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Media Release

First half results 2016/17: Sonova with strong foundation for further growth

***Stäfa (Switzerland), November 14, 2016* – Sonova Holding AG, the world's leading provider of hearing solutions, today announces its results for the first half of fiscal year 2016/17. Consolidated sales increased by 5.5% in local currencies or 6.7% in reported Swiss francs to CHF 1,070 million. The Group achieved a solid performance with sales lifted by both the hearing instruments and cochlear implants segment. Normalized for one-time costs Group EBITA reached CHF 205.9 million, representing an increase of 2.7% in local currencies and 5.2% in Swiss francs. Maintaining the outlook provided at the start of fiscal year 2016/17 but now including the positive impact from the acquisition of AudioNova, the company expects Group sales to grow by 14%-16% in local currencies in 2016/17. Before one-time costs related to the acquisition of AudioNova, Sonova expects a corresponding increase in the EBITA of 8%-12% in local currencies.**

Highlights 1H 2016/17

- Group sales of CHF 1,070 million – up 5.5% in local currencies and 6.7% in Swiss francs
- Normalized EBITA of CHF 205.9 million – up 2.7% in local currencies and 5.2% in Swiss francs
- Hearing instruments segment – sales of CHF 977.5 million, up 5.4% in local currencies
- Cochlear implants segment – sales of CHF 92.4 million, up 7.0% in local currencies
- Operating free cash flow reached CHF 146.8 million – resulting in a healthy balance sheet
- Outlook for FY 2016/17 – sales anticipated to grow by 14% to 16% and EBITA to rise by 8% to 12%, both measured in local currencies and excluding one-time costs
- AudioNova acquisition successfully completed – comprehensive integration program launched

Lukas Braunschweiler, CEO of Sonova, says: "During the first half, we have successfully implemented a number of important steps in our transformation towards a fully integrated business model. With the acquisition of AudioNova, we have significantly expanded our retail footprint. At the same time, we have introduced a number of unique and innovative hearing solutions across all our product brands, which have been very well received by our customers and led to a marked pick-up of sales towards the end of the first half. Combined with our attractive product pipeline, I am convinced that we have hereby laid a strong foundation for the continued success of the Group, putting us firmly on track to achieve sustainable sales and earnings growth."

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

Sales growth supported by first time inclusion of AudioNova
Year-on-year, Group sales increased by 5.5% in local currencies during the first six months of fiscal year 2016/17. Organic growth was 2.0% whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 4.5%. AudioNova was included for one month as the acquisition was completed in the first half of September 2016. Prior year business disposals reduced growth by 1.0%. A favorable currency environment had a positive effect on reported sales of CHF 11.4 million or 1.2%, resulting in Group sales of CHF 1,069.9 million, which represents an increase of 6.7% in reported Swiss francs.

Europe driving growth
EMEA (Europe, Middle East and Africa), the Group's largest region, showed a strong sales increase of 12.2% in local currencies. The share of Group sales increased slightly from 42% in the first six months of fiscal year 2015/16 to 44% in the period under review. In the hearing instruments segment, growth was driven by the AudioNova acquisition and by solid organic increases. Major European markets including the UK, the Nordics, France and Italy showed good progress while the development in Germany was affected by the expected negative impact from wholesale customer reactions following the announcement of the AudioNova acquisition.

Sales in the United States were unchanged in local currency versus the prior year period. The Phonak brand showed a solid progression and the cochlear implants business achieved very satisfactory growth, in both cases backed by the launch of industry first solutions. This was compensated by a decline at Unitron and a streamlining of the retail network. The market share with the Department of Veterans Affairs (VA) showed a consistent positive trend in recent months. The region accounted for 36% of Group sales in the first six months of fiscal year 2016/17, down from 37% in the prior year period. The rest of the Americas (excluding the US) posted a sales increase of 3.1% in local currencies, reflecting a good progression of the Phonak brand and the cochlear implants business, partly offset by a targeted reduction of low margin government business in Brazil.

The Asia/Pacific region posted a sales increase of 1.6% in local currencies. While Australia showed significant growth, China had lower sales ahead of new product introductions in October. Furthermore, India went through a temporary decline caused by a re-alignment program to focus on higher margin business.

Increased sales and marketing costs – Stable margin
Gross profit reached CHF 723.8 million, an increase of 8.2% in local currencies and of 9.5% in Swiss francs. The gross profit margin was at 67.6%, which is at prior year level if adjusted for non-hedged currency losses on working capital of CHF 7.4 million and a CHF 8.6 million provision for higher processor returns in the cochlear implants business in the first half of fiscal year 2015/16.

The operating expenses in the first half of fiscal year 2016/17 were impacted by one-time costs of CHF 10.1 million in connection with the acquisition of AudioNova. The majority of such costs were transaction cost for advisors and stamp duties and also included integration related restructuring cost. In the period under review, all the one-time costs were booked under G&A expenses. Where relevant, we subsequently refer to figures normalized for such one-time costs.

Normalized total operating expenses rose by 10.5% in local currencies or 11.2% in Swiss francs. Underpinning its commitment to innovation, the Group maintained its high level of investment in research and development (R&D). Net R&D expenses reached CHF 68.0 million or 6.4% of sales, up 3.6% in local currencies or 4.0% in Swiss francs compared to the first half of fiscal year 2015/16. Gross R&D spending (including the net increase in capitalized development costs) amounted to CHF 77.6 million, corresponding to 7.3% of sales and representing an increase of 5.5% in local currencies.

Reaching CHF 352.2 million, sales and marketing costs increased by 11.4% in local currencies or 12.4% in Swiss francs. Close to two thirds of the increase in local currencies was related to acquisitions net of disposals. In addition, the faster growth of the retail business, which has a higher than average sales and marketing cost ratio, contributed to the rise. Further drivers include lower store efficiency in certain retail markets and higher product launch costs, largely related to the introduction of the new Phonak Belong™

platform in August. Thus, as a percentage of sales, the reported sales and marketing costs rose to 32.9% compared to 31.2% in the prior year period.

Reflecting strict cost-control, normalized general and administrative cost increased by 1.8% in local currencies or 2.5% in Swiss francs to CHF 97.9 million. As a percentage of sales, normalized G&A costs dropped to 9.2% from 9.5% in the first half of fiscal year 2015/16. The other operating expenses in the prior year considered a gain of CHF 8.8 million from the release of a product liability provision in the cochlear implants segment.

The normalized operating profit before acquisition-related amortization (EBITA) reached CHF 205.9 million, an increase of 2.7% in local currencies compared to the same period last year. In reported Swiss francs, the increase was 5.2%, corresponding to a margin of 19.2% (prior year: 19.5%). The reported EBITA including the one-time costs related to the AudiNova acquisition was at CHF 195.8 million, down 2.5% in local currencies but unchanged versus the prior year value in Swiss francs.

The operating profit (EBIT) was CHF 180.5 million, down 0.9% compared to prior year, reflecting increased acquisition related amortization. Net financial expenses increased from CHF 1.0 million to CHF 4.8 million, mainly as a result of a prior year one-time financial income and cost paid for the bridge financing of AudioNova. Combined with a stable tax rate of 13.5% (prior year 13.2%), this resulted in an income after taxes of CHF 152.1 million. For the first six months of 2016/17, normalized basic earnings per share were CHF 2.43 (reported: CHF 2.29) compared to CHF 2.32 last year.

Hearing instruments segment − Solid growth and favorable mix development
Including acquisitions the hearing instruments segment grew 5.4% in local currencies to reported sales of CHF 977.5 million. This growth was lowered by 1.1% as a result of the disposal of the Italian retail business and other minor portfolio adjustments in the previous financial year. Organic growth was 1.6% in local currencies caused by slow trading in the US and the Asia/Pacific region. The contribution from acquisitions in the reporting period and the annualization of prior year acquisition was 4.8% or CHF 44.4 million. A large portion of the acquisition growth relates to AudioNova, which contributed incremental sales of CHF 29.2 million. A slightly weaker Swiss Franc had a positive effect of CHF 10.4 million or 1.1%, resulting in a reported sales growth of 6.5%.

Both the Group's hearing instrument wholesale and retail businesses contributed to the growth. The launch of the Phonak Belong™ platform in August, in particular the first rechargeable solution based on lithium-ion technology, was well received by the market and contributed to a strong end of the half year period. In months leading up to the launch, buyer restraint led to a slowdown in organic sales growth. In North America sales were negatively affected by the streamlining of the retail business in the US and lower sales of the Unitron brand. As expected, the announcement of the AudioNova acquisition also led to an adverse market reaction in Germany that weighed on sales in the reporting period. Additionally, in line with its strategy, the Group focused on higher quality business and, therefore, reduced its exposure to a number of high volume but low margin businesses, particularly in India and the government sector in Brazil. Overall, the Group experienced a positive ASP development on the back of a disciplined strategy execution.

Over two thirds of hearing aid sales in the reporting period were from products launched less than two years ago. By product category, Premium hearing instruments achieved a 6.4% sales increase in local currencies, driven by Sonova's innovative product portfolio. This was closely matched by the Standard category, which was up 5.1% in local currencies. Sales in the Advanced category increased by 1.5% in local currencies. Premium and Advanced hearing instruments accounted for 25% and 19% of Group sales respectively, while Standard accounted for 29%. Sales of wireless communication systems showed strong growth of 11.2% in local currencies driven by good adoption of Phonak Roger products in the education sector. Sales in the "miscellaneous" product category, which includes accessories, batteries and services, grew by 7.9% in local currencies, accounting for 14% of Group sales.

The segment EBITA grew by 2.3% in local currencies to CHF 206.9 million, normalized for CHF 10.1 million in one-time costs related to the acquisition of AudioNova. Acquisitions net of disposals contributed to the higher operating expense. Higher sales and marketing cost including continued investments in new product launches and eSolutions combined with the modest organic sales growth led to a slight decline of the EBITA margin. Reported EBITA for the hearing instruments segment declined by 0.8% in Swiss francs to CHF 196.8 million, representing an EBITA margin of 20.1%.

Cochlear implants segment – Strong growth in new system sales carried by new products
During the period under review, the cochlear implants segment achieved sales of CHF 92.4 million up 7.0% in local currencies and 8.3% in Swiss francs against the first half of fiscal year 2015/16. Double digit growth was achieved in new system sales, carried by several new product introductions. The range of Naída Q-series sound processors introduced in late 2015 continued to attract strong interest. This was also supported by the launch of the new bimodal hearing solution in the summer of 2016, which includes Naída™ Link, the world's first hearing aid offering full-bandwidth, bidirectional audio streaming with the Naída CI sound processor. Late in the period, the offering was further expanded with the launch of the HiRes™ Ultra cochlear implant, which features the thinnest implant profile from Advanced Bionics, catering in particular to the requirements of pediatric patients. Both innovations received a favorable response from the market. The positive development was partly offset by a decline in upgrade sales, which is largely related to a smaller qualifying customer base eligible for insurance funded replacement of their sound processor. This represents largely a temporary effect and should start to ease off in the second half of 2016/17.

Operating costs were tightly managed despite significant investments in new product launches, offsetting adverse mix effects from lower sales in the high margin upgrade business. The cochlear implants segment reported a small EBITA loss of CHF 1.0 million compared to a loss of CHF 2.6 million in the first half of fiscal year 2015/16.

Sound cash flow − Strong balance sheet
Cash flow from operating activities reached CHF 191.2 million, an increase of 2.8% versus prior year. Operating free cash flow was virtually unchanged at CHF 146.8 million. The cash consideration for acquisitions amounted to CHF 657.5 million, reflecting mainly the AudioNova acquisition with a gross purchase price of CHF 921.2 million including acquired debt of CHF 290.8 million. The cash inflow from financing activities of CHF 366.9 million reflects increased borrowings of CHF 539.8 million mainly consisting of the bridge financing related to the AudioNova acquisition, the repayment of acquired debt as well as CHF 137.2 million in dividends paid.

The net working capital stood at CHF 230.1 million versus CHF 185.5 million in March 2016; the increase is mainly related to acquisitions. Capital employed increased to CHF 2,565.5 million after CHF 1,608.0 million in March 2016, largely driven by the acquisition of AudioNova. The Group's equity amounted to CHF 1,892.6 million, resulting in a solid equity ratio of 50.7%. The net debt position stood at CHF 672.9 million compared to a net cash position of CHF 298.3 million in March 2016 reflecting cash spent on the AudioNova acquisition and dividend payments.

Outlook 2016/17
We expect sales growth to pick up in the second half, supported by the positive market response to our recently introduced products. Maintaining the outlook provided at the start of fiscal year 2016/17 but now including the positive impact from the acquisition of AudioNova, we expect Group sales to grow by 14%-16% in local currencies in 2016/17. Before one-time costs related to the acquisition of AudioNova, we expect a corresponding increase in the EBITA of 8%-12% in local currencies.

The complete Semi-Annual Report 2016/17 is available on our website:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2016/17 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	Normalized[1] 2016	2016	2015
Sales	1,069,936	1,069,936	1,003,196
change compared to previous year (%)	6.7	6.7	1.3
Gross profit	723,797	723,797	661,303
change compared to previous year (%)	9.5	9.5	(2.9)
in % of sales	67.6	67.6	65.9
Research & development costs	67,950	67,950	65,358
in % of sales	6.4	6.4	6.5
Sales & marketing costs	352,159	352,159	313,397
in % of sales	32.9	32.9	31.2
Operating profit before acquisition-related amortization (EBITA)	205,941	195,841	195,775
change compared to previous year (%)	5.2	0.0	(9.3)
in % of sales	19.2	18.3	19.5
Operating profit (EBIT)	190,633	180,533	182,259
change compared to previous year (%)	4.6	(0.9)	(10.3)
in % of sales	17.8	16.9	18.2
Income after taxes	161,300	152,058	157,329
change compared to previous year (%)	2.5	(3.4)	(9.4)
in % of sales	15.1	14.2	15.7
Basic earnings per share (CHF)	2.43	2.29	2.32
Net cash[2]	(672,906)	(672,906)	184,450
Net working capital[3]	230,142	230,142	194,054
Capital expenditure (tangible and intangible assets)[4]	47,446	47,446	38,470
Capital employed[5]	2,565,458	2,565,458	1,585,140
Total assets	3,731,768	3,731,768	2,614,361
Equity	1,892,552	1,892,552	1,769,590
Equity financing ratio (%)[6]	50.7	50.7	67.7
Free cash flow[7]	(510,692)	(510,692)	75,550
Operating free cash flow[8]	146,790	146,790	147,207
in % of sales	13.7	13.7	14.7
Number of employees (average)	11,463	11,463	10,645
change compared to previous year (%)	7.7	7.7	9.0
Number of employees (end of period)	13,728	13,728	10,769
change compared to previous year (%)	27.5	27.5	8.4

1) Excluding one-time costs of CHF 10.1 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related key figures (including respective ratios) as reported.
2) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
3) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
4) Excluding goodwill and intangibles relating to acquisitions.
5) Equity – net cash.
6) Equity in % of total assets.
7) Cash flow from operating activities + cash flow from investing activities.
8) Free cash flow – cash consideration for acquisitions, net of cash acquired.

Contacts:

Investor Relations		Media Relations	
Thomas Bernhardsgrütter		Michael Isaac	
Phone	+41 58 928 33 44	Phone	+41 58 928 33 24
Mobile	+41 79 618 28 07	Mobile	+41 79 420 29 56
Email	thomas.bernhardsgruetter@sonova.com	Email	michael.isaac@sonova.com

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About Sonova
Sonova, headquartered in Stäfa, Switzerland, is the leading provider of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Hansaton, Advanced Bionics and AudioNova. 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 13,000 dedicated employees. Sonova generated sales of CHF 2.07 billion in the financial year 2015/16 and a net profit of CHF 346 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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