Media Release

First half results 2018/19: Solid performance ahead of important product launch

***Stäfa (Switzerland), November 20, 2018* – Sonova Holding AG, the world's leading provider of hearing solutions, today announces its results for the first half of fiscal year 2018/19. Consolidated sales increased by 4.0% in Swiss francs or 2.1% in local currencies to CHF 1,303 million. Excluding divestments, sales rose by 3.8% in local currencies. Growth in the hearing instruments segment was driven by a solid performance in the audiological care (retail) business while, as expected, the hearing instruments business recorded lower growth ahead of the important Phonak Marvel product launch. Robust growth in system sales resulted in a strong development for the cochlear implants segment. Group EBITA reached CHF 251.3 million, representing an increase of 7.6% in Swiss francs and 3.3% in local currencies. Sonova maintains the outlook for the fiscal year 2018/19 provided in May 2018.**

Highlights 1H 2018/19

- Group sales of CHF 1,303 million – up 4.0% in Swiss francs and 2.1% in local currencies
- EBITA of CHF 251.3 million – up 7.6% in Swiss francs and 3.3% in local currencies
- EPS of CHF 2.91 – up 10.2% in Swiss francs
- Hearing instruments segment – sales of CHF 1,194.0 million, up 3.7% in Swiss francs
- Cochlear implants segment – sales of CHF 109.4 million, up 7.9% in Swiss francs
- Operating free cash flow reached CHF 165.6 million – up 8.3% in Swiss francs
- Outlook for FY 2018/19 maintained – organic sales growth of 3%-5% or growth of 2%-4% after net divestments; EBITA growth of 6%-9% (vs. normalized FY 2017/18 EBITA), all in local currencies

Arnd Kaldowski, CEO of Sonova, says: "Among the highlights in the first half was the strong performance of the audiological care business, where we achieved a sequential acceleration in organic growth, also helped by the successful repositioning of our store network in the US and the Netherlands. Our cochlear implants business continued to expand its base of recipients and achieved further productivity improvements. The new Phonak Marvel product platform unveiled in October received very strong initial interest from customers. I am convinced that the launch of this innovative new product family will drive growth in the hearing instruments business in the second half."

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Organic growth and acquisitions partly offset by divestments
Sonova Group sales increased by 2.1% in local currencies during the first six months of fiscal year 2018/19. Organic growth was 2.6%, whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 1.1%. Disposals made in the US reduced growth by 1.6%, mainly considering an audiological care store restructuring and the sale of the US Hearing Service Plan business. Exchange rate fluctuations had a significant impact, adding 1.9% to the reported growth rate. This resulted in Group sales of CHF 1,303.3 million, which represents an increase of 4.0% in reported Swiss francs.

Solid growth in EMEA and APAC – US held back by divestments and late stage product lifecycle
EMEA (Europe, Middle East and Africa), the Group’s largest region, showed a sales increase of 6.9% in local currencies. Strong organic growth was achieved in key markets including Germany, France, Spain, Eastern Europe and the Middle East also on the back of the launch of Phonak Vitus™ in the value category. The EMEA share of Group sales increased from 50% in the first six months of fiscal year 2017/18 to 54% in the period under review.

Sales in the United States declined by 8.8% in local currency versus the prior year period. This was partially the effect of a streamlining and strategic repositioning of the audiological care business. Post restructuring, the audiological care business achieved good same-store growth. Furthermore, the Group sold its US Hearing Service Plan business at the end of the last fiscal year. In combination these divestments affected growth negatively by 5.2%. The hearing instruments business had a challenging half year as customers in the US were particularly restrained during the late stage of the current product lifecycle.

The rest of the Americas (excluding the US) achieved a solid sales increase of 6.2% in local currencies, reflecting good progress made in Brazil and in the audiological care business in Canada. Sales in the Asia/Pacific (APAC) region increased by 8.0% in local currencies. Strong growth in Japan, China and New Zealand was partly offset by a slower development in Australia.

Stable gross profit margin
Gross profit reached CHF 919.4 million, an increase of 4.1% in Swiss francs and 1.7% in local currencies. The gross profit margin was at 70.5% in line with the prior year period. Excluding the favorable impact from currencies the gross margin declined slightly by 0.3%. The late stage of the current product cycle combined with a shift in the customer and product mix, in part driven by the successful introduction of the Vitus™ and Vitus+ products in the value category, drove significant volume growth but negatively affected average selling prices (ASP) within the hearing instruments business. The effect of the conversion to Sonova products within the audiological care business continued to have a positive effect. In addition, the gross margin of the cochlear implants segment improved versus the prior year period, reflecting ongoing productivity improvements as well as lower sales related to central government tenders in China.

Reported operating expenses, including other operating income, reached CHF 668.1 million reflecting an increase of 1.1% in local currencies. In the prior year period they included one-time costs of CHF 6.8 million related to the AudioNova acquisition, specifically to integration and restructuring. Where relevant, we refer to the growth figures normalized for such one-time costs. Normalized operating expenses rose by 2.1% in local currencies.

Research and development (R&D) expenses were CHF 71.7 million, an increase of 1.1% in local currencies. The expenses supported the new Phonak Marvel product platform presented in October, work on subsequent technology advances and eSolutions as well as new products in the cochlear implants business. The reported growth considers customary fluctuations in project expenses and capitalized development costs in the cochlear implants business.

Sales and marketing (S&M) cost reached CHF 473.7 million, growing 3.8% in local currencies normalized over the prior year period. S&M increased as a percentage of sales mainly due to a mix effect resulting from the stronger growth in the audiological care business and from acquisitions net of disposals. General and administration (G&A) costs were CHF 126.5 million down 3.0% in local currencies normalized over the prior year period. The reduction reflects a continued focus on cost controls and lower bad debt expenses. Other income for the current period was CHF 3.8 million from a release of a provision for cochlear implant product liability in the cochlear implants segment. Year-over-year, this was offset by a CHF 3.9 million capital gain in the prior year period from the sale of non-core audiological care activities in Portugal in the hearing instruments segment.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 251.3 million (1H 2017/18: CHF 233.7 million), representing an increase of 7.6% in Swiss francs and 3.3% in local currencies. Reported EBITA margin reached 19.3% (1H 2017/18: 18.6%). Exchange rate developments had a positive impact on the reported EBITA margin of +0.4%. Normalized for one-time costs, EBITA increased by 4.5% in Swiss francs or 0.3% in local currencies, reflecting good volume growth, efficiency improvements and a modest growth in R&D expenses, partly offset by the effects of lower ASP in the hearing instruments business.

Reflecting the EBITA growth and a slight reduction in the acquisition-related amortization, reported operating profit (EBIT) reached CHF 227.7 million (1H 2017/18: CHF 209.7 million), up by 8.6%. Net financial expenses increased from CHF 3.1 million to CHF 4.2 million due to lower profit from associates. The effective tax rate was 13.5% (1H 2017/18: 14.7%). The reduction reflects ordinary country mix related fluctuations and further progress in the integration of AudioNova into the Group structures. This resulted in an income after taxes of CHF 193.4 million. For the first six months of 2018/19, basic earnings per share were CHF 2.91 compared to CHF 2.73 normalized in the prior year period.

Hearing instruments segment − Solid organic growth in audiological care and US divestments
Sales in the hearing instruments segment grew by 1.7% in local currencies to CHF 1,194.0 million. Organic growth was 2.3%, while the contribution from acquisitions in the reporting period and the annualization of prior year acquisitions was 1.2% or CHF 13.9 million. Growth was lowered by 1.8% as a result of the disposal of non-core audiological care stores in the US and the sale of the US Hearing Service Plan business. Exchange rate fluctuations, mainly a stronger Euro, had a positive effect of CHF 22.6 million or 2.0%. This resulted in a reported sales growth of 3.7%.

As expected, the hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own audiological care business, had a more moderate start to the year. Solid overall volume growth was offset by a decline in ASP, reflecting the late stage of the product lifecycle. Organic growth in local currencies was 0.5%, resulting in sales of CHF 696.8 million. Divestments, namely the sale of the US Hearing Service Plan business, reduced sales by CHF 15.9 million or 2.3%. Europe, Latin America and the Asia/Pacific region achieved a solid high single digit percentage increase. Growth was hampered by a decline in North America where we faced strong competitive pressure across all customer segments. This resulted in modest sales decline of 0.5% in Swiss francs in the period under review.

The audiological care business increased sales by 7.0% in local currencies to CHF 497.2 million driven by organic growth of 4.9%, while acquisitions contributed 3.1%. The restructuring and streamlining of the US audiological care store network reduced growth by 0.9%. Solid organic growth was achieved in several key markets. Double-digit increases in Canada, Brazil, France Germany and New Zealand, were offset by a more challenging market environment in the UK. The US restructuring has been successfully completed and the business has shown improving momentum in the second quarter.

Reported EBITA for the hearing instruments segment amounted to CHF 243.9 million, up 4.0% in reported Swiss francs with a margin of 20.4%. Normalized for one-time costs in the prior year period, EBITA rose 1.1% in Swiss francs but decreased by 2.6% in local currencies. The above mentioned pressure on ASP could not be fully compensated by good volume growth and produc-tivity improvements.

Cochlear implants segment – Strong growth in systems sales
The cochlear implants segment achieved sales of CHF 109.4 million, up 7.9% in reported Swiss francs and 6.7% in local currencies, strongly driven by EMEA, LATAM and Asia/Pacific. Sales in the US declined due to lower upgrade sales, but growth momentum recovered towards the end of the reporting period after the successful launch of the new HiRes™ Ultra 3D implant. Organic growth in Asia/Pacific was high despite the prior year comparison period, which included higher Chinese tender sales.

The gross margin improved versus the prior year period. This was driven by a slight increase in ASP, in part due to lower China tender sales, partly offset by slower growth in higher margin upgrades. Operating costs benefited from structural and productivity improvements and profits were further helped by the above-mentioned provision release of CHF 3.8 million. As a result, the cochlear implants segment reported a significantly increased EBITA of CHF 7.7 million, versus a loss of CHF 0.8 million in the prior year period.

Strong cash flow and balance sheet
Cash flow from operating activities reached CHF 221.7 million, an increase of 8.9% versus the prior year period. Operating free cash flow increased by 8.3% to CHF 165.6 million. The cash consideration for acquisitions, net of disposals, amounted to CHF 23.5 million, reflecting a further expansion of our audiological care network. The cash outflow from financing activities of CHF 207.2 million reflects the dividend payment of CHF 169.8 million and the purchase of treasury shares to support equity based compensation plans.

Net working capital stood at CHF 155.3 million versus CHF 190.5 million in March 2018. This is mainly driven by a CHF 64.6 million increase in new net current liabilities due to the implementation of the IFRS 15 revenue recognition accounting standard (opening adjustment April 1, 2018), the effects of acquisitions and divestments, as well as seasonal fluctuations and foreign exchange effects. Capital employed decreased to CHF 2,573.0 million after CHF 2,702.9 million in March 2018, largely driven by the dividend payment within the period, the underlying increase in working capital and a CHF 125.1 million increase in net liabilities also resulting from the implementation of IFRS 15.

The Group’s equity amounted to CHF 2,283.0 million, resulting in a solid equity ratio of 53.9%. The net debt position stood at CHF 290.0 million compared to CHF 228.0 million in March 2018, reflecting the working capital build up and dividend payment.

Outlook 2018/19
Maintaining the outlook provided in May 2018, we continue to expect growth in sales and profitability in both the hearing instruments and cochlear implants segments for the fiscal year. The development in the second half will be supported by the introduction of Phonak Audéo™ M in the third quarter. Coupled with the annualization of prior year acquisitions and disposals, we expect overall sales to grow in the range of 2%-4% and EBITA to increase 6%-9% (compared to normalized fiscal year 2017/18 EBITA), both measured in local currencies.

The complete Semi-Annual Report 2018/19 is available on our website:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2018/19 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	Reported 2018	Normalized 2017[1]	Reported 2017
Sales	**1,303,315**	**1,253,025**	**1,253,025**
change compared to previous year (%)	4.0	17.1	17.1
Gross profit	**919,433**	**883,265**	**883,265**
change compared to previous year (%)	4.1	22.0	22.0
in % of sales	70.5	70.5	70.5
Research & development costs	**71,679**	**70,753**	**70,753**
in % of sales	5.5	5.6	5.6
Sales & marketing costs	**473,725**	**446,945**	**448,717**
in % of sales	36.3	35.7	35.8
Operating profit before acquisition-related amortization (EBITA)	**251,343**	**240,457**	**233,661**
change compared to previous year normalized (%)	4.5	16.8	19.3
in % of sales	19.3	19.2	18.6
Operating profit (EBIT)	**227,718**	**216,526**	**209,730**
change compared to previous year normalized (%)	5.2	13.6	16.2
in % of sales	17.5	17.3	16.7
Income after taxes	**193,355**	**181,611**	**176,233**
change compared to previous year normalized (%)	6.5	12.6	15.9
in % of sales	14.8	14.5	14.1
Basic earnings per share (CHF)	2.91	2.73	2.64
Net debt[2]	**290,047**	**488,446**	**488,446**
Net working capital[3]	**155,333**	**225,507**	**225,507**
Capital expenditure (tangible and intangible assets)[4]	**51,898**	**44,604**	**44,604**
Capital employed[5]	**2,573,036**	**2,708,075**	**2,708,075**
Total assets	**4,234,263**	**4,040,536**	**4,040,536**
Equity	**2,282,989**	**2,219,629**	**2,219,629**
Equity financing ratio (%)[6]	**53.9**	**54.9**	**54.9**
Free cash flow[7]	**142,182**	**97,696**	**97,696**
Operating free cash flow[8]	**165,634**	**153,004**	**153,004**
in % of sales	12.7	12.2	12.2
Number of employees (average)	**14,238**	**13,963**	**13,963**
change compared to previous year (%)	2.0	21.8	21.8
Number of employees (end of period)	**14,447**	**14,114**	**14,114**
change compared to previous year (%)	2.4	2.8	2.8

1) In 2017, excluding one-time costs of CHF 6.8 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 – short-term contract 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 around 3,500 locations in 18 countries.

Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and generated sales of CHF 2.65 billion in the financial year 2017/18 as well as a net profit of CHF 407 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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