Summary Report 2020/21

Highlights 2020 / 21

Sonova Group: Sales of CHF 2,601.9 million

Group sales were CHF 2,601.9 million, a decrease of 6.8 % in local currencies and 10.8 % in Swiss francs. After a steep decline in the first quarter, sales recovered, returning to growth in the second half-year.

Hearing Instruments: Sales of CHF 2,417.3 million

Sales in the Hearing Instruments segment were CHF 2,417.3 million, down 6.1 % for the full-year, but up 6.5 % in the second half-year, both in local currencies. The adjusted EBITA [1)] reached CHF 617.1 million, representing a margin of 25.5 %.

Cochlear Implants: Sales of CHF 184.5 million

Sales in the Cochlear Implants segment declined by 15.9 % in local currencies to CHF 184.5 million but recovered towards the end of the financial year. This resulted in an adjusted EBITA [1)] loss of CHF 14.3 million.

Adjusted Group EBITA: +5.6 % in local currencies

The adjusted Group EBITA [1)] reached CHF 603.0 million, up 5.6 % in local currencies but down 2.9 % in Swiss francs. As reported, Group EBITA stood at CHF 663.3 million, up 30.5 % in local currencies and 19.7 % in Swiss francs.

Strong cash flow, healthy balance sheet

The Group maintains a healthy balance sheet. This was supported by a strong operating free cash flow, reaching CHF 602.4 million.

Dividend and share buyback

The Board of Directors proposes to the 2021 Annual General Shareholders' Meeting a cash dividend of CHF 3.20 per share and approved a new share buyback program, valued at up to CHF 700 million, for the 2021 / 22 financial year.

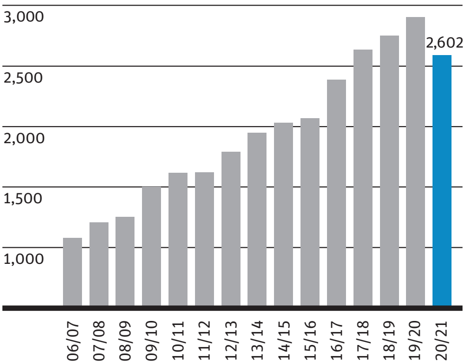
Sonova Group key figures

in CHF million unless otherwise specified	2020 / 21	2019 / 20	Change in Swiss francs	Change in local currencies
Sales	2,601.9	2,916.9	(10.8%)	(6.8%)
EBITA	663.3	554.3	19.7%	30.5%
EPS (CHF)	9.23	7.61	21.3%	33.7%
Operating free cash flow	602.4	638.5	(5.7%)	
EBITA (adjusted)[1)]	603.0	620.8	(2.9%)	5.6%
EPS (CHF) (adjusted)[1)]	7.71	7.39	4.3%	15.5%

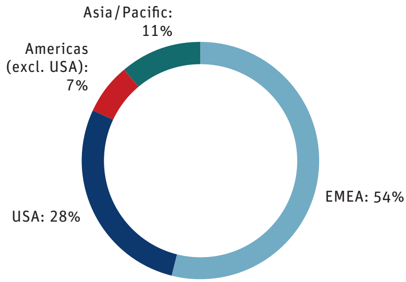
1) Non-GAAP financial measure adjusted for nonrecurring items; see financial review and for details see the table "Reconciliation of non-GAAP financial measures" in the financial review of the full Annual Report 2020 / 21.

Key figures 2020 / 21

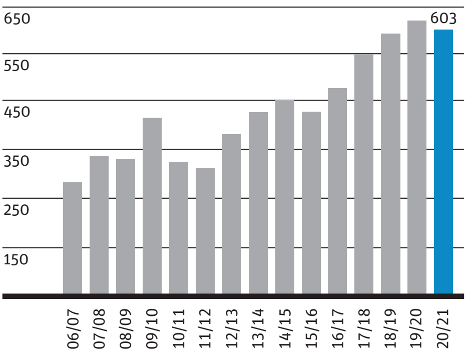
Sales in CHF m



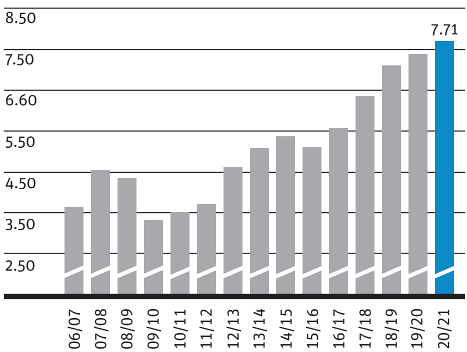
Sales by regions in 2020 / 21



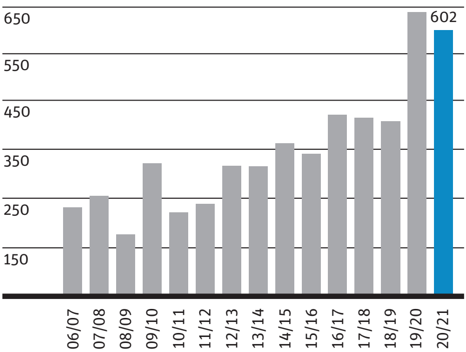
Adjusted EBITA [1] in CHF m



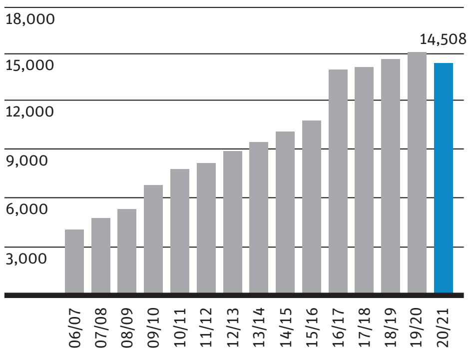
Adjusted EPS [1] in CHF



Operating free cash flow in CHF m



Number of employees



The saxophone player Charles Owens, who is over 80, finds his Phonak hearing aids crucial, not only for listening to music and communicating with the members of his band. In 2015, as a call from Hollywood comes through, he and his band have been playing regularly for more than 20 years at the club Lighthouse Café a few miles south of Los Angeles. The film, which will see him taking the stage behind Ryan Gosling, Emma Stone and John Legend, is called La La Land. To Charles' delight, it will bring jazz to a whole new audience and lure the curious into the Lighthouse Café.

Letter to shareholders

Dear shareholders,

Successfully navigating the challenges imposed by the COVID-19 pandemic

Despite a global pandemic, with its restrictive effects on the healthcare market and consumer-facing businesses, the Sonova Group achieved solid sales performance in 2020 / 21. A sharp dip in activity in April 2020 was followed by a swift recovery, reflecting the market's strong fundamentals, the resilience of consumer behavior, and Sonova's own growth momentum. This was somewhat tempered by a later period of increased infection rates and government restrictions. Nevertheless, we achieved strong sales and earnings growth in the second half-year, reflecting both the robust execution of our strategy and the benefits of our structural optimization initiatives. We also recorded a strong cash flow performance in both halves.

For the year as a whole, the impact of the pandemic on the hearing care industry – including restrictions on personal movement, consumer activity, and elective surgery – resulted in a decline in sales of 6.8 % in local currencies and 10.8 % in Swiss francs. Sonova has weathered the crisis robustly: we have outpaced the market, grown share and are well-positioned to continue to do so.

We navigated the challenges of this unprecedented year through a series of swift and decisive measures. We quickly took the essential steps to assure the health and safety of our employees and customers, to protect our core financial flexibility, and to contain costs. We were therefore fully prepared to drive sales growth as the market rebounded.

We accelerated our structural optimization and growth initiatives, which are well on track. These enabled us to drive outperformance in the second half-year and emerge from the crisis stronger than when we entered.

We maintained a high level of investment despite difficult market conditions, launching groundbreaking new products such as the Phonak Paradise hearing aid platform and the Advanced Bionics Naída Marvel CI sound processor. These well-received innovations give us a further increased share of a fast-recovering market.

All in all, the experience of this year has been a validation of Sonova's strategy. It gives us, not just the strength and agility to grow in favorable conditions, but the resilience to come through severe challenges in a strong position. You will find more details in the Strategy & Business section of this year's annual report.

With his Phonak Audéo™ Paradise hearing aids, Charles finds many things easy again. “It’s like having new ears! As if I’d been underwater before and finally come to the surface,” says Charles enthusiastically. “These are really first-class hearing instruments.” When his phone rings, all he has to do is press a button on the device and he is directly connected, and can hear the voice at the other end clearly and distinctly. It is also a lot more fun to listen to his nine-year-old grandson practicing his saxophone with him. “You can’t put a price on that, and there isn’t a note I would want to miss. Now, I can finally hear them all again.”

As in previous years, we also feature the story of an individual who has benefited from our hearing solutions. This time it is Charles Owens in the US, who can continue his distinguished career as a professional saxophone player and thus live his live without limitations, sharing his joy in music with the world.

Hearing Instruments segment

Sonova's Hearing Instruments segment was able to outgrow the market and gain market share throughout the year. The overall market decline resulting from the COVID-19 pandemic meant that full-year sales were down by 6.1 % in local currencies, but the segment returned to growth of 6.5 % in the second half-year, supported by solid performances in both the Hearing Instruments and Audiological Care businesses.

A significant growth milestone, both for this year and the future, was the launch of the Phonak Paradise hearing aid platform in August 2020. Paradise builds on the global popularity of Phonak Marvel, the most successful platform in the Group's history and still an industry benchmark two years after its introduction.

Paradise's key innovations start with PRISM™, an entirely new sound-processing chip offering unrivaled sound quality and supporting many unique features for a strongly improved hearing performance. Paradise is also Phonak's first hearing aid platform to include a motion sensor, for brilliant speech intelligibility when the wearer is moving and having a conversation. In addition, certain functions can be controlled just by tapping on the ear. Multiple Bluetooth® connections let users effortlessly enjoy hands-free phone calls, music, television, and a wide range of other services and applications. We were able to successfully launch Paradise worldwide during the pandemic, and the market response has been excellent, matching the performance of Marvel over the equivalent period.

The Audiological Care business also made good progress during this year. Its strategy is to provide best-in-class service through deep expertise, the industry's broadest solution portfolio, and an omni-channel approach to the market that gives consumers full control over how they interact with their provider through a seamless combination of face-to-face, remote, and online interactions.

This year, we made significant progress in executing our omni-channel strategy by further integrating our systems and procedures, streamlining our store network, and expanding our lead generation capabilities. We accelerated the rollout of our World of Hearing stores, flagship centers where consumers can experience the full range of Sonova solutions: ten such stores were open by the end of the financial year. We also expanded our online presence through our eStores, and entered the China hearing care market through a combination of online and in-store partnerships.

Although consumer-facing service businesses in general were seriously restricted by the pandemic, our omni-channel approach allowed us to transfer our consumers' care seamlessly to online and remote channels during the lockdown, and then return to safely distanced in-store care as consumers reverted to their preferred form of contact.

Cochlear Implants segment

The Cochlear Implants segment, operating under the Advanced Bionics brand, has undergone a very challenging year: the development was significantly restricted by the necessity for hospitals in many countries to concentrate on dealing with the pandemic, thereby reducing the number of elective surgeries. There was also a residual impact from our voluntary field corrective action taken in February 2020. The result was a sales decline of 15.9 % in local currencies. Despite a strong and effective focus on cost reductions this year, the lower sales level had a negative effect on profitability.

This year has, however, seen important measures taken to support a prompt return to growth and profitability. A strong and well-communicated program to assure product quality and reliability has substantially mitigated the impact of the voluntary field corrective action, regaining customer confidence and establishing a pipeline of new recipients when elective surgeries become possible again.

Even more important, this year has seen the launch of two new sound processors based on Phonak Marvel's proven technology: the Naída™ CI Marvel for adults; and the Sky CI™ Marvel, the world's first dedicated sound processor specifically designed for children. The benefits of the Marvel technology – adaptive sound programs, hands-free calling, direct wireless connectivity – can transform the lives of cochlear implant recipients. The market has shown great enthusiasm for the potential of these processors – enthusiasm that we are confident will translate into sales in the 2021 / 22 financial year.

In December 2020, Charles is fitted with Phonak Audéo™ Paradise hearing aids in the Sonova brand Connect Hearing's audiological store. These multi-functional devices offer improved acoustic performance and enhanced speech comprehension combined with best-in-class wireless connectivity. "This fitting makes me feel like an artist," says Ivan Wu, Connect Hearing's Senior Regional Director, adding that he has to reproduce the sounds of the world in as much varied detail as possible in the ears of his client, and translate the musician's wishes into commands for the computer program.

“The important thing with jazz is to play with enthusiasm,” says Charles, surveying the packed room with satisfaction. He can hardly wait to take the stage, raise the tenor sax to his lips and entertain the public. Charles and the saxophone was love at first sight.

Returning cash to shareholders

Given Sonova's strong cash and balance sheet position, the Board of Directors will propose to the Annual General Shareholders' Meeting (AGM) in June 2021 a dividend of CHF 3.20 per share, which represents a payout ratio of 42 %. After the previous year's stock dividend, this year's cash dividend, if approved, would be 10 % higher than in the 2018 / 19 financial year. In addition, the Board of Directors has approved a new share buyback program, worth up to CHF 700 million, for the 2021 / 22 financial year.

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

Sonova's mission is to have a positive effect on our consumers' lives. This closely aligns with our aspiration to have a positive effect on society as a whole, through running our business in a sustainable and responsible manner. We regard our ESG strategy as integral to our overall strategy; we promote and apply it at every level of the Group. The COVID-19 pandemic, by strongly focusing us on the health and safety of our employees, customers, and consumers, has confirmed the importance of these principles in our day-to-day operations.

The challenges of this year have not impeded significant progress toward achieving our ESG goals. We have further reduced our carbon footprint, exemplified by the opening of one of the first zero-energy commercial buildings in Switzerland. We target to achieve carbon neutrality in our own operations by the end of 2021 and to align our reduction targets with the <1.5°C global warming goal advocated by the Science Based Targets initiative (SBTi). We have accelerated action on diversity and inclusion: at year-end 34 % of all upper and senior management positions were held by women. We have also introduced ESG targets as an element of the objectives for the variable cash compensation of the members of our Management Board.

Institutional investors increasingly evaluate companies based on recognized ESG performance as well as financial indicators. We are therefore very pleased that our progress in this area has been validated by indices such as the Dow Jones Sustainability Index and FTSE-4Good, and that our ESG performance has been described for several years now as industry-leading by the relevant ratings agencies.

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 Management Board and to the Board of Directors

In February 2021, we announced that Birgit Conix will become Sonova's Chief Financial Officer (CFO) and will join the Management Board as of June 2021. She is a seasoned CFO with more than 25 years of international experience in finance, strategy, and business operations across multiple industries including many years in the healthcare sector. Most recently, she was CFO and member of the Executive Board of TUI AG. Hartwig Grevener, after serving more than eight years as CFO of the Sonova Group, has decided to leave us after the 2021 AGM in June. We want to sincerely thank Hartwig Grevener for his important contributions to the strong development of the Sonova Group.

At the same time, we announced that the Board of Directors nominated Greg Behar and Roland Diggelmann as new Board members for election at the 2021 AGM. They both have an outstanding track record in leading successful global healthcare businesses and their nomination is a continued step in the rejuvenation of the Board. Greg Behar has been CEO since 2014 of Nestlé Health Science SA, a global leader in the science of nutrition. Roland Diggelmann has been CEO since 2019 of Smith & Nephew plc, a UK-based leading global medical technology company.

Beat Hess, Vice Chair and member of the Board of Directors since 2012, has reached Sonova's age limit for Board membership and will retire from his position. In addition, Michael Jacobi will not stand for re-election, having served as a member of the Board of Directors since 2003 and as Chair of the Audit Committee from 2004 to 2019. We are very grateful to Beat Hess and Michael Jacobi for the experience, insight, and hard work that they have contributed to Sonova over the years, and we wish them all the best in their future plans.

If re-elected, the Board of Directors intends to appoint Stacy Enxing Seng as Vice Chair of the Board of Directors after the 2021 AGM, to succeed Beat Hess.

As part of our ESG strategy, we strongly believe that a more balanced gender representation on the Board of Directors is in the best interests of the Sonova Group, and we are committed to achieving a 30 % proportion of women on the Board well before the time this becomes a legal requirement in 2026.

Our thanks

A crisis is, above all, a test of strength. After this eventful year, we have even more reasons to thank our employees for their strength to keep on innovating, improving, and expanding our solutions and businesses, despite all the challenges we have faced. Our customers and colleagues in the world of hearing care have shown an unwavering commitment to the people they serve, and great flexibility in adjusting to new ways of connecting to them and to us. Our consumers, as the experience of the second half-year shows, do not let anything get in the way of advancing their hearing journey. Our shareholders have shown continued trust in our strategy – and we feel the results justify that trust. At the end of such a year, we have many things to be grateful for; we thank you all.

Outlook

As we predicted in last year's letter, Sonova has grown faster than the market and increased its market share. The attractive fundamentals of the hearing care market remain intact despite the pandemic. There is pent-up demand to be satisfied and new demand emerging. We are confident that the strong recovery will persist, and that consumers will continue to demand even better hearing performance and technological innovation, delivered through an ever wider spectrum of channels. As a global market leader, Sonova is in a strong position – in innovation, in financials, in market access and in operational efficiency – and we expect to participate fully in a resurgent market.

Robert Spoerry
Chair of the Board of Directors

Arnd Kaldowski
CEO

Financial review

Strong sales recovery in the second half-year

In the 2020 / 21 financial year, Sonova Group sales reached CHF 2,601.9 million. The impact of the COVID-19 pandemic on the hearing care industry – including restrictions on personal movement, consumer activity, and elective surgeries – resulted in a decline in sales of 6.8 % in local currencies or 10.8 % in Swiss francs. Organic growth was negative at 7.1 %, while acquisitions contributed 0.3 % to growth. Sales momentum picked up strongly in the second quarter and the Group returned to growth in the second half-year. Exchange rate fluctuations had a significant negative impact, reducing growth by 4.0 % due to a strengthening of the Swiss franc against most major currencies.

All regions returning to growth in the second half

Business momentum continued to improve throughout the year, with all regions returning to growth in the second half. The recovery was supported by the successful launch of the Phonak Paradise platform in the Hearing Instruments business in August 2020 and good momentum from the Group's commercial excellence initiatives. The successful launch of two new sound processors – the Naída™ CI Marvel for adults and the Sky CI™ Marvel for children – lifted sales at Advanced Bionics towards the end of the financial year. The Asia / Pacific (APAC) region experienced the strongest recovery with sales up 3.7 % in local currencies. Several key markets in the region reported double digit sales growth year-over-year with particularly strong sales development in China.

Sales in Europe, Middle East and Africa (EMEA), the Group's largest region, declined by 6.0 % in local currencies but several key markets achieved positive year-over-year growth. A solid recovery in the Hearing Instruments business was driven by France, Germany, the Nordics, and Switzerland, which all achieved full-year sales above prior year levels. A similar trend was observed in the Audiological Care business but performance was held back by strict lockdown measures in the UK and a slowdown in Germany in the second half-year. Sales in the Cochlear Implants business were supported by upgrade sales. The EMEA share of Group sales increased from 53 % in 2019 / 20 to 54 % in 2020 / 21.

Sales in the United States declined by 10.8 % in local currency. After slow recovery in the first half-year, the market returned to prior year levels in the second half, led by growth in the commercial channel. Growth in the Cochlear Implants business was held back by the reduced number of elective surgeries but momentum significantly improved after the successful market introduction of the Naída™ CI Marvel and Sky CI™ Marvel sound processors. The region accounted for 28 % of Group sales in 2020 / 21 versus 30 % in the prior year. Sales in the rest of the Americas (excluding the US) were down 9.7 % in local currencies, as the impact of the COVID-19 pandemic has persisted longer than in many of the larger markets.

Sustainable progress on profitability – One-time gain in Cochlear Implants

The results were significantly impacted both by the COVID-19 pandemic and the strengthening of the Swiss franc, which represented a strong headwind to growth. Despite these challenges, the Group achieved strong results through a swift implementation of cost saving initiatives and sustainable structural improvements.

In line with measures taken in prior years, Sonova accelerated structural optimization initiatives to preserve its ability to invest into growth and to protect profitability. These initiatives resulted in restructuring costs of CHF 38.9 million (2019 / 20: CHF 18.6 million) and led to cost savings of CHF 55 million during the reporting period. A one-time cost of CHF 25.3 million was incurred from impairment of previously capitalized development costs stemming from a change in our cochlear implants product development roadmap (2019 / 20: returns for credit and one-time costs totaling CHF 47.8 million related to the voluntary field corrective action). In addition, Advanced Bionics reached a successful conclusion in a long-running patent infringement lawsuit, resulting in a one-time income of CHF 124.4 million. Adjusted figures and growth rates in this financial review exclude these items. For more details, please refer to the table “Reconciliation of non-GAAP financial measures” in the financial review of the full Annual Report 2020 / 21.

Reported gross profit reached CHF 1,873.5 million. Adjusted gross profit reached CHF 1,880.2 million, down 6.4 % in local currencies and 10.8 % in Swiss francs. The adjusted gross profit margin was 72.3 %, up from 72.0 % in the prior year. The improvement was driven by structural and continuous improvement initiatives. It was further supported by a higher average sales price (ASP) in the Hearing Instruments business for the financial year as a whole. This reflects the positive market response to the Phonak Paradise platform, as well as the temporary benefit from faster market recovery in higher price channels and markets. A change in reimbursement in France and a normalization of the channel mix led to ASP pressure towards year end. Further progress was held back by lower sales volumes and by higher transportation costs out of Asia resulting from the pandemic. Government support received in connection with the pandemic contributed CHF 4.9 million.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,210.3 million (2019 / 20: CHF 1,529.3 million). Adjusted operating expenses before acquisition-related amortization decreased by 11.4 % in local currencies or by 14.1 % in Swiss francs to CHF 1,277.1 million. Government support received worldwide in connection with the pandemic reduced total operating expenses by CHF 42.4 million, mostly in the first half of the fiscal year.

Adjusted research and development (R & D) expenses before acquisition-related amortization were CHF 177.9 million, an increase of 10.3 % in local currencies, outpacing the sales growth. Despite the temporary market impact from COVID-19, the Group increased its level of investment in innovation. This underpins Sonova's commitment to further advance its industry leading portfolio of products and services. As a percentage of sales, adjusted R & D expenses increased to 6.8 % (2019 / 20: 5.6 %).

Adjusted sales and marketing costs before acquisition-related amortization were down 13.0 % in local currencies to CHF 858.6 million, despite maintaining investments in customer-facing resources. Adjusted general and administrative costs decreased by 16.6 % in local currencies to CHF 242.0 million, representing 9.3 % of sales, down from 10.2 % in the prior year. 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-downs and benefited from a shift towards virtual customer interactions. The acceleration of structural optimization initiatives also generated sustainable savings, particularly in the audiological care store network. Adjusted other income for the current period was CHF 1.4 million (2019 / 20: CHF 0.1 million).

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 603.0 million (2019 / 20: CHF 620.8 million), up 5.6 % in local currencies but down 2.9 % in Swiss francs. The adjusted EBITA margin was 23.2 % (2019 / 20: 21.2 %). This strong margin improvement despite lower sales levels reflects the effective cost management and structural improvement measures to protect profitability. Exchange rate developments negatively affected the adjusted EBITA by CHF 52.7 million and reduced the margin by 0.9 percentage points. Including restructuring costs, the impairment of capitalized development costs, and the award in the patent infringement lawsuit, reported EBITA increased by 30.5 % in local currencies and by 19.7 % in Swiss francs to CHF 663.3 million. This corresponds to a margin of 25.5 %. Acquisition-related amortization amounted to CHF 43.8 million (2019 / 20: CHF 44.4 million). Reported operating profit (EBIT) reached CHF 619.5 million (2019 / 20: CHF 510.0 million), up 21.5 % in Swiss francs.

Earnings per share – Double digit increase in local currencies

Net financial expenses, including the result from associates, increased from CHF 7.6 million to CHF 19.1 million, driven by increased borrowings and bond issues. Excluding non-recurring benefits, which include a positive impact from the Swiss tax reform of CHF 28.0 million (2019/20: CHF 64.1 million), the tax rate was 12.5 % (2019/20: 15.3 %). Income after taxes was CHF 585.3 million (2019 / 20: CHF 489.5 million). Basic earnings per share (EPS) reached CHF 9.23 (2019 / 20: CHF 7.61), an increase of 21.3 % from the prior year. The adjusted EPS increased 15.5 % in local currencies or 4.3 % in Swiss francs to CHF 7.71.

Hearing Instruments segment – Market share gains in both businesses

Sales in the Hearing Instruments segment declined by 6.1 % in local currencies to CHF 2,417.3 million. This was due to the significant market contraction at the start of the financial year related to the global COVID-19 pandemic. Driven by a market rebound as lock-down restrictions were lifted, the segment returned to growth in the second half. Regional recovery varied, reflecting increased infection rates in certain markets. Momentum was further boosted by the successful launch of the Phonak Paradise platform in August 2020. The segment recorded an organic sales decline of 6.4 % while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) lifted sales by 0.3 %. Exchange rate fluctuations reduced growth by 3.9 % in Swiss francs. This resulted in a reported sales decline of 10.0 %.

The Hearing Instruments business posted sales of CHF 1,463.9 million, a decline of 4.7 % in local currencies. Strong customer response to the new Phonak Paradise platform and the market recovery turned sales development positive in the second half. In March 2021, Sonova's share of business with the US Department of Veterans Affairs (VA) reached its highest level, 56 %, in over seven years. ASP temporarily benefitted from a favorable shift in the country and channel mix: higher price markets and channels rebounded faster from the effects of the pandemic.

Momentum in the Audiological Care business picked up over the course of the financial year, reflecting the gradual easing of pandemic related restrictions and increased marketing activities. Sales decreased by 8.1 % in local currencies to CHF 953.5 million; the development was driven by negative organic growth of 8.7 %. The pandemic temporarily depressed M & A activity, resulting in a contribution from acquisitions of 0.6 %. Structural optimization initiatives included streamlining the store network: combining certain store locations to improve efficiency while protecting sales.

Reported EBITA for the Hearing Instruments segment amounted to CHF 580.6 million, up 5.4 % in local currencies. The structural optimization initiatives announced in July 2020 progressed according to plan. Restructuring costs related to these initiatives amounted to CHF 36.5 million (2019 / 20: CHF 18.6 million). Excluding these restructuring costs, the adjusted EBITA increased by 8.3 % in local currencies to CHF 617.1 million, corresponding to an EBITA margin of 25.5 % (2019 / 20: 23.1 %). The strong year-on-year margin improvement was largely driven by sustainable cost savings from the Group's structural optimization and continuous improvement initiatives. It also benefited from lower marketing costs and travel expenses, and government support during the pandemic.

Cochlear Implants segment – Improvement towards fiscal year-end supported by product launch

The Cochlear Implants business achieved sales of CHF 184.5 million versus CHF 230.7 million in the prior year. This corresponds to a decrease of 15.9 % in local currencies and

20.0 % in Swiss francs. Sales development was significantly restricted by the necessity for hospitals in many countries to concentrate on dealing with the pandemic and therefore to reduce the number of elective surgeries. There was also a residual impact from our voluntary field corrective action taken in February 2020. The launch of two new sound processors – Naída™ CI Marvel for adults and Sky CI™ Marvel for children – markedly increased sales momentum towards the end of the financial year, attracting interest from both new and existing customers.

The reported EBITA of CHF 82.4 million includes one-time income of CHF 124.4 million from the award in a patent infringement lawsuit; it also reflects a CHF 25.3 million impairment of capitalized development costs relating to a review of the product development roadmap in the frame of broader improvement efforts, along with restructuring costs of CHF 2.3 million. Excluding these items, the segment posted an adjusted EBITA loss of CHF 14.3 million versus a positive adjusted EBITA of CHF 1.6 million in the prior year. Decisive steps were taken to adapt costs to the lower sales volume and to implement structural improvements.

Strong cash flow

Cash flow from operating activities was CHF 764.4 million, compared to CHF 843.3 million in the prior year. The reduction was largely driven by increased working capital of CHF 185.7 million which more than offset the higher reported profits. The increase stems from higher accounts receivables (as prior year sales in March were depressed due to the pandemic), as well as by increased safety stock levels in inventories.

Net investments in tangible and intangible assets decreased to CHF 86.8 million (2019 / 20: 127.7 million), mainly due to lower capital expenditure to ensure ample liquidity during the pandemic. Operating free cash flow reached CHF 602.4 million (2019 / 20: CHF 638.5 million). Cash conversion (Operating Free Cash Flow / adjusted EBITA) remained strong at 100 %. Cash consideration for acquisitions net of disposals amounted to CHF 30.5 million, down from CHF 74.8 million in the prior year, as M & A activity was temporarily depressed due to the pandemic. In summary, this resulted in a free cash flow of CHF 571.9 million, largely unchanged from the previous year.

In the first half of 2020 / 21 Sonova 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 (2019 / 20: dividend payments CHF 186.5 million). This resulted in a cash inflow from financing activities of CHF 676.1 million. This compares to a cash outflow of CHF 550.4 million in the prior year. The outflow reflected net share repurchases of CHF 470.1 million, mainly related to the share buyback program, suspended in February 2020.

Robust balance sheet – Higher return on capital

Reported net working capital was CHF 29.6 million, compared to a negative CHF 18.9 million at the end of the prior year. Accounts receivables increased by CHF 56.7 million; the prior year's figure had been depressed as a result of the pandemic related sales decline in March. Inventories rose by CHF 36.9 million. This reflects a targeted stock increase to mitigate supply chain risks during the pandemic, related particularly to shipments out of Asia. Capital employed was CHF 2,855.7 million, a slight increase from CHF 2,692.5 million in the prior year, driven by the higher working capital.

The Group's equity position amounted to CHF 2,772.5 million, up from CHF 2,029.4 million in the previous year. The result was an equity ratio of 46.8 %. The net debt position stood at CHF 83.3 million, compared to CHF 663.0 million at the end of the prior year, reflecting the suspension of the share buyback program and the provision of a stock dividend instead of a cash dividend. The return on capital employed (ROCE) improved significantly to 22.3 % from 18.2 % in the prior year.

Consolidated financial statements

Consolidated income statement

CHF million	2020 / 21	2019 / 20
Sales	**2,601.9**	**2,916.9**
Cost of sales	(728.3)	(833.3)
Gross profit	**1,873.5**	**2,083.6**
Research and development[1]	(204.8)	(167.0)
Sales and marketing[1]	(924.1)	(1,074.3)
General and administration	(250.9)	(309.0)
Other income	135.6	0.8
Other expenses	(9.8)	(24.1)
Operating profit (EBIT)[2]	**619.5**	**510.0**
Financial income	5.0	2.9
Financial expenses	(26.0)	(12.9)
Share of profit / (loss) in associates / joint ventures, net	1.9	2.4
Income before taxes	**600.4**	**502.4**
Income taxes	(15.2)	(12.9)
Income after taxes	**585.3**	**489.5**
Attributable to:		
Equity holders of the parent	581.0	483.2
Non-controlling interests	4.3	6.3
Basic earnings per share (CHF)	9.23	7.61
Diluted earnings per share (CHF)	9.19	7.57

1) Includes acquisition-related amortization of CHF 0.9 million (2019 / 20: CHF 0.9 million) in "Research and development" and CHF 42.9 million (2019 / 20: CHF 43.5 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 663.3 million (2019 / 20: CHF 554.3 million).
2) Earnings before financial result, share of profit / (loss) in associates / joint ventures and taxes (EBIT).

Consolidated statement of comprehensive income

CHF million	2020 / 21	2019 / 20
Income after taxes	**585.3**	**489.5**
Other comprehensive income		
Actuarial gain / (loss) from defined benefit plans, net	55.7	(45.1)
Tax effect on actuarial result from defined benefit plans, net	(6.6)	4.9
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	**49.1**	**(35.3)**
Currency translation differences	90.4	(145.4)
Tax effect on currency translation items	(0.2)	3.7
Total items to be reclassified to income statement in subsequent periods	**90.2**	**(141.7)**
Other comprehensive income, net of tax	**139.3**	**(177.0)**
Total comprehensive income	**724.6**	**312.5**
Attributable to:		
Equity holders of the parent	718.3	308.0
Non-controlling interests	6.3	4.5

Consolidated balance sheet

Assets CHF million	**31.3.2021**	**31.3.2020**
Cash and cash equivalents	1,772.2	450.2
Trade receivables and other current financial assets	445.6	389.8
Inventories	302.3	265.4
Other current operating assets and income tax receivables	101.3	115.5
Total current assets	**2,621.4**	**1,221.1**
Property, plant and equipment	335.3	332.8
Right-of-use assets	261.6	260.6
Intangible assets	2,421.8	2,420.2
Investments in associates / joint ventures	19.7	17.4
Other non-current financial and operating assets	45.1	36.4
Deferred tax assets	220.7	198.0
Total non-current assets	**3,304.2**	**3,265.4**
Total assets	**5,925.6**	**4,486.5**

Liabilities and equity CHF million	**31.3.2021**	**31.3.2020**
Current financial liabilities	375.7	254.9
Current lease liabilities	58.9	61.2
Trade payables	103.2	104.3
Current income tax liabilities	128.1	154.8
Short-term contract liabilities	101.5	105.6
Other short-term operating liabilities	338.2	297.5
Short-term provisions	148.1	125.2
Total current liabilities	**1,253.8**	**1,103.4**
Non-current financial liabilities	1,208.9	591.8
Non-current lease liabilities	212.4	207.8
Long-term provisions	144.7	143.4
Long-term contract liabilities	200.5	212.8
Other long-term operating liabilities	21.3	73.5
Deferred tax liabilities	111.5	124.5
Total non-current liabilities	**1,899.4**	**1,353.7**
Total liabilities	**3,153.1**	**2,457.1**
Equity	**2,772.5**	**2,029.4**
Total liabilities and equity	**5,925.6**	**4,486.5**

Consolidated cash flow statement

CHF million	2020 / 21	2019 / 20
Income before taxes	**600.4**	**502.4**
Depreciation, amortization and impairment of tangible and intangible assets and right-of-use assets	222.7	200.1
Loss on sale of tangible and intangible assets, net	3.2	1.3
Share of (profit) / loss in associates / joint ventures, net	(1.9)	(2.4)
(Decrease) / increase in long-term provisions and long-term contract liabilities	(9.2)	22.2
Financial (income) / expense, net	21.0	10.0
Share based payments	31.3	19.9
Other non-cash items	14.5	5.4
Income taxes paid	(76.3)	(60.1)
Cash flow before changes in net working capital	**805.7**	**698.9**
(Increase) / decrease in trade receivables	(45.7)	112.4
(Increase) / decrease in inventories	(36.3)	9.2
(Decrease) / increase in trade payables	(3.2)	4.8
Other, net	43.9	18.1
Cash flow from operating activities	**764.4**	**843.3**
Purchase of tangible and intangible assets	(89.2)	(128.8)
Cash consideration for acquisitions, net of cash acquired	(29.3)	(74.8)
Cash consideration for associates	(1.2)	
Other, net	(2.0)	(7.7)
Cash flow from investing activities	**(121.8)**	**(211.3)**
Proceeds from / (Repayment of) borrowings, net	772.5	184.0
Repayment of lease liabilities	(66.7)	(64.3)
Share buyback program	(25.1)	(402.7)
Sale / (Purchase) of treasury shares, net	7.1	(67.4)
Dividends paid by Sonova Holding AG	(0.2)	(186.5)
Other, net	(11.5)	(13.6)
Cash flow from financing activities	**676.1**	**(550.4)**
Exchange gains / (losses) on cash and cash equivalents	3.3	(6.1)
Increase in cash and cash equivalents	**1,322.0**	**75.5**
Cash and cash equivalents at the beginning of the financial year	450.2	374.8
Cash and cash equivalents at the end of the financial year	**1,772.2**	**450.2**

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, 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**

	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2020	**3.2**	**2,862.3**	**(406.8)**	**(447.5)**	**18.2**	**2,029.4**
Prior year adjustment[2]		(13.3)				(13.3)
Balance April 1, 2020 – adjusted	**3.2**	**2,849.0**	**(406.8)**	**(447.5)**	**18.2**	**2,016.2**
Total comprehensive income		630.1	88.2		6.3	724.6
Share-based payments		6.1		18.8		24.9
Sale of treasury shares[1]		(14.6)		31.4		16.8
Purchase of treasury shares				(9.7)		(9.7)
Dividend paid		(100.4)		100.2		(0.2)
Balance March 31, 2021	**3.2**	**3,370.2**	**(318.6)**	**(306.9)**	**24.5**	**2,772.5**

[1] In relation to long-term equity incentive plans.
[2] For details see the full Annual Report 2020 / 21.

Financial statements of Sonova Holding AG

Income statement

CHF million	**2020 / 21**	**2019 / 20**
Income		
Investment income	211.8	274.3
Financial income	26.0	8.3
Total income	**237.7**	**282.7**

Expenses		
Administration and other expenses	(11.4)	(12.3)
Depreciation and amortization	(6.7)	
Financial expenses	(21.2)	(47.1)
Direct taxes	(0.2)	(0.3)
Total expenses	**(39.5)**	**(59.6)**
Net profit for the year	**198.3**	**223.1**

Balance sheet

Assets CHF million	**31.3.2021**	**31.3.2020**
Cash and cash equivalents	935.9	0.4
Financial assets	80.0	
Other receivables, group companies	5.6	9.7
Prepaid expenses and other receivables, third parties	1.7	0.6
Total current assets	**1,023.3**	**10.8**
Loans, third parties	2.1	0.9
Loans, group companies	1,893.0	1,846.9
Investments	314.4	321.5
Total non-current assets	**2,209.5**	**2,169.3**
Total assets	**3,232.8**	**2,180.1**

Liabilities and shareholders' equity CHF million	**31.3.2021**	**31.3.2020**
Bank loans		150.0
Trade account payables, third parties	0.1	0.1
Short-term interest-bearing liabilities, third parties	4.7	0.2
Bond	360.0	
Other short-term liabilities, third parties	0.1	20.8
Accrued liabilities	4.0	6.4
Total short-term liabilities	**368.9**	**177.5**
Bonds	1,199.7	560.0
Other long-term liabilities, third parties	0.2	
Total long-term liabilities	**1,200.0**	**560.0**
Total liabilities	**1,568.9**	**737.5**
Share capital	3.2	3.2
Legal reserves	37.4	43.1
Balance carried forward	1,714.9	1,597.9
Net profit for the year	198.3	223.1
Treasury shares	(289.9)	(424.8)
Total shareholders' equity	**1,663.9**	**1,442.5**
Total liabilities and shareholders' equity	**3,232.8**	**2,180.1**

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 15, 2021:

CHF million	**31.3.2021**
Balance carried forward from previous year	**1,714.9**
Net profit for the year	198.3
Voluntary retained earnings	**1,913.2**
Cancellation of treasury shares[1)]	(258.9)
Dividend distribution[2)]	(201.7)
Balance to be carried forward	**1,452.5**

1) Subject to approval at the Annual General Shareholders' Meeting of Agenda Item 6 (Capital Reduction Through Cancellation of Shares).

2) If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 3.20 per registered share of CHF 0.05 will be paid out (previous year: stock dividend).

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Financial calendar

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

November 15, 2021
Publication of Semi-Annual Report as of September 30, 2021

May 17, 2022
Publication of Annual Report as of March 31, 2022

June 15, 2022
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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