Summary Report 2019/20

Highlights 2019/20

Sonova Group: +8.7 % sales growth in local currencies

Group sales were 2,917 million, an increase of 8.7 % in local currencies or 5.6 % in Swiss francs. This was driven both by organic growth and bolt-on acquisitions.

Hearing Instruments: +9.6 % sales growth local currencies

The Hearing Instruments segment achieved sales of CHF 2,686 million, up 9.6 % in local currencies or 6.4 % in Swiss francs. The adjusted EBITA [2] increased by 13.5 % in local currencies to CHF 620.3 million.

Cochlear Implants: +3.4 % sales growth in local currencies

Adjusted sales [1] in the Cochlear Implants segment reached CHF 241.8 million, up 3.4 % in local currencies or 1.4 % in Swiss francs. The adjusted EBITA [2] reached CHF 1.6 million.

Adjusted Group EBITA: +10.4 % in local currencies

The adjusted Group EBITA [2] reached CHF 620.8 million, up 10.4 % in local currencies or 4.5 % in Swiss francs. As reported, Group EBITA reached CHF 554.3 million, up 1.0 % in local currencies vs. the prior year.

Earnings per share: +11.6 % in local currencies

Adjusted earnings per share [3] rose by 11.6 % in local currencies or 4.0 % in Swiss francs to CHF 7.39.

Significant impact from COVID-19 pandemic

Sonova's performance was well above expectations until mid-March, when the COVID 19 pandemic severely impacted the Group's business activities in the last weeks of the financial year.

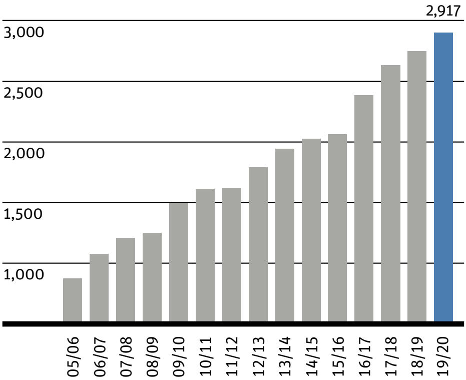
Sonova Group key figures

in CHF million unless otherwise specified	2019/20	2018/19	Change in Swiss francs	Change in local currencies
Sales	2,916.9	2,763.2	5.6 %	8.7 %
EBITA	554.3	582.5	(4.8 %)	1.0 %
EPS (CHF)	7.61	6.98	9.0 %	16.7 %
Operating free cash flow	638.5	411.8	55.1 %	
EBITA (adjusted)[2]	620.8	594.0	4.5 %	10.4 %
EPS (CHF) (adjusted)[3]	7.39	7.11	4.0 %	11.6 %

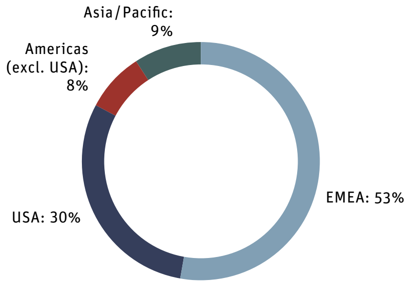
[1] Excluding impacts from returns for credit related to the voluntary field corrective action of CHF 11.1 million.
[2] In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 47.8 million and restructuring costs in the Hearing Instruments segment of CHF 18.6 million (2018/19: CHF 11.5 million).
[3] In 2019/20, excluding one-time positive transition impacts of the Swiss tax reform of CHF 64.1 million (2018/19: none) and negative impacts of the one-time costs and impacts from returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 36.5 million and from restructuring costs in the Hearing Instruments segment (incl. tax impact) of CHF 13.7 million (2018/19: CHF 8.3 million).

Key figures 2019/20

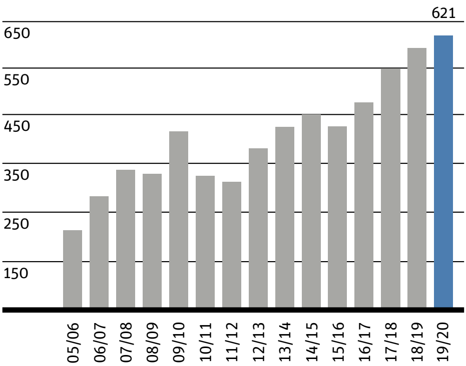
Sales in CHF m



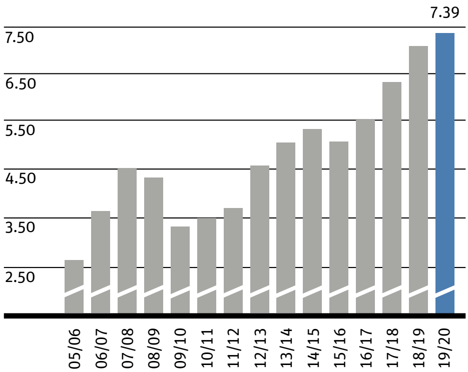
Sales by regions in 2019/20



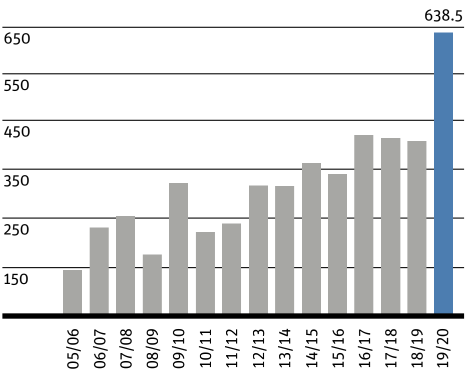
Adjusted EBITA 2) in CHF m



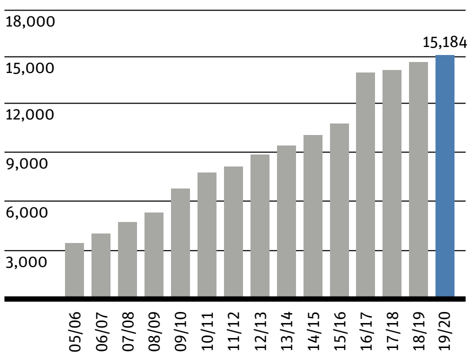
Adjusted EPS 3) in CHF



Operating free cash flow in CHF m



Number of employees



The Brazilian professional volleyball player Natália Martins has worn hearing aids since losing her hearing in childhood. The bewitching Brazilian beats have brought a beaming smile to her lips. Natália Martins loves samba, but the hypnotic rhythm would be no more than a distant murmur for her without her Phonak Naída™ hearing aids. Read more about Natália Martin’s story in the online Annual Report.

Letter to shareholders

Dear shareholders,

Decisive action in a time of uncertainty

Building on its strong growth momentum over the last two years, Sonova performed well above expectations until mid-March, when the global health and economic crisis resulting from the COVID-19 pandemic severely affected the hearing care market and with it the Group's business activities. We expect to see a very significant drop in revenue during the crisis but remain confident that demand will rebound thereafter.

These are unprecedented times for every one of us – so allow us to begin by hoping that all of you and your families are well, and successfully managing the impact of the COVID-19 pandemic. We also hope that the measures being taken will slow the spread of the virus, reduce the burden on health care systems, and allow the research community to develop effective diagnostics, treatments, and vaccines.

The restrictions on movement imposed in most markets have had a negative influence on the entire hearing care industry. Audiology stores, the primary consumer channel for hearing care products and services, are either closed or operating with significantly reduced hours. The great majority of hearing instrument consumers are seniors, the age group that has specifically been asked to remain at home to avoid infection. The Cochlear Implants business is also affected, as the majority of healthcare providers have decided to defer all non-essential surgery.

Challenging times demand quick, decisive action. For Sonova, our first priority is protecting the health of our global team, followed immediately by assuring that our operations can continue while complying with emergency regulations. Under our business continuity plan, most employees are currently working remotely, while others come to work under strict safety standards. All our manufacturing centers remain operational. Group management is helping our companies execute their COVID-19 plans and contingency measures.

In close coordination with the Board of Directors, management has implemented strict cost-reduction programs across the Group to ensure ample liquidity in this interim period. These measures include government-subsidized work time reductions, cuts in discretionary spending, robust working capital management initiatives, and tapping further sources of liquidity. In this context, Sonova suspended its share buyback program, successfully issued a bond in April 2020, and will propose a stock dividend for approval at the Annual General Shareholders' Meeting. Coupled with a solid balance sheet, these actions should put us in a good position to withstand challenging times. In solidarity with our employees and shareholders, the Board of Directors and the Management Board have also decided to take a number of compensation related measures including an immediate voluntary reduction in their cash compensation for the duration of the crisis.

Only the sound processor over the girl's right ear betrays the fact that Enhui wears a cochlear implant – she has been receiving regular follow-up care in the four years since Dr. Qiu fitted her with a device made by Sonova brand Advanced Bionics. Little Enhui wears the waterproof Neptune sound processor. "My child is going to wear this product for her entire life, so we picked the brand Advanced Bionics for her," says her father.

On the other side, our investment in R&D will continue as planned, maintaining Sonova's innovation leadership in hearing care. Our firm intention is to keep Sonova optimally prepared for when markets return to more normal levels.

Despite the temporary challenges, we have a positive longer-term outlook. The attractive fundamentals of our market are very much intact, and we are confident that it will rebound strongly as the crisis passes. Hearing is a fundamental human need and hearing solutions therefore remain a vital segment of the global health care sector. As market leader, Sonova is well positioned to benefit.

A year of good progress on many fronts

Sonova saw strong growth in 2019/20, with sales up 8.7% in local currencies and 5.6% in Swiss francs. This included rises across all businesses and regions until mid-March, when the business was severely affected by the COVID-19 pandemic. A key contributor to growth was the sustained high consumer demand for products supported by the Phonak Marvel™ platform. After a strong start to the year, the development in our Cochlear Implants business was affected by our decision in February 2020 to retrieve un-implanted devices from the initial version of the HiRes™ Ultra and Ultra 3D cochlear implants. The step was initiated in an abundance of caution, and a new version of the device has been deployed.

As outlined in more detail in the Strategy & Business section of this year's annual report, we have made good progress with our strategic initiatives, including raising our R&D investment to a new record level, thus assuring a strong innovation pipeline. We have made advances in commercial excellence and significant investments to expand our sales force in key markets. We have assembled the key skills and resources needed to strengthen our lead generation capabilities. A range of continuous improvement projects are bearing fruit and optimization of our operating structure is on track.

As in previous years, we highlight in our online Annual Report the way Sonova's commitment to better hearing makes a difference in the life of one specific person. This year, we feature the story of Natália Martins from Brazil, who, with the help of our hearing solutions, is fulfilling her dream of becoming a professional volleyball player – and is thus able to live a life without limitations.

Hearing Instruments segment

Sales in our Hearing Instruments segment grew by 9.6 % in local currencies and 6.4 % in Swiss francs, driven by strong organic growth in both the Hearing Instruments and Audiological Care businesses and supplemented by bolt-on acquisitions expanding our global store network. Reduced operating hours and temporary closures of audiology stores – both our own and third-party owned – in major markets presented a significant headwind in the final weeks of 2019 / 20.

The key growth driver in the Hearing Instruments business was the Phonak Marvel™ platform, with its industry-leading combination of exceptional sound quality, universal Bluetooth® connectivity powered by the proprietary SWORD™ (Sonova Wireless One Radio Digital) wireless chip, and proven rechargeable technology. Marvel reached the milestone of two million devices fitted less than 16 months after launch, making it the most successful product in Sonova's history.

The introduction of Marvel 2.0 in the fall of 2019 extended Marvel's functionality just as we made it available across the complete range of form factors. The new functions include direct integration of our Roger™ wireless technology, bringing RogerDirect™ to virtually all Marvel hearing aids and bridging the understanding gap in loud noise and over distance. Marvel 2.0 also introduced the next generation of our myPhonak app, optimized to give wearers a more personalized hearing experience with enhanced customization options.

The strategy of Sonova's Audiological Care business is to provide best-in-class consumer access to hearing care, backed by exceptional professional expertise and the full spectrum of Sonova's leading products and solutions. The business made good progress in 2019 / 20, significantly growing same-store sales while further expanding its global footprint through greenfield openings and bolt-on acquisitions.

Consumers increasingly demand choice and convenience in how they interact with hearing-care providers. We have therefore made further advances in establishing an omni-channel approach that seamlessly integrates face-to-face, remote, and online contact throughout the sales and support journey. The social distancing required in many markets by the COVID-19 pandemic has significantly increased the value and visibility of our remote support channels to consumers.

With the innovative store concept of World of Hearing, the Sonova Group has been setting new standards in the industry. The focus is on interactive experience as well as innovative products and services. In the “experience room” Willem van Gent is experiencing his hearing loss and the effect of a Phonak Marvel hearing instrument. The 64-year-old suddenly stops short, exclaiming in complete astonishment: “I haven’t heard these high notes in years. This is just incredible!”.

The high school student Ellie Warren from Ohio, USA, has been a member of Phonak's Teen Advisory Board for a year. With this program Phonak has been able to connect more effectively with its Generation Z target demographic and and better understand the challenges facing young people with hearing loss. Ellie has already written several contributions for HearingLikeMe, including pieces about her daily life in a family in which three of the four siblings (including her) are affected by hearing loss.

Cochlear Implants segment

Sonova's Cochlear Implants segment saw strong performance through most of 2019 / 20, but this was more than offset toward the year-end by lower demand related to the postponement of non-essential surgeries in countries affected by COVID-19, as well as our voluntary field corrective action in February 2020. Overall, adjusted sales were up 3.4 % in local currencies and 1.4 % in Swiss francs. The principle growth driver was the continued success of our HiRes Ultra 3D cochlear implant, whose innovative design allows recipients to have MRI scans without potential pain or the need for complex bandaging.

Another highlight for the year was receiving regulatory approval in the United States and Europe for our Active Insertion Monitoring (AIM™) System, an innovative solution for implant surgery that enables the procedure to be monitored in real time, reducing the risk of damage to delicate cochlear structures.

In an abundance of caution and reflecting our commitment to put patients first, we took a voluntary field corrective action in February, retrieving un-implanted devices from the initial versions of the HiRes Ultra and Ultra 3D cochlear implants. The reason was an observed increase in reports of reduced hearing performance. The action presented a substantial headwind to performance in the latter part of the year and resulted in significant one-time costs. Approved new versions of the devices were available and were quickly rolled out in major markets.

Dividend proposal

At the Annual General Shareholders' Meeting in June 2020, the Board of Directors will propose a stock dividend. This would be met from shares bought back under the recent share buyback program, which have not yet been canceled. We believe that this represents an attractive alternative for our shareholders during these challenging times. Coupled with the successful CHF 330 million bond issue in April 2020, the proposal represents a further important measure to ensure good liquidity levels in the current situation.

Corporate responsibility – environmental, social, and governance (ESG)

At Sonova, we view corporate responsibility as a commitment to make a positive impact on society while conducting our business in a sustainable, responsible manner in accordance with established ESG standards. This commitment is closely aligned with our long-term business strategy and is endorsed at every level of the company.

We have made progress towards achieving our group-wide environmental targets. Through continuous efficiency improvements and increased use of renewable energy, we reduced our carbon emissions intensity by 11 % compared to the prior year. A new slim packaging solution has allowed us to reduce the carbon footprint per shipped hearing aid pair by 40 %. Each year, we plan further initiatives to address the challenge of global climate change.

We also work to improve people's lives around the world by supporting the Hear the World Foundation with funding, expertise, and hearing solutions. In 2019/20, the foundation trained 190 professionals in 24 programs globally and reached 35,000 children in low- and middle-income countries.

We are proud and grateful that our ESG efforts are regularly acknowledged by a number of relevant organizations in the field, including the internationally recognized Dow Jones Sustainability and FTSE4Good indices. Sonova has received an A– leadership level ranking from the Carbon Disclosure Project (CDP) for the second year in a row, recognizing our environmental transparency and climate change related actions.

You find more information about our activities and performance in the Corporate Responsibility Report, which is part of the Sonova Annual Report.

Changes to the Board of Directors

The Board of Directors has nominated Adrian Widmer for election as a new Board member at the 2020 Annual General Shareholders' Meeting. Mr. Widmer has served since 2014 as Group CFO of Sika AG, a global specialty chemical company based in Switzerland. With his broad management and financial background, as well as his experience in M&A and business development, he is a valuable addition to the Board of Directors. If elected, Mr. Widmer will become a member of the Audit Committee. His nomination marks a further step in succession planning and the targeted reduction of the average age of Board members.

Change in auditor

In 2019/20, as part of its commitment to good Corporate Governance, Sonova invited tenders for its audit services. After a carefully conducted review process, the Board decided to follow the Audit Committee's suggestion and propose a change in auditor to the 2020 Annual General Shareholders' Meeting. It is proposed that Ernst & Young AG be appointed to audit the financial statements of Sonova Holding AG as of the 2020/21 financial year.

Our thanks

Growing, innovating, continuously improving: these strategic objectives call on the skills and commitment of every Sonova employee, every day. We knew already how much we gain from the motivation and enthusiasm of our people, but are even more impressed by the understanding, flexibility, and initiative they have shown in these testing times: together we will come through the challenges even stronger. We are grateful to the hearing care professionals and academic researchers whose collaboration informs our innovation, and the consumers whose hopes for a life without limitations drive us constantly forward. Especially, we recognize our obligation to our shareholders, whose firm support is so important, especially during this global crisis – our thanks to you all.

Outlook

Hearing is an essential human need, even – especially – during a time of physical distancing. Hearing care is a vital aspect of health care. Demographic changes, economic progress, and technological innovation are combining to open up new growth opportunities in hearing care around the world, even during the challenges that face the global economy. Sonova is well prepared to capture these opportunities and has taken decisive action to maintain its leadership position in preparation for the market rebound. Global uncertainty about the development of the COVID-19 pandemic prevents accurate guidance on short-term performance. Nevertheless, we remain confident that Sonova will continue to grow faster than its market and increase its market share.

Robert Spoerry
Chairman of the Board of Directors

Arnd Kaldowski
CEO

Financial review

Strong organic growth, partly offset in March by COVID-19

In the 2019/20 financial year, Sonova Group reported sales reached CHF 2,916.9 million, an increase of 8.7 % in local currencies or 5.6 % in Swiss francs. Returns for credit related to the voluntary field corrective action in the Cochlear Implants segment reduced sales by CHF 11.1 million or 0.4 %, resulting in adjusted sales of CHF 2,928.0 million, up 9.1 % in local currencies or 6.0 % in Swiss francs. Adjusted organic growth reached 8.1 %, while the net impact of acquisitions and divestments contributed growth of 1.0 %. Exchange rate fluctuations had a significant negative impact, reducing growth by 3.1 % due to a strengthening of the Swiss franc against most major currencies. In March 2020, most key markets were impacted by significantly lower in-store consumer traffic as a result of restrictions on movement, as well as by reduced cochlear implant surgeries.

Sales driven by strong performance in North America and solid EMEA and APAC development

Europe, Middle East and Africa (EMEA), the Group's largest region, showed a solid increase in sales of 5.8 % in local currencies. Sales were driven by improvements in commercial excellence and further supported by the continued success of Phonak Marvel and the introduction of Marvel 2.0 in August 2019. The performance of the Hearing Instruments business was driven by strong growth in France, the Nordics, and in developing markets. The Audiological Care business benefited from targeted growth initiatives across the region. Sales in the Cochlear Implants business were largely driven by upgrade sales. The EMEA share of Group sales decreased from 55 % in 2018/19 to 53 % in 2019/20.

Sales in the United States increased by 18.0 % in local currency , resulting in solid market share gains. Supported by the continued success of the Phonak Marvel platform and investment in the sales team, the Hearing Instruments business achieved a double-digit increase. Other growth drivers included the introduction of Phonak Audéo™ Marvel to the US Department of Veterans Affairs (VA) in May 2019 and a new private label contract with a large US hearing aid retailer. The Cochlear Implants segment started the year strongly supported by the success of the HiRes™ Ultra 3D implant and strong upgrade sales, but slowed down in the second half. The region accounted for 30 % of Group sales in 2019/20 versus 27 % in the prior year. Sales in the rest of the Americas (excluding the US) were flat in local currencies. Strong growth of our Audiological Care and Cochlear Implants business in Brazil was offset by the discontinuation of distribution of certain non-Sonova products in the country.

Sales in the Asia/Pacific (APAC) region rose by 6.7 % in local currencies, driven by double-digit growth in the Hearing Instruments business. Strong growth in Australia, Korea and India were partly offset by the COVID-19 impact on China starting in February and by weaker growth in New Zealand.

Operating margin affected by significant FX headwinds

Reported gross profit reached CHF 2,083.6 million. In addition to the above mentioned returns for credit, this included restructuring costs of CHF 1.5 million related to further improving the operating structure and one-time costs of CHF 10.8 million related to Advanced Bionics' voluntary field corrective action (2018/19 restructuring costs: CHF 8.8 million). Adjusted for these costs, gross profit reached CHF 2,106.9 million, an increase of 10.4 % in local currencies and 6.7 % in Swiss francs. The adjusted gross profit margin was 72.0 %, up from 71.5 % in the prior year. The improvement was driven by higher unit volumes and a rise in average sales price (ASP) in the Hearing Instruments business, reflecting the continued positive market response to the Marvel platform as well as operating improvements. This was partly offset by a significant headwind from currency exchange rates and additional costs because of the higher proportion of rechargeable products.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,529.3 million (2018/19: CHF 1,383.7 million). These included restructuring costs of CHF 17.2 million as well as one-time costs of CHF 26.0 million related to Advanced Bionics' voluntary field corrective action (2018/19 restructuring costs: CHF 2.6 million). In the following, we refer to operating expenses adjusted for these items. Adjusted operating expenses before acquisition-related amortization rose by 10.4 % in local currencies or by 7.6 % in Swiss francs to CHF 1,486.2 million.

Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 163.2 million, outpacing sales growth with an increase of 10.8 % in local currencies, underpinning Sonova's ambition to lead innovation in audiological performance and consumer experience. Technology developments in apps, connectivity, reliability, and comfort represented an important share of R&D efforts. R&D spending as a percentage of sales increased to 5.6 % (2018/19: 5.4 %).

Adjusted sales and marketing costs before acquisition-related amortization were up 9.1 % in local currencies to CHF 1,023.8 million. The increase reflects continued investment in strengthening Audiological Care's store network and lead generation capabilities, as well as expanding the customer-facing sales force of the Hearing Instruments and Cochlear Implants businesses to increase coverage and improve commercial execution.

Adjusted general and administrative costs increased by 13.5 % in local currencies to CHF 299.3 million, representing 10.2 % of sales, up from 9.7 % in the prior year. This includes an increase in the allowance for doubtful receivables of CHF 20.3 million, largely reflecting a higher customer default risk related to the COVID-19 pandemic. The remaining increase of 5.6 % in local currencies includes investment in a new integrated IT platform for the Audiological Care business and provisions for contract obligations to health insurance providers in the first half of the financial year.

Adjusted other income for the current period was CHF 0.1 million. This compares to CHF 4.4 million in the prior year, which was mainly related to a release of provisions for cochlear implant product liabilities.

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 620.8 million (2018 / 19: CHF 594.0 million), an increase of 10.4 % in local currencies or 4.5 % in Swiss francs. The adjusted EBITA margin was 21.2 % (2018 / 19: 21.5 %). A solid underlying margin development was more than offset by significant currency headwinds and the increase in the allowance for doubtful receivables related to the COVID-19 pandemic, which together reduced the adjusted EBITA margin by 1.2 percentage points. The reported EBITA increased by 1.0 % in local currencies but declined by 4.8 % in Swiss francs to CHF 554.3 million, corresponding to a margin of 19.0 %. Acquisition-related amortization amounted to CHF 44.4 million (2018 / 19: CHF 46.3 million). Reported operating profit (EBIT) reached CHF 510.0 million (2018 / 19: CHF 536.2 million), down 4.9 % in Swiss francs.

Earnings per share – Double digit increase in local currencies

Net financial expenses, including the result from associates, increased from CHF 6.6 million to CHF 7.6 million. As a result of the Swiss tax reform, income taxes were affected positively by CHF 64.1 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 was 15.3 % (2018 / 19: 13.1 %).

Income after taxes was CHF 489.5 million (2018 / 19: CHF 460.2 million). Basic earnings per share (EPS) reached CHF 7.61 (2018 / 19: CHF 6.98), an increase of 9.0 % from the prior year. The adjusted EPS increased 11.6 % in local currencies or 4.0 % in Swiss francs to CHF 7.39.

Hearing Instruments segment – Market share gains in both businesses

Sales in the Hearing Instruments segment grew by 9.6 % in local currencies and 6.4 % in Swiss francs to CHF 2,686.2 million. Organic growth was 8.5 %, while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) was 1.2 %. Prior year disposals reduced growth by 0.1 %. Exchange rate fluctuations reduced growth by 3.2 % in Swiss francs. As a result of restrictions on movement imposed in March in most major markets in response to the COVID-19 pandemic, audiology stores – both our own and third-party owned – were temporarily closed or operating with reduced hours, representing a significant headwind in the final weeks of 2019 / 20.

The Hearing Instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own Audiological Care business, maintained its strong momentum: Sales reached CHF 1,613.0 million, an increase of 11.8 % in local currencies, driven by growth in both the number of units sold and ASPs. Strong double-digit growth in the US led to market share gains in all channels including a strong rebound in Sonova's share of business with the US Department of Veterans Affairs (VA). Further contributions came from a new private label contract with a large US hearing aid retailer and increased coverage by managed care. Strong growth in Australia was a further highlight, while growth in Germany was hampered by a temporary decline due to replacement of consignment inventory with loaner products.

The Audiological Care business increased sales by 6.5 % in local currencies to CHF 1,073.2 million; the increase was driven by organic growth of 4.0 %, supplemented by bolt-on acquisitions accounting for 2.9 % of growth; prior-year disposals reduced growth by 0.3 %. Most key markets – including the UK, the Netherlands, the Nordics, France, Italy, Brazil, Poland and Austria – achieved above-market growth rates. Improved in-store sales conversion and increasingly centralized lead generation management continued to drive sales. The positive market response to Phonak Marvel also supported growth and helped to increase Phonak's consumer brand awareness.

Reported EBITA for the Hearing Instruments segment amounted to CHF 601.6 million, up 12.5 % in local currencies. The structural cost initiatives announced in March and November 2019 progressed according to plan and yielded year-on-year cost improvements of over CHF 10 million with additional savings expected in financial year 2020 / 21. Restructuring costs related to these initiatives amounted to of CHF 18.6 million (2018 / 19: CHF 11.5 million). Excluding these restructuring costs, the adjusted EBITA increased by 13.5 % in local currencies to CHF 620.3 million, corresponding to an EBITA margin of 23.1 % (2018 / 19: 22.8 %).

Cochlear Implants segment – Flat system sales from COVID-19 and voluntary field action, strong upgrade sales

The Cochlear Implants business achieved sales of CHF 230.7 million versus CHF 238.4 in the prior year. This includes returns for credit of CHF 11.1 million in conjunction with the voluntary field corrective action announced in February 2020, which involved the retrieval of un-implanted devices from the initial version of the HiRes Ultra and Ultra 3D cochlear implants. Excluding this, adjusted sales reached CHF 241.8 million, up 3.4 % in local currencies and 1.4 % in Swiss francs. A strong performance through most of 2019 / 20 was offset toward the year-end by lower demand related to the postponement of non-essential surgeries in countries affected by COVID-19, as well as by lower demand following the voluntary field corrective action. As a result, system sales were essentially flat for the year in local currencies. Double-digit growth in upgrade revenues was driven by strong momentum in the US and in Germany.

The reported EBITA loss of CHF 46.2 million includes returns for credit of CHF 11.1 million as well as one-time costs of CHF 36.7 million, both related to the voluntary field corrective action. Excluding these items, the adjusted EBITA for the year was CHF 1.6 million versus CHF 19.7 million in the prior year, resulting in a margin of 0.7 % (2018 / 19: 8.2 %). A solid performance in the first half of the year, driven by higher volume, operational efficiency improvements and higher ASPs on upgrades and systems, was offset by a sharp decline in adjusted sales toward the year-end.

Strong growth in cash flow

Cash flow from operating activities was CHF 843.3 million, compared to CHF 533.2 million in the prior year. Growth was largely driven by improvements in working capital changes of CHF 194.7 million, in large part from better receivables collections. In addition, the adoption of IFRS 16 resulted in a positive one-time effect of CHF 68.3 million with a corresponding offset in the cash outflow from financing activities. Net investments in tangible and intangible assets increased to CHF 127.7 million from CHF 117.3 million in the prior year, mainly as a result of investments in IT systems and store improvements in the Audiological Care business.

Operating free cash flow, including payments for lease liabilities of CHF 68.3 million, reached CHF 638.5 million, up by 55.1 % over the prior year and resulting in a strong cash conversion of 103 %. Cash consideration for acquisitions net of disposals amounted to CHF 74.8 million, up from 64.9 million in the prior year. In summary, this resulted in a free cash flow of CHF 563.7 million, up by 62.5 % over the prior year.

Cash outflow from financing activities was CHF 550.4 million, compared to CHF 522.1 million in the prior year. This largely reflects net share repurchases of CHF 470.1 million, mainly related to the share buyback program prior to its suspension in February. Cash outflow from financing also includes dividend payments of CHF 186.5 million and CHF 68.3 million for leases, based on IFRS 16, which was adopted for the first time this fiscal year.

Balance sheet remains strong

Reported net working capital was negative at CHF –18.9 million, compared to CHF 163.0 million at the end of the prior year. This is due to a CHF 138.5 million reduction in accounts receivables, stemming both from improved collection throughout the year, including during the slowdown in March, and from lower sales towards the end of the year. Despite significant sales growth, inventories were reduced by CHF 16.6 million year-on-year through better inventory management.

Capital employed was CHF 2,692.5 million, a slight increase from CHF 2,630.0 million in the prior year. An increase from the adoption of IFRS 16 and a one-time capitalization of deferred tax assets as a result of the Swiss tax reform was largely offset by the impact of the strength of the Swiss franc on assets held in foreign currencies.

The Group's equity position amounted to CHF 2,029.4 million, down from CHF 2,376.1 million in the previous year, partly as a result of the share buyback program (which was paused on March 16, 2020 to avoid cash outflow during the COVID-19 crisis); the result was an equity ratio of 45.2 %. The net debt position stood at CHF 663.0 million, compared to CHF 253.9 million at the end of the prior year. This increase was expected as a result of the share buyback and was in line with a previously announced debt leverage target. The return on capital employed (ROCE) decreased to 18.2 % from 20.6 % in the prior year, primarily driven by the adoption of IFRS 16 and further impacted by the strength of the Swiss Franc.

Consolidated financial statements

Consolidated income statements

CHF million	2019/20	2018/19
Sales	**2,916.9**	**2,763.2**
Cost of sales	(833.3)	(797.0)
Gross profit	**2,083.6**	**1,966.2**
Research and development[1]	(167.0)	(149.4)
Sales and marketing[1]	(1,074.3)	(1,015.7)
General and administration	(309.0)	(269.3)
Other income / (expenses), net	(23.4)	4.4
Operating profit (EBIT)[2]	**510.0**	**536.2**
Financial income	2.9	3.4
Financial expenses	(12.9)	(12.1)
Share of profit / (loss) in associates / joint ventures, net	2.4	2.1
Income before taxes	**502.4**	**529.6**
Income taxes	(12.9)	(69.4)
Income after taxes	**489.5**	**460.2**
Attributable to:		
Equity holders of the parent	483.2	454.1
Non-controlling interests	6.3	6.1
Basic earnings per share (CHF)	7.61	6.98
Diluted earnings per share (CHF)	7.57	6.95

[1] Includes acquisition-related amortization of CHF 0.9 million (2018 / 19: CHF 1.0 million) in “Research and development” and CHF 43.5 million (2018 / 19: CHF 45.4 million) in “Sales and marketing”. EBITA (Earnings before financial result, share of profit / (loss) in associates / joint ventures, taxes and acquisition-related amortization) amounts to CHF 554.3 million (2018 / 19: CHF 582.5 million).

[2] Earnings before financial result, share of profit / (loss) in associates / joint ventures and taxes (EBIT).

Consolidated statements of comprehensive income

CHF million	2019/20	2018/19
Income after taxes	**489.5**	**460.2**
Other comprehensive income		
Actuarial (loss)/gain from defined benefit plans, net	(45.1)	(16.9)
Tax effect on actuarial result from defined benefit plans, net	4.9	2.3
Fair value adjustment of financial liabilities at fair value through other comprehensive income (FVOCI)	4.8	
Total items not to be reclassified to income statement in subsequent periods	**(35.3)**	**(14.6)**
Currency translation differences	(145.4)	(58.0)
Tax effect on currency translation items	3.7	1.3
Total items to be reclassified to income statement in subsequent periods	**(141.7)**	**(56.7)**
Other comprehensive income, net of tax	**(177.0)**	**(71.3)**
Total comprehensive income	**312.5**	**388.9**
Attributable to:		
Equity holders of the parent	308.0	383.6
Non-controlling interests	4.5	5.3

Consolidated balance sheets

Assets CHF million	**31.3.2020**	**31.3.2019**
Cash and cash equivalents	450.2	374.8
Trade receivables and other current financial assets	389.8	531.6
Inventories	265.4	282.1
Other current operating assets and income tax receivables	115.5	123.5
Total current assets	**1,221.1**	**1,311.9**
Property, plant and equipment	332.8	324.9
Right-of-use assets[1]	260.6	
Intangible assets	2,420.2	2,463.2
Investments in associates / joint ventures	17.4	12.8
Other non-current financial and operating assets	36.4	35.5
Deferred tax assets[2]	198.0	144.2
Total non-current assets	**3,265.4**	**2,980.6**
Total assets	**4,486.5**	**4,292.5**

Liabilities and equity CHF million	**31.3.2020**	**31.3.2019**
Current financial liabilities	254.9	256.4
Current lease liabilities[1]	61.2	
Trade payables	104.3	102.8
Current income tax liabilities	154.8	139.2
Short-term contract liabilities	105.6	106.5
Other short-term operating liabilities	297.5	296.0
Short-term provisions[1]	125.2	129.2
Total current liabilities	**1,103.4**	**1,030.1**
Non-current financial liabilities	591.8	372.6
Non-current lease liabilities[1]	207.8	
Long-term provisions[1]	143.4	122.9
Long-term contract liabilities	212.8	226.1
Other long-term operating liabilities	73.5	26.0
Deferred tax liabilities	124.5	138.6
Total non-current liabilities	**1,353.7**	**886.3**
Total liabilities	**2,457.1**	**1,916.3**
Equity	**2,029.4**	**2,376.1**
Total liabilities and equity	**4,486.5**	**4,292.5**

[1] Impacted by the implementation of IFRS 16 “Leases”.
[2] In 2019 / 20, including one-time positive transition impacts of the Swiss tax reform of CHF 60.5 million. Excluding these effects, deferred tax assets amount to CHF 137.5 million.

Consolidated cash flow statements

CHF million	2019/20	2018/19
Income before taxes	**502.4**	**529.6**
Depreciation and amortization of tangible and intangible assets and right-of-use assets[1]	200.1	127.6
Loss on sale of tangible and intangible assets, net	1.3	0.4
Share of gain in associates / joint ventures, net	(2.4)	(2.1)
Increase / (decrease) in long-term provisions and long-term contract liabilities[1]	22.2	(16.3)
Financial (income) / expense, net[1]	10.0	8.7
Share based payments	19.9	19.3
Other non-cash items	5.4	(19.4)
Income taxes paid	(60.1)	(64.4)
Cash flow before changes in net working capital	**698.9**	**583.5**
Decrease / (increase) in trade receivables	112.4	(84.5)
Decrease / (increase) in inventories	9.2	(15.2)
Increase in trade payables	4.8	12.2
Other, net	18.1	37.2
Cash flow from operating activities	**843.3**	**533.2**
Purchase of tangible and intangible assets	(128.8)	(117.9)
Cash consideration for acquisitions, net of cash acquired	(74.8)	(66.4)
Other, net	(7.7)	(2.0)
Cash flow from investing activities	**(211.3)**	**(186.3)**
Proceeds from / (Repayment of) borrowings, net	184.0	(150.6)
Repayment of lease liabilities[1]	(64.3)	
Share buyback program	(402.7)	(157.8)
Sale / (Purchase) of treasury shares, net	(67.4)	(36.8)
Dividends paid by Sonova Holding AG	(186.5)	(169.8)
Other, net	(13.6)	(7.2)
Cash flow from financing activities	**(550.4)**	**(522.1)**
Exchange losses on cash and cash equivalents	(6.1)	(2.2)
Increase / (decrease) in cash and cash equivalents	**75.5**	**(177.4)**
Cash and cash equivalents at the beginning of the financial year	374.8	552.1
Cash and cash equivalents at the end of the financial year	**450.2**	**374.8**

[1] Impacted by the implementation of IFRS 16 “Leases”.

Consolidated changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**
Effect on initial application of IFRS 15 and IFRS 9		(132.9)			(0.1)	(133.1)
Total comprehensive income		439.5	(56.0)		5.3	388.9
Share-based payments		4.9		13.9		18.8
Sale of treasury shares[1]		(17.3)		45.2		27.9
Purchase of treasury shares				(225.5)		(225.5)
Dividend paid		(169.8)			(6.1)	(175.8)
Balance March 31, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**

Balance April 1, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**
Total comprehensive income		447.9	(139.9)		4.5	312.5
Capital decrease – share buyback program	(0.0)	(157.8)		157.9		
Share-based payments		6.4		13.0		19.4
Sale of treasury shares[1]		(32.0)		63.4		31.4
Purchase of treasury shares				(514.9)		(514.9)
Dividend paid		(186.5)			(8.6)	(195.1)
Balance March 31, 2020	**3.2**	**2,862.3**	**(406.8)**	**(447.5)**	**18.2**	**2,029.4**

[1] In relation to long-term equity incentive plans.

Financial statements of Sonova Holding AG

Income statements

CHF million	2019/20	2018/19
Income		
Investment income	274.3	287.3
Financial income	8.3	20.0
Total income	**282.7**	**307.2**
Expenses		
Administration expenses	(11.5)	(9.9)
Other expenses	(0.8)	(0.8)
Financial expenses	(47.1)	(34.3)
Direct taxes	(0.3)	0.2
Total expenses	**(59.6)**	**(44.8)**
Net profit for the year	**223.1**	**262.4**

Balance sheets

Assets CHF million	31.3.2020	31.3.2019
Cash and cash equivalents	0.4	12.4
Other receivables, group companies	9.7	3.8
Prepaid expenses	0.6	0.1
Total current assets	**10.8**	**16.3**
Loans, third parties	0.9	0.5
Loans, group companies	1,846.9	2,153.3
Investments	321.5	322.6
Total non-current assets	**2,169.3**	**2,476.4**
Total assets	**2,180.1**	**2,492.7**

Liabilities and shareholders' equity CHF million	**31.3.2020**	**31.3.2019**
Bank loans	150.0	
Trade account payables, third parties	0.1	0.1
Short-term interest-bearing liabilities, third parties	0.2	0.0
Short-term interest-bearing liabilities, group companies		46.2
Bond		250.0
Other short-term liabilities, third parties	20.8	8.9
Accrued liabilities	6.4	5.9
Total short-term liabilities	**177.5**	**311.1**
Bonds	560.0	360.0
Total long-term liabilities	**560.0**	**360.0**
Total liabilities	**737.5**	**671.1**
Share capital	3.2	3.3
Legal reserves	43.1	20.4
Balance carried forward	1,597.9	1,702.5
Net profit for the year	223.1	262.4
Treasury shares	(424.8)	(166.9)
Total shareholders' equity	**1,442.5**	**1,821.7**
Total liabilities and shareholders' equity	**2,180.1**	**2,492.7**

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 11, 2020:

CHF million	**31.3.2020**
Balance carried forward from previous year	**1,597.9**
Net profit for the year	223.1
Voluntary retained earnings	**1,821.0**
Dividend distribution	0.0[1]
Balance to be carried forward	**1,821.0**[2]

[1] The Board of Directors proposes to distribute a stock dividend instead of a cash dividend. The dividend distribution amount corresponds to the maximum aggregate nominal value of Sonova shares to be distributed (grossed up to account for Swiss withholding tax) and is subject to the number of shares outstanding on the last trading day with entitlement to receive the dividend, i.e. June 15, 2020. Treasury shares held by Sonova Holding AG and its subsidiaries are not entitled to dividends. The distribution amount will be reduced accordingly.

[2] As the stock dividend will be sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018 – 2021 and are liquidated shares for Swiss tax purposes, the voluntary retained earnings will be reduced by the difference of (i) the average repurchase price of the Sonova shares bought back under the share buyback program multiplied by the number of Sonova shares distributed as stock dividend and (ii) the aggregate nominal value of these shares. The total reduction amount is subject to the number of Sonova shares distributed (maximum amount of CHF 97.1 million).

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Financial calendar

June 11, 2020
General Shareholders' Meeting of Sonova Holding AG

November 16, 2020
Publication of Semi-Annual Report as of September 30, 2020

May 18, 2021
Publication of Annual Report as of March 31, 2021

June 15, 2021
General Shareholders' Meeting of Sonova Holding AG

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Information on the General Shareholders' Meeting

Invitation and agenda
General Shareholders' Meeting presentations
General Shareholders' Meeting minutes
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