

Media Release

Sonova announces full year results 2015/16

Stäfa (Switzerland), May 18, 2016 – Sonova Holding AG, the world’s leading provider of hearing solutions, today announces its results for the 2015/16 financial year. The Group generated sales of CHF 2,071.9 million in 2015/16, an increase of 5.8% in local currencies or 1.8% in reported Swiss francs. Group EBITA increased by 1.4% in local currencies, but declined by 5.5% in reported Swiss francs to CHF 430.6 million, corresponding to a margin of 20.8%. Despite a number of challenges, the Group showed a substantial sequential improvement in sales and earnings in the second half. Over the course of last year, Sonova took a number of strategic steps to further broaden its global footprint.

Highlights

- Group sales of CHF 2,071.9 million – up 5.8% in local currencies and 1.8% in Swiss francs
- EBITA of CHF 430.6 million – up 1.4% in local currencies but down 5.5% in Swiss francs
- Hearing instruments segment – sales of CHF 1,885.0 million, up 6.6% in local currencies
- Cochlear implants segment – sales of CHF 187 million, down 2.4% in local currencies, returning to growth in the second half
- Proposed dividend of CHF 2.10 per share – increase of 2.4%, payout ratio up to 41%
- Significant free cash flow of CHF 252.6 million – supporting healthy balance sheet
- Outlook for FY 2016/17 – sales anticipated to grow by 4% to 6% and EBITA to rise by 3% to 7%, both measured in local currencies
- Global retail strategy further implemented – announced acquisition of AudioNova

Lukas Braunschweiler, CEO of Sonova, says: “Our results today demonstrate solid progress in our hearing instrument business despite a number of challenges encountered in the last fiscal year. After a slow start, our cochlear implant business returned to growth across all regions in the second half. Supported by our strong cash flow and balance sheet, we continue to shape the industry by getting closer to our customers. Through key strategic moves we continued to consistently implement our go-to-market strategy in a dynamic global environment. With the announced acquisition of AudioNova, we have taken a further significant step to advance our sales and service network. Combined with our rich technology and product pipeline, this lays the foundation for continued growth in sales and earnings.”

Continuous organic growth

Sonova Group sales in 2015/16 grew by 5.8% in local currencies to CHF 2,071.9 million. A less favorable currency environment reduced sales by CHF 80.5 million, resulting in growth of 1.8% in reported Swiss francs. Organic growth was 2.2%, driven by the hearing instruments segment. Acquisitions made in the reporting period and the annualization of prior year acquisitions added another 3.5% to growth, which includes the acquisition of the Hansaton brand, effective April 2015, and the further expansion of the Group's retail network.

Strong growth in the EMEA and APAC regions

The Europe, Middle East, and Africa region (EMEA), which accounted for 43% of Group sales, reported a 7.2% sales increase in local currencies. This was achieved despite a decline in our German hearing instruments wholesale business, due to an expected headwind in the independent channel after the Group's announcement of its new German retail strategy in March 2015. The increase also reflects the acquisition of Hansaton, the expansion of our German retail network, and the disposal of our Italian retail business at the end of 2015. On an organic basis, the hearing instruments segment achieved pronounced market share increases in France and the UK. The cochlear implants business was stable compared to the prior year, with an acceleration in the second half.

The Group's business in the United States, representing 37% of total sales, showed a modest increase of 1.8% in local currency. Positive development in the private market was partly offset by Costco's shift from branded to private-label products, and by unchanged sales volume with the US Department of Veterans Affairs (VA). Market share with the VA improved in the second half of the financial year. The cochlear implants segment could not increase sales volume, but returned to growth towards the end of the year. The rest of the Americas (excluding the US), which represented 9% of total sales, reported sales growth of 6.1% in local currencies, with strong contributions from Canada partly offset by Brazil.

The Asia/Pacific region represented 11% of Group sales and achieved exceptional sales growth of 13.3% in local currencies. This acceleration reflects the continued successful execution of Sonova's China growth strategy as well as a strong performance across all key geographies in the hearing instruments business. Australia in particular was a bright spot in both our wholesale and retail businesses. The cochlear implants segment achieved double-digit growth in the region, despite the absence of Chinese central government tender business.

Margin affected by currency environment and cochlear implants business

Reported gross profit reached CHF 1,375.5 million (gross margin of 66.4%), an increase of 3.7% in local currencies but down 0.9% in reported Swiss francs. Normalized for non-recurring items for both the 2014/15 and 2015/16 financial years, gross profit in local currencies rose 4.6% over the prior year to CHF 1,449.3 million (2014/15: CHF 1,385.3 million), corresponding to a gross margin of 67.3% compared to 68.1% in the previous year. The normalized gross profit for the 2014/15 financial year excludes currency gains on working capital of CHF 9.3 million and CHF 7.1 million in non-recurring costs, mainly related to the move of certain manufacturing activities out of Switzerland. For the 2015/16 financial year, the gross profit has been normalized to exclude currency losses on working capital of CHF 2.3 million and the establishment of a specific warranty provision for our cochlear implant business, booked in the first half, of CHF 8.6 million.

Excluding acquisitions, normalized gross margin was stable in the hearing instruments business, reflecting a positive trend in average selling price, partly offset by lower efficiency related to the ramp up of our UK-based shared service operation for custom product manufacturing and repairs, which was significantly expanded. Margin was temporarily further diluted by the acquisition of Hansaton, which originally sourced its products from a third party. Hansaton's product portfolio was converted to Sonova technology during the year. The cochlear implants segment's normalized gross margin declined due to a shift in its geographic and product sales mix.

Reported operating expenses reached CHF 944.8 million, an increase of 4.8% in local currencies and 1.4% in reported Swiss francs. Normalized operating expenses in local currencies rose by 5.6% to CHF 993.5 million (2014/15: CHF 940.7 million). Normalized operating expenses for the 2014/15 financial year exclude a non-recurring net benefit of CHF 8.8 million, mainly related to the release of a provision for cochlear implant product liabilities. For the 2015/16 financial year, normalized operating expenses exclude the benefit from a capital gain of CHF 8.7 million from the divestment of the Italian retail and South African wholesale business, and a CHF 8.8 million provision release for cochlear implant product liabilities.

Normalized R&D expenses in local currencies remained stable year-over-year. Sales and marketing costs, normalized for non-recurring items, increased by 8.6% in local currencies. The increase was mainly driven by retail acquisitions, as well as by continued investments in the operating business. Normalized general and administrative expenses increased 0.4% in local currencies, well below local currency sales growth. Normalized other income was negligible as the reported values almost entirely related to normalization items, i.e. from gain from disposals and provision releases for cochlear implant product liabilities.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 430.6 million (2014/15: CHF 455.6 million), an increase of 1.4% in local currencies or a decline of 5.5% in Swiss francs from the prior year. Reported EBITA margin reached 20.8% (2014/15: 22.4%). Unfavorable exchange rate development reduced reported EBITA by CHF 31.5 million and the EBITA margin by 70 basis points. Normalized for non-recurring items for both the 2014/15 and 2015/16 financial years, the EBITA in local currencies increased by 2.5% to CHF 455.8 million (2014/15: CHF 444.6 million). Reported operating profit (EBIT) reached CHF 403.4 million, compared to CHF 429.1 million for the prior year, down by 6.0%, in line with the development of the reported EBITA.

Earnings per share

Net financial expenses, including the result from associates, fell from CHF 8.7 million to CHF 6.4 million, reflecting higher net interest income and other financial income, partly offset by higher currency hedging cost. Income taxes for the financial year totaled CHF 51.2 million, down from CHF 52.0 million in 2014/15, and representing an effective tax rate of 12.9%. Reported income after taxes was CHF 345.8 million, down 6.1% from the previous year. Basic earnings per share (EPS) therefore reached CHF 5.11 (2014/15: CHF 5.37), a decline of 4.8% from the previous year.

Workforce increases to 10,894

At the end of the 2015/16 financial year, the Group's total workforce stood at 10,894 full-time equivalents – an increase of 710 over the previous year. This growth comes almost entirely from the hearing instruments segment and is predominantly due to additions from acquisitions. Our manufacturing workforce also increased at the China and Vietnam operation centers, which continue to gradually absorb some manufacturing functions that were previously hosted in the distribution companies. The transfer announced in March 2015 of ca. 100 staff positions from Switzerland to China and the UK was completed as planned by the end of the financial year.

Hearing instruments segment – Solid growth supported by acquisitions

Sales in the hearing instruments segment reached CHF 1,885.0 million, representing an increase of 6.6% in local currencies and 2.4% in reported Swiss francs. Organic growth was 2.8% in local currencies, supplemented by 3.8% or CHF 70.8 million from acquisitions, net of disposals, in this financial year, along with the full-year effect from prior year acquisitions. The bulk of this came from the acquisition of Hansaton, partly offset by the disposal of the Italian retail business. Growth in the second half was in part affected by a challenging comparison base as a result of a strong positive market response to the launch of the Phonak Audéo™ V Receiver-In-Canal product in the prior year.

Europe showed a solid development despite strong headwinds in Germany after the disclosure of the Group's retail strategy in March 2015. France outgrew the market in both retail and wholesale. In the UK, Boots Hearingcare continued its success story and extended its leading position in the private market, reaching nearly 500 points of sale. Sales in the region were further supported by acquisitions, in particular Hansaton.

In the United States, strong growth in the private market was partly offset by a decline in sales to Costco. After a very strong performance in 2014/15, this year saw strong competition from Costco's own private-label products, leading to a reduced overall share of branded products. Business with the VA was slower in the first half but accelerated in the second half when the Group achieved solid gains in market share, supported by strong performance of Phonak custom products, along with improved supply chain efficiency and customer fitting support.

Asia/Pacific delivered double digit growth across the region. In China, the Group continued to execute its long-term growth strategy, delivering a double digit sales increase. Strong positions in the Australian, Japanese, and New Zealand markets were further expanded. In Brazil, the business was affected by the difficult economic situation and decline of the Brazilian real. Sonova has taken measures to optimize its business portfolio in the country by reducing its exposure to the government channel and further strengthening its own retail activities.

By product category, Premium hearing instruments achieved a 7.0% sales increase in local currencies, driven by Sonova's innovative product portfolio. This was closely matched by the Standard category, which was up 7.6% in local currencies. Sales in the Advanced category increased by 1.8% in local currencies. Premium and advanced hearing instruments accounted for 25% and 20% of Group sales respectively, while Standard accounted for 29%. Thanks mainly to the acquisition of Comfort Audio, sales of wireless communication systems grew by 10.0% in local currencies, although stronger organic growth in this product category was hindered by a significant decline in orders from the Brazilian government. Sales in the "miscellaneous" product category grew by 9.8% in local currencies, accounting for 13% of Group sales. This category includes accessories, batteries and services, and accelerated to double digit local currency growth in the second half of the financial year.

Reported EBITA amounted to CHF 430.8 million, corresponding to an EBITA margin of 22.9%. The normalized EBITA for the hearing instruments segment increased by 4.4% in local currencies. Stringent cost discipline in our legacy business allowed for a modest normalized margin expansion of 20 basis points, which was more than offset by the lower profitability of the acquired sales. This resulted in a drop in the normalized EBITA margin by 50 basis points.

Cochlear implants segment – Returning to growth in the second half

After a slow start to the year – partly due to a challenging comparison to the prior year period – the cochlear implants business picked up momentum and returned to growth across all regions in the second half of the financial year. Total sales were CHF 187.0 million, a decline of 2.4% in local currencies and 3.7% in reported Swiss francs.

Solid unit growth in new systems across Europe, Asia/Pacific and Latin America was partly offset by a decline in the United States. Unit growth in new systems could not fully compensate for lower upgrade sales to existing users and an adverse geographic mix. The successful launch of the new Naída CI Q90 sound processor in November 2015 supported the return to growth in the second half-year.

Cost management was a key priority, though research and development programs proceeded as planned. Lower sales and the adverse sales and product mix reduced the gross profit margin; combined with slightly higher operating costs, this led to a break-even operating profit. The abovementioned one-time increase in warranty provision negatively affected gross margin, but was largely offset by a non-recurring gain from the release of the product liability provision at EBITA level. The normalized EBITA in local currencies decreased by CHF 8.0 million.

Significant free cash flow

Cash flow from operating activities reached CHF 428.4 million, compared to CHF 459.5 million in the prior year. The decrease mainly reflects lower EBITA and higher taxes paid. Investments in tangible and intangible assets decreased by CHF 5.9 million or 6.6% to CHF 83.1 million. This resulted in an operating free cash flow of CHF 344.2 million versus CHF 366.4 million in the prior year. The cash consideration for acquisitions, including earn-out payments for prior period acquisitions, amounted to CHF 121.3 million in 2015/16, compared to CHF 57.7 million in the prior year; this increase was largely due to the acquisition of Hansaton, along with further expansion of the Group's retail network. The cash inflow from divestments amounted to CHF 29.6 million. In summary, this resulted in a significant free cash flow of CHF 252.6 million compared to CHF 308.7 million in the prior year.

Cash outflow from financing was CHF 325.6 million, largely unchanged from the prior year. The Group spent CHF 155.6 million in 2015/16 to purchase 1,203,500 shares under the current share buy-back program, up from CHF 73.6 million in the prior year. A sum of CHF 80 million was also spent in 2014/15 to retire a tranche of financial debt. In the 2015/16 financial year, CHF 19.7 million was spent on the purchase of treasury shares to support equity-based compensation plans, compared to CHF 19.0 million in the prior year. The cash outflow from financing also reflects the increase in the dividend by CHF 8.4 million.

Maintaining a solid balance sheet

Reported net working capital was CHF 185.5 million, compared to CHF 181.4 million at the end of the prior year. Capital employed was CHF 1,608.0 million, compared to CHF 1,489.5 million in the prior year; this was mainly due to acquisitions. Reflecting its strong free cash flow, increased acquisition spend, and a higher return of cash to shareholders, the Group ended the period with a net cash position of CHF 298.3 million, down CHF 84.1 million from CHF 382.3 million at the end of the prior year. The return on capital employed (ROCE) was 26.0%, compared to 29.1% in the prior year, reflecting the balance sheet effect of acquisitions and the lower EBITA in reported Swiss francs.

In light of the continued solid profitability of the Sonova Group, as well as its healthy financial position, the Board of Directors will propose to the Annual General Shareholders' Meeting on June 14, 2016 a dividend of CHF 2.10. This proposed distribution is up 2.4% over the prior year, and represents an increased payout ratio of 41%, compared to 38% in the prior year.

Outlook 2016/17

We expect to achieve solid growth in sales and profitability in both the hearing instruments and cochlear implants segments during 2016/17, reflecting our attractive product and solution portfolio as well as our continued commitment to innovation. We expect overall sales to grow in the range of 4%-6% and EBITA to increase by 3%-7%, both measured in local currencies. The outlook for the 2016/17 financial year does not include contributions from the announced acquisition of AudioNova but reflects an expected adverse impact on our hearing instrument wholesale business following the announcement. It further considers the effects of the sale of our Italian retail business in the 2015/16 financial year.

The announced acquisition of AudioNova is subject to regulatory approval and expected in the second half of 2016. After the successful completion of the transaction, Sonova will provide an update to the outlook, to provide additional details about the expected contribution of AudioNova to the 2016/17 results of the Sonova Group.

Our online Annual Report 2015/16 is available at:

<http://report.sonova.com/2016>

The Annual Report 2015/16 is available on our website at:

<http://www.sonova.com/en/investors/reporting/financial>

The presentation of the Full-Year Results 2015/16 can be downloaded at:

<http://www.sonova.com/en/investors/presentations>

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Key Figures Sonova Group (consolidated)

in 1,000 CHF unless otherwise specified	2015/16	2014/15
Sales	2,071,930	2,035,085
change compared to previous year (%)	1.8	4.3
Gross profit	1,375,468	1,387,524
change compared to previous year (%)	(0.9)	3.5
in % of sales	66.4	68.2
Research & development costs	130,255	130,897
in % of sales	6.3	6.4
Sales & marketing costs	638,240	613,217
in % of sales	30.8	30.1
Operating profit before acquisition-related amortization and impairment (EBITA)	430,632	455,564
change compared to previous year (%)	(5.5)	5.9
in % of sales	20.8	22.4
Operating profit (EBIT)	403,437	429,069
change compared to previous year (%)	(6.0)	6.2
in % of sales	19.5	21.1
Income after taxes	345,847	368,323
change compared to previous year (%)	(6.1)	6.0
in % of sales	16.7	18.1
Number of employees (average)	10,697	9,960
change compared to previous year (%)	7.4	8.6
Number of employees (end of period)	10,894	10,184
change compared to previous year (%)	7.0	6.9
Net cash¹⁾	298,274	382,343
Net working capital²⁾	185,459	181,379
in % of sales	9.0	8.9
Capital expenditure (tangible and intangible assets)³⁾	83,051	88,735
Capital employed⁴⁾	1,607,992	1,489,461
in % of sales	77.6	73.2
Total assets	2,751,611	2,691,631
Equity	1,906,266	1,871,804
Equity financing ratio (%)⁵⁾	69.3	69.5
Free cash flow⁶⁾	252,573	308,700
Operating free cash flow⁷⁾	344,212	366,385
in % of sales	16.6	18.0
Return on capital employed (%)⁸⁾	26.0	29.1
Return on equity (%)⁹⁾	18.3	20.2
Basic earnings per share (CHF)	5.11	5.37
Diluted earnings per share (CHF)	5.10	5.35
Dividend / distribution per share (CHF)	2.10 ¹⁰⁾	2.05

¹⁾ Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.

²⁾ Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.

³⁾ Excluding goodwill and intangibles relating to acquisitions.

⁴⁾ Equity – net cash.

⁵⁾ Equity in % of total assets.

⁶⁾ Cash flow from operating activities + cash flow from investing activities.

⁷⁾ Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.

⁸⁾ EBIT in % of capital employed (average).

⁹⁾ Income after taxes in % of equity (average).

¹⁰⁾ Proposal to the Annual General Shareholders' Meeting of June 14, 2016.

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About Sonova

Sonova, headquartered in Stäfa, 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 over 10,000 dedicated employees. Sonova generated sales of CHF 2.07 billion in the financial year 2015/16 and a net profit of CHF 346 million. Across all businesses, and 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.**