

INVESTOR & ANALYST PRESENTATION – AAA 2014

Orlando, Florida, USA | 27 March 2014 | Lukas Braunschweiler, CEO



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AAA 2014 – HIGHLIGHTS

sonova



- Global market update
- Costco supply agreement



- Phonak **Lyric**
- Extension of Basic Solutions
- Teenager Initiative & Tinnitus Solutions

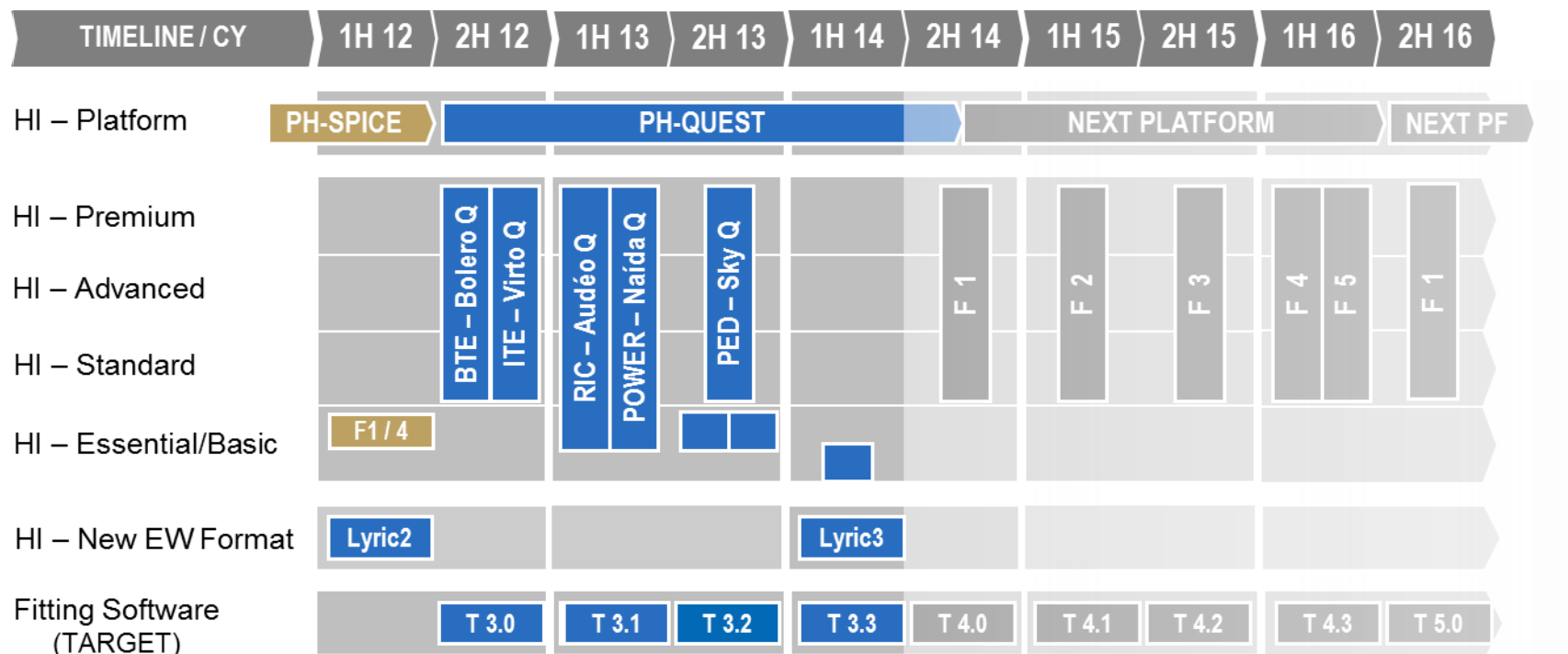


- Moxi² Pro and Quantum² Pro



- Waterproof technology

PRODUCT PIPELINE: DRIVE HIGH INNOVATION & LAUNCH RATE

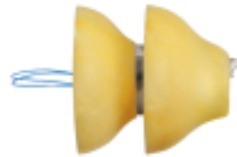


Note: Subject to change

COMPLETE RANGE ACROSS ALL FORMATS AND PERFORMANCE LEVELS

LYRIC – A NEW FORMAT SHAPING UP

Invisible



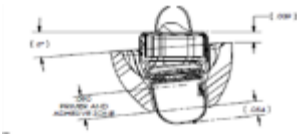
Hassle-free

24/7

Lyric CAN.

NEW PRODUCT FORMAT TO EXPAND THE ACCESSIBLE MARKET

LYRIC EVOLUTION



Lyric₁

1999

2008



Lyric₂

2012



Lyric₃

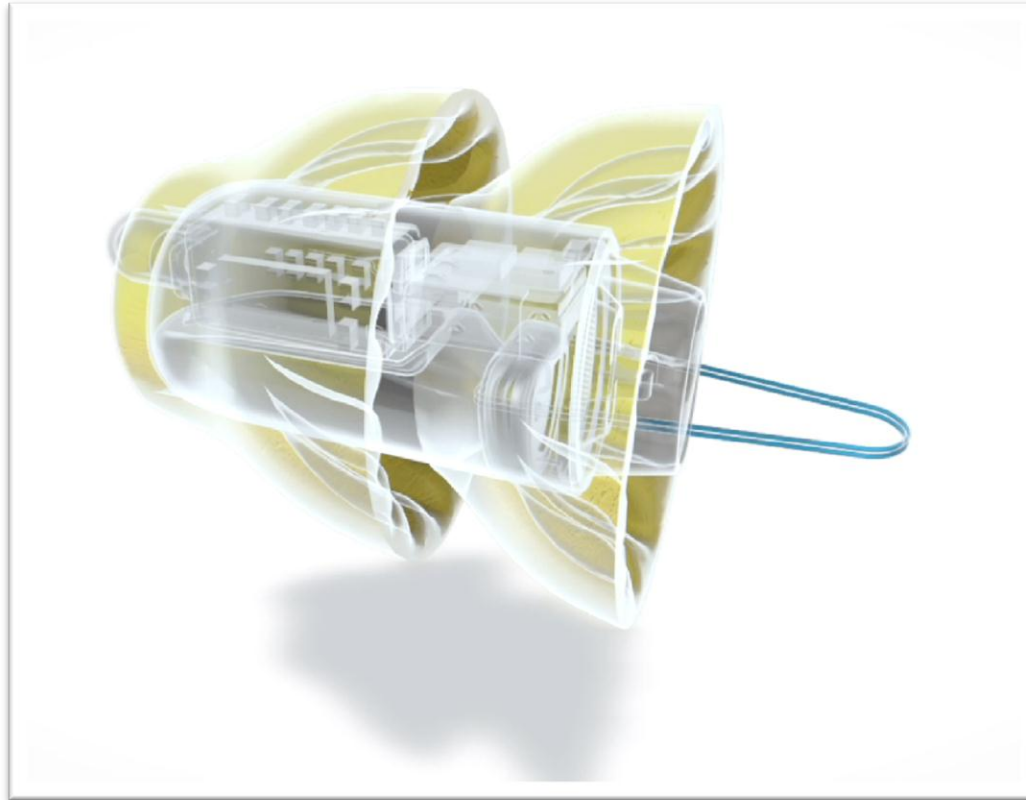
2014

KEY IMPROVEMENTS LYRIC3

- New processor and electronics
- Low power consumption
- Improved moisture protections
- More fitting options
- Completely new programming wand

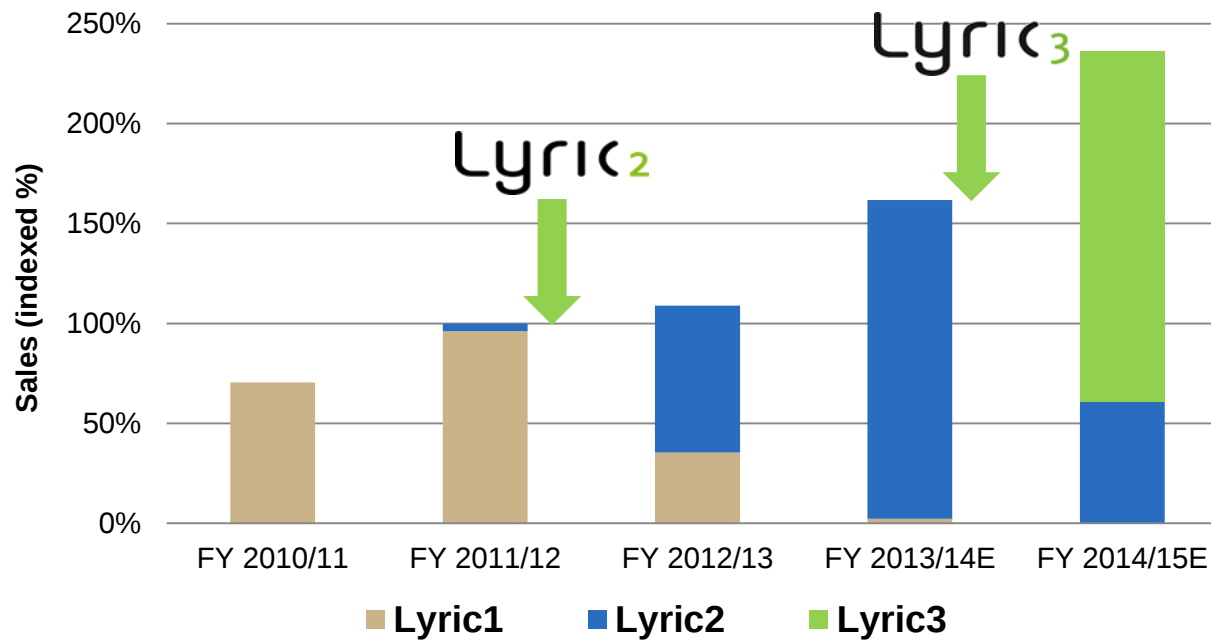
ONGOING PROCESS OF SUBSTANTIAL AND DECISIVE IMPROVEMENTS

LAUNCH OF LYRIC3



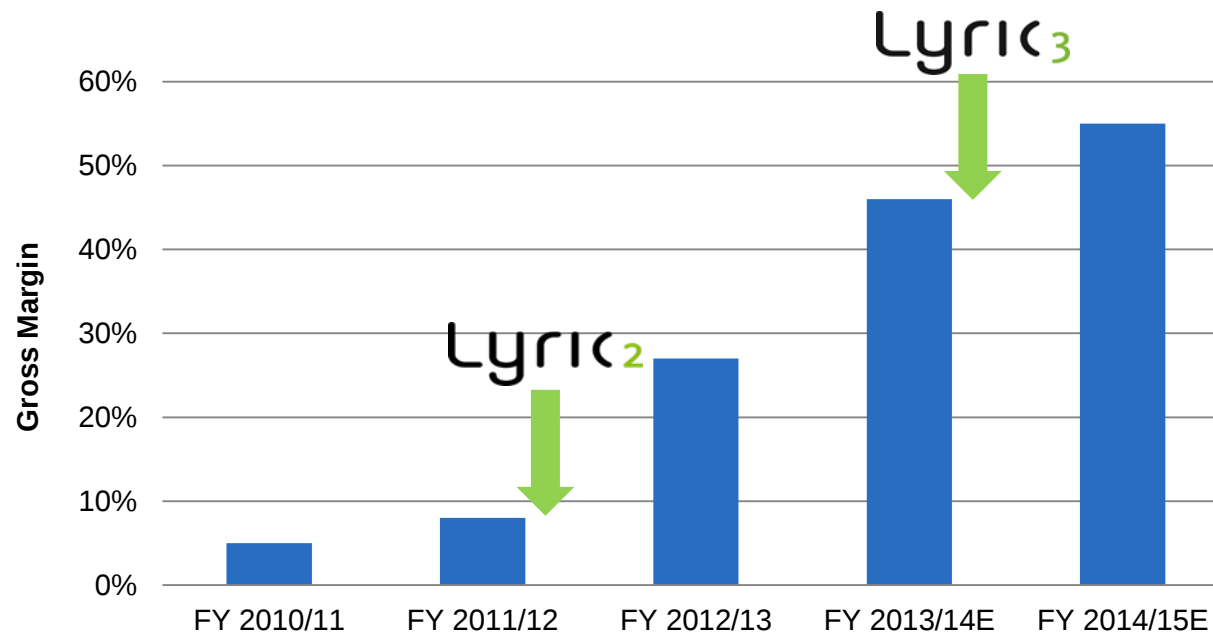
TAKING THIS UNIQUE FORMAT TO THE NEXT LEVEL

BUSINESS FACT 1 – SIGNIFICANT SALES GROWTH



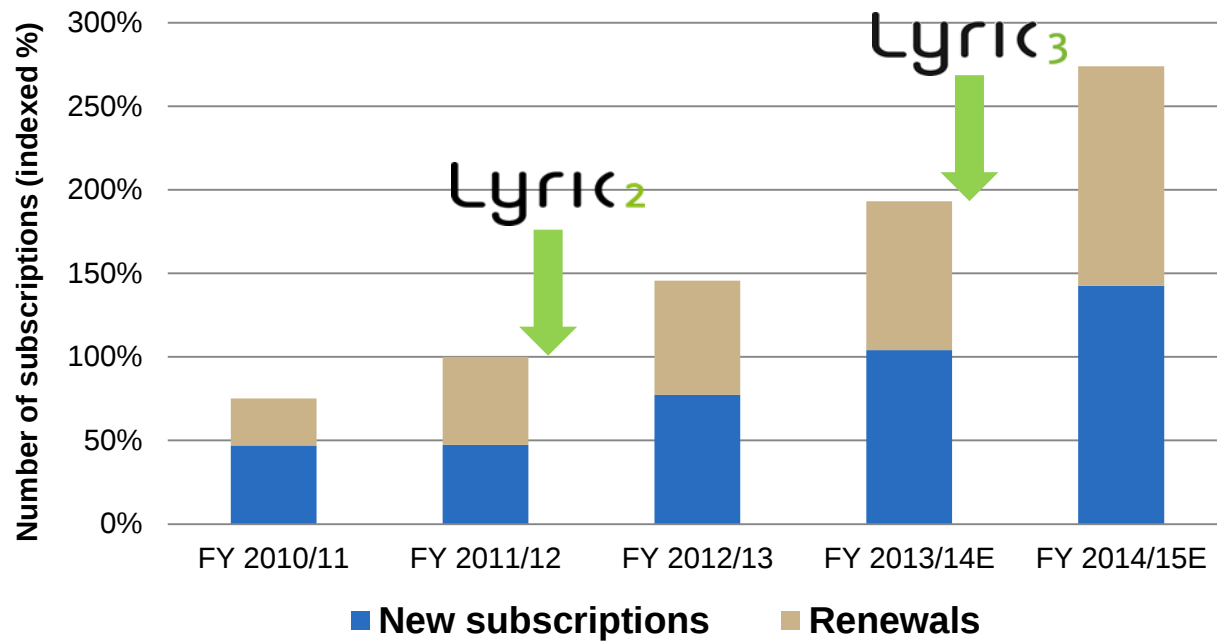
FURTHER SALES BOOST EXPECTED WITH LYRIC3 LAUNCH

BUSINESS FACT 2 – STEP UP IN PROFITABILITY



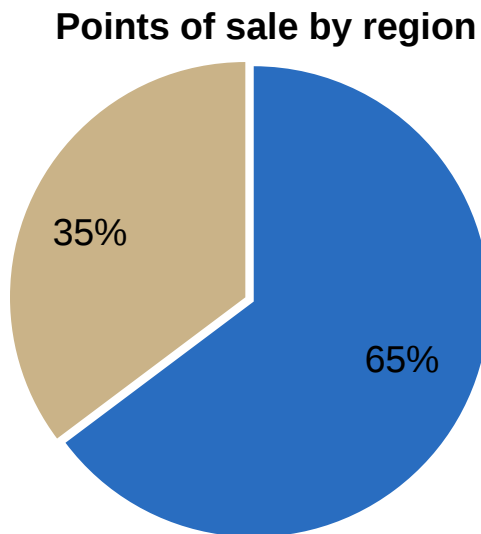
PROFITABILITY TO IMPROVE FURTHER WITH LYRIC3

BUSINESS FACT 3 – SUBSTANTIAL GROWTH IN NEW SUBSCRIPTIONS

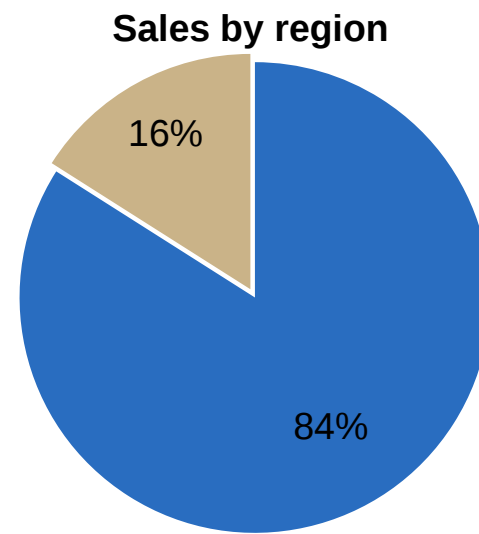


BUSINESS FACT 4 – RENEWALS DRIVEN BY THE INTRODUCTION OF LYRIC2

BUSINESS FACT 5 – ONGOING INTERNATIONALIZATION OF THE BUSINESS



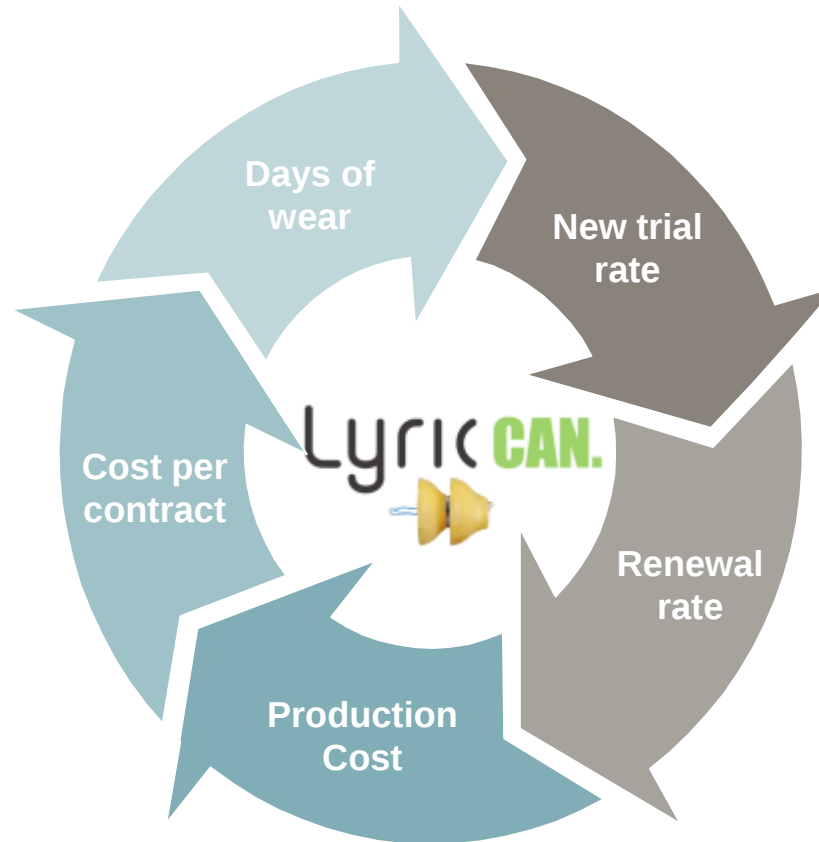
■ US ■ ROW



■ US ■ ROW

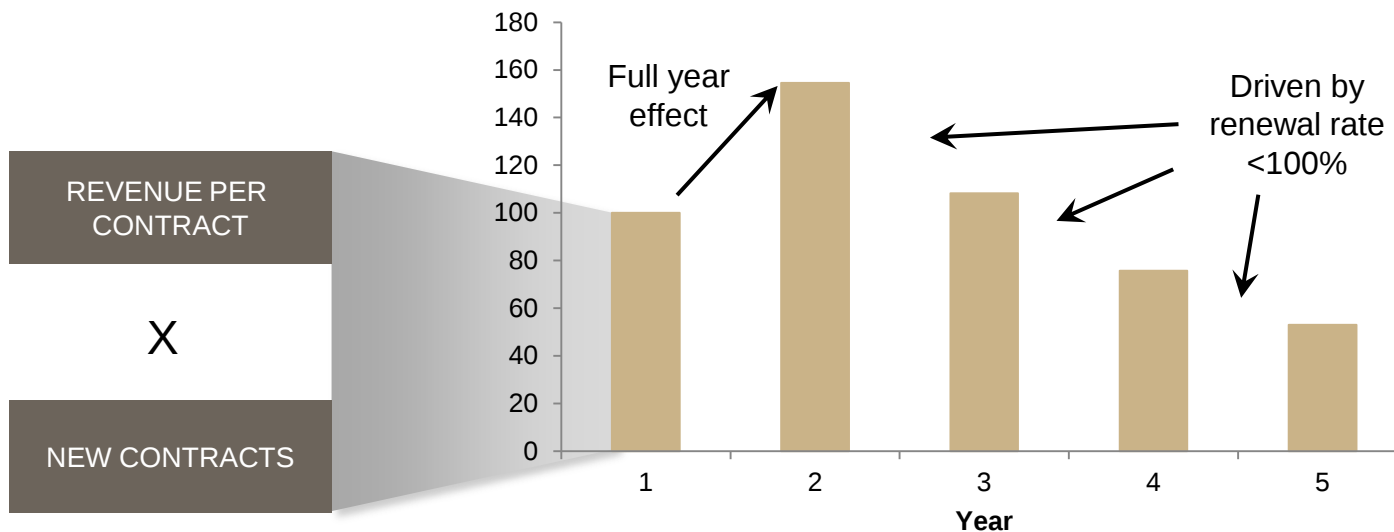
IMPROVING POS EFFICIENCY AND TRAINING OFFERS GREAT POTENTIAL IN ROW

LYRIC BUSINESS MODEL – FIVE MAIN DRIVERS



CONTROLLING AND IMPROVING THE KPIs IS THE KEY TO THE BUSINESS SUCCESS

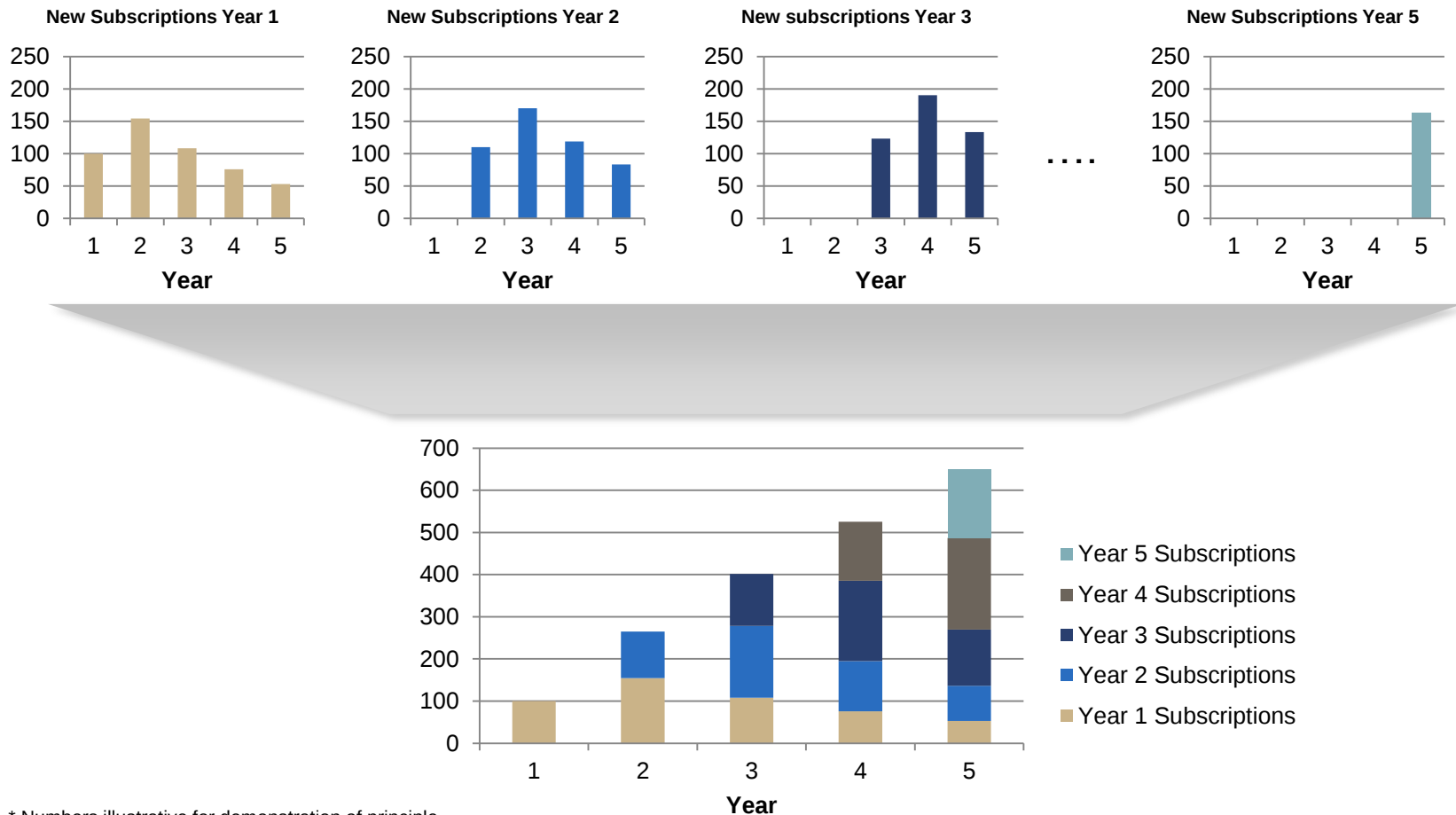
LYRIC BUSINESS MODEL* – A SUBSCRIPTION MODEL



* Numbers illustrative for demonstration of principle

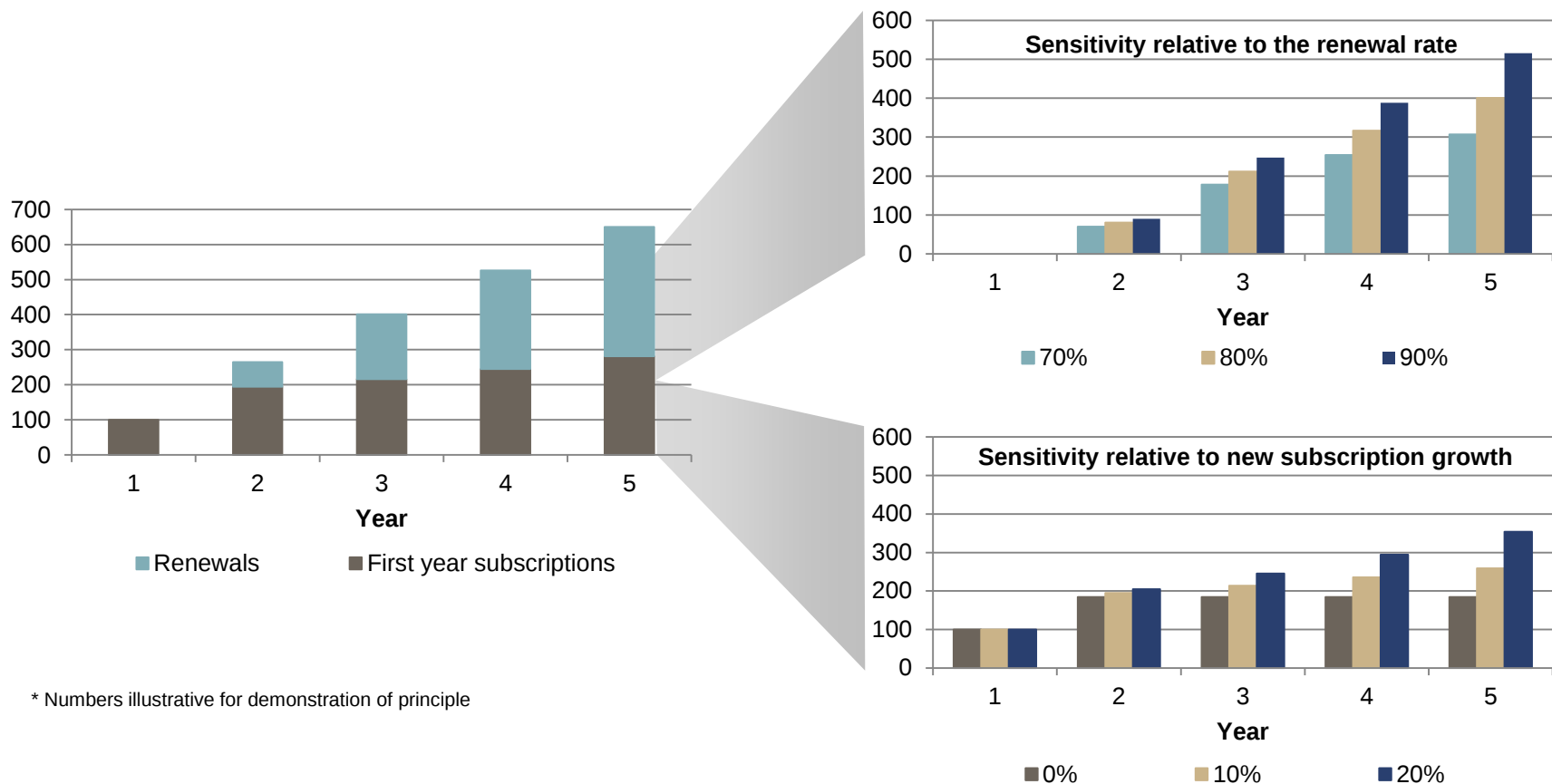
SUBSCRIPTION MODEL PREFERRED BY PATIENTS AND HCP'S

LYRIC BUSINESS MODEL* – REVENUE DEVELOPMENT OVER THE YEARS



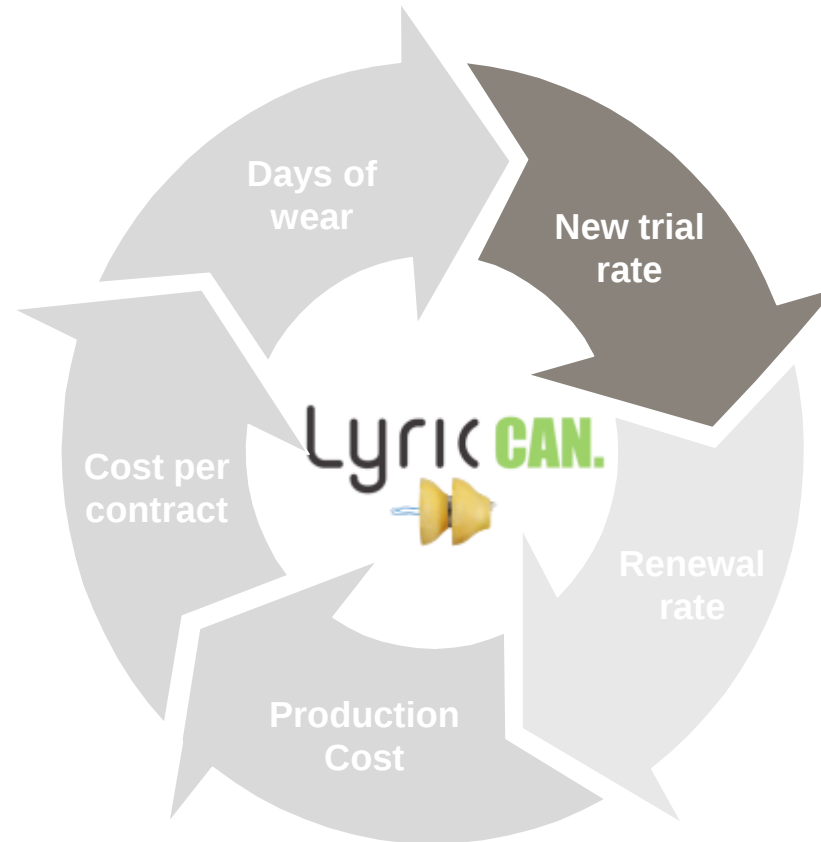
* Numbers illustrative for demonstration of principle

LYRIC BUSINESS MODEL* – FIRST TIME SUBSCRIPTIONS VS. RENEWALS



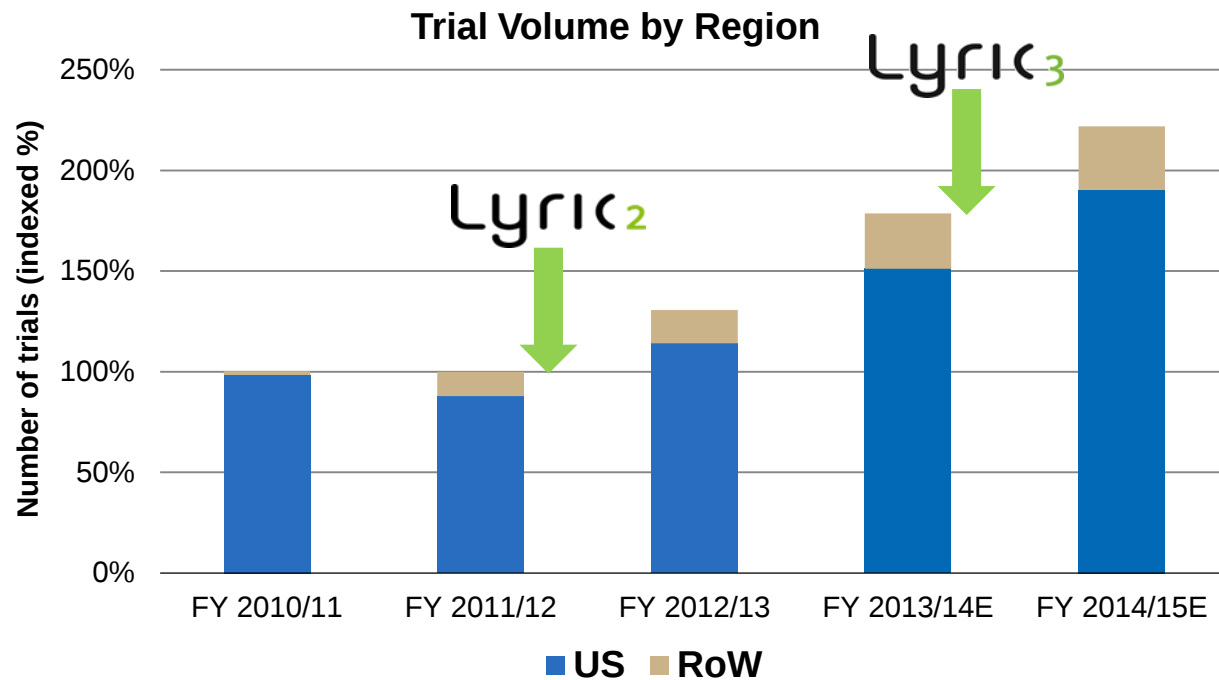
REVENUES DRIVEN BY RENEWAL RATE AND SUBSCRIPTION GROWTH

LYRIC BUSINESS MODEL – FIVE MAIN DRIVERS



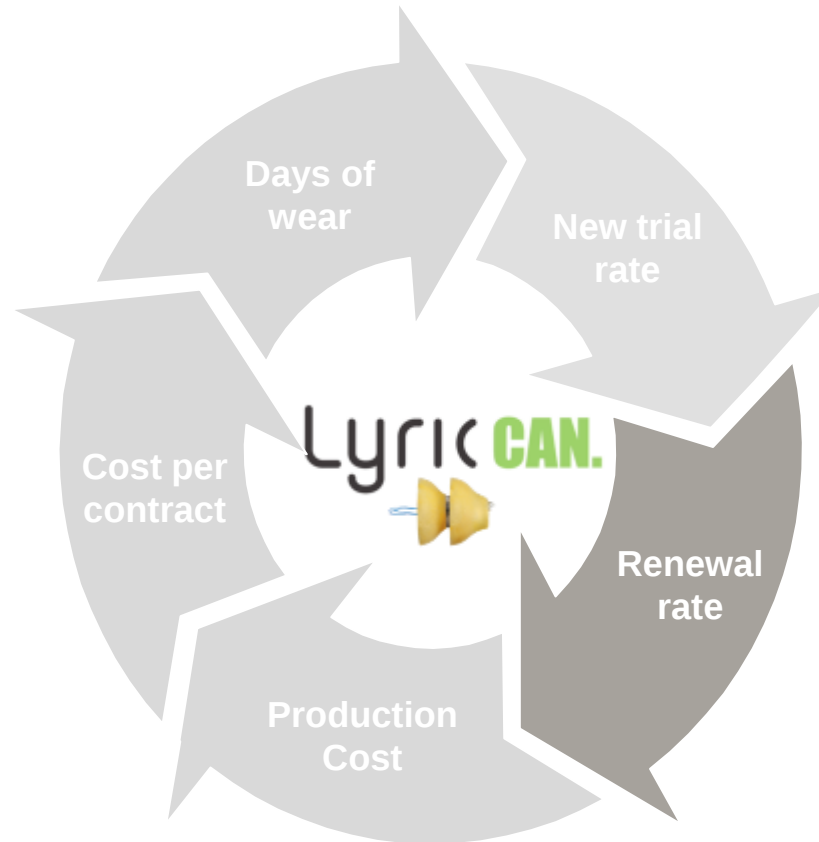
CONTROLLING AND IMPROVING THE KPIs IS THE KEY TO THE BUSINESS SUCCESS

KEY BUSINESS DRIVER – NEW TRIALS



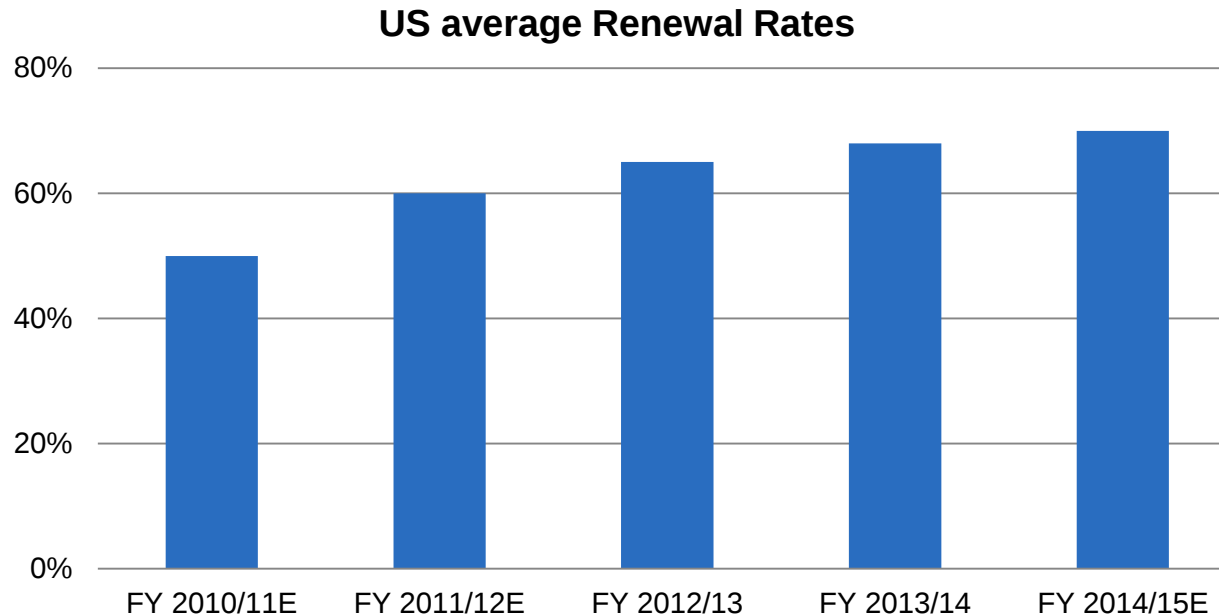
LYRIC TRIAL VOLUME GROWTH SPURRED BY LYRIC2 INTRODUCTION

LYRIC BUSINESS MODEL – FIVE MAIN DRIVERS



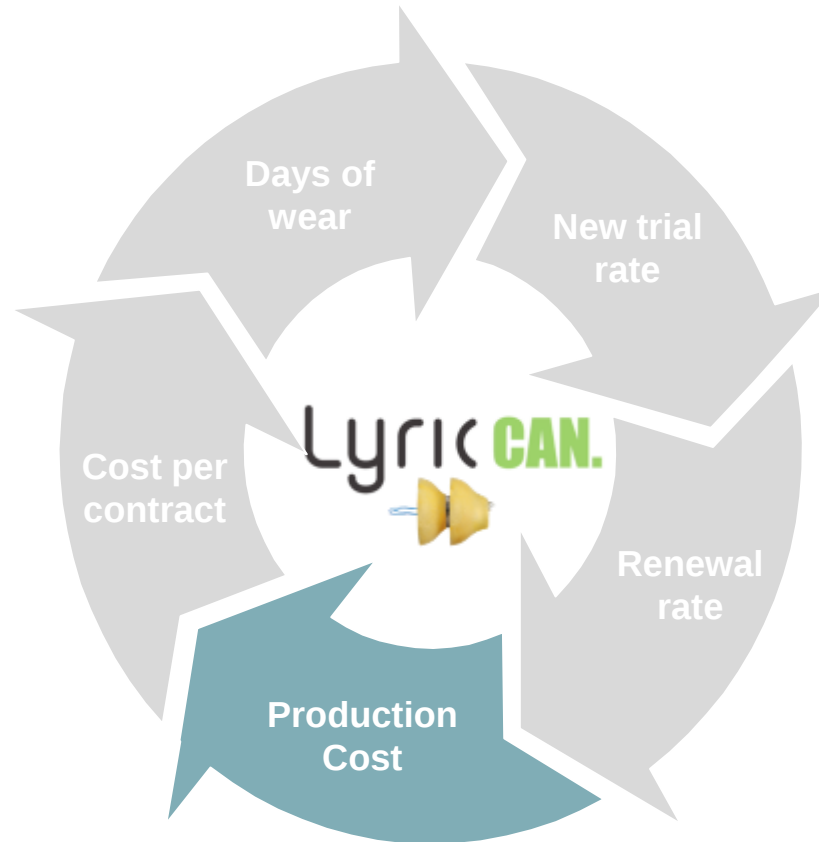
CONTROLLING AND IMPROVING THE KPIs IS THE KEY TO THE BUSINESS SUCCESS

KEY BUSINESS DRIVER – RENEWAL RATE



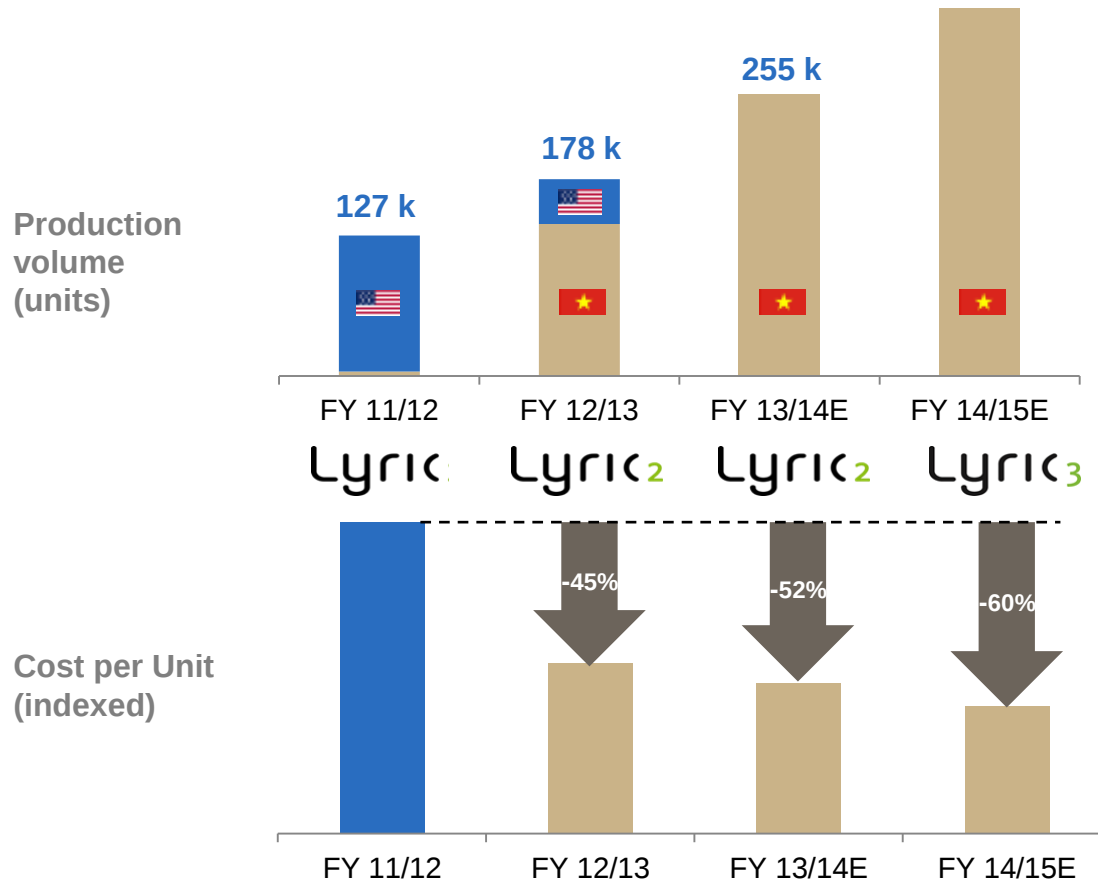
TOP PROVIDERS SEE RENEWAL RATES OF AROUND 80%

LYRIC BUSINESS MODEL – FIVE MAIN DRIVERS



CONTROLLING AND IMPROVING THE KPIs IS THE KEY TO THE BUSINESS SUCCESS

KEY BUSINESS DRIVER – PRODUCT COST REDUCTION



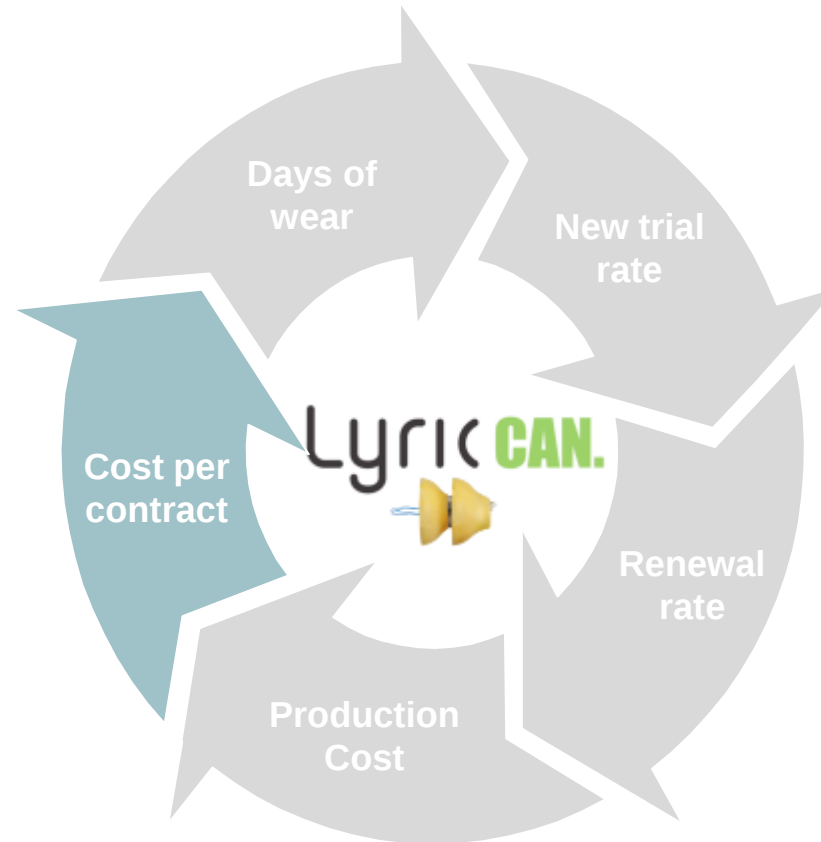
HIGHER PRODUCTION VOLUME AND DESIGN IMPROVEMENTS LEAD TO COST SAVINGS

KEY BUSINESS DRIVER – PRODUCT COST REDUCTION



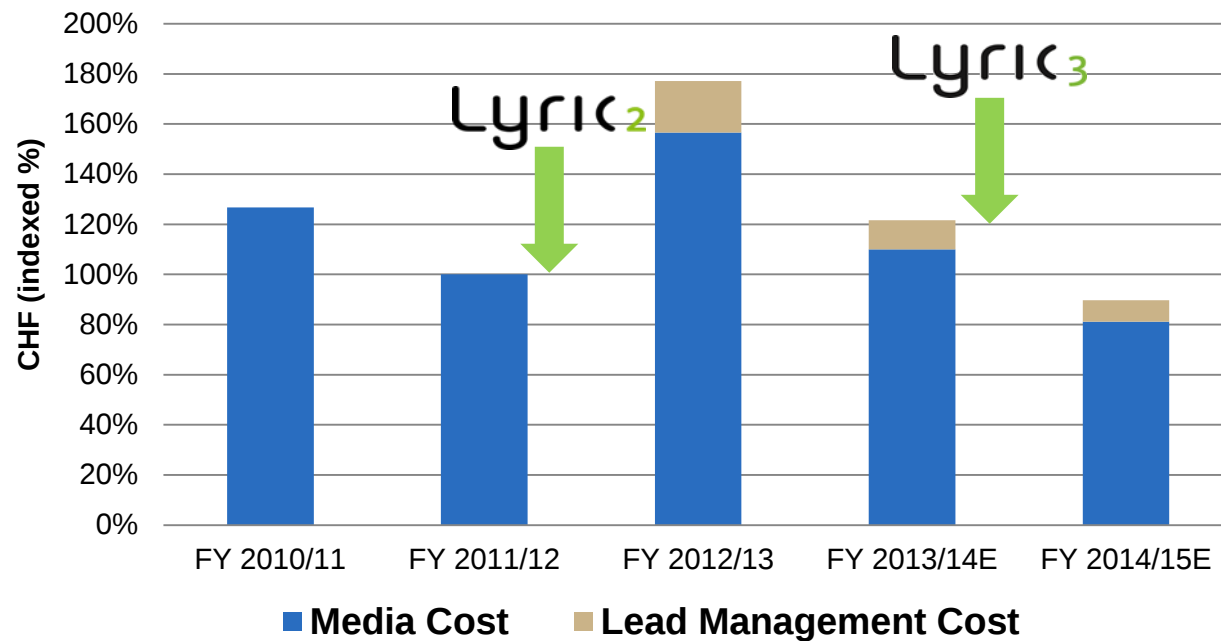
OPERATION CENTER VIETNAM – STATE OF THE ART AND EFFICIENT SET UP

LYRIC BUSINESS MODEL – FIVE MAIN DRIVERS



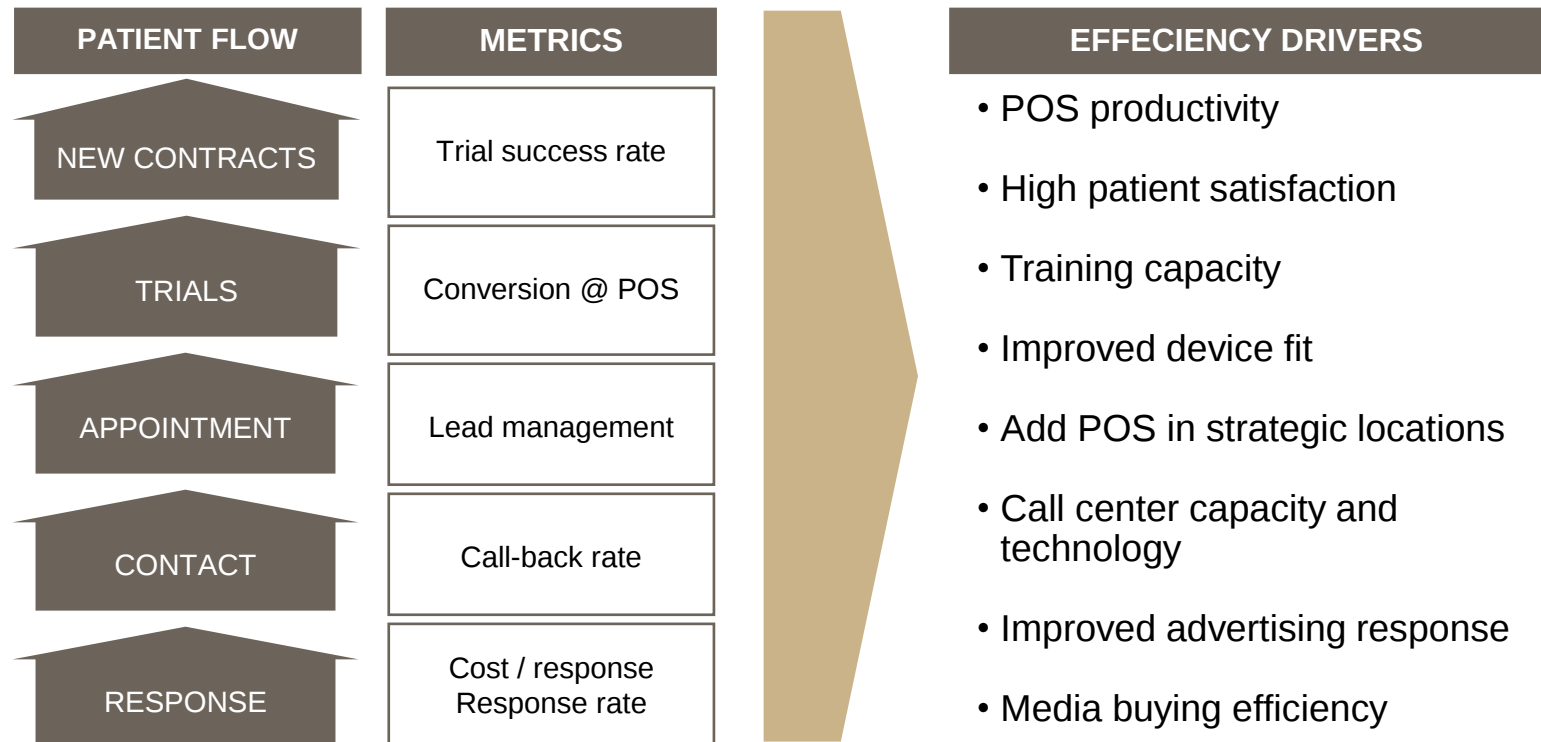
CONTROLLING AND IMPROVING THE KPIs IS THE KEY TO THE BUSINESS SUCCESS

KEY BUSINESS DRIVER – AVERAGE COST PER NEW CONTRACT



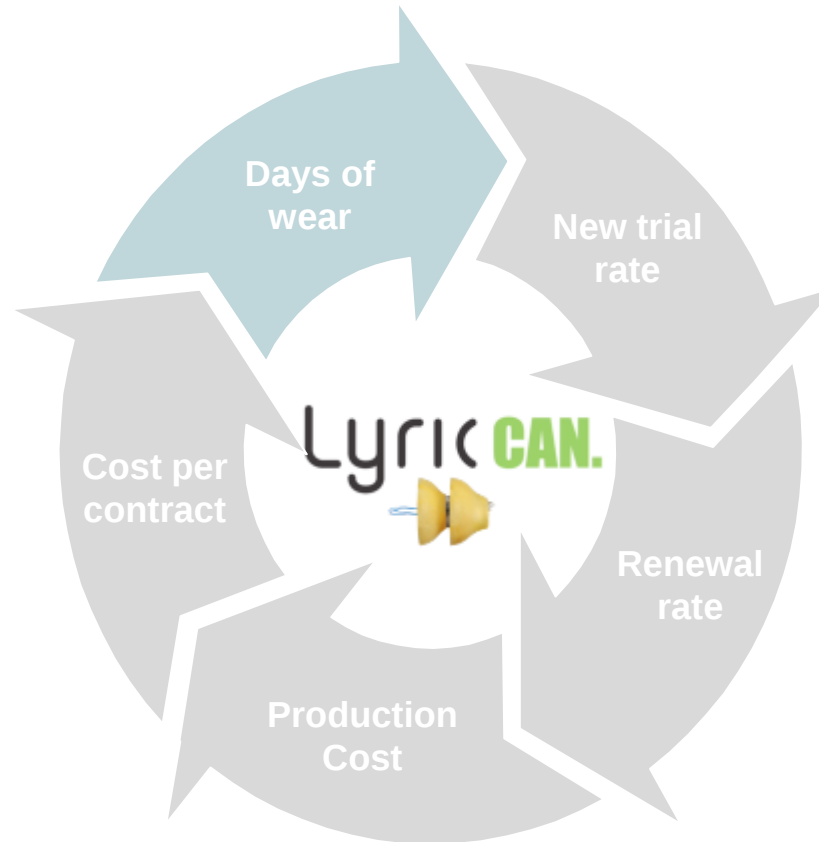
SUBSTANTIAL REDUCTION THIS YEAR AFTER LAUNCH EFFORT FOR LYRIC2

KEY BUSINESS DRIVER – COST PER CONTRACT



IMPROVEMENTS DELIVERED ACROSS ALL METRICS

LYRIC BUSINESS MODEL – FIVE MAIN DRIVERS



CONTROLLING AND IMPROVING THE KPIs IS THE KEY TO THE BUSINESS SUCCESS

KEY BUSINESS DRIVER – DAYS OF WEAR

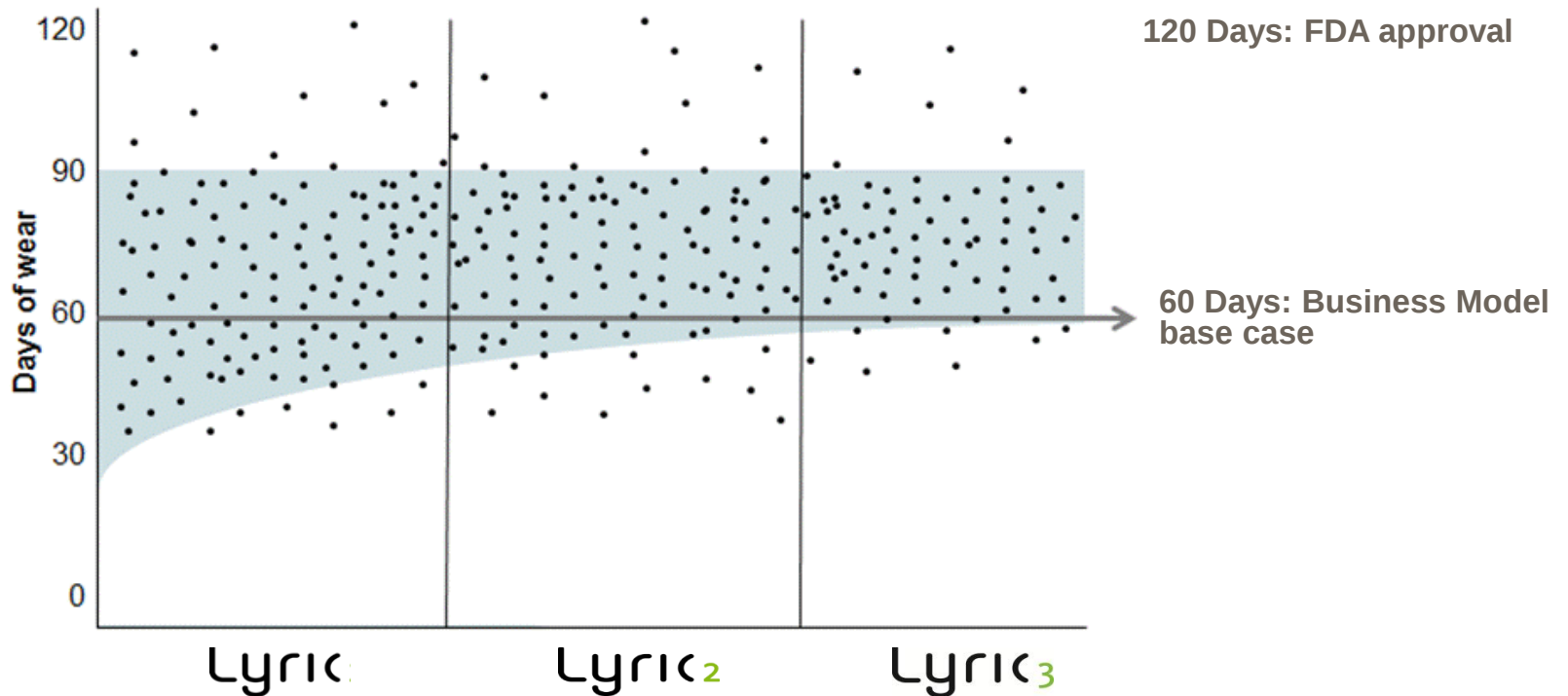


Chart for illustration only

BUSINESS MODEL – TARGETING 60 DAYS WITH HIGH LEVEL OF CONFIDENCE

INTEGRATING LYRIC INTO A PRACTICE – EXAMPLE OF A TOP PROVIDER*

TECH TOPIC: EXTENDED-WEAR HEARING AIDS

The Extended-Wear Hearing Device: Observations on Patient Experiences and Its Integration into a Practice

BY MARK J. SANFORD, MD, TAMARA ANDERSON, AND CHRISTINA SANFORD

A discussion on the differences between Lyric and traditional hearing aids, as well as an otolaryngologist's experiences in dispensing the device for over 6 years relative to equipment requirements, relationships with physicians, and the dramatic positive changes in the 2nd-generation Lyric device.

The InSoud Medical (now owned by Sonova and sold under the Phonak brand since January 2009) Lyric hearing device was developed over the past 12 years in Newark, Calif., and was offered commercially for the first time in January 2007. Lyric is the first hearing device that can be worn continuously in the ear canal 24 hours a day for up to 1 month. This extended wear device was developed on several key concepts:

- Sound quality improves with proximity to the tympanic membrane.
- Some people with hearing impairment resist wearing hearing aids due to stigma associated with hearing loss, and
- People want an invisible and hands-free solution to their hearing loss.¹

There are many benefits to having a device deep in the ear canal, including²:

- An overall increase in gain and output, especially in the high frequencies;
- Reduction in the occlusion effect;
- Ability to use the telephone and other ear-level listening devices (headphones, telephones) without feedback;
- Security of fit and retention;
- Reduction of wind noise; and
- Improved localization.

Sergio Kodish has documented through Mark Sanford, MD, his own audiologist experience for 27 years and, as a provider in San Francisco Bay Area, Tamara Anderson practiced as an ENT for 16 years in Russia before moving to the United States, and the second dispensing office in North Carolina before moving to California and joining C&S Hearing for the past 5 years. Christina Sanford is a graduate of George Washington University, works in the art world, and then translates written.

can accommodate the Lyric device. There are some medical conditions that are contraindications for some patients: diabetes, hypertension, uncontrolled diabetes, radiation to head and neck, and autoimmune compromised patients. Dispensing Models. There are also different professional dispensing models for this device. A small number of offices have an ENT to size and fit the initial device for the patient, and then the "refill" and follow-up care are performed by audiologists and/or hearing instrument specialists. In most offices, the dispensing professional performs the initial size and fitting, and they use the ENT as a safety net should the patient have a medical problem related to the device. Professionals fitting Lyric who use the ENTologist as a safety net should have an excellent relationship to manage patients when medical issues arise, which is our experience with this device. A small number of offices have an ENT to size and fit the initial device for the patient, and then the "refill" and follow-up care are performed by audiologists and/or hearing instrument specialists. In most offices, the dispensing professional performs the initial size and fitting, and they use the ENT as a safety net should the patient have a medical problem related to the device. Professionals fitting Lyric who use the ENTologist as a safety net should have an excellent relationship to manage patients when medical issues arise, which is our experience with this device.

The Lyric device received approval by the FDA to be placed by an ear nose throat (ENT) physician in 2007. In May 2008, InSoud Medical received approval by the FDA that audiologists and hearing dispensers also could size and place the Lyric device with proper training. It also received clearance from the FDA to be worn for up to 120 days continuously by a patient.

Integrating Lyric into a Practice
The Lyric device is very different compared to fitting a traditional hearing aid. The equipment, the evaluation of the ear canal, and skills of the clinician are critical to being successful with the Lyric. In addition, the medical issues that should be considered make the learning curve substantial.

Fitting the Lyric Device
Candidates. There are three steps to evaluate a patient for the Lyric hearing device. First, the ear canal is evaluated otoscopically to determine if a patient's ear is in an appropriate candidate for the device. Second, an audiogram is performed to determine if the patient's hearing loss is in the fitting range. Third, the ear canal is then sized by the fitting professional, ideally under a high-magnification microscope, to determine if the patient's ear



Figure 1. The use of a high-magnification microscope includes high magnification, variable magnification, gold standard for ear canal examination, and cerumen removal. For only those who have the quality of care for a patient, including those who are not in the Lyric, but it is also useful for cerumen removal and only necessary for the ear canal.



Figure 2. The use of high magnification includes a video otoscope combination including high magnification, gold standard for ear canal examination, and cerumen removal. For only those who have the quality of care for a patient, including those who are not in the Lyric, but it is also useful for cerumen removal and only necessary for the ear canal.

fortable using (where used on a daily basis). The otoscope examination is the foundation for placement and successful fitting of Lyric. The body portion of the ear canal is very sensitive, and visualizing where the medical and should be in this part of the ear canal is extremely important. Discomfort is the number-one reason patients do not keep the Lyric, and 95% of pain complaints come from this area when fitting Lyric. The discomfort or pain is almost always on the floor of the ear canal or on the lower side of the canal wall. In some cases, the top of the ear canal by the tympanic membrane can be sore.

The upgrade in otoscopic equipment benefits the entire practice, not only Lyric patients. The microscope (or high magnification) improves the perception of professionalism for the office, and it allows for safer and more precise cerumen management, as well as other inspection of the ear canal and tympanic membrane of all patients.

Figure 1 shows the benefit of using a microscope for high magnification, variable magnification, gold standard for ear canal examination, and cerumen removal. The drawbacks of a microscope are it is more expensive, not portable, and has a learning curve of approximately 24 weeks. Another nice option with the microscope is having a camera with a monitor that can be seen by the patient, family members, and other staff for training purposes.

Figure 2 shows the benefit of using high magnification loops and a video otoscope combination. The pros of using this combination are good magnification, portability, ease of use, and less expense of the practice owning a microscope. The cons against

the combination are: it provides only one level of magnification, you have to use two pieces of equipment, there is some potential for motion sickness in the professional using loops, and it can end up being more expensive if the practice decides to buy both.

Additional tools that are important are various sizes of cerumen for cerumen removal, nasal speculum, ear speculum, alligator forceps, Lampert speculum, and lubrication such as glycerin, Miltac, Oticare, or vitamin E oil. A suction cabinet is recommended for cerumen removal, including several sizes of each size (1, 5, and 7 mm). An autovac in the gold standard for cleaning instruments, though many sterilizing solutions are commercially available.

Ideally, the patients should be seated in a movable hydraulic chair or salon chair to allow the practitioner to place them into a position that is comfortable for both patient and practitioner.

The equipment described here is a significant investment of \$5,000-\$15,000, depending on what the office needs and the specific equipment purchased.

Re-Fits and Scheduling
The customary hearing aid evaluation for Lyric takes 45-60 minutes if you decide to test, size, fit, and counsel all at the same appointment. Approximately 50-70% of patients who are sized will need to return for fitting 5-10 days later due to sensitive skin that may appear slightly irritated during cerumen removal and/or during the fitting procedure. As a practitioner gains experience and knowledge, the number of patients who need to return for an

TECH TOPIC: EXTENDED-WEAR HEARING AIDS

Lyric, according to an internal Phonak study in 2011-12.

Our office has been able to fit a much higher number of patients with the new version compared to the original. Our results are showing a fit rate of over 80% with the new version, allowing for more patients to be fit successfully compared to Lyric 1. There is a learning curve with the new version, but it appears to be far less than the original version due to the much higher fit rate.

Our study consisted of a retrospective 1-year analysis of Lyric patients in April 2013 in order to compare success rates of patients who tried Lyric 1 with patients who tried Lyric 2. The data collected included patient age and gender, duration of wear for both devices, and reasons for removal. Significant length of wear was set at 30 days, or those who completed the full trial period. For duration of wear for those currently wearing the device, the duration is calculated using the end date of the patient's current subscription. Eleven reasons for removal were determined: cost, discomfort/pain, device failure,

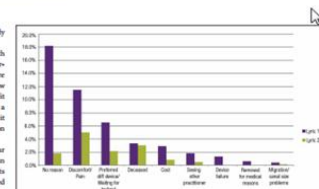


Figure 3. Reasons for removal for Lyric 1 and Lyric 2. The chart shows the percentage of patients who removed the device for each reason. Lyric 2 shows significantly higher success rates across most categories compared to Lyric 1.

long-term break, migration/canal size problem, seeing a practitioner closer to home, decreased, preferred another device/technology for better technology, removed for medical reasons, and no reason given.

Results
The study compared Lyric 1 and Lyric 2. Lyric 2 looks at all patients who tried either device since fittings began in 2007. The total fitting numbers for both Lyric devices at the office studied were 979 patients and 1,822 ears. However, the study determined baseline use to participate in the study to be 30 days.

The group of 30-day wearers who tried Lyric 1 was comprised of 711 patients and 1,308 ears. A total of 38% were male and 42% female, and ages ranged from 13 to 104 years (average 75 years old; median: 76). The data showed that, for the total population, 53.4% were wearing the device. This means 46.6% of the population having removed the device for various reasons.

Figure 5 shows the reasons for device removal for the Lyric 1 population (purple bars). The most-common reason for removal from this population was no reason given (18.2%), followed by discomfort/pain (11.3%), preferred another device/technology for better technology (8.7%), decreased (3.3%), cost (2.9%), using a practitioner closer to home (1.9%), device failure (1.3%), removed for medical reasons (0.8%), migration/canal size problems (0.8%). There were no patients

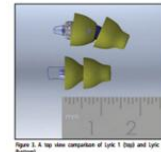


Figure 4. Top view comparison of Lyric 1 and Lyric 2.

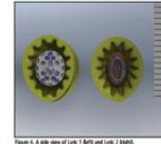


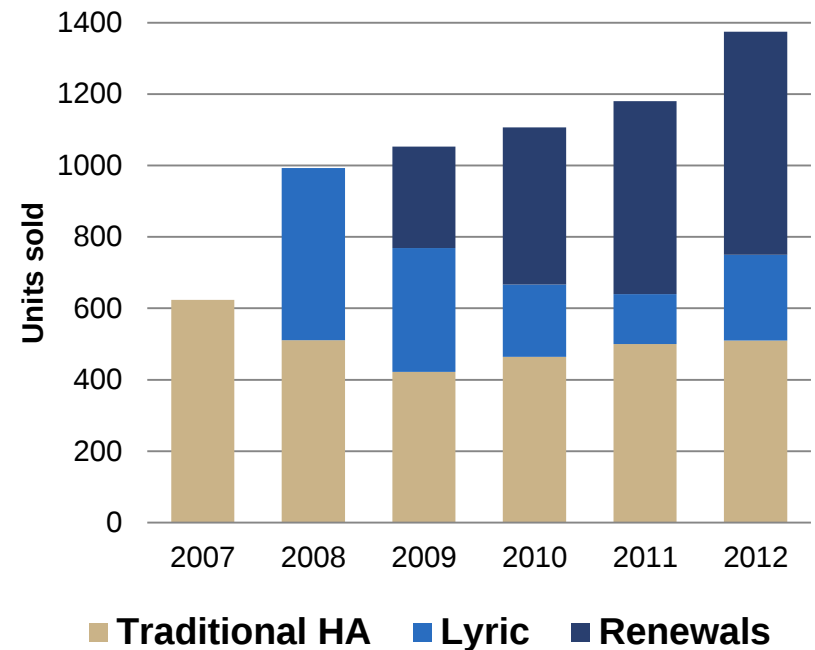
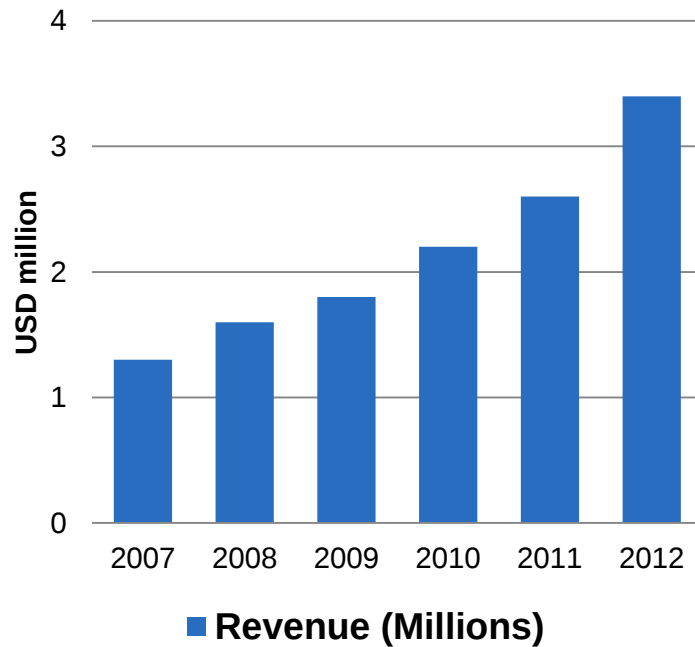
Figure 5. Side view comparison of Lyric 1 and Lyric 2.

*Source: Sanford et al, Hearing Review March 2014

<http://www.hearingreview.com/2014/03/extended-wear-hearing-device-observations-patient-experiences-integration-practice/>

ARTICLE IN "HEARING REVIEW" – EXTENDED-WEAR HEARING DEVICE

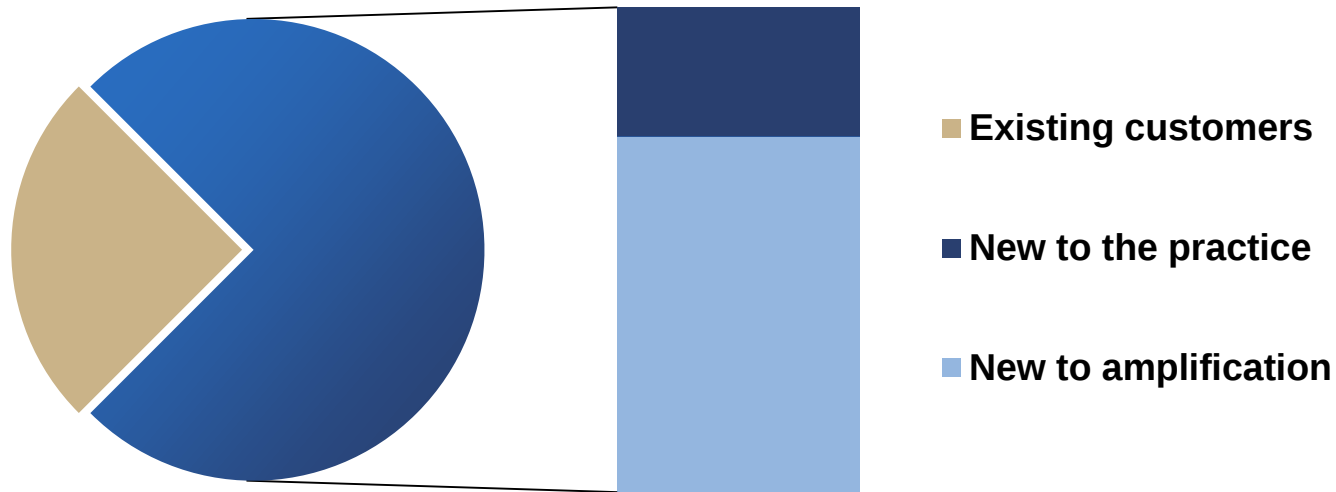
INTEGRATING LYRIC INTO A PRACTICE – EXAMPLE OF A TOP PROVIDER*



*Source: Sanford et al, Hearing Review March 2014

A WINNING BUSINESS MODEL FOR ALL PARTIES INVOLVED

INTEGRATING LYRIC INTO A PRACTICE – EXAMPLE OF A TOP PROVIDER*



*Source: Sanford et al, Hearing Review March 2014

75% OF PATIENTS ARE NEW TO THE PRACTICE – A STRONG LEAD GENERATOR

LYRIC IS JUST GETTING STARTED



CAN A HEARING AID MAKE PEOPLE FEEL LIKE THIS? – LYRIC CAN!

THE PATIENT'S VIEW



THEY LOVE



THEY
RECOMMEND



THEY RENEW

86% of Lyric Patients agree that Lyric sound quality is very natural

93% say they hear more clearly with Lyric than with prior hearing aids

94% of Lyric Patients would specifically recommend Lyric to a friend or loved one

96% of family members say Lyric helps them communicate better with their loved one

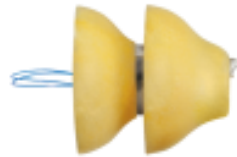
70% renew their subscriptions



PATIENTS WEAR AN INVISIBLE DEVICE – BUT TELL EVERYONE ABOUT IT

LYRIC – A NEW FORMAT SHAPING UP

Invisible



Hassle-free

24/7

Lyric CAN.

NEW PRODUCT FORMAT TO EXPAND THE ACCESSIBLE MARKET

WRAP UP

True innovation, changing customer behavior

Key to control and improving main business drivers

Ongoing process of technical improvements

Data proofs that we are on the right track

GROUNDBREAKING FORMAT TO EXPAND THE ACCESSIBLE MARKET

FURTHER HIGHLIGHTS PRESENTED AT AUDIOLOGY NOW!

Basic-level BTE & ITE



Phonak Tinnitus Program

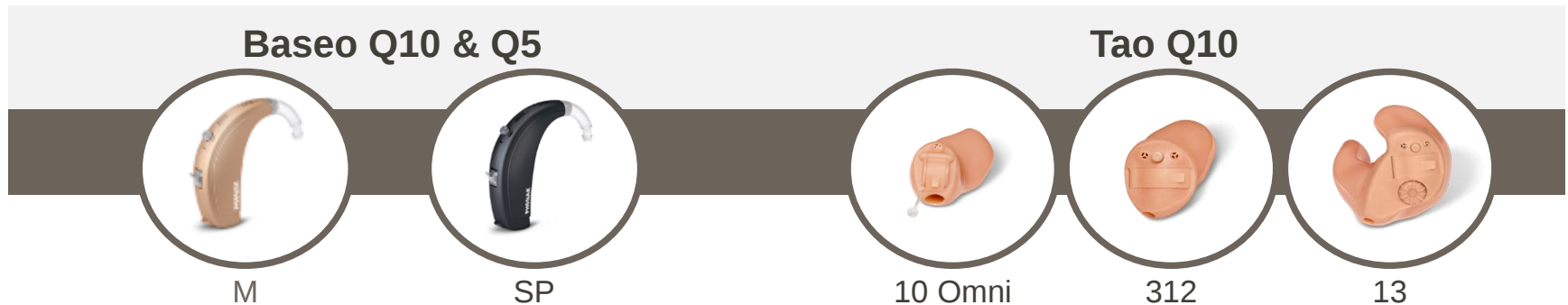


Dedicated Teenager Campaign



COMPLETE RANGE OF SOLUTIONS BASED ON QUEST PLATFORM

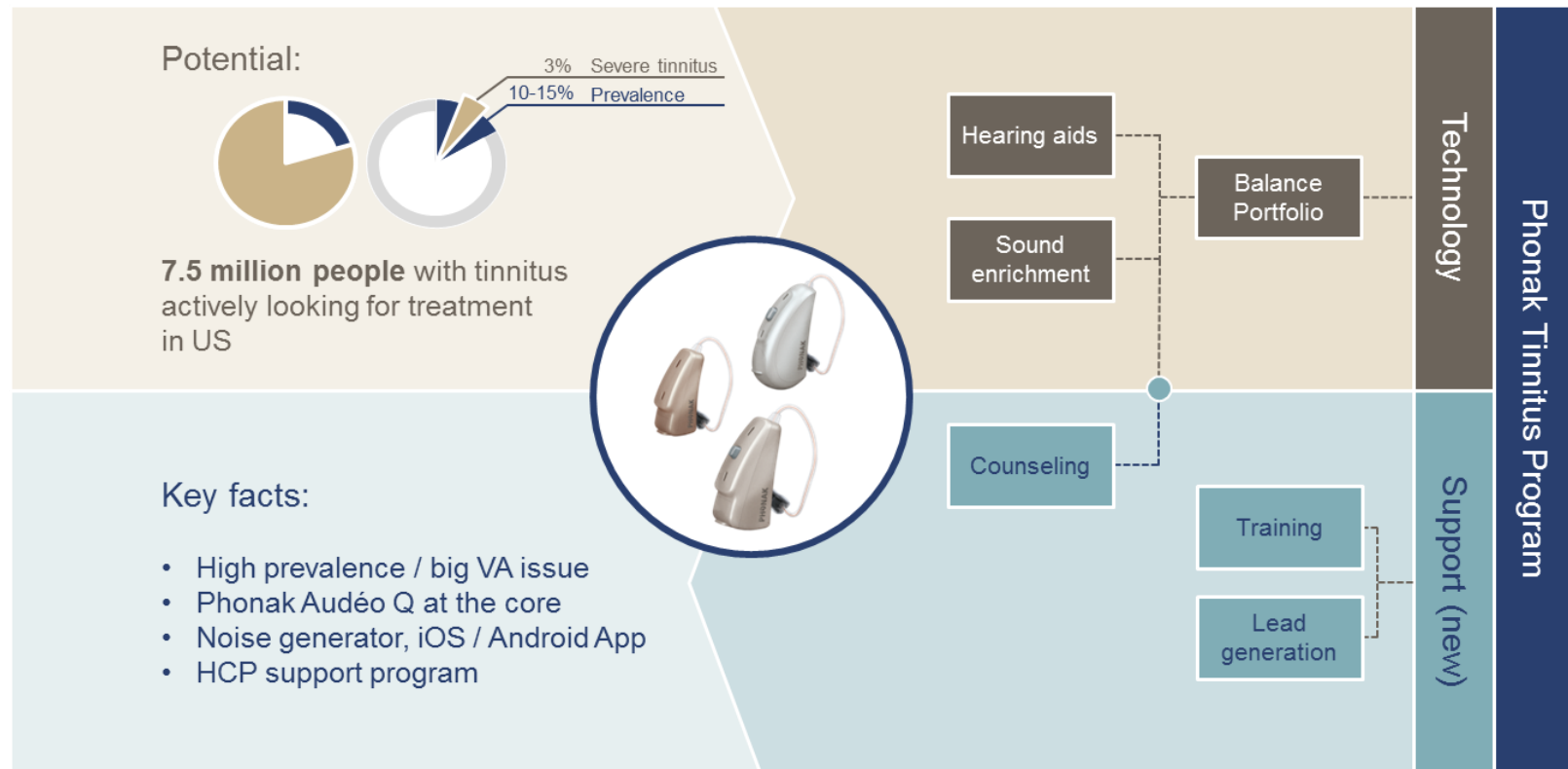
A SOLUTION TO TARGET THE SPECIFIC NEEDS OF EMERGING MARKETS



Situation	Our solution
Shortage of experienced fitters	Quick & Easy fitting mode
Limited funds, lack of reimbursement	Latest Quest technology for every budget
Affinity to the latest technology	Replacing older technology trimmer devices
Highly sensitive to cost for repair	Reliable and easy-to-use products

AN IMPORTANT PART OF OUR CHINA STRATEGY

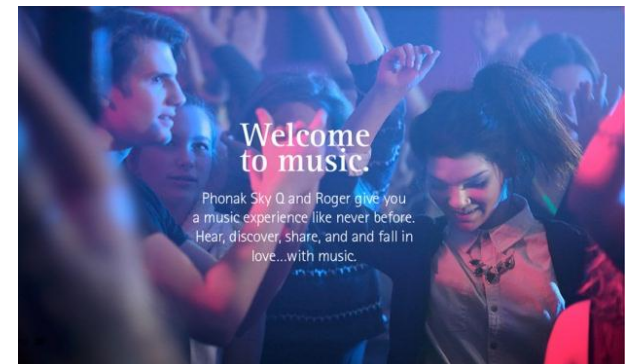
COMPELLING TINNITUS VALUE PROPOSITION



HELP HCPs TO EXPAND THEIR TINNITUS EXPERTISE AND GENERATE DEMAND

LAUNCHING A DEDICATED CAMPAIGN AIMED AT TEENAGERS

- Dedicated online site to educate teens on how Phonak solutions can help them to use communication channels
- Music experience page showing them how they can hear, discover and share music when using Sky Q and Roger
- Teens can interact with color customization tool, share music via Spotify playlist and find a professional online where they can trial the Phonak solutions
- Currently available in English with other languages to follow
- For more information visit www.bringsthebestsoundtolife.com



ENSURE A LIFE WITHOUT COMPROMISES

AAA 2014 – HIGHLIGHTS

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HEAR THE WORLD

- Global market update
- Costco supply agreement

PHONAK

- Phonak **Lyric**
- Extension of Basic Solutions
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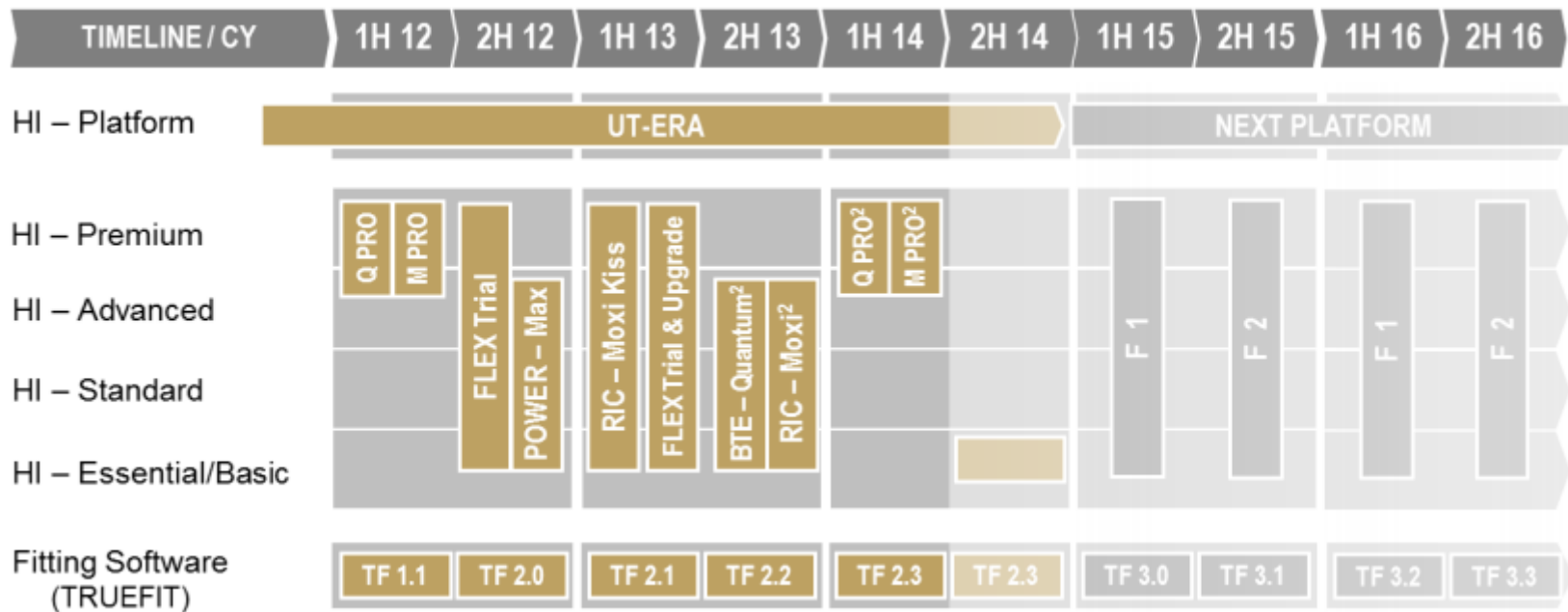
unitron

- Moxi² Pro and Quantum² Pro



- Waterproof technology

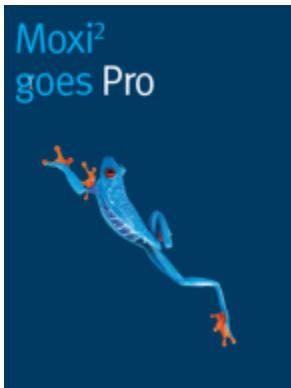
PRODUCT PIPELINE: DRIVE FOCUSED PRODUCT INNOVATION



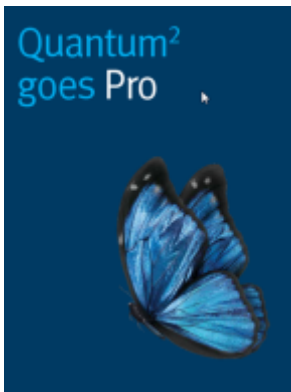
Note: Subject to change

FLEXIBLE RANGE ACROSS 3 FORMATS AND ALL PERFORMANCE LEVELS

MOXI² PRO AND QUANTUM² PRO – FULL LINE OF PERFORMANCE



Moxi² Pro BTE
Moxi² Kiss Pro BTE
Moxi² Dura Pro BTE



Quantum² Pro ITE's
Quantum² Pro BTE's

PREMIUM PRO OPTION PROVIDING THE ULTIMATE LISTENING EXPERIENCE

AAA 2014 – HIGHLIGHTS

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- Extension of Basic Solutions
- Teenager Initiative & Tinnitus Solutions

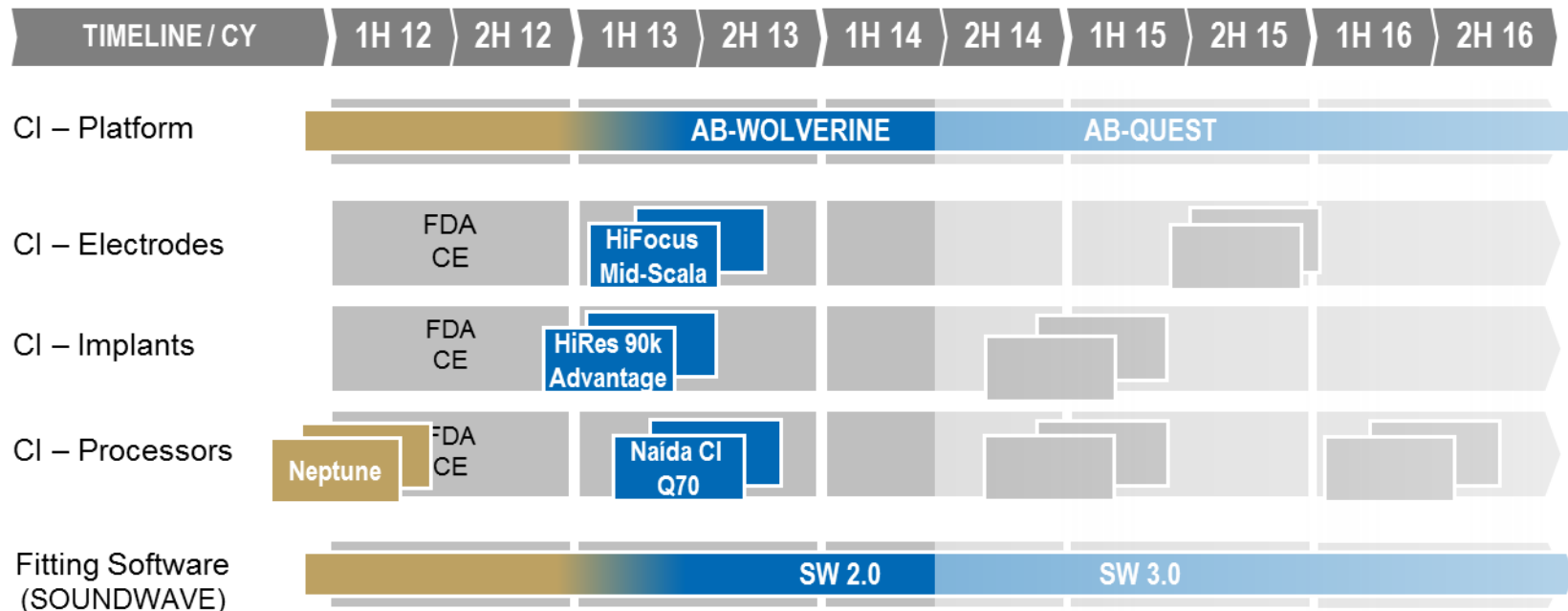


- Moxi² Pro and Quantum² Pro



- Waterproof technology

PRODUCT PIPELINE: ACCELERATE INNOVATION RATE – LEVERAGE PH



Note: Subject to change, timing dependent upon regulatory approvals

EXPAND RANGE OF INNOVATIVE PROCESSORS, IMPLANTS, ELECTRODES

NEPTUNE™ – THE FIRST AND ONLY 100% WATERPROOF SOUND PROCESSOR



**FEATURING THE AQUAMIC™ – THE WORLD'S ONLY COCHLEAR IMPLANT MICROPHONE
ENABLING UNCOMPROMISED HEARING IN AND OUT OF THE WATER**

THANK YOU VERY MUCH

