Media Release

First half results 2019/20:
Strong performance across all three businesses

Stäfa (Switzerland), November 19, 2019 **– Sonova Holding AG, a leading provider of hearing solutions, today announces its results for the first half of fiscal year 2019/20. Consolidated sales increased by 12.0% in local currencies or 9.4% in Swiss francs to CHF 1,426 million. The Phonak Marvel platform continued to drive momentum in the Hearing Instruments business while the Audiological Care business further increased its organic growth. The Cochlear Implants business accelerated, driven by high demand for its MRI-compatible implant. Adjusted for restructuring costs of CHF 15.5 million related to structural cost improvements, Group EBITA reached CHF 279.5 million, up 16.1% in local currencies. Reported EBITA was CHF 264.0 million, up 9.9% in local currencies or 5.0% in Swiss francs. In light of the strong first half, we are raising the outlook for the full year. The Group now expects sales to grow by 8%-10% and the adjusted EBITA to rise between 12%-15%, both measured in local currencies.**

Highlights

- Group sales of CHF 1,426 million – up 12.0% in local currencies and 9.4% in Swiss francs
- Adjusted EBITA of CHF 279.5 million – up 16.1% in local currencies and 11.2% in Swiss francs
- Hearing Instruments segment – sales of CHF 1,294.1 million, up 11.0% in local currencies
- Cochlear Implants segment – sales of CHF 132.2 million, up 22.3% in local currencies
- Adjusted EPS of CHF 3.32 – up 14.0% in Swiss francs
- Operating free cash flow reached CHF 303.6 million – up 83.3% in Swiss francs
- Outlook for FY 2019/20 raised – sales growth of 8%-10% (from 6%-8%); growth in adjusted EBITA of 12%-15% (from 9%-13%), all in local currencies

Arnd Kaldowski, CEO of Sonova, says: “The strong performance achieved in the first half reflects a good momentum across all three businesses and drove broad-based market share gains. Phonak Marvel, the most successful launch in the company’s history, was a key driver for the strong increase in the Hearing Instruments business while the Audiological Care business benefited from the growth initiatives we initiated in past years and from our ongoing efforts to enhance consumer access. The continued success of our MRI-compatible implant and strong upgrade sales propelled growth in our Cochlear Implants business. I am confident that thanks to our innovative product portfolio and supported by our growth initiatives, we will continue on our successful journey.”

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High organic growth across all businesses

Sonova Group sales increased by 12.0% in local currencies in the first half of financial year 2019/20, driven by high organic growth in all three businesses. Organic growth contributed 11.0%, growth from acquisitions accounted for another 1.2%, whereas disposals reduced growth by 0.2%. Reported growth was held back by the recent strengthening of the Swiss franc, which reduced sales by CHF 32.9 million or 2.5%. This resulted in Group sales of CHF 1,426.3 million, an increase of 9.4% in Swiss francs.

Strong double-digit growth in the USA, solid momentum in EMEA and APAC

EMEA (Europe, Middle East and Africa), the Group's largest region in terms of revenue, showed a sales increase of 9.7% in local currencies. Strong organic growth was achieved in key markets including Germany, France, UK, Spain, Italy and the Nordics. The EMEA share of Group sales decreased slightly from 54% in the first six months of financial year 2018/19 to 52% in the period under review, partly as a result of the recent weakening of the euro and the British pound versus the Swiss franc.

Based on strong organic growth across all businesses and channels, sales in the United States increased by 20.3% in local currency versus the prior year period. Growth in the Hearing Instruments segment was driven by both the ongoing success of the Phonak Marvel platform and the continued accelerated same store growth post the restructuring of the Audiological Care network last year. Furthermore, the introduction of Phonak Audéo™ Marvel with the US Department of Veterans Affairs (VA) in May 2019 and a new private label contract with a large US hearing aid retailer supported growth and market share gains. Growth in the Cochlear Implants business accelerated as a result of the increased adoption of the HiRes™ Ultra 3D implant introduced one year ago and strong upgrade sales. The region accounted for 30% of Group sales versus 27% in the first half of financial year 2018/19.

Sales in the rest of the Americas (excluding the US) increased by 0.5% in local currencies. Growth was held back by the Hearing Instruments business in Canada and by the decision to discontinue the distribution of certain non-Sonova products in Brazil. Sales in the Asia/Pacific (APAC) region increased by 11.5% in local currencies, driven by a strong development in China and Australia.

Solid margin development

As part of Sonova's continuous improvement initiative, further measures aimed at improving the operating structure were initiated. We are integrating all back-office functions in the Hearing Instruments segment in the United States in one single location close to Chicago. The goal is to leverage common infrastructure and reduce complexity across brands. Furthermore, in order to provide support services to the global marketing organization, we are creating two dedicated centers of excellence in the area of digital marketing and lead generation. In Germany, the Audiological Care business is in the process of streamlining back-office, administrative and call-center functions. The restructuring costs associated with these measures amounted to CHF 15.5 million for the Hearing Instruments segment in the period under review. They are expected to result in annual cost savings of around CHF 10 million once fully implemented by the middle of calendar year 2020. Adjusted figures and growth rates exclude these costs.

Reported gross profit reached CHF 1,009.6 million, up 12.9% in local currencies. Adjusted for restructuring costs, gross profit reached CHF 1,011.1 million, an increase of 13.1% in local currencies and 10.0% in Swiss francs. The adjusted gross profit margin was 70.9%, an increase of 0.4 percentage points over the prior year period. Excluding the negative impact from the stronger Swiss franc, the adjusted gross margin increased by 0.7 percentage points. The gross profit margin benefited from improved average selling prices (ASPs) in the Hearing Instruments segment, reflecting the continued positive market response to the Marvel platform, which drove increased demand for higher value solutions. Thereby operating improvements more than offset additional cost of higher share of rechargeable products. In addition, the gross profit margin of the Cochlear Implants segment improved versus the prior year period, driven by improved ASPs from product innovations, ongoing productivity improvements as well as a favorable development of the country mix.

Excluding acquisition-related amortization, operating expenses were CHF 745.6 million. These included restructuring costs of CHF 14.0 million. Adjusted operating expenses before acquisition-related amortization reached CHF 731.6 million, an increase of 11.9% in local currencies. In the following, operating expenses by category are shown excluding restructuring costs.

Research and development (R&D) expenses before acquisition-related amortization reached CHF 80.3 million, an increase of 12.2% in local currencies. The reported growth reflects Sonova's commitment to continuously invest in innovation both in the Hearing Instruments as well as in the Cochlear Implants segment in order to further advance Sonova's industry leading portfolio of products and services.

Sales and marketing costs before acquisition-related amortization reached CHF 510.0 million, up 10.7% in local currencies over the prior year period. The increase reflects investments into sales coverage and marketing capabilities as well as the ongoing expansion of the Audiological Care network, including greenfield projects and bolt-on acquisitions. General and administration costs before acquisition-related amortization were CHF 141.5 million up 13.6% in local currencies. They include ongoing investments in the development and roll-out of a new IT system for the Audiological Care business and were affected by provisions for contract obligations to health insurance providers and by increased bad debt expenses.

Other income for the period was CHF 0.2 million. Year-over-year, this compares to an income of CHF 3.8 million which was mainly related to a release of a provision for cochlear implant product liability.

Adjusted operating profit before acquisition-related amortization (EBITA) reached CHF 279.5 million (1H 2018/19: CHF 251.3 million), representing an increase of 16.1% in local currencies and 11.2% in Swiss francs. The adjusted EBITA margin reached 19.6%, up 0.7 percentage points in local currencies. Exchange rate developments negatively affected the adjusted EBITA by CHF 12.3 million and reduced the margin by 0.4 percentage points. Including restructuring costs, the reported EBITA increased by 9.9% in local currencies or 5.0% in Swiss francs to CHF 264.0 million.

Reflecting the EBITA growth and a slight reduction in the acquisition-related amortization, reported operating profit (EBIT) reached CHF 241.2 million (1H 2018/19: CHF 227.7 million), up by 10.9% in local currencies or 5.9% in Swiss francs. Net financial expenses increased from CHF 4.2 million to CHF 5.3 million, reflecting the adoption of IFRS 16 as of April 1, 2019. As a result of the Swiss tax reform, income taxes were affected positively by CHF 154.3 million, reflecting a revaluation of the Swiss deferred tax positions and a resulting one-time deferred tax income. Excluding this one-time transition impact, the tax rate remained unchanged at 13.5% versus the prior year period. This resulted in an income after taxes of CHF 358.4 million. Basic earnings per share (EPS) reached CHF 5.55, up 90.6%. Excluding restructuring costs and the transition impact of the Swiss tax reform, adjusted EPS for the first six months of 2019/20 were CHF 3.32 compared to CHF 2.91 in the prior year period, an increase of 14.0%.

Hearing Instruments segment – Strong momentum from new products and solid same-store growth
The Hearing Instruments segment had a strong first half, with sales up 11.0% in local currencies to CHF 1,294.1 million. Organic growth was 10.0%, while the contribution from acquisitions in the reporting period and the annualization of prior year acquisitions was 1.3% or CHF 15.9 million. Prior year disposals related to the streamlining of the US Audiological Care network reduced sales by 0.3%. The recent strengthening of the Swiss franc had a negative effect of CHF 31.5 million or 2.6%. This resulted in a reported sales growth of 8.4%.

In the Hearing Instruments business, the strong consumer demand for the Phonak Marvel platform launched in November 2018 was a key driver for the strong increase, resulting in double-digit growth in the period. Building on this success, we introduced Marvel 2.0 in August 2019, further expanding the range of products available and adding additional features. Both ASPs and volumes increased in the period, leading to an organic growth in local currencies of 12.2% and to sales of CHF 770.3 million. Strong double-digit growth in the USA led to market share gains in all channels including a rebound of Sonova's share in the US Department of Veterans Affairs (VA). Further contributing was a new private label contract with a large US hearing aid retailer and increasing coverage by managed care.

The Audiological Care business maintained its solid growth momentum, by leveraging the benefits of the growth initiatives we initiated in past years and benefiting from ongoing efforts to further enhance consumer access through both face-to-face and online interactions. Sales increased by 9.4% in local currencies to CHF 523.8 million driven by organic growth of 6.9%. Acquisitions contributed 3.1% , whereas disposals reduced growth by 0.6%. Double-digit same-store growth was realized in the US, the UK, Austria and the Nordics. Growth was helped by both increasingly centralized lead generation management and improved in-store sales conversion. Also the positive consumer response to Phonak Marvel supported growth and further elevated the awareness of the Phonak product brand with consumers.

Reported EBITA for the Hearing Instruments segment reached CHF 255.7 million, up 9.1% in local currencies. The adjusted EBITA amounted to CHF 271.2 million, up 15.5% in local currencies or 11.2% in Swiss francs, corresponding to a margin of 21.0%. Excluding the adverse currency development, the margin increased by 0.9 percentage points compared to the prior year period.

Cochlear Implants segment – Acceleration driven by system and upgrade sales

The Cochlear Implants segment achieved sales of CHF 132.2 million, up 22.3% in local currencies and 20.9% in Swiss francs, driven by double-digit growth in all regions. Growth was supported by a pick-up in upgrade sales and the continued success of the HiRes Ultra 3D cochlear implant resulting in increased ASPs and volumes. The launch of Naída™ CI Connect and the Chorus™ sound processor in March supported the strong momentum in upgrade sales. During the reporting period, the U.S. Food and Drug Administration (FDA) and the German TÜV approved the Active Insertion Monitoring (AIM) System, an innovative solution to support implant surgery in real-time.

Driven by higher volume across the regions, operational efficiency improvements as well as higher ASPs on upgrades and systems, the gross margin improved versus prior year. As a result, the Cochlear Implants segment reported an EBITA of CHF 8.9 million, versus CHF 7.7 million in the comparison period. Normalized for last year's one-time effect from the release of a product liability provision in the amount of CHF 3.8 million, the EBITA margin of 6.7% increased by 4.4 percentage points over prior year in local currencies or by 3.1 percentage points in Swiss francs.

Strong cash flow and balance sheet

Cash flow from operating activities reached CHF 364.6 million, an increase of 64.5% versus the prior year period. The strong increase was driven by an improvement in working capital as well as the adoption of IFRS 16 as of April 1, 2019. Operating free cash flow increased by 83.3% to CHF 303.6 million. Driven by the continued expansion of the Audiological Care network and technology investments, the cash consideration for acquisitions amounted to CHF 40.7 million. The cash outflow from financing activities of CHF 393.0 million reflects the dividend payment of CHF 186.5 million and net share repurchases of CHF 215.2 million, mainly related to the share buyback program, and an increase in borrowings of CHF 50.3 million.

Net working capital stood at CHF 98.4 million versus CHF 163.0 million at the end of March 2019. The main driver was trade receivables which improved by CHF 91.8 million over the past half year. Trade payables were reduced by CHF 34.5 million in the same period. Capital employed increased to CHF 3,008.2 million compared to CHF 2,630.0 million at the end of March 2019, driven by the adoption of IFRS 16 and the one-time capitalization of deferred tax assets as a result of the Swiss tax reform.

The Group's equity amounted to CHF 2,252.4 million, resulting in a solid equity ratio of 49.9%. The net debt position stood at CHF 755.8 million compared to CHF 253.9 million at the end of March 2019, reflecting additional lease liabilities of CHF 272.1 million as a result of IFRS 16, net share repurchases of CHF 215.2 million and additional financial liabilities for contingent considerations and deferred payments from acquisitions in the amount of CHF 47.6 million.

Outlook 2019/20

In light of the strong first half, we are raising the outlook for the full year. The Group now expects sales to grow by 8%-10% and the adjusted EBITA to rise between 12%-15%, both measured in local currencies. The previous guidance indicated a sales growth of 6%-8% and an increase in the adjusted EBITA of 9%-13% in local currencies. Our mid-term outlook remains positive and unchanged.

The complete Semi-Annual Report 2019/20 is available on our website:
https://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2019/20 can be downloaded at:
https://www.sonova.com/en/investors/presentations

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Key figures Sonova Group (consolidated)

April 1 to September 30, in CHF million unless otherwise specified	2019	2018
Sales	**1,426.3**	**1,303.3**
change compared to previous year (%)	9.4	4.0
Gross profit	**1,009.6**	**919.4**
in % of sales	70.8	70.5
Gross profit (adjusted)[1)]	**1,011.1**	**919.4**
in % of sales	70.9	70.5
Research & development costs	**81.2**	**71.7**
in % of sales	5.7	5.5
Sales & marketing costs	**516.1**	**473.7**
in % of sales	36.2	36.3
Operating profit before acquisition-related amortization (EBITA)	**264.0**	**251.3**
in % of sales	18.5	19.3
Operating profit before acquisition-related amortization (EBITA) (adjusted)[2)]	**279.5**	**251.3**
in % of sales	19.6	19.3
Operating profit (EBIT)	**241.2**	**227.7**
in % of sales	16.9	17.5
Income after taxes[3)]	**358.4**	**193.4**
in % of sales	25.1	14.8
Income after taxes (adjusted)[3)]	**215.5**	**193.4**
in % of sales	15.1	14.8
Basic earnings per share (CHF)[3)]	**5.55**	**2.91**
Basic earnings per share (CHF) (adjusted)[3)]	**3.32**	**2.91**
Net debt[4)]	**755.8**	**290.0**
Net working capital[5)]	98.4	155.3
Capital expenditure (tangible and intangible assets)[6)]	61.0	51.9
Capital employed[7) 8)]	3,008.2	2,573.0
Total assets[9)]	4,511.7	4,234.3
Equity[10)]	2,252.4	2,283.0
Equity financing ratio (%)[11)]	49.9	53.9
Free cash flow[12)]	262.9	142.2
Operating free cash flow[13)]	**303.6**	**165.6**
Number of employees (end of period)	**14,985**	**14,447**

1) In 2019, excluding restructuring costs of CHF 1.5 million.
2) In 2019, excluding restructuring costs of CHF 15.5 million.
3) In 2019, reported income after taxes and reported basic earnings per share consider one-time positive transition impacts of the Swiss tax reform of CHF 154.3 million and negative impacts from restructuring costs (incl. tax impact) of CHF 11.3 million, which have been excluded in adjusted income after taxes and adjusted basic earnings per share.
4) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – current lease liabilities – non-current financial liabilities – non-current lease liabilities.
5) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.
6) Excluding goodwill and intangibles relating to acquisitions.
7) In 2019, capital employed considers one-time positive transition impacts of the Swiss tax reform of CHF 153.5 million.
8) Equity + net debt.
9) In 2019, total assets considers one-time positive transition impacts of the Swiss tax reform of CHF 150.0 million.
10) In 2019, equity considers one-time positive transition impacts of the Swiss tax reform of CHF 153.5 million.
11) Equity in % of total assets.
12) Cash flow from operating activities + cash flow from investing activities.
13) 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 a 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, audiological care 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 audiological care business, which offers professional audiological services through a network of around 3,500 locations in 19 key markets.

Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and generated sales of CHF 2.76 billion in the financial year 2018/19 as well as a net profit of CHF 460 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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