Media Release

Sonova reports significant sales and earnings growth

***Staefa (Switzerland), 18. November 2013* – Sonova Holding AG, the world's leading provider of hearing solutions, announces today a solid financial result for the first half of the fiscal year 2013/14. Consolidated sales for the Group increased by 8.6% in reported Swiss francs or 10.4% in local currencies reaching CHF 947.8 million. Both businesses contributed to the top-line growth. Group EBITA grew by 10.6% in Swiss francs or 13.0% in local currencies to CHF 206.2 million. Based on the solid development and in light of the positive growth prospects for the second half of the fiscal year 2013/14, Sonova is raising its guidance for the full year. The Group now expects sales to grow by 8-10% and EBITA to rise between 11-14%, both measured in local currencies and on a normalized basis.**

Highlights 1H 2013/14

- Group sales of CHF 947.8 million increased by 8.6% in Swiss francs and 10.4% in local currencies
- EBITA of CHF 206.2 million grew 13.0% in local currencies; the EBITA margin expanded by 40 bps to 21.8% of sales
- Full-year 2013/14 outlook raised: The Group now expects sales growth of 8%-10% and EBITA growth of 11%-14% (previously: 6-8% and 9-13% respectively)
- Sales in the hearing instruments segment reached CHF 865.8 million, up 9.9% in local currencies
- The cochlear implants segment reported sales of CHF 82.0 million, up 16.2% in local currencies

Commenting on the results, Lukas Braunschweiler, CEO of Sonova said: "The strong organic growth in both our hearing instruments and cochlear implants business confirms the strength of Sonova's state-of-the-art technology platforms and the full breadth of our cutting-edge hearing solutions portfolio. The growth was not just well balanced across our businesses and products but also across all regions, thereby reflecting Sonova's global footprint. At the same time, we achieved a marked margin improvement, taking another solid step towards our mid-term financial targets."

Double-digit sales growth

During the first six months of fiscal year 2013/14, Group sales increased by 8.6% in reported Swiss francs or 10.4% in local currencies compared to the same period last year. With the exception of the euro, the Swiss franc strengthened against all of the most relevant currencies over the course of the reporting period, reducing the reported sales growth by CHF 15.6 million or 1.8%. Organic growth was at a very solid 9.6% and growth from acquisitions accounted for 0.8%.

Growth across all regions, led by Asia/Pacific

All major regions posted a solid sales increase in local currencies, and the success of the new Phonak products based on the Quest platform was an important common driver of growth. Sales in the EMEA region (Europe, Middle East and Africa), which accounted for 38% of Group sales, rose by 8.3% in local currencies. In the hearing instruments segment, a strong growth in key markets like Germany and the United Kingdom was partly offset by the negative impact of reimbursement changes in the Netherlands and Denmark. The cochlear implants segment also added to the growth in the region.

Sales in the United States increased by 10.1% in local currency, accounting for 39% of Group sales in the first six months of fiscal year 2013/14. The Group benefited from the strong demand in the commercial market and successfully expanded its high market share in the business with the US Department of Veterans Affairs (VA). Sales in the cochlear implants segment developed very satisfactory as well. The US regulatory approval of the highly anticipated new speech processor Naída CI Q70 was obtained in late August 2013. In the months before, sales were negatively impacted by the deferral of revenues for processors and by lower processor upgrade sales. Sales in the rest of the Americas (excluding the US) grew by 8.0% in local currencies and accounted for 12% of Group sales.

In the Asia/Pacific region sales rose by a strong 22.9% in local currencies and contributed 11% to Group sales. Growth was driven by strong hearing instrument revenues in China, Australia and Japan. The cochlear implants business benefited from a central government tender in China, where Advanced Bionics started to ship products in September.

Positive margin development

The reported gross profit margin for the period under review reached 68.5%, close to the 68.8% achieved in the prior year. The minor variance was caused by temporary product mix effects within the cochlear implants business, which recorded a lower share of high margin upgrade sales as customers deferred orders and waited for the availability of the new Naída CI Q70 speech processor. In the hearing instruments segment, the gross profit margin remained stable.

Reflecting its focus on innovation, the Group continued to invest in research and development (R&D) with net expenses rising by 5.3% in local currencies to CHF 59.4 million or 6.3% of sales for the first half of 2013/14. Gross R&D spending (including the increase in capitalized development costs) amounted to CHF 70.4 million, a similar level as in the prior year period and corresponding to 7.4% of sales.

Driven by organic volume growth, acquisitions in the retail business and product launches such as the Phonak Quest platform and Advanced Bionics Naída CI Q70 speech processor, sales and marketing costs increased by 8.8% in Swiss francs or 10.5% in local currencies and reached CHF 290.0 million. As a percentage of sales, the reported costs were largely unchanged at 30.6%.

General and administrative expenses rose by 6.1% in Swiss francs or 7.1% in local currencies, slower than sales. The benefit of rigorous cost management was partly offset by cost for a deeper integration of the US retail activities. As a percentage of sales, general and administrative expenses dropped from 10.1% to 9.9%. Other income amounted to CHF 0.1 million. This compares to other expenses of CHF 2.6 million during the first half of fiscal year 2012/13, which reflected mainly the amount paid in connection with an out-of-court settlement with a group of investors. As a result, total operating expenses rose by 7.0% in Swiss francs or 8.4% in local currencies.

Thus, the operating profit before acquisition-related amortization (EBITA) was CHF 206.2 million, which represents an increase of 10.6% in Swiss francs or 13.0% in local currencies. The reported EBITA margin rose to a solid 21.8%, up from 21.4% during the same period last year. The unfavorable currency development impacted the reported EBITA by CHF 4.5 million or the reported EBITA margin by about 10 basis points.

The reported operating profit (EBIT) rose by 11.2% to CHF 193.3 million, reflecting both the growth in the EBITA but also the slower growth in acquisition-related amortization, which rose by just 2.4% compared to the prior year. Net financial expenses rose from CHF 2.2 million to CHF 5.1 million, caused by the unwinding of the discount on product liability provisions and a lower profit from associates. The Sonova Group's income after taxes was CHF 163.7 million, up 10.1% compared to the previous year. For the first six months of 2013/14, basic earnings per share were CHF 2.39 compared to CHF 2.23 last year.

Hearing instruments segment: growing our market-leading position

With an organic sales increase of 9.0% in the first half of 2013/14, the hearing instruments segment outpaced estimated market growth rates and further expanded the Group's leading market position. Sales reached CHF 865.8 million, representing a growth of 8.1% in reported Swiss francs and 9.9% in local currencies. Acquisitions contributed 0.9% to the sales growth.

Both the Group's wholesale and retail businesses contributed to the growth within the hearing instruments segment. The success of the Phonak Quest platform introduced in October 2012 and substantially expanded with the very important Receiver-In-Canal (RIC) form factor at the AudiologyNOW! congress in April 2013 continued through the first half of 2013/14. Unitron managed to further expand its market share with the US Department of Veterans Affairs (VA) and posted strong growth in Germany, France and China. Growth in the retail business continued to be driven by a strong performance of the partnership with Boots, the UK's leading pharmacy-led health and beauty retailer.

Within the product categories, premium hearing instruments showed the strongest increase, reporting a growth in local currencies of 16.2%. This further demonstrates the success of Sonova's launch strategy, to provide new products simultaneously over a broad range of performance categories. The increase in premium hearing instruments is also supported by growth of the Lyric product, the first and only invisible extended wear solution in the industry. Both standard and advanced hearing instruments contributed to the growth as well, with a sales increase in local currencies of 14.6% and 3.8% respectively. After declining for two years, sales of wireless communication systems started to turn around with the introduction of the all-new 2.4 GHz technology based Roger system.

The EBITA margin of the hearing instruments segment expanded by 50 basis points to 23.8%, corresponding to an EBITA of CHF 206.2 million. This represents an increase of 10.2% in Swiss francs and 12.6% in local currencies. The positive operating leverage in the wholesale business was partly offset by the cost of the effort for a deeper integration of our US retail business with regards to branding under the Connect Hearing name and to centralized administration and harmonized retail business systems.

Cochlear implants segment: strong system sales

The cochlear implants segment achieved sales of CHF 82.0 million in the first half of 2013/14, which represents a growth rate of 15.0% in Swiss francs and 16.2% in local currencies. This was a remarkable achievement given the effects of deferred customer demand in the US where patients were waiting for the highly anticipated new speech processor Naída CI Q70. Shipments started in August 2013, two months later than the launch in most other larger markets. This negatively affected mainly sales of speech processor upgrades and led to deferred revenues, as under the pre-launch program for implant systems, the portion of sales related to the Naída CI Q70 speech processor was not yet recognized. With system sales in both the developed and emerging markets clearly exceeding revenue growth, Advanced Bionics maintained the strong momentum and clearly expanded its market position on the back of the recent product launches.

The cochlear implants segment reached break-even, below the previous year's performance, which was a satisfactory result given the mentioned non-recurring effects of the period. In particular the deferral of high margin upgrade sales and significant expenses from the launch of new products, namely the new Naída CI Q70 speech processor, impacted the EBITA for the period.

Solid free cash flow

The cash flow from operating activities rose by 14.7% to CHF 191.6 million in the period under review. A strong cash flow before changes in net working capital was partly offset by movements in certain working capital positions that were unfavorable to the cash flow if compared to prior year. Those were in particular the receivables as well as other payables, accruals and short term provisions. With investments in tangible and intangible assets largely unchanged at CHF 44.5 million, the operating free cash flow increased by 9.1% to CHF 138.7 million. Given significantly lower M&A activity during the first half, the cash consideration for acquisitions dropped from CHF 40.8 million last year to CHF 13.1 million during the reporting period. In summary, this resulted in a free cash flow of CHF 125.6 million which is up 45.5% from last year.

The reported net working capital was relatively stable at CHF 184.8 million compared to CHF 187.1 million in March 2013, as non-cash foreign exchange effects offset the cash effective movements referred to above. Capital employed was largely unchanged at CHF 1,453 million after CHF 1,455 million in March 2013. Helped by the strong free cash flow, the Group ended the period with a net cash position of CHF 180.2 million, slightly down from the CHF 185.8 million in March 2013. This was achieved despite the fact that in June 2013 Sonova paid out CHF 107 million to its shareholders in the form of a distribution from the capital contribution reserve an increase of 34% compared to the prior financial year.

In October 2013 Advanced Bionics was able to settle the majority of pending "Vendor B" product liability claims. The terms of settlements were fully in line with the underlying assumptions of the provision for such claims. The impact of said settlements will affect the accounts of the second half of 2013/14. The Group's equity amounted to CHF 1,634 million with the equity ratio rising from 61.2% in March 2013 to 62.2% in September 2013.

Outlook 2013/14

Following the solid development and in light of the positive growth prospects for the second half of the fiscal year 2013/14 in both the hearing instruments and cochlear implants segment, Sonova is raising its guidance for the full year. The Group now expects sales to grow by 8%-10% and the EBITA to rise between 11%-14%, both measured in local currencies and referring to the normalized prior year values as displayed in the 2012/13 annual report. The previous guidance indicated a sales growth of 6%-8% and an increase in the EBITA of 9%-13% in local currencies and on a normalized basis.

Based on the current exchange rate environment the somewhat negative currency effects observed in the first half year can be expected to continue in the second half year. While actual reported results may vary based on currency fluctuations, Sonova continues to mitigate the impact of the strong Swiss franc on earnings growth through its long-term global resource allocation strategy.

The complete Semi-Annual Report 2013/14 is available on our website at:
http://www.sonova.com/en/investors/reporting/financial
The presentation of the Half-Year Results 2013/14 can be downloaded at:
http://www.sonova.com/en/investors/presentations

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KEY FIGURES SONOVA GROUP (CONSOLIDATED)

April 1 to September 30, in 1,000 CHF unless otherwise specified	2013	2012[1]
Sales	**947,782**	**872,434**
change compared to previous year (%)	8.6	14.3
Gross profit	**649,209**	**600,545**
change compared to previous year (%)	8.1	15.0
in % of sales	68.5	68.8
Research and development costs	**59,424**	**56,673**
in % of sales	6.3	6.5
Sales and marketing costs	**290,049**	**266,582**
in % of sales	30.6	30.6
Operating profit before acquisition-related amortization (EBITA)	**206,240**	**186,420**
change compared to previous year (%)	10.6	34.7
in % of sales	21.8	21.4
Operating profit (EBIT)	**193,328**	**173,814**
change compared to previous year (%)	11.2	41.2
in % of sales	20.4	19.9
Income after taxes	**163,671**	**148,603**
change compared to previous year (%)	10.1	43.2
in % of sales	17.3	17.0
Number of employees (average)	**9,020**	**8,494**
change compared to previous year (%)	6.2	8.1
Number of employees (end of period)	**9,102**	**8,741**
change compared to previous year (%)	4.1	9.3
Net cash[2]	**180,231**	**(51,353)**
Net working capital[3]	**184,834**	**207,411**
in % of sales	19.5	23.8
Capital expenditure (tangible and intangible assets)[4]	**44,303**	**43,241**
Capital employed[5]	**1,453,353**	**1,652,354**
Total assets	**2,628,072**	**2,376,426**
Equity	**1,633,584**	**1,601,001**
Equity financing ratio (%)[6]	**62.2**	**67.4**
Free cash flow[7]	**125,644**	**86,341**
Operating free cash flow[8]	**138,709**	**127,114**
in % of sales	14.6	14.6
Return on capital employed (%)[9]	**11.3**	**21.8**
Return on equity (%)[10]	**7.8**	**20.2**
Basic earnings per share (CHF)	**2.39**	**2.23**
Diluted earnings per share (CHF)	2.39	2.23

1) Restated following the implementation of IAS 19 (revised), refer Note 2.
2) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
3) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
4) Excluding goodwill and intangibles relating to acquisitions.
5) Equity - net cash.
6) Equity in % of total assets.
7) Cash flow from operating activities + cash flow from investing activities.
8) Free cash flow – cash consideration for acquisitions, net of cash acquired.
9) EBIT (last 12 months) in % of capital employed (average). 2013 figure significantly affected by one-off costs in financial year 2012/13.
10) Income after taxes (last 12 months) in % of equity (average). 2013 figure significantly affected by one-off costs in financial year 2012/13.

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Disclaimer

About Sonova

Sonova Holding AG, headquartered in Staefa, Switzerland, is the leading manufacturer of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Advanced Bionics and Connect Hearing. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Founded in 1947, the Group is currently present in over 90 countries across the globe and has a workforce of around 9,000 dedicated employees. Sonova generated sales of CHF 1.8 billion in the financial year 2012/13 and a normalized net profit of CHF 309 million. By supporting the Hear the World Foundation, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

For more information please visit www.sonova.com and www.hear-the-world.com.

Sonova shares (ticker symbol: SOON, Security no: 1254978, ISIN: CH1012549785) have been listed on the SIX Swiss Exchange since 1994. **The securities of Sonova have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or under the applicable securities laws of any state of the United States of America, and may not be offered or sold in the United States of America except pursuant to an exemption from the registration requirements under the U.S. Securities Act and in compliance with applicable state securities laws, or outside the United States of America to non-U.S. Persons in reliance on Regulation S under the U.S. Securities Act.**