Full-Year 2013/14 Results

Stäfa, 20 May 2014, Lukas Braunschweiler, CEO & Hartwig Grevener, CFO

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Agenda

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1. **Business Review – Sonova Group**
2. **Business Review – Hearing Instruments**
3. **Business Review – Cochlear Implants**
4. **Financial Review 2013/14**
5. **Outlook FY 2014/15**
6. **Upcoming Events**

Clear and focused strategy – Customer driven innovation

SONOVA: «HEAR THE WORLD»	
Key to our success	- Our customers and our employees
Broadest product and service offering / portfolio	- Hearing instruments (Phonak, Unitron) - Cochlear implants (Advanced Bionics) - Professional services (Connect Hearing Group)
Strong competitive positions	- Leading position in hearing instruments - Strong contender on cochlear implants - Strong position in selected key retail markets
Significant market share gain potential	- High R&D spend – fast product introduction - Differentiated multi-brand strategy - Optimized multi-channel approach
Strong product pipelines	- High innovation rate and rapid new product introduction
Productivity / efficiency gains	- Leverage existing global infrastructure to expand margins
Mid-term financial targets (excluding FX impact)	- EBITA margin: return to mid-twenties - ROCE: expand to low-thirties

Balanced portfolio of profitable growth businesses

SONOVA Group

HEARING INSTRUMENT (HI) Segment			**IMPLANT (CI) Segment**
HI PHONAK Business	HI UNITRON Business	HI RETAIL Business	CI ADVANCED BIONICS Business

1. Business Review – Sonova Group

Business highlights FY 2013/14

- **Strong sales increase, driven by double-digit organic growth**
  - Sales of CHF 1,951.3 million – up 8.7% in Swiss francs and 11.7% in LC
  - Organic sales growth of 11.0% – driving market share expansion in both segments
- **Further EBITA growth and margin expansion**
  - EBITA of CHF 430.1 million – up 11.6% in Swiss francs and 16.7% in LC
  - EBITA margin of 22.0% – expanding by 50 bps as reported and by 90 bps in LC
- **Both segments outpacing the market and expanding profitability**
  - Hearing instruments: solid growth of 9.5% in LC – EBITA margin expanding by 50 bps to 23.8%
  - Cochlear implants: strong progress and growth of 36.0% in LC – EBITA margin reaching 6.6%
- **High rate of innovation continues in both segments**
  - Hearing instruments: successful launch of Quest – most comprehensive introduction in history
  - Cochlear implants: new implant, processor and electrode launched in FY 2013/14
- **Solid balance sheet – increase in dividend proposed**
  - Net cash position of CHF 311.5 million – dividend increase of 19% to CHF 1.90 proposed
  - ROCE of 27.7%, up from a 22.6% in FY 2012/13 (normalized for one-off costs)

Key Financials – Variances in CHF

in CHF million	FY 2012/13 REPORTED	ONE-OFF COST*	FY 2012/13 NORMALIZED	FY 2013/14	Δ % vs. REPORTED	Δ % vs. NORMALIZED
Sales	**1,795.3**		**1,795.3**	**1,951.3**	8.7%	8.7%
Gross profit	**1,239.8**		**1,239.8**	**1,340.4**	8.1%	8.1%
- Gross profit margin	**69.1%**		**69.1%**	**68.7%**		
OPEX	**-1,058.1**	**203.6**	**-854.5**	**-910.3**	-14.0%	6.5%
EBITA	**181.7**	**-203.6**	**385.3**	**430.1**	136.7%	11.6%
- EBITA margin	**10.1%**		**21.5%**	**22.0%**		
Operating free cash flow	**318.6**		**318.6**	**318.4**	0.0%	0.0%
EPS (in CHF)	**1.65**	**-2.95**	**4.60**	**5.08**	208.0%	10.4%
ROCE	**10.4%**		**22.6%**	**27.7%**		

* One-off cost for AB Vendor B provision increase, AB Rixheim restructuring and settlement with a group of investors

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Key Financials – Variances in CHF

in CHF million	1H 2013/14	Δ %	2H 2013/14	Δ %	FY 2013/14	Δ %
Sales	**947.8**	8.6%	**1,003.5**	8.7%	**1,951.3**	8.7%
Gross profit	**649.2**	8.1%	**691.2**	8.1%	**1,340.4**	8.1%
- Gross profit margin	**68.5%**		**68.9%**		**68.7%**	
OPEX	**-443.0**	7.0%	**-467.3**	5.5%	**-910.3**	6.5%
EBITA	**206.2**	10.6%	**223.9**	14.1%	**430.1**	11.6%
- EBITA margin	**21.8%**		**22.3%**		**22.0%**	
Operating free cash flow	**138.7**	9.1%	**179.7**	-6.1%	**318.4**	0.0%

Note: 2H 2013/14 and FY 2013/14 variances consider normalizations for FY 2012/13 one-off costs

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Key Financials – Variances in LC

in CHF million	1H 2013/14	Δ % in LC	2H 2013/14	Δ % in LC	FY 2013/14	Δ % in LC
Sales	**947.8**	10.4%	**1,003.5**	12.9%	**1,951.3**	11.7%
Gross profit	**649.2**	9.8%	**691.2**	12.7%	**1,340.4**	11.3%
- Gross profit margin	**68.5%**		**68.9%**		**68.7%**	
OPEX	**-443.0**	8.4%	**-467.3**	8.8%	**-910.3**	8.9%
EBITA	**206.2**	13.0%	**223.9**	21.7%	**430.1**	16.7%
- EBITA margin	**21.8%**		**22.3%**		**22.0%**	

Note: 2H 2013/14 and FY 2013/14 variances consider normalizations for FY 2012/13 one-off costs

Growth components

in CHF million	1H 2013/14	Growth Contribution	2H 2013/14	Growth Contribution	FY 2013/14	Growth Contribution
Growth in LC	**91.0**	**10.4%**	**119.3**	**12.9%**	**210.3**	**11.7%**
- Thereof organic	84.0	9.6%	113.8	12.3%	197.7	11.0%
- Thereof acquisitions	7.0	0.8%	5.5	0.6%	12.5	0.7%
Currency effect	-15.6	-1.8%	-38.6	-4.2%	-54.2	-3.0%
Growth in CHF	**75.3**	**8.6%**	**80.7**	**8.7%**	**156.1**	**8.7%**

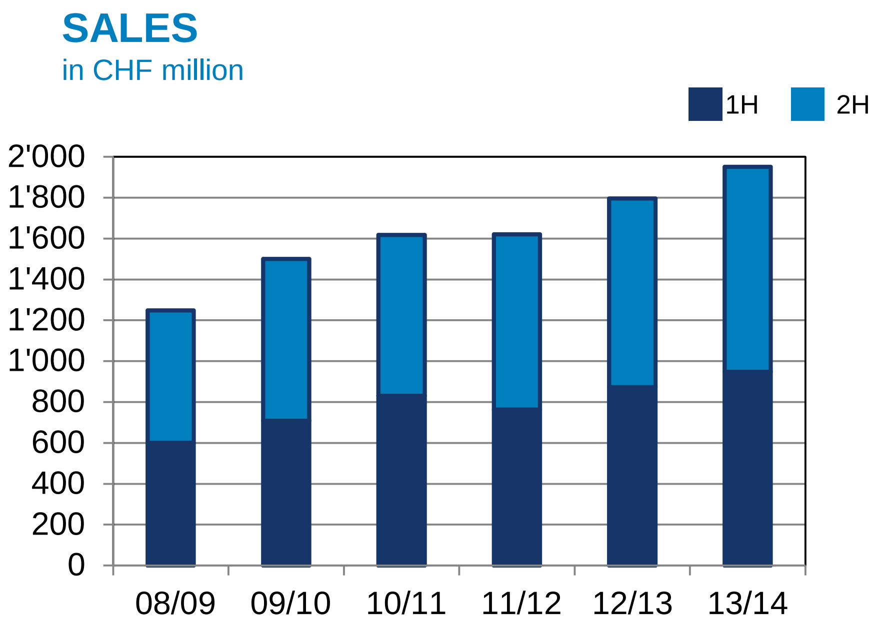
Acceleration of sales driven by organic growth

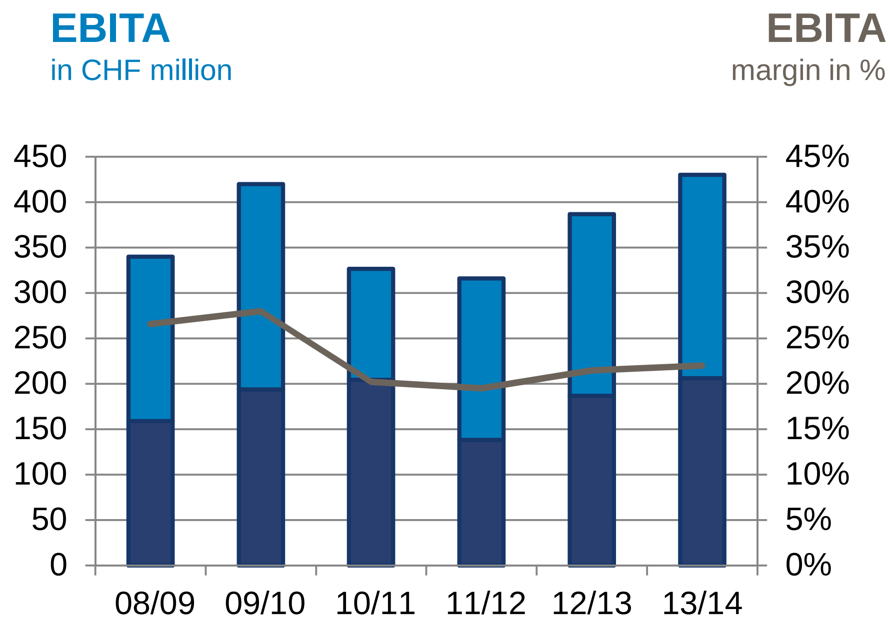
Sales – Regions and key markets

	1H 2013/14		2H 2013/14		FY 2013/14	
in CHF million	**Sales**	Δ % in LC	**Sales**	Δ % in LC	**Sales**	Δ % in LC
EMEA	**361.7**	8.3%	**433.3**	16.2%	795.0	12.4%
USA	**368.2**	10.1%	**358.5**	11.8%	726.7	11.0%
Americas (excl. USA)	**116.9**	8.0%	**107.2**	11.4%	224.1	9.6%
Asia / Pacific	**101.0**	22.9%	**104.5**	6.9%	205.5	14.0%
Total SONOVA	**947.8**	10.4%	**1,003.5**	12.9%	**1,951.3**	11.7%

Growth broadly based across all regions

Performance history – Strong financial track record





	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	CAGR 5-y
Sales growth reported	+20.1%	+7.8%	+0.2%	+10.8%	+8.7%	+9.3%
Sales growth in LC	+23.8%	+13.3%	+11.6%	+7.4%	+11.7%	+13.4%
Organic sales growth in LC	+18.4%	+5.8%	+6.7%	+5.2%	+11.0%	+9.3%
EBITA margin	+28.0%	+20.2%	+19.5%	+21.5%	+22.0%	n/a
Basic EPS	3.32	3.50	3.71	4.60	5.08	+3.2%

Notes: FY 2009/10 Restated based on finalization of the acquisition accounting of Advanced Bionics
FY 2012/13 Excluding one-off cost for AB Vendor B provision increase, AB Rixheim restructuring and settlement with a group of investors

2. Business Review – Hearing Instruments

Business summary FY 2013/14

- **Outpacing estimated market growth**
  - Sales up by 9.5% in LC to CHF 1,756 million
  - Growth driven by strong organic growth of 8.8%
  - Both wholesale and retail businesses contributed to the increase
  - Continued strong market response to the new Quest product line
  - Premium and Standard segment post double digit sales increases
  - Roger drives acceleration in wireless communication in 2H

- **Solid margin improvement**
  - EBITA up by 13.9% in LC, representing a 90bps margin expansion in LC
  - Improvement is the result of strong sales growth and good cost discipline
  - FX headwind reduces reported EBITA by CHF 19.5 million or EBITA margin by 40bps
  - Solid leverage achieved despite extra costs for deeper integration of the US retail business

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Financial performance

in CHF million	1H 2013/14	Δ % in CHF	2H 2013/14	Δ % in CHF	FY 2013/14	Δ % in CHF	Δ % in LC
Sales	**865.8**	8.1%	**890.2**	5.1%	**1,756.0**	6.5%	9.5%
EBITA	**206.2**	10.2%	**211.1**	7.4%	**417.3**	8.8%	13.9%
- EBITA margin	**23.8%**		**23.7%**		**23.8%**		

Underlying margin improvement of 90bps reflects strict cost control

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Sales – Growth components

in CHF million	1H 2013/14	Growth Contribution	2H 2013/14	Growth Contribution	FY 2013/14	Growth Contribution
Growth in LC	**79.4**	**9.9%**	**78.0**	**9.2%**	**157.4**	**9.5%**
- Thereof organic	72.4	9.0%	72.5	8.6%	144.9	8.8%
- Thereof acquisitions	7.0	0.9%	5.5	0.6%	12.5	0.8%
Currency effect	-14.7	-1.8%	-35.2	-4.1%	-50.0	-3.0%
Growth as reported	**64.7**	**8.1%**	**42.8**	**5.1%**	**107.5**	**6.5%**

Underlying growth momentum maintained in 2H but FX weighs on reported numbers

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Sales – Product groups

in CHF million	1H 2013/14	Δ % in LC	2H 2013/14	Δ % in LC	FY 2013/14	Δ % in LC
HI Premium	**220.6**	16.2%	**212.6**	9.6%	**433.2**	12.8%
HI Advanced	**215.9**	3.8%	**221.7**	3.4%	**437.6**	3.6%
HI Standard	**268.6**	14.6%	**287.4**	16.0%	**556.0**	15.3%
Wireless communication	**30.9**	0.5%	**37.4**	18.9%	**68.3**	9.9%
Miscellaneous	**129.9**	3.8%	**131.1**	2.4%	**261.0**	3.1%
Total HI Segment	**865.8**	9.9%	**890.2**	9.2%	**1,756.0**	9.5%

Premium and standard segment drive growth

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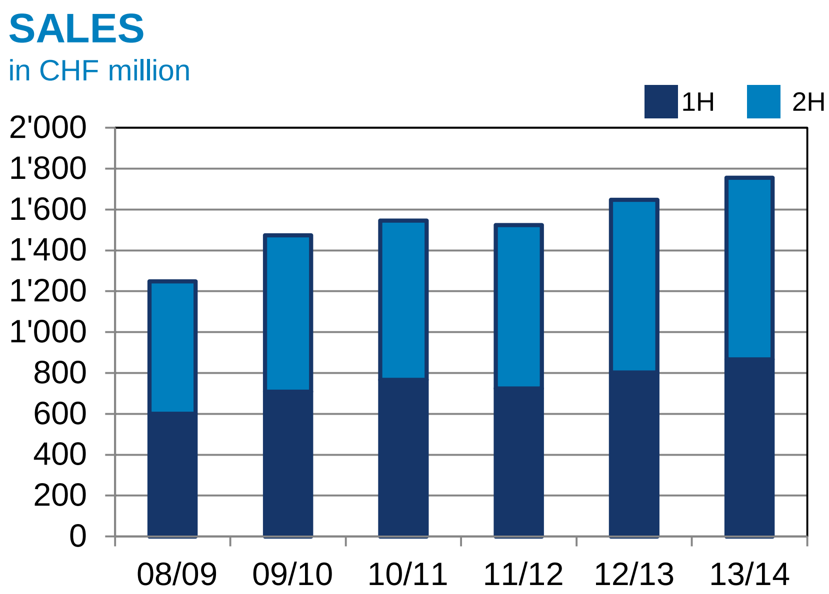
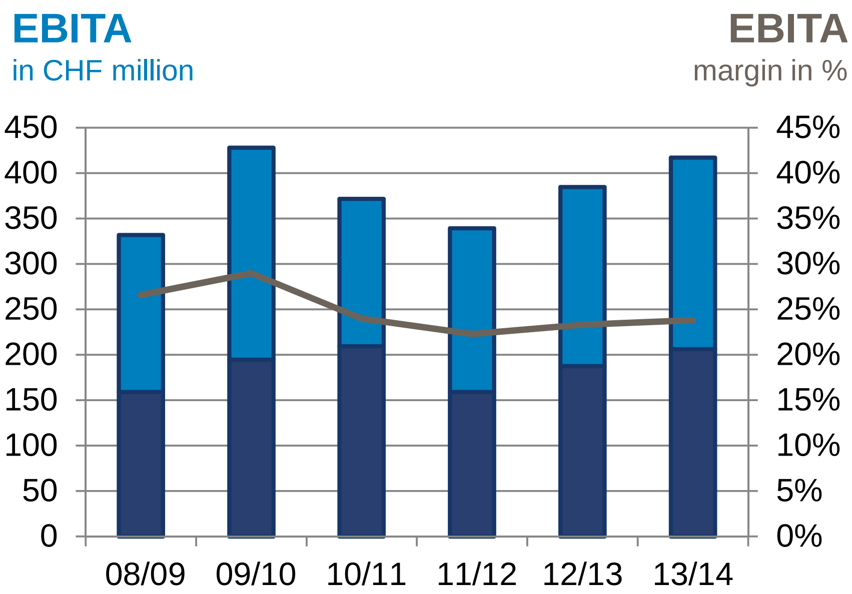
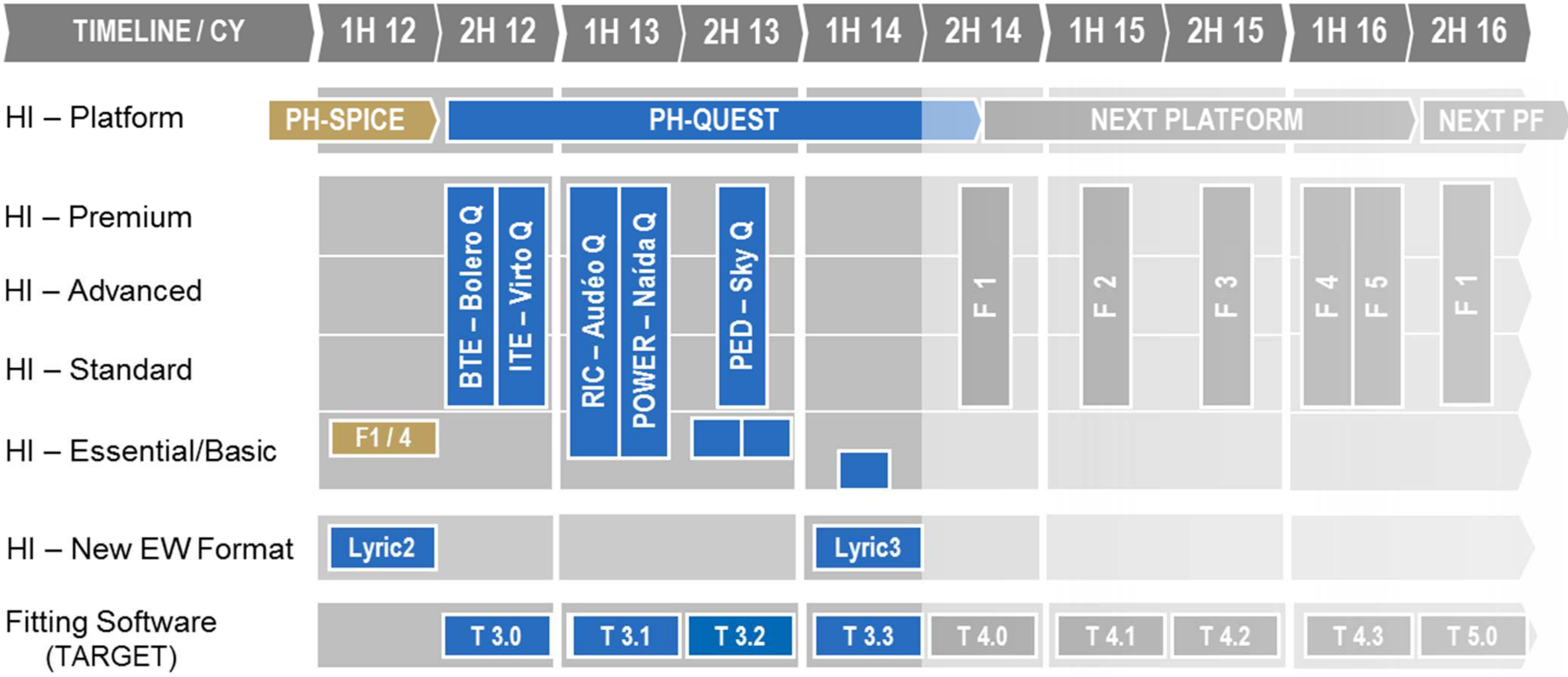
Performance history





	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	CAGR 5-y
Sales growth reported	+18.1%	+4.8%	-1.4%	+8.2%	+6.5%	+7.1%
Sales growth in LC	+21.7%	+10.1%	+9.7%	+4.9%	+9.5%	+11.0%
Organic sales growth in LC	+18.4%	+5.8%	+4.5%	+2.6%	+8.8%	+7.9%
EBITA margin	+29.0%	+24.1%	+22.3%	+23.3%	+23.8%	n/a

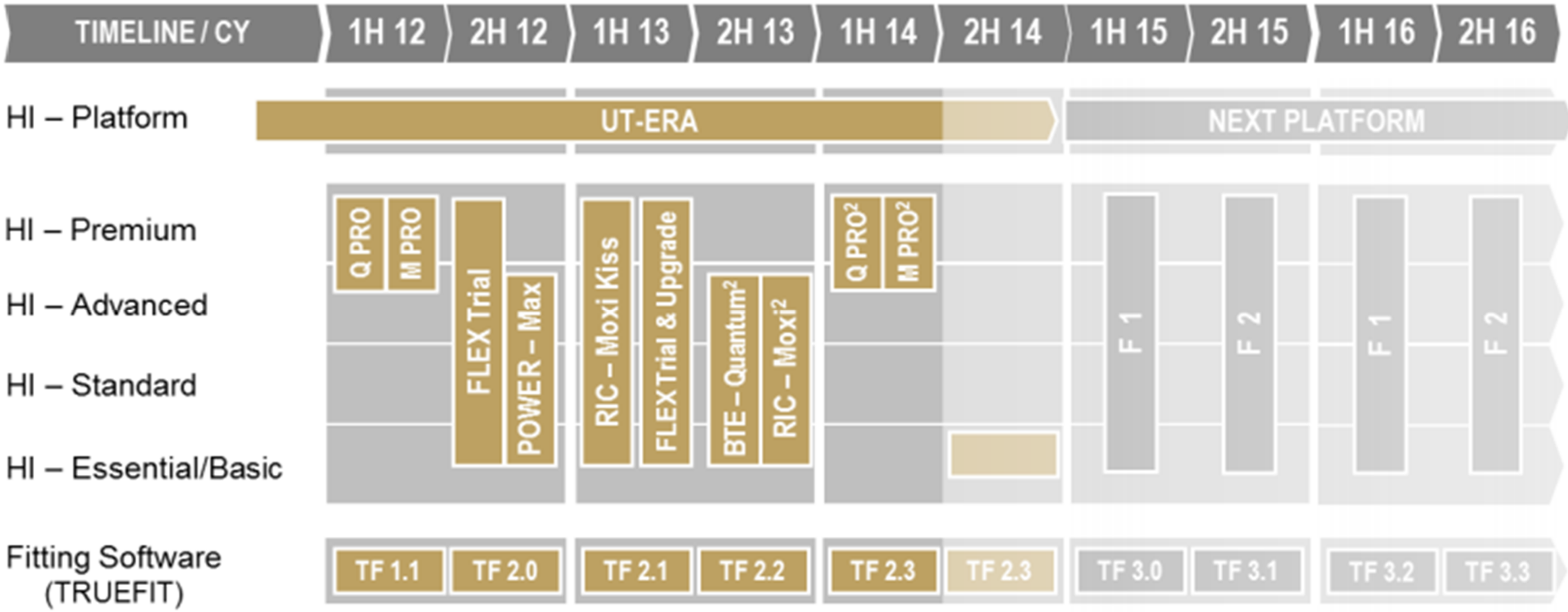
Product pipeline – Drive high innovation & launch rate



Note: Subject to change

Complete range across all formats and performance levels

Product pipeline – Drive focused product innovation



Note: Subject to change

Flexible range across 3 formats and all performance levels

3. Business Review – Cochlear Implants

Business summary FY 2013/14

- **Sales momentum accelerating over the course of the year**
  - Sales of CHF 195.3 million – growth of 33.1% in Swiss francs and of 36.0% in LC
  - Supported in particular by the successful launch of the Naída CI Q70 sound processor
  - First year allowing to fully leverage the combined R&D strength of AB and Phonak
  - Growth exceeding 50% in the second half, driven by system sales and processor upgrades
  - Limited year-over-year impact of the China tender on the reported growth rate in 2H

- **Encouraging margin progression**
  - EBITA of CHF 12.8 million, representing an EBITA margin of 6.6%
  - Development in line with our long-term business plan

Cochlear Implants

Key financials

in CHF million	1H 2013/14	Δ % in CHF	2H 2013/14	Δ % in CHF	FY 2013/14	Δ % in CHF	Δ % in LC
Sales	**82.0**	15.0%	**113.3**	50.2%	**195.3**	33.1%	36.0%
EBITA	**0.1**	n/m	**12.8**	n/m	**12.8**	n/m	n/m
- EBITA margin	**0.1%**		**11.3%**		**6.6%**		

Note: 2H 2013/14 and FY 2013/14 variances consider normalizations for FY 2012/13 one-off costs

Jump in profitability – On track with our financial targets

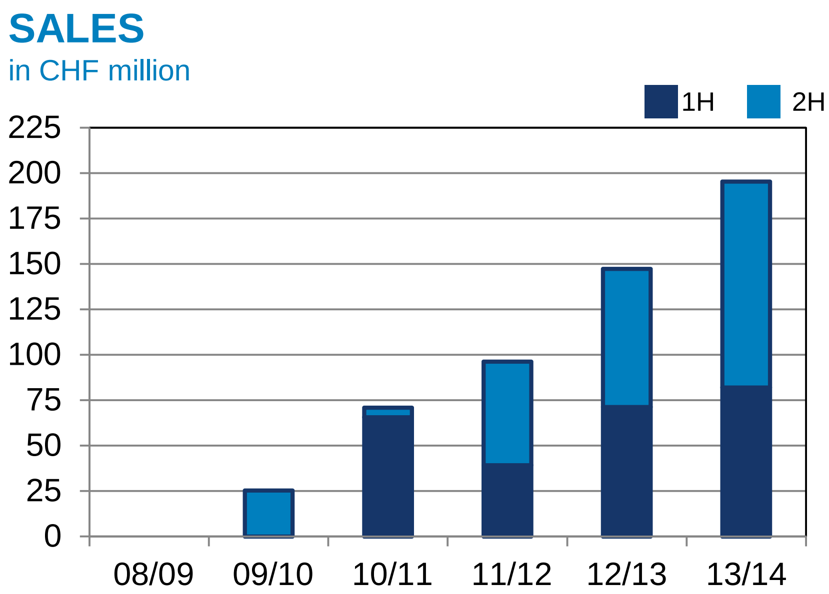
Cochlear Implants

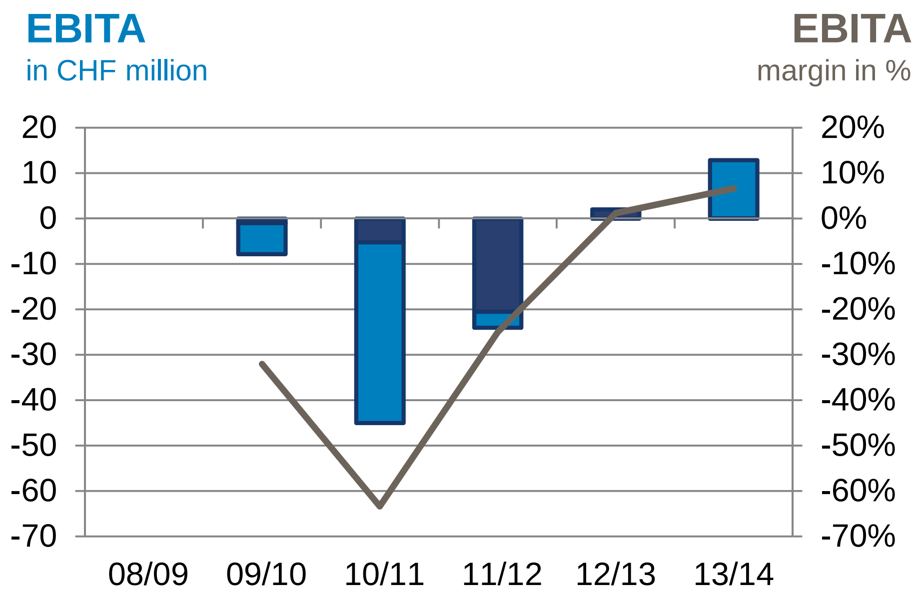
Sales – Growth components

in CHF million	1H 2013/14	Growth Contribution	2H 2013/14	Growth Contribution	FY 2013/14	Growth Contribution
Growth in LC	**11.6**	**16.2%**	**41.3**	**54.6%**	**52.8**	**36.0%**
Currency effect	-0.9	-1.2%	-3.4	-4.5%	-4.3	-2.9%
Growth as reported	**10.7**	**15.0%**	**37.9**	**50.2%**	**48.6**	**33.1%**

Strong growth – Drawing from a complete portfolio

Performance history

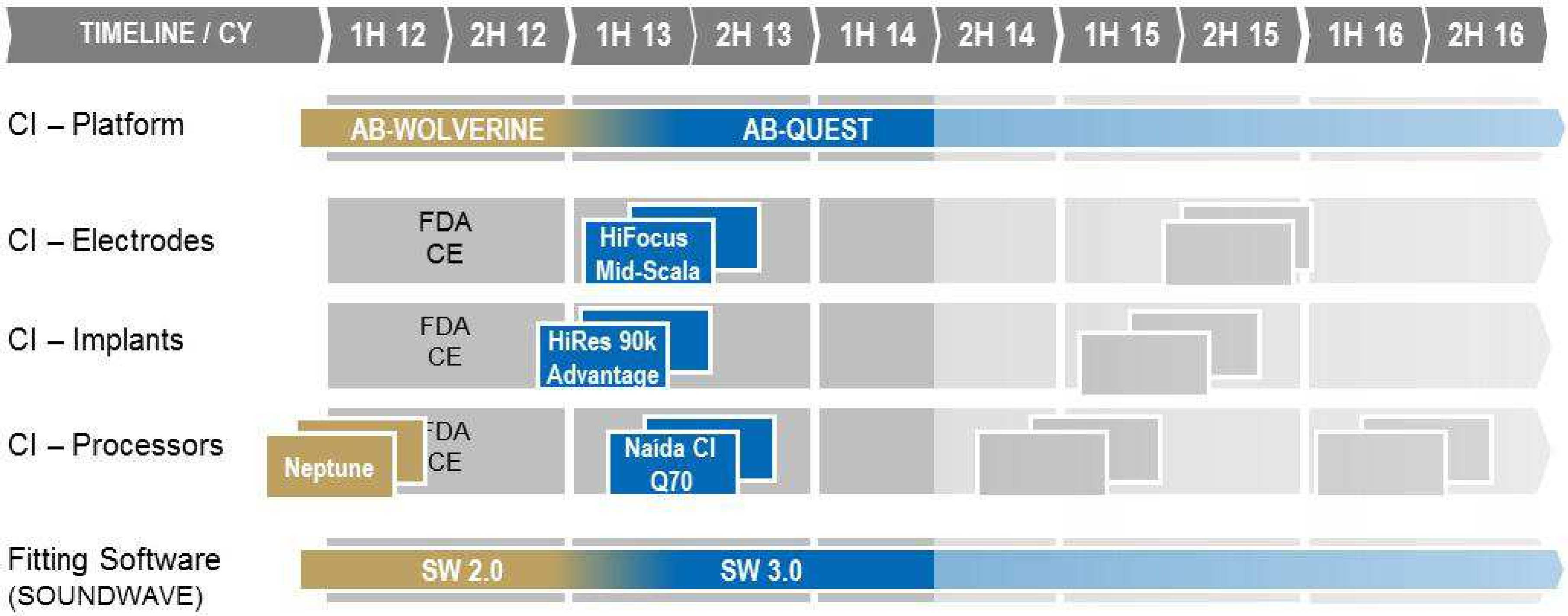




	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	CAGR 4-y
Sales growth reported	--	+180.5%	+36.0%	+52.3%	+33.1%	+66.8%
Sales growth in LC	--	+202.1%	+53.5%	+47.1%	+36.0%	+74.5%
EBITA margin	-31.0%	-63.4%	-25.0%	+1.2%	+6.6%	n/a

* FY 2012/13 Excluding one-off cost for AB Vendor B provision increase, AB Rixheim restructuring and settlement with a group of investors

Product pipeline – Accelerate innovation rate, leverage Phonak technology



Note: Subject to change, timing dependent upon regulatory approvals

Expand range of innovative processors, implants, electrodes

4. Financial Review

Financial highlights

- **Sales** of CHF 1,951 million – mainly driven by double-digit organic sales growth
- **Gross Profit** of CHF 1,340 million or 68.7% of sales – Gross profit margin affected by CI/HI mix effect
- **Reported EBITA** margin of 22.0% – expanding by 50 bps as reported and by 90 bps in LC
  - FX headwind – reduces reported EBITA margin by 40 bps
  - Good OPEX control – growth of 8.9% in LC compared to 11.7% sales growth in LC
  - Continued investment in R&D – R&D spending of CHF 142.9 million or 7.3% of sales
- **ROCE** of 27.7% – staying on track towards our mid-term financial targets
- **Basic EPS** of CHF 5.08, up by 10.4% – held back by increase in minority interests (Boots)
- **Operating free cash flow** flat at 318.4 million – reflecting higher product liability spend (Vendor B)
- **Cash out** of CHF 150 million debt repayment, CHF 39 million treasury shares (equity program)
- **Net cash** increased to CHF 311.5 million – up CHF 125.7 million from March 2013

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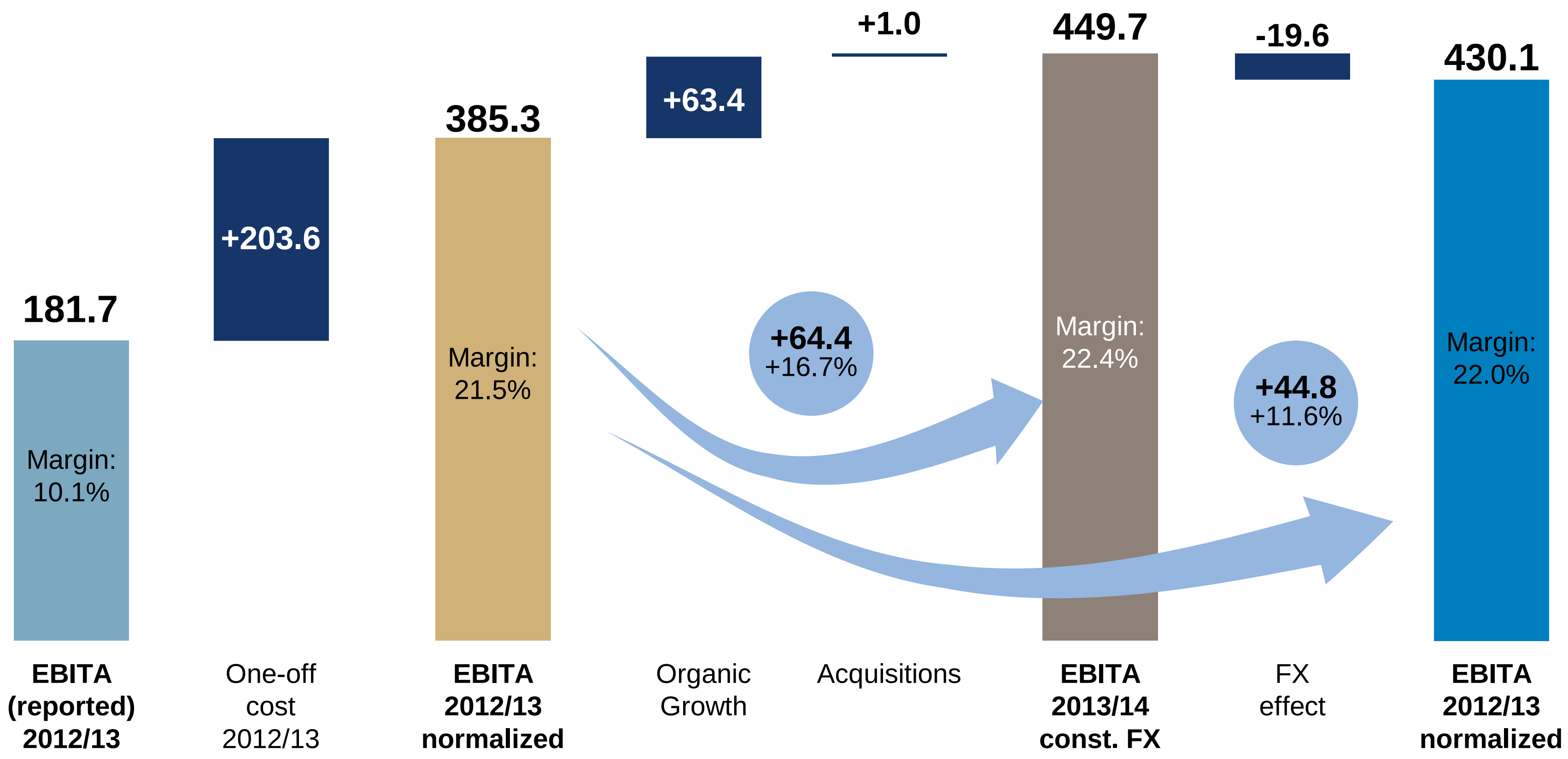
Strong financial performance

in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF	Δ % in LC
Sales	**1,795.3**	**1,951.3**	8.7%	11.7%
Gross profit	**1,239.8**	**1,340.4**	8.1%	11.3%
- Gross profit margin	**69.1%**	**68.7%**		
OPEX	**-854.5**	**-910.3**	6.5%	8.9%
EBITA	**385.3**	**430.1**	11.6%	16.7%
- EBITA margin	**21.5%**	**22.0%**		
Operating free cash flow	**318.6**	**318.4**		
EPS (in CHF)	**4.60**	**5.08**	10.4%	
ROCE	**22.6%**	**27.7%**		

Note: FY 2012/13 numbers and variances consider normalizations for FY 2012/13 one-off costs

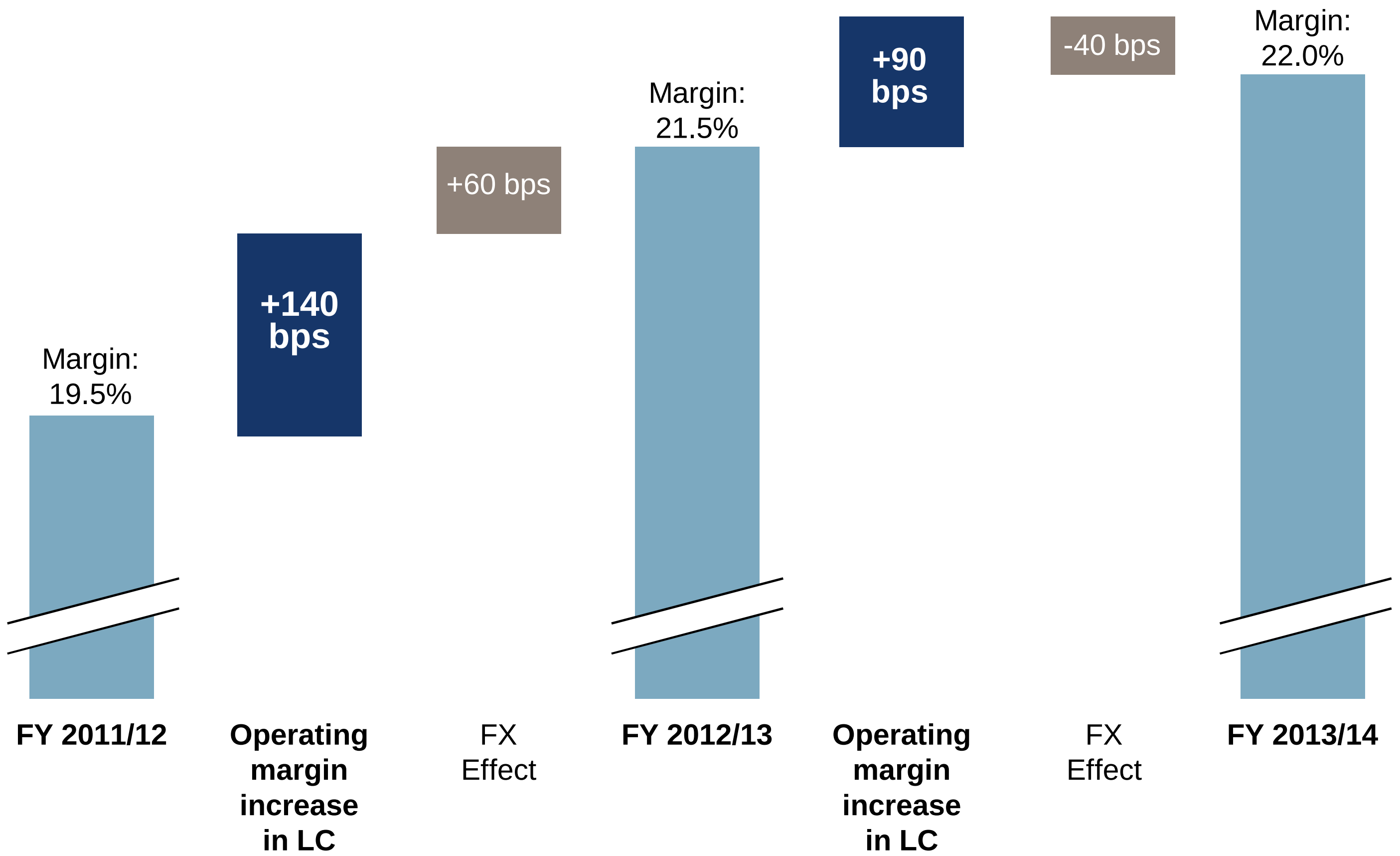
Getting one step closer to our mid-term financial targets

Group EBITA development – Year-on-year



Solid margin improvement driven by both segments

Group EBITA margin development – Mid-term



Note: FY 2012/13 numbers and variances consider normalizations for FY 2012/13 one-off costs

Continuous margin improvement towards our mid-term target

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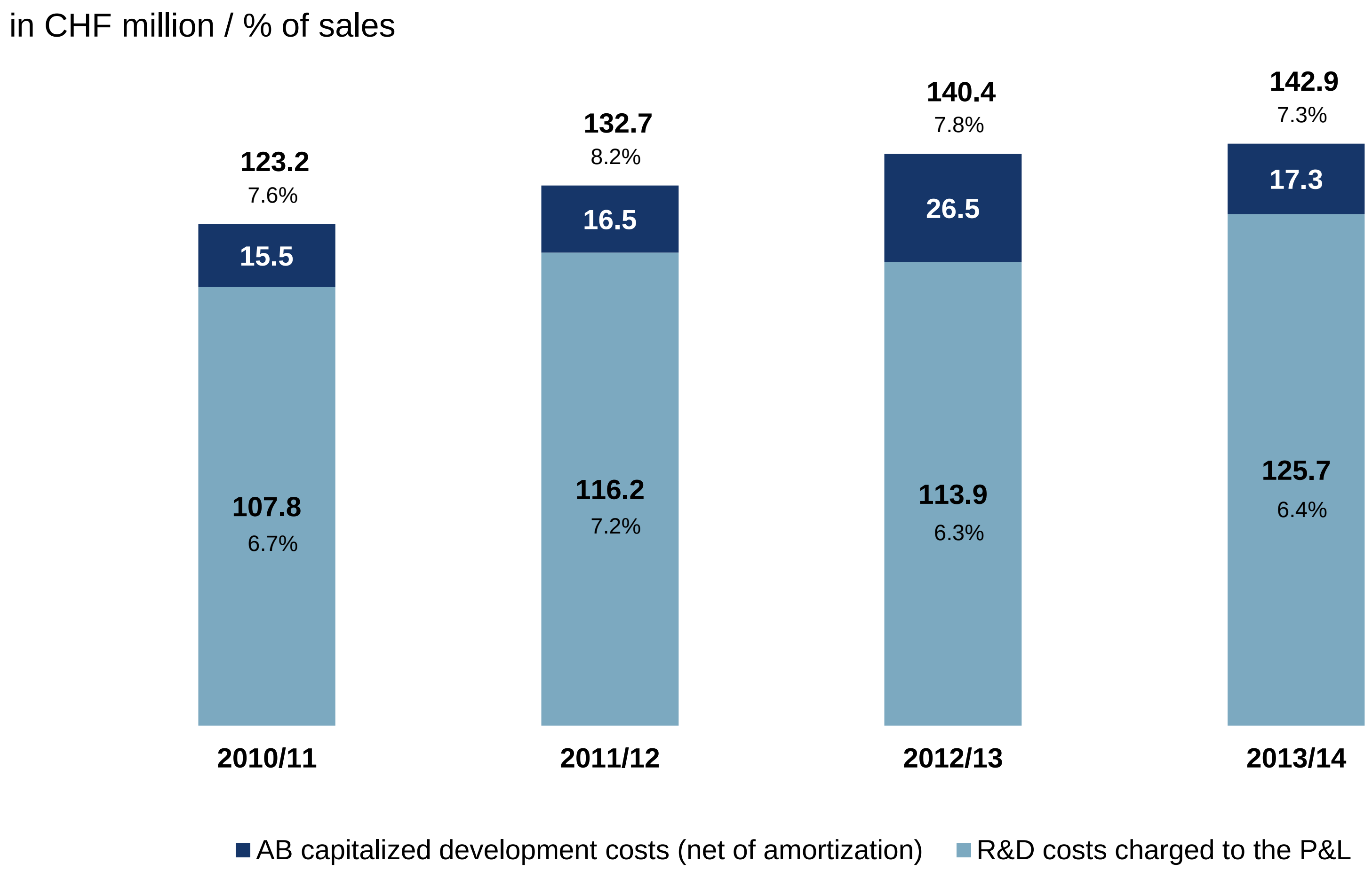
Operating expenses

in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF	Δ % in LC
Research & Development	**-113.9**	**-125.7**	10.3%	11.3%
in % of sales	**6.3%**	**6.4%**		
Sales & Marketing	**-559.1**	**-589.6**	5.5%	8.3%
in % of sales	**31.1%**	**30.2%**		
General & Administration	**-181.5**	**-195.2**	7.6%	9.4%
in % of sales	**10.1%**	**10.0%**		
Other income / (expenses), net	**0.0**	**0.2**		
Total OPEX	**-854.5**	**-910.3**	6.5%	8.9%
in % of sales	**47.6%**	**46.7%**		

Note: FY 2012/13 numbers and variances consider normalizations for FY 2012/13 one-off costs

Underlying OPEX growth lower than top-line increase – Solid operating leverage

R&D spending



Continuing strong R&D investments drive innovation

Reported results and income taxes

in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF
EBITA	**385.3**	**430.1**	11.6%
Amortization / Impairment	**-26.1**	**-26.1**	-0.2%
Operating profit (EBIT) in % of sales	**359.2** 20.0%	**404.0** 20.7%	12.5%
Financial result	**-7.1**	**-9.5**	33.2%
Income before taxes	**352.1**	**394.6**	12.1%
Income taxes	**-44.3**	**-47.2**	6.5%
- Income tax rate	**12.6%**	**12.0%**	
Income after taxes in % of sales	**307.7** 17.1%	**347.4** 17.8%	12.9%

Note: FY 2012/13 numbers and variances consider normalizations for FY 2012/13 one-off costs

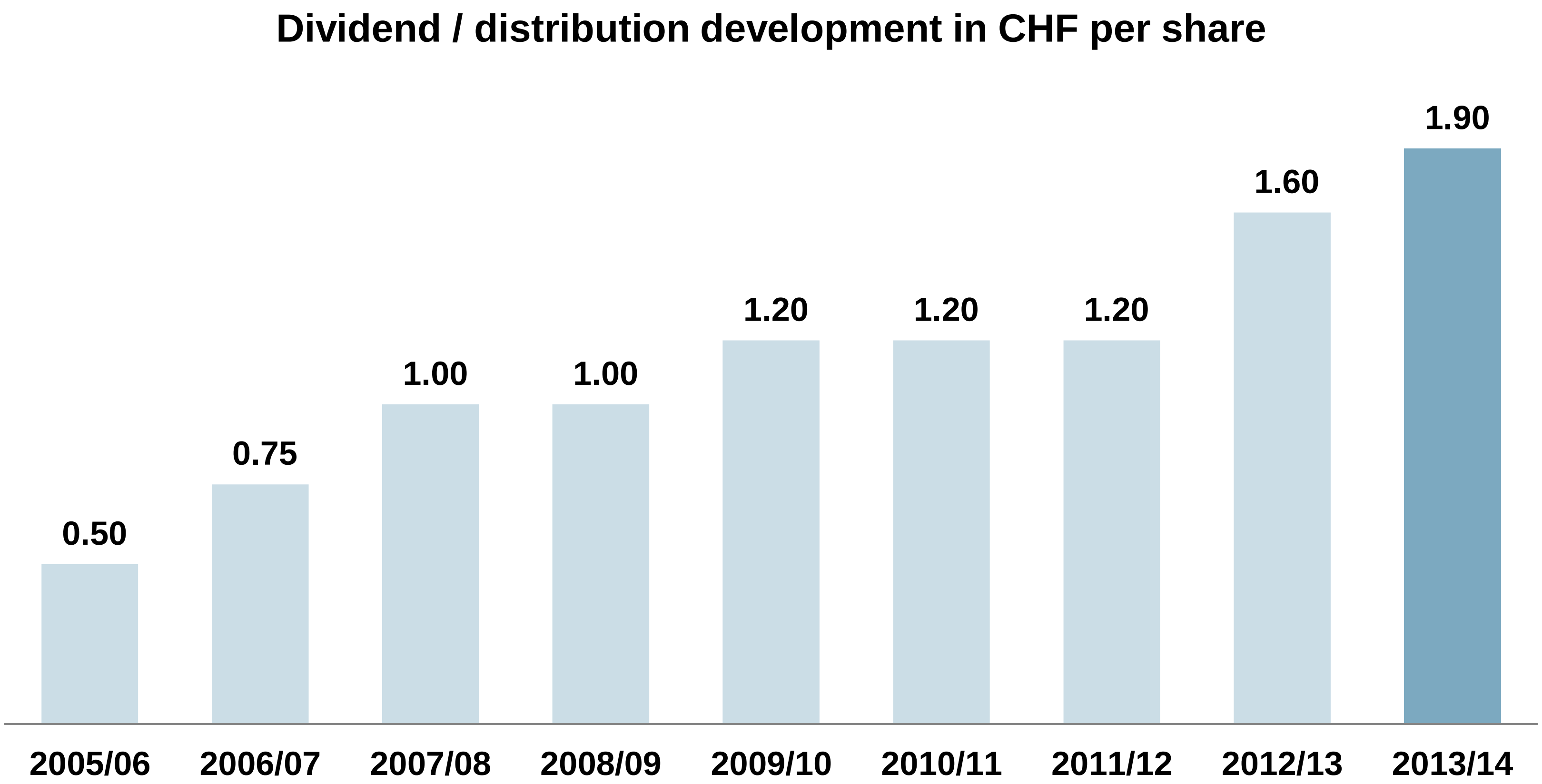
Significant free cash flow

in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF
Cash flow before changes in NWC (incl. taxes paid)	**401.5**	**452.1**	12.6%
Changes in net working capital	**-14.4**	**-41.1**	
Cash flow from operating activities in % of sales	**387.1** 21.6%	**411.0** 21.1%	6.2%
Cash flow from investing activities (excl. acquisitions)	**-68.5**	**-92.6**	35.2%
Operating free cash flow in % of sales	**318.6** 17.7%	**318.4** 16.3%	0.0%
Cash consideration for acquisitions	**-56.2**	**-29.8**	-46.9%
Free cash flow	**262.4**	**288.6**	10.0%
Cash flow from financing activities	**-21.8**	**-309.1**	
Changes in cash and cash equivalents	**242.8**	**-24.8**	
Cash outflow from provisions for product liability claims (included in Cash flow from operating activities)	**-2.9**	**-43.4**	

Maintaining a solid balance sheet

in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF
Net working capital	**187.1**	**190.6**	1.8%
Days sales outstanding (DSO)	**71**	**69**	-2.8%
Days inventory outstanding (DIO)	**148**	**140**	-5.6%
Capital employed	**1,455.5**	**1,462.9**	0.5%
Net cash	**185.8**	**311.5**	67.7%
Equity	**1,641.3**	**1,774.4**	8.1%
Equity in % of total assets	**61.2%**	**68.4%**	

Dividend – Proposed increase by 19% to CHF 1.90

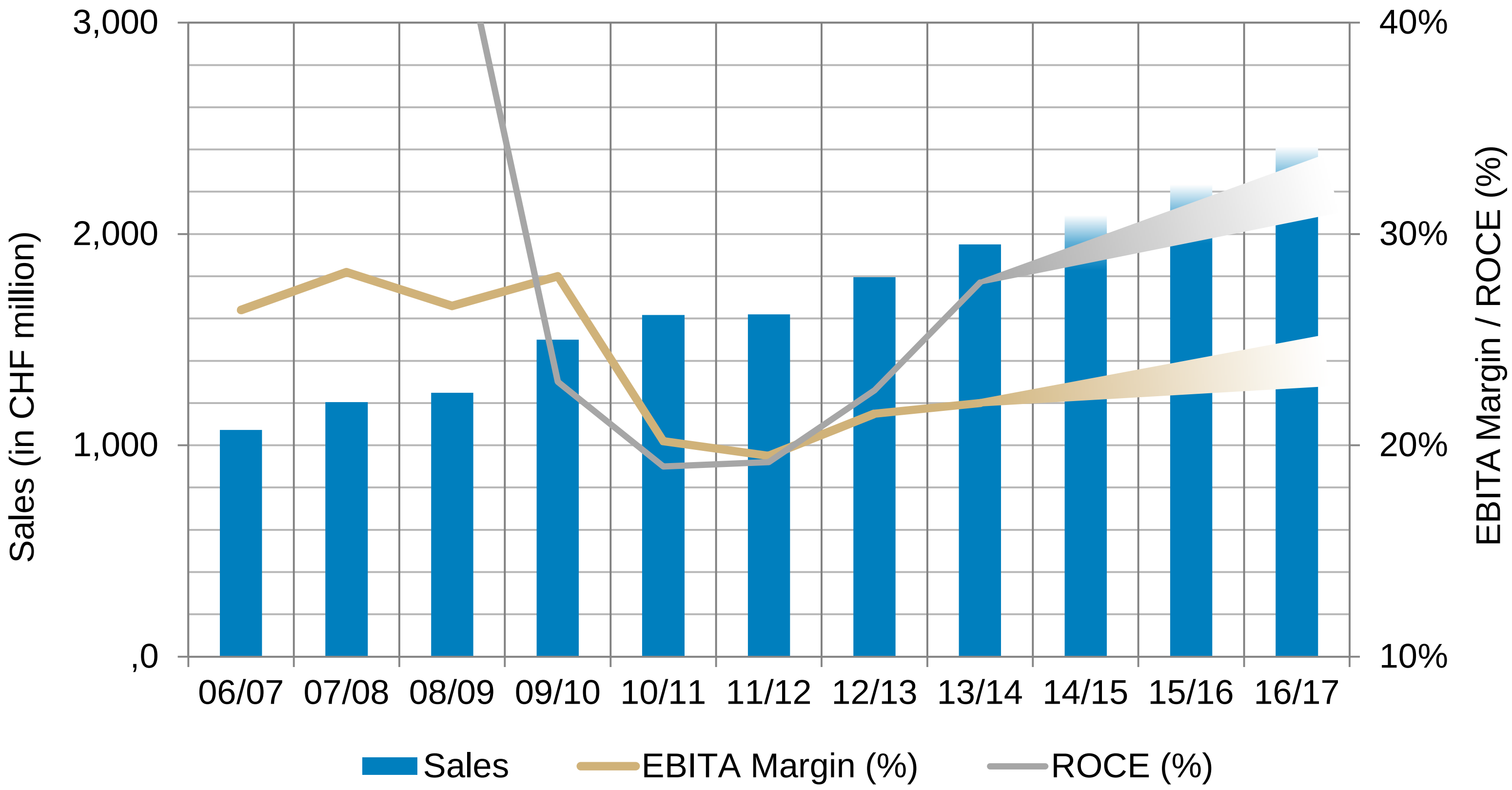


Proposed dividend represents a payout ratio of 37%

5. Outlook FY 2014/15

Outlook FY 2014/15

On course for mid term financial targets



Notes: FY 2007/08 Excluding one-off cost for the prohibited acquisition of the GN ReSound Group
FY 2009/10 Restated based on finalization of the acquisition accounting of Advanced Bionics
FY 2012/13 Excluding one-off cost for AB Vendor B provision at AB, AB Rixheim restructuring and settlement with a group of investors

Outlook FY 2014/15

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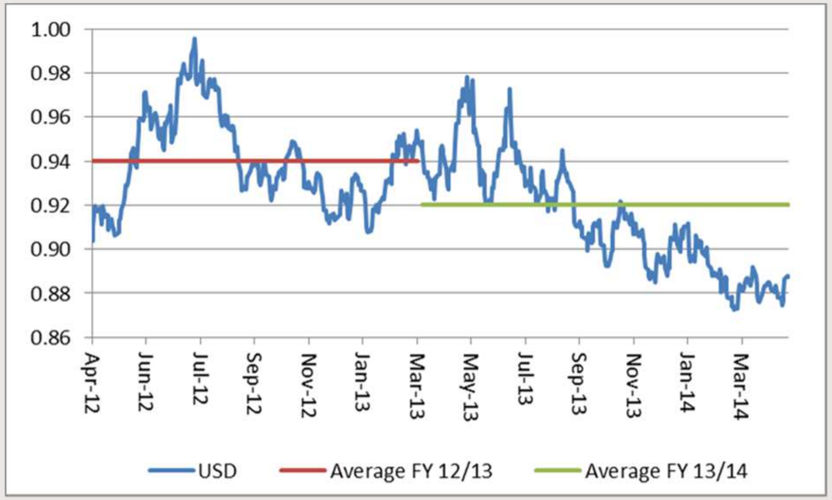
FY 2014/15 guidance

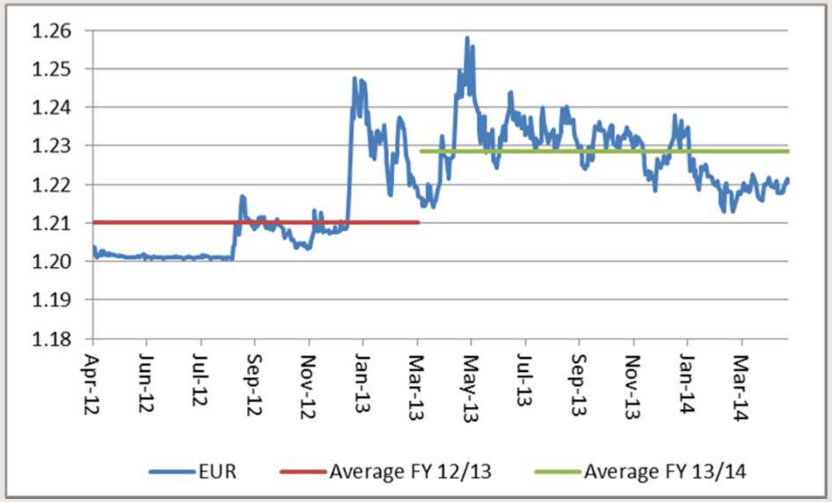
		Actual FY 2013/14	Guidance FY 2014/15
Sales	Sales growth in LC	11.7%	7%-9%
	thereof acquisition related growth	0.7%	approx. 1%
	FX-impact	-3.0%	
	Total sales growth in CHF	8.7%	
EBITA	EBITA growth in LC	16.7%	11%-15%
	FX-impact	-5.1%	
	Total EBITA growth in CHF	11.6%	

FX impact on sales and margins

USD/CHF



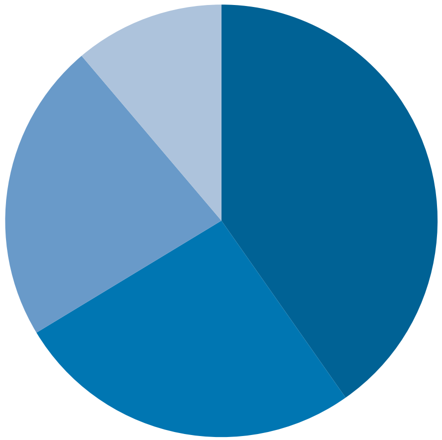
EUR/CHF



	Rate	Sales	EBITA
USD/CHF	+/- 5%	+/- CHF 40 million	+/- CHF 14 million
EUR/CHF	+/- 5%	+/- CHF 25 million	+/- CHF 15 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



	FY-12/13	1H-13/14	2H-13/14	FY-13/14	Effect	Spot May 2014
USD	0.94	0.94	0.90	0.92	-	0.89
EUR	1.21	1.23	1.23	1.23	-	1.22
GBP	1.48	1.45	1.47	1.46	+	1.50
CAD	0.94	0.91	0.84	0.87	-	0.82
AUD	0.97	0.89	0.82	0.86	-	0.83
BRL	0.47	0.43	0.39	0.41	-	0.40
JPY 100	1.14	0.95	0.88	0.92	-	0.88

EBITA growth in CHF 8 – 12% – At current FX conditions / including mitigation efforts

6. Upcoming events

Upcoming events

Important dates

21-29 May	Roadshow Full-Year Results 2013/14	
17 June	Annual General Meeting	Zurich
14 October	3. Sonova Investor & Analyst Day	Stäfa
15-17 October	EUHA Congress	Hannover
17 November	1H 2014/15 Results	Stäfa

Contacts

Investor Relations

Thomas Bernhardsgrütter
Director Investor Relations
Phone +41 58 928 33 44
Mobile +41 79 618 28 07
Email thomas.bernhardsgruetter@sonova.com

Nicole Jenni
Investor Relations Associate
Phone +41 58 928 33 22
Email nicole.jenni@sonova.com

Corinne Hofmann
Investor Relations Associate
Phone +41 58 928 33 22
Email corinne.hofmann@sonova.com

Media Relations

Michael Isaac
Head of Media Relations
Phone +41 58 928 33 24
Mobile +41 79 420 29 56
Email michael.isaac@sonova.com

Patrick Lehn
Corporate Communications Manager
Phone +41 58 928 33 23
Mobile +41 79 410 82 84
Email patrick.lehn@sonova.com

Thank you very much