Media Release

First half results 2020/21:
Strong performance in light of market headwinds

***Stäfa (Switzerland), November 16, 2020* – Sonova Holding AG, a leading provider of hearing solutions, today announces its results for the first half of fiscal year 2020/21. Consolidated sales reached CHF 1,069.6 million, down 20.9% in local currencies or 25.0% in Swiss francs. While the development was adversely impacted by the COVID-19 pandemic, business activities picked up strongly over the course of the period with sales approaching prior year levels during the second quarter of the financial year. The development was supported by the successful launch of the Phonak Paradise platform and the Group's growth initiatives. Adjusted for restructuring costs and damages awarded in a patent infringement lawsuit, operating profit before acquisition-related amortization (EBITA) reached CHF 174.3 million. This represents a margin of 16.3%, a good result and strong evidence of the Group's ability to actively manage its cost base. The Group expects to return to growth in the second half of the business year and to achieve a significant improvement in profitability. The outlook considers a limited temporary impact from the recent rise in infection rates and re-tightening of lockdown restrictions in several markets.**

Highlights

- Group sales of CHF 1,069.6 million – down 20.9% in local currencies and 25.0% in Swiss francs
- Sales approaching prior year levels in 2Q 2020/21 with positive growth in September
- Adjusted EBITA of CHF 174.3 million – down 28.5% in local currencies and 37.6% in Swiss francs
- Hearing Instruments segment – sales of CHF 986.5 million, down 19.6% in local currencies
- Cochlear Implants segment – sales of CHF 83.1 million, down 33.8% in local currencies
- Good operating free cash flow: CHF 252.8 million – down 5.8% in Swiss francs
- Outlook for 2H 2020/21 unchanged – sales growth of 4%-8%; growth in adjusted EBITA of 20%-30%, both at constant exchange rates

Arnd Kaldowski, CEO of Sonova, says: "We are pleased with the good results we have achieved in light of the headwinds from the COVID-19 pandemic. Sales recovered strongly, approaching prior year levels in the second quarter. This was driven by our strong product offering, the successful execution on the Group's growth initiatives and supported by the market rebound. A highlight during the period was the successful launch of the Phonak Paradise platform, which was very well received by the market. Although there is continued risk to the expected upward trend given the current rise in infection rates in several markets, we are encouraged by the current momentum and expect to return to growth in the second half. I am confident, that we will continue to successfully manage the challenges posed by the pandemic with a strong focus on driving sales while delivering a significant profitability improvement."

Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland

Phone +41 58 928 33 33
Fax +41 58 928 33 45
info@sonova.com
www.sonova.com

Significant impact from COVID-19 – Strong rebound with positive growth in September
Sonova Group sales decreased by 20.9% in local currencies in the first half of financial year 2020/21. The development was adversely impacted by the COVID-19 pandemic, which led to lower in-store consumer traffic as a result of restrictions on movement, as well as a reduced number of cochlear implant surgeries. Sales momentum picked up strongly over the course of the reporting period, approaching prior year levels during the second quarter. Growth from acquisitions accounted for 0.3%. Exchange rate fluctuations had a significant negative impact, reducing growth by 4.1% due to a strengthening of the Swiss franc against all major currencies. This resulted in Group sales of CHF 1,069.6 million, a decrease of 25.0% in Swiss francs.

Market rebound led by APAC, followed by EMEA
With the gradual easing of restrictions, business activity picked up from a low point in April and momentum improved sequentially each month. The development was further supported by the successful launch of the Phonak Paradise platform at the end of August 2020. For the Sonova Group, the APAC (Asia/Pacific) region led the rebound in the second quarter of financial year 2020/21 with positive sales growth in local currencies, followed by the regions EMEA (Europe, Middle East and Africa) and Americas (excl. US) at approximately prior year sales levels. In the United States, sales remained below the prior year level.

Sales in EMEA declined by 19.1% in local currencies. Several key markets including Germany, France, the Nordic countries, Spain and Switzerland rebounded strongly, returning to positive growth year-over-year in the second quarter of financial year 2020/21. The EMEA share of Group sales increased slightly from 52% in the first six months of financial year 2019/20 to 54% in the period under review, driven by the faster recovery.

Sales in the United States decreased by 26.0% in local currency versus the prior year period. While the independent channel for hearing instruments picked up strongly and returned to growth towards the end of the reporting period, deliveries to the US Department of Veterans Affairs (VA) as well as the business with large retail chains were slower to recover. Growth in the Cochlear Implants business was held back by a reduced volume of elective surgeries. The region accounted for 28% of Group sales versus 30% in the first half of financial year 2019/20.

Sales in the rest of the Americas (excluding the US) fell by 26.7% in local currencies, held back by the economic impact from the pandemic. Sales in the APAC region decreased by 10.5% in local currencies, with an earlier market recovery leading to a strong development in China but also in Australia and New Zealand. The recovery in China was particularly strong in our Cochlear Implants business.

Strong cost management and decisive measures to protect profitability
Sonova made good progress on cost containment without compromising investment into new products. In line with measures taken in the prior years, Sonova accelerated its structural optimization initiatives to preserve the ability to invest into growth and to protect profitability. The steps are expected to result in annual costs savings of CHF 50-70 million once fully implemented. During the first half of financial year 2020/21 these measures resulted in restructuring costs of CHF 21.9 million (1H 2019/20: CHF 15.5 million). In addition, Advanced Bionics successfully reached a milestone in a long patent infringement lawsuit resulting in a one-time income of CHF 99.0 million from damages awarded. Adjusted figures and growth rates in this financial review exclude these two items.

Reported gross profit reached CHF 739.0 million, down 22.0% in local currencies. Adjusted for restructuring costs of CHF 1.3 million, gross profit reached CHF 740.3 million, a decrease of 22.0% in local currencies and 26.8% in Swiss francs. The adjusted gross profit margin was 69.2%, a decrease of 1.7 percentage points over the prior year period. The gross profit margin benefited from improved average selling prices (ASPs) in the Hearing Instruments segment, driven by a faster market recovery of higher price channels and countries. At the same time the gross profit margin was negatively impacted by lower sales volumes in particular in the first quarter of the financial year and by higher transportation costs out of Asia as a result of the pandemic. Government support received in connection with the pandemic contributed CHF 4.4 million.

Excluding acquisition-related amortization, reported operating expenses were CHF 487.6 million. Excluding restructuring costs of CHF 20.5 million and the one-time income from the patent infringement lawsuit mentioned above, adjusted operating expenses before acquisition-related amortization reached CHF 566.0 million, a decrease of 19.5% in local currencies. In the following, adjusted operating expenses by category are shown excluding restructuring costs. Government support received worldwide in connection with the pandemic reduced total operating expenses by CHF 39.1 million.

Adjusted research and development (R&D) expenses before acquisition-related amortization reached CHF 78.1 million, a small decrease of 1.4% in local currencies. The stable investment level reflects the Group's long-term commitment to continuously invest in innovation despite the temporary negative market impact from the COVID-19 pandemic and to further advance Sonova's industry leading portfolio of products and services.

Adjusted sales and marketing costs before acquisition-related amortization reached CHF 368.2 million, a decline of 24.1% in local currencies over the prior year period. Adjusted general and administration costs before acquisition-related amortization were CHF 120.2 million down 12.1% in local currencies. The decrease in both cost categories reflects strong cost management across all three businesses as well as the above mentioned government support. Marketing investments and discretionary spend were significantly reduced during the lock-down. Further, the cost development benefited from the ramp up of structural optimization initiatives. At the same time, we continued to invest into the renewal of our Audiological Care IT system to yield improved in-store and cross-business process efficiency. Adjusted other income was CHF 0.5 million (1H 2019/20: CHF 0.2 million).

Adjusted operating profit before acquisition-related amortization (EBITA) reached CHF 174.3 million (1H 2019/20: CHF 279.5 million), declining by 28.5% in local currencies or 37.6% in Swiss francs. This result reflects our strong cost management and the decisive measures taken to protect profitability. The adjusted EBITA margin reached 16.3%, down 1.9 percentage points in local currencies, a solid result in light of the lower sales level. Exchange rate developments negatively affected the adjusted EBITA by CHF 25.5 million and reduced the margin by 1.4 percentage points. Including restructuring costs and the benefit from damages awarded in the patent infringement lawsuit, reported EBITA increased by 6.6% in local currencies, but fell by 4.8% in Swiss francs to CHF 251.4 million.

Reported operating profit (EBIT) reached CHF 230.0 million (1H 2019/20: CHF 241.2 million), up 7.4% in local currencies but down 4.6% in Swiss francs. Net financial expenses increased from CHF 5.2 million to CHF 10.3 million, driven by increased borrowings and bond issues totaling CHF 1 billion. Income taxes amounted to CHF 16.5 million. This compares to a tax income of CHF 122.4 million in the prior year period which included a one-time benefit as a result of the Swiss tax reform of CHF 154.3 million. The reported tax rate for the first half of financial year 2020/21 was 7.5%. It benefited from the utilization of tax-loss carryforwards, which previously had not yet been capitalized, in the context of the damages awarded to Advanced Bionics mentioned above. Excluding this one-time impact, the tax rate remained unchanged at 13.5%, in line with the underlying tax rate in the prior year period (excluding one-time transition impact of the Swiss tax reform in 1H 2019/20).

Basic earnings per share (EPS) reached CHF 3.25, down 41.5%. Adjusted EPS for the first six months of 2020/21 were CHF 1.97 compared to CHF 3.32 in the prior year period, a decrease of 29.1% in local currencies or 40.6% in Swiss francs. Adjusted EPS excludes negative impacts from restructuring costs (incl. tax impact) of CHF 18.9 million (1H 2019/20: CHF 11.3 million) and the above mentioned damages awarded in patent infringement lawsuit of CHF 99.0 million (1H 2019/20: excluding positive transition impacts of the Swiss tax reform of CHF 154.3 million).

Hearing Instruments segment – Strong rebound supported by new Phonak Paradise platform
Sales in the Hearing Instruments segment were down by 19.6% in local currencies to CHF 986.5 million as a result of the market decline related to the global COVID-19 pandemic. The segment returned to positive growth towards the end of the reporting period, driven by a market rebound as lockdown restrictions were lifted and audiology stores gradually reopened. The development was further supported by the successful launch of the new Phonak Paradise platform at the end of August 2020. The segment recorded an organic sales decline of 19.9%. The contribution from acquisitions in the reporting period and

the annualization of prior year acquisitions lifted sales by 0.3% or CHF 3.8 million. Exchange rate fluctuations reduced growth by CHF 54.5 million or 4.2% in Swiss fracs. This resulted in a reported sales decline of 23.8%.

The Hearing Instruments business posted a sales decline of 16.7% in local currencies, resulting in sales of CHF 607.8 million. The launch of the Phonak Paradise platform in August 2020 supported a strong recovery toward the end of the reporting period and contributed to year-over-year growth in a number of key markets in the second quarter. ASPs benefitted from a favorable shift in the country and channel mix as higher price markets and channels were rebounding faster from the pandemic. Sonova's share of business with the US Department of Veterans Affairs (VA) expanded further and reached 55% in value terms in September, the highest level in seven years.

Momentum in the Audiological Care business consistently picked up over the course of the reporting period, reflecting the gradual easing of government restrictions related to the pandemic and following the step up of marketing activities. Sales decreased by 23.8% in local currencies to CHF 378.7 million driven by negative organic growth of 24.3%. Acquisitions contributed 0.5% as M&A activities were largely halted during the reporting period due to the pandemic. The business further progressed on its omni-channel strategy by expanding its digital lead generation capabilities and entered the fast-growing market in China through a collaboration with established local partners.

Reported EBITA for the Hearing Instruments segment reached CHF 163.6 million, down 26.4% in local currencies. Restructuring costs amounted to CHF 20.8 million (1H 2019/20: CHF 15.5 million). Excluding these restructuring costs, the adjusted EBITA was CHF 184.3 million, down 22.6% in local currencies or 32.0% in Swiss francs, corresponding to a margin of 18.7% (1H 2019/20: 21.0%). Excluding the negative impact from currency developments of 1.5 percentage points, the margin decreased by 0.8 percentage points compared to the prior year period.

Cochlear Implants segment – Responding to a challenging period with strict cost control
Sales in the Cochlear Implants segment reached CHF 83.1 million, down 33.8% in local currencies and 37.2% in Swiss francs. In response to the pandemic, many hospitals continued to operate at reduced surgical volume throughout the reporting period. Momentum improved over the course of the reporting period albeit at a considerably slower pace than in the Hearing Instruments segment. The segment continued to make progress in mitigating the impact of the voluntary field corrective action announced in February 2020, but faced increased competitive pressure. Decisive steps were taken to adapt costs to the lower sales volume and to implement structural improvements.

The reported EBITA of CHF 87.7 million (1H 2019/20: CHF 8.9 million) includes a one-time income of CHF 99.0 million from damages awarded in a patent infringement lawsuit and restructuring costs of CHF 1.1 million. Excluding these items, the segment realized an adjusted EBITA loss of CHF 10.1 million.

Strong cash flow and balance sheet
Cash flow from operating activities reached CHF 325.8 million, down 10.6% versus the prior year period. Operating free cash flow decreased by 5.8% to CHF 252.8 million. The cash consideration for acquisitions amounted to CHF 12.2 million reflecting subdued M&A activity as a result of the COVID-19 pandemic. In summary, this resulted in a free cash flow of CHF 240.6 million (1H 2019/20: CHF 227.8 million). During the reporting period, Sonova further strengthened its financial position by issuing bonds and a US private placement totaling CHF 1 billion and by distributing a stock dividend instead of a cash dividend. This translated into a cash inflow from financing activities of CHF 718.4 million. Cash and cash equivalents stood at CHF 1.4 billion, which puts the Group in a good position to withstand market challenges.

Net working capital was virtually unchanged at CHF -17.0 million versus CHF -18.9 million at the end of March 2020. Strong receivable collection efforts throughout the pandemic prevented adverse effects from the economic downturn on working capital. Trade payables were reduced by CHF 30.4 million. Other payables and accruals increased by CHF 23.3 million driven by postponed tax payments. Capital employed slightly increased to CHF 2,712.3 million compared to CHF 2,692.5 million at the end of March 2020.

The Group’s equity amounted to CHF 2,287.5 million, representing an equity ratio of 41.9%, down from 45.2% at end of March 2020, driven by the increased borrowing. The net debt position stood at CHF 424.8 million compared to CHF 663.0 million at the end of March 2020, driven by free cash flow generation.

Outlook 2020/21
Supported by the successful launch of the new Phonak Paradise platform and good momentum from our commercial initiatives, the Group expects to return to growth in the second half of the business year. Coupled with our efforts to optimize our organizational structure, this is expected to drive a strong growth in profitability for the remainder of the financial year. The guidance issued on September 28, 2020 is unchanged. For the second half of the financial year 2020/21, the Group expects revenue growth of 4%-8% and an increase of the adjusted EBITA in the range of 20%-30% compared with the prior year period, both at constant exchange rates. For financial year 2020/21, this implies a sales decline of 6%-8% and the adjusted EBITA to be at around prior year levels, both at constant exchange rates.

The outlook considers a limited temporary impact from the recent rise in infection rates and re-tightening of lockdown restrictions in several markets. Beyond the headwinds from the momentary reacceleration of the pandemic, the Group expects a continued gradual market recovery. As a consequence of the strengthening of the Swiss franc and reflecting current exchange rates, Sonova anticipates reported sales growth in Swiss francs to be reduced by around 5 percentage points and the adjusted EBITA growth in Swiss francs to be negatively affected by around 10 percentage points in financial year 2020/21.

The complete Semi-Annual Report 2020/21 is available on our website:
https://www.sonova.com/en/investors/reporting/financial

The presentation of the Half-Year Results 2020/21 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	2020	2019
Sales	**1,069.6**	**1,426.3**
change compared to previous year (%)	(25.0)	9.4
Gross profit	**739.0**	**1,009.6**
in % of sales	69.1	70.8
Gross profit (adjusted)[1]	**740.3**	**1,011.1**
in % of sales	69.2	70.9
Research & development costs	**78.3**	**81.2**
in % of sales	7.3	5.7
Sales & marketing costs	**384.8**	**516.1**
in % of sales	36.0	36.2
Operating profit before acquisition-related amortization (EBITA)	**251.4**	**264.0**
in % of sales	23.5	18.5
Operating profit before acquisition-related amortization (EBITA) (adjusted)[2]	**174.3**	**279.5**
in % of sales	16.3	19.6
Operating profit (EBIT)	**230.0**	**241.2**
in % of sales	21.5	16.9
Income after taxes[3]	**203.2**	**358.4**
in % of sales	19.0	25.1
Income after taxes (adjusted)[3]	**123.2**	**215.5**
in % of sales	11.5	15.1
Basic earnings per share (CHF)[3]	**3.25**	**5.55**
Basic earnings per share (CHF) (adjusted)[3]	**1.97**	**3.32**
Net debt[4]	**424.8**	**755.8**
Net working capital[5]	(17.0)	98.4
Capital expenditure (tangible and intangible assets)[6]	41.0	61.0
Capital employed[7]	2,712.3	3,008.2
Total assets	5,453.8	4,511.7
Equity	2,287.5	2,252.4
Equity financing ratio (%)[8]	41.9	49.9
Free cash flow[9]	240.6	227.8
Operating free cash flow[10]	**252.8**	**268.5**
Number of employees (end of period)	**14,349**	**14,985**

1) In 2020, excluding restructuring costs of CHF 1.3 million (2019: CHF 1.5 million).
2) In 2020, excluding restructuring costs of CHF 21.9 million (2019: CHF 15.5 million) and damages awarded in patent infringement lawsuit to Advanced Bionics of CHF 99.0 million.
3) In 2020, reported income after taxes and reported basic earnings per share consider damages awarded in patent infringement lawsuit to Advanced Bionics of CHF 99.0 million (2019: positive transition impacts of the Swiss tax reform of CHF 154.3 million) and negative impacts from restructuring costs (incl. tax impact) of CHF 18.9 million (2019: 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) Equity + net debt.
8) Equity in % of total assets.
9) Cash flow from operating activities + cash flow from investing activities + payment of lease liabilities (prior year adjusted for IFRS 16).
10) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired / divested (prior year adjusted for IFRS 16).

Contacts:

Investor Relations		Media Relations	
Thomas Bernhardsgrütter		Patrick Lehn	
Phone	+41 58 928 33 44	Phone	+41 58 928 33 23
Mobile	+41 79 618 28 07	Mobile	+41 79 410 82 84
Email	thomas.bernhardsgruetter@sonova.com	Email	patrick.lehn@sonova.com

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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 the brands of the Audiological Care business, e.g. AudioNova, Geers, Boots Hearing Care, Connect Hearing and Lapperre. 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 3,300 locations in 20 key markets.

Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and generated sales of CHF 2.92 billion in the financial year 2019/20 as well as a net profit of CHF 490 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.

Sonova shares (ticker symbol: SOON, Security no: 1254978, ISIN: CH0012549785) have been listed on the SIX Swiss Exchange since 1994. **The securities of Sonova have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or under the applicable securities laws of any state of the United States of America, and may not be offered or sold in the United States of America except pursuant to an exemption from the registration requirements under the U.S. Securities Act and in compliance with applicable state securities laws, or outside the United States of America to non-U.S. Persons in reliance on Regulation S under the U.S. Securities Act.**