

Full-Year 2013/14 Results

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



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- 1. Business Review – Sonova Group**

- 2. Business Review – Hearing Instruments**

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- 4. Financial Review 2013/14**

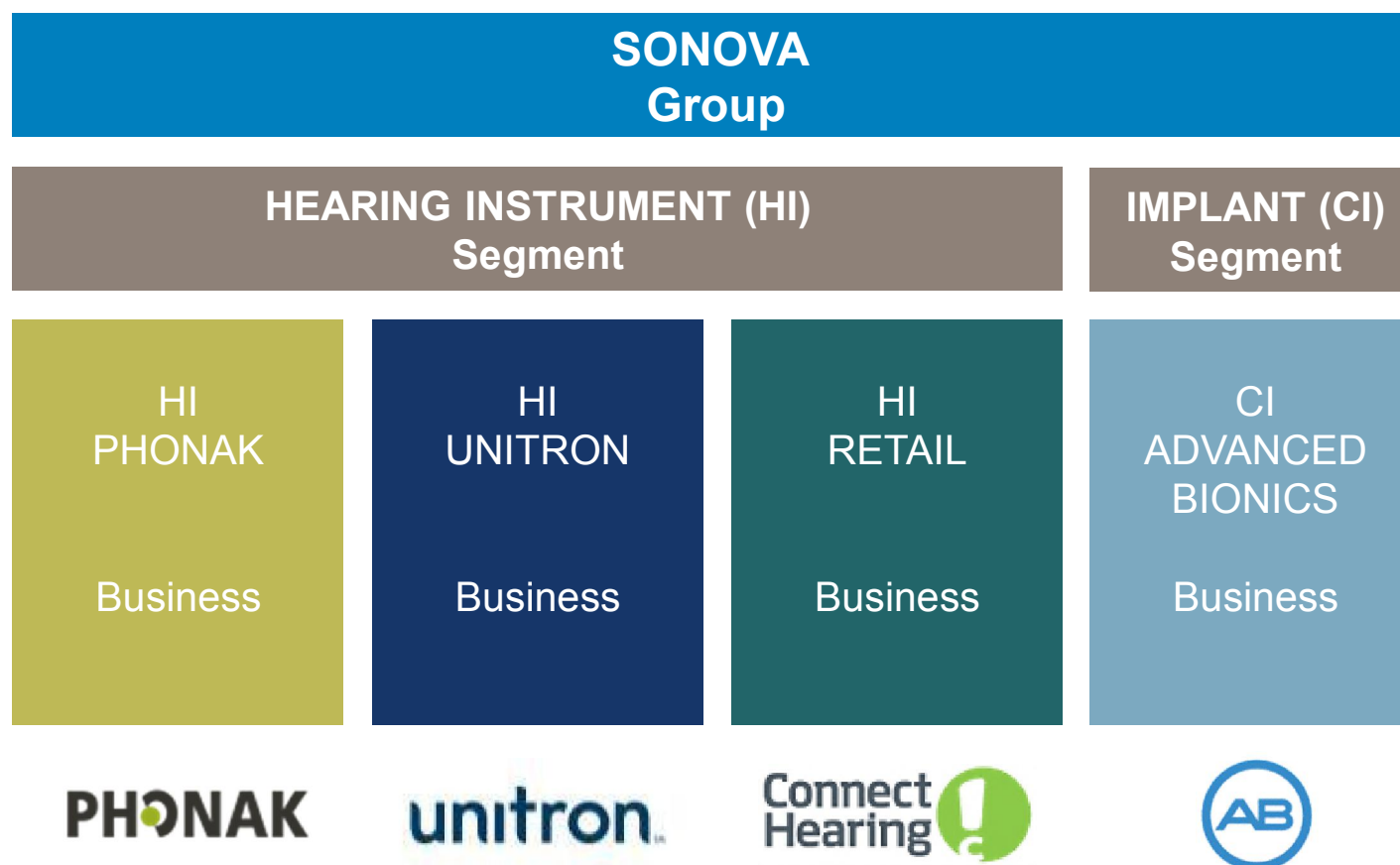
- 5. Outlook FY 2014/15**

- 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



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

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

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

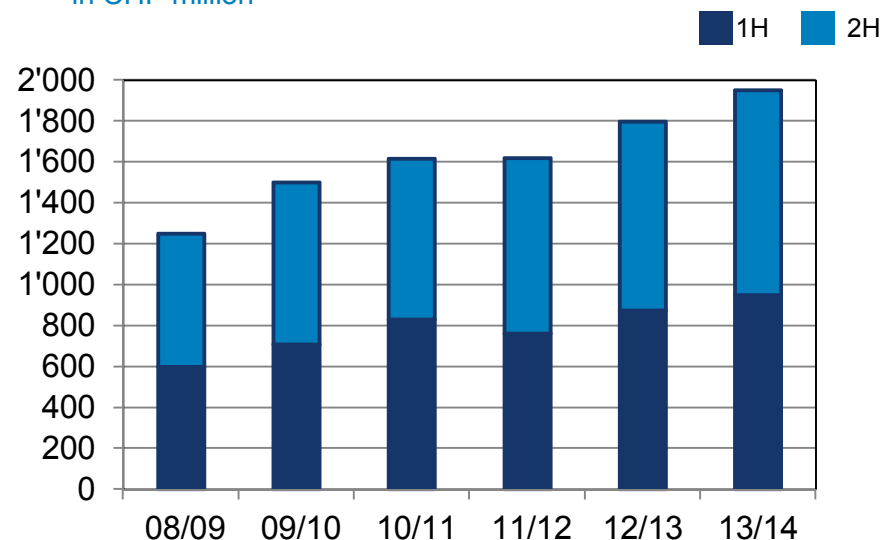
	1H 2013/14		2H 2013/14		FY 2013/14	
in CHF million	Sales	Δ % in LC	Sales	Δ % in LC	Sales	Δ % in LC
EMEA	361.7	8.3%	433.3	16.2%	795.0	12.4%
USA	368.2	10.1%	358.5	11.8%	726.7	11.0%
Americas (excl. USA)	116.9	8.0%	107.2	11.4%	224.1	9.6%
Asia / Pacific	101.0	22.9%	104.5	6.9%	205.5	14.0%
Total SONOVA	947.8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

Growth broadly based across all regions

Performance history – Strong financial track record

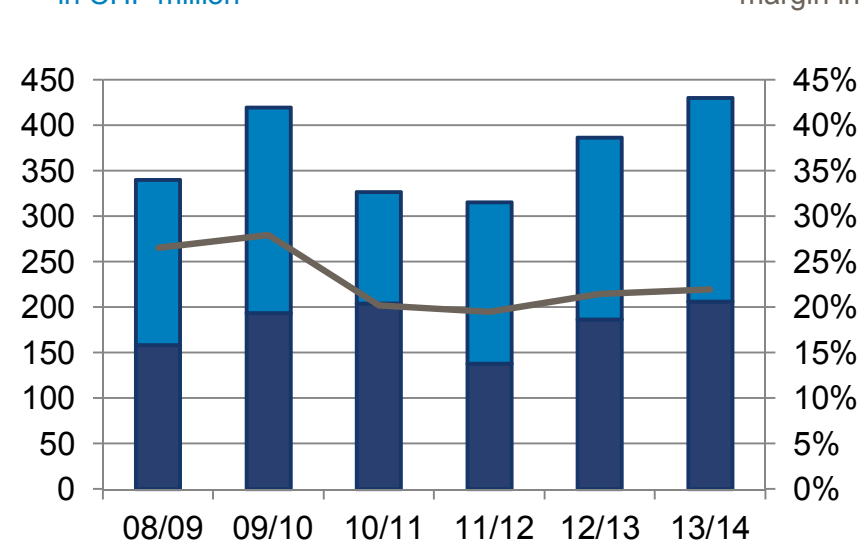
SALES

in CHF million



EBITA

in CHF million



	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

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

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

Hearing Instruments

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%

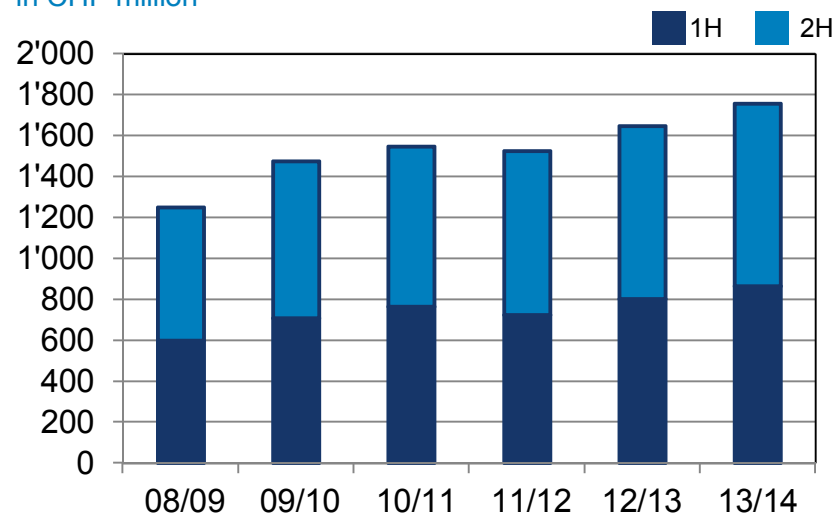
Premium and standard segment drive growth

Hearing Instruments

Performance history

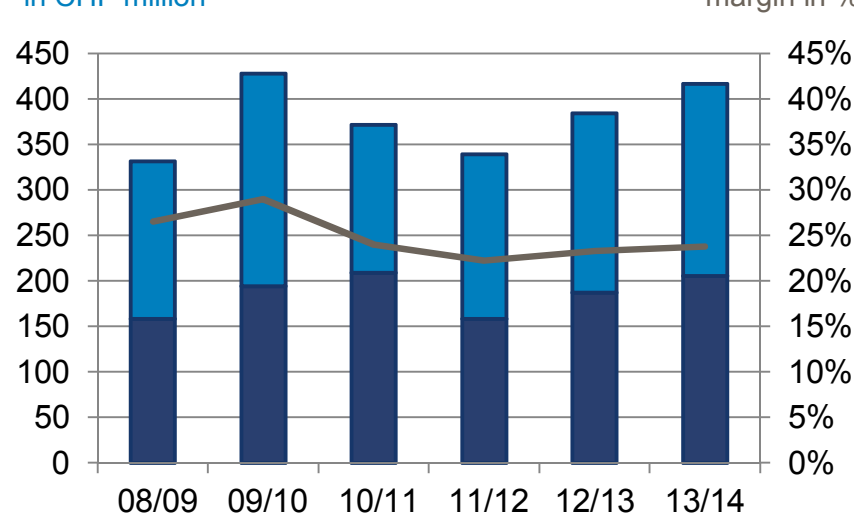
SALES

in CHF million



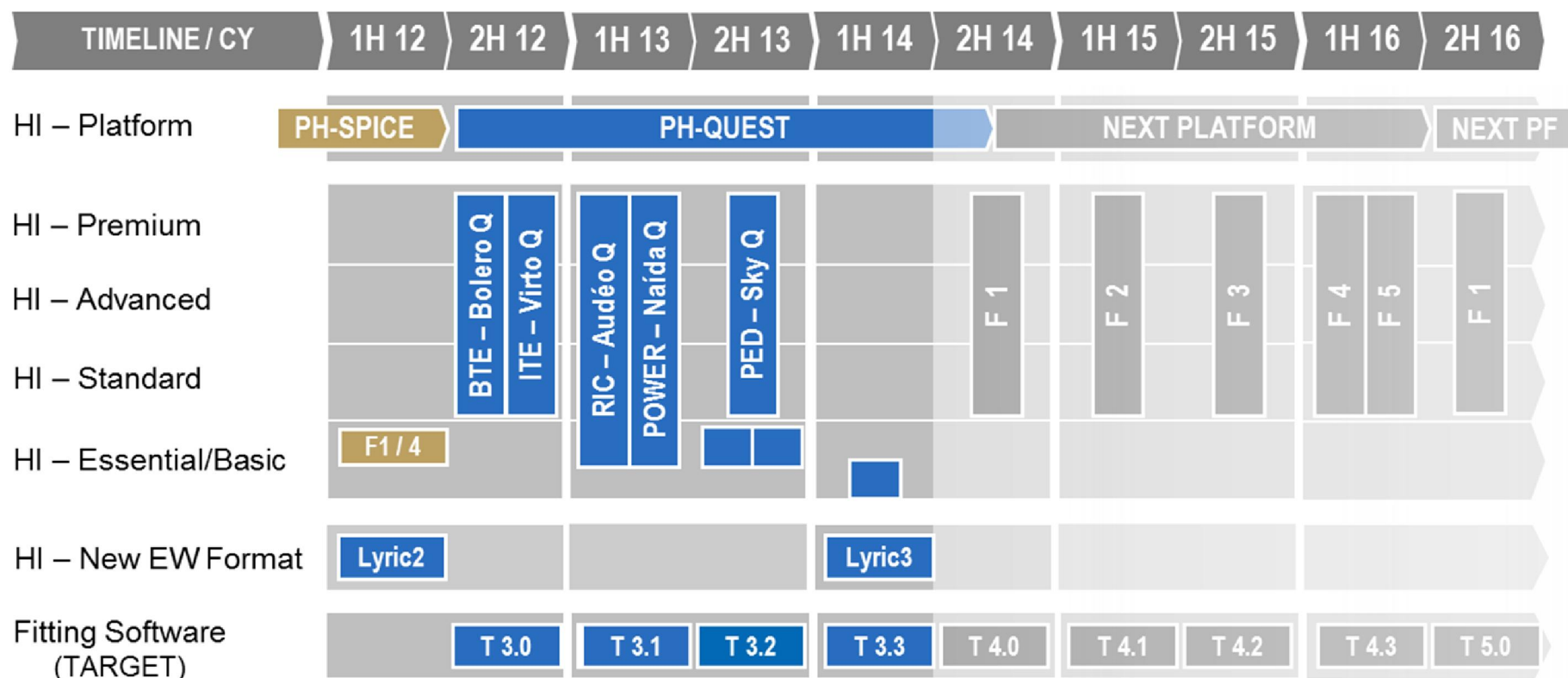
EBITA

in CHF million



	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

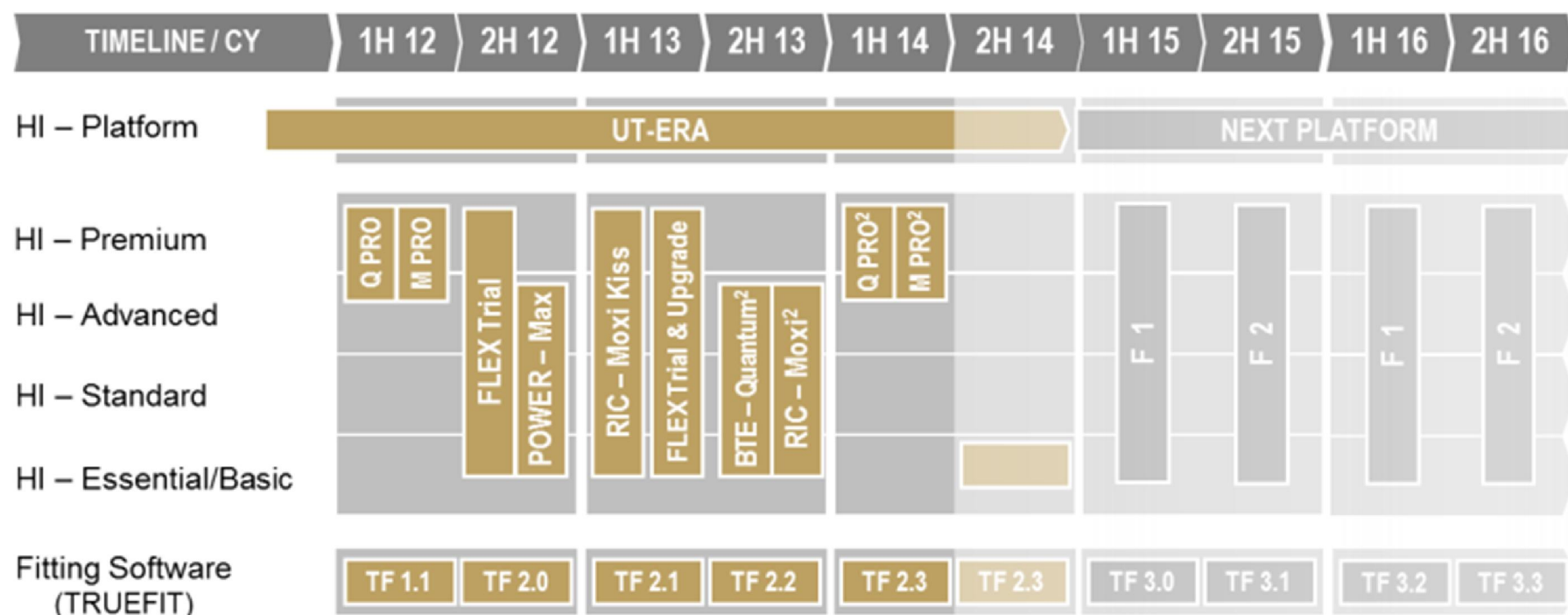
Product pipeline – Drive high innovation & launch rate



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

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

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%

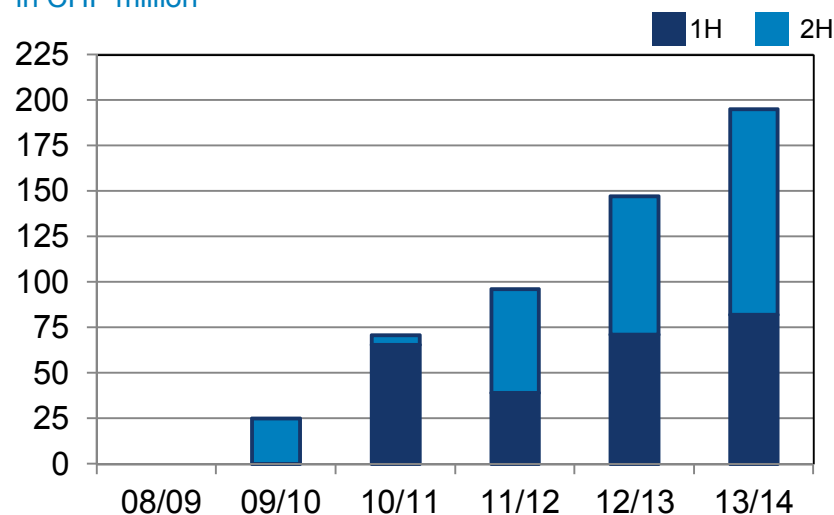
Strong growth – Drawing from a complete portfolio

Cochlear Implants

Performance history

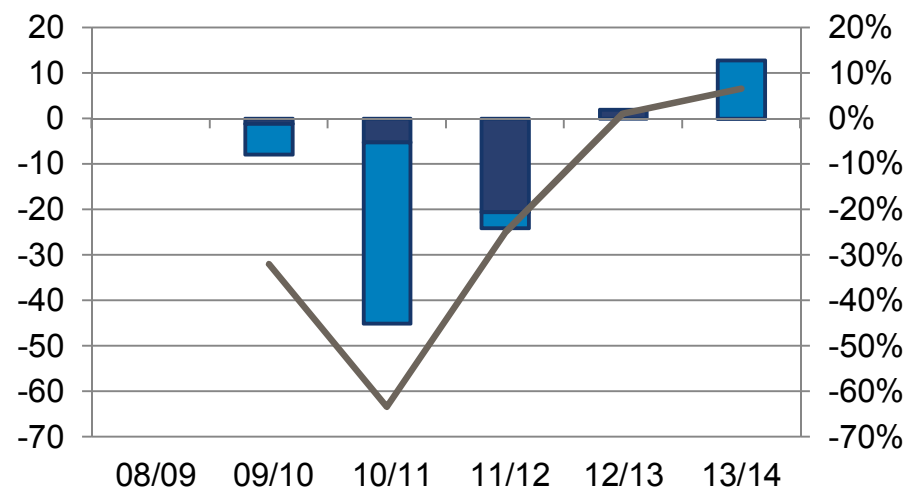
SALES

in CHF million



EBITA

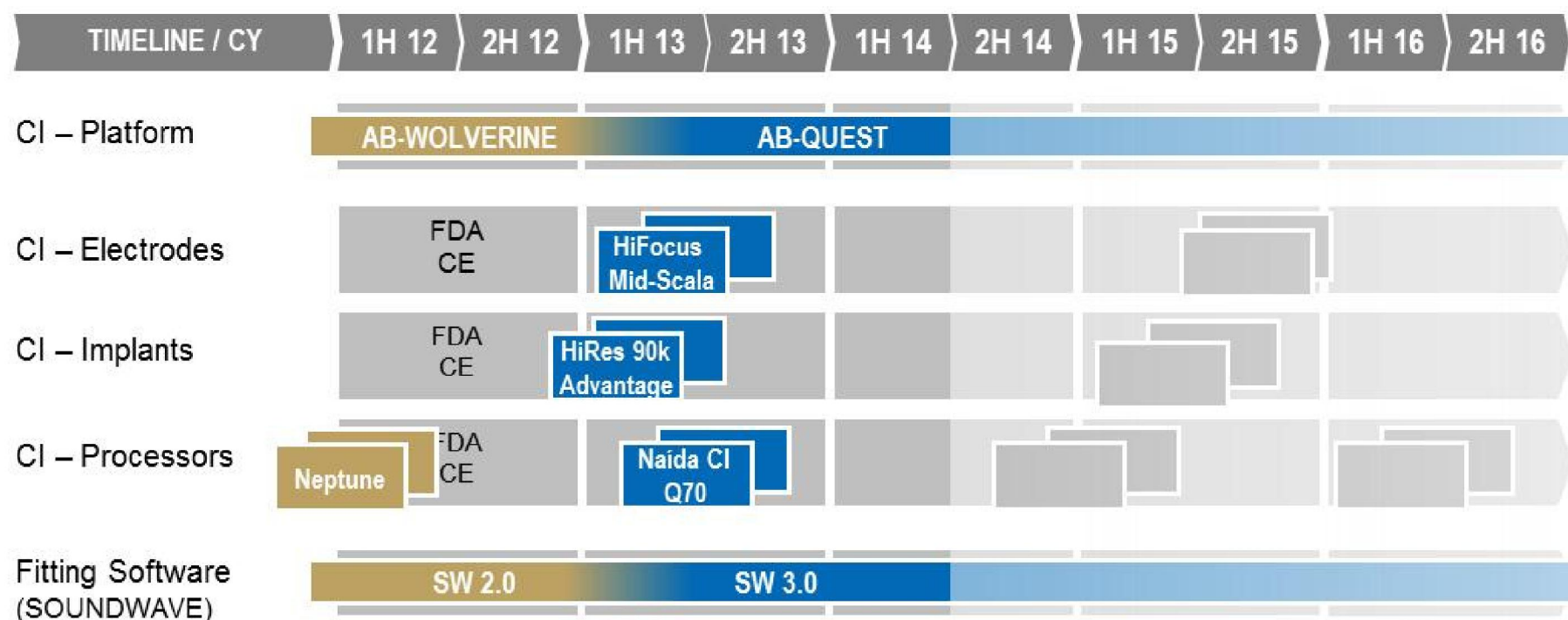
in CHF million



	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/HL 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

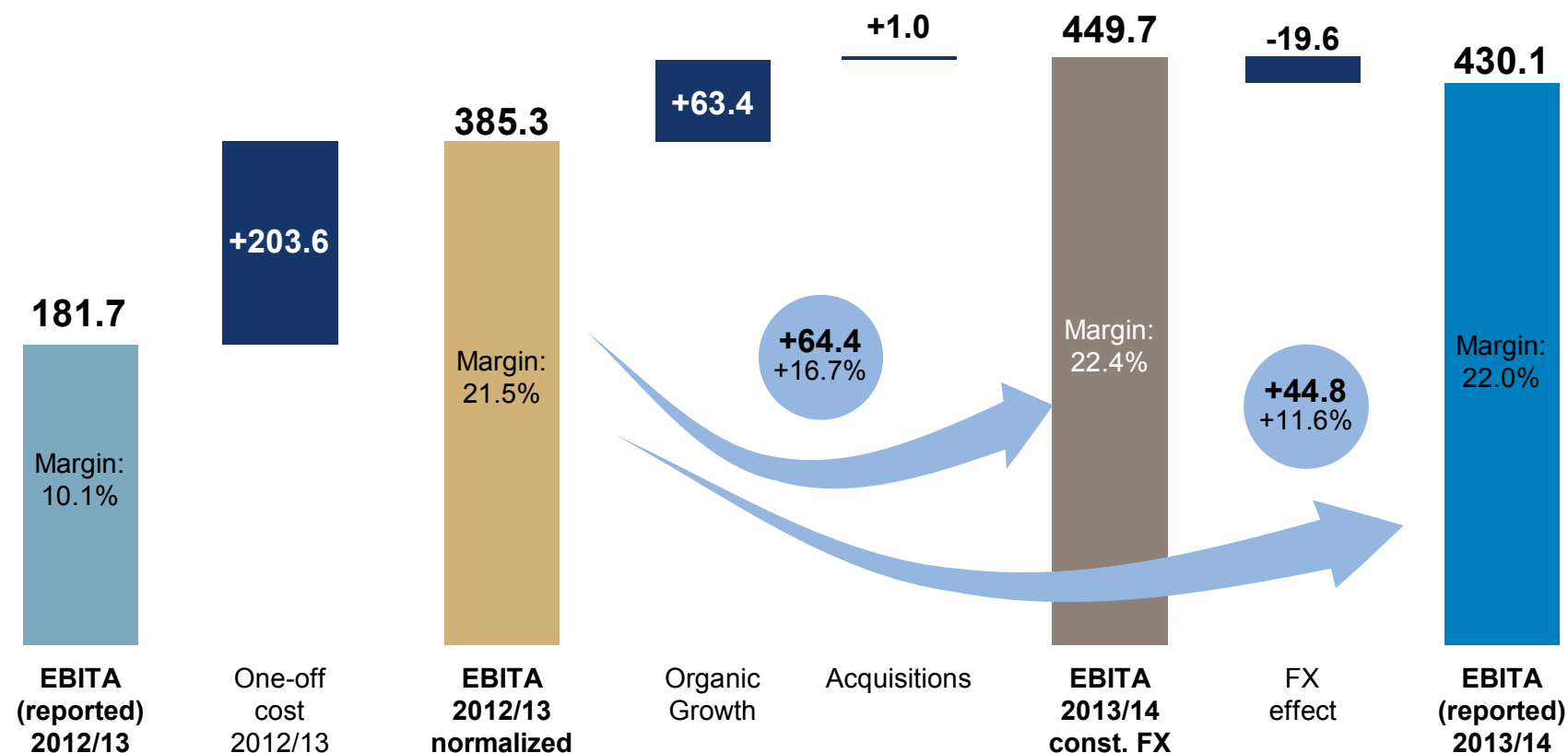
Strong financial performance

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

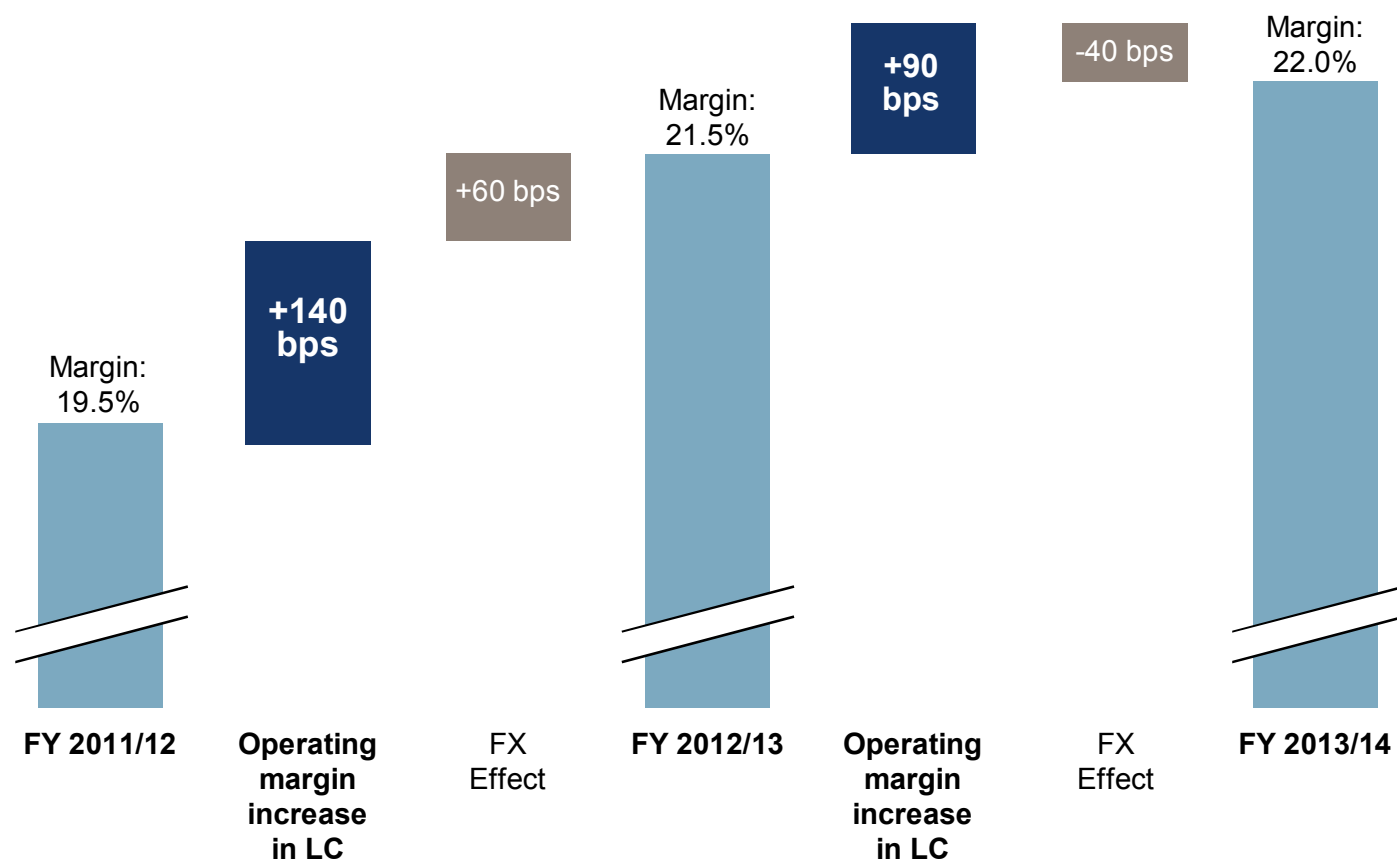
Getting one step closer to our mid-term financial targets

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

Operating expenses

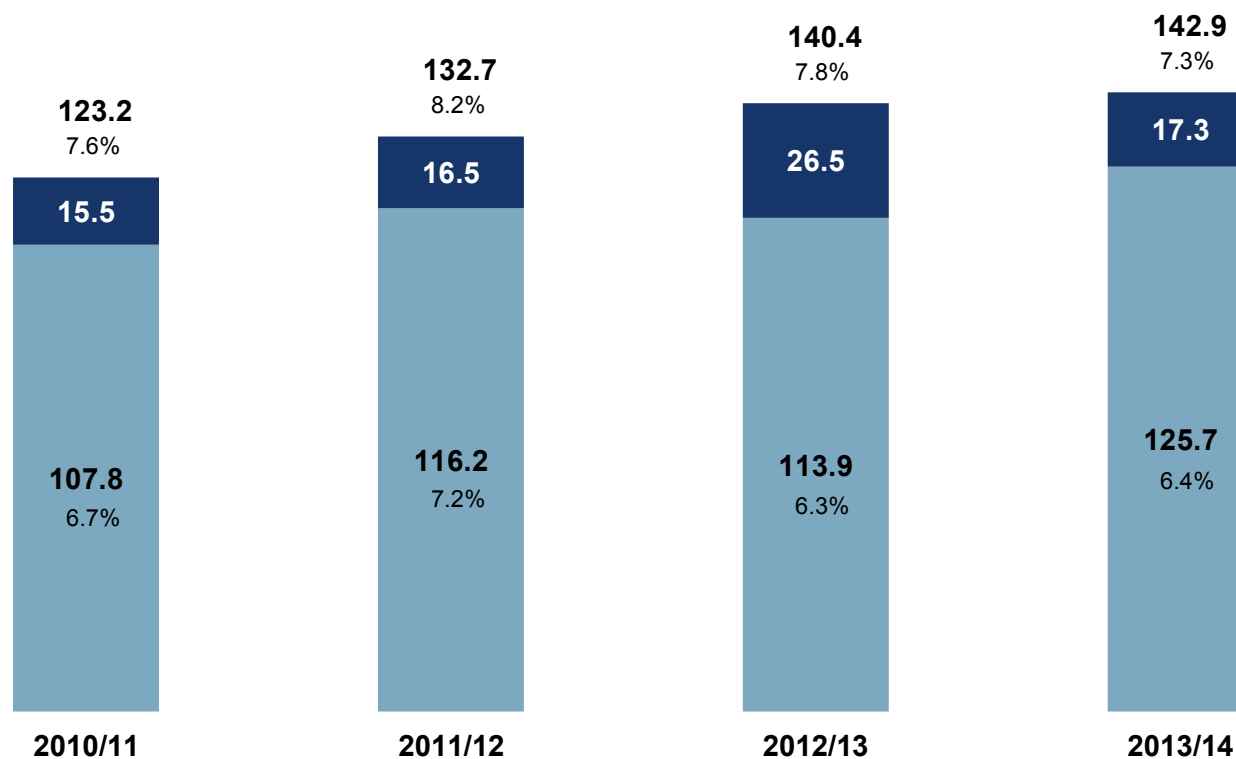
in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF	Δ % in LC
Research & Development	-113.9	-125.7	10.3%	11.3%
in % of sales	6.3%	6.4%		
Sales & Marketing	-559.1	-589.6	5.5%	8.3%
in % of sales	31.1%	30.2%		
General & Administration	-181.5	-195.2	7.6%	9.4%
in % of sales	10.1%	10.0%		
Other income / (expenses), 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

in CHF million / % of sales



■ AB capitalized development costs (net of amortization) ■ R&D costs charged to the P&L

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

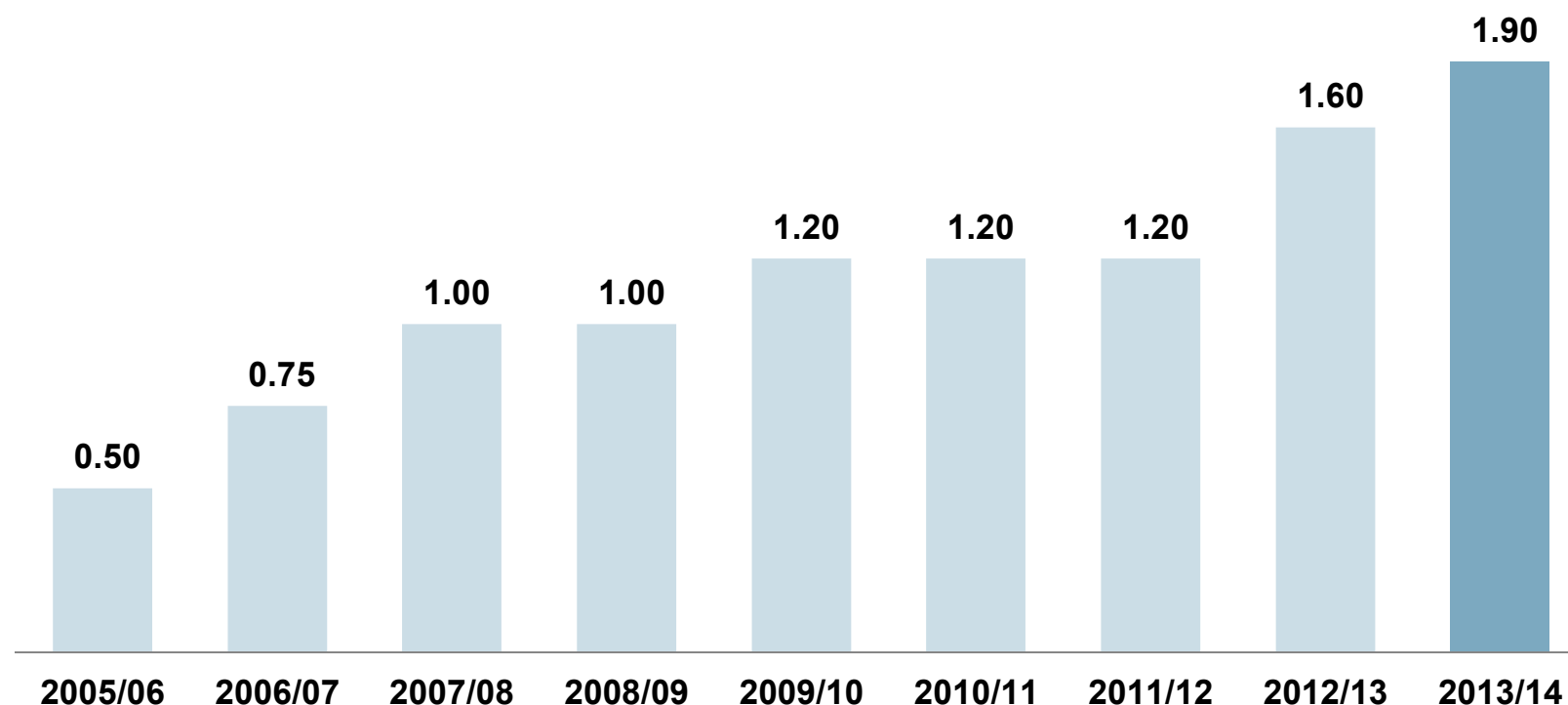
in CHF million	FY 2012/13	FY 2013/14	Δ % in CHF
Cash flow before changes in NWC (incl. taxes paid)	401.5	452.1	12.6%
Changes in net working capital	-14.4	-41.1	
Cash flow from operating activities in % of sales	387.1 21.6%	411.0 21.1%	6.2%
Cash flow from investing activities (excl. acquisitions)	-68.5	-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

Dividend / distribution development in CHF per share

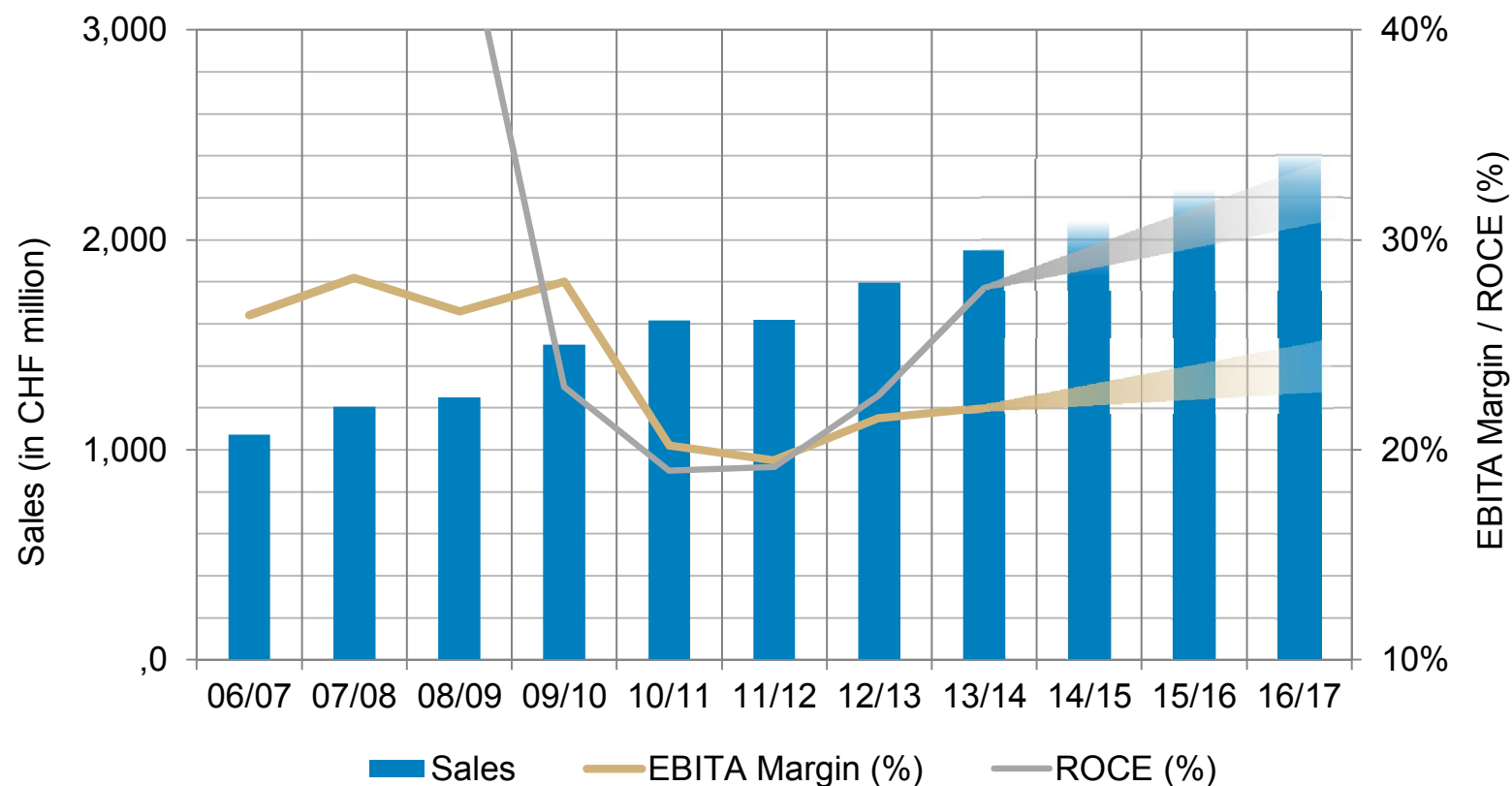


Proposed dividend represents a payout ratio of 37%

5. Outlook FY 2014/15

Outlook FY 2014/15

On course for mid term financial targets



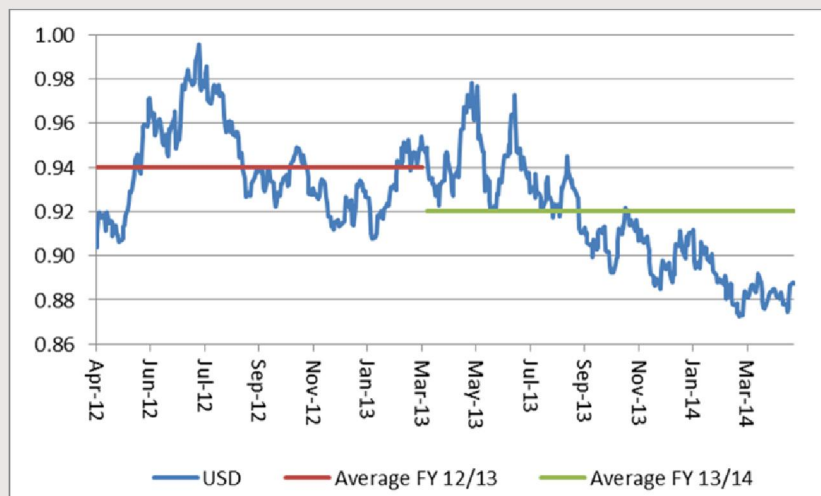
Notes: FY 2007/08 Excluding one-off cost for the prohibited acquisition of the GN ReSound Group
FY 2009/10 Restated based on finalization of the acquisition accounting of Advanced Bionics
FY 2012/13 Excluding one-off cost for AB Vendor B provision at AB, AB Rixheim restructuring and settlement with a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

FY 2014/15 guidance

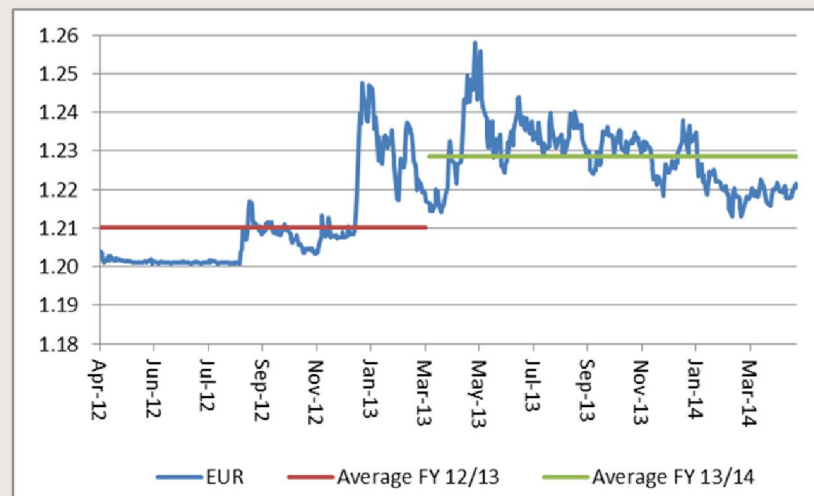
		Actual FY 2013/14	Guidance FY 2014/15
Sales	Sales growth in LC	11.7%	7%-9%
	thereof acquisition related growth	0.7%	approx. 1%
	FX-impact	-3.0%	
	Total sales growth in CHF	8.7%	
EBITA	EBITA growth in LC	16.7%	11%-15%
	FX-impact	-5.1%	
	Total EBITA growth in CHF	11.6%	

FX impact on sales and margins

USD/CHF



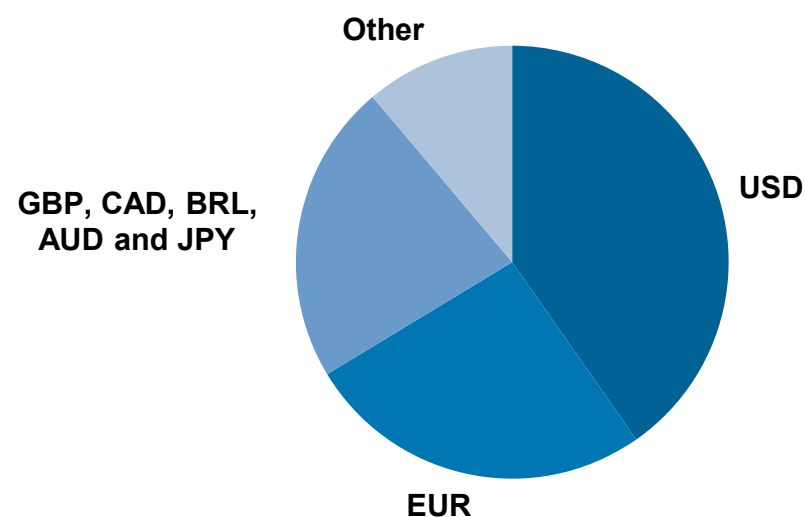
EUR/CHF



	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

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Thank you very much