Media Release

First half results 2017/18:
Sonova with strong growth across all businesses

***Stäfa (Switzerland), November 13, 2017* – Sonova Holding AG, the world's leading provider of hearing solutions, today announces its results for the first half of fiscal year 2017/18. Consolidated sales increased by 16.9% in local currencies or 17.1% in reported Swiss francs to CHF 1,253 million. Strong growth was achieved across all businesses, driven by the ongoing success of the Group's innovative products and further supported by the acquisition of AudioNova. Normalized for one-time costs Group EBITA reached CHF 240.5 million, representing an increase of 16.9% in local currencies and 16.8% in Swiss francs. Maintaining the outlook provided at the start of fiscal year 2017/18, the company expects Group sales to grow by 10%-12% in local currencies. Before one-time costs related to AudioNova in both the 2016/17 and 2017/18 financial years, Sonova expects a corresponding increase in the EBITA of 10%-14% in local currencies.**

Highlights 1H 2017/18

- Group sales of CHF 1,253 million – up 16.9% in local currencies and 17.1% in Swiss francs
- Normalized EBITA of CHF 240.5 million – up 16.9% in local currencies and 16.8% in Swiss francs
- Hearing instruments segment – sales of CHF 1,151.7 million, up 17.6% in local currencies
- Cochlear implants segment – sales of CHF 101.3 million, up 9.7% in local currencies
- Operating free cash flow reached CHF 153.0 million – resulting in a healthy balance sheet
- Outlook for FY 2017/18 maintained – consolidated sales anticipated to grow by 10% to 12% and normalized EBITA to rise by 10% to 14%, both measured in local currencies

Lukas Braunschweiler, CEO of Sonova, says: "We had a good start to the fiscal year. The strong results achieved in the first half reflect the ongoing success of our integrated business model, our industry-leading technology platform approach and the strong global presence of all of our three businesses. A highlight in the period was the introduction of the SWORD™ wireless chip enabling universal direct connectivity, which will power future generations of hearing aids with ever more sophisticated features." Arnd Kaldowski, COO and designated CEO of Sonova, adds: "During my first weeks at Sonova, I have been impressed by the enormous potential of the Group, its innovative product portfolio and strong market positions. I am fully committed to exploit the strong opportunities of Sonova and its franchise to its full extent."

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Solid organic growth complemented by the acquisition of AudioNova
Sonova Group sales increased by 16.9% in local currencies during the first six months of fiscal year 2017/18. Organic growth was 5.0%, whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 12.2%. The annualization effect mainly consists of five additional months of AudioNova, acquired effective September 2016. Disposals reduced growth by 0.3%. Exchange rate fluctuations had a minor impact, adding 0.2% to the reported growth rate. This resulted in Group sales of CHF 1,253.0 million, which represents an increase of 17.1% in Swiss francs.

Growth across all regions
EMEA (Europe, Middle East and Africa), the Group's largest region, showed a strong sales increase of 34.6% in local currencies. Strong organic growth was achieved in most major European markets including the UK, France and Italy while the business in Germany and the Netherlands was held back by a slower market environment. In addition, sales were lifted by the annualization effect of the AudioNova acquisition. As a result, the EMEA share of Group sales increased significantly from 44% in the first six months of fiscal year 2016/17 to 50% in the period under review.

Sales in the United States grew 0.5% in local currency versus the prior year period. A very solid increase in the hearing instruments business across all brands was driven by the continued success of new product introductions. This was partially offset by a decline in the US retail network, which is undergoing a streamlining and strategic repositioning program. The cochlear implants segment showed a solid increase driven by upgrade sales. The region accounted for 31% of Group sales in the first six months of fiscal year 2017/18. The rest of the Americas (excluding the US) achieved a sales increase of 5.0% in local currencies, reflecting a good progression of the hearing instruments business considering both the Phonak and Unitron brands and the cochlear implants business.

Sales in the Asia/Pacific region increased by 9.4% in local currencies. Strong growth in Japan and China was partly offset by a weak development in Australia. The cochlear implants business in China benefited from sales related to a central government tender worth CHF 4.5 million.

Solid gross margin development driven by the hearing instruments segment
Gross profit reached CHF 883.3 million, an increase of 21.8% in local currencies and of 22.0% in Swiss francs. The gross profit margin was at 70.5%, up from 67.6% in the prior year period. The improvement was driven by the higher share of the retail business, an increase in average selling prices across the hearing instruments segment, as well as continuous efficiency improvements. This was partly offset by lower margins in the cochlear implants segment, mainly related to the China tender.

Reported operating expenses, including other operating income, reached CHF 649.6 million. This included one-time costs of CHF 6.8 million (1H 2016/17: CHF 10.1 million) in connection with the AudioNova acquisition, which related to integration and restructuring. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses in local currencies rose by 23.8% or by 24.1% in Swiss francs to CHF 642.8 million, mainly driven by the consolidation of AudioNova.

Research and development (R&D) expenses were CHF 70.8 million, an increase of 4.1% in local currencies, demonstrating the continued commitment to innovation. Due to the increased relative share of the retail business after the acquisition of AudioNova, R&D as a percentage of sales declined from 6.4% to 5.6%.

As a result of the AudioNova acquisition, both sales and marketing as well as general and administrative (G&A) costs increased as a percentage of sales compared to the prior year period. Normalized sales and marketing costs were up 26.5% in local currencies and reached CHF 446.9 million which is 35.7% of sales, compared to 32.9% in the prior year period. Normalized G&A costs increased by 30.9% in local currencies to CHF 128.5 million representing 10.3% of sales versus 9.2% in the prior year period. Other income for the current period was CHF 3.4 million (1H 2016/17: CHF 0.2 million) and included a CHF 3.9 million capital gain from the sale of non-core retail activities in Portugal.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 233.7 million (1H 2016/17: CHF 195.8 million), representing an increase of 19.4% in local currencies or 19.3% in Swiss francs. Reported EBITA margin reached 18.6% (1H 2016/17: 18.3%). Exchange rate developments had a minimal impact on the reported EBITA margin. Normalized for one-time costs, EBITA increased by 16.9% in local currencies or 16.8% in Swiss francs to CHF 240.5 million, corresponding to a margin of 19.2%.

Reflecting the growth in reported EBITA and an expected increase in acquisition related amortization from the AudioNova acquisition, reported operating profit (EBIT) reached CHF 209.7 million (1H 2016/17: CHF 180.5 million), up by 16.2%. Net financial expenses, including the result from associates, decreased from CHF 4.8 million to CHF 3.1 million. The effective tax rate was 14.7% (1H 2016/17: 13.5%) with the increase reflecting the temporary effect of a higher tax rate of the acquired AudioNova entities. This resulted in an income after taxes of CHF 176.2 million. For the first six months of 2017/18, normalized basic earnings per share were CHF 2.73 (reported: CHF 2.64) compared to CHF 2.43 in the prior year period.

Hearing instruments segment − Solid growth and favorable mix development
Sales in the hearing instruments segment grew by 17.6% in local currencies to reported sales of CHF 1,151.7 million. Organic growth was 4.6%, while the contribution from acquisitions in the reporting period and the annualization of prior year acquisitions was 13.4% or CHF 130.5 million. Growth was lowered by 0.4% as a result of the disposal of non-core retail businesses and other minor portfolio adjustments. Exchange rate fluctuations, mainly a stronger Euro, had a positive effect of CHF 2.6 million or 0.2%. This resulted in a reported sales growth of 17.8%.

All hearing instrument product categories achieved solid double-digit growth in local currencies. The success of our innovative product portfolio, in particular the rechargeable solutions, resulted in a favorable development of the product mix and average selling prices. With an increase of 18.4% in local currencies, the premium product category showed the strongest growth. Growth of wireless communication systems continued at a double-digit rate, almost exclusively from organic growth. Sales in the “miscellaneous” product category, which includes accessories, batteries, and services, increased by 34.8% in local currencies, largely driven by the AudioNova annualization effect.

The hearing instruments business, which includes sales to independent audiologists, retail chain, multinational and government customers, but excludes our own retail business, grew 5.7% in local currencies to CHF 700.4 million. Organic growth was 6.7%, driven by the continued success of Phonak Belong™ and the recently introduced Unitron Tempus™ platform. Solid growth was achieved across all regions. Double-digit organic growth was reached in major markets including Canada, France, UK, Italy and Japan whereas sales in Germany were affected by a slower market dynamic. In the United States, growth was supported by a solid development across all channels, in particular by an increased market share in our business with the US Department of Veterans Affairs (VA) as well as by the ongoing success of our updated product offering at Costco.

The retail business increased sales by 42.4% in local currencies to CHF 451.3 million driven by acquisitions while sales in our legacy retail network were flat as a result of a slow first quarter and a strongly improving momentum in the second quarter. Solid organic growth in a number of key markets, including double-digit increases in the UK and France, were offset by the development in the US and the Netherlands which continued to be affected by a challenging retail market environment. In both markets a streamlining and strategic repositioning of the store-networks is under way. The integration of the AudioNova acquisition, which was completed in September 2016, is well on track and by the end of the period the product portfolio has largely been converted to Sonova technology. Growth was also affected by the sale of non-strategic retail assets, including the AudioNova businesses in France and Portugal in March and April 2017, respectively.

Reported EBITA for the hearing instruments segment amounted to CHF 234.5 million, up 19.3% in local currencies. The normalized EBITA increased by 16.7% in local currencies to CHF 241.3 million, corresponding to an EBITA margin of 20.9%. A strong positive organic margin development was achieved through a positive product mix and strict cost control, offset by the expected margin effect of the increased share of retail business.

Cochlear implants segment – Strong growth in upgrade sales
The cochlear implants segment achieved sales of CHF 101.3 million, up 9.7% in local currencies and in Swiss francs, strongly driven by upgrade sales. After a double-digit increase in the prior year period, growth in Western markets slowed due to increased competition. New systems sales growth was 1.6% in local currencies and included deliveries of CHF 4.5 million related to the government tender in China. The new thinner HiRes™ Ultra implant, introduced in the prior year, continued to achieve a favorable response. In July, 2017, the range of bimodal solutions was further expanded by the launch of the Phonak Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for unilateral cochlear implant candidates with no hearing in their opposite ear. Late in the period, Advanced Bionics successfully introduced the HiFocus™ SlimJ electrode, featuring a thin, straight design for preservation of residual hearing.

Lower average selling prices, mostly from the China tender, impacted the gross profit margin, partly offset by significantly stronger high margin upgrade sales. Operating costs were tightly managed but also accommodated significant investments in new product launches. As a result, the cochlear implants segment reported a small EBITA loss of CHF 0.8 million, stable versus the prior year period.

Sound cash flow − Strong balance sheet
Cash flow from operating activities reached CHF 203.7 million, an increase of 6.5% versus the prior year period. Operating free cash flow increased by 4.2% to CHF 153.0 million. The cash consideration for acquisitions, net of disposals, amounted to CHF 55.3 million, reflecting a further expansion of our retail network, in particular in Germany, as well as the proceeds from the sale of the Portuguese retail business. The cash outflow from financing activities of CHF 178.9 million reflects the dividend payment of CHF 150.3 million and the purchase of treasury shares to support equity based compensation plans.

Net working capital stood at CHF 225.5 million versus CHF 169.7 million in March 2017. This is mostly driven by seasonal fluctuations, including temporary effects from product launches, the AudioNova product transition and the move of the company’s European distribution center as well as effects of acquisitions closed within the period. Capital employed increased to CHF 2,708.1 million after CHF 2,535.9 million in March 2017, largely driven by acquisitions and by a higher working capital position.

The Group’s equity amounted to CHF 2,219.6 million, resulting in a solid equity ratio of 54.9%. The net debt position stood at CHF 488.4 million compared to CHF 404.6 million in March 2017, reflecting the strong free cash flow, the dividend payment as well as the cash spent on acquisitions.

Outlook 2017/18
Maintaining the outlook provided at the start of the fiscal year, we continue to expect solid growth in sales and profitability in both the hearing instruments and cochlear implants segments during 2017/18. The development will be supported by our attractive product and solutions portfolio as well as our continued commitment to innovation. Coupled with the annualization of prior year acquisitions, in particular AudioNova, we expect overall sales to grow in the range of 10% – 12% in local currencies. Before one-time costs related to AudioNova in both the 2016/17 and 2017/18 financial years, we expect a corresponding increase in the EBITA of 10% – 14% in local currencies.

The complete Semi-Annual Report 2017/18 is available on our website:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2017/18 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 2017[1]	Normalized 2016[1]	Reported 2017	Reported 2016
Sales	**1,253,025**	**1,069,936**	**1,253,025**	**1,069,936**
change compared to previous year (%)	17.1	6.7	17.1	6.7
Gross profit	**883,265**	**723,797**	**883,265**	**723,797**
change compared to previous year (%)	22.0	9.5	22.0	9.5
in % of sales	70.5	67.6	70.5	67.6
Research & development costs	**70,753**	**67,950**	**70,753**	**67,950**
in % of sales	5.6	6.4	5.6	6.4
Sales & marketing costs	**446,945**	**352,159**	**448,717**	**352,159**
in % of sales	35.7	32.9	35.8	32.9
Operating profit before acquisition-related amortization (EBITA)	**240,457**	**205,941**	**233,661**	**195,841**
change compared to previous year (%)	16.8	5.2	19.3	0.0
in % of sales	19.2	19.2	18.6	18.3
Operating profit (EBIT)	**216,526**	**190,633**	**209,730**	**180,533**
change compared to previous year (%)	13.6	4.6	16.2	(0.9)
in % of sales	17.3	17.8	16.7	16.9
Income after taxes	**181,611**	**161,300**	**176,233**	**152,058**
change compared to previous year (%)	12.6	2.5	15.9	(3.4)
in % of sales	14.5	15.1	14.1	14.2
Basic earnings per share (CHF)	2.73	2.43	2.64	2.29
Net debt[2]	**488,446**	**672,906**	**488,446**	**672,906**
Net working capital[3]	**225,507**	**230,142**	**225,507**	**230,142**
Capital expenditure (tangible and intangible assets)[4]	**44,604**	**47,446**	**44,604**	**47,446**
Capital employed[5]	**2,708,075**	**2,565,458**	**2,708,075**	**2,565,458**
Total assets	**4,040,536**	**3,731,768**	**4,040,536**	**3,731,768**
Equity	**2,219,629**	**1,892,552**	**2,219,629**	**1,892,552**
Equity financing ratio (%)[6]	**54.9**	**50.7**	**54.9**	**50.7**
Free cash flow[7]	**97,696**	**(510,692)**	**97,696**	**(510,692)**
Operating free cash flow[8]	**153,004**	**146,790**	**153,004**	**146,790**
in % of sales	12.2	13.7	12.2	13.7
Number of employees (average)	**13,963**	**11,463**	**13,963**	**11,463**
change compared to previous year (%)	21.8	7.7	21.8	7.7
Number of employees (end of period)	**14,114**	**13,728**	**14,114**	**13,728**
change compared to previous year (%)	2.8	27.5	2.8	27.5

[1] Excluding one-time costs of CHF 6.8 million (prior year CHF 10.1 million), consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related and cash flow 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 debt.
[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 and from divestments, net of cash acquired / divested.

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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.

Pursuing a unique vertically integrated business strategy, the Group operates through three core businesses – hearing instruments, retail and cochlear implants – along the entire value chain of the hearing care market. The Group's sales and distribution network, the widest in the industry, comprises over 50 own wholesale companies and more than 100 independent distributors. This is complemented by Sonova's retail business, which offers professional audiological services through a network of more than 3,300 locations in twelve key markets.

Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and generated sales of CHF 2.4 billion in the financial year 2016/17 as well as a net profit of CHF 356 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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