Media Release

Sonova reports solid first half results

***Stäfa (Switzerland), 17 November 2014* – Sonova Holding AG, the world's leading provider of hearing solutions, announces today solid results for the first half of fiscal year 2014/15. The Group generated sales of CHF 990.2 million, an increase of 7.7% in local currencies or 4.5% in reported Swiss francs. All businesses contributed to the top-line growth. Group EBITA rose 12.1% in local currencies or 4.7% in Swiss francs to CHF 215.9 million. The full year guidance remains unchanged. Committed to returning excess cash to shareholders, Sonova is further gradually increasing its dividend payout ratio and introduces a share buyback program.**

Highlights

- Group sales of CHF 990.2 million – up 7.7% in local currencies and 4.5% in Swiss francs
- EBITA of CHF 215.9 million – up 12.1% in local currencies and 4.7% in Swiss francs; underlying EBITA margin expansion offset by currency headwind
- Hearing instruments segment – sales of CHF 892.2 million, up 6.2% in local currencies
- Cochlear implants segment – sales of CHF 98.0 million, up 23.0% in local currencies, EBITA margin of 7.9%
- Unchanged outlook for financial year 2014/15
- Distributing excess cash to shareholders – higher dividend payout ratio and share buyback

Commenting on the results, Lukas Braunschweiler, CEO of Sonova said: "I am pleased with the results achieved in the first half, also in light of the currency headwind. We continued to drive growth through our broad global footprint and our complete portfolio of hearing solutions. Looking ahead, I am excited about the enormous potential of our new third generation technology platform which represents a major milestone on our innovation roadmap. Developed with a clear focus on the needs of our customers, it provides the foundation for further substantial product innovation and growth for all our brands. Confident about a continued strong cash conversion of future earnings we decided to return excess cash to shareholders, foreseeing higher dividend payout ratios and announcing a CHF 500 million share buyback program. This leaves sufficient funds to further invest in acquisitions, R&D and the expansion of our distribution network."

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Solid sales growth
During the first six months of fiscal year 2014/15, Group sales increased by 7.7% in local currencies compared to the same period last year. Currency headwinds reduced reported sales by CHF 30.2 million or 3.2%, resulting in Group sales of CHF 990.2 million which represents a sales growth of 4.5% in reported Swiss francs. The strengthening of the Swiss franc against most of the currencies significant for Sonova, including the US dollar, the euro and the Canadian dollar, were responsible for the adverse currency impact. Organic growth was at 6.9% and growth from acquisitions accounted for 0.8%.

Strong performance in Europe
A major driver for the growth during the period was a strong performance in the EMEA region (Europe, Middle East and Africa), with a sales growth in local currencies of 19.1%. As a result, the region increased its share of Group sales from 38% in the first six months of fiscal year 2013/14 to 43% in the period under review. In the hearing instruments segment, the continuing positive development in the UK in combination with a strong growth in Germany, the region's largest market, and in Scandinavia were the main drivers. The cochlear implants segment also added to the growth in the region.

Sales in the United States accounted for 35% of Group sales in the first six months of fiscal year 2014/15, declining slightly by 1.7% in local currency. In April 2014 Phonak started supplying products to Costco, which operates a fast-growing shop-in-shop concept for professionally fitting hearing instruments throughout its network in the United States as well as other markets around the world. Sales to Costco have quickly reached significant levels, in particular in North America. As expected the decision did create some negative reactions by other private market customers, mainly in the United States. However, the buying patterns of the relevant customer groups stabilized in the second quarter of the fiscal year and have since started to improve again. At the same time, in the period under review the hearing instruments business was held back by a contractual value limit under the then valid term of the supply contract with the US Department of Veterans Affairs (VA). With the new contract term starting 1 November 2014 the Group no longer expects such contractual provisions to impact sales. The rest of the Americas (excluding the US) posted a flat sales development in local currencies and accounted for 11% of Group sales. This considers reactions of private customers to the entry into Costco in Canada as well as an unfavorable market impact of fewer trading days due to the world soccer championship in Brazil.

The Asia/Pacific region sales rose by 9.4% in local currencies and contributed 11% to Group sales. This represents a solid performance as in the same period of last year the cochlear implants business had benefited from shipments related to a central government tender in China and no such volumes occurred in the first half of fiscal year 2014/15. The Group's growth in the region was driven by strong hearing instrument revenues in Australia, China and India.

Substantial underlying margin improvement
Gross profit reached CHF 680.9 million, an increase of 8.9% in local currencies and 4.9% in Swiss francs. Driven by both the hearing instruments and the cochlear implants segment, the reported gross profit margin rose from 68.5% achieved in the same period of last year to 68.8% in the first half of fiscal year 2014/15. Excluding the adverse currency development, the gross margin increased by 80 basis points which is another strong reflection of the broad and balanced business portfolio both in in terms of global market positions and products and service offerings.

In order to keep its high pace of innovation, the Group continued to significantly invest in research and development (R&D). For the first half of fiscal year 2014/15 net R&D expenses rose by 11.2% in local currencies and by 9.9% in Swiss francs to CHF 65.3 million or 6.6% of sales. Some of the increase was the result of fluctuations in charges from external development partners, in part related to the Phonak Venture platform introduced at the International Congress of Hearing Aid Acousticians (EUHA) in October 2014. Gross R&D spending (including the increase in capitalized development costs) amounted to CHF 72.9 million, corresponding to 7.4% of sales.

Sales and marketing costs increased by 6.7% in local currencies or 4.0% in Swiss francs to reach CHF 301.6 million. As a percentage of sales, the reported costs dropped slightly to 30.5% compared to 30.6% in the prior year period. This considers additional cost from retail acquisitions as well as cost related to continuing efforts for a deeper integration of the US retail activities, which also impacted general and administrative (G&A) cost. G&A costs reached CHF 98.4 million, an increase of 6.9% in local currencies or 5.0% in Swiss francs. As a percentage of sales, G&A cost were unchanged at 9.9%. As a result, total operating expenses rose by 7.4% in local currencies or 5.0% in Swiss francs.

The operating profit before acquisition-related amortization (EBITA) was at CHF 215.9 million, an increase of 12.1% in local currencies or 4.7% in Swiss francs. Excluding the adverse impact of the currency development, the operating margin rose by 90 basis points, driven largely by the strong gross profit margin improvement. In absolute terms, the currency headwind negatively affected the reported EBITA by CHF 15.2 million resulting in an unchanged EBITA margin of 21.8%.

Operating profit (EBIT) rose by 5.1% to CHF 203.1 million. Net financial expenses fell from CHF 5.1 million to CHF 3.1 million, mainly due to lower interest charges following the repayment of the remaining bank debt and more income from associates. The Group’s income after taxes was CHF 173.6 million, up 6.1% compared to the previous year. For the first six months of 2014/15, basic earnings per share were CHF 2.52, up by 5.6% from the CHF 2.39 last year.

Hearing instruments segment − Maintaining a stable product mix

Sales in the hearing instruments segment reached CHF 892.2 million in the first half of fiscal year 2014/15, representing a growth of 6.2% in local currencies. The increase considers an organic growth rate of 5.3% whereas acquisitions made in the reporting period and annualization of prior year acquisitions contributed 0.9%. The adverse currency development reduced the reported sales by CHF 27.3 million and the growth rate by 3.2 percentage points, resulting in an increase of 3.0% in reported Swiss francs.

Growth within the hearing instruments segment was fueled by both the Group’s wholesale and retail businesses. The continued success of both the Phonak Quest and the Unitron Era platform is underpinned by the fact that around 80% of hearing aid sales in the period under review came from products which were launched less than two years ago. The partnership with Boots, the UK’s leading pharmacy-led health and beauty retailer, continued its growth trajectory in the period under review and remains a key driver of growth. In Germany, the largest market in Europe, an increase in the reimbursement level introduced in November 2013 lifted market growth significantly. The effect continued in the first half of fiscal year 2014/15 and both Phonak and Unitron managed to further improve their market share, driven by successful products including those in the standard performance category, which showed the highest market growth in Germany. As the negative impact of reimbursement changes in the Netherlands and certain Scandinavian markets annualized, also the Group’s businesses in these markets achieved significant growth.

The strong positive impact from the ramp-up in sales to Costco, mainly in North America, was more than offset by the initial negative reaction by other private market customers, which have since stabilized and started to reverse. Furthermore, sales in the United States were negatively affected by a temporary contractual limit in regards to the business with the VA, where the Sonova brands combined however continue to hold the leading position.

When looking at the different product categories, premium hearing instruments showed a solid increase, reporting a growth in local currencies of 5.6%. Drivers for this growth were in particular the ongoing success of the Audéo Q90 RIC launched in April 2013 as well as the continued growth of Lyric, the first and only invisible extended wear solution in the industry. The 9.8% local currency growth in standard hearings instruments was predominantly the result of a strong growth in the German market, which was to a large extent driven by devices in this category, and was complemented by the strong growth of this product category in China. Sales of advanced hearing instruments declined by 2.3% in local currencies. As the result of the strong development of the recently introduced Phonak Roger product, sales of wireless communication systems showed a very strong increase of 30.3% in local currencies.

The EBITA for the hearing instruments segment reached CHF 208.1 million, representing a growth of 8.2% in local currencies. The adverse currency development offset most of this increase, reducing the reported EBITA by CHF 15.1 million and the reported EBITA margin by 100 basis points. In Swiss francs, the EBITA therefore rose by 0.9%, resulting in an EBITA margin of 23.3%.

Cochlear implants segment – New system and upgrades lifting sales

During the period under review, the cochlear implants segment achieved sales of CHF 98.0 million, which represents a growth rate of 23.0% in local currencies and 19.6% in Swiss francs. The growth was supported by both new system and upgrade sales. This is a solid achievement given that customers, particularly in the United States, exercised some restraint as Advanced Bionics is in the process introducing certain hardware related product optimizations to its Naída CI processor, aimed at further improving reliability under intensive wear conditions. Furthermore, sales of the same period in the prior year had benefited from shipments related to a central government tender in China while no such sales were recorded in 2014/15.

Following break-even result in the prior year period, the cochlear implants segment posted an EBITA of CHF 7.8 million. This represents a margin of 7.9%. This is in line with our long-term plan of profitable growth for the business.

Sound cash flow − Strong balance sheet

The cash flow before changes in net working capital rose by 7.4% to CHF 237.6 million. The cash flow from operating activities considers an increase in working capital that was to a large extent driven by higher inventories ahead of the launch of the Phonak Audéo V product family in October and lower payables. The cash consideration for acquisitions, including earn-out payments for prior period acquisitions dropped from CHF 13.1 million to CHF 7.9 million. Coupled with lower investments in tangible and intangible assets as well as a reduction in loans granted to associates and third parties this resulted in a free cash flow of CHF 133.7 million, up 6.4% and roughly in line with the increase in profit after taxes. The Group further reports CHF 233.9 million cash outflow from financing activities which mainly reflects the retirement of the final tranche of financial debt relating to the acquisition of Advanced Bionics in the amount of CHF 80.0 million as well as the dividend payment of CHF 127.6 million.

The net working capital stood at CHF 238.5 million compared to CHF 190.6 million in March 2014, with non-cash foreign exchange effects coupled with the higher inventories referred to above driving most of the increase. Capital employed stood at CHF 1,570 million after CHF 1,463 million in March 2014. The increase mainly stems from the currency-related appreciation of US dollar based intangible assets and the higher working capital. The number of failures related to Advanced Bionics’ Vendor B product recall in 2006 continues to decline and is in line with the underlying assumptions of the provision for claims of this category taken in fiscal year 2012/13. The Group ended the period with a net cash position of CHF 301.5 million, down only slightly from the CHF 311.5 million in March 2014. The Group’s equity amounted to CHF 1,871 million with the equity ratio rising from 68.4% in March 2014 to 71.3% in September 2014.

Total shareholder return strategy

In September 2014 Sonova retired the final tranche of financial debt relating to the acquisition of Advanced Bionics in 2009. The Group is now free of financial debt. In the last twelve months Sonova generated a free cash flow of close to CHF 300 million and expects continuing strong cash conversion of future earnings. Also the company has a considerable debt capacity, should a larger amount of cash be required to fund more substantial acquisitions. The board therefore decided to distribute excess cash to shareholders. For the 2013/14 fiscal year the dividend distribution corresponded to a payout ratio of 37%. Sonova intends to further step up its dividend distribution targeting a payout ratio in a range around 40% in the coming years. In addition Sonova announces a share buyback program with a value of CHF 500 million running up to three years from December 2014. At the same time Sonova will have sufficient funds to further invest significant amounts for bolt-on acquisitions, R&D and in the further expansion of the Group’s distribution network and market reach. The total shareholder return strategy, consisting of significant dividends and a large share buyback program, evidences our confidence in the future cash generating capacity of Sonova.

Outlook 2014/15
Sonova remains committed to achieve profitable growth through continuous innovation and to further expand its strong market positions. We continue to expect sustained solid growth in sales and earnings in 2014/15, both in the hearing instruments and cochlear implants segment. Our full-year outlook remains unchanged: Group sales are expected to grow by 7% – 9% and EBITA to increase by 11% – 15%, both measured in local currencies. Based on the current exchange rate environment the strong negative currency effects observed in the first half of the fiscal year 2014/15 are not expected to repeat in the second half which suggests a more modest foreign exchange impact for the full fiscal year.

The complete Semi-Annual Report 2014/15 is available on our website:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2014/15 can be downloaded at:
http://www.sonova.com/en/investors/presentations

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Key figures Sonova Group (consolidated)

April 1 to September 30, in 1,000 CHF unless otherwise specified	2014	2013
Sales	**990,207**	**947,782**
change compared to previous year (%)	4.5	8.6
Gross profit	**680,891**	**649,209**
change compared to previous year (%)	4.9	8.1
in % of sales	68.8	68.5
Research & development costs	**65,287**	**59,424**
in % of sales	6.6	6.3
Sales & marketing costs	**301,581**	**290,049**
in % of sales	30.5	30.6
Operating profit before acquisition-related amortization (EBITA)	**215,877**	**206,240**
change compared to previous year (%)	4.7	10.6
in % of sales	21.8	21.8
Operating profit (EBIT)	**203,145**	**193,328**
change compared to previous year (%)	5.1	11.2
in % of sales	20.5	20.4
Income after taxes	**173,608**	**163,671**
change compared to previous year (%)	6.1	10.1
in % of sales	17.5	17.3
Number of employees (average)	**9,764**	**9,020**
change compared to previous year (%)	8.2	6.2
Number of employees (end of period)	**9,938**	**9,102**
change compared to previous year (%)	9.2	4.1
Net cash[1]	**301,548**	**180,231**
Net working capital[2]	**238,517**	**184,834**
Capital expenditure (tangible and intangible assets)[3]	**40,968**	**44,303**
Capital employed[4]	**1,569,609**	**1,453,353**
Total assets	**2,623,262**	**2,628,072**
Equity	**1,871,157**	**1,633,584**
Equity financing ratio (%)[5]	**71.3**	**62.2**
Free cash flow[6]	**133,745**	**125,644**
Operating free cash flow[7]	**141,619**	**138,709**
in % of sales	14.3	14.6
Return on capital employed (%)[8]	**27.4**	**11.3**
Return on equity (%)[9]	**20.4**	**7.8**
Basic earnings per share (CHF)	2.52	2.39
Diluted earnings per share (CHF)	2.52	2.39

[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, net of cash acquired.
[8] EBIT (last 12 months) in % of capital employed (average).
[9] Income after taxes (last 12 months) in % of equity (average).

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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 around 10,000 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.

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