sonova
HEAR THE WORLD

Media Release

Sonova reports strong results across all businesses

***Stäfa (Switzerland), 20 May 2014* – Sonova Holding AG, the world's leading provider of hearing solutions, announces today strong results for the financial year 2013/14 across all of its businesses. The Group generated double-digit organic growth, resulting in sales of CHF 1,951.3 million. This represents an increase of 8.7% in reported Swiss francs or 11.7% in local currencies. Group EBITA reached CHF 430.1 million, up 11.6% in Swiss francs or 16.7% in local currencies compared to the normalized EBITA for the prior year. The Board of Directors proposes a dividend of CHF 1.90 per share, up 19% from the distribution in the prior year.**

Highlights

- Group sales of CHF 1,951 million – up 8.7% in Swiss francs and 11.7% in local currencies
- EBITA of CHF 430.1 million – up 11.6% in Swiss francs and 16.7% in local currencies
- Hearing instruments segment – sales of CHF 1,756 million, up 9.5% in local currencies, EBITA margin expanding by 50 bps to 23.8%
- Cochlear implants segment – sales of CHF 195 million, up 36.0% in local currencies, EBITA margin reaching 6.6%
- Free cash flow of CHF 289 million – up 10.0% from last year
- Solid balance sheet – net cash position of CHF 311.5 million
- The Board of Directors proposes a dividend increase of 19% to CHF 1.90 per share
- Outlook – for FY 2014/15, sales are anticipated to grow by 7% to 9% and EBITA to rise by 11% to 15%, both measured in local currencies

Commenting on the results, Lukas Braunschweiler, CEO of Sonova said: "We are very pleased to announce another strong result that reflects the dedication of our teams and the benefit of Sonova's constant pursuit of customer driven-innovation. Through a high number of successful product introductions our hearing instruments business achieved a significant organic sales increase, outpacing the estimated market growth. Our cochlear implants business benefited from the strength of the combined Phonak and Advanced Bionics R&D organization, as clearly reflected in the substantial sales and earnings growth. We are confident to achieve our mid-term financial targets by continuing to build on our market-leading positions and maintaining a high pace of innovation."

Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland

Phone +41 58 928 33 33
Fax +41 58 928 33 45
info@sonova.com
www.sonova.com

Double-digit organic sales growth in local currencies

In the financial year under review, Group sales increased by 8.7% in reported Swiss francs or 11.7% in local currencies to CHF 1,951.3 million (2012/13: CHF 1,795.3 million). The main driver of the increase was double-digit organic growth, which reached 11.0% in local currencies. The Swiss franc strengthened against all of the most relevant currencies except the euro during the financial year, reducing reported sales growth by CHF 54.2 million or 3.0%.

In line with its strategy, Sonova made selected acquisitions of retail distribution businesses within its hearing instruments segment, albeit to a smaller extent than in previous years. External growth in sales for 2013/14 stemming from these acquisitions and the full-year effect of acquisitions from the previous year represented CHF 12.5 million or 0.7%.

Broad-based growth across all regions

All major regions posted a solid sales increase in local currencies. Sales in the EMEA region (Europe, Middle East, and Africa), which accounted for 41% of Group sales, rose by 12.4% in local currencies. In the hearing instruments segment, key markets such as Germany, the United Kingdom, and France posted a strong increase, while the Netherlands and Denmark showed the continuing adverse impact of reimbursement changes. In all major regions, the cochlear implants segment grew even more strongly than the hearing instruments segment.

Sales in the United States, which accounted for 37% of Group sales in fiscal year 2013/14, increased by 11.0% in local currency. In the hearing instruments segment, growth was driven by solid development of both the commercial market and business with the US Department of Veterans Affairs (VA). Strong acceleration of cochlear implant sales in the second half of the financial year also added to growth. Cochlear implant processor sales rose sharply following US regulatory approval of the new Naída CI Q70 sound processor in late August 2013.

Sales in the rest of the Americas (excluding the US) grew by 9.6% in local currencies and accounted for 11% of Group sales. Strong growth in Brazil and other Latin American countries was in part offset by a significant currency headwind, which reduced reported sales by around CHF 20 million or nine percentage points. The main driver of the 14.0% sales increase in local currencies in the Asia/Pacific region was strong performance from the hearing instrument business in China, Australia, New Zealand, and Japan. The region contributed 11% to Group sales.

Sustained margin improvement

Gross profit reached CHF 1,340.4 million (2012/13: CHF 1,239.8 million), an increase over the prior year of 8.1% in reported Swiss francs or 11.3% in local currencies. This corresponds to a gross margin of 68.7%, down from 69.1% the prior year. This decrease is caused by the higher share of cochlear implants business, which has a modestly lower gross profit margin than the hearing instruments segment.

Maintaining the group's high pace of innovation requires significant and continuing investment in research and development (R&D). R&D expenses grew by 11.3% in local currencies to CHF 125.7 million or 6.4% of sales in 2013/14. Gross R&D spending (including the net increase in capitalized development costs) amounted to CHF 142.9 million, corresponding to 7.3% of sales.

Sales and marketing costs increased by 5.5% in Swiss francs or 8.3% in local currencies to reach CHF 589.6 million. As a percentage of sales, reported costs stood at 30.2%, down from 31.1% in the prior year. This favorable trend is due to continuous cost discipline and was achieved despite significant product launch activity (particularly in the cochlear implants segment), extra costs for re-branding and process harmonization in our US retail business, and accelerated engagement in web-based B2C marketing.

General and administrative expenses rose by 7.6% in Swiss francs or 9.4% in local currencies, below reported sales growth. As a percentage of sales, general and administrative expenses stood at 10.0%. A favorable cost ratio development from strict cost control, was offset by extra costs for deeper integration of our US retail business.

Other income amounted to CHF 0.2 million. The CHF 203.6 million reported in the prior year under “other expenses” represented one-off costs, principally the increased product liability provision related to Advanced Bionics’ Vendor B product recall in 2006.

In summary, total operating expenses rose by 6.5% in Swiss francs or 8.9% in local currencies, both normalized for prior year one-off costs in the “other expenses” category. This is well below the reported sales growth. Operating profit before acquisition-related amortization (EBITA) was therefore CHF 430.1 million, which represents an increase of 11.6% in Swiss francs or 16.7% in local currencies compared to the normalized EBITA for the prior year. EBITA margin rose to a solid 22.0%, up from a normalized EBITA margin of 21.5% last year. Strong operating margin improvements were partly offset by the unfavorable currency development that reduced the reported EBITA by CHF 19.6 million and the EBITA margin by 40 basis points.

Operating profit (EBIT) reached CHF 404.0 million, an increase of 12.5% in Swiss francs or 17.7% in local currencies compared to the normalized prior year value. This reflects the strong EBITA growth and the fact that acquisition-related amortization were unchanged from prior year, as the modest increases from acquisitions were offset by currency effects. Net financial expenses rose from CHF 7.1 million to CHF 9.5 million, mainly due to the unwinding of the discount on the product liability provision and a lower profit from associates.

Solid growth in EPS
Income taxes for the financial year totaled CHF 47.2 million, up from CHF 37.6 million in 2012/13, representing an effective tax rate of 12.0%. Reported income after taxes was CHF 347.4 million, up 12.9% from the normalized result in the previous year. Basic earnings per share (EPS) therefore reached CHF 5.08 (normalized EPS 2012/13: CHF 4.60), a solid rise of 10.4% over the previous year.

Workforce increases to 9,529
At the end of the 2013/14 financial year, the Group’s total workforce stood at 9,529 full time equivalents – an increase of 577 over the previous year. This growth is broadly based across our sales and distribution organization and also includes modest additions from retail acquisitions. Our manufacturing work force also increased, particularly at the Vietnam operations center, which has taken over assembly of our Lyric product from our US operations.

Hearing instruments segment – New products driving organic growth
Driven almost exclusively by organic growth, sales in the hearing instruments segment reached CHF 1,756.0 million, representing an increase of 6.5% in reported Swiss francs and 9.5% in local currencies. With an organic growth rate of 8.8% in local currencies, the business outpaced estimated market growth rates and further extended the Group’s leading market position. Acquisitions added CHF 12.5 million or 0.7% to sales growth, including the full-year effect of acquisitions completed during the previous financial year.

Once again, both the Group’s wholesale and retail businesses contributed to growth in the hearing instruments segment. A key driver of this strong development was the success of the Phonak Quest platform, particularly the highly popular Receiver-In-Canal (RIC) form factor introduced at the AudiologyNOW! congress in April 2013. Lyric, the first and only invisible extended wear solution in the industry, also supported the sound organic sales increase with a growth rate of approximately 50% in 2013/14. Unitron posted particularly strong growth in Germany, France, the UK, and China. Growth in the retail business continued to be driven by strong performance from the partnership with Boots, the UK’s leading pharmacy-led health and beauty retailer, but it was also supported by solid sales growth in several Asia-Pacific markets.

Looking at the different product categories, Premium hearing instruments posted an above average growth rate, achieving a sales increase of 12.8% in local currencies. The Premium category also includes Lyric. The Standard category showed the strongest growth, up 15.3% in local currencies. This was helped in part by strong growth in the German market following a change in the reimbursement system in November 2013. The Advanced category also contributed to growth, albeit to a lesser extent, with a sales increase of 3.6% local currencies. Premium and advanced hearing instruments each accounted for 22%

of Group sales, while Standard accounted for 29%. Supported by the introduction of Roger, the all-new 2.4 GHz based system, sales of wireless communication systems grew by 9.9% in local currencies. Sales of miscellaneous products and services grew by 3.1% in local currencies in 2013/14, accounting for 13% of Group sales. This category mainly consists of revenues from services and from the distribution of accessories and batteries.

The strong sales increase and stringent cost discipline lifted EBITA for the hearing instruments segment by 8.8% in Swiss francs and 13.9% in local currencies, reaching CHF 417.3 million. Excluding the unfavorable currency impact, operating margin rose by 90 basis points. As reported, EBITA margin rose by 50 basis points to 23.8%. These margin increases demonstrate operating leverage and were achieved despite extra costs for deeper integration of our US retail business, such as establishing common branding and centralizing back office systems and support processes.

Cochlear implants segment – Drawing from a complete portfolio
The performance of the cochlear implants segment was another highlight in the year under review. The segment achieved sales of CHF 195.3 million, an increase of 33.1% in Swiss francs and 36.0% in local currencies. Supported in particular by the launch of the Naída CI Q70 sound processor in summer 2013, sales accelerated over the course of the year, exceeding a year-on-year growth of 50% in the second half of 2013/14. Europe and North America in particular responded very well to the new sound processor that incorporates many industry-first innovations shared with Phonak hearing aids. The balanced portfolio of electrodes and Advanced Bionics' swimmable processor also supported growth, which reflected both the addition of new customer clinics and increased penetration at existing accounts. As in the previous year, cochlear implants sales included the fulfillment of a central government tender in China.

Profit from the cochlear implants segment improved strongly during financial year 2013/14, in line with our business plan, despite significant expenses from the launch of new products, particularly the new Naída CI Q70 sound processor. EBITA for the segment reached 12.8 million, representing an operating margin of 6.6%. This is an important step towards our goal of bringing the EBITA margin of the cochlear implants business closer to the corporate average. Normalized for one-off costs, principally the increased product liability provision related to Advanced Bionics' Vendor B product recall in 2006, the cochlear implants segment had achieved an EBITA of CHF 1.8 million in the previous financial year. In 2013/14 the relevant parameters for the said product liability provision developed fully in line with the assumptions considered in the accounts of the previous financial year. Thus no releases or additions with P&L effect were booked to the provision in the year under review.

Significant free cash flow
Cash flow from operating activities rose by 6.2% to CHF 411.0 million in the period under review. The increase reflects the rise in EBITA of 11.6% versus the prior year (normalized for the effect of one-off costs) and CHF 43.4 million of cash spent for the settlement and defense of product liability claims in connection with the Advanced Bionics' Vendor B product recall (2012/13: CHF 2.9 million). This includes the settlements announced in October 2013, which covered the majority of claims pending at that time. Investments in tangible and intangible assets increased by 15.0% to CHF 94.7 million, resulting in an operating free cash flow of CHF 318.4 million, unchanged from prior year. The cash consideration for acquisitions, including earn-out payments for prior period acquisitions, dropped from CHF 56.2 million last year to CHF 29.8 million during the reporting period. In summary, this resulted in a free cash flow of CHF 288.6 million, up 10.0% from last year.

The cash outflow from financing rose to CHF 309.1 million in the period under review, from CHF 21.8 million last year. This in part reflects the higher distribution to shareholders as well as the purchase of shares to serve the equity-based incentive plans; in previous years, the shares for these plans were created out of conditional capital. Sonova also decided on an early repayment of CHF 150 million of its CHF 230 million bank debt assumed in connection with the acquisition of Advanced Bionics in 2009. The remainder of this bank debt will mature in December 2014, rendering the Group essentially debt-free.

Maintaining a solid balance sheet
The reported net working capital was at CHF 190.6 million compared to CHF 187.1 million at the end of the 2012/13 financial year. Capital employed was largely unchanged at CHF 1,463 million. Helped by its strong free cash flow, the Group ended the period with a net cash position of CHF 311.5 million, up CHF 125.7 million from CHF 185.8 million at the end of the prior year. The return on capital employed (ROCE) was 27.7% compared to 22.6% in the prior year (normalized for the effect of one-off costs), showing that we are on track to reach our mid-term financial targets.

In light of its strong performance during the 2013/14 financial year, as well as the solid financial position of the Sonova Group, the Board of Directors will propose to the Annual General Shareholders' Meeting on June 17, 2014 a dividend of CHF 1.90. Compared to the prior year, the proposed distribution is up 19% and represents a slightly higher payout ratio of 37%.

Outlook 2014/15
Sonova remains committed to achieve profitable growth through continuous innovation and to further expand our strong market positions. We expect continued solid growth in sales and earnings in 2014/15, both in the hearing instruments and cochlear implants segment. Group sales are expected to grow by 7%-9% and EBITA to increase by 11%-15%, both measured in local currencies.

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. At current foreign exchange conditions and including ongoing mitigation efforts, the Group EBITA in reported Swiss francs is expected to increase by 8-12%.

The Annual Report 2013/14 is available on our website:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Full-Year Results 2013/14 can be downloaded at:
http://www.sonova.com/en/investors/presentations

– End –

Key Figures Sonova Group (consolidated)

in 1,000 CHF unless otherwise specified	2013/14[1]	Normalized performance 2012/13[2)/3)]	Reported performance 2012/13[2]
Sales	**1,951,312**	**1,795,262**	**1,795,262**
change compared to previous year (%)	8.7	10.8	10.8
Gross profit	**1,340,449**	**1,239,780**	**1,239,780**
change compared to previous year (%)	8.1	12.1	12.1
in % of sales	68.7	69.1	69.1
Research & development costs	**125,657**	**113,884**	**113,884**
in % of sales	6.4	6.3	6.3
Sales & marketing costs	**589,627**	**559,077**	**559,077**
in % of sales	30.2	31.1	31.1
Operating profit before acquisition-related amortization (EBITA)	**430,109**	**385,304**	**181,688**
change compared to previous year (%)	11.6	22.2	(42.4)
in % of sales	22.0	21.5	10.1
Operating profit (EBIT)	**404,030**	**359,175**	**155,559**
change compared to previous year (%)	12.5	24.8	(45.9)
in % of sales	20.7	20.0	8.7
Income after taxes	**347,382**	**307,745**	**110,869**
change compared to previous year (%)	12.9	24.9	(55.0)
in % of sales	17.8	17.1	6.2
Number of employees (average)	**9,175**	**8,709**	**8,709**
change compared to previous year (%)	5.4	9.3	9.3
Number of employees (end of period)	**9,529**	**8,952**	**8,952**
change compared to previous year (%)	6.4	8.9	8.9
Net cash[4]	**311,525**	**185,800**	**185,800**
Net working capital[5]	**190,571**	**187,148**	**187,148**
in % of sales	9.8	10.4	10.4
Capital expenditure (tangible and intangible assets)[6]	**93,918**	**82,354**	**82,354**
Capital employed[7]	**1,462,850**	**1,455,460**	**1,455,460**
in % of sales	75.0	81.1	81.1
Total assets	**2,593,748**	**2,680,042**	**2,680,042**
Equity	**1,774,375**	**1,641,260**	**1,641,260**
Equity financing ratio (%)[8]	**68.4**	**61.2**	**61.2**
Free cash flow[9]	**288,618**	**262,370**	**262,370**
Operating free cash flow[10]	**318,430**	**318,553**	**318,553**
in % of sales	16.3	17.7	17.7
Return on capital employed (%)[11]	**27.7**	**10.4**	**10.4**
Return on equity (%)[12]	**20.3**	**7.1**	**7.1**
Basic earnings per share (CHF)	5.08	4.60	1.65
Diluted earnings per share (CHF)	5.07	4.59	1.64
Dividend/distribution per share (CHF)	1.90[13]	1.60	1.60

1) Changes compared to previous year are based on the normalized performance 2012/13.
2) Restated following the implementation of IAS 19 (revised).
3) Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business (see Note 7). Balance sheet related key figures (including respective ratios) as reported.
4) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
5) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
6) Excluding goodwill and intangibles relating to acquisitions.
7) Equity - net cash.
8) Equity in % of total assets.
9) Cash flow from operating activities + cash flow from investing activities.
10) Free cash flow – cash consideration for acquisitions, net of cash acquired.
11) EBIT in % of capital employed (average).
12) Income after taxes in % of equity (average).
13) Proposal to the Annual General Shareholders' Meeting of June 17, 2014.

Contacts:

Investor Relations

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

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

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

Media Relations

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

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

Disclaimer
This Media Release contains forward-looking statements, which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside Sonova's control. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Each forward-looking statement speaks only as of the date of the particular statement, and Sonova undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

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 over 9,000 dedicated employees. Sonova generated sales of CHF 2.0 billion in the financial year 2013/14 and a net profit of CHF 347 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.**