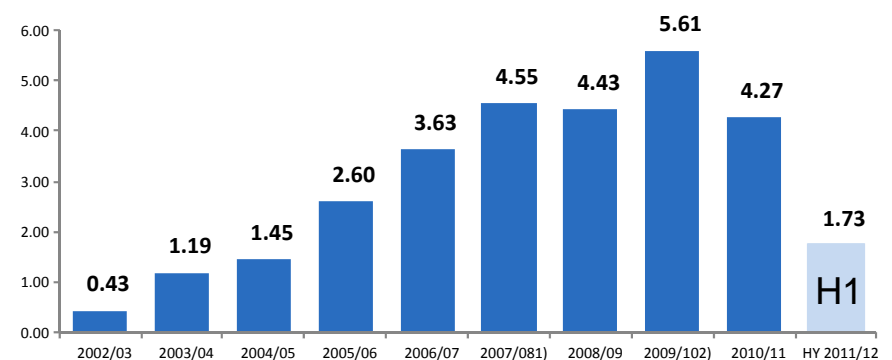
Gross profit margin in % of sales



EBITA margin in % of sales



Cash-based basic EPS\*\* in CHF



\*Impacted by FX development and AB voluntary recall

\*\*EPS: Excluding the amortization of acquisition-related intangibles, impairment and unwinding effect of the discount on acquisition-related earn-out payments, net of tax.

<sup>1)</sup> Excluding one-off costs for the prohibited acquisition of the GN ReSound Group  
<sup>2)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics



# The business case for Sonova

Sonova serves an attractive market

Sonova has strong leading positions in this market

Significant opportunities for market share gains

- Highest R&D spend – fast rate of product innovation
- Multi-channel strategy
- Multi-brand strategy

Growth strategies

- Innovation
- Marketing
- Global distribution
- Margin expansion

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# FINANCIAL REVIEW



# Half Year 2011/12

## Financial Highlights

- Solid **financial results in local currencies** on both Group level and in hearing instruments segment
- **Negative FX** impact of CHF 136.8 million on sales and CHF 53.2 million on EBITA
- Gross profit of CHF 522.1 million
  - Gross profit margin of 68.4%
  - Decrease of gross profit margin of 1.8% largely due to the strength of the Swiss franc
- EBITA margin decreased to 18.1%; excluding FX impact: 21.3%
- **Significant R&D** investments of CHF 58.6 million or 7.7% of sales
- Solid operating free cash flow of CHF 83.8 million
- Cash-based basic EPS of CHF 1.73
- Solid balance sheet with an **equity ratio of 61.7%** and net debt of CHF 172.2 million

# Half Year 2011/12

## Solid financial performance

In CHF million	H1 2011/12	Change	H1 2010/11 <sup>1)</sup>
Sales	<b>763.0</b>	-8.2%	831.5
Gross profit	<b>522.1</b>	-10.5%	583.4
Gross profit margin	<b>68.4%</b>		70.2%
EBITA	<b>138.4</b>	-32.3%	204.4
EBITA margin	<b>18.1%</b>		24.6%
Operating free cash flow	<b>83.8</b>	+2.2%	82.0
Cash-based basic EPS (in CHF)	<b>1.73</b>	-36.2%	2.71
ROCE	<b>8.5%</b>		14.0%

<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

# Half Year 2011/12

## Substantial FX impact on results

In CHF million	H1 2011/12 reported	H1 2011/12 (constant currencies)	H1 2010/11 <sup>1)</sup>
Sales	<b>763.0</b>	899.9	831.5
Gross Profit	<b>522.1</b>	623.3	583.4
Gross Profit margin	<b>68.4%</b>	69.3%	70.2%
EBITA	<b>138.4</b>	191.6	204.4
EBITA margin	<b>18.1%</b>	21.3%	24.6%
USD (average rate)	<b>0.848</b>	1.071	1.071
EUR (average rate)	<b>1.210</b>	1.372	1.372

<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

# Half Year 2011/12

## Sales results

In CHF million	H1 2011/12	H1 2010/11 <sup>1)</sup>	Growth in Ic	Internal Growth	External Growth	FX impact
Hearing instrument sales	<b>723.8</b>	766.0	<b>+11.4%</b>	<b>+7.0%</b>	<b>+4.4%</b>	-129.4 (-16.9%)
Hearing implant sales	<b>39.2</b>	65.5	<b>-28.8%</b>	-28.8%	-	-7.4 (-11.3%)
Consolidated sales	<b>763.0</b>	831.5	<b>+8.3%</b>	<b>+4.2%</b>	<b>+4.1%</b>	-136.8 (-16.5%)

- Hearing instrument sales account for 95% of consolidated sales
- Strong growth in hearing instruments
- Sales ahead of expectation in hearing implants; below prior year due to recall

<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

# Half Year 2011/12

## Solid growth in local currencies

in CHF million	H1 2011/12			H1 2010/11	
	Sales	in %	Growth in lc	Sales	in %
EMEA (excl. Switzerland)	289	38%	8.1%	303	36%
Switzerland	21	3%	29.3%	16	2%
USA	277	36%	9.6%	319	39%
Americas (excl. USA)	102	13%	2.4%	117	14%
Asia/Pacific	74	10%	7.2%	77	9%
<b>Total sales</b>	<b>763</b>	<b>100%</b>	<b>8.3%</b>	<b>832</b>	<b>100%</b>

- Above market growth in all regions (despite recall effect)

# Half Year 2011/12

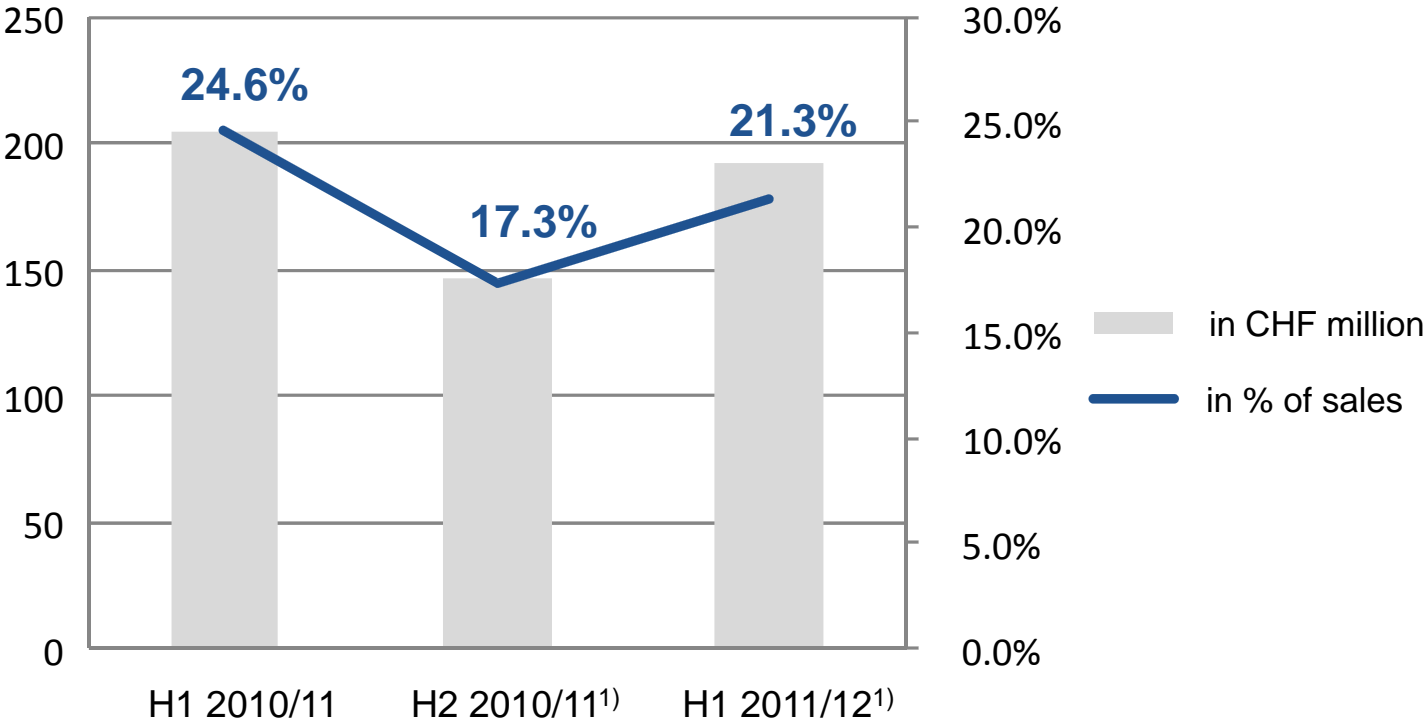
## Sales growth across hearing instrument product groups

in CHF million	H1 2011/12			H1 2010/11	
	Sales	in %	Growth in %	Sales	in %
First class	173	23%	11.4%	189	23%
Business class	174	23%	9.3%	189	23%
Economy class	233	31%	13.5%	240	29%
Wireless comm.	34	4%	0.2%	41	5%
Miscellaneous	110	14%	14.4%	107	12%
<b>Hearing Instruments</b>	<b>724</b>	<b>95%</b>	<b>11.4%</b>	<b>766</b>	<b>92%</b>
Hearing implants	39	5%	(28.8%)	66	8%
<b>Total sales</b>	<b>763</b>	<b>100%</b>	<b>8.3%</b>	<b>832</b>	<b>100%</b>

# Half Year 2011/12

## EBITA and EBITA margin development (at constant currencies)

### EBITA and EBITA margin

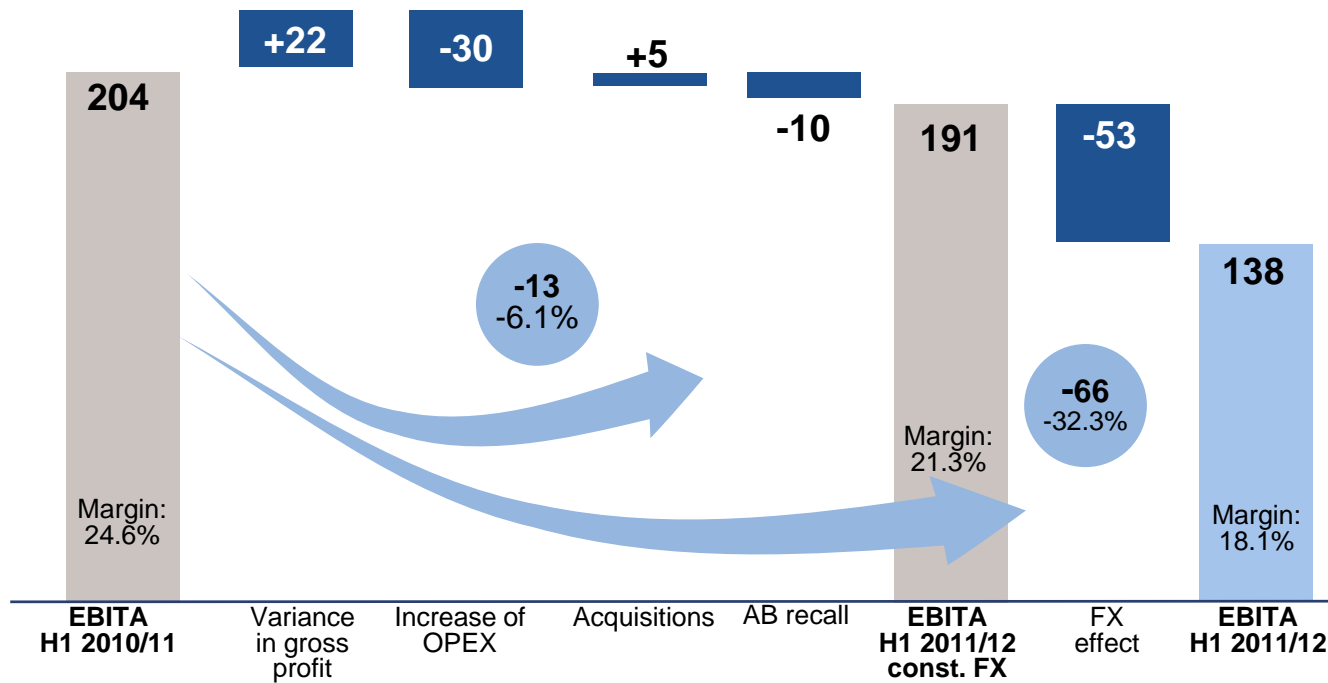


<sup>1)</sup> Based on constant currency rates from H1 2010/11, USD 1.071 and EUR 1.372

# Half Year 2011/12

## EBITA heavily impacted by FX

### EBITA development in CHF million



EBITA reduced by CHF 53 million due to negative FX development



# Half Year 2011/12

## Operating expenses

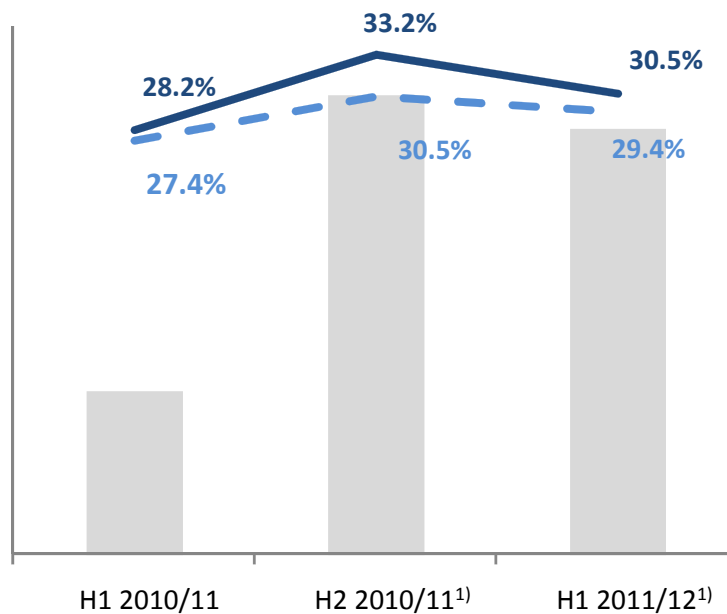
in CHF million	H1 2011/12	H1 2010/11 <sup>1)</sup>	Change in CHF	Change in Ic	Thereof acquisition related in Ic
Research & Development	<b>58.6</b>	59.6			
in % of sales	<b>7.7%</b>	7.2%	-1.6%	+3.6%	+0.0%
Sales & Marketing	<b>237.1</b>	234.7			
in % of sales	<b>31.1%</b>	28.2%	+1.0%	+17.0%	+9.4%
General & Administration	<b>83.9</b>	84.0			
in % of sales	<b>11.0%</b>	10.1%	-0.1%	+10.9%	+3.0%

<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

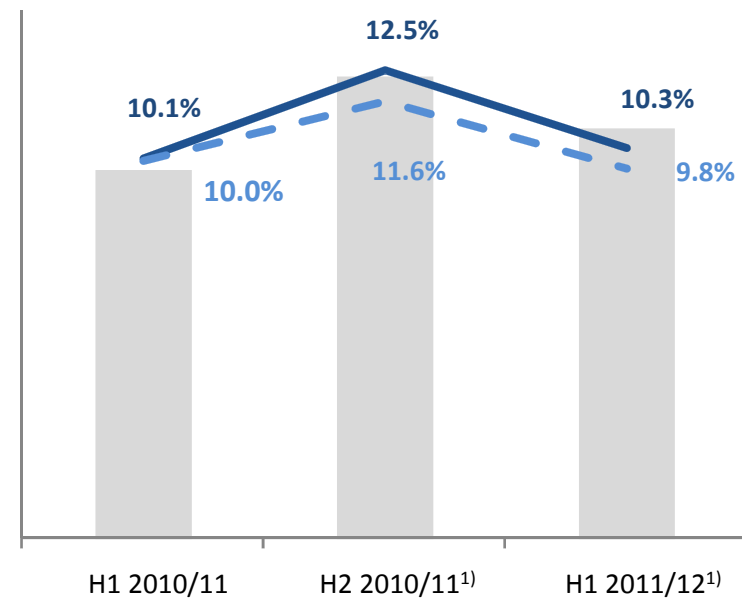
# Half Year 2011/12

## Cost management: OPEX development (at constant currencies)

### Sales & Marketing OPEX



### General & Administration OPEX



■ in CHF million    — in % of sales    - - - Hearing instruments segment

<sup>1)</sup> Based on constant currency rates from H1 2010/11, USD 1.071 and EUR 1.372

# Half Year 2011/12

## Financial result and income taxes

in CHF million	H1 2011/12	H1 2010/11 <sup>1)</sup>	Comments
EBITA	<b>138.4</b>	204.4	CHF 3.9m one-time costs (PAI)
Amortization/Impairment	<b>-15.3</b>	-10.1	Impairment of capitalized R&D costs CHF 4.9m (PAI)
Operating profit (EBIT)	<b>123.1</b>	194.2	
Financial result, net	<b>-3.7</b>	-6.3	
Share of gain in associates/JVs	<b>+0.2</b>	+2.7	
Income before taxes	<b>119.6</b>	190.6	
Income taxes	<b>-15.9</b>	-18.8	
Income after taxes	<b>103.7</b>	171.8	

<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

# Half Year 2011/12

Cash Flow: Improved working capital; reduced capital expenditures

in CHF million	H1 2011/12	H1 2010/11 <sup>1)</sup>
<b>Cash flow before changes in net working capital</b>	<b>169.7</b>	<b>250.5</b>
Changes in net working capital	-57.4	-99.1
<b>Operating cash flow</b>	<b>112.3</b>	<b>151.4</b>
in % of sales	14.7%	18.2%
Cash flow from investing activities (excl. acquisitions)	-28.4	-69.4
<b>Operating free cash flow</b>	<b>83.8</b>	<b>82.0</b>
in % of sales	11.0%	9.9%
<b>Free cash flow</b>	<b>47.3</b>	<b>62.2</b>
Cash flow from financing activities	-105.8	-152.9
Changes in cash	-61.4	-94.1

<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

# Half Year 2011/12

## Balance Sheet: Sound financial position

in CHF million	30.9.2011	30.9.2010 <sup>1)</sup>
Net working capital	<b>172.8</b>	202.4
Days sales outstanding (DSO)	<b>79</b>	74
Days inventory outstanding (DIO)	<b>142</b>	153
Operating capital employed (excluding acquisition-related intangible assets)	<b>457.0</b>	481.1
Capital employed	<b>1,457.2</b>	1,395.5
Net debt	<b>172.2</b>	143.2
Equity	<b>1,285.0</b>	1,252.2
Equity in % of total assets	<b>61.7%</b>	56.4%

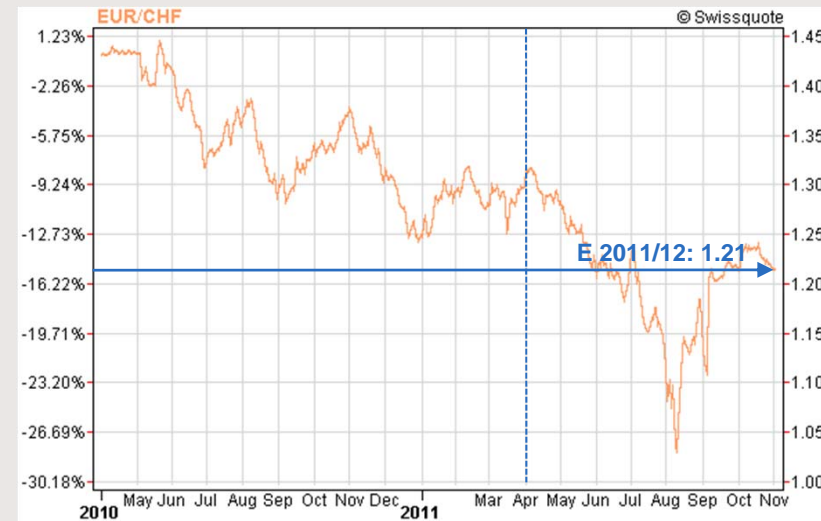
<sup>1)</sup> Restated based on finalization of the acquisition accounting of Advanced Bionics

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# OUTLOOK

# Outlook

FX impact on sales and margins likely to continue



	Rate	Sales	EBITA
USD/CHF	+/- 5%	+/- CHF 30 million	+/- CHF 10 million
EUR/CHF	+/- 5%	+/- CHF 25 million	+/- CHF 15 million

# Outlook

Original 2011/12 guidance is confirmed

in CHF million	Original Guidance 2011/12	Actual Year-to-September 2011	Confirmed Guidance 2011/12
Sales		763	
Sales growth in Ic	8%-10%	8.3%	8%-10%
	incl. 2%-3% acquisition growth	incl. 4.1% acquisition growth	incl. approx. 3% acquisition growth
EBITA		138	
in % of sales	20%-21%	18.1%	19%-20%
FX (average rates)			
USD	0.89	0.85	0.87
EUR	1.28	1.21	1.21



# The business case for Sonova

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- Multi-channel strategy
- Multi-brand strategy

Growth strategies

- Innovation
- Marketing
- Global distribution
- Margin expansion

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THANK YOU