Media Release

First half results 2015/16: Solid performance in hearing instruments – held back by CI and FX

***Stäfa (Switzerland), 16 November 2015* – Sonova Holding AG, the world's leading provider of hearing solutions, today announces its results for the first half of fiscal year 2015/16. Consolidated sales increased by 6.7% in local currencies or 1.3% in reported Swiss francs to CHF 1,003.2 million. A solid performance in hearing instruments was offset by headwinds from a strong Swiss franc and lower sales in the cochlear implants (CI) segment. Group EBITA reached CHF 195.8 million, representing an increase of 0.7% in local currencies and was down 9.3% in Swiss francs. Excluding non-hedged currency losses on working capital, the EBITA increased by 4.2% in local currencies on a recurring basis. Sonova is adjusting its outlook for the full year: for the fiscal year ending in March 2016 the Group now expects sales to grow by 6%-8% and EBITA to rise between 3%-7% or between 7%-11% on a recurring basis, all measured in local currencies.**

Highlights 1H 2015/16

- Group sales of CHF 1,003.2 million – up 6.7% in local currencies and 1.3% in Swiss francs
- EBITA of CHF 195.8 million – up 0.7% in local currencies or up 4.2% on a recurring basis, down 9.3% in Swiss francs
- Hearing instruments segment – sales of CHF 917.8 million, up 8.7% in local currencies, EBITA up by 5.0% in local currencies or up 8.6% on a recurring basis
- Cochlear implants segment – sales of CHF 85.4 million, down 11.2% in local currencies, EBITA close to break-even
- Operating free cash flow of CHF 147.2 million – up 3.9%, reflecting strong cash conversion
- Full-year 2015/16 outlook revised: The Group now expects sales to grow 6%-8% and EBITA 3%-7% or 7%-11% on a recurring basis, all measured in local currencies (previously: 7%-9% sales and 9%-13% EBITA growth, respectively)

Commenting on the results, Lukas Braunschweiler, CEO of Sonova said: "We report a continued solid performance in our hearing instruments business and again achieved a strong operating free cash flow for the first half. Our cochlear implants segment did not fully meet our original expectations but we are encouraged by an improved momentum towards the end of the reporting period. In addition, our reported results were affected by significant negative currency effects. We are thus adjusting our full year outlook mainly to reflect the performance of our CI business in the first half and the impact of currency losses. Despite these challenges, we remain confident to achieve solid earnings growth in the second half of the year and going forward."

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Continuing solid sales growth in local currencies
Year-on-year, Group sales increased by 6.7% in local currencies during the first six months of fiscal year 2015/16. Organic growth was 2.6% whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 4.2%. As a result of the significant strengthening of the Swiss franc following the decision of the Swiss National Bank to discontinue its minimum exchange rate policy on the euro, currency headwinds reduced reported sales by CHF 53.8 million or 5.4%, resulting in Group sales of CHF 1,003.2 million which represents a new first half record and still an increase of 1.3% in reported Swiss francs.

Europe and APAC region driving growth
EMEA (Europe, Middle East and Africa), the Group's largest region, showed a strong sales increase of 9.0% in local currencies. As a result of adverse currency movements, in particular the weakness of the euro, the share of Group sales declined slightly from 43% in the first six months of fiscal year 2014/15 to 42% in the period under review. In the hearing instruments segment, growth was driven by a strong performance in important markets such as France, Italy and Spain. The acquisition of Hansaton contributed to the growth in Germany while the like-for-like performance of the hearing instruments segment remained subdued in the country. This was in part due to the temporary market stagnation related to prior period reimbursement changes. In addition the Phonak business experienced an expected headwind in the independent channel following the Group's announcement of the new German retail strategy in early 2015.

Sales in the United States increased by 1.9% in local currency, negatively impacted by the ongoing weakness of our cochlear implants business. The region accounted for 37% of Group sales in the first six months of fiscal year 2015/16 up from 35% in the prior year period. A sound performance of our hearing instruments business in the commercial channel was in part offset by lower sales to the Department of Veterans Affairs (VA). The rest of the Americas (excluding the US) posted a solid sales increase of 8.2% in local currencies, while reported sales were held back by the significant decline of major currencies, in particular the Brazilian real and the Canadian dollar, versus the Swiss franc.

Driven by a strong performance in our hearing instruments segment in Australia, New Zealand, China and Japan, the Asia / Pacific region posted a double-digit sales increase with growth reaching 11.9% in local currencies. The contribution to Group sales remained stable at 11%.

Stable underlying margin
Gross profit reached CHF 661.3 million, an increase of 3.5% in local currencies, adjusted for changes in average exchange rates. The underlying margin excluding the effects of currencies, a one-time provision and acquisitions was stable compared to the prior year period. The reported gross margin was at 65.9% compared to 68.8% in the first half of fiscal year 2014/15 and the reported gross profit declined by 2.9% in Swiss francs. The gross profit rose by 5.8%, excluding the negative impact of lower average exchange rates, non-hedged currency losses on working capital of CHF 7.4 million, mainly related to emerging markets, and a CHF 8.6 million provision for the higher return rates of the initial release of the Naída™ processors in the cochlear implants segment. The growth includes acquisitions, in particular Hansaton, which contributed to profits but had an expected dilutive margin impact in the first year.

Supporting commitment to innovation, the Group maintained its high level of investment in research and development (R&D). Net R&D expenses reached CHF 65.4 million or 6.5% of sales, stable compared to the first half of fiscal year 2014/15. Gross R&D spending (including the increase in capitalized development costs) amounted to CHF 73.3 million, corresponding to 7.3% of sales.

Reaching CHF 313.4 million, sales and marketing costs increased by 10.0% in local currencies or 3.9% in Swiss francs. Around half of the increase in local currencies was related to acquisitions. Thus, as a percentage of sales, the reported costs rose to 31.2% compared to 30.5% in the prior year period. Reflecting strict cost-control, G&A cost declined by 0.1% in local currencies or 2.9% in Swiss francs to CHF 95.5 million. As a percentage of sales, G&A costs dropped to 9.5% from 9.9% in the first half of fiscal year 2014/15. Other operating income included CHF 8.8 million of a provision release for cochlear implant product liabilities related to Advanced Bionics' Vendor B product recall in 2006, as the number of claims continued to develop better than expected. As a result, total operating expenses rose less than sales by 4.8% in local currencies or 0.1% in Swiss francs.

The operating profit before acquisition-related amortization (EBITA) reached CHF 195.8 million. The EBITA increased 0.7% compared to the same period last year in local currencies, adjusted for changes in average exchange rates (negative effect of CHF 21.7 million), and was up 4.2% excluding the above mentioned non-hedged currency losses on working capital (negative effect of CHF 7.4 million). In reported Swiss francs EBITA declined by 9.3%. Thus, the negative currency development was the main driver behind the reported EBITA margin dropping to 19.5% and the operating profit (EBIT) margin declining to 18.2%. Net financial expenses fell from CHF 3.1 million to CHF 1.0 million, mainly as a result of one-time financial income. Combined with a stable tax rate, this resulted in an income after taxes of CHF 157.3 million. For the first six months of 2015/16, basic earnings per share were CHF 2.32 compared to CHF 2.52 last year.

Hearing instruments segment − Solid growth and favorable mix development
A healthy organic growth rate, despite above mentioned headwinds in the US and in Germany, as well as a strong contribution from recent acquisitions resulted in sales of CHF 917.8 million for the hearing instruments segment in the first half of fiscal year 2015/16. This represents a solid growth rate of 8.7% in local currencies, consisting of an organic increase of 4.1% and contributions from acquisitions made in the reporting period and the annualization of prior year acquisitions of 4.6%. Reported sales rose by 2.9% considering the adverse currency development which reduced the growth rate by 5.8 percentage points or CHF 52.1 million.

Both the Group’s hearing instrument wholesale and retail businesses contributed to the growth. Over two thirds of hearing aid sales in the reporting period were from products launched less than two years ago. The success of the recently introduced Phonak Venture and Unitron North platform provided a strong momentum and a positive mix effect. Premium hearing instruments increased their share of revenues as a result of a strong 10.6% increase in local currencies. This was driven by the success of the Phonak Audéo™ V90 Receiver-In-Canal and Phonak Bolero™ V90 Behind-The-Ear products as well as the continued growth of Lyric™, the first and only invisible extended wear solution in the industry. Sales of advanced and standard hearing instruments rose by 3.3% and 3.2% in local currencies respectively. Supported by the acquisition of Comfort Audio completed in October 2014, sales of wireless communication systems increased by 21.1% in local currencies.

The segment EBITA grew by 5.0% in local currencies, adjusted for changes in average exchange rates, and by 8.6% excluding the currency losses on working capital. This was achieved despite the expected first-year dilutive impact from acquisitions, in particular from the transition of the Hansaton product portfolio to Sonova products. Reported EBITA for the hearing instruments segment declined by 4.7% in Swiss francs to CHF 198.4 million, representing an EBITA margin of 21.6%.

Cochlear implants segment – Slow start but improving momentum
During the period under review, the cochlear implants segment achieved sales of CHF 85.4 million. This represents a decline of 11.2% in local currencies and 12.9% in Swiss francs against the first half of fiscal year 2014/15, which was a very strong period with 23% organic growth related to the Naída CI sound processor. Sales in the period under review were further impacted by weaker market dynamics, increased competition and continued customer restraint in the United States related to recent product optimizations to Advanced Bionics’ Naída CI processor. However, momentum improved over the course of the first half and the business started to grow again at the end of the period under review. Coupled with the upcoming launch of the Naída CI Q Series of sound processors, the business is on track to return to sustainable growth in the second half of fiscal year 2015/16.

While research and development programs proceeded as planned, cost management was a key priority during the period. The before mentioned one-time increase in the warranty provision negatively impacted the gross margin but was largely offset by the non-recurring gain from the release of the product liability provision at EBITA level. With costs at a stable level, the lower sales resulted in a reported loss of CHF 2.6 million at the EBITA level compared to a profit of CHF 7.8 million in the first half of fiscal year 2014/15.

Sound cash flow − Strong balance sheet
A strong cash conversion increased the operating free cash flow by 3.9% to CHF 147.2 million. The cash consideration for acquisitions, in particular Hansaton, and earn-out payments for prior period acquisitions increased from CHF 7.9 million to CHF 71.7 million. The cash outflow from financing activities of CHF 260.9 million reflects CHF 99.1 million related to the ongoing share buy-back program as well as the dividend payment of CHF 136.0 million.

The net working capital stood at CHF 194.1 million, a slight increase compared to CHF 181.4 million in March 2015, which is partly related to acquisitions. Capital employed increased to CHF 1,585.1 million after CHF 1,489.5 million in March 2015, largely driven by acquisitions. The Group's equity amounted to CHF 1,769.6 million, resulting in a solid equity ratio of 67.7%. The net cash position stood at CHF 184.5 million compared to CHF 382.3 million in March 2015, reflecting the increased return of cash to shareholders – higher dividends and the ongoing share buy-back program – as well as more cash spent for acquisitions.

Share buyback program
As part of the share buyback program, which started 1 December 2014 and lasts for a period of up to three years, Sonova has bought back 747,500 shares worth CHF 99.1 Mio in the first half of fiscal year 2015/16 (1,294,400 shares and CHF 172.6 Mio. respectively including shares bought back earlier since the start of the program). In November 2015 Sonova signed a delegation agreement with Credit Suisse AG according to art. 55c par. 2 lit. a and par. 3 SESTO, who has been commissioned to execute the share buyback. Under the agreement, Credit Suisse AG executes the share buyback within pre-defined parameters. Sonova retains the right to cancel the agreement at any time without stating any reason.

Outlook 2015/16
The hearing instruments business achieved a healthy sales increase in the first half and we expect a continued solid performance for the remainder of fiscal year 2015/16. After a slow start to the year, the cochlear implants business returned to growth towards the end of the period. Nevertheless, the sales of the segment did not fully meet original expectations. As a result, we are adjusting the growth outlook for the year and now expect Group sales to grow by 6%-8% in local currencies in 2015/16, which compares to the original expectations of an increase of 7%-9%.

The lower than expected sales level in the cochlear implants business and the non-hedged currency losses on working capital held back the profitability for the Group during the first six months of fiscal year 2015/16. In the second half, we expect an improved performance in both businesses, with the cochlear implants segment returning to profitability and the dilutive effect of recent acquisitions abating. However, in the second half of fiscal year 2014/15 we benefited from a gain on working capital hedges, which results in a more challenging comparison base. Thus in summary we now expect Group EBITA to increase by 3%-7% in local currencies for the full year 2015/16 versus our guidance of 9%-13% issued back in May 2015. However, further normalized for the mentioned currency impact on working capital in the current and prior year, this corresponds to an expected EBITA increase of 7%-11%.

Sonova remains committed to pursuing its strategy of profitable growth. Maintaining a high pace of innovation and continuing to expand its market-presence through advanced approaches and solutions will help Sonova to further build on its market-leading position and thus allow the Group to achieve sustainable earnings growth in the second half and going forward.

The complete Semi-Annual Report 2015/16 is available on our website:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2015/16 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	2015	2014
Sales	**1,003,196**	**990,207**
change compared to previous year (%)	1.3	4.5
Gross profit	**661,303**	**680,891**
change compared to previous year (%)	(2.9)	4.9
in % of sales	65.9	68.8
Research & development costs	**65,358**	**65,287**
in % of sales	6.5	6.6
Sales & marketing costs	**313,397**	**301,581**
in % of sales	31.2	30.5
Operating profit before acquisition-related amortization (EBITA)	**195,775**	**215,877**
change compared to previous year (%)	(9.3)	4.7
in % of sales	19.5	21.8
Operating profit (EBIT)	**182,259**	**203,145**
change compared to previous year (%)	(10.3)	5.1
in % of sales	18.2	20.5
Income after taxes	**157,329**	**173,608**
change compared to previous year (%)	(9.4)	6.1
in % of sales	15.7	17.5
Number of employees (average)	**10,645**	**9,764**
change compared to previous year (%)	9.0	8.2
Number of employees (end of period)	**10,769**	**9,938**
change compared to previous year (%)	8.4	9.2
Net cash[1]	**184,450**	**301,548**
Net working capital[2]	**194,054**	**238,517**
Capital expenditure (tangible and intangible assets)[3]	**38,470**	**40,968**
Capital employed[4]	**1,585,140**	**1,569,609**
Total assets	**2,614,361**	**2,623,262**
Equity	**1,769,590**	**1,871,157**
Equity financing ratio (%)[5]	**67.7**	**71.3**
Free cash flow[6]	**75,550**	**133,745**
Operating free cash flow[7]	**147,207**	**141,619**
in % of sales	14.7	14.3
Return on capital employed (%)[8]	**25.9**	**27.4**
Return on equity (%)[9]	**19.3**	**20.4**
Basic earnings per share (CHF)	2.32	2.52
Diluted earnings per share (CHF)	2.31	2.52

[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, headquartered in Stäfa, 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 10,000 dedicated employees. Sonova generated sales of CHF 2.0 billion in the financial year 2014/15 and a net profit of CHF 368 million. Across all businesses, and 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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